

- **Fourth-quarter report to 31 December 2003**

- **Directors and auditors**
- **Board of directors**

Chairman

Renato Soru

Directors

Franco Bernabè

Victor Bischoff

Tomaso Barbini

Gabriel Pretre

Mario Rosso

- **Board of auditors**

Chairman

Aldo Pavan

Auditors

Piero Maccioni

Massimo Giaconia

Deputy auditors

Andrea Zini

Rita Casu

- **External auditors**

Deloitte & Touche SpA

- **Highlights**

Total consolidated net revenues stood at EUR 250.8 million in 4Q03, up 25% on 4Q02 and up 13% on 3Q03. Full-year net revenues totalled EUR 902.7 million, a rise of 21% on 2002.

Total consolidated gross revenues came in at EUR 267.8 million for the quarter, up 33% on 4Q02 and 21% on 3Q03. Over the year, gross revenues grew 23% to EUR 919.7 million.

The number of broadband users jumped 39.5% from 602,000 at 30 September 2003 to 840,000 at 31 December. When compared to the 214,000 users at end-2002, growth over the year was a remarkable 293%. Both the broadband and dial-up businesses continued to grow, taking total active users up to 7.8 million. With further broadband growth in January 2004 (77% up on the weekly average of 4Q03), Tiscali has now exceeded its target of one million ADSL users.

Unbundled services were rolled out in the Netherlands and now cover over 40% of the customer base. Operating margins for these services exceed the group average, at around 70%.

EBITDA was EUR 27.6 million, or 11% of net revenues, in 4Q03, up 109% on the EUR 13.2 million posted in 4Q02 and 96% on 3Q03. Over the year, EBITDA totalled EUR 74.7 million (8% of net revenues), compared to EUR 1 million in the previous year.

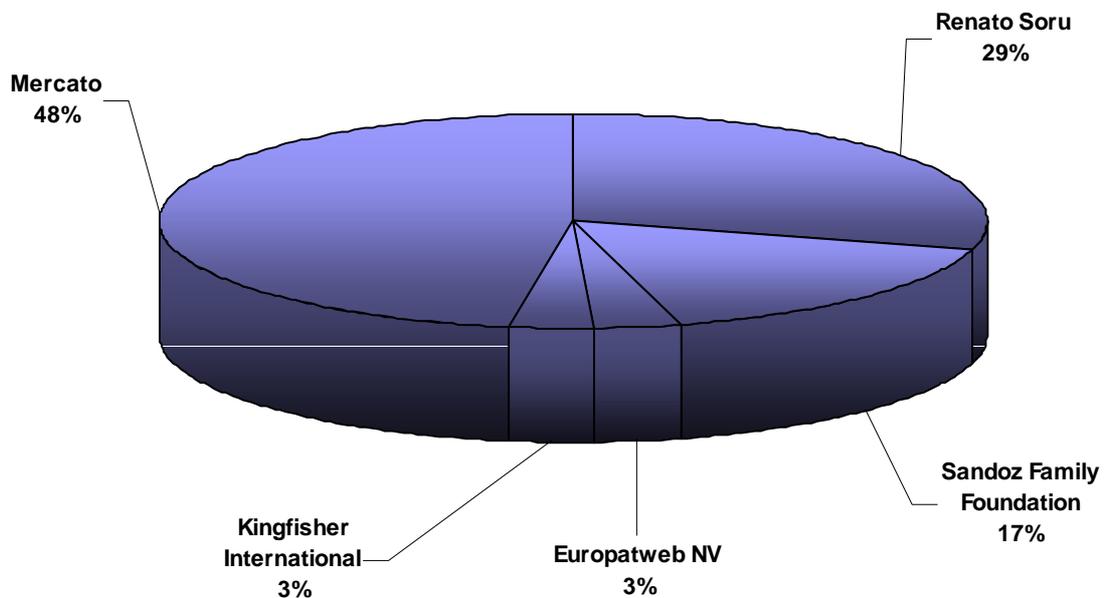
EBIT was negative in 4Q03, at EUR 64.6 million, compared to an EBIT loss of EUR 67.5 million in 4Q02.

Net debt was EUR 278.4 million at 31 December 2003. Cash resources stood at EUR 332.6 million.

- **Report on operations**
- **Tiscali shares**

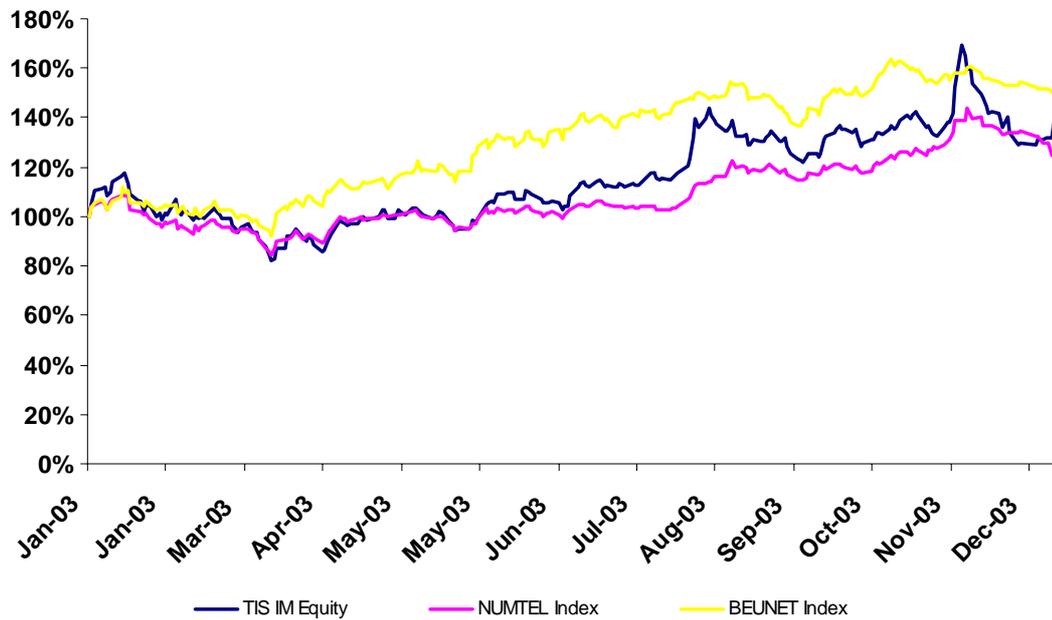
Tiscali shares are listed on both the Milan Nuovo Mercato (TIS) and the Paris Nouveau Marché (005773). Market capitalisation at end-December 2003 was EUR 2,064 million, following a peak of EUR 2,669 million on 1 December. Tiscali still has the highest capitalisation of any company on the Paris Nouveau Marché. At 31 December 2003, the number of shares totalled 368,920,427, unchanged since the end of September.

The chart below shows Tiscali's shareholder base at 31 December 2003:



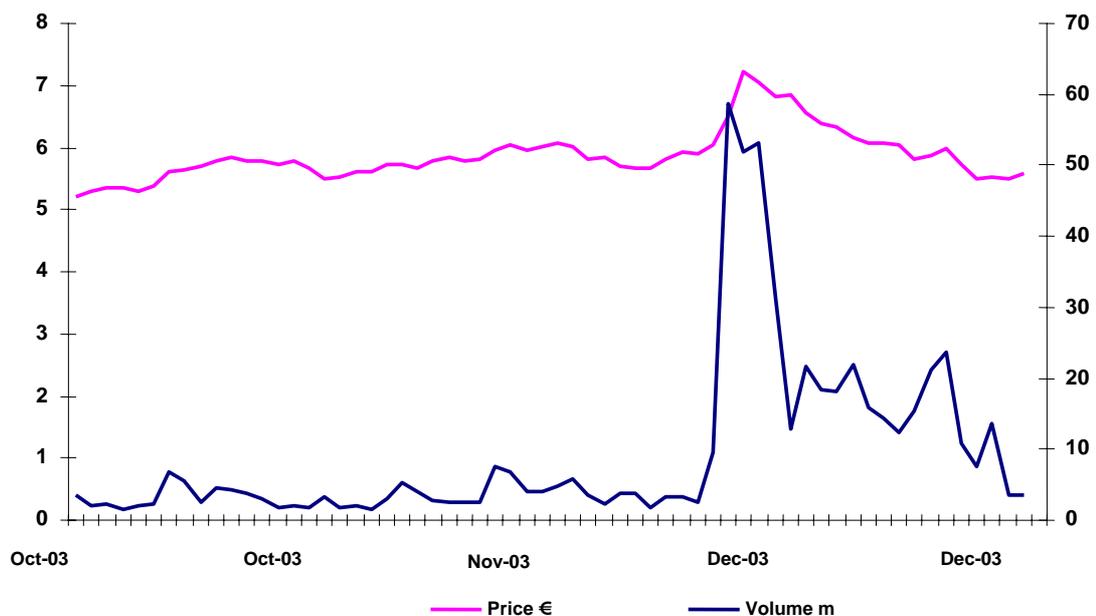
Source: Tiscali

Tiscali shares performed strongly over the year, rising 31%. The highest price of the year was registered in December, at EUR 7.20.



Source: Bloomberg

An average of around 9.3 million shares were traded daily over the quarter, an increase on the average over 3Q03 (3.9 million). The average daily value of trades was EUR 54.6 million. Tiscali posted the highest monthly value of trades at EUR 2.4 billion in December, an increase of 64% on September, making Tiscali the most liquid stock on the Italian Nuovo Mercato and one of the most frequently traded internet stocks in Europe.



Source: Bloomberg

Above-average volumes were recorded throughout December, with a peak of 58.5 million shares traded on 28 November 2003. The highest price of the year (EUR 7.20) was registered on 1 December 2003, while the lowest (EUR 3.40) came on 12 March.

The Nuovo Mercato remains Tiscali's main market, accounting for 99.77% of total trades.

Average daily trades of Tiscali shares on its two markets.

Number of shares

Date	Nuovo Mercato		Nouveau Marche'		Total	
	number of shares	in %	number of shares	in %	number of shares	in %
January-03	3,056,821	99.87%	4,069	0.13%	3,060,889	100%
February-03	2,305,031	99.73%	6,260	0.27%	2,311,290	100%
March-03	2,719,402	99.71%	7,897	0.29%	2,727,299	100%
April-03	2,500,580	99.76%	6,100	0.24%	2,506,680	100%
May-03	1,988,456	99.55%	8,903	0.45%	1,997,359	100%
June-03	3,387,675	99.88%	4,012	0.12%	3,391,687	100%
July-03	2,514,171	99.70%	7,480	0.30%	2,521,652	100%
August-03	5,463,499	99.82%	9,819	0.18%	5,473,318	100%
September-03	4,042,548	99.78%	8,740	0.22%	4,051,288	100%
October-03	3,064,987	99.78%	6,864	0.22%	3,071,851	100%
November-03	6,795,475	99.82%	12,475	0.18%	6,807,950	100%
December-03	19,534,058	99.88%	24,087	0.12%	19,558,145	100%
Daily average	4,781,059	99.77%	8,892	0.23%	4,789,951	100.00%

Source: Bloomberg

The financial results reported below, for the specific purposes of this document, have been drawn up using management accounting practices and as such have not been audited, even partly, by the external auditors Deloitte & Touche.

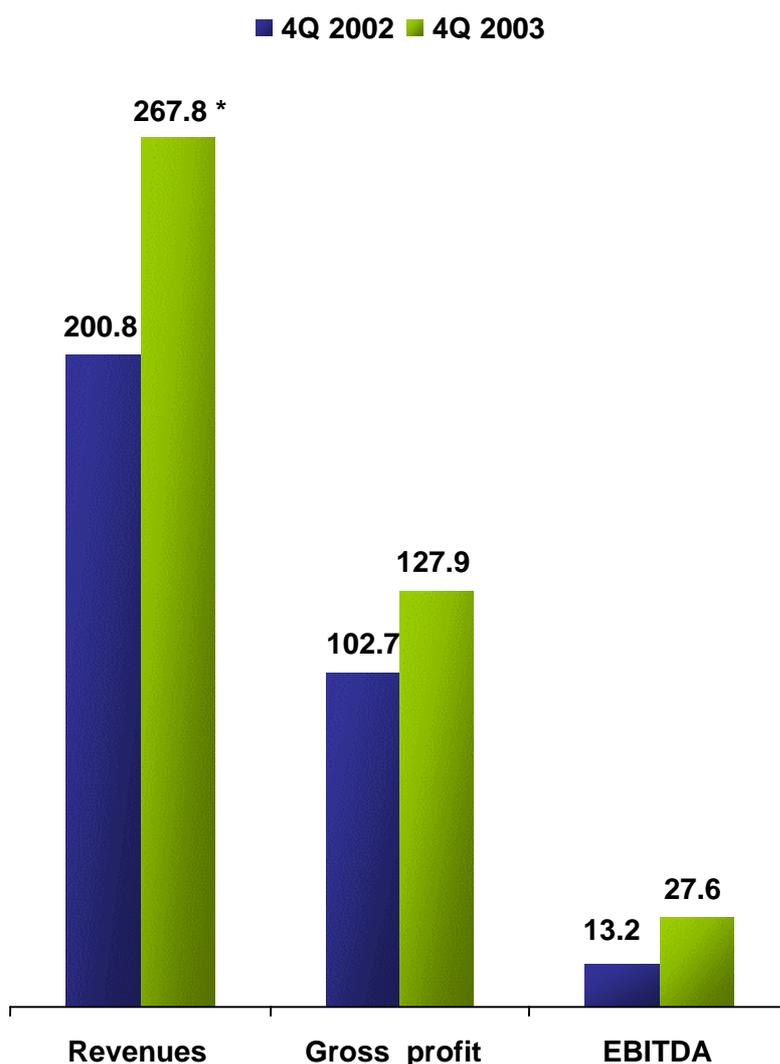
- **Tiscali group: key figures**

The tables that follow show two types of revenues: gross revenues calculated using management accounting principles, which in the case of ADSL include the promotional costs recorded under cost of goods sold and marketing costs; and net revenues according to IAS, which strip out promotional costs.

Tiscali's consolidated net revenues for 2003 were EUR 902.7 million, an increase of 21% on the EUR 748.4 million posted in 2002. Gross revenues were EUR 919.7 million, a rise of 23% on the previous year. Fourth-quarter net revenues came in at EUR 250.8 million, up 13% on 3Q03 and up 25% on 4Q02. Consolidated gross revenues were EUR 267.8 million for the quarter, an increase of 21% on 3Q03 and of 33% on the EUR 200.8 million generated in the same period of 2002. Fourth-quarter results were boosted by the usual seasonal peak in December, with sharp growth driven by the access business, particularly demand for broadband services.

The company had 7.8 million active users at end-December. An increasing number of these were ADSL customers: the number stood at 840,000, a rise of 238,000 on the previous quarter.

With 17.8 million unique visitors to its portal in December (source: Nielsen/Netratings), Tiscali again confirmed its ranking as one of Europe's biggest web properties, thanks to a significant presence in 15 countries and its leadership position in Europe's five main markets.



* Gross revenues

The gross margin stood at 51% in the fourth quarter, more or less flat on the same period of the previous year.

Fourth-quarter EBITDA stood at EUR 27.6 million, an improvement on both 4Q02 (EUR 13.2 million) and on 3Q03 (EUR 14.1 million). Full-year EBITDA was EUR 74.7 million, compared to EUR 1 million in 2002.

	31.12.2003	31.12.2002	31.12.2002	31.12.2002
	12 months	12 months	3 months	3 months
<i>Gross revenues</i>	919,724		267,718	
Revenues	902,733	748,358	250,828	200,787
Value of production	902,733	748,358	250,828	200,787
Costs of goods and services	(685,900)	(607,324)	(185,930)	(153,836)
Personnel costs	(142,104)	(140,052)	(37,291)	(33,788)
EBITDA	74,729	982	27,607	13,163
Depreciation and amortisation	(118,866)	(154,290)	(18,425)	(39,671)
Goodwill amortisation	(108,167)	(216,646)	(32,242)	(28,490)
Other provisions	(63,476)	(29,877)	(41,551)	(12,499)
EBIT	(215,780)	(399,831)	(64,611)	(67,497)
Financial charges	(22,489)	10,134	(6,831)	34,830
Extraordinary charges	(62,827)	(200,184)	(14,378)	(35,899)
Gross profit	(301,096)	(589,881)	(85,820)	(68,566)

The access business remains Tiscali's main growth driver, thanks to increasing demand for broadband services, which brought in EUR 59 million in gross revenues in 4Q03, or 33% of total access revenues. The figure was up sharply on the EUR 10 million generated in 4Q02. Net ADSL revenues totalled EUR 162.8 million over the year, with strong growth particularly in the second half of the year. Access revenues for the quarter came in at EUR 182.4 million (68% of the total), a 21% increase on the previous quarter, and a 33% rise on the EUR 137 million registered in 4Q02. This result is almost entirely due to organic growth, driven by an increase in active users and a change in the customer mix, as over 50% of users are now billed directly and more are opting for monthly or prepaid services not subject to seasonal factors. Net access revenues came in at EUR 165.4 million, a rise of 21% on 4Q02 and 10% on 3Q03.

Over the year, gross access revenues stood at EUR 631.6 million (69% of the total), up 22% on the EUR 517 million registered in 2002. Net revenues stood at EUR 614.6 million (68% of the total), an increase of 19% on the previous year.

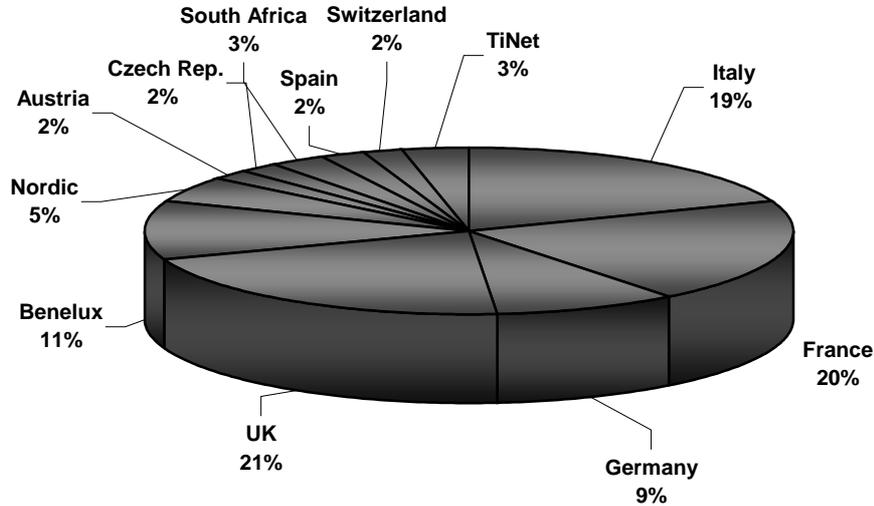
Revenues from business services grew steadily throughout 2003 to EUR 50.1 million in 4Q03, thanks both to organic growth brought about by a sharper commercial focus and external growth following the acquisition of Nextra in Italy, C&W in France and EUNET in Austria. Business services revenues accounted for 20% of the total in 4Q03 and were up 56% on 4Q02 and 20% on 3Q03. Over the year, revenues jumped 51% on 2002, from EUR 106.6 million to EUR 161.2 million.

Portal revenues in the fourth quarter stood at EUR 12.4 million, or 5% of the total, a slight improvement on both 3Q03 and 4Q02. This growth was chiefly due to the seasonal peak typical of the fourth quarter and an upturn in online advertising. Portal revenues totalled EUR 47.2 million for the full year.

Voice revenues stood at EUR 21.1 million in the fourth quarter, or 8% of the total. They were up 26% on the previous quarter and a hefty 45% on 4Q02. The significant rise on voice revenues in the second half was due to both internal and external growth, following the inclusion of nPower in the consolidation base from September 2003. For the full year, voice revenues came in at EUR 70.4 million, or 8% of the total, up 36% on 2002.

	31.12.2003	31.12.2002	31.12.2003	31.12.2002
<i>(figures in thousand euro)</i>	12 months	12 months	3 months	3 months
<i>Access (gross)</i>	<i>631,739 ,</i>		<i>182,410 ,</i>	
Access (net)	614,748	517,218	165,419	137,004
Voice	70,290	51,790	21,084	14,551
Business	161,240	106,503	50,179	32,163
Portal	47,222	47,882	12,373	11,266
Other revenues	9,233	24,965	1,773	5,803
Total revenues	902,733	748,358	250,828	200,787

-
- **Revenues by region**

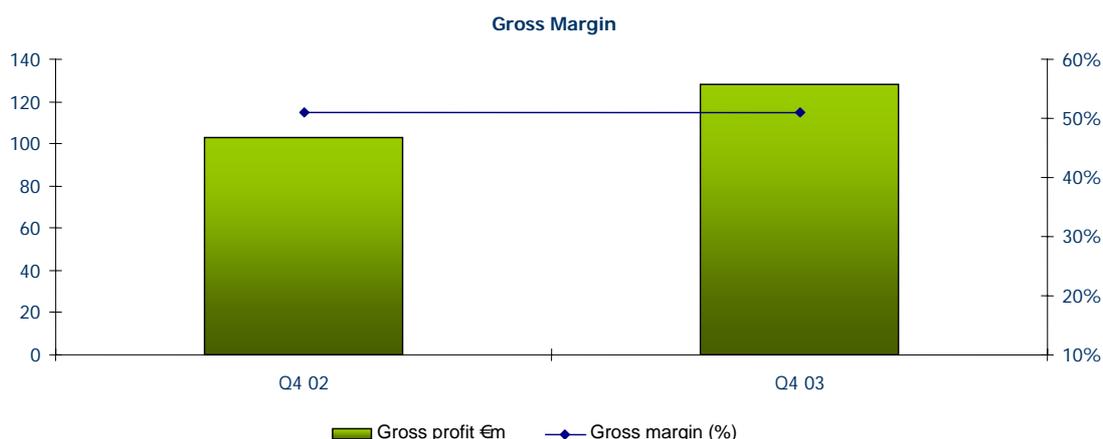


The breakdown of revenues by region above shows that 80% are generated in Europe's five main markets. The proportion of revenues generated in these markets remained stable in the fourth quarter, with Italy, France and the UK accounting for around 20% each, and Benelux and Germany contributing around 10%.

Tiscali International Network, which sells bandwidth and services to other operators and large multinationals, is contributing an increasingly greater proportion of total group revenues. It is active throughout Europe, with offices in France, Spain, Italy and the Netherlands.

- **Gross margin and operating costs**

Tiscali's gross profit stood at 51% of total revenues (EUR 127.9 million) in 4Q03, broadly flat on the figure at 3Q03 (50%).



The gross margin was 50% (gross profit of EUR 455 million) for 2003, a slight improvement on the 48% registered in 2002.

The access business generated gross profit of EUR 91.3 million in 4Q03, and a gross margin of 52%, slightly down on 3Q03 and on 4Q02 (when the figure was 55%) owing to the greater contribution from ADSL revenues.

Over the full year, access services generated gross profit of EUR 334.5 million (a gross margin of 54%), up 32% on the previous year.

Portal services generated gross profit of EUR 6.3 million in 4Q03, and a gross margin of 51%. This figure is in line with that of the previous quarter (51%) and an improvement on that of 4Q02 (50%). Over the year, portal services generated gross profit of EUR 23.8 million, with a gross margin of 50%, broadly flat on 2002.

Business services generated gross profit of EUR 25.6 million, and a gross margin of 51%. The figure remained broadly stable throughout 2003 and was also in line with the 2002 result. Business services generated gross profit of EUR 83.2 million for the full year and a gross margin of 52%, a real improvement on 2002 (49%).

Voice services generated gross profit of EUR 4.5 million in 4Q03, and a gross margin of 21%, broadly in line with both the previous quarter and 4Q02. Over the year, gross profit was EUR 15.3 million and the gross margin was 22%, a significant improvement on the previous year (gross profit of EUR 8.1 million and a gross margin of 16%).

Marketing and sales costs stood at EUR 37.6 million or 15% of revenues in 4Q03; this is lower than both the previous quarter (EUR 35.9 million) and 4Q02 (EUR 32 million).

Over the year, marketing and sales costs totalled EUR 139.9 million, or 15% of revenues, which was broadly in line with 2002.

Personnel costs totalled EUR 37.3 million in 4Q03. This was slightly up on both the previous quarter (EUR 35.9 million) and the same period last year (EUR 33.8 million). These costs came to 14% of revenues, compared to 17% in 4Q02. In 4Q03, the group completed the reorganisation of staff at its French businesses, following the acquisition of C&W. Over the year, personnel costs were EUR 142.1 million, or 15% of revenues; this was broadly in line with 2002 (EUR 140 million), when they accounted for 19% of revenues.

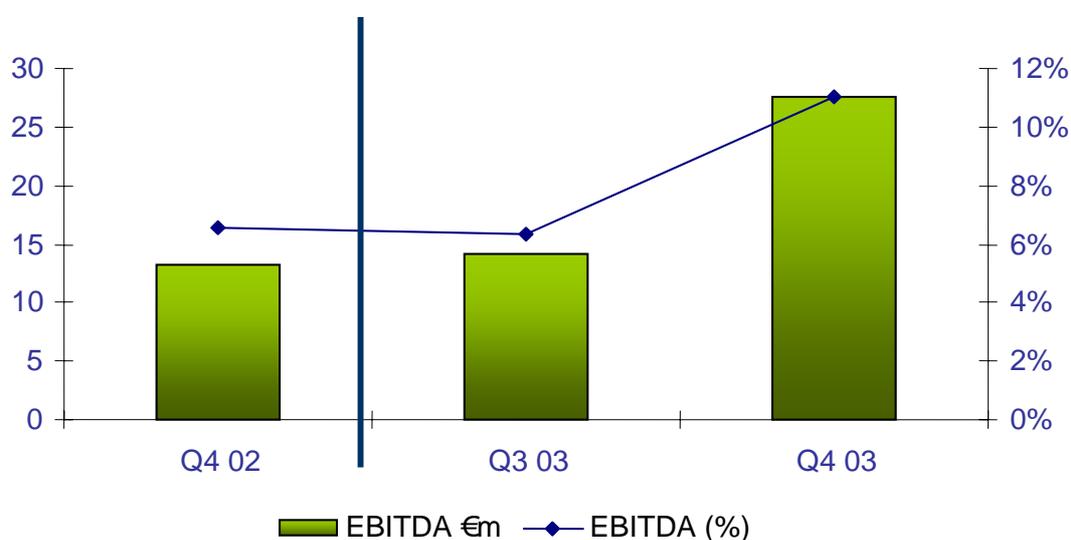
At 31 December 2003, Tiscali had 3,226 employees, compared with 3,039 at end-December 2002. This increase was necessary to support business growth, particularly in broadband services, which require employees with a higher degree of specialisation.

G&A costs, at EUR 25.4 million, were broadly in line with both the previous quarter and 4Q02. They were down as a percentage of revenues to 10%, compared to 12% in 4Q02.

For the full year, G&A costs came to EUR 98.1 million, or 11% of total revenues, a decline on the EUR 100.9 million (13%) registered in the same period in 2002.

Operating costs came in at EUR 100 million, or 40% of total revenues, lower than the figure for both 3Q03 (43%) and 4Q02 (45%). Over the year, operating costs were EUR 380.1 million, or 42% of revenues, compared to EUR 363.8 million (49%) in 2002.

The group posted EBITDA of EUR 27.6 million in 4Q03, a sharp improvement on the EUR 13.2 million generated in 4Q02. The extensive restructuring and rationalisation completed in 2002 and continuous revenues growth led to a gradual reduction of operating costs and increased EBITDA, which came to EUR 74.7 million for the full year, compared to EUR 1 million in 2002.



EBIT was negative in 4Q03, at EUR –64.6 million, compared to a loss of EUR 67.5 million in the same period of 2002. The increased loss on the previous quarter (EUR –52.4 million) was due to the extraordinary EUR 14 million write-down of CD Telekomunicace in the Czech Republic.

The group posted an EBIT loss of EUR 215.8 million for the full year, a marked improvement on the loss of EUR 399.8 million in 2002. EBITA was negative to the tune of EUR 102.9 million.

EBIT benefited from an extension of the goodwill amortisation period in the second half of 2003 from five years (to 31.12.2002) to the current seven/eight, and to a maximum of ten.

The reasons for this change are listed below:

- an impairment test (see half-year report to 30.06.2003) was carried out to provide an updated valuation of the consolidation difference, based on an analysis of the value of the group companies to which this item refers, using a discounted cash flow calculation based on the business plan for each geographical area. This analysis showed that, partly in light of changes to the factors and variables taken into consideration at the time of the original calculations, the net book value of goodwill pertaining to the different geographical areas was much lower than the corresponding value derived from the methodology described above. The balance sheet value of the goodwill was actually EUR 523 million, compared to an implicit value of around EUR 1.5 billion.
- from 2005 (but for comparative purposes, from the 2004 accounts), IAS principles will be applied, under which goodwill is no longer amortised.

Instead, it is valued each year according to impairment test criteria, and where the resulting value is lower than the balance sheet value, a write-down will be made, although it is not possible to carry out a write-back in the opposite scenario. In this context, where there is a significant difference between the value of goodwill determined by the impairment test and its book value, it is considered appropriate to increase the goodwill amortisation period to a maximum of ten years.

To support the analysis carried out internally by the company, a report was commissioned from an independent consultant, which is currently being drawn up and will be available before the annual report and accounts are approved. This report will focus on the valuation of the holdings listed in the parent company's accounts as of 31 December 2003, and on the feasibility of the consolidation difference recorded in the consolidated accounts at the same date.

In theory, the change in the amortisation criteria will boost EBIT by around EUR 100 million over the year.

Tiscali registered a consolidated pre-tax loss of EUR 85.8 million in 4Q03, compared to a loss of EUR 68.6 million in 4Q02.

The full-year consolidated pre-tax loss came to EUR 301.1 million, a sharp improvement on the loss of EUR 589.9 million posted in 2002.

- **Extraordinary operations and write-downs**

On 4 September, Tiscali, via its subsidiary Tiscali UK, acquired the voice business of the UK company npower for around EUR 10.2 million. This sum was paid in full in 2003.

The acquisition strengthens Tiscali's position in the UK voice market, and gives the company a database of more than 200,000 voice customers.

Npower was consolidated from 1 September 2003, and generated revenues of EUR 5.5 million in 4Q03.

On 17 November Tiscali announced a plan to launch a public purchase offer on all the bonds issued by its subsidiary Tiscali Finance SA in July 2002 and maturing in July 2004, for a total sum of EUR 150 million.

On 28 November CONSOB authorised the publication of the prospectus for the operation, which ran from 1 December to 22 December 2003.

The operation was aimed at restructuring the Tiscali group's debt by refinancing part of it to improve its cost and maturity profile.

On 22 December the purchase offer ended, with a take-up rate of 46.47% of the bonds included in the offer, worth EUR 69.698 million. The group therefore paid around EUR 69.7 million of nominal value plus interest of some EUR 2.1 million (ie EUR 29.78484 per EUR 1,000 of nominal value), making a total of EUR 71.8 million.

Shareholdings were recorded using the same valuation criteria used in the 2002 annual accounts and the 2003 interim accounts, based on the expected future value of each shareholding according to the business plans developed for each country in which Tiscali operates.

Based on these criteria, no significant write-downs are expected for any of Tiscali's current shareholdings. The company is to use an independent valuer to support these findings.

- **Special events**

On 29 November 2003, over 1.2 million users tuned in via their PCs to watch Concert 46664 in association with MTV's *Staying Alive*, held at the Green Point Stadium in Cape Town and broadcast live over the internet. Tiscali's webcast on demand service also met with unprecedented success: in the first 24 hours 350,000 requests were received from all over the world.

The concert not only generated a huge audience, but also marked an important moment in the history of online events thanks to the high sound and video quality of the webcast. Its success was helped by Tiscali's decision to create a content delivery network in collaboration with the world's leading internet operators. The network ensured that quality remained high throughout the 4-hour performance, even during peak connection times.

This huge event also made an important contribution to the global campaign to increase awareness of HIV and Aids and raise funds to fight the disease.

International artists who performed at the concert included Bono, Beyoncé, Anastacia, Queen, Peter Gabriel, Youssou 'Ndour, Eurythmics, Zucchero, Yussuf Islam, Ms Dynamite, Jimmy Cliff, Johnny Clegg, the Corrs, Baba Mahal and Bob Geldof. The event was broadcast via internet to more than 200 countries, not only via the official website www.46664.com, powered by Tiscali, and Tiscali's portals in 15 European countries and South Africa, but also via the servers and networks of the members of the Global Internet Alliance (GIA): Nifty (Japan), Bell Canada, UOL (Brazil), UOL Sinectis (Argentina) and other important partners like Real Networks (worldwide), Akamai (worldwide), Terra Lycos (Latin America), Eircom (Ireland), BBC Online and its partners all over the world, MTV Online (*Staying Alive*), Avopolis Network (Greece), Virgin.com, Web.de (Germany) and RKCS (Hungary).

The event was also backed by Coca Cola, Federal Express, Cnet, MSN Entertainment and Music, Windows Mediaguide, Real Media Guide, Yahoo! USA, the Telegraph, Overture, E-Spotting, Sony Music, BMG.com, IFPI (International Federation of Phonographic Industries), the Times, Corriere della Sera, VNU UK, Reuters.co.uk, Claritas, Media Brokers, TBG Ltd, the Deal Group Media (UK), Telecinco.es, Antena3tv.es, Netvision (Israel), Earthlink (USA), SmarkMedia.com and Top.bg (Bulgaria), who supported the concert through banner ads and online promotions. It was also backed by the websites of the artists who performed, including queen.com and u2.com.

- **Financial situation**

<i>(figures in thousand euro)</i>		31.12.2003	31.12.2002
Current assets		639,378	639,335
Non-current assets		960,356	1,052,170
Total assets		1,599,734	1,691,505
Short-term liabilities		660,729	522,098
Consolidated liabilities		562,571	523,379
Shareholders' equity		376,434	616,028
Total liabilities		1,599,734	1,661,505

At 31 December 2003 non-current assets were worth EUR 960.4 million.

Consolidated shareholders' equity, excluding minorities, stood at EUR 376.4 million.

The decline on the previous year was essentially due to the company's net loss of EUR 301.1 million.

<i>(figures in thousand euro)</i>		31.12.2003	30.09.2003	30.06.2003	31.12.2002
Cash and cash equivalents*		332,571	447,074	284,516	333,757
Short-term bank debt		(118,753)	(37,433)	(39,276)	(56,057)
Short-term debt		213,818	213,818	409,631	245,240
Medium-/long-term debt**		(491,446)	(643,003)	(433,503)	(412,460)
Net debt**		(277,628)	(233,372)	(188,263)	(134,760)

* - includes guaranteed fixed deposits and tax credits due

** - excludes payables to leasing companies

At the end of 4Q03 total cash resources, including short-term investments, stood at EUR 332.6 million, while net debt, excluding payables to other financial institutions (EUR 43 million), was EUR 277.6 million, from EUR 233.4 million at 30 September 2003.

A breakdown of the group's debt is shown below:

figures in million euro

Current accounts	130.4
Investments in short-term financial instruments	72.5
<i>Investments other than non-current assets</i>	
Guaranteed fixed deposits	50.6
Tax credits and payments due	79.1
Total cash and cash equivalents	332.6
Bonds maturing July 2004	80.3
Bonds maturing July 2005	250.0
Bonds convertible in September 2006	209.5
Mortgages and other long-term loans	31.8
Short-term bank debt	37.5
Instalments on loans expiring by 01-03-2004	1.7
Gross debt 1	610.9
Debts to other lenders	43.0
Gross debt 2	653.750
Net debt 1	278.3
Net debt 2	321.3
Pro forma net debt 1	68.8
Pro forma net debt 2	111.8

(assuming the full conversion of the convertible bond)

Cash burn in the fourth quarter totalled EUR 45 million. Most of this was due to capital spending on unbundled ADSL networks, further investment in the Tiscali Campus headquarters in Cagliari, interest payments on bonds and the acquisition of npower, paid in cash.

Tiscali plans to use part of its cash to repay the bond maturing in 2004.

The company currently intends to repay the bond maturing in 2005 using existing financial resources and future cash flows from normal operations.

It has also not ruled out refinancing its debt via bank borrowing, new bonds or venture capital, in order to optimise its financial structure and improve its gearing.

The bond maturing in 2006 is a convertible bond with a soft mandatory feature. This means that the issuer can assign shares, even where, at maturity, Tiscali's market price is lower than the conversion price. In this case, the difference between the conversion price and the market price must be made up in cash. For example, if the

market price is EUR 2 lower than the conversion price, based on a fixed conversion ratio, Tiscali would have to give bondholders shares worth around EUR 154 million, and pay the difference of EUR 55.5 million in cash, thereby settling the nominal debt of EUR 209.5 million.

The bonds maturing in July 2004 and 2005 include a covenant that places restrictions on the company's gross debt and gearing levels, as follows:

"If the Consolidated Excess Cash Flow for any Relevant Period is a negative number, the Consolidated Financial Indebtedness in respect of such Relevant Period shall not exceed the higher of: (i) €600,000,000 (or its equivalent in any other currency); and (ii) 2.00 times the Consolidated Shareholders' Equity for such Relevant Period".

Tiscali confirms that at 31.12.2003 its gross debt and shareholders' equity complied with the terms of this covenant. With consolidated shareholders' equity at an estimated EUR 376.4 million, and gross debt at EUR 653.7 million at 31.12.2003, the group's debt-to-equity ratio was 1.7, well within the ratio of 2 required by the covenant.

The company is not in any financial difficulty and has no problems in its dealings with customers or suppliers, apart from minor delays and/or disputes with certain suppliers and customers arising in the normal course of operations of companies belonging to the group.

- **Investment**

In 4Q03 the group invested EUR 43.5 million in setting up the infrastructure required for its unbundled ADSL service.

Around EUR 2 million was spent on the group's new headquarters in Cagliari.

- **Recent events**

The Italian finance police carried out an inspection at Tiscali last year, which began on 11 September and was completed on 12 December.

Proceedings by the finance police do not in themselves constitute concrete allegations against the company inspected, but merely serve to provide information to the relevant tax office, which—only if it considers the comments of the finance police to be well-founded—will then issue a notice of investigation, against which the company may appeal.

The findings of the finance police concerned: (i) minor amounts of VAT: EUR 20,000 for 2001 and around EUR 40,000 for 2002. At 31 December 2003 Tiscali SpA had VAT credits of around EUR 20 million; (ii) interest earned on intragroup loans that has no bearing on the consolidated balance sheet and which is, in any case, negligible (less than EUR 7 million for the period 2001-2002); and (iii) the future use of tax losses of EUR 210 million.

All of the points raised in the finance police report—even those judged to be well-founded—do not affect Tiscali's results, since the group has sufficient credits on past tax losses (accumulated in the start-up phase) to offset any increased tax payments required.

Neither do they affect the total tax credit relating to past losses announced to the market, which for prudential reasons included only part of the losses actually realised. The figure is therefore confirmed at around EUR 1 billion.

Tiscali will consider whether to appeal if the tax office decides to act on the finance police's observations (which in any case have a neutral effect on the company's balance sheet).

- **Significant events since the end of the period**

At end-January 2004 Tiscali reached its key objective of 1 million ADSL subscribers, after amply overshooting its end of year target of 800,000 following growth of 40% in broadband customers in the last quarter. In January, the company gained an average of 35,000 new ADSL customers a week. This was up 77% on the weekly average registered in 4Q03.

- **Outlook**

The Tiscali group is facing exciting challenges for the future: broadband has opened up new market opportunities, and has confirmed the validity of the group's access-based business model as a springboard for growth in the services and content sectors.

Tiscali's board of directors has therefore discussed and approved a new strategic plan, based on 1) broadband growth, 2) selective unbundling and 3) a sharper commercial focus. Specifically:

Tiscali's main objective for 2004 is to increase its penetration of the broadband market, especially ADSL.

Selective investment in network infrastructure for unbundled ADSL and voice services will boost growth and increase profit margins from ADSL services.

Tiscali expects to see revenue growth of more than 30% this year, and an EBITDA margin of around 11%. Revenues are forecast to rise at a CAGR of 29% in 2004-2006, and to stand at more than EUR 2 billion by the end of the period.

The group confirms its target of reaching cash flow break-even in the second half of 2004. It also expects EBITA to be positive this year, and net profit to be in the black by 2005. The EBITDA margin is seen at more than 20% in 2006

These forecasts do not take account of any extraordinary items.

■ Parent company: key figures

Parent company: profit and loss account

Profit and loss account	31.12.2003	31.12.2002	31.12.2003	31.12.2002
<i>(figures in thousand euro)</i>	<i>12 months</i>	<i>12 months</i>	<i>3 months</i>	<i>3 months</i>
Revenues	183,503	140,887	59,969	44,454
Value of production	183,503	140,887	59,969	44,454
Cost of goods sold	(161,934)	(143,792)	(47,281)	(36,238)
Personnel costs	(32,992)	(27,282)	(9,756)	(7,300)
EBITDA	(11,423)	(30,187)	2,932	916
Depreciation and amortisation	(27,365)	(19,865)	(7,774)	(9,601)
Other provisions	(17,430)	(116,503)	(16,400)	73,708
EBIT	(56,218)	(166,555)	(21,242)	65,023
Financial charges	(27,769)	33,282	(22,786)	49,125
Extraordinary items	1,705	(19,024)	10,925	(6,302)
Gross profit	(82,282)	(152,297)	(33,103)	107,846

The company made an EBITDA loss of EUR 11.4 million in the whole of 2003, but a gain of EUR 2.9 million in 4Q03, compared with a positive result of EUR 0.9 million in 4Q02, thanks to increased revenues and cost-cutting actions. EBITDA net of adjustments according to IAS 17 was positive in 2003, at around EUR 6 million.

At 31 December 2003, the main costs were as follows: line and port rentals stood at EUR 33.6 million, or 18% of revenues. These were up EUR 9.3 million on 2002, mainly because of growth in broadband and FRIACO dial-up users. Traffic purchase costs were EUR 39.4 million, or 22% of revenues. These were also up on 2002 (by EUR 26 million) owing to a rise in voice traffic and in minutes connected via 702 dial-up. Advertising and promotional costs stood at EUR 19 million, or 10% of revenues, a sharp drop on 2002 due to a reduction in communication costs (partly offset by a rise in customer acquisition costs via the indirect sales network), and to a drop in corporate sponsorship and communication spending.

Personnel costs went up by around 20%, from EUR 27.6 million at 31 December 2002 to EUR 33 million at 31 December 2003. Costs in the quarter stood at EUR 9.8 million,

compared with EUR 7.3 million in 4Q02, an increase of 25%. This rise was due to the higher number of employees necessary to support revenue growth in broadband and business services. The number of employees rose 10%, from 783 at 31 December 2002 to 861 at 31 December 2003.

In 2003 the company made total investments of around EUR 47 million, spending some EUR 36 million on tangible assets and EUR 11 million on intangible assets. In 4Q03 investment was EUR 11 million (EUR 6 million in tangibles and EUR 5 million in intangibles). Investment in tangible assets related mainly to the group's new headquarters in Cagliari, the purchase of equipment to expand the fibre optic network acquired under IRU contracts in 2002, and equipment to support the growth in ADSL. Investment in intangible assets consisted of the purchase and development of software, as well as work on new POP servers following the expansion of the network.

Parent company: financial position

Financial position	31.12.2003	30.09.2003	30.06.2003
<i>(figures in thousand euro)</i>			
Cash and cash equivalents	3,718	3,157	6,989
Short-term bank debt	(30,942)	(30,461)	(31,003)
Short-term debt	(27,224)	(27,304)	(24,014)
Medium-/long-term debt	(32,144)	(33,503)	(33,503)
Net debt	(59,368)	(57,517)	(35,674)

Parent company: revenue breakdown

Revenues	31.12.2003	31.12.2002	31.12.2003	31.12.2002
<i>(figures in thousand euro)</i>	<i>12 months</i>	<i>12 months</i>	<i>3 months</i>	<i>3 months</i>
Access	98,034	69,328	28,688	20,379
Voice	28,818	19,999	7,331	5,369
Business	9,207	7,154	2,556	2,582
Portal	14,129	20,082	3,772	6,411
Other revenues	33,316	24,324	17,622	9,686
Total revenues	183,504	140,887	59,969	44,454

Parent company revenues totalled EUR 183 million at end-2003, an increase of 31% on 2002. Revenues in the fourth quarter were up 35% on 4Q02.

Access revenues went up by 42%. This was partly due to the sharp growth in broadband and the process of migrating dial-up services from local numbers to a single national “decade 7” number. Voice revenues jumped by 44% thanks to a rise in traffic minutes.

Revenues in 4Q02 stood at EUR 59.9 million, from EUR 44.4 million in 4Q02, an increase of 35%. Access revenues were EUR 28.7 million, up around 40% on the EUR 20.4 million posted in 4Q02. This change was mainly due to the sharp rise in broadband customers and the introduction of the “decade 7” access number, which generates higher revenues per minute than reverse interconnection. The number of dial-up minutes fell from 9.2 billion in 2002 to 8.7 billion in 2003, owing to growth in the broadband market. The number of active users remained broadly stable, at around 1.3 million. Voice revenues increased by 35%, from EUR 5.4 million in 3Q02 to EUR 7.3 million in 4Q03. Revenues from business services jumped from EUR 7.1 million in 2002 to EUR 9.2 million in 2003.

The item “other revenues” refers mainly to intragroup revenues, consisting of invoices issued to subsidiaries for services carried out by the parent company.

Outlook

In 2004 Tiscali plans to focus on growing its broadband services, increasing penetration of the business services market, maintaining dial-up revenues and increasing ADSL revenues. The number of voice minutes is expected to rise thanks to an expansion strategy aimed at gaining market share, to be implemented by individual regional subsidiaries.

Other information

Last year the Italian finance police carried out an inspection at Tiscali, which began on 11 September and was completed on 12 December.

The findings of the finance police concerned: (i) minor amounts of VAT: EUR 20,000 for 2001 and around EUR 40,000 for 2002; (ii) interest earned on intragroup loans that has no bearing on the consolidated balance sheet and which is, in any case, negligible (less than EUR 7 million for the period 2001-2002); and (iii) the future use of tax losses of EUR 210 million.

All of the points raised in the finance police report—even those judged to be well-founded—do not affect Tiscali's results, since the group has sufficient credits on past tax losses to offset any increased tax payments required. Tiscali will consider whether to appeal if the tax office decides to act on the finance police's observations (which in any case have a neutral effect on the company's balance sheet).