



■ **Fourth-quarter report to 31 December 2004**

■ **Directors and Auditors**

■ **Board of Directors**

Chairman

Vittorio Serafino

CEO

Ruud Huisman

Directors

Franco Bernabè

Victor Bischoff

Tomaso Barbini

Massimo Cristofori

Gabriel Pretre

Mario Rosso

■ **Board of Auditors**

Chairman

Aldo Pavan

Statutory Auditors

Piero Maccioni

Massimo Giaconia

Deputy Auditors

Andrea Zini

Rita Casu

■ **External Auditors**

Deloitte & Touche SpA

■ **Highlights**

- **Revenues of EUR 266.6 million, up 16%* on 4Q03 and up 4% on 3Q04. Full-year revenues totalled EUR 1,075.3 million, a rise of 23% on 2003**
- **EBITDA of EUR 33.4 million, or 13% of revenues, up 16% in like-for-like terms on 4Q03, and up 35% on 3Q04. Full-year EBITDA totalled EUR 107.3 million (10% of revenues), 36% ahead of the prior-year figure**
- **Positive operating cash flow generation of EUR 7.9 million. Improved financial position (EUR +72.8 million) following the implementation of the first measures of the financial plan.**
- **1.65 million ADSL users, of which 330,000 use unbundled services**
- **The sale of non-core group assets and the capital increase generated proceeds of over EUR 170 million. The business and financial plan is set to be approved in mid-March.**

() Changes are shown on a like-for-like basis, neutralising the effects of the sales of assets during the period.*

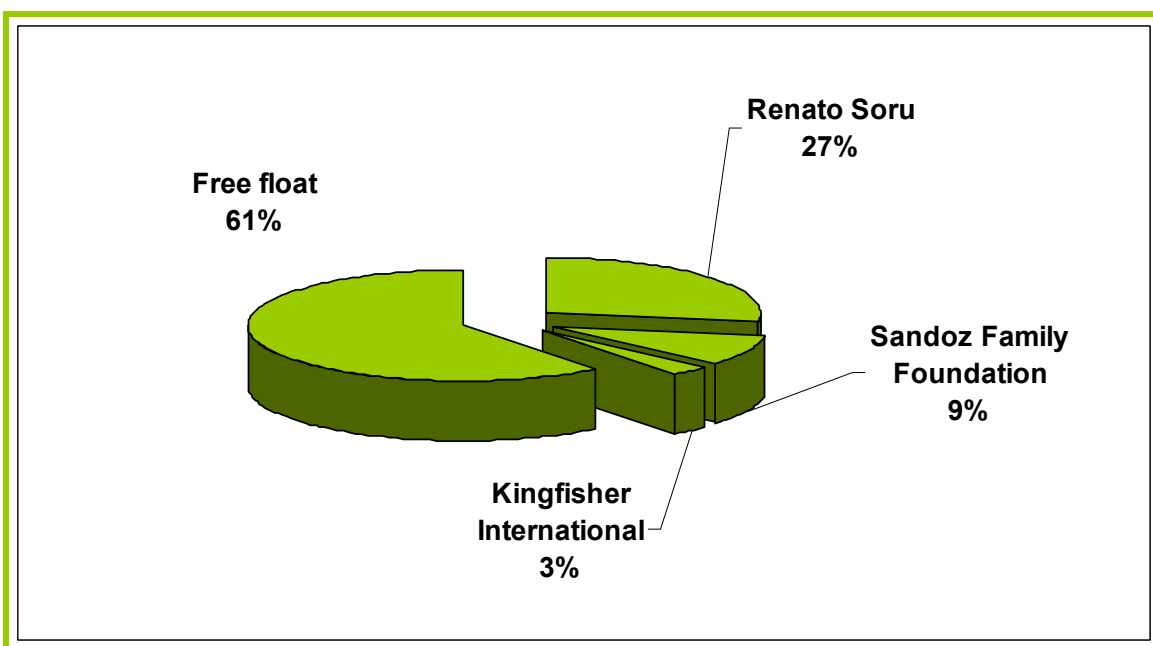
- Report on operations
- Tiscali shares

Tiscali shares are listed both on the Italian stock exchange in the S&P/Mid40 index and on the Euronext market in Paris in the Euronext/Mid Cap index. At 31 December 2004, Tiscali's market capitalisation was EUR 1,027,056,509.

On the same date, its share capital comprised 393,238,142 shares.

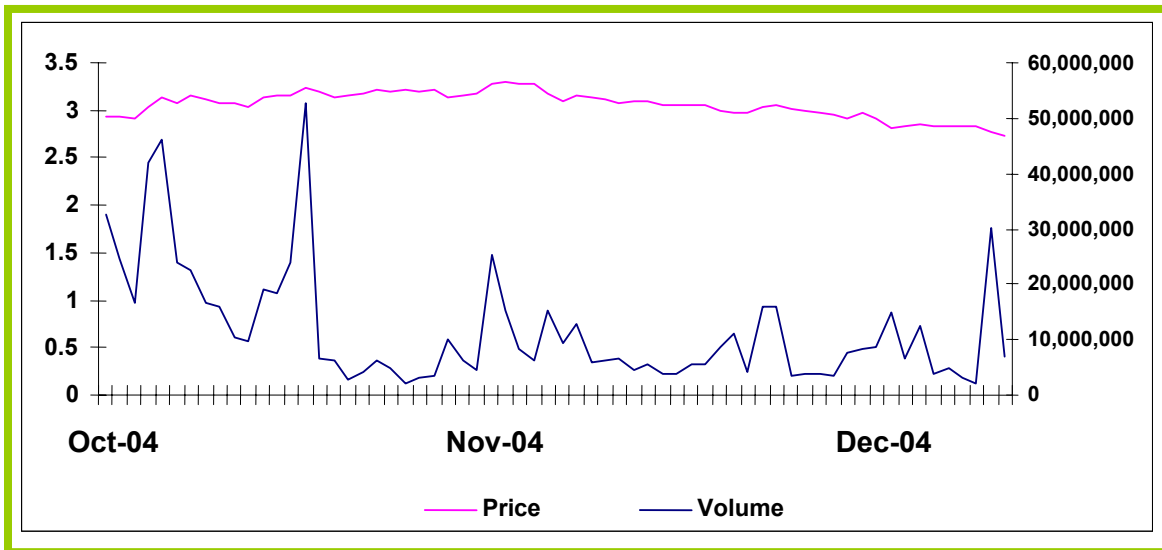
The table below lists the capital increases carried out during the quarter:

Date	Description	Shares issued	Share capital
30.12.04	Capital increase subscribed by Société Générale	18,400,000	393,238,142

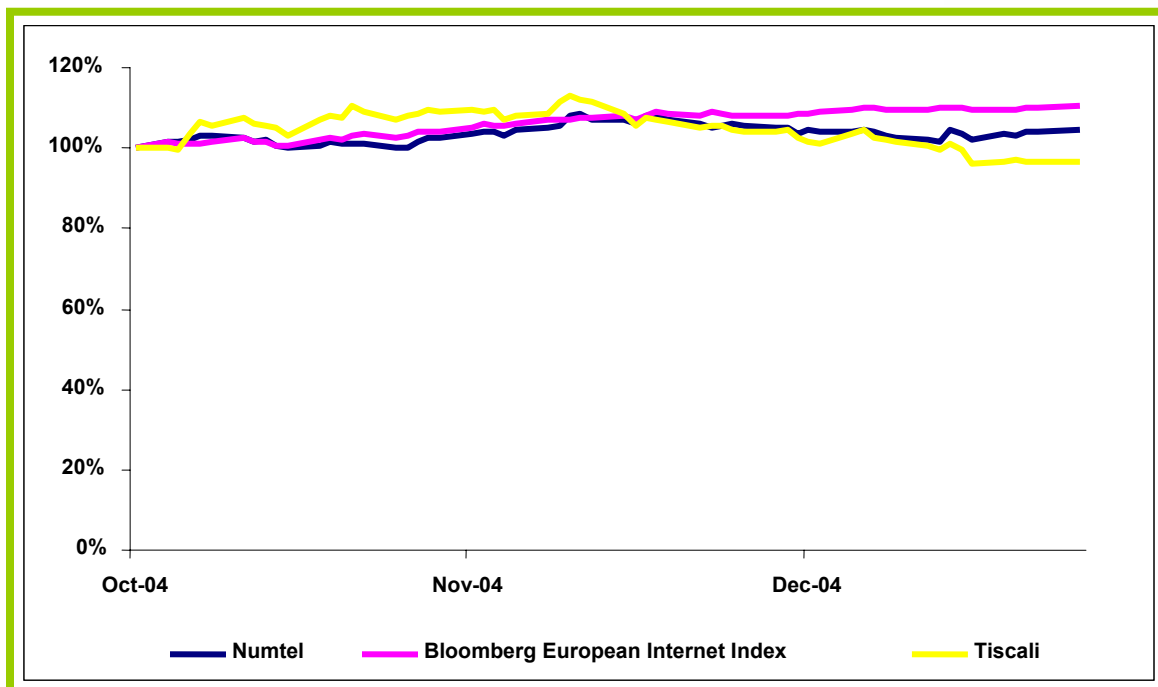


Source: Tiscali

The Tiscali stock outperformed both the Numtel and the Bloomberg European Internet Index in the first half of 4Q04, but underperformed both these indices in the second half of the quarter.



An average of 11.9 million Tiscali shares were traded daily in the fourth quarter, while the average daily value of trades was EUR 36,216,946.



The Milan stock exchange remains Tiscali's main market, with an average of around 11.9 million shares traded daily, compared with an average of 9,000 daily trades on the Paris Nouveau Marché.

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 %	
October-04	19,347,579	99.95%	9,184	0.05%	19,356,764	100%	
November-04	7,692,389	99.86%	10,743	0.14%	7,703,132	100%	
December-04	8,545,626	99.91%	7,760	0.09%	8,553,386	100%	
Daily average	11,861,865	99.92%	9229	0.08%	11,871,094	100.00%	

Source: Bloomberg

■ Results and operating performance

	31.12.2004	31.12.2004	31.12.2003	31.12.2003
	3 months	12 months	3 months	12 months
Revenues	266,640	1,075,311	249,117	901,022
Value of production	266,640	1,075,311	249,117	901,022
Cost of goods and services	(194,633)	(811,337)	(184,257)	(684,227)
Personnel costs	(38,630)	(156,641)	(37,253)	(142,066)
EBITDA	33,377	107,333	27,607	74,729
Depreciation, amortisation and write-downs	(32,959)	(145,597)	(54,119)	(154,560)
Goodwill amortisation	(13,045)	(55,010)	3,862	(72,063)
Other provisions	(7,018)	(24,603)	(55,051)	(76,976)
EBIT	(19,645)	(117,877)	(77,701)	(228,870)
Financial income (charges)	(10,306)	(37,897)	(4,182)	(19,840)
Extraordinary income (charges)	(26,170)	(68,577)	1,593	(46,856)
Pre-tax profit (loss)	(56,121)	(224,351)	(80,290)	(295,566)
Net profit (loss)	-	(170,010)	-	(245,982)

The 4Q04 results show that targets set for sales, profitability, ADSL user numbers and cash flow generation for the financial year just ended have all been met.

Tiscali's EBITDA margin and cash position improved over the quarter. In 4Q04, the non-core asset disposals programme begun in the third quarter also continued, and progressed in line with the established plan and the group's strategic refocus on markets offering greater potential for value creation.

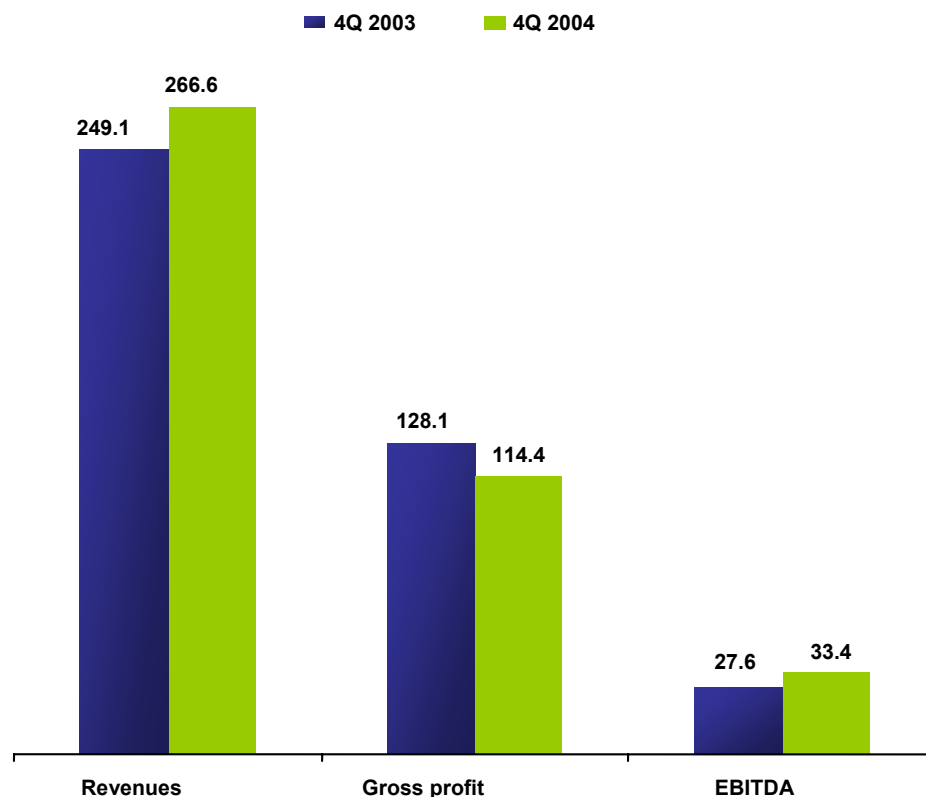
The sale of Tiscali Belgium for EUR 19 million in December 2004 and of Tiscali Denmark for EUR 20.7 million at the beginning of February 2005, together with the funds raised by the capital increase, generated proceeds totalling EUR 170 million.

The group is currently finalising further measures for a financial plan that will allow it both to service debt and to support growth.

■ **Revenues and Gross Profit**

The total revenues of the Tiscali group in 4Q04 came to EUR 266.6 million, up 7% on 4Q03 (+16% like-for-like: that is, adjusted for the deconsolidation of the Austrian, Norwegian, Swedish and Swiss subsidiaries during the quarter) and up by more than 4% vs. 3Q04 on a like-for-like basis.

At 31 December 2004, value of production was EUR 1,075.3 million, up 19% on the figure at 31 December 2003 (or 23% like-for-like).



At the end of December, the group had a total of 1.652 million ADSL users, compared to 840,000 at the end of 2003 (+97%). The group captured 110,000 new users in the quarter just ended, 7% more than in the previous quarter. The number of active users totalled 7.4 million, of which 5.7 million are dial-up users. The shrinkage in the dial-up

user base since the third quarter reflects the new, slimmed-down structure of the consolidated group as well as user migration to ADSL, in accordance with the group's strategic focus on promoting broadband usage. Unbundled services were launched in Italy and France during the fourth quarter. By the end of December, around 330,000 ADSL customers were receiving unbundled services. An ever increasing number of customers is expected to switch from wholesale to unbundled services, thanks to the launch of the double play (data and voice) services already available in France and Germany, extremely competitive access services in Italy and the Netherlands, and the forthcoming launch of additional services and content.

■ **Revenues by business area**

Consolidated revenues	31.12.2004	31.12.2004	31.12.2003	31.12.2003
(EUR 000)	3 months	12 months	3 months	12 months
Access	181,088	730,403	163,604	612,933
Business	48,177	203,076	50,179	161,240
Voice	22,192	88,332	21,188	70,394
Portal	12,690	45,782	12,373	47,222
Other	2,493	7,717	1,773	9,233
Total revenues	266,640	1,075,311	249,117	901,022

- **Access** revenues were 11% higher than in 4Q03, at EUR 181.1 million (68% of total revenues), and broadly in line with the previous quarter, despite the disposal of the Austrian, Norwegian, Swedish and Swiss subsidiaries. Like-for-like, access revenues grew by 19% in the quarter. ADSL revenues totalled EUR 86.3 million (48% of access revenues) in the quarter, more than double the EUR 39.5 million (24% of access revenues) recorded in 4Q03, and 7% ahead of the EUR 80.9 million (44% of access revenues) reported in 3Q04. The dial-up business was affected by the decline in user numbers and connection minutes, compared to both 4Q03 and 3Q04, mainly because the most active users have switched to broadband. Dial-up revenues totalled EUR 94.8 million (52% of access revenues), reflecting the increasing contribution of ADSL and the marked change in the access revenue mix.

Full-year access revenues rose 19%, from EUR 612.9 million in 2003 to EUR 730.4 million in 2004 (68% of total revenues). In accordance with the group's strategy of focusing on products offering the best growth and profitability

opportunities, the revenue mix changed during the year, with ADSL services taking on increasing importance. Dial-up revenues fell 11%, from EUR 469.6 million in 2003 to EUR 417.9 million, in line with market trends. This fall is due to a drop in traffic minutes from 43.5 billion in 2003 to 35.3 billion in 2004 and the migration of dial-up users to broadband services.

ADSL revenues totalled EUR 312.5 million for the year, up a hefty 118% on the previous year (EUR 143.3 million).

- **Business service revenues** stood at EUR 48.2 million (18% of revenues). The decline on both 4Q03 (-3.8%) and 3Q04 (-9%) was due to the sale of the Austrian subsidiary, whose sales were mainly to business clients. On a like-for-like basis, revenues generated by business services grew 8% compared to 4Q03 and were broadly in line with the previous quarter.

In 2004, business service revenues came in at EUR 203.1 million, up 26% compared to 2003, thanks to the group's wider range of products and services.

- **Voice** revenues rose by 5% vs. 4Q03 to EUR 22.2 million (8% of total revenues), but were down slightly on the previous quarter. Like-for-like, voice revenues grew 8% compared to 4Q03 and were broadly in line with the previous quarter.

Over the year, voice revenues totalled EUR 88.3 million, a 25% rise compared to 2003, thanks to a sales policy that offers this service as a supplement to internet services to both business and domestic customers.

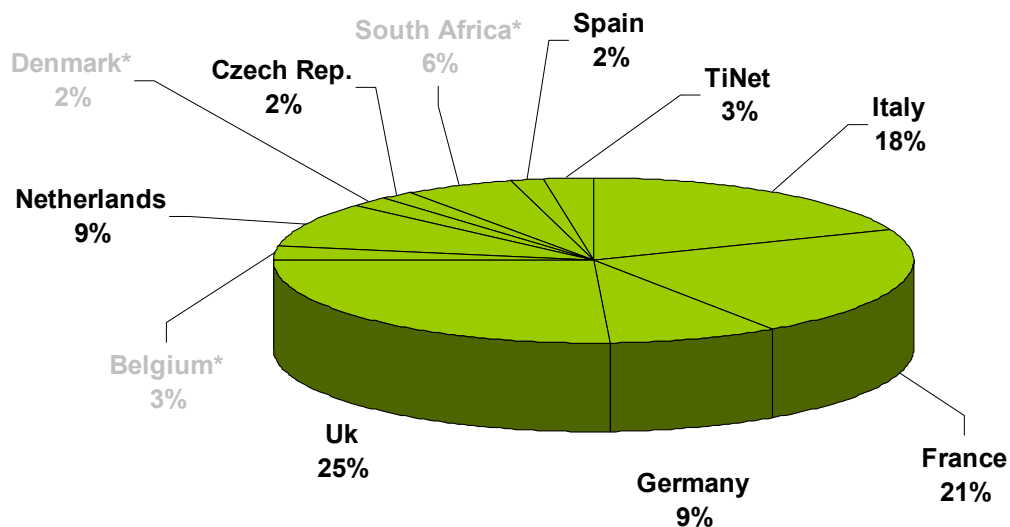
- **Portal** revenues came in at EUR 12.7 million (5% of revenues), up 2% on 4Q03 and up 21% on 3Q04. On a like-for-like basis, they grew 7% compared to 4Q03 and 25% vs. the previous quarter. This increase was due to an upturn in the advertising market and to the seasonal peak typical of the fourth quarter. The fourth quarter of 2004 also saw Tiscali confirmed as one of Europe's leading web properties, with over 23 million unique visitors in December 2004, a 34% increase on December 2003. Portal revenues totalled EUR 45.8 million (4% of the total) for the full year, 3% down on the previous year, chiefly due to the group's withdrawal from non-core markets. At the same time, Tiscali registered an increase in advertising revenues in its key countries.

Gross profit totalled EUR 114.4 million (43% of revenues) in 4Q04, a 6% rise like-for-like compared to the previous quarter. While this result is lower than that of 4Q03 both in absolute terms and as a percentage of revenues (51%) because of the lower profitability

of wholesale ADSL services, it indicates an important trend reversal compared to the previous quarter, confirming the validity of Tiscali's strategy of switching ADSL users over from wholesale tariffs to unbundled services. Although this has only been partly implemented, it offers the company significant financial prospects.

Gross profit for the year came in at EUR 475.6 million (44% of total revenues), up 5% on 2003, with a gross margin at 51% of revenues, as a result of the higher proportion of ADSL services sold wholesale.

■ Revenues by country



* *Disposals announced or completed*

In 4Q04, the non-core asset disposals programme begun in the third quarter also continued, and saw the sale of subsidiaries in Austria, Norway, South Africa, Sweden, Switzerland, Luxembourg, Finland and Belgium, in line with the established plan and the group's strategic refocus on markets offering greater potential for value creation.

The breakdown of revenues by country confirms that the strategy adopted is sustainable: 80% of revenues are concentrated in Europe's five main markets. In 4Q04, the contribution from each of these markets remained broadly stable, with the UK accounting for around 25% of revenues, France 21%, Italy 18%, the Netherlands 9% and Germany 9%.

Tiscali International Network (TiNet) accounted for 3% of total group revenues. Revenues from TiNet are generated by selling bandwidth and services to other group companies and other operators. It is active throughout Europe, with offices in France, Spain, Italy and the Netherlands.

■ Operating performance

Operating costs down as a proportion of revenues

Operating costs for the quarter came in at EUR 81.1 million, lower than the figure for 4Q03 both in absolute terms (-7%) and as a proportion of revenues (from 40% in 4Q03 to 30% in 4Q04). They were also down on the previous quarter, both in absolute terms (-7%) and as a percentage of revenues (32% vs. 30%). This result was due to the disposal of subsidiaries, as well as to a lower incidence of personnel costs and a redrafting of the group's marketing strategy and timetable.

Operating costs came to EUR 368.3 million (34% of revenues), down 3% compared to the figure of EUR 380.4 million in 2003.

Operating costs break down as follows:

- **Marketing costs** totalled EUR 22.8 million (9% of revenues), down 39% vs. 4Q03 (15% of revenues) and 17% vs. the previous quarter (10% of revenues). This drop was due to the reallocation of investment to the first quarter of 2005, when the group will focus on promoting its unbundled ADSL and voice services (VoIP). In 2004, marketing costs totalled EUR 120.9 million, down 14% in absolute terms compared to 2003, and down from 16% to 11% as a proportion of revenues. This fall was due to the redistribution and refocusing of marketing investment.
- **Personnel costs** came to EUR 38.6 million (14% of revenues), up 4% vs. 4Q03 (15% of revenues) and 4% lower than in the previous quarter, but broadly flat as a percentage of revenues. Over the year, personnel costs grew 10% from EUR 142.1 million in 2003 (16% of total revenues) to EUR 156.6 million in 2004 (15% of total revenues).
- **General and administrative costs** were EUR 19.6 million (7% of revenues), down 23% vs. 4Q03 (10% of revenues) and broadly in line with the previous quarter (7% of revenues).

Over the year, **G&A costs** fell 8%, from EUR 98.3 million (11% of revenues) at 31 December 2003 to EUR 90.8 million (8% of revenues) at 31 December 2004.

Fourth-quarter **EBITDA** increased by 21% to EUR 33.4 million (12.5% of revenues) from EUR 27.6 million in 4Q03. On a like-for-like basis, it grew by 16%. The figure rose 30% compared to 3Q04 (EUR 25.7 million), thanks to a lower incidence of operating costs and in particular sales and marketing costs. Like-for-like, it rose by 35%. EBITDA for the full year was EUR 107.3 million, 44% up on the figure of EUR 74.7 million reported in 2003.

Depreciation, amortisation, provisions and write-downs totalled EUR 53.0 million, compared with EUR 105.3 million in 4Q03. The decrease was due to the large write-downs made in 4Q03 and came despite significant investment. The 4Q03 figure was also affected by the review of the residual life of goodwill and the harmonisation of depreciation rates for tangible assets undertaken for the 31 December 2003 balance sheet. The 4Q04 result is broadly in line with the EUR 57.6 million of 3Q04, which included higher provisions.

Depreciation, amortisation and provisions totalled EUR 225.2 million in the whole of 2004, compared with EUR 303.6 million in 2003.

Specifically, depreciation of tangible assets totalled EUR 17.1 million in the quarter, while amortisation of intangible assets was EUR 28.9 million, of which EUR 13 million related to goodwill.

Over the year, depreciation came in at EUR 74.8 million, while amortisation was EUR 125.8 million, of which EUR 55 million related to goodwill.

The group posted an **EBIT** loss of EUR 19.6 million, vs. losses of EUR 77.7 million in 4Q03 and EUR 31.8 million in 3Q04. The EBIT loss stood at EUR 117.9 million over the year, although this was a 48% improvement on the loss of EUR 228.9 million posted in 2003.

The group made a pre-tax loss (**EBT**) of EUR 56.1 million in the quarter, a 30% improvement on the loss of EUR 80.3 million reported in 4Q03. For the full year, the pre-tax loss came in at EUR 224.4 million, 24% down on the loss of EUR 295.6 million reported in 2003. The result was significantly affected by extraordinary items, which related to capital gains from the sale of shareholdings, and to extraordinary charges from the group reorganisation set out in the strategic plan launched in 2004.

The net loss, taking into account deferred tax credits of EUR 57.4 million, was EUR 170 million, a 31% improvement on the loss of EUR 245.9 million reported in the previous year.

■ Financial position

	31.12.2004	31.12.2003	30.09.2004
Current assets	641,475	675,004	538,061
Non-current assets	870,397	986,257	871,574
Total assets	1,511,872	1,661,261	1,409,635
Short-term liabilities	598,963	664,739	573,007
Consolidated liabilities	606,149	570,966	586,347
Shareholders' equity	306,760	425,556	250,281
Total liabilities	1,511,872	1,661,261	1,409,635

At 31 December 2004, the group's total fixed assets were worth EUR 870.4 million. Goodwill was the most significant item, while receivables from customers were the main item under current assets.

At the same date, consolidated shareholders' equity stood at EUR 306.8 million. The increase over the quarter was chiefly due to the capital increase that took place in December following the net loss made during the period.

■ Financial resources and debt

Against the backdrop outlined above, particularly noteworthy is the fact that the Tiscali group registered positive cash flow for the first time in 4Q04. This stood at EUR 7.9 million before extraordinary income generated by the sale of Tiscali Belgium (EUR 19 million) and the capital increase of EUR 45.9 million (5% of the share capital) launched in December 2004, which took cash flows over the quarter to a total of EUR 72.8 million.

The significant improvement in cash flow generated by the group compared to 4Q03 (EUR -45 million) and 3Q04 (EUR -37.3 million) is due to the improvement in EBIT and better working capital management.

Investment in 4Q04 required a cash outlay of EUR 19 million.

Financial charges, at around EUR 4.5 million, were broadly in line with 4Q03 (largely corresponding to quarterly interest on bonds due July 2005), but were lower than the financial charges booked in 3Q04, since these last included annual interest paid on bonds that matured in July 2004 as well as those due September 2006.

At the end of 2004, the Tiscali group had liquid financial resources of EUR 204 million, while net debt, excluding leasing and other payables, was EUR 317.3 million.

The table below shows the group's cash and debt position at 31 December 2004, and how it has changed compared to previous quarters. Over the last year, other financial assets and the escrow accounts saw a decrease, the remaining portion of the bond due in 2004 was repaid and the company received part of the cash generated by the sale of non-core activities (around EUR 45 million in total).

The table below shows the group's cash and debt position as of 31 December 2004.

<i>EUR million</i>	31 December 2003	30 September 2004	31 December 2004
Cash	203.5	57.6	128.5
Other financial assets	129.0	75.7	75.5
<i>of which</i>			
escrow account	51.8	29.1	25.8
tax credits and other financial assets*	77.2	46.6	49.7
Total cash and cash equivalents	332.5	133.3	204.0
Bonds due 2004	-80.3	-	
Bonds due 2005	-250.0	-250.0	-250.0
Bonds convertible in 2006	-209.5	-209.5	-209.5
Other bonds	-0.8	-0.4	-0.4
Total bonds	-540.6	-459.9	-459.9
Loans and other long-term debt	-33.5	-32.0	-36.5
Other short-term debt	-38.0	-23.8	-24.9
Total bank debt	-71.5	-55.8	-61.4
Leasing	-43.5	-49.2	-41.5
Gross debt	-655.6	-564.9	-562.8
Net debt 1 (excl. leasing)	-279.6	-382.4	-317.3
Net debt 2	-323.1	-431.6	-358.8

* *Mainly VAT credits and other financial assets*
The figures for bank debt do not include other payables.

Impact of the sale of non-strategic assets announced in 4Q04

During 4Q04 the group sold its mobile telephone assets in South Africa for EUR 5.3 million, and its subsidiary Tiscali Belgium for EUR 19 million.

These assets, together with those disposed of in the third quarter in Austria, Norway, Sweden, Switzerland and South Africa, represented 13% of annual revenues and 12% of EBITDA at 31 December 2004. They accounted for around 10% of Tiscali's ADSL customers and some 9% of dial-up users.

Capital increase subscribed by Société Générale

As part of the capital increase approved last June by the shareholders' meeting, Société Générale acquired 18.4 million newly-issued Tiscali shares on 30 December 2004, at a total price of EUR 50 million. There is no lock-in, and the bank is thus not prevented from selling the shares.

The subscription price per share was EUR 2.721; this is some 95.94 per cent of the benchmark price registered on the Nuovo Mercato on 28 December last.

The operation brings the total financial resources obtained since the announcement of the refinancing plan last August to more than EUR 170 million.

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

On **1 January 2005**, the group transferred all its Italian operations (consumer, business, media, technology, Italian network infrastructure, staff, and licences and permits to provide telecommunications and internet services in Italy) to Tiscali Italia Srl. Also on 1 January, all corporate functions and services carried out on behalf of the group were transferred to Tiscali Service Srl, which manages the information technology, media development and new product activities for the entire Tiscali group. Both companies are wholly owned and directly controlled by Tiscali SpA.

The operation is aimed at rationalising and optimising the structure and activities of the group. In addition, the formal separation of corporate functions from the Italian operating activities will provide a clearer representation of the business and financial situation of the different functions.

On **17 January 2005** the South African competition regulator gave the go-ahead for the sale of the group's South African subsidiary Tiscali Pty Limited to MBWEB Holdings (Pty), as announced on 20 August 2004, for a total of around EUR 40 million.

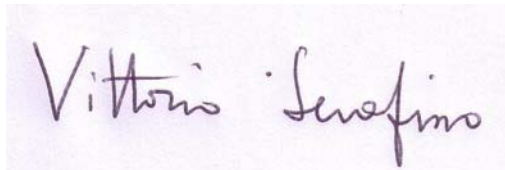
On 12 January the regulator also gave the green light for the sale of Tiscali's South African mobile telephone operations to Vodacom Service Provider Company Ltd, as announced on 19 October 2004, for a total sum of EUR 5.3 million.

On **1 February 2005** the group sold its Danish subsidiary Tiscali Denmark A/S to Tele2 A/S, a Danish company belonging to the Tele2 AB group, for a total of EUR 20.7 million paid in cash. This operation brought the total proceeds from the disposal programme to more than EUR 120 million.

Outlook

As stated above, in 2004 and early 2005 Tiscali focused on putting its strategies into effect, especially as regards the disposal of non-core assets. The plan may involve further disposals, and could be completed by the middle of 2005.

For the Board of Directors

A handwritten signature in dark ink on a light-colored background. The signature reads "Vittorio Serafino" in a cursive script.

The Chairman
Vittorio Serafino

■ **Parent company: key figures**

Parent company: profit and loss account

Profit and loss (EUR 000)	31.12.2004 12 months	31.12.2003 12 months	31.12.2004 3 months	31.12.2003 3 months
Revenues	202,578	180,364	49,441	56,830
Value of production	202,578	180,364	49,441	56,830
Cost of goods and services	(171,547)	(154,899)	(39,380)	(40,246)
Personnel costs	(37,916)	(33,065)	(9,748)	(9,829)
EBITDA	(6,885)	(7,600)	313	6,755
Depreciation and amortisation	(35,531)	(29,123)	(10,754)	(9,532)
Other provisions	(5,503)	(36,906)	(3,113)	(35,876)
EBIT	(47,919)	(73,628)	(13,554)	(38,652)
Financial income (charges)	(20,063)	(44,074)	(17,982)	(39,091)
Extraordinary income (charges)	(7,826)	3,168	10,564	12,288
Gross profit	(75,808)	(114,535)	(20,972)	(65,356)

Parent company: revenue breakdown

Revenues (EUR 000)	31.12.2004 12 months	31.12.2003 12 months	31.12.2004 3 months	31.12.2003 3 months
Access	118,553	99,858	30,128	30,512
Voice	33,852	29,464	8,467	7,977
Business	11,784	8,406	3,122	1,755
Portal	10,349	14,095	3,190	3,738
	174,538	151,823	44,907	43,982
Other	28,039	28,541	4,533	12,847
Total revenues	202,577	180,364	49,440	56,898

Revenues in 4Q04 stood at EUR 49.5 million, compared with EUR 56.8 million in 4Q03. The fall of 13% was due to the concentration of revenues from services provided to subsidiaries into 4Q03 following a change in the scheduling of infragroup settlements.

Parent company revenues for 2004 totalled EUR 203 million, a rise of 12% on 2003. The figure for 4Q04 showed a decline of 14% due to the concentration of revenues from services provided to subsidiaries into 4Q03 following a change in the scheduling of infragroup settlements.

Revenues from operating activities in Italy jumped 15% over the year and 2% over the quarter.

Revenues from internet access went up by 19% in 2004 thanks to sharp growth in broadband services, while voice revenues advanced 17% following an increase in traffic minutes.

Access revenues totalled EUR 30.1 million, broadly the same as the EUR 30.5 million posted in 4Q03. This was the combined result of a sharp rise in the number of ADSL subscribers and a drop in the number of dial-up minutes, which fell from 8.7 billion in 2003 to 6.5 billion in 2004 owing to growth in broadband. The number of active dial-up customers remained broadly steady vs. 31 December 2003. ADSL access revenues also include those from business users.

Voice revenues went up sharply in 4Q04, from EUR 7.9 million in the same period of 2003 to EUR 8.5 million, an increase of 16%. Voice revenues also include those from business users.

Business revenues shot up from EUR 1.7 million in 4Q03 to EUR 3.2 million in 4Q04.

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

EBITDA at end-2004 was negative, at EUR -6.8 million, compared with a loss of EUR 7.6 million in 2003. The figure for 4Q was positive, at EUR 0.3 million, compared with EUR 6.7 million in 4Q03. Taking account of the adjustments arising from the application of IAS17 to leasing contracts, year-end EBITDA was positive to the tune of around EUR 9 million.

Note that the figure was significantly affected by the performance of the corporate divisions. Operating activities in Italy (which were transferred into Tiscali Italia Srl with effect from 1 January 2005) in fact posted a sharp year-on-year improvement in both annual and quarterly EBITDA compared with 2003. Full-year EBITDA stood at around EUR 15 million, from EUR 10 million in 2003, while the 4Q04 figure was EUR 5.8 million, compared with EUR 1.8 million in 4Q03.

The main cost items at 31 December 2004 break down as follows: connection and port costs (EUR 56.7 million or 28% of revenues), up 30% on 2003 owing to a sharp rise in ADSL and FRIACO dial-up users; traffic acquisition costs (EUR 36.3 million or 22% of revenues), down 8% following a decline in wholesale voice traffic minutes; and advertising and promotion costs (EUR 13 million or 6.4% of revenues), down 28% vs. 2003 due to a drop in communication costs, which was partially offset by a rise in the cost of acquiring customers via indirect sales networks.

Personnel costs for the year totalled EUR 37.9 million, up around 15% on the EUR 33.0 million posted at end-2003. Fourth-quarter costs were EUR 9.7 million, broadly unchanged on 4Q03. The figure for the last quarter of 2003 was affected by higher provisions for deferred costs (about EUR 0.6 million). The number of employees rose from 861 at 31 December 2003 to 876 at 31 December 2004.

In 2004 the company made total investments of around EUR 61 million, spending EUR 19 million on tangible assets and EUR 42 million on intangible assets. In 4Q04 investment was EUR 38 million (EUR 6 million in tangibles and EUR 32 million in intangibles). The money was spent mainly on the group’s ULL programme, which involved creating a fibre-optic network, setting up sites and purchasing the equipment necessary to activate the fibre and the DSLAM network.

Parent company: financial position

Financial position (EUR 000)	31.12.2004	30.06.2004	31.12.2003
Cash and cash equivalents	48,915	3,427	3,718
Short-term bank debt	(23,274)	(19,223)	(31,820)
Short-term financial position	25,641	(15,796)	(28,102)
Medium-/long-term debt	(30,620)	(33,245)	(31,946)
Net debt	(4,979)	(49,041)	(60,608)

The parent company's financial position showed a marked improvement compared with 31 December 2003, as a result of the capital increase launched at the end of the year. However, the situation was already improving even without this operation, as a comparison of the figures at 31 December 2003 and 30 June 2004 shows: in that period, short-term debt dropped by 47%.

Outlook

In 2005 the company plans to sharpen its focus on growth in broadband services, echoing the trend of the market. In addition to wholesale ADSL, growth in broadband will also increasingly shift towards shared-access ULL services, which will improve margins. Tiscali thus concentrated most of its investment into these services last year. Some 240 ULL sites were active at the end of 2004. By the end of 2005, Tiscali plans to have activated around 400 sites, reaching 30% of the Italian population.

January 2005 saw the spin-off of the group's Italian assets from Tiscali SpA into Tiscali Italia Srl. Tiscali Italia, wholly owned by Tiscali SpA, will be in a better position to operate flexibly on the Italian broadband market, allowing Tiscali SpA to pursue its functions as a holding company.