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Tiscali's Board of Directors approves first half 2004 results

Resignations of Renato Soru: Vittorio Serafino appointed as Chairman of Tiscali

- **Revenues up 25% vs 1H03, to EUR 538 million**
- **ADSL revenues up 141% vs 1H03, to EUR 145.3 million**
- **EBITDA up 47% (9% of revenues) at EUR 48.2 million, from EUR 32.7 million in 1H03**
- **31% improvement in EBIT vs 1H03, at EUR -66.4 million**
- **Sale of non-strategic assets for over EUR 80 million in cash in August and September 2004**

Cagliari, 23rd September 2004

Approval of 1H04 results

The board of directors of Tiscali has approved the Group's first-half 2004 results, which broadly confirm the figures provided for the release of its 2Q04 results.

In August and September 2004, Tiscali also announced the sale of subsidiaries in Austria, Norway, Sweden, South Africa and Switzerland for a total of over EUR 80 million in cash, as the first wave of the announced disposal plan. This plan is consistent with the Group's strategy of refocusing its activities and concentrating on those markets which offer the best growth and profitability potential.

These disposals, while representing 9% of first-half revenues, correspond to ca 1% of 1H04 EBITDA, less than 5% of the Group's ADSL users and less than 6% of dial-up users of 30th June 2004.

Resignations of Renato Soru and appointment of Vittorio Serafino as Chairman of Tiscali

The Board of Directors of Tiscali, upon proposal by Renato Soru, has appointed Vittorio Serafino, Executive Chairman of Tiscali following the resignation of Renato Soru himself. The appointment of Vittorio Serafino as board member will have to be ratified in the next shareholders' meeting.

Serafino, 54, has a long standing experience in merchant and commercial banking: he was deputy general manager of IMI with the responsibility of the retail and institutional

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banking business. Following the merger with Sanpaolo, which resulted in the creation of the largest Italian banking group, he was responsible for the commercial banking business. Until 2002, he was managing director of Banco di Napoli, within the Sanpaolo IMI group, which was subsequently merged with the parent company. Lately, he acted as deputy chairman of Fideuram Vita.

"As already announced, following my appointment as President of the Sardinian Region, I have resigned from the chairmanship and from the Board of Directors of Tiscali. I leave a growing Company, with improving operating performance, after starting the refocusing on the key strategic markets and on the broadband access business model. During the last months I prepared the Company to my departure, with the appointment as CEO of Ruud Huisman, with whom I have long worked with my full satisfaction. I have submitted to the Board of Directors the candidature of Vittorio Serafino as my replacement, which has been unanimously approved. Vittorio Serafino will bring to Tiscali his long standing experience in the financial markets", states Renato Soru.

"I will remain a key shareholder of Tiscali and, as such, I will continue to follow attentively the future of the Company", concludes Renato Soru.

1H04 results

- **Revenues and gross margin**

The Group posted first-half revenues of EUR 538.0 million, an increase of 25% versus the first six months of 2003.

At the end of June 2004, ADSL customer numbers were more than triple the figure at 30 June 2003 (+16% vs 31.03.04), with 17,000 new subscribers signing up each week on average. The number of active users totalled 7.9 million, of which 6.5 million are dial-up users. 55% of ADSL users in the Netherlands are now receiving unbundled services.

In September 2004, VoIP (Voice over IP) services were launched in the Netherlands and in France, anticipating the ULL offer in October. This service enables Tiscali's customers to make telephone calls using their ADSL connections at very competitive prices.

- **Access** revenues rose by 22% versus 1Q03 to EUR 365.9 million (68% of total revenues). First-half ADSL revenues soared to EUR 145.3 million (40% of access revenues) from EUR 60.3 million (16% of access revenues) in 1H03. Dial-up revenues were affected by a drop in user numbers and online minutes compared to 1H03, as a result of both greater migration of users to broadband services and seasonal factors affecting the month of June.

- Revenues from **business services** shot up by 47% versus 1H03, to EUR 102 million (19% of the total), thanks to the expanded basis of consolidation and synergies arising from the integration of the businesses acquired in 2003. This business line has now become Tiscali's second biggest revenue source, and offers strong synergies with the B2C market.

- **Voice** revenues rose by 32% versus 1H03 to EUR 42.8 million (8% of total revenues). The revenue increase in this business area was due to both organic and external growth, following the acquisition of npower in the UK, which was consolidated from the second half of 2003.

- **Portal** revenues were slightly down on 1H03, at EUR 22.6 million (4% of total revenues). The first six months of the year also saw Tiscali confirmed as one of Europe's leading web properties, with over 17 million unique visitors in June 2004, a 30% increase on June 2003.

The change in the access revenues mix due to sustained growth in ADSL user numbers—most of whom receive wholesale services—had an impact on **gross profit,** which came in at EUR 246.8 million, an increase of 14% on 1H03. The **gross margin** narrowed to 46% of revenues, from 50% in the first half of last year. This deterioration is due to the increasing proportion of ADSL services provided, as wholesale broadband services offer far lower profitability than dial-up services. The gross margin is expected to progressively improve over the next few quarters with growth in unbundled broadband services.

Operating performance

Operating costs fall as a proportion of revenues

Operating costs fell from 43% of revenues in 1H03 to 37% this time. In absolute terms, however, operating costs rose by +8% yoy to EUR 198.5 million. This reduction in operating costs as a proportion of revenues is attributable to lower marketing, personnel and general and administrative costs.

Operating costs break down as follows:

- **marketing** costs were 6% higher than in 1H03 at EUR 70.7 million, but fell as a proportion of revenues from 15% to 13%
- **personnel** costs rose by 13% versus 1H03 to EUR 77.9 million (but fell from 16% to 14% of revenues)
- **general and administrative costs** increased by 3% versus 1H03 to EUR 50.0 million, but fell as a proportion of revenues from 11% to 9%

First-half EBITDA was up 47% at EUR 48.2 million, from EUR 32.7 million in 1Q03, while the EBITDA margin expanded from 8% to 9% in the same period.

Depreciation, amortisation and provisions totalled EUR 99.7 million, compared with EUR 131.4 million in 1H03. In particular, depreciation of tangible assets accounted for EUR 40 million, while amortisation of intangible assets was EUR 59.7 million, of which EUR 28.2 million related to goodwill.

The company made a loss at operating level (**EBIT**) of EUR 66.4 million, a marked improvement (+33%) on the 1H03 figure (EUR -98.8 million).

The company made a pre-tax loss before minorities (**EBT**) of EUR 134.3 million, compared with a loss of EUR 141.6 million in 1H03. The pre-tax loss figure – with a conservative approach - already incorporates an extraordinary capital loss of EUR 17 million on the sale of Swiss subsidiary Tiscali AG (lower book value than disposal price), which was completed on 16th September 2004. The EBT does not include the extraordinary income from the other disposals already announced for EUR 42 million, which will be booked by year end.

The group made a first-half net loss of EUR 134.3 million, compared with a loss of EUR 129.3 million in 1H03. This included extraordinary income of EUR 12.9 million.

Investment totalled EUR 51.2 million in 1H04, of which around EUR 29.7 million was spent on tangible assets and EUR 21.5 million on intangible assets. The investment in tangible assets includes EUR 4 million relating to leasing costs capitalised under IAS 17 (not mentioned in the second-quarter report).

Financial resources and debt

Cash burn was EUR 88.6 million in 1H04 (EUR 58.6 million in the first quarter and EUR 30.0 million in the second quarter).

In July 2004, the cash burn dropped to around EUR 7 million, before the reimbursement of the 2004 bond (including payments of coupon).

As of 30th June 2004, the Tiscali Group had liquid financial resources of EUR 228.5 million, while net debt (excluding liabilities to other lenders) stood at EUR 371.1 million.

The table below shows the group's cash and debt position as of 30 June 2004.

	30.06.2004
Cash	**EUR 137.0 million**
Other financial assets	**EUR 81.5 million**
term deposits	EUR 39.2 million
*tax credits and other financial assets **	EUR 42.3 million
TOTAL CASH AND CASH EQUIVALENTS	**EUR 218.5 million**
Bonds due in July 2004**	**EUR 73.1 million**
Bonds due in July 2005	**EUR 250.0 million**
Equity-linked bonds due in September 2006	**EUR 209.5 million**
Telinco bonds	**EUR 0.6 million**
Loans and other long-term debt	**EUR 32.0 million**
Other short-term financial liabilities	**EUR 24.4 million**
GROSS DEBT 1	**EUR 589.6 million**
Liabilities to other lenders ***	**EUR 47.7 million**
GROSS DEBT 2	**EUR 637.3 million**
NET DEBT 1	**EUR 371.1 million**
NET DEBT 2	**EUR 418.8 million**
PRO FORMA NET DEBT 1	***EUR 161.6 million***
PRO FORMA NET DEBT 2 (assuming full conversion of convertible bonds)	***EUR 209.3 million***

** Mainly VAT credits*
*** Redeemed on 12 July 2004*
**** Mainly includes leasing payments*

Tiscali believes that its disposals plan will enable it to raise cash to redeem the EUR 250 million bond issue maturing in July 2005, as well as finance future growth, regardless of conditions on the financial markets. However, the Group will continue to evaluate the possible use of alternative financing methods, such as capital increases, bonds (including convertible bonds) and bank loans, as it deems appropriate.

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Significant events after 30th June 2004

Bonds due in July 2004

On 12 July 2004 Tiscali redeemed the remaining bonds issued by its Luxembourg-based subsidiary Tiscali Finance SA (EUR 72.867 million, plus coupons totalling EUR 4.645 million). The bond issue was originally worth EUR 150 million, but this amount was reduced following a public offer for early redemption launched in December 2003.

Disposal of non-strategic assets

Tiscali's announced disposals plan, consistent with the Group's strategy of focusing financial and managerial resources on its key markets, is now under way. In particular:

- On 16th August 2004 Tiscali sold its **Austrian subsidiary** Tiscali Österreich GmbH to Nextra Telecom GmbH (an Austrian company belonging to the Jordan Industries group) for EUR 12 million in cash.

- On 20th August 2004 Tiscali agreed to sell its **South African subsidiary**, Tiscali (Pty) Ltd, to MWEB, a South African internet service provider controlled by MWEB Holdings (Pty), subject to the approval of the South African competition authorities. The agreed price of ZAR 320 million (around EUR 40 million) is to be paid in cash upon completion of the sale. The price does not include the mobile telephony business, which will be sold separately, bringing in a further EUR 5 million by the end of 2004.

- On 23rd August 2004 Tiscali sold its **Norwegian subsidiary**, Tiscali AS, to Telenor Telcom Solutions AS, a subsidiary of Telenor ASA (TEL, Oslo Stock Exchange, NASDAQ) for NOK 49.9 million in cash (around EUR 6 million).

- On 30th August 2004 Tiscali agreed to sell its **Swedish subsidiary**, Tiscali AB, to Spray Network AB, a subsidiary of Lycos Europe. The acquisition cost of SEK 120 million (around EUR 13 million) will be paid in cash once the transaction has been approved by the Swedish competition authorities, expected by the end of September 2004.

- On 16th September 2004 Tiscali sold its **Swiss subsidiary**, Tiscali AG, to the Swiss ISP Smart Telecom AG for CHF 8 million in cash (around EUR 5.3 million).

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In total, the disposals of the foreign subsidiaries described above represent 9% of the revenues and 1% of the EBITDA in the 1H04, 4.5% of ADSL customers and 5.5% of dial-up users.

A net capital gain of around EUR 25 million was made on these disposals, resulting from a capital gain of ca EUR 42 million and a capital loss of ca EUR 17 million. The only capital loss, generated by the disposal of Swiss subsidiary Tiscali AG, has already been recorded as a prudent measure under extraordinary income at 30 June 2004 as a prudent measure.

Change of management at Tiscali France

On 31 August 2004, Tiscali announced that Rafi Kouyoumdjian, CEO of Liberty Surf Group SA since 2001, left Tiscali to pursue a career outside the Group. Diego Massida, 39, CEO of Tiscali South Africa since August 2003, will replace Mr Kouyoumdjian on 1 October 2004. Jean Michel Soulier has been appointed as Deputy General Manager.

Targets for 2004

The group has confirmed the following targets for 2004:

- Revenues of over EUR 1.2 billion, an increase of more than 30% on 2003
- EBITDA margin of 10%
- 1.7 million ADSL users
- Investment at 10% of revenues
- Net profit before extraordinary items in 2005
- Cash flow generation from the fourth quarter of 2004
- Further disposals of non-strategic assets and 15% reduction in operating costs (excluding marketing costs) over the next 12 months

This press release contains certain forward-looking statements based on current expectations and projections in relation to future events. These forward-looking statements may be affected by known or unknown risks, uncertain events and cautious assumptions. This press release also contains unaudited pro-forma data.

Tiscali does not undertake to publish updates or modify any forward-looking statements, either to provide new information or in response to future events or other circumstances. In light of the aforementioned risks, uncertainties and assumptions, the forward-looking statements contained in this press release may not come to fruition. Any statement relating to past performance or activities should not be considered a guarantee of future performance or of such activities continuing in the future.