

The Board of Directors of Tiscali approves 2Q04 results

- Revenues up 26% vs 2Q03 to EUR 272.6 million. 1H04 revenues reached EUR 539.7 million, up 26% vs 1H03
- EBITDA at EUR 24.3 million (9% of revenues), up 42% from EUR 17.1 million in 2Q03. 1H04 EBITDA reached EUR 48.2 million, up 47% vs 1H03
- Improvement in cash burn at EUR 28.9 million, halved vs 1Q04

The Board of Directors of Tiscali defines the guidelines for 2004-2005 financial plan

- Further improvement of free cash flow from 3Q04, and free cash flow generation starting from 4Q04
- Disposal of further assets for a total of EUR 250 million, to allow the full repayment of the bond due July 2005
- 15% decrease of operating costs in the next 12 months

Cagliari, 5th August 2004

The Board of Directors of Tiscali has approved 2Q04 results and has analysed the financial prospects and situation of the Company in the next 12 months.

The Board of Directors has acknowledged the reduction by 50% of the cash burn in 2Q04 vs 1Q04 and the further reduction expected in 3Q04. The outlook for the operating performance confirms the expectation that, from 4Q04, Tiscali will start generating free cash flows on an ongoing basis.

The Board of Directors, in view of guaranteeing the full repayment of the bonds due 2005 – independently from market conditions – has approved the disposals of assets for a total amount of ca EUR 250 million, thus increasing the scope of the disposal plan already approved by the Board of Directors and which is currently well advanced.

In view of increasing operating efficiency and taking also into account the planned disposals of assets, the Board of Director of Tiscali has defined the guidelines of a cost reduction plan, with the goal of reducing operating costs (other than marketing) by 15% in the next 12 months.

With regard to second quarter results, the Company has recorded a normalization of the growth in ADSL subscribers, compared to the record growth reported in 1Q04. This is consistent with the Group's strategic plan to focus on ADSL customers, which yield higher margins than wholesale ones. Over 127,000 ADSL users now receive unbundled access services.

The target of ADSL customers at year end 2004 has been improved to 1,7 million.

During 2Q04 the Company realized investments in the further development of the unbundling infrastructure in Italy and France, thus confirming the expected launch of unbundled ADSL services also in those countries in 2004.

The ADSL unbundling offer is continuing both in the Netherlands and in Denmark, where more than 55% and 80% of ADSL customers now receive unbundled services, with a gross marginality of ca 70%, substantially higher than under wholesale tariff scheme.

■ Revenues and Gross Margin

Tiscali posted second quarter revenues at EUR 272.6 million, up 26% compared to 2Q03 and +2% vs 1Q04.

As of 30th June, ADSL customers were 1.44 million, more than tripled compared to a year ago (+16% vs 1Q04), with an average of 17,000 new subscribers signing up each week). The total number of active users were 7.9 million, of which 6.5 million were dial-up users.

55% of total ADSL subscribers in the Netherlands and more than 80% in Denmark now receive ADSL unbundled services. More customers are expected to be unbundled in Italy and France in the second half of the year.

- **Access revenues** rose by 24% vs 2Q03 and by 3% vs 1Q04 to EUR 186.6. ADSL revenues stood at EUR 77.3 million (41% of access revenues), doubled from EUR 37 million in 2Q03 (24% of revenues). Dial-up revenues registered decrease in the number of customers and minutes vs 1Q03, due both to the migration towards broadband services of heavy dial-up users and to typical monthly seasonality in June.
- **Revenues from business services** were EUR 49.9 (18% of revenues), an increase of 42% vs 2Q03, also due to the integration of the companies acquired in 2003. Business services revenues decrease slightly compared to the figure for

1Q04. This business area confirms to be Tiscali second biggest revenue source, offering strong synergies with the B2C market.

- **Voice revenues** rose by 29% vs 2Q03 to EUR 21.9 million (8% of revenues) and were substantially in line with the previous quarter. 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** stood at EUR 11.3 million (4% of revenues), showing a slight decrease compared both to 2Q03 and 1Q04. This trend can be explained also by the Group's decision to discontinue so-called dialler services in view of protecting its customers. In 2Q04 Tiscali was confirmed as one of Europe's leading web properties, with over 17 million unique visitors in June, up 30% vs June 2003.

The different mix in the access revenue source, which registered a sharp and continuous growth in ADSL subscribers - most of which are still in the wholesale mode – impacted on gross margin. Gross profit, at EUR 120.8 million (44% of revenues) showed an increase of 9% vs 2Q03 (51% of revenues) and a decrease of 5% compared to 1Q04 (48% of revenues). With the increase of ADSL clients receiving unbundled ADSL services the gross margin is expected to progressively improve in the quarters to come.

■ Operating performance

Operating costs fall as a proportion of revenues

Operating costs fell from 43% of revenues in 2Q03 to 35% in 2Q04 to EUR 96.5 million. In absolute terms, operating costs rose by 3% vs 2Q03 and decreased by 7% vs 1Q04, when they accounted for 39% of revenues. The decrease compared with one year ago is due to the reduction, as a percentage of turnover, of marketing personnel and G&A costs.

Operating costs broke down as follows.

- **Marketing costs** totaled EUR 30.2 million (11% of revenues), falling by 12% vs 2Q03 (16% of revenues) and by 26% vs 1Q04 (15% of revenues)
- **Personnel Costs**, were EUR 40.9 million (or 15% of revenues), increasing by 16% vs 2Q03 (16% of revenues), and by 10% vs 1Q04 (14% of revenues).

- **General and administrative costs** were EUR 25.5 (9% of revenues), up 4% vs 2Q03 (11% of revenues) and showing a decrease of 3% vs 1Q04 (10% of revenues).

EBITDA came in at EUR 24.3 million (9% of revenues), up 40% compared to one year ago (EUR 17.4 million, 8% of revenues). **EDITDA** is substantially in line (+2%) with the result registered in 1Q04 (EUR 23.9 million), mainly due to the lower gross margin attributable to the growth in ADSL customers in the wholesale mode, partially offset by lower operating costs as a percentage of revenues.

Amortisation of tangible and intangible assets and provisions totaled EUR 64.1 million, compared to EUR 49.6 million in 2Q03, due to higher investments. The increase versus EUR 51.1 in 1Q04 was due to higher provisions.

Depreciation of tangible assets accounted for EUR 20.7 million and of intangible assets for EUR 30.4 million, of which EUR 13.9 million related to goodwill amortisation.

The resulting loss at **EBIT** was EUR 39.7 million vs the loss of EUR 32.6 million registered in 2Q03 and vs the loss of EUR 27.2 million in 1Q04.

The Group reported an **EBT** at EUR 65.5 million, vs EUR 56.3 million in 2Q03 and vs EUR 52.1 million in 1Q04.

Investments totaled EUR 19 million in 2Q04, of which around 5.8 million were investments in tangible assets and 13.2 million in intangible assets.

■ **Financial resources and debt: cash burned reduced by half**

Cash burn stood at EUR 28.878 million halved compared to 1Q04.

As of 30th June 2004 Tiscali had total cash of EUR 223.6 million, while net debt stood at EUR 370 million before leasing financing.

The table below shows the Group's cash and debt position as of 30.06.2004.

	30.06.2004
Cash and short-term investments in money market instruments	EUR 134.9 million
Investments other than non-current assets	EUR 88.6 million
<i>of which escrow</i>	EUR 30.7 million
<i>of which tax credits and grants*</i>	EUR 57.9 million
TOTAL CASH AND CASH EQUIVALENTS	EUR 223.6 million
Bonds due in July 2004 **	EUR 73.1 million
Bonds due in July 2005	EUR 250.0 million
Bonds equity-linked due in September 2006	EUR 209.5 million
Bonds Telinco	EUR 0.6 million
Loans and other long-term debt	EUR 32.0 million
Other short-term financial liabilities	EUR 28.4 million
GROSS DEBT 1	EUR 593.6 million
Other long-term financing***	EUR 47.7 million
GROSS DEBT 2	EUR 641.4 million
NET DEBT 1	EUR 370.0 million
NET DEBT 2	EUR 417.8 million
PRO FORMA NET DEBT 1	EUR 160.5 million
PRO FORMA NET DEBT 2 (assuming full conversion of equity-linked bonds)	EUR 208.2 million

* Mainly includes tax credits and grants

** Reimbursed on July 12th 2004

*** Mainly leasing

■ **Relevant events after the end of the second quarter**

On 12th July 2004 Tiscali announced the reimbursement of the remaining outstanding bonds issued by its subsidiary Tiscali Finance SA for a nominal value of Euro 72.867 million and interests of ca Euro 4.645 million.

Tiscali had launched a voluntary public tender offer on the bonds last December 2003. The original issue size was Euro 150 million.

■ **2004 targets**

Tiscali announces the following targets for 2004:

- Revenues of over EUR 1.2 billion, an increase of more than 30% versus 2003
- EBITDA margin at 10% of revenues
- Over 1.6 million ADSL users
- Capex at 10% of revenues
- Net profit before extraordinaries in 2005
- Cash flow generation starting from 4Q04
- Disposals of non core assets - already announced- to be completed by end 2004

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