

The board of directors of Tiscali approves draft consolidated accounts for 2003

- Net revenues at EUR 901 million in 2003, up 20% on 2002
- EBITDA positive for the fifth consecutive quarter, at EUR 74.7 million (8.2% of revenues), a sharp improvement on the EUR 1 million posted at end-2002
- 840,000 ADSL users as of 31.12.2003, an increase of more than 600,000 in 2003
- Sharp rise in the number of new broadband customers in Q1 2004: +400,000 new users bring total ADSL customers to 1,240,000 ADSL 31 March 2004

Cagliari, 5 April 2004. Tiscali's board of directors has approved the draft results for the year ending 31 December 2003.

In 2003 Tiscali adjusted its strategic proposition. With 7 million dial-up users all over Europe, the company has now also established itself as a provider of broadband services thanks to an improvement in the regulatory situation for this market in Europe, and to an effective and commercial policy.

Growth in ADSL accelerated in 2003, and by the end of the year the number of broadband users had quadrupled compared with end-2002 and boosted access revenues. EBITDA also improved, and was positive for the fifth quarter in a row, while the EBITDA margin expanded to 8.2% year on year.

Tiscali has now achieved a critical mass of broadband customers, and given their potential in raising average revenues per user (ARPU), the Group has begun to implement a strategy of selective unbundling, already launched in the Netherlands and Denmark.

Offering unbundled broadband enables Tiscali to control the quality of the service provided to its customers, as well as allowing it to offer "triple play" packages of data, voice and content. The tariff structure of unbundled services allows the group to substantially increase the profitability of internet access (in the Netherlands, the gross margin was more than 70% last year and the EBITDA margin more than 20%). Having achieved these results, which exploit the existing customer base and Tiscali's technological know-how in offering services based on its proprietary network, Tiscali now sees targeted unbundling as one of the pillars of its strategic plan: in 2003 the unbundling strategy has commenced in Italy and France too.

Investor Relations

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2003 results

■ Revenues and gross profit by business area

The Tiscali group generated revenues of EUR 901 million in 2003, an increase of 20% on the EUR 748.4 million posted in the previous year. This rise in revenues was due to growth in broadband and business services. The result broke down as follows:

- **Access** revenues were EUR 613 million, up 19% on the EUR 517 million recorded in 2002. They accounted for 68% of total revenues, in line with 2002.
- **Portal** revenues contributed 5% to the total, and stood at EUR 47.2 million, down 1% on 2002, mainly due to the disposal of Hispavista and WOL Merchandising in 2002.
- **Business services** revenues rose 51% to EUR 161.2 million, and accounted for 18% of the total. This was the result of the change in the basis of consolidation and the synergies generated by the new acquisitions.
- **Voice revenues** were 8% of the total, and stood at EUR 70.4 million, an increase of 8% on 2002.

Gross profit was EUR 455.1 million, or 51% of revenues. The figure was up 25% in value on 2002, when gross profit stood at 49% of revenues.

■ Operating costs and EBITDA in 2003

Operating costs dropped sharply, from 49% of revenues in 2002 to 42% in 2003, breaking down as follows:

- **marketing costs** totalled EUR 140 million, or 16% of revenues. This was a 14% rise compared with 2002 (when the costs accounted for 16% of revenues), due to the launch campaign for the group's broadband products and services.
- **personnel costs** increased from EUR 140.1 million in 2002 (19% of revenues) to EUR 142.1 million at end-2003, and stood at 16% of total revenues.
- **G&A costs** accounted for 11% of revenues, and fell 3%, from EUR 100.9 million (13% of revenues) at 31 December 2002 to EUR 98.1 million at 31 December 2003.

EBITDA was positive, at EUR 74.7 million, or 8.2% of revenues, a huge increase on the EUR 1 million recorded in 2002.

The group made an **EBIT** loss of EUR 228.9 million, although with a 43% improvement on the loss of EUR 399.8 million posted the previous year.

Depreciation charges totalled EUR 92.8 million, while amortisation stood at EUR 133 million, of which EUR 72 million was goodwill amortisation.

EBIT benefited from the extension of the goodwill amortisation period from five years (the average period used until 31.12.2002) to the average 10 years used in 2003 (following the lengthening of the goodwill useful life to 12 years).

The structural reasons which has determined the change of useful life for the goodwill are the following:

- Outlook of the market in which Tiscali operates, with particular reference to the geographical areas and stabilisation of the different business units.
- Results achieved and forecast in the business plan, which sees an improvement of the financial outlook, with particular reference to cash generation.
- Completion of the restructuring and reorganisation process of the Group

The analysis has been based on an 'impairment test' 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 business unit.

This analysis showed that the net book value of goodwill pertaining to the different regions was much lower than the corresponding value derived from the methodology described above. To support the analysis carried out internally by the company, the Board of Directors commissioned a report by an independent expert, who confirmed that the book value of the goodwill was well within the value of goodwill estimated on the basis of the business plans for each business unit. The expert also ratified the lengthening of the amortisation period of the goodwill.

Furthermore, from 2005 (but for comparative purposes, from the 2004 accounts), IAS/IFRS accounting 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 is made, although it is not allowed 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 which is in line with those of other companies in the sector.

The company also intends maintain the accounting policy which values the participations in the S.p.A. at cost eventually adjusted to reflect any permanent loss in value according to the business plan prepared for each country in which Tiscali operates.

As of December 2003 the Group registered a sharp decrease in the net loss which stood at EUR 242.4 million, halved compared to the loss of EUR 593.1 million posted in 2002.

Moreover, deferred tax credits of EUR 51.6 million have been conservatively accounted for since relating only to those countries that reported a net profit before taxes in 2003 (the Netherlands and South Africa). Total losses carried forward are above 1 billion Euro.

Investments as of 31st December 2003 stood at EUR 129.6 million, of which some EUR 30 million was spent on the new headquarters in Cagliari. In the second half of the year, the group began investing in the infrastructure needed to provide unbundled broadband services in the Netherlands.

■ **Cash resources and debt**

The table below shows the group's cash resources and debt at 31.12.2003

Cash and cash equivalents	€203.5 million
<i>of which current accounts</i>	€130.4 million
<i>of which investments in short-term money market instruments</i>	€73.1 million
Investments other than non-current assets	€129.7 million
<i>of which term deposits</i>	€51.8 million
<i>of which tax credits and grants*</i>	€77.2 million
TOTAL FINANCIAL RESOURCES	€332.5 million
Bonds due July 2004	€80.3 million
Bonds due July 2005	€250.0 million
Equity-linked bonds due September 2006	€209.5 million
Mortgages and other long-term debt	€31.9 million
Other short-term debt	€39.5 million
GROSS DEBT 1	€611.1 million
Payables to other lenders**	€43.5 million
GROSS DEBT 2	€654.6 million
NET DEBT 1	€278.6 million
NET DEBT 2	€322.1 million
PRO FORMA NET DEBT 1	€69.1 million
PRO FORMA NET DEBT 2	€112.6 million
<i>(assuming the full conversion of the equity-linked bonds)</i>	

* Mainly tax refunds and grants that have been claimed and which should be received in 2004

** Mainly leasings

The table below shows details of the bonds outstanding as of 31.12.2003:

Issuer	Nominal value (EUR m)	Rate	Maturity	Guarantor
Tiscali Finance SA	80.3*	6.375%	July 2004	Tiscali SpA
Tiscali Finance SA	250	Euribor + 3.25%	July 2005	Tiscali SpA
Tiscali Finance SA	209.5	4.25%	September 2006	Tiscali SpA

* Issue originally worth EUR 150 million. The figure shown is the amount remaining following the buy-back completed in December 2003.

The offering circulars of these bonds are available on the investor relations page of the website tiscali.com.

Tiscali plans to use its cash resources to redeem the remainder of the bond maturing in July 2004, for a sum totalling around EUR 80 million. The rest will be used to finance the Group's operating activities and investment plans.

According to the business plan of Tiscali, the existing financial resources, those expected to be generated by operations and those resulting from the disposal of non-core assets (the process is currently taking place) should allow to redeem the bond due July 2005. Furthermore, in order to maximise its financial flexibility and to accelerate growth, Tiscali does not rule out to utilise other sources of financing, such as bank debt or equity, bond or equity-linked instruments with a view to optimise its capital structure.

The bond due 2006 is a convertible bond with a soft mandatory feature. This means that the issuer can assign shares, even if, at maturity, Tiscali's market price was lower than the conversion price. In this case, the difference between the conversion price and the market price must be made up by the issuer. For example, if at due date the market price is EUR 2 lower than the conversion price, Tiscali would have to give bond holders shares worth around EUR 154 million, and pay the difference of around EUR 55 million in cash, thereby settling the nominal debt of EUR 209.5 million. The table shows the level of net pro forma debt assuming that all the bonds are converted in shares and no cash top-up is due.

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The bonds maturing in 2004 and 2005 include a covenant linked to the Group's consolidated gross debt and shareholders' equity. The table below shows the two types of covenant, the first of which (negative consolidated cash flows) applies to Tiscali.

Period	Consolidated cash flows	Covenant
Annual, on 31.12 each year	Negative	Consolidated gross debt may not be higher than the greater of: i) EUR 600 million or ii) twice the value of consolidated shareholders' equity
Annual, on 31.12 each year	Positive	Consolidated net debt may not be higher than the greater of: i) 3 times consolidated EBITDA or ii) EUR 600 million or iii) 2.5 times consolidated shareholders' equity

Shareholders' equity stood at EUR 425.6 million at 31.12.2003, while consolidated gross debt was EUR 654.9 million. The ratio between the two therefore comes out at 1.5, which is largely below the limit of 2 imposed by the covenant.

The Group is not in any financial difficulty and has no problems in its dealings with clients or suppliers, apart from minor delays and disputes with certain suppliers/clients arising in the normal course of operations.

Please note that all of the figures given in this release are draft results. The auditors will complete their work and issue the audit report by 15 days before, as required by the law.

■ **Public offer to purchase bonds worth EUR 150 million**

In 2003 a public offer was launched to purchase all of the bonds issued in July 2002 by subsidiary Tiscali Finance SA and due to mature in July 2004, for a total amount of EUR 150 million. The aim of the offer was to restructure Tiscali group debt, and to refinance part of it—lowering costs and improving the maturity profile.

During the offer period of 1-22 December, bonds for a nominal EUR 69.698 million were tendered, equivalent to 46.47% of the outstanding bonds. Bonds maturing in July 2004 totalled EUR 80.3 million as of 31.12.2003.

■ **Events taking place after the end of the financial year**

ADSL subscribers topped 1,240,000 at the end of March 2004, with 400,000 new clients in the first quarter of this year. The addition of these ADSL customers was mainly achieved in the core European markets. Tiscali is now the second largest ADSL operator in the UK on new adds —ahead of Wanadoo's subsidiary Freeserve—thanks to its innovative offer, which has proved popular with customers.

On 12 March 2004, Tiscali Group announced an agreement with Cisco to utilise their platform for voice-over-IP services (VoIP)

The exceptional growth of ADSL customers recorded in the first two months of the year has required financial resources to attract new customers as well as to invest in unbundling. It has to be noted that the Group has outperformed by 100% its budget targets, with a 50% growth of ADSL customers vs 31.12.2003.

The table below shows the company's financial position as of 29 February 2004, highlighting a cash burn of EUR 44,9 million. EUR 7,4 million of bonds due July 2004 were repurchased.

The cash burn trend is declining: of the EUR 44,9 million, ca EUR 30 million were burnt in January 2004 and ca EUR 15 million were burnt in February 2004. In March, the cash burn is expected to be further significantly reduced.

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	31.12.2003	29.02.2004
Cash and cash equivalents	€203.5 million	€153.7 million
Investments other than non-current assets	€129.0 million	€119.7 million
<i>of which term deposits</i>	€51.8 million	€43.1 million
<i>of which tax credits and grants*</i>	€77.2 million	€76.6 million
TOTAL FINANCIAL RESOURCES	€332.5 million	€273.4 million
Bonds due July 2004	€80.3 million	€72.9 million
Bonds due July 2005	€250.0 million	€250.0 million
Equity-lined bonds due September 2006	€209.5 million	€209.5 million
Mortgages and other long-term debt	€31.9 million	€31.0 million
Other short-term debt	€39.5 million	€38.3 million
GROSS DEBT 1	€611.1 million	€601.7 million
Other debts**	€43.5 million	€38.7 million
GROSS DEBT 2	€654.6 million	€640.4 million
NET DEBT 1	€278.6 million	€328.3 million
NET DEBT 2	€322.1 million	€367.0 million
PRO FORMA NET DEBT 1	€69.1 million	€118.1 million
PRO FORMA NET DEBT 2 (assuming the full conversion of the equity-linked bonds)	€112.6 million	€156.8 million

* Mainly tax refunds and grants that have been claimed and which should be received in 2004

** Mainly leasings

■ **2004 targets and strategic outlook**

Tiscali's targets for 2004 are:

- Revenue increase of over 30% to at least EUR 1.2 billion
- EBITDA margin at 11% of revenues
- Over 1.6 million ADSL users
- Investment at 10% of revenues
- Net profit positive in 2005 before extraordinary items
- Cash generation in the second half of 2004

■ **Strategic Outlook**

The Tiscali group is at a turnaround point: the challenge of broadband is opening up new horizons while confirming the validity of the group's business model based on access as a platform from which to develop services and supply content.

Furthermore, Tiscali from a leading narrowband internet player has proven capable of growing also in the broadband services and to compete with the ex-incumbents in a market that offers high growth potential.

The board of directors of Tiscali has therefore discussed and approved a strategic plan based on three elements:

- ADSL growth
- Unbundling
- Focus on key countries

Revenues are forecast to rise at a CAGR of 29% in 2004-2006, to over EUR 2 billion in 2006. One third of ADSL clients are expected to be unbundled by then, and over 5 million ADSL subscribers are expected by 2008. The EBITDA margin is expected to reach over 20% of revenues in 2006, and net profit (before extraordinary items) is expected to be positive in 2005.

Investments in unbundling are planned for 2004 in the Netherlands, France and Italy. The plan is to invest ca EUR 25 million per country, with 30-60% of ADSL lines potentially covered in unbundling mode. At the same time, the unbundled offers (already available in the Netherlands and Denmark) can include integrated voice, data and content services, which helps to boost both customer loyalty and ARPU.

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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.

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