

Quarterly report to 31 March 2003



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Directors and Auditors

Board of Directors

Chairman

Renato Soru

Directors

Franco Bernabè
Victor Bischoff
Hermann Hauser
Gabriel Pretre
Elserino Piol

Board of Auditors

Chairman

Aldo Pavan

Permanent Auditors

Piero Maccioni
Massimo Giaconia

Substitute Auditors

Andrea Zini
Rita Casu

External Auditors

Deloitte & Touche SpA

- Fifth consecutive quarter of organic growth
- Consolidated revenues of EUR 212.5 million, up 6% on 4Q02 and 9% on 1Q02
- Better than expected ADSL performance: 360,000 ADSL customers as of 31 March 2003, and over 400,000 at end-April, with around 11,000 new adds per week
- Gross margin consolidated at 50% of revenues, attesting to the company's operating efficiency
- EBITDA up 8% to EUR 15.6 million, from EUR 13.2 million in 4Q02
- Operating profit flat versus 4Q02
- Cash burn of EUR 23.9 million, including one-off charges, 26% lower than in 4Q02
- Total number of active users up from 7.3 million to 7.6 million, a 4% rise versus 31 December 2002

Tiscali is one of Europe's leading internet services companies, providing access, content, business applications and innovative value-added services. As of 31 March 2003, Tiscali had 7.6 million active users and over 15.2 million unique visitors to its portal (source: Nielsen@ratings). The company is also one of Europe's major web properties, thanks to a significant presence in 15 countries and a leading position in the continent's five largest markets. Tiscali's business model is based on the seamless integration of activities linking network access with media and corporate services, promoted under a single brand encompassing all of the elements that have contributed to the establishment of the Tiscali name throughout Europe. The group's proprietary network is a major facilitator of the integration process.

The restructuring process that began in the second quarter of 2001, and involved the entire Tiscali group, produced a positive EBITDA figure in the first quarter of 2002. In the first quarter of this year, Tiscali posted EBITDA of EUR 15.6 million, in line with management forecasts. This result was largely achieved through synergies released following the integration of new acquisitions and the implementation of a cost rationalisation programme, as well as the wide-ranging restructuring process.

The group also made a number of acquisitions in the first quarter of 2003, with the aim of strengthening its market position in several countries and achieving critical mass.

On 31 January Tiscali acquired Airtelnet, the Spanish internet business of the Vodafone group, for EUR 9.86 million, to be paid for in newly-issued Tiscali shares. This acquisition will strengthen Tiscali's position on the Spanish market and raise profitability. Airtelnet has around 110,000 active dial-up users, of which 5,000 are business customers. The acquisition came at a crucial time for Tiscali España—which is currently undergoing a restructuring—and will boost the number of broadband users, in line with the group's strategy.

On 6 February 2003, Tiscali completed the acquisition of Wanadoo group company Wanadoo Belgium SA via its subsidiary Tiscali Belgium NV, for EUR 9.5 million, to be paid for in newly-issued Tiscali shares. Wanadoo Belgium is one of the country's leading ISPs, posting revenues of around EUR 13 million in 2002. The company has around 85,000 active users, of which 25,000 are ADSL customers. This acquisition should release substantial synergies and economies of scale from an early stage, mainly from the migration of traffic generated by Wanadoo Belgium users to Tiscali's IP network, with clear and immediate benefits for the P&L. It will also consolidate Tiscali's position on the Belgian internet market, specifically in the broadband sector, thanks to the addition of over 30,000 ADSL customers. The transaction also confirms Tiscali's commitment to achieving a pan-European presence, and will help consolidate its leading position on the Benelux internet market.

On 11 March 2003, UK company Tiscali Internet Limited was acquired for around EUR 600,000, to be paid for in newly-issued Tiscali shares. The company had over 13,000 dial-up users at the time of the acquisition.

On 18 March 2003, Tiscali acquired Nextra SpA from the Telenor group for EUR 2.4 million, to be paid for in newly-issued Tiscali shares.

Bologna-based Nextra SpA is one of Italy's leading suppliers of internet services to the corporate sector, with a reputation for high-quality advanced IP services, such as fixed and wireless internet access, hosting, virtual private networks (IP-VPNs) and messaging. The company has around 3,000 business customers, mostly located in north-east and central Italy, and 35 employees. In 2002, Nextra posted revenues of around EUR 10.7 million.

Nextra's existing clients can now benefit from access to the full range of Tiscali's high-quality innovative access services, as well as all the advantages offered by the group's pan-European presence and network.

From Tiscali's point of view, the acquisition will generate substantial synergies and economies of scale through its proprietary IP network in Italy, boosting the profitability of its domestic business and at the same time strengthening its own competitive position on the Italian corporate services market. The large number of similarities between Nextra and Tiscali infrastructure will facilitate Nextra's integration into Tiscali Italia.

At this point it is worth mentioning that the liberalisation process in the Italian broadband market, which began to produce positive effects in the second half of 2002, has now stalled ADSL development for independent operators including Tiscali.

However, the European Commission yesterday made an extremely important recommendation ("Recommendation on relevant product and service markets within the electronic communications sector susceptible to ex-ante regulation"), which should pave the way towards development and competition in the broadband market. Tiscali believes that this recommendation—if implemented correctly—will foster rapid development of high-speed services in Europe, curtailing the de facto monopoly and enabling alternative operators to develop a profitable business model in this high-growth sector, with indisputable benefits for consumers.

Consolidated profit and loss account*(EUR 000)*

	31.03.2003	31.03.2002
Revenues	212.512	195.240
Value of the production	212.512	195.240
Operating costs for goods and services	(163.137)	(159.227)
Personnel cost	(33.738)	(34.991)
EBITDA	15.637	1.022
Amortizations, depreciations	(40.981)	(34.510)
Goodwill amortization	(37.370)	(72.200)
Other provisions	(3.498)	(166)
EBIT	(66.212)	(105.854)
Financial earning (Losses)	(7.527)	(7.269)
Extraordinary Earnings (Losses)	(11.603)	(1.804)
Earnings (losses) before taxes	(85.342)	(114.927)

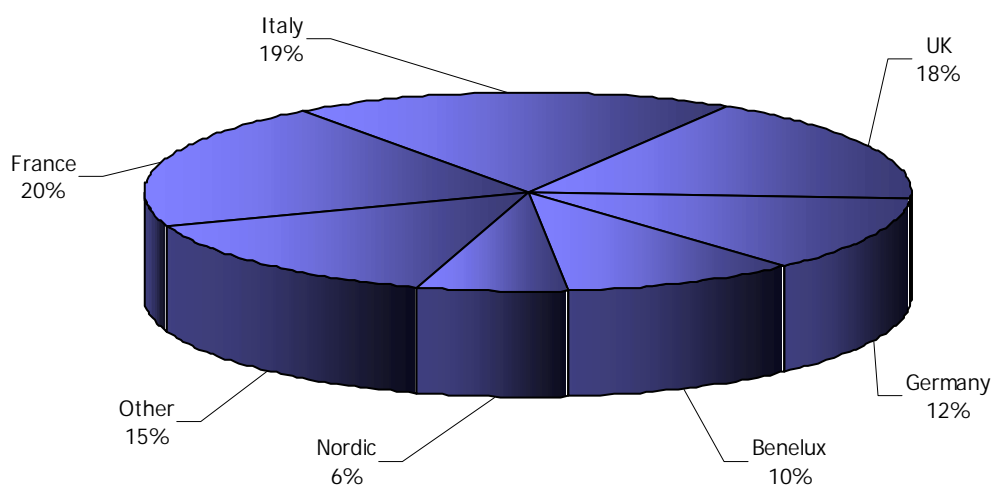
The Tiscali group posted revenues of EUR 212.5 million in the first quarter of 2003, an 8.8% rise on the 1Q02 figure of EUR 195.2. A breakdown of revenues by business area shows that the contribution from access revenues increased again, from EUR 137.6 million in 1Q02 to EUR 148.3 million this time (+ 7.7%). Access revenues therefore accounted for 69.8% of the total in the first quarter of the year, confirming the importance of this business to the revenue mix. Portal revenues (5.6% of the total) were EUR 12 million, up 6.4% on the previous quarter, but substantially down on 1Q02 due to the prolonged slump in the advertising market. Revenues from corporate services (16.1% of the total) came in at EUR 34.2 million, a 56.2% advance on 1Q02 (EUR 21.9 million), and evidence of the growing success of this business area and the considerable synergies generated by the proprietary network. Voice revenues at EUR 15.6 million were 30% ahead of 1Q02 (EUR 12 million), following the relaunch of voices services—essential to the provision of a comprehensive product range—on the French and Italian markets, as part of Tiscali's strategy to maintain its market share in both countries.

Revenues by business line

(EUR 000)

	31.03.2003	31.03.2002
Access	148,253	137,600
Voice	15,604	12,000
B2B	34,205	21,900
Portal	11,982	19,700
Other	2,468	4,040
Total	212,512	195,240

In 2002, 79% of revenues were generated in the five largest European markets: 19% in Italy, 20% in France, 12% in Germany, 18% in the UK and 10% in the Benelux countries. However, the contribution of countries listed under "Other", such as Spain, Switzerland, Czech Republic and South Africa, is rising rapidly.



As of 31 March 2003, Tiscali had around 7.6 million active users, including 360,000 ADSL customers. The narrowband user base expanded by 4% compared to the previous quarter, while ADSL user numbers were 68% higher. At the end of April, 400,000 ADSL users were registered, an increase of 87% on 31 December 2002.

The group posted a gross profit of EUR 105.6 million in the first quarter of 2003. The gross margin was 49.7%, marking a major improvement compared with the beginning of 2001, and 3% ahead of the 4Q02 figure.

Personnel costs fell slightly to EUR 33.7 million versus EUR 35.2 million the previous quarter, and were largely in line with the 1Q02 figure (EUR 34.9 million), thanks to the successful integration of new acquisitions and the rationalisation programme begun in 2001 that continued throughout 2002.

EBITDA rose 18.8% to EUR 15.6 million, from EUR 13.2 million in 4Q02. This performance represented an impressive 1400% advance on 1Q02 (EUR 1 million), and should pave the way for further improvement in the full-year figure in 2003.

Investments

Gross investment in tangible and intangible assets over the quarter came to around EUR 14 million, and was mainly spent on developing integration projects, software, equipment to support business expansion such as servers and routers, and the construction of the new technical and administrative headquarters in Cagliari.

Group financial position

Consolidated net debt

(EUR 000)

	31.03.2003	31.12.2002	31.03.2002
Cash and cash equivalents	314,636	333,757	400,000
Short-term bank debt	(52,876)	(56,057)	(99,246)
Short-term net liquid assets	261,760	277,700	300,754
Medium-/long-term debt	(420,488)	(412,460)	(250,003)
Net debt	(158,728)	(134,760)	50,751

As of 31 March 2003 the group had net liquid assets of EUR 262 million, down from EUR 277 million at 31 December 2002 and EUR 300.7 million at 31 December 2001. Net debt stood at EUR 159 million, a marked improvement on recent quarters.

Significant events since 31 March

On 8 April 2003, Tiscali SpA signed an agreement to acquire the entire share capital of Swedish company Home.se AB for SEK 12 million SEK (EUR 1,305,767) to be paid for in newly-issued Tiscali shares. Home.se is an ISP with around 35,000 active users that had sales of EUR 1.1 million in 2002.

On 6 May 2003, Tiscali SpA announced the acquisition of Austrian company EUnet EDV und Internet Dienstleistungs AG for around EUR 15.9 million to be paid for in newly-issued Tiscali shares. The acquisition cost is closer to EUR 14 million, however, given EUnet's cash pile of some EUR 1.9 million. The transaction is awaiting the approval of the Austrian Cartel Authority.

EUnet began operating in 1991 and was Austria's first ISP. It is currently the country's second biggest B2B player, after Telekom Austria, with 15,000 customers. The company offers high-quality innovative internet products and services, including internet access using the most popular technologies, hosting and housing, managed network services (IP-VPNs), security solutions and value-added services.

Vienna-based EUnet has 64 employees. After its spin off from the KPNQwest group, EUnet underwent a restructuring of its operations and shareholder base, relaunching last June. 2002 revenues are estimated at around EUR 18 million, with annualised EBITDA at EUR 3.3 million, putting net profit and cash flow into positive territory. Given synergies projected to be worth around EUR 2.5 million per year, the acquisition should boost Tiscali's EBITDA by almost EUR 6 million per year.

The integration of EUnet will take place right away, and should be a straightforward process. Its high quality service levels will be maintained and enhanced, with clear benefits for all EUnet customers, who will now have access to the wide range of innovative services offered by Tiscali.

This acquisition is a major step forward for Tiscali on the Austrian market: with 2003 revenues forecast at EUR 28 million, Tiscali will become the top provider of corporate internet services, and will capitalise on this position to boost its presence in the consumer market.

Management outlook

The results achieved in the first quarter of 2003 bear out the validity of Tiscali's business model. The major restructuring and integration of the companies acquired in 2001 has enabled Tiscali to consolidate its leading position on the European ISP market and attain the status of a true telecoms company. In particular, the restructuring delivered positive EBITDA for the whole of 2002, and this trend continued in the first quarter of 2003.

In 2003 the company will focus on achieving organic revenue growth, consolidating its market share in all business areas, expanding its ADSL and dial-up customer bases and introducing innovative fee-based products software.

First quarter 2003 results were in line with the group's business plan, enabling the management to confirm full-year targets. Projections include consolidated revenue growth of 20% versus 2002, an ADSL user base of 700,000 and positive EBITDA for the whole of 2003—including the generation of cash flow from the second half of the year.

Profit and loss account

(EUR 000)

	31.03.2003	31.03.2002
Revenues	34,494	27,300
Value of production	34,494	27,300
Operating costs – goods and services	(35,350)	(25,900)
Personnel costs	(7,094)	(6,400)
EBITDA	(7,950)	(5,000)
Depreciation and amortisation	(5,372)	(3,100)
Other provisions	-	(200)
EBIT	(13,322)	(8,300)
Gains (losses) on investments	(4,026)	(5,200)
Extraordinaries	(1,539)	(400)
Gross profit	(18,887)	(13,900)

Parent company EBITDA was just under EUR 8 million in the first quarter of 2002, before holding company costs. After holding company costs, and following adjustments made in line with IAS 17, EBITDA stood at around EUR 4.4 million, close to the 1Q02 figure of EUR 4 million.

The main cost items in the first quarter were backbone and port costs of EUR 5.0 million, representing 14% of revenues compared to 24% in 1Q02. This substantial reduction was achieved following the implementation of the Italian Network (restructuring begun in July 2002) through the purchase of dark fibre (IRUs). Traffic acquisition costs (EUR 9.9 million) rose from 9% of revenues in 1Q02 to 28% this time due to expansion in wholesale services that has taken place since the end of 2002 (termination, code sharing, code hosting). Sales and advertising costs came to 12.7% of revenues at EUR 4.4 million, against 13% in 2002.

Personnel costs rose by 11% compared with a year earlier, from EUR 6.4 million in 1Q02 to EUR 7.1 million this time. The headcount rose from 755 at 31 March 2002 to 795 as of 31 March 2003.

Parent company: financial position

Net debt

(EUR 000)

	31.03.2003	31.12.2002	31.03.2002
Cash and cash equivalents	7,363	2,079	10,200
Short-term bank debt	(31,676)	(31,659)	(19,600)
Short-term debt	(24,313)	(29,580)	(9,400)
Medium-/long-term debt	(21,683)	(12,460)	-
Net debt	(45,996)	(42,040)	(9,400)

Parent company: revenue breakdown

Revenues by business line

(EUR 000)

	31.03.2003	31.03.2002
Access	21,765	16,000
Voice	5,800	4,100
B2B	1,797	1,200
Portal	3,297	3,600
Other	1,835	2,500
Total	34,494	27,400

The parent company's revenues rose from EUR 27.3 million in the first quarter of 2002 to EUR 34.5 million. Access revenues were up 36% from EUR 16 million in 1Q02 to EUR 21.8 million this time, thanks to a sharp rise in the number of ADSL subscribers (+62,000 as of 31 March) and the introduction of the "decade 7" internet access service (using carrier pre-selection), which generates higher revenues per minute than usage-based fees for traffic generated by Tiscali subscribers on third party fixed-lines. Dial-up connection minutes rose from 2.38 billion in the first quarter of 2002 to 2.41 billion this time, despite the migration of some subscribers to ADSL. Voice revenues increased from EUR 4.1 million in the first quarter of 2002 to EUR 5.8 million, on the back of higher volumes of wholesale services. B2B revenues rose from EUR 1.2 million in 1Q02 to EUR 1.8 million in the first quarter of this year.

During the first quarter of 2003, the parent company invested EUR 6.1 million in tangible and intangible assets.

The increase in tangible assets of EUR 3.7 million mainly refers to the ongoing construction of the new headquarters in Cagliari (+3.5 million). The increase in intangible assets was EUR 2.4 million, of which EUR 1.6 million was spent on software licenses.

Significant events since 31 March

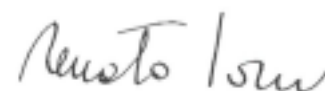
No significant events other than those described above have taken place since the end of the quarter.

The 2002 annual report and accounts of Tiscali SpA were approved by shareholders at a meeting held on 29 April 2003, together with a proposal to cover 2002 losses using the share premium reserve. At the same meeting, the appointment of Gabriel Pretre as a director until approval of the 2004 annual results was confirmed, and the new Board of Auditors was elected, consisting of Aldo Pavan (Chairman), Piero Maccioni (Permanent Auditor), Massimo Giaconia (Permanent Auditor), Andrea Zini (Substitute Auditor) and Rita Casu (Substitute Auditor).

A number of resolutions approving the acquisitions made by the company between 1 January and 10 April 2003, and the related capital increases, were also passed at the meeting.

For the Board of Directors

Chairman



(Renato Soru)