

■ Interim report to 30 June 2004

■ **Directors and Auditors**

■ **Board of Directors**

Chairman

Renato Soru

CEO

Ruud Huisman

Directors

Tomaso Barbini

Franco Bernabè

Victor Bischoff

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

Total group revenues for the quarter came in at EUR 272.6 million, up 26% on 2Q03, and 2% ahead of the previous quarter.

200,000 new broadband users: the total number of ADSL users rose by 16% compared with 1Q04 to 1,440,000 (+213% versus 2Q03).

Tiscali invested heavily in the development of the unbundled network in Italy and France over the quarter. Unbundling continues to be a success in the Netherlands and Denmark, where over 55% and over 80% of ADSL customers respectively subscribe to these services, which generate margins of around 70%.

EBITDA was EUR 24.3 million (EBITDA margin: 9%), in the second quarter, up 42% on 2Q03 (EUR 17.1 million) and 2% on 1Q04.

The company made a pre-tax loss of EUR 65.5 million, compared to EUR -56.3 million in 2Q03 and EUR -52.1 million in 1Q04.

Net debt stood at EUR 370 million at 30 June 2004, while cash and cash equivalents totalled EUR 223.6 million.

■ **Report on operations**

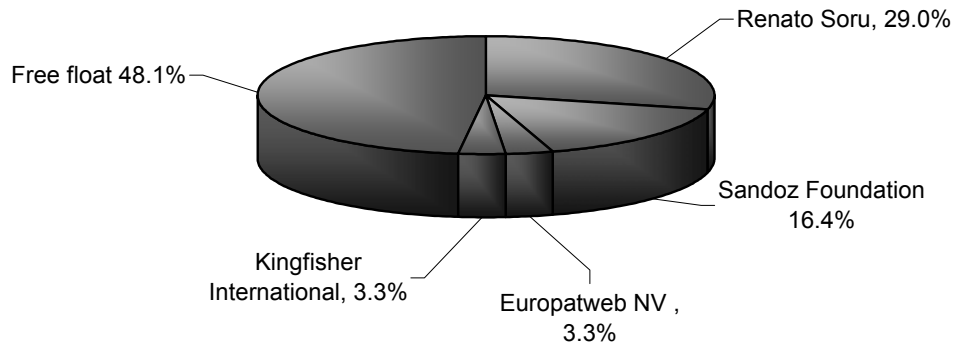
■ **The Tiscali stock**

Tiscali is listed on the STAR segment of the Milan Nuovo Mercato (TIS), and on the Paris Nouveau Marché (005773). At 30 June 2004 its market capitalisation was EUR 1,380 million.

Tiscali has retained its position as the most highly-capitalised company on the Nouveau Marché.

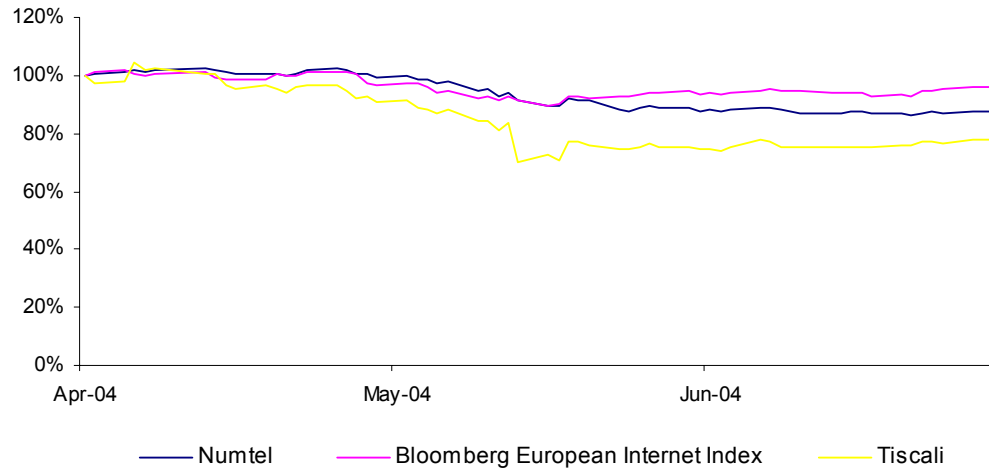
Tiscali's share capital comprised 372,858,515 shares at 30 June 2004.

The chart below shows Tiscali's shareholder base at 30 June.



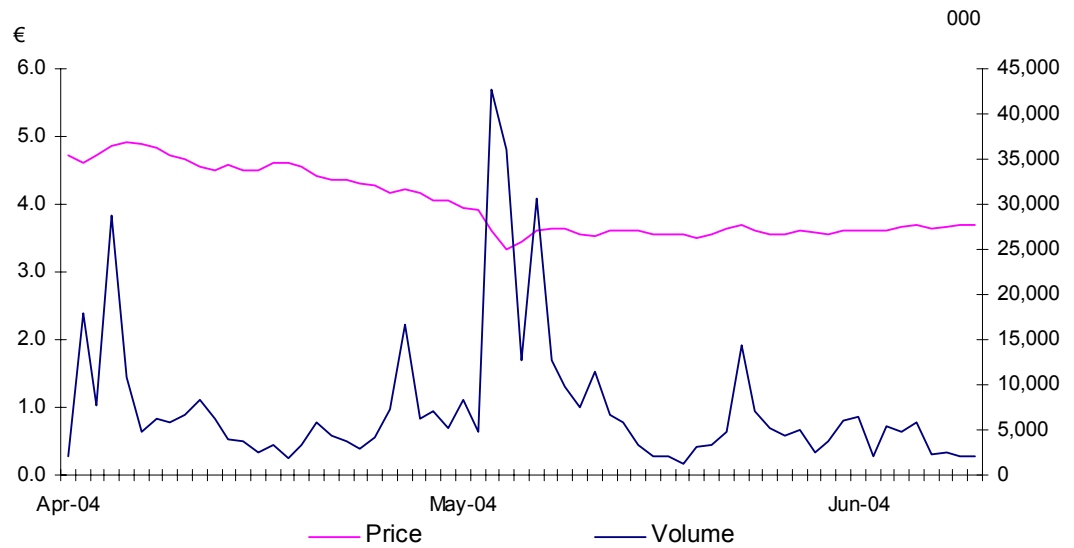
Source: Tiscali

In the second quarter of 2004, the Tiscali stock underperformed both the Numtel and the Bloomberg European Internet Index.



Source: Bloomberg

An average of 7.6 million Tiscali shares were traded daily in the period, while the average daily value of trades was EUR 30.1 million.



Source: Bloomberg

Average daily volumes on Tiscali's two markets

Value in number of shares

Date	Nuovo Mercato		Nouveau Marche'		Total	
	shares	in %	shares	in %	shares	in %
January-04	9,598,341	99.78%	20,737	0.22%	9,619,077	100%
February-04	7,102,954	99.79%	14,760	0.21%	7,117,713	100%
March-04	8,589,810	99.81%	16,332	0.19%	8,606,143	100%
April-04	6,894,626	99.87%	9,020	0.13%	6,903,646	100%
May-04	11,657,484	99.67%	38,123	0.33%	11,695,607	100%
June-04	4,384,632	99.14%	38,153	0.86%	4,422,786	100%
Daily average	8,037,974	99.68%	22,854	0.32%	8,060,829	100.00%

Source: Bloomberg

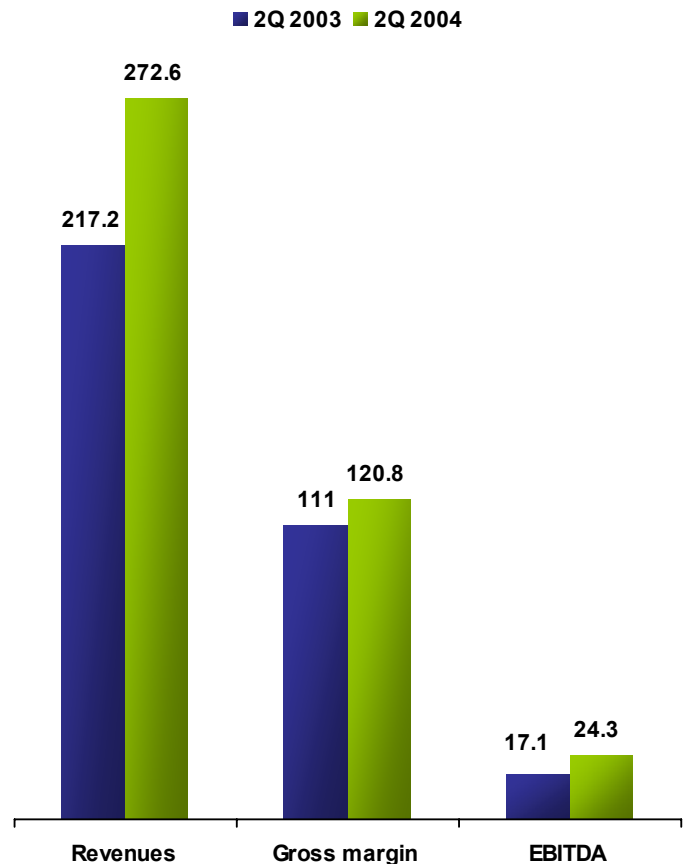
■ **Tiscali group: key figures**

The group posted second-quarter revenues of EUR 272.6 million, up 26% versus 2Q03 and 2% ahead of the previous quarter.

Active users totalled 7.9 million, down slightly on the previous quarter. ADSL user numbers shot up by 200,000, to 1.44 million. The number of active dial-up users fell slightly versus the previous quarter to 6.46 million, as a result of both migration to broadband and seasonal factors affecting the month of June. Over half of the group's ADSL customers in the Netherlands and over 80% in Denmark are now receiving the unbundled service (127,000 users in total). An increasing number of customers are expected to receive unbundled services once they are launched in Italy and France in the second half of 2004.

The number of unique visitors to the Tiscali portal also grew, to 17.4 million in June 2004 (source: Nielsen/Netratings), confirming Tiscali as one of Europe's leading web properties.

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 120.8 million, an increase of 9% on 2Q03. The **gross margin** narrowed to 44% of revenues, from 51% in the second quarter last year, and 48% in



the previous quarter. The gross margin is expected to progressively improve over the next few quarters with growth in unbundled broadband services.

EBITDA improved sharply in the second quarter to EUR 24.3 million, versus EUR 17.1 million in 2Q03. The figure was broadly unchanged from the EUR 23.9 million posted in 1Q04.

Depreciation, amortisation and provisions totalled EUR 64.1 million, up from EUR 49.6 million in 2Q03, as a result of greater investment. The increase versus the EUR 51.1 million registered in 1Q04 is due to higher provisions. Specifically, depreciation of tangible assets accounted for EUR 20.7 million, while amortisation of intangible assets was EUR 30.4 million, of which EUR 13.9 million related to goodwill.

The loss at EBIT level was EUR 39.7 million, versus losses of EUR 32.6 million in 2Q03 and EUR 27.2 million in the previous quarter.

The group posted a pre-tax loss of EUR 65.5 million, compared to losses of EUR 56.3 million in 2Q03 and EUR 52.1 million in the previous quarter.

Profit and loss highlights	30.06.2004	30.06.2004	30.06.2003	30.06.2003
	3 months	6 months	3 months	6 months
Revenues	272,640	539,708	217,175	429,687
Value of production	272,640	539,708	217,175	429,687
Cost of goods sold	(209,912)	(416,022)	(164,956)	(324,346)
Personnel costs	(38,389)	(75,444)	(35,155)	(72,640)
EBITDA	24,339	48,242	17,064	32,701
Depreciation, amortisation and write-downs	(37,216)	(72,319)	(26,641)	(67,622)
Goodwill amortisation	(13,856)	(28,134)	(13,027)	(50,397)
Other provisions	(12,982)	(14,661)	(9,963)	(13,461)
EBIT	(39,715)	(66,872)	(32,567)	(98,779)
Financial charges	(8,598)	(18,700)	(2,890)	(10,417)
Extraordinary items	(17,162)	(31,998)	(20,835)	(32,438)
Pre-tax profit (loss)	(65,475)	(117,570)	(56,292)	(141,634)

Revenues by business	30.06.2004	30.06.2004	30.06.2003	30.06.2003
	3 months	6 months	3 months	6 months
Access	186,619	367,539	150,448	298,701
Voice	21,876	42,830	16,913	32,517
Business	49,861	101,976	35,232	69,437
Portal	11,254	22,635	11,923	23,905
Other	3,030	4,728	2,659	5,127
Total revenues	272,640	539,708	217,175	429,687

Access revenues totalled EUR 186.6 million in the second quarter (68% of total revenues), up 3% on 1Q04 and 24% ahead of 2Q03 (EUR 150.5 million). Growth was mainly due to the sharp rise in the number of ADSL subscribers.

ADSL services generated revenues of EUR 77.3 million (41% of total access revenues), up 14% on 1Q04 (EUR 68 million). This result compares even more favourably with the EUR 37 million posted in 2Q03.

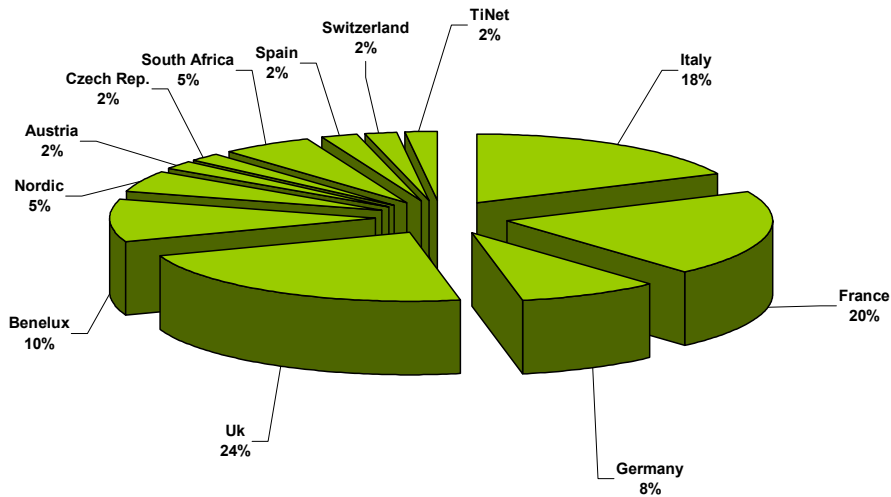
Dial-up revenues, at EUR 109.3 million, were affected by a drop in user numbers and online minutes compared to 2Q03, as a result of both greater migration of users to broadband services and seasonal factors affecting the month of June.

Revenues from business services were EUR 49.9 million (18% of the total), up 42% on 2Q03 (thanks to synergies arising from the integration of the businesses acquired in 2003), but down slightly on the figure for 1Q04. This business line has now become Tiscali's second biggest revenue source, and offers strong synergies with the B2C market.

Portal revenues came in at EUR 11.3 million (4% of revenues), in line with the previous quarter and slightly lower than in 2Q03. The result reflects Tiscali's decision to stop selling advertising space linked to "diallers" (programmes hidden in banner ads that connect to the internet at a premium rate and can often lead to unexpected increases in connection charges for the user). This decision was a significant step in protecting its own users. The second quarter also saw the company confirmed as one of Europe's leading web properties, with over 17.4 million unique visitors in June 2004, a 30% increase on June 2003.

Voice revenues came in at EUR 21.9 million (8% of total revenues), up 4% on the previous quarter, but a rise of 29% compared with the same period of last year. The substantial advance in voice revenues compared to last year was due to both organic and external growth, following the inclusion of npower in the basis of consolidation from September 2003.

■ Revenues by country



The chart above shows that 80% of revenues is generated in Europe's five main markets. In the second quarter of the year, the contribution from each of these markets remained stable, with the UK accounting for around 24% of revenues, France for 20%, Italy for 18%, the Netherlands for 10% and Germany for 8%.

Tiscali International Network, which sells bandwidth and services to other operators and large multinationals, accounts for an increasing portion of group revenues. It is active throughout Europe, with offices in France, Spain, Italy and the Netherlands.

■ Gross margin and operating costs

In the second quarter, Tiscali posted a gross profit of EUR 120.8 million. The gross margin narrowed to 44%, from 48% in 1Q04 and 51% in 2Q03. This result was affected by the lower profitability of wholesale broadband services, which account for a large proportion of the services provided.

Operating costs fell from 43% of revenues in 2Q03 to 35% this time, at EUR 96.5 million. In absolute terms, however, operating costs rose by 3% yoy. Compared to the previous quarter, operating costs fell from 39% to 35%, and were down 7% in absolute terms.

Operating costs break down as follows:

- **marketing costs** totalled EUR 30.2 million (11% of revenues), down 12% versus 2Q03 (16% of revenues) and 26% versus the previous quarter (15% of revenues).

This drop was due to the reallocation of investment towards the second half of the current year, when the group will focus on promoting its unbundled broadband and voice services.

- **personnel costs** rose by 16% versus 2Q03 to EUR 40.9 million, but fell from 16% to 15% of revenues. They rose by 10% versus the previous quarter, but were largely unchanged as a percentage of revenues, at 14%. At 30 June 2004, the Tiscali group had 3,253 employees, compared to 3,164 at end-March 2004.
- **general and administrative costs** came to EUR 25.5 million (9% of revenues), up 4% versus 2Q03 (11% of revenues) and 3% lower than in the previous quarter (10% of revenues).

Second-quarter EBITDA was up 40% at EUR 24.3 million, from EUR 17.1 million in 2Q03, while the EBITDA margin expanded from 8% to 9% in the same period. 2Q EBITDA was 2% ahead of the previous quarter (EUR 23.9 million), as the impact on the gross margin due to the substantial rise in ADSL subscriber numbers—who largely receive the less profitable wholesale services—was offset by a reduction in operating costs.

Depreciation, amortisation and provisions totalled EUR 64.1 million, versus EUR 49.6 million in 2Q03 and EUR 105.3 million in 1Q04.

Specifically, depreciation of tangible assets accounted for EUR 20.7 million in the second quarter of 2004, while amortisation of intangible assets was EUR 30.4 million, of which EUR 13.9 million related to goodwill.

At **EBIT** level the group posted a loss of EUR 39.7 million, versus EUR -32.6 million in 2Q03 (this is not a comparable figure as goodwill amortisation was much lower due to changes made to the estimate of the useful life of goodwill in 1H03) and EUR -27.2 million in 1Q04.

The group made a pre-tax loss of EUR 65.5 million in the second quarter of 2004, compared with EUR 56.3 million in 2Q03 and EUR 52.1 million in 1Q04.

■ Investment

Investment totalled EUR 19 million in the second quarter of 2004, of which around EUR 5.8 million was spent on tangible assets and EUR 13.2 million on intangible assets.

■ Financial position

	30.06.2004	31.03.2004	31.12.2003	30.06.2003
Current assets	592,595	597,147	675,004	591,534
Non-current assets	991,855	1,015,012	986,257	994,667
Total assets	1,584,450	1,612,159	1,661,261	1,586,201
Short-term liabilities	705,815	661,032	664,739	583,638
Long-term liabilities	576,351	575,329	570,966	515,045
Shareholders' equity	302,284	375,798	425,556	487,518
Total liabilities	1,584,450	1,612,159	1,661,261	1,586,201

As of 30 June 2004, the group's non-current assets were worth EUR 940.1 million.

At the same date, consolidated shareholders' equity stood at EUR 302.3 million. The decrease in this figure is largely the result of the net loss made during the quarter (EUR 65.5 million) and capital increases carried out by the parent company (EUR 5.1 million).

Cash burn was EUR 28.878 million in 2Q04, half the level of the previous quarter.

The group's cash resources totalled EUR 223.6 million at the end of the quarter, including short-term investments. Net debt—excluding liabilities to other lenders of EUR 47.7 million—stood at EUR 370 million, compared with EUR 279.6 million at 31 December 2003.

Net debt (EUR million)		short-term	long-term	total 31.06.2004	31.03.2004
a)	<i>Cash</i>	135.0	-	135.0	123.6
	<i>Investments other than non-current assets</i>				
	<i>term deposits</i>	30.7	-		53.5
	<i>tax credits and payments receivable*</i>	57.9	-		76.6
b)	<i>Investments other than non-current assets</i>	-	-	88.6	
c=(a+b)	TOTAL CASH AND CASH EQUIVALENTS	223.6	-	223.6	253.7
	<i>Bonds due in July 2004**</i>	73.1	-		73.1
	<i>Bonds due in July 2005</i>	-	250.0		250.0
d)	<i>Equity-linked bonds due in September 2006</i>	-	209.5		209.5
	<i>Telinco bonds</i>	0.6	-		0.6
	<i>Loans and other long-term debt</i>	-	32.0		31.8
	<i>Other short-term financial liabilities</i>	28.3	-		29.8
e)	GROSS DEBT 1	102.1	491.5	593.7	594.8
f)	<i>Liabilities to other lenders ***</i>	5.5	42.2	47.7	40.5
g=(e+f)	GROSS DEBT 2	107.6	533.8	641.4	635.3
h=(e-c)	NET DEBT 1	-121.5	491.5	370.0	341.1
i=(g-c)	NET DEBT 2	-116.0	533.8	417.8	381.6
l=(h-d)	PRO FORMA NET DEBT 1	-121.5	282.0	160.5	131.6
	<i>(assuming full conversion of equity-linked bonds)</i>				
m=(i-d)	PRO FORMA NET DEBT 2	-116.0	324.3	208.3	172.1
	<i>(assuming full conversion of equity-linked bonds)</i>				
	<i>* Tax refunds requested from the Treasury</i>				
	<i>** Redeemed on 12 July 2004</i>				
	<i>*** Payables to leasing companies</i>				

To ensure that the EUR 250 million bond issue maturing in July 2005 can be redeemed—regardless of the conditions on the financial markets—the company has approved an asset disposal plan expected to raise approximately the same amount. This is an extension to the plan already approved by the Board of Directors, which is at an advanced stage of completion. However, the group has not ruled out the possibility of funding growth, as well as bonds falling due, through bank debt or via the debt,

equity or venture capital markets, as part of its strategy to optimise its financial structure.

The approval of a capital increase at the shareholders' meeting held in June is an example of the company taking advantage of advantageous market conditions.

The Board of Directors has also established guidelines for a cost-cutting plan aimed at reducing management costs by 15% over the next twelve months, partly as a result of the planned asset disposals.

■ Significant events since the end of the period

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.

■ Outlook

Tiscali has confirmed the following targets for 2004:

- revenues of over EUR 1.2 billion, an increase of more than 30% versus 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 fourth quarter of 2004
- previously announced disposals in non-core countries to be completed by end-2004

■ Parent Company: key figures

Parent company: profit and loss account

Profit and loss highlights	06.2004	06.2003	06.2004	06.2003
(EUR 000)	6 months	6 months	3 months	3 months
Revenues	104,519	84,992	52,145	50,499
Value of production	104,519	84,992	52,145	50,499
Cost of goods sold	(92,209)	(73,923)	(45,520)	(38,574)
Personnel costs	(18,493)	(14,982)	(9,003)	(7,888)
EBITDA	(6,183)	(3,913)	(2,378)	4,037
Depreciation and amortisation	(16,077)	(12,069)	(8,251)	(6,697)
Other provisions	(1,479)	(418)	(818)	(418)
EBIT	(23,739)	(16,400)	(11,447)	(3,078)
Financial charges	(1,372)	(4,241)	(582)	(214)
Extraordinary items	(4,246)	(9,484)	(2,828)	(7,945)
Gross profit	(29,357)	(30,125)	(14,857)	(11,237)

The parent company posted revenues of EUR 104.5 million in the first half of 2004, versus EUR 84.9 million in 1H03. EBITDA was negative to the tune of EUR 6.2 million, compared with EUR -3.9 million in 1H03. The first-half result net of adjustments made pursuant to IAS 17 was EUR 2.6 million.

EBIT for the second quarter was EUR -2.4 million, versus a positive figure of EUR 4 million in 2Q03. The decrease was due to an increase in costs (see below).

The main cost items in the first six months were line and port rental (EUR 28.4 million, or 27% of revenues, up from EUR 13 million in 1H03), the purchase of traffic (EUR 19.9 million, or 19% of revenues, up from EUR 19.4 million in 1H03) and advertising and promotions (EUR 6.5 million, or 6% of revenues, down from EUR 8.7 million in 1H03).

Personnel costs rose by 24% from EUR 14.9 million in 1H03 to EUR 18.5 million in the first half of 2004. Second-quarter personnel costs were 19% higher than in 2Q03. These increases were due to the increase in headcount and adjustments in employment contracts in force from autumn 2003. The number of employees rose from 799 at 30 June 2003 to 901 as of 30 June 2004.

In the first half of 2004, the parent company's investments totalled EUR 12.1 million (of which EUR 5.4 million was spent in the second quarter). This compared to a total of EUR 21.7 million spent in 1H03 (EUR 6.1 million in 2Q03). In 1H04, EUR 8.4 million was spent on intangible assets and EUR 3.7 million on tangible assets. Investment in tangible assets mainly related to increases in production capacity, while spending on intangible assets mostly went on software development.

Financial position of the parent company

Balance sheet	06.2004	06.2003	12.2003
<i>(EUR 000)</i>			
Current assets	203,810	296,540	207,034
Non-current assets	2,126,406	2,201,952	2,131,067
Total assets	2,330,216	2,498,492	2,338,101
Short-term liabilities	734,900	800,562	721,095
Medium-/long-term liabilities	40,497	48,023	40,394
Shareholders' equity	1,554,819	1,649,907	1,576,612
Total liabilities	2,330,216	2,498,492	2,338,031
Financial position	30.06.2004	31.12.2003	30.06.2003
<i>(EUR 000)</i>			
Cash and cash equivalents	3,427	3,718	6,989
Short-term bank debt	(20,419)	(31,820)	(31,003)
Short-term net debt	(16,992)	(28,102)	(24,014)
Medium-/long-term debt	(32,049)	(31,946)	(33,503)
Net debt	(49,041)	(60,048)	(57,517)

Parent company: revenue breakdown

Revenues by business	30.06.2004	30.06.2003	30.06.2004	30.06.2003
<i>(EUR 000)</i>	<i>6 months</i>	<i>6 months</i>	<i>3 months</i>	<i>3 months</i>
Access	60,434	45,866	30,394	24,101
Voice	17,403	13,932	8,922	8,132
Business	5,838	4,490	3,780	2,425
Portal	5,149	7,194	3,057	3,743
Other	15,695	13,510	5,991	12,091
Total revenues	104,519	84,992	52,144	50,498

Parent company revenues totalled EUR 104.5 million in the first half of 2004, an increase of 23% on 1H03.

Growth was largely driven by access and voice revenues. The 32% increase in access revenues came from substantial growth in ADSL services and the migration of dial-up users to a single national number (702). Voice revenues, meanwhile, rose by 25% on the back of growth in both wholesale and retail traffic.

Revenues for the second quarter of 2004 came in at EUR 52.1 million, versus EUR 50.5 million in 2Q03, an increase of 3.2%. Access revenues were EUR 30.4 million, up 26% from EUR 24.1 million in 2Q03. The change was mainly due to growth of 190% in the ADSL customer base versus 1H03, to 197,444 users, and the introduction of a single national access number (702), which generates higher revenues per minute than traffic generated by Tiscali subscribers on third-party lines. Dial-up connection minutes increased slightly from 2 billion minutes in 2Q03 to 2.1 billion in the second quarter of 2004. The number of active users remained flat at around 1.6 million. Voice revenues rose from EUR 8.1 million in 2Q03 to EUR 8.9 million in the second quarter of 2004. This increase was chiefly driven by higher sales of retail and wholesale services. Business services revenues for the second quarter totalled EUR 3.8 million, versus EUR 2.4 million in 2Q03.

Outlook

In July, the first unbundled ADSL installations were completed. Unbundled services are to be launched on the market in September. The migration of ADSL customers to unbundled services will improve the gross margin (as these are more profitable than the wholesale services currently offered), and should boost ARPU in related areas, such as voice services.