tiscali.
INTERNET WITH A PASSION.

First quarter 2005 report

tiscali.
INTERNET WITH A PASSION.

Directors and Auditors

Board of Directors

Chairman

Vittorio Serafino

CEO

Ruud Huisman

CFO

Massimo Cristofori

Directors

Victor Bischoff

Francesco Bizzarri

Gabriel Pretre

Gabriele Racugno

Mario Rosso

Board of Auditors

Chairman

Aldo Pavan

Statutory Auditors

Piero Maccioni

Massimo Giaconia

Deputy Auditors

Andrea Zini

Rita Casu

Independent Auditors

Deloitte & Touche SpA

Highlights

- **Revenues came in at EUR 239.7 million. Pro-forma revenues (*) were up 11% (*) vs 1Q04, at EUR 171.6 million**

- **ADSL revenues, at 51% of access revenues, exceeded dial-up revenues for the first time**

- **Significant increase in profitability: EBITDA of EUR 21.3 million (EBITDA margin: 9%). Pro forma EBITDA was EUR 25.0 million (15% of revenues), up 87% vs 1Q04 (9% of revenues)**

- **150,000 new ADSL customers brings to a total of 1.2 million ADSL users pro-forma, of which 235,000 receive unbundled services**

- **EBIT at EUR 5.6 million, before goodwill amortisation (IFRS)**

(*) Pro forma figures and year-on-year/quarter-on-quarter comparisons are calculated taking into account only those countries included in the 2005-2007 business plan (Italy, Germany, the Netherlands, the UK and the Czech Republic)

Criteria of preparation

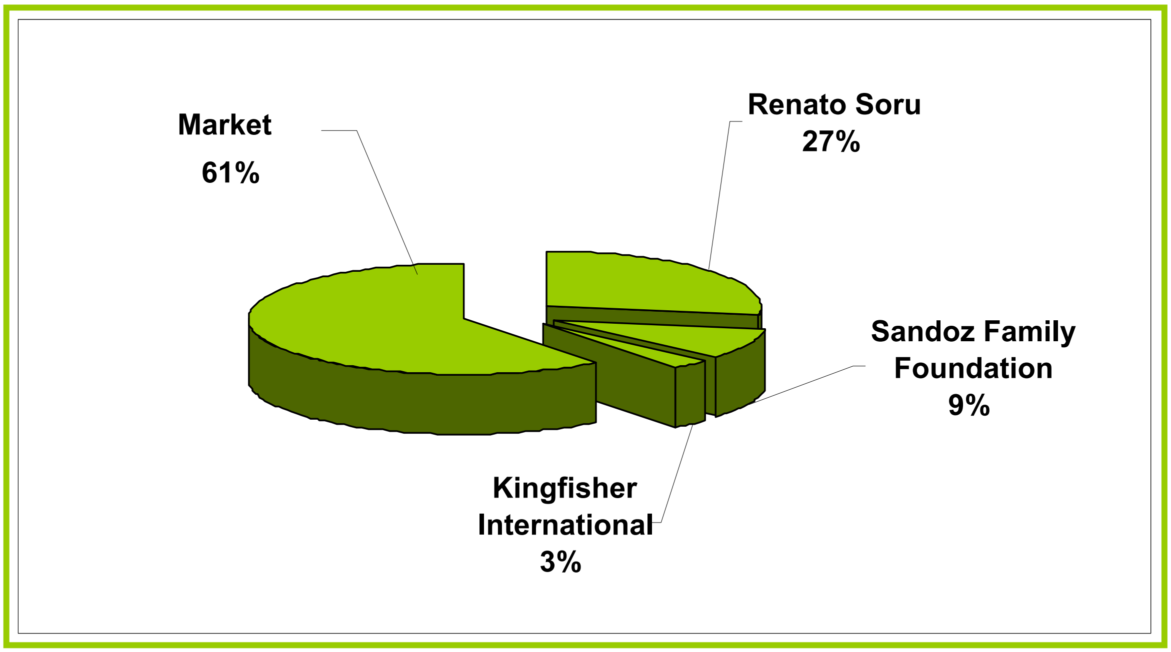
As the CONSOB consultation paper explains (Art. 82-bis Regolamento Emittenti) the IAS/IFRS transition project involves using the valuation and measurement principles provided by existing legislation for the 2005 first quarter results. However, the group is expected to be in a position to apply the valuation and measurement principles laid down by international accounting principles for the preparation of the interim financial statements for the six months to 30 June 2005.

Report on operations

Tiscali shares

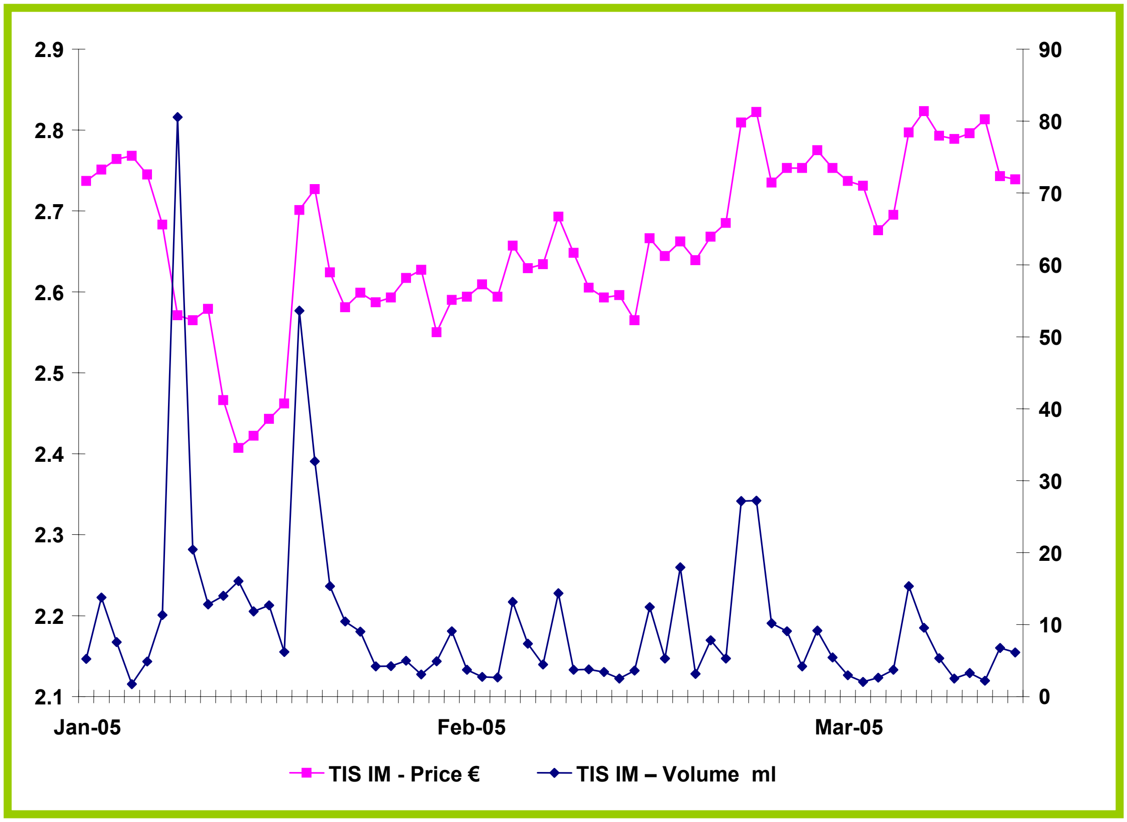
The Tiscali stock is listed on both the Italian stock market and Euronext in Paris.
At 31 March 2005 the company had a market capitalisation of EUR 1.077.079.271.
The share capital corresponds to 393,238,142 shares amounting to EUR 196.619.071.

The chart below illustrates Tiscali's shareholder base at 31 March 2005:



Source: Tiscali

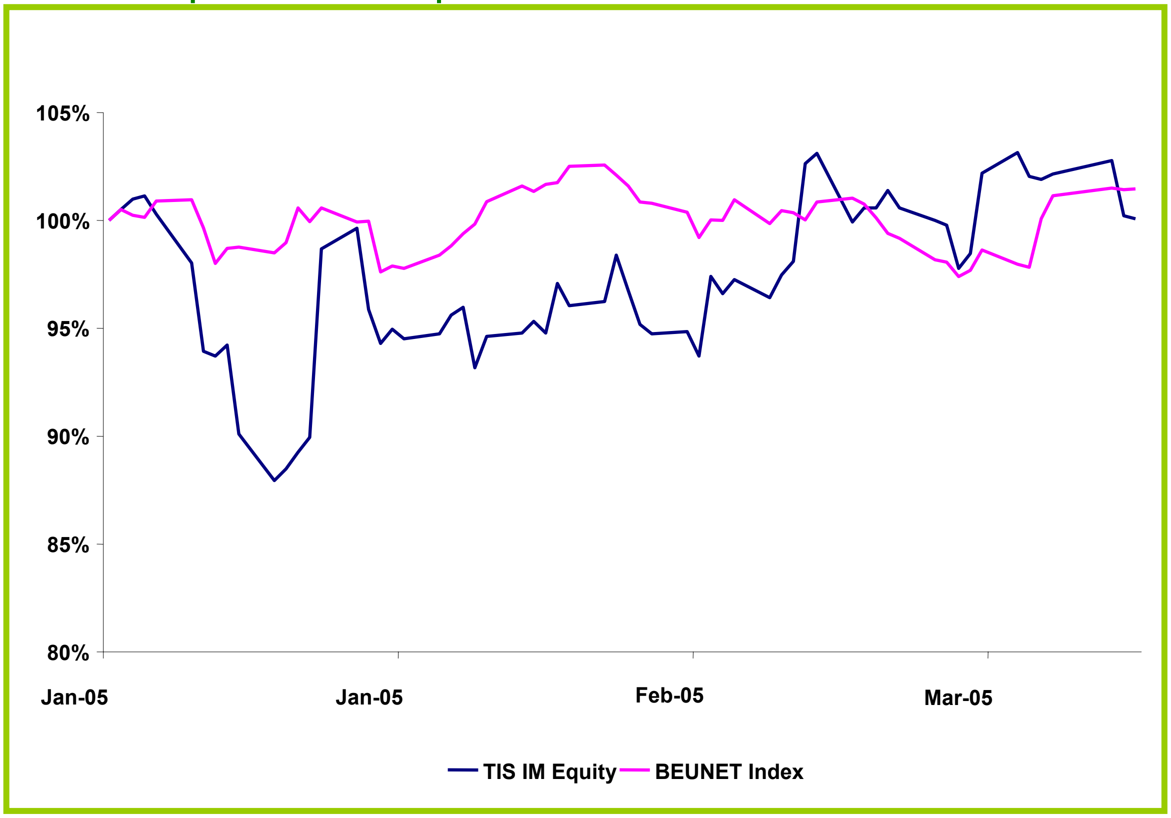
Tiscali Stock: share performance



Source: Bloomberg

Trading volumes stood at a daily average of around 10.4 shares over the quarter. The average daily value of trades was EUR 27.6 million. The highest price (EUR 2,823) was registered the 21 March, the lowest (EUR 2,407) the 17 January.

Tiscali share performance compared to the BEUNET



Source: Bloomberg

In the first quarter 2005, the Tiscali stock underperformed the Bloomberg Internet Index, even if during March, Tiscali stock has shown a better performance than the index.

In the first quarter 2005, Milan remained the key market for the Tiscali stock. Average daily trades of Tiscali shares show that less than 1% of shares (24 thousands shares) traded each day were listed on the Euronext Paris.

Average daily trades of Tiscali shares on its two markets.

Number of shares

	Borsa Italiana		Euronext		Total	
Date	Shares	in %	Shares	in %	Shares	in %
January 2005	**16,590,441**	99.95%	**32,095**	0.05%	**16,622,535**	100%
February 2005	**6,304,920**	99.86%	**19,670**	0.31%	**6,324,589**	100%
March 2005	**7,988,921**	99.91%	**20,590**	0.26%	**8,009,510**	100%
Daily average	**10,294,760**	**99.92%**	**24,118**	**0.08%**	**11,871,094**	**100.00%**

Source: Bloomberg

Results and performance of the Tiscali Group

Profit and loss account *EUR/000*	31.03.2005 3 months	31.03.2004 3 months	31.12.2004 3 months	31.12.2004 12 months
Revenues	239.661	267.068	271.890	1.080.561
Value of the production	**239.661**	**267.068**	**271.890**	**1.080.561**
Cost of goods and services	(183.202)	(206.110)	(198.394)	(815.098)
Personnel costs	(35.140)	(37.055)	(38.630)	(156.641)
EBITDA	**21.319**	**23.903**	**34.866**	**108.822**
Depreciation, amortisation, and write-downs	(34.117)	(35.103)	(41.308)	(153.946)
Goodwill amortisation	(10.556)	(14.278)	(9.224)	(51.189)
Other provisions	(4.973)	(1.679)	(5.709)	(23.294)
EBIT	**(28.327)**	**(27.157)**	**(21.375)**	**(119.607)**
Financial income (charges)	(9.007)	(10.102)	(9.431)	(37.022)
Extraordinary income (charges)	19.389	(14.836)	(69.828)	(112.464)
Pre-tax loss	**(17.945)**	**(52.095)**	**(100.634)**	**(269.093)**

1Q05 results were in line with the forecasts set out in the 2005-2007 business plan, which was announced a few weeks ago. The focus on growth in broadband and related value-added services in four countries (Italy, the UK, the Netherlands and Germany) has already produced clear improvements in profitability. The analysis of pro-forma results, on the same perimeter as the 2005-2007 business plan, shows that the gross margin improved from 48% in 1Q04 to 51% in 1Q05, while the EBITDA margin expanded from 9% to 15% over the same period (EBITDA was 13.3 million in 1Q04, and EUR 25 million in 1Q05).

At the end of the first quarter of 2005, the Tiscali had 150,000 ADSL additional subscribers in the countries included in the business plan compared with end-2004, taking the total number of ADSL customers to over 1.2 million (pro-forma).

The growing profitability of investment activities, in line with the business plan, and other measures currently being implemented (such as the sale of the Spanish subsidiary and network infrastructure of TiNet), will enable Tiscali to complete its financial programme aimed at the repayment of outstanding debt and at supporting further growth.

Revenues and gross profit

Tiscali Group revenues totalled EUR 239.7 million in the first quarter of 2005. Pro-forma revenues were up 11% vs 1Q04, at EUR 171.6 million.

At 31 March 2005, the Group had 1.2 million ADSL customers (pro-forma), compared with around 1 million at 31 December 2004—an increase of over 150,000 (+20%). This increase was mainly achieved in the UK thanks to Tiscali's competitive offers. The UK market is expanding rapidly, and therefore offers excellent prospects over the next few months.

The number of active users totalled 5.2 million (pro forma) at the end of the quarter, of which 4 million were dial-up users. The decrease in the dial-up user base compared with the previous quarter reflects the smaller structure of the Group, as well as user migration to ADSL, in line with the Group's strategy of promoting broadband services—particularly in unbundled mode. At the end of March, around 235,000 ADSL customers were receiving unbundled services.

With the launch of commercial offers aimed at increasing the take-up of double play (voice and data) services, already available in the Netherlands, the UK and Germany, highly competitive access packages in the UK and Italy, and the imminent launch of additional services and content, we expect an increasing number of customers to receive unbundled, rather than wholesale services. In May double play services have been launched also in Italy.

Revenues by business line

Euro (ooo)	**31.03.2005**	**31.03.2004**	**31.03.2005**	**31.03.2004**
	3 months	3 months	3 months	3 months
	Pro-forma	**Pro-forma**	**'Statutory'**	**'Statutory'**
Access	127.858	109.378	177.987	192.509
Voice	21.544	24.174	30.293	33.954
Business	13.907	13.063	19.833	27.051
Media & VAS	6.290	6.366	9.576	11.856
Other	1.969	980	1.972	1.698
Total Revenues	**171.568**	**153.961**	**239.661**	**267.068**

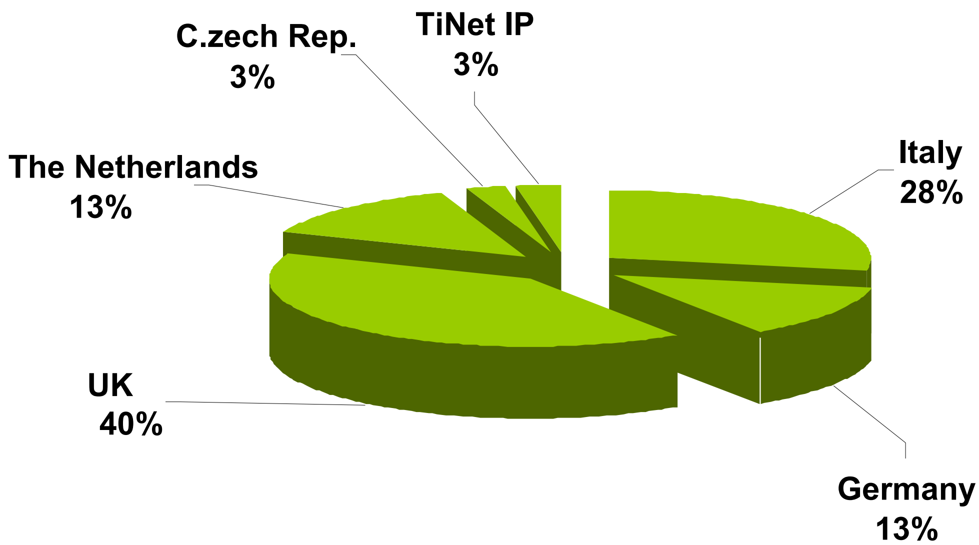
- **Access** revenues came in at EUR 178.0 million in 1Q05: the dial-up business contributed EUR 85.5 million, which was exceeded by ADSL revenues, at EUR 92.5 million.
  The pro-forma figure rose by 17% versus 1Q04, from EUR 109.4 million to EUR 127.9 million (75% of total revenues), and by 2% versus the previous quarter (EUR 125.4 million). In detail, ADSL revenues totalled EUR 65.8 million (51% of access revenues) in the quarter, almost double the EUR 36.9 million (34% of access revenues) recorded in 1Q04, and 7% ahead of the EUR 61.7 million (49% of access revenues) reported the previous quarter. Dial-up revenues totalled EUR 62.1 million (49% of access revenues), reflecting the increasing contribution of ADSL and the marked change in the access revenue mix.

- Revenues from **voice services** for 1Q05 were EUR 30.3 million. The pro-forma figure, EUR 21.5 million (13% of total revenues), was down 11% versus 1Q04, and down 6% compared with the previous quarter. This decline was due to a refocus of the offer of traditional voice services in favour of VoIP services, which are more profitable.

- Revenues from **business services** for 1Q05 were EUR 19.8 million**.** The pro-forma figure was EUR 13.9 million (8% of revenues), a 6% increase versus 1Q04 (EUR 13.1 million), and a 3% advance on the previous quarter (EUR 13.5 million). Note that for the first quarter of 2005, the business services division only reported revenues from business services, such as housing, hosting, domain names and leased lines. Therefore, it does not include revenues from providing access services to the corporate sector (these are now included under access revenues).

- **Portal (Media & VAS)** revenues for 1Q05 were EUR 9.6 million. The pro-forma figure, EUR 6.3 million (4% of total revenues), was down 1% versus 1Q04, and down 25% compared with the previous quarter. This performance was due to the seasonal factors that typically affect the first quarter of the year. An increasing focus on valued added services (VAS) has contributed to the increase at gross margin YoY (69% vs 50%).

Revenues by country



In the first quarter 2005, the break down of pro-forma revenues (on the same basis of consolidation as the BP 2005-07) across the key markets remained essentially stable, although the UK accounted for a higher percentage than in the previous year around 40% vs 36% at 31 March 2004. A contribution from Italy (around 28% in 2005) was mainly stable on 2004 while Germany at 13% in 2005 fell slightly. The Netherlands, unchanged on previous year, contributed for 13%.

Gross Margin

In the first quarter of 2005, **gross profit** was EUR 106.8 million. The pro-forma figure stood at EUR 86.6 million (gross margin: 51%), up 16% versus 1Q04 (EUR 74.4 million, 48% of revenues), and 4% ahead of the previous quarter (EUR 83.6 million).

The substantial improvement in both the gross profit and gross margin, related directly to the decision to focus on markets offering greater potential for value creation, and to the implementation of the network unbundling strategy, which will mean that a significant proportion of ADSL customers can gradually be migrated to unbundled services.

Operating performance

Operating costs down as a proportion of revenues

Operating costs stood at EUR 85.5 million for the first quarter of 2005. The pro forma figure was EUR 61.6 million, broadly flat in absolute terms versus 1Q04 (EUR 61.0 million). However, these costs accounted for a smaller proportion of revenues, falling from 40% in 1Q04, to 36% this time. Compared with the previous quarter (EUR 55.9 million), operating costs were higher in 1Q05, and also increased as a proportion of revenues, from 33% to 36%. This increase relates to the substantial amount spent on marketing to support growth (see below), particularly in March 2005. We underline that in a positive trend that shows an increase in pro forma revenues, together with the Group's efficiency improvement, general and personnel costs reduced.

Operating costs break down as follows:

- First-quarter **marketing costs** totalled EUR 32.6 million.
  The pro-forma figure for 1Q05, EUR 24 million (14% of revenues) was up 10% versus 1Q04 (EUR 21.9 million; 14% of revenues), and 38% higher than in the previous quarter (EUR 17.5 million; 10% of revenues). Most of the costs incurred over the quarter involved promoting ADSL services.

- **Personnel costs** were EUR 35.1 million in the first quarter of the year. The pro-forma figure of EUR 27.3 million was broadly flat versus 1Q04 (EUR 27.5 million), and 2% lower than in the previous quarter. As a percentage of revenues, these costs fell from 18% in 1Q04 to 16% in 1Q05 (and were broadly unchanged from the previous quarter).

- **General and administrative costs** were EUR 17.8 million in the first quarter of the year.
  The pro-forma figure for 1Q05, EUR 10.3 million (6% of revenues) was up 11% versus 1Q04 (EUR 11.7 million; 8% of revenues), but down 3% versus the previous quarter (EUR 10.7 million; 6% of revenues).

In the first quarter of 2005, **EBITDA** was EUR 21.3 million. The pro-forma figure stood at EUR 25.0 million, an 87% increase on 1Q04 (EUR 13.3 million). Over the same period, the EBITDA margin expanded from 9% to 15%. However, first-quarter EBITDA was 10% lower than in the previous quarter (EUR 27.7 million), since high marketing costs pushed up overall operating costs.

Depreciation, amortisation, provisions and write-downs totalled EUR 49.6 million, compared with EUR 51.1 million in 1Q04. The decrease, which occurred despite higher investments, is attributable to the deconsolidation of the companies sold in 2004 and in the first quarter of 2005. Specifically, depreciation of tangible assets totalled EUR 22.3 million in the quarter, while amortisation of intangible assets was EUR 22.4 million, of which EUR 10.6 million related to goodwill (consolidation difference). Note that goodwill amortisation was reported in 1Q05, because the first quarter results were drawn up according to Italian accounting principles. International principles (IAS/IFRS) will be adopted for the report on the first six months of 2005.

The loss at **EBIT** level was EUR 28.3 million, versus losses of EUR 27.2 million in 1Q04 and EUR 19.6 million in the previous quarter. The pro forma figure if goodwill amortisation is excluded, as per international accounting principles falls to EUR 5.4 million.

The group made a pre-tax loss **(EBT)** of EUR 17.9 million in the quarter, a 65% improvement on the loss of EUR 52.1 million reported in 1Q04. This result benefited from extraordinary income from the sale of subsidiaries in South Africa and Denmark (some EUR 25 million), or EUR 8 million, stripping out goodwill amortisation.

Group Assets and Financial Position

Balance Sheets *Euro(000)*	**31.03.2005**	**31.03.2004**	**31.12.2004**
Current assets	600,631	601,782	598,299
Non-current assets	854,282	1,010,377	909,700
Total assets	**1,454,913**	**1,612,159**	**1,507,999**
Current liabilities	783,567	666,273	831,350
Long-term liabilities	370,292	570,088	360,877
Shareholders' equity	301,054	375,798	315,772
Total liabilities	**1,454,913**	**1,612,159**	**1,507,999**

Current Assets include receivables from customers totalling EUR136.9 million, tax credits amounting to EUR 67.2 million, and also deferred tax assets of EUR 159.4 million registered at the end of 2004.

Non Current Assets are mainly due to intangible assets, EUR 541.7 million, of which EUR 354.8 million is the consolidation difference/goodwill. Tangible assets amount to EUR 198.9 million, mainly because of the acquisition of equipment (servers and routers).

Current liabilities include, taking into account the items of net debt presented in the following paragraph, payables to suppliers at EUR 277.3 million, of which EUR 30.2 million due in more that 12 months.

Shareholders' Equity amounts to EUR 301.1 million. The change compared to the previous quarter is mainly due to net result registered in the period.

Net financial position

At 31 March, the Tiscali Group had financial resources of EUR 180.2 million, while net debt stood at EUR 381.7 million.

The table below shows the Group's cash and debt position at 31 March 2005, and at 31 December 2004. Notably "other financial assets" fell versus 31 December 2004. The proceeds from the sale of non-strategic assets (around EUR 47 million) are also included.

EUR million	31 December 2004	31 March 2005
Cash	128.4	112.3
Other financial assets	75.8	67.9
of which		
Escrow account	*25.8*	*27.7*
Tax receivables and other assets	49.9	40.2
Total cash and other financial assets	**204.2**	**180.2**
FRNs 2005	250.0	250.0
Convertible bond 2006	209.5	209.5
Other	0.4	-
Total bonds	**459.9**	**459.5**
Long-term loans	36.5	46.0
Bank overdrafts and S/T credit lines	25.7	19.1
Total bank debt	**62.2**	**65.1**
Leasing	41.7	37.2
Total financial debt	**563.8**	**561.8**
Net debt	**359.6**	**381.7**

The Tiscali Group increased its net debt by EUR 22 million in the first quarter of 2005. The change on pro forma figure amount to EUR 8 million, showing a FCFO better than 2005-07 BP forecast for first quarter 2005.

This figure takes into account proceeds from the sale of the Danish subsidiary (EUR 17 million), and part of the proceeds from the sale of the South African subsidiary (EUR 30 million). In addition, the cash position of the subsidiaries sold came to around EUR 10 million.

First-quarter investments totaled EUR 32 million.

Financial charges of EUR 8.9 million were broadly unchanged from both 1Q04 and 4Q04.

Transition to IAS/IFRS

Tiscali set up a working group with a diverse range of skills (accounting, operation control, operating systems, and information systems) to assess the effects of the introduction of IAS/IFRS at group level. This assessment and diagnosis phase, which was intended to identify the areas concerned with the change in accounting principles and any modification of the information systems and data flows, ended in 2004. In this respect, the analysis did not reveal any significant issue and/or critical aspect in terms of the transition to IAS/IFRS.

Also in 2004, the necessary procedures were implemented to “restate” the consolidated financial statements as of and for the year ended 31 December 2003 (as the opening balance sheet of the first comparative period will be as of 1 January 2004) and 2004.

In accordance with CONSOB’s consultation document, plans for the transition to IAS/IFRS call for the preparation of the accounts for the first quarter of 2005 according to accounting policies consistent with previous GAAP and the preparation of the half-yearly accounts as of 30 June 2005 on the basis of accounting policies consistent with IAS/IFRS.

Effects of the application of IAS/IFRS

Based on the completion stage of the transition to IAS/IFRS to date, the main qualitative effects of the application of IAS/IFRS are expected to be as follows:

- **Intangibles – Goodwill arising on consolidation**
  At the time of adoption of IAS/IFRS this item will not longer be amortised. Instead it will be tested for impairment on a yearly basis in order to determine its fair value and, should circumstances so warrant, written down accordingly.
- **Intangibles – Costs of installation and development/ Advertising costs**
  Costs of installation and development, as well as advertising costs, cannot be capitalised under IAS/IFRS.
- **Tangibles – Impairment test**
  Like goodwill, tangible assets will be tested periodically for impairment to determine whether they can generate enough future cash flows to recover their net book value. To this end, cash generating units (CGUs) have been identified.

- **Staff severance fund**

Staff severance funds are mainly attributable to the Italian companies of the Tiscali group. They will be treated as defined benefit plans and, as such, will be subject to periodical actuarial valuations.

- **Profit and loss account – Extraordinary income and expenses**

Income and expenses recognised as extraordinary until 31 March 2005 will be reclassified as operating costs and expenses, considering that IAS/IFRS do not require such line items in the profit and loss account.

- **Discontinued operations / Held-for-sale investments**

The amounts related to business lines and/or operations in certain geographical areas intended for sale will be reclassified as specific items of the profit and loss account and balance sheet, in order to highlight the effects of the disposals. Net assets held for sale will be recognised at the lower of carrying amount or fair value, in light of the likely realisable value.

According to plans, the financial statements resulting from the transition to IAS/IFRS will be audited by the firm engaged to audit the Tiscali group's financial statements.

Sale of non-strategic assets in the first quarter of 2005

Antitrust authority approves sale of South African subsidiary

On 17 January 2005 the South African competition regulator approved the sale of the Group's South African subsidiary Tiscali Pty Limited to MBWEB Holdings (Pty), as announced on 20 August 2004, for a total of around EUR 40 million. On 12 January, the regulator also gave the green light for the sale of Tiscali's South African mobile telephone operations to Vodacom Service Provider Company Ltd, as announced on 19 October 2004, for EUR 5.3 million. As of 31 March 2005, payments totalling EUR 30 million had been received in respect of these disposals. All outstanding amounts will be received during the second quarter of 2005.

Sale of the Danish subsidiary

On 1 February 2005 Tiscali sold its Danish subsidiary, Tiscali Denmark A/S, to Tele2 A/S, a Danish company belonging to the Tele2 AB Group.

Significant events that took place after the end of the quarter

Sale of Liberty Surf Group: capital gain estimated at around EUR 150 million

On 5 April 2005, an agreement was reached on the sale of the French subsidiary (Liberty Surf Group). The value of the transaction based on a valuation of 100% of the share capital of Liberty Surf Group, totalled EUR 280 million. Tiscali will receive EUR 266 million for the stake it owns directly, with 90% to be paid at closing.

Liberty Surf posted revenues of EUR 224.6 million in 2004 and has over 1 million active users. At EBITDA level, the company more or less broke even. The completion of the transaction is dependent on obtaining the green light from France's competition regulator, who is expected to announce a decision in the second quarter 2005.

The sale of the French subsidiary will deliver a capital gain for the Group of around EUR 150 million due to the difference between the sale price and the book value of the shareholders' equity of Liberty Surf in Tiscali's consolidated accounts, including goodwill.

Disposal plan of non-strategic assets

As part of the plan to dispose of non-strategic assets and to focus on the main markets offering the greatest potential for creating value, the Tiscali Group is in the process of selling its Spanish operations, TiNet Link and Excite, and expects to complete these transactions in the second quarter of 2005.

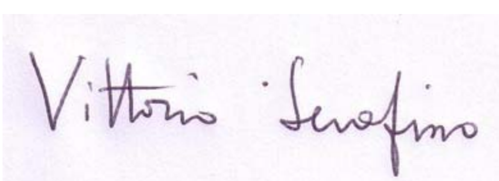
Further resolutions of the Board of Directors

The Board of Directors has confirmed Ruud Huisman as CEO of the Group and has appointed Vittorio Serafino as Chairman of the Board.

Objectives for 2005

For 2005, the business plan includes the achievement of the following objectives:

- Revenues of over EUR 800 million, an increase of more than 20% vs 2004 over the same perimeter, to be recorded mainly in access (ADSL) and business services
- EBITDA of over EUR 100 million
- More than 1.8 million ADSL users, with 30% receiving unbundled services
- Capex at 12% of revenues



For the Board of Directors

The Chairman
Vittorio Serafino