

## Third Quarter Report 2002



 **TISCALI**  
The European Internet Company

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## Management report - The Tiscali Group

Tiscali, "The European Internet Company" is a leading ISP (internet service provider), providing access services, content, business applications and innovative value-added communications services. As of 30 September 2002, Tiscali had 7 million active users, and the company recorded internet traffic of 9.2 billion minutes in the July-September period. The Tiscali portal had 13 million unique visitors in September 2002 (source: Nielsen NetRatings), confirming the company as one of Europe's leading web properties, thanks to a significant presence in 15 countries and a leading position in the five largest European markets. Tiscali's business model is based on the complete integration of its ISP-related activities with its media and B2B services, which integrated under a single brand, and supported by the company's proprietary network infrastructure have established Tiscali brand throughout Europe.

The restructuring process begun in the second quarter of 2001, involved all Tiscali group companies and produced excellent results as early as the first quarter of 2002, with EBITDA moving into positive territory. The company has continued the restructuring and cost cutting programme, together with the pan-European brand awareness campaign rolled out in the first half of 2002, in second half 2002 enabled the company to focus its attention on profitability.

## Financials

### Consolidated P&L

(EUR 000)

	30.09.2002	30.09.2002	30.09.2001	30.09.2001
	3M	9M	3M	9M
Revenues	179,854	547,571	190,099	448.835
<b>Value of production</b>	<b>179,854</b>	<b>547,571</b>	<b>190,099</b>	<b>448.835</b>
Cost of goods and services	(145,939)	(440,073)	(191,032)	(493.584)
Personnel costs	(37,537)	(119,679)	(43,855)	(118.970)
<b>EBITDA</b>	<b>(3,622)</b>	<b>(12,181)</b>	<b>(44,788)</b>	<b>(163.719)</b>
Depreciation and amortisation	(30,727)	(114,619)	(107,339)	(331,238)
Goodwill amortisation	(46,968)	(188,156)	n.a	n.a
Other provisions	(3,126)	(122,486)	(2,293)	(5,642)
<b>Operating profit</b>	<b>(84,443)</b>	<b>(437,442)</b>	<b>(154,420)</b>	<b>(500,599)</b>
Income from investments	(13,946)	(36,931)	(9,585)	3,433
Extraordinary income	(16,887)	(46,944)	(32,147)	(120,343)
<b>Pre-tax profit</b>	<b>(115,276)</b>	<b>(521,317)</b>	<b>(196,152)</b>	<b>(617,509)</b>

In the third quarter of 2002, the Tiscali group posted revenues of EUR 179.9 million, versus EUR 190.1 million in the corresponding 2001 period. The decrease was mainly due to seasonal factors and a decline in the dial-up market. A breakdown of revenues by business area reveals that access revenues continued to increase as a proportion of the total, and came in at EUR 121.7 million in the third quarter, in line with the same period last year. Access revenues currently account for 68% of the total, and therefore constitute an extremely important component of the revenue mix. Portal revenues were EUR 9.4 million for the quarter, representing 5% of the total. These figures are largely unchanged from the second quarter of the year, owing to seasonal factors and the difficulties currently besetting the advertising market. Revenues from B2B

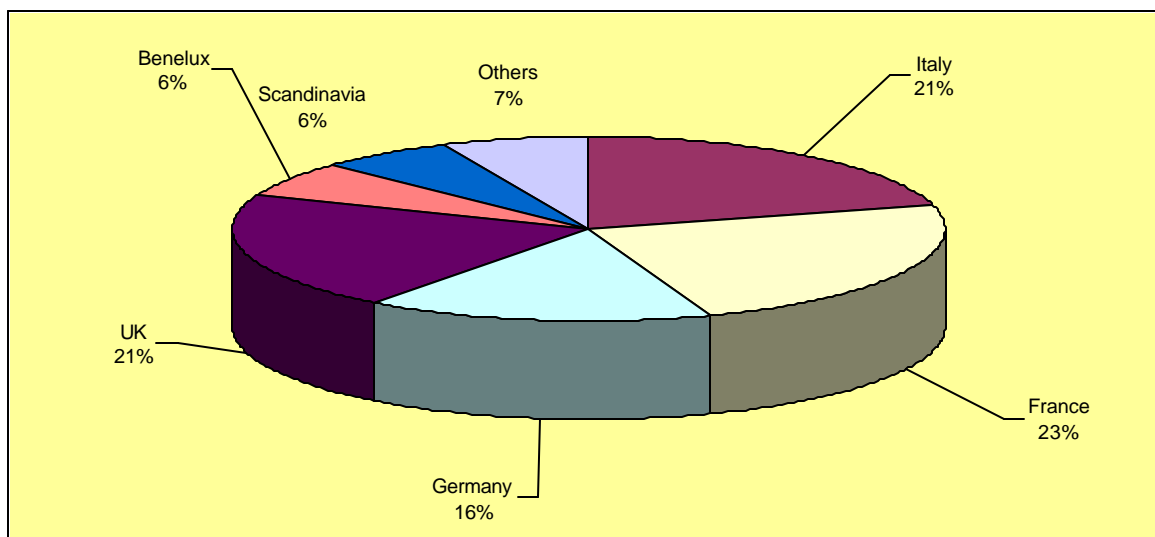
services were up 21% compared to the third quarter of 2001, from EUR 25 million to EUR 30.4 million, a positive sign of growth in this market segment. B2B services account for around 17% of total revenues. Voice revenues fell 29% from EUR 18.1 million in the third quarter of 2001 to EUR 12.8 million, following the progressive refocusing on internet services, the company's core business.

## Revenues by business area

(EUR 000)

	30.09.2002	30.09.2002	30.09.2001	30.09.2001
	3M	9M	3M	9M
Access	121,690	380,214	121,686	290,913
Voice	12,807	37,239	18,046	40,464
Corporate services	30,365	74,340	25,075	58,705
Portal	9,386	36,616	19,980	40,863
Other	5,606	19,162	5,312	17,890
	-	-	-	-
<b>Value of production</b>	<b>179,854</b>	<b>547,571</b>	<b>190,099</b>	<b>448,835</b>

A geographical breakdown shows that 87% of revenues come from the five largest European markets. Italy accounts for 21%, France 23%, Germany 16%, the UK 21% and Benelux 6%.



As of 30 September 2002 Tiscali had 7 million active users from a total registered user base of 21 million. ADSL users numbered 155,000 as of 10 November, a 55% increase on 30 June 2002.

Gross profit shot up from EUR 56.3 million in the third quarter of 2001 to EUR 89.9 million, with the gross margin expanding from 30% to 50% in the same period.

Personnel costs fell 20% to EUR 37.2 million from EUR 43.9 million in the third quarter of 2001, as a result of the integration and cost rationalisation process begun in 2001.

Consolidated EBITDA was EUR -3.6 million against EUR -44.8 million in the third quarter of 2001. Compared to the second quarter of the year, this item improved by approximately EUR 5.9 million.

## Investments

Gross investment in the third quarter totalled EUR 28.7 million, which was mainly spent on integration projects, software, and equipment required to support business development, such as servers and routers.

### Gross investment (consolidated)

(EUR 000)

	30.09.2002	30.06.2002
Gross investment in intangible assets	46,513	38,869
Gross investment in tangible assets	72,475	51,381
<b>Total gross investment</b>	<b>118,988</b>	<b>90,250</b>

## Group net financial position

### Consolidated net debt

(EUR 000)

	30.09.2002	30.06.2002	31.12.2001
Cash	381,354	328,753	547,835
Short-term bank debt	(78,934)	(83,253)	(155,649)
<b>Short-term net financial position</b>	<b>302,420</b>	<b>245,500</b>	<b>392,186</b>
Medium-/long-term debt	(405,463)	(255,463)	(250,007)
<b>Net debt</b>	<b>(103,043)</b>	<b>(9,963)</b>	<b>142,179</b>

As of 30 September 2002, the company had cash and cash equivalents of EUR 381 million, against EUR 547.8 million at 31 December 2001 and EUR 329 million at 30 June 2002.

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## Significant events since 30 September

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Since the end of the third quarter, the group has seen a considerable advance in the number of new subscribers to ADSL services in several countries, including the UK, France, Germany and Italy.

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## Management outlook

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Following the release of third quarter results, the group confirms its target of achieving EBITDA breakeven for full-year 2002. As the restructuring plan is now almost fully implemented, the management will turn its full attention to organic revenue growth, by improving efficiency and expanding the ADSL user base.

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## Parent company figures

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### Parent company P&L

(EUR 000)

	30.09.2002	30.09.2002	30.09.2001	30.09.2001
	3M	9M	3M	9M
Revenues	31,925	96,432	24,700	44,700
<b>Value of production</b>	<b>31,925</b>	<b>96,432</b>	<b>24,700</b>	<b>44,700</b>
Cost of goods and services	(35,097)	(107,564)	(31,300)	(88)
Personnel costs	(6,615)	(19,971)	(5,200)	(14,600)
<b>EBITDA</b>	<b>(9,787)</b>	<b>(31,103)</b>	<b>(11,800)</b>	<b>30,012</b>
Depreciation and amortisation	(3,480)	(10,263)	(3,000)	(7,800)
Other provisions	(124)	(190,911)	(1,600)	(227,000)
<b>Operating profit</b>	<b>(13,391)</b>	<b>(232,277)</b>	<b>(16,400)</b>	<b>(204,788)</b>
Income from investments	(26,378)	(15,843)	n.a.	n.a.
Extraordinary income	(25,206)	(12,722)	n.a.	n.a.
<b>Pre-tax profit</b>	<b>(64,975)</b>	<b>(260,842)</b>	<b>(16,400)</b>	<b>(204,788)</b>

In the first nine months of 2002, the parent company posted an EBITDA loss of EUR 31.1 million including holding company costs. The EBITDA loss for the third quarter was EUR 9.8 million. The nine-month figure after holding company costs, and adjusted in line with IAS-17, comes out at around EUR 16.7 million.

The main cost items as of 30 September were backbone costs of EUR 19.2 million (19.9% of revenues), traffic acquisition costs of EUR 10 million (10.4% of revenues), and advertising and promotional costs of EUR 31 million (32% of revenues). The latter item includes holding company advertising costs (mainly relating to sponsorship of Formula 1 and cycling events).

Personnel costs rose by 37% from EUR 14.6 million at 30 September 2001 to EUR 20 million a year later, following an increase in the headcount from 720 to 794. As of June 2002 the headcount stood at 783.

Total investment as of 30 September was around EUR 21 million, of which EUR 2.3 million was spent during the third quarter. EUR 15.2 million related to intangible assets and EUR 5.9 million to tangible assets. The latter sum was mainly spent on the purchase and development of software, installation of new POP servers following the expansion of the group's network, other equipment for the fibre optic network activated during the quarter, and the construction of the group's new headquarters in Cagliari.



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## Parent company net financial position

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### Parent company net financial position

(EUR 000)

	30.09.2002	30.06.2002	31.12.2001
Cash	4,722	3,700	10,700
Short-term bank debt	(34,933)	(24,773)	(14,600)
<b>Short-term net debt</b>	<b>(30,211)</b>	<b>(21,073)</b>	<b>3,900</b>
Medium-/long-term debt	(5,463)	(5,463)	
<b>Net financial position</b>	<b>(35,674)</b>	<b>(26,536)</b>	<b>3,900</b>

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## Parent company revenue breakdown.

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### Revenues by business area

(EUR 000)

	30.09.2002	30.09.2002	30.09.2001	30.09.2001
	3M	9M	3M	9M
Access	15,579	49,007	13,100	44,700
Voice	6,268	14,603	3,000	14,800
Corporate services	1,022	3,533	700	2,100
Portal	3,266	12,533	2,600	10,200
Other	5,790	16,756	5,300	13,300
	-	-	-	-
<b>Value of production</b>	<b>31,925</b>	<b>96,432</b>	<b>24,700</b>	<b>85,100</b>

In the third quarter of 2002, parent company revenues rose across the board to EUR 31.9 million, a YoY increase of 29%. Access revenues were boosted by the introduction of ADSL services, as well as an increase in reverse connection traffic, while voice revenues more than doubled from EUR 3 million in the third quarter of 2001 to EUR 6.3 million, thanks to a substantial increase in traffic minutes. Monthly portal revenues remained stable, and recorded a considerable advance in July-September compared to the third quarter of 2001, as seasonal factors affected last year's figures more than this year's.

On behalf of the Board of Directors

Chairman  
Renato Soru