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Tiscali's Board of Directors approves first-half 2005 results

- **Revenues up 11% on 1H04, to EUR 353.7 million**
- **330,000 new ADSL subscribers, bringing the total to 1.4 million**
- **Sharp increase in profitability: Gross Operating Profit (EBITDA)* at EUR 52.4 million (15% on revenues), more than doubled compared to 1H04 (EUR 20 million, 6% on revenues)**
- **Earnings before tax (EBT)* positive for EUR 59.6 million vs a loss of EUR 123.3 million in 1H04**

** Tiscali Group's financial results and historical figures given for comparison purposes in this press release were prepared in accordance with IAS/IFRS international accounting principles, and are shown on a like-for-like basis for the Group's perimeter, including Italy, UK, Germany, The Netherlands, Czech Republic and TiNet IP . For further details on the application of IAS/IFRS principles, please refer to the half-year report available at the company's registered office and on its website http://investors.tiscali.com/tiscali/*

The Board of Directors of Tiscali has approved today the Group's first-half results to 30th June 2005.

- **1H05 results**

Revenues of EUR 353.7 million were up 11% on the first six months of 2004 (EUR 318.8 million). Growth in revenues was driven mainly by the **access** segment, which accounted for 74% of the Group's revenues (EUR 262.6 million).

In this segment, there was a marked change in the revenues mix compared to 1H04, with a significantly higher contribution from broadband services (56%) than dial-up (narrowband) services. There were 330,000 new broadband customers in the first half, which brought the total number of ADSL subscribers at 30 June 2005 to around 1.4 million (an increase of 34% on 31 December 2004): over 250.000 were receiving unbundled services. With commercial offers aimed at increasing the take up of double play (voice and data), several ADSL customers are switching from wholesale to unbundled services. The total number of active dial-up customers was 3.4 million, reflecting the continuing decline in the dial-up user base, in line with the market.

In first half 2005 **voice** revenues stood for EUR 44.0 million (12% on revenues), 9% down compared to EUR 48.2 million (15% on revenues) as of 30 June 2004. Revenues slow down is mainly due to the refocus of the offer of traditional voice services in favor

Investor Relations
Tel. +39 02 309011 Email: ir@tiscali.com

Press Office
Image Building
Mara Baldessari, Simona Vecchies
T. +39 02 89011300 Email: info@imagebuilding.it

Tiscali S.p.A.
Sa Illetta
09122 Cagliari
Italy

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of VoIP services, contributing to a higher profitability. The trend was partially off set by the launch of "bundled" CPS voice services (code pre-selection) in UK.

Revenues from **business services** came in at EUR 28.5 million (8% of revenues), an increase of 6% on the EUR 26.9 million (8% on revenues) recorded in 1H04. The rise is due to the organic growth supported by a commercial refocus.

Portal (Media & VAS) revenues, at EUR 14.6 million (4% of revenues) were slightly up (+2%) on the EUR 14.4 million (5% on revenues) posted at end-June 2004.
The positive trend is due to organic growth. iIn first half 2005 the main contribution to the business line revenues is generated by advertising, the strategy also aims at improving VAS and content revenues.

Operating costs totalled EUR 140.0 million, an increase of 17% on the first half of 2004 (EUR 119.6 million) in absolute terms. These costs moved from 38% on revenues in 1H04 to 40% at June 2005. This increase in the absolute value is attributable to significant investments in marketing to support the expansion in broadband services.
Marketing costs at EUR 64.9 million represented 18% of revenues compared to EUR 41.3 million (13% on revenues) in 1H2004. The increase is largely related to advertising for broadband services, with a greater focus on the UK market, main driver of the Group's growth in the semester.
Personnel costs were essentially stable at EUR 54.3 million, versus EUR 54.7 million in 1H04 (falling from 17% to 15% of revenues), the number of the employees at June 30, 2005 was 1,846.
General costs fell from EUR 23.6 million (7% of revenues) in 1H04 to EUR 20.8 million (6% of revenues) as of June 2005, thanks to further rationalisation.

Gross Operating Profit (EBITDA), before amortisation, depreciation, provision and write downs came in at around EUR 52.4 million, more than doubled versus EUR 20.1 million at 30 June 2004, a rise from 6% as a percentage of revenues to 15% in the first six months of 2005.

Such operating results have been achieved, in addition to the revenues dynamics illustrated in the previous paragraph, also by cost downsizing and by the efficiencies performed.

The trend shown by variable costs linked to the significant increase of ADSL ULL customers within access segment has determined the improvement already at Gross Margin[1] level which increased, as a percentage of revenues, from 48% on 1H04 to 54% on the same period of 2005.

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[1] *Figure non reported in the P&L financial statement, as not included in the IAS/IFRS prospects, but given as an additional information)*

Investor Relations
Tel. 02 309011 – ir@tiscali.com

Press Office
Image Building
Mara Baldessari, Simona Vecchies
T. +39 02 89011300 Email: info@imagebuilding.it

Tiscali S.p.A.
Sa Illetta
09122 Cagliari
Italy

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The Group reported an **operating loss (EBIT)** of EUR 46.4 million, after amortisation, depreciation, provision and write downs, a marked improvement (+31%) on the loss of EUR 67.0 million, posted at 30 June 2004. The performance is the result of the significant improvement in gross operating profitability.

In 1H2005, the amortization of tangible and the depreciation of intangible assets amounted to EUR 68.4 million compared to EUR 61.0 million registered in 1H2004. The increase is due to the considerable investments made to roll out the ULL network.

Provision and write downs (together with other restructuring costs), were EUR 30.5 million compared to EUR 26.1 million in 1H2004.

The company made a **pre-tax profit (EBT)** of EUR 59.6 million on compared with a loss of EUR 123.3 million in 1H04. This includes in 1H05, the net profit generated from the disposal of assets (discontinuing operations), EUR 125.7 million, mainly due to the capital gain generated on the sale of the French subsidiary Liberty Surf Group SA (EUR 144 million).

The half-year ending 30 June 2005 closed, for the first time in Tiscali's history, with a **net profit** of EUR 14.5 million, to be compared to a net loss of EUR 123.8 million as of June 2004.

Net result of the period includes taxes for EUR 45.1 million related to the capital gain resulting from the contribution of the Italian businesses activities from holding company into Tiscali Italia S.r.l. Such tax charge, however, does not correspond to a tax disbursement, but only to a partial use of the tax assets already accounted for in previous years. The posting of the eventual additional deferred taxes will be assessed at closing of full year accounts for 2005.

Investments

Investment totalled EUR 67.5 million (19% of revenues) and were mainly related to the extension of the Group's unbundled network and to connecting and activating new customers. This compares to investment of EUR 36 million in 1H04.

Thanks to further upgrading, Tiscali's network now has improved coverage. In Italy, at the end of 1H05, Tiscali's unbundled network had over 310 colocations active, giving coverage of around 25% of the addressable DSL market (30% end of July). In the Netherlands, the Group now covers over 60% of the addressable DSL market. In 1H05 investments in unbundling in the UK has commenced, leveraging on the improvement of the market regulatory outlook, while in Germany Tiscali will begin testing unbundling in the Frankfurt area from 2H05.

Financial position

Investor Relations
Tel. 02 309011 – ir@tiscali.com

Press Office
Image Building
Mara Baldessari, Simona Vecchies
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09122 Cagliari
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At the end of 1H05, the Tiscali Group's cash resources totalled EUR 246 million, while net debt stood at EUR 259 million, an improvement of EUR 162 million compared to EUR 421 million at 31 December 2004. These figures reflect the situation before the maturity of the EUR 250 million bonds repaid in July 2005.

The Group's financial position is shown in the table below.

		December 2004	June 2005
Cash		**83**	**246**
Other financial assets	**(a)**	**54**	**46**
Total cash and cash equivalents		**137**	**292**
FRNs 2005		250	238
Bonds convertible in 2006	(b)	210	215
Total bonds		**460**	**453**
Long-term loans		36	45
Other short-term financial liabilities		25	16
Total payables to banks		**60**	**61**
Leasing		38	37
Gross debt	***(c)***	**558**	**551**
Net debt		**421**	**259**

(a) The figure includes exclusively escrows and tax credits (VAT)
(b) The figure as of 30 June 2005 includes interest accrued at end June 2005
(c) Excludes shareholders loans

Operating cash flow, excluding sales of non-strategic assets, was negative for around EUR 65 million in the first half of 2005. During 2Q2005, even with significant investments and marketing expenditures, there was a strong decrease in cash burn to around EUR 20 million compared with EUR 45 million in 1Q2005.

Investor Relations
Tel. 02 309011 – ir@tiscali.com

Press Office
Image Building
Mara Baldessari, Simona Vecchies
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Tiscali S.p.A.
Sa Illetta
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Italy

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Significant events since 30 June 2005

Repayment of EUR 250 million bond issue
On 7 July 2005 Tiscali reimbursed the EUR 250 million bonds issued by its subsidiary Tiscali Finance SA.

Focus on unbundled ADSL services in the Netherlands
On 26 July, Dutch subsidiary Tiscali BV reached an agreement to transfer around 60,000 broadband users to KPN for approximately EUR 13 million. The agreement concerns only Tiscali BV customers receiving resale broadband services, and who, therefore, were connected to Tiscali through KPN's network. The transaction is part of Tiscali's strategy to focus on growing unbundled ADSL services, which allow the Group to offer its customers competitive and innovative products and access services.

Sale of international fibre optic network to Telecom Italia
On 2 August, Telecom Italia SpA and Tiscali SpA announced an agreement for the purchase by Telecom Italia Sparkle of Tiscali's fibre optic network, Tiscali International Network SAS (TINet SAS), for a total consideration of EUR 8 million. Tiscali International Network SAS owns 15,000 km of fibre optic network covering 12 European countries. Completion of the transaction is subject to the approval of the competition authority. The transaction does not include the sale of IP and Voice over IP national and international networks, which are owned by Tiscali International Network BV. The Tiscali Group will maintain ownership and control of these networks so that it may continue to offer high-quality IP and VoIP services to its own customers.

EUR 150 million debt financing from Silver Point
On 8 August Tiscali reached an agreement for a senior secured credit facility worth a total EUR 150 million. The credit line was structured and provided by Silver Point Finance LLC (USA), a company providing tailor made financing to large and medium-sized companies operating in different sectors. The facility comprises two tranches, each with a three-year duration, and offers a rate of EURIBOR +600 bps. The first tranche of EUR 50 million was advanced in August 2005, while the second EUR 100 million tranche will be made available from September 2006, subject to certain standard terms and conditions, including certain financial and business covenants

This agreement enables the Group to further implement its business plan, which is based on organically growing its customer base and improving profitability by investing in ULL networks, and providing high-quality services at a fair price to its customers.

Investor Relations
Tel. 02 309011 – ir@tiscali.com

Press Office
Image Building
Mara Baldessari, Simona Vecchies
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Tiscali S.p.A.
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Italy

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Sale of stake in H3G Italia

In September subsidiary Tiscali Finance SA sold its non-strategic stake of less than 0.3% in 3G mobile operator Hutchison 3G Italia SpA to Hutchison 3G Italy Investment Sarl.

At the same time, the Group came to an agreement defining its previous relationship with Hutchison 3G concerning the financial support of H3G Italia. This agreement also forms the basis for future co-operation and synergies between the two groups with a view to develop joint distribution services, particularly in the UK and Italy.

2005 targets

Tiscali announces the following targets for 2005 (IFRS compliant)

- Revenues of approx. EUR 800 million
- Gross Operating Profit (EBITDA) of approx EUR 100 million
- Around 1.8 million broadband users
- Investment at 15% of revenues

Investor Relations
Tel. 02 309011 – ir@tiscali.com

Press Office
Image Building
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INCOME STATEMENT	30 June 2005	30 June 2004
EUR (000)		
Revenues	353,651	318,830
Other operating income	3,986	2,729
Purchases of material and external services	244,922	230,619
Personnel costs	54,253	54,570
Other operating expenses	6,051	16,153
Gross operating result	**52,411**	**20,217**
Restructuring costs, other provisions & write downs	30,458	26,072
Depreciations and Amortizations	68,388	61,029
Operating result	**(46,435)**	**(66,884)**
Share of the profit or losses of associates accounted for using the equity method	**(696)**	**207**
Net financial income (expenses)	**(19,018)**	**(20,925)**
Income (Loss) before tax	**(66,149)**	**(87,602)**
Taxation	45,053	(479)
Income (Loss) from continued operations	**(111,202)**	**(87,123)**
Income (Loss) from discontinued operations	125,741	(36,681)
NET INCOME (LOSS)	**14,539**	**(123,804)**
Attributable to:		
Equity holders of the parent	**14,322**	**(122,698)**
Minority interests	217	(1,106)

CONSOLIDATED BALANCE SHEET	30 June 2005	31 December 2004
Non current assets	**773,516**	**802,437**
Current assets	**440,322**	**270,226**
Assets classified as held for sale	81,150	395,597
TOTAL ASSETS	**1,294,988**	**1,468,260**
Shareholders' Equity	**339,766**	**317,795**
Non current liabilities	**364,789**	**340,125**
Current liabilities	**538,619**	**599,157**
Liabilities directly associated with assets classified as held for sale	51,814	211,183
TOTAL LIABILITIES AND EQUITY	**1,294,988**	**1,468,260**

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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Investor Relations
Tel. 02 309011 – ir@tiscali.com

Press Office
Image Building
Mara Baldessari, Simona Vecchies
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