

### **Tiscali's Board of Directors approves 1H2007 results**

- **1H07 revenues at EUR 393.1 million, +24% YoY. Broadband services revenues accounted for over 67% of the Group's revenues**
- **Access revenues grew fourfold YoY driven by the success of 'double play' product offers**
- **Gross Operating Result at EUR 61.9 million, +59% YoY, showing a 3 percentage points increase in profitability**
- **Net result positive at EUR 22,4 million**
- **Net debt decrease from EUR 397 million on 31<sup>st</sup> December 2006 to ca EUR 250 million on 30<sup>th</sup> June 2007**

Cagliari, 13 September 2007

The Tiscali's Board of Directors has approved the results for the first-half ended on 30<sup>th</sup> June 2007.

Tiscali Group's revenues in the first-half of 2007 stood at EUR 393.1 million, showing a 24% growth as compared to the first-half of 2006 (EUR 318.1 million) thanks in particular to the growing trend of revenues related to broadband services. The gross operating result, equal to EUR 61.9 million, recorded an increase on a yearly basis both in absolute terms (+59%) and in terms of percentage of the Group's revenues, rising from 12.3% in the first six-months of the 2006 financial year to 15.6% in first-half 2007.

In the semester just ended the Group also successfully completed the operational integration of Video Networks in the United Kingdom and the launch of the IPTV offer to in the UK which will be launched also in Italy. The period also saw the completion of the sale of the Dutch and German operations and the improvement of the net financial position which went from a net debt position of EUR 397 million as of 31<sup>st</sup> December 2006 to ca 250 million as of 30<sup>th</sup> June 2007. Debt maturity increased as well.

The Group also laid the basis for the new development plan which has led, last July, to the agreement for the acquisition of the Broadband and Voice operations of Pipex Communications Plc in the UK and to the completion of an important agreement with Telecom Italia, through which Tiscali Italy will develop new integrated fixed-mobile offers, both for voice and data services. With this agreement Tiscali will strengthen its offer of telecommunication services turning into a "quadruple play" operator, with the objective to integrate its fixed network data services (mail, portal, contents and value added services) with a mobile offer.

Investor Relations  
Tel. +39 02 309011 Email: [ir@tiscali.com](mailto:ir@tiscali.com)

Ufficio Stampa  
Image Building  
Mara Baldessari – Simona Vecchies  
Tel: 02 89 01 13 00 – [tlc@imagebuilding.it](mailto:tlc@imagebuilding.it)

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

[www.tiscali.com](http://www.tiscali.com)

The key trends of each subsidiary and business line are reported below.

### **Italy: migration to LLU network and increase of 'double play' customers**

During the first six months of the financial year 2007 Tiscali Italia saw an acceleration of the growth of the total ADSL user base and in particular of users purchasing 'double play' services (ADSL internet access and voice). ADSL net additions in the six-month were over 68,000, bringing the total number of ADSL subscribers at the end of June 2007 to over 500,000, corresponding to a 16% growth as compared to data recorded at the end of 2006 (approximately 432,000 ADSL subscribers).

Users connected through the Tiscali network infrastructure (*unbundling*) are about 300,000, a 26% growth as compared to data recorded at the end of December 2006 (234,000 units), thanks to the success of the migration towards the proprietary network infrastructure, which today consists of 486 LLU sites covering 38% of households. As compared to 31 December 2006, data show an acceleration of users subscribing double play services (data and voice) reaching 124,000 units. The figure related to dial-up users was approximately 500,000.

The Group's revenues in Italy, essentially related to the Tiscali Italia S.p.A., amounted to EUR 130.1 million and showed a 24% growth as compared to the same period of the preceding financial year (EUR 104.7 million). The turnover generated by the Italian subsidiary accounts for 33% of the Tiscali Group's revenues. The revenues generated by the ADSL access services, EUR 47.9 million, recorded a 43% increase vs EUR 33.4 million in the first six months of 2006. The ADSL weight on access revenues rose from 48% in the first-half of 2006 to 63% in the first-half of 2007. The revenues generated by the voice services stood at EUR 31.5 million of which EUR 13.4 million derived from VoIP products, more than fourfold as compared to the first six months of the preceding financial year.

The user growth seen in first-half is due to the quality of Tiscali products and marketing offers. In this regard we highlight the success of the Tandem Flat offer, that is a EUR 39.95 monthly fee including, for direct Tiscali customers: telephony, fixed fee and unlimited 10 Mb/s ADSL access, and the relevant virtuous interaction on the average revenue per user (ARPU) of the Italian subsidiary.

### **United Kingdom: integration of Video Networks**

The first-half of the 2007 has seen in UK the completion of the integration of Video Networks International Ltd, a company acquired in August 2006. The revenues generated by the UK subsidiary stood at EUR 253.2 million, up 23% as compared to EUR 205.7 million in first-half 2006. The revenues generated by broadband access amounted to EUR 159.5 million (90% of revenues from the access segment), with a 25% increase as compared to data recorded in the first six months of financial year 2006 (EUR 127.6 million accounting for 83% of access revenues).

The net activations of ADSL customers were over 110,000 in the semester. This allowed to reach as at 30 June 2007 an ADSL user base of about 1,550 million. Direct customers were

Investor Relations  
Chiara Dorigotti – Lisa Nanu  
Tel. 02 309011209 – [ir@tiscali.com](mailto:ir@tiscali.com)

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Ufficio Stampa  
Image Building  
Mara Baldessari – Simona Vecchies  
Tel: 02 89 01 13 00 – [info@imagebuilding.it](mailto:info@imagebuilding.it)

approximately 494,000, up 41% as compared to 30 June 2006. To this date, Tiscali UK has 800 active LLU sites, with a coverage of 55% of households. Dial-up user base is about 330,000 units.

Tiscali UK offers the whole range of integrated products, that is telephony, access and IPTV, through a basic monthly offer of £19.99. The Pipex acquisition, which will be discussed in detail in the section “events taking place after the end of the period”, will enable Tiscali UK to achieve a broadband user base of over 1.9 million and to increase of 3 percentage points its market share, thus favouring significant cost synergies - through a higher saturation of its unbundling network - and revenues synergies - through the sale of the integrated services currently offered to customers.

### ■ Revenues by business segment

#### **Access: direct ADSL revenues increase fourfold**

In first-half of 2007 access revenues accounted for 64% of the Group’s revenues and stood at EUR 251.8 million, up 13% as compared to the same period of financial year 2006 (EUR 223.7 million, 70% of the Group’s revenues).

The direct access revenues were fourfold as compared to the first-half of the preceding financial year, rising from EUR 17.0 million as at 30<sup>th</sup> June 2006 to EUR 74.1 million as at 30<sup>th</sup> June 2007, due to an increase of the ULL user base and of average revenue per user.

In 1H07 the broadband access revenues stood at EUR 207.6 million (82% of access revenues), thus showing a 29% increase as compared to the same period of the preceding financial year (EUR 161.0 million, 72% of access revenues). Customer net activations recorded in the first six months of the year were approximately 182,000. In the six-month period the number of ADSL subscribers rose from 1,855,000 in December 2006 to 2,036,000 at the end of June 2007, of which 38% (over 787,000) direct access subscribers (+35% as compared to 584,000 as at 31 December 2006).

The physiological decrease of the dial-up users and revenues (EUR 44.3 million, as compared to the EUR 62.6 million recorded in first-half 2006) has been more than compensated by the increase of ADSL revenues, thanks to the success of the migration, carried out by Tiscali, of customers from narrowband to broadband access. At 30 June 2007, the dial-up users are approximately 819,000 as compared to over 1.16 million at 31 December 2006.

#### **Voice: up 69% YoY thanks to double-play offers**

The voice revenues at 30 June 2007 stood at EUR 84.3 million, with a 69% increase compared to the same period of the previous financial year (EUR 50 million) and accounted for 21% of total revenues. The growth is evidence of the success of the double play offers on the direct network of the Group. In the first six months of the year double play revenues stood at EUR 55.8 million with about 124,000 subscribers, as compared to only EUR 3.3 million revenues in the first six-months of financial year 2006.

Investor Relations  
Chiara Dorigotti – Lisa Nanu  
Tel. 02 309011209 – [ir@tiscali.com](mailto:ir@tiscali.com)

3

Ufficio Stampa  
Image Building  
Mara Baldessari – Simona Vecchies  
Tel: 02 89 01 13 00 – [info@imagebuilding.it](mailto:info@imagebuilding.it)

### **Business services: up 28% YoY**

The business services line including VPN, housing, hosting, domain services and leased lines, in first-half 2007 generated revenues of approximately EUR 26.9 million, up 28% as compared to first-half of financial year 2006 (EUR 21.0 million). The percentage on Group's revenues was stable at 7%. Internet access revenues (both dial-up and ADSL) generated by the business line are included in the access revenues.

### **Media and value-added services: up 24% YoY**

In the first six months, the revenues generated by media and value-added services amounted to EUR 24.5 million (6% of total revenues) compared to EUR 19.8 million (6.2% of total revenues) posted in first-half 2006. In these six months the performance of this business line has been positive thanks to an improved Group's focus on value-added services and on content. Partnership agreements and the development of online advertising are points of strength of this segment.

#### **■ Gross Operating Result : increase of profitability of over 3 percentage points YoY**

At 30 June 2007 the Gross Operating Result, before provisions for risks, write downs and depreciations, stood at EUR 61.9 million, therefore showing a significant improvement (+59%) as compared to EUR 39.0 million of first-half 2006. In terms of percentage on revenues the Gross Operating Result rose from 12.3% to 15.6%.

Indirect Operating Costs amounted to EUR 121.5 million, with an incidence of 31% on revenues. This result is compared with the figure of EUR 108.6 million of first-half 2006, with a percentage incidence on revenues equal to 34%.

#### **■ Operating result: improving despite higher D&A**

The operating result of the first six months of 2007 (loss of EUR 28.5 million) shows an improvement (+5%) compared to the operating loss of EUR 29.9 million of the first-half 2006, confirming the positive trend and goals to achieve the operating break-even at Group's level. This improvement has been reached despite an increase of the depreciation and amortisation charges coming from the implementation of the investments plan of the Group for the development of the unbundling network and the ADSL offers (modem and activation costs) in Italy and in the UK .

At 30 June 2007, amortisation expenses for tangible and intangible assets stood at EUR 71.9 million, compared to EUR 57.8 million of first-half 2006.

Investor Relations  
Chiara Dorigotti – Lisa Nanu  
Tel. 02 309011209 – [ir@tiscali.com](mailto:ir@tiscali.com)

Ufficio Stampa  
Image Building  
Mara Baldessari – Simona Vecchies  
Tel: 02 89 01 13 00 – [info@imagebuilding.it](mailto:info@imagebuilding.it)

### ■ Operating result by geographical area: Tiscali Italia doubles, UK growing

The gross operating result in Italy (related to Tiscali Italia S.p.A. and to some minor subsidiaries) amounted to EUR 21.3 million (14% of revenues), compared to EUR 10.7 million in first-half 2006, with almost 100% growth YoY. Such significant increase of profitability of the Italian subsidiary comes from the accelerated migration process of the user base to the proprietary network which is constantly growing. The operating result, net of depreciation/amortisation and write-downs, was negative at EUR 5.2 million, as compared to the loss of EUR 8.3 million in the first six months of the preceding financial year.

The gross operating result achieved by Tiscali UK in the first-half of 2007 stood at EUR 36.0 million (14% of revenues), compared with EUR 30.0 million (15% of revenues) in the first-half of 2006.

The operating result, net of depreciation/amortisation and write-downs, was negative at EUR 12.7 million (negative at EUR 6.6 million in the same period of the previous financial year). This result has been affected by the depreciation and amortisation charges related to the investments for the development of Tiscali UK LLU network infrastructure, rising from EUR 31.6 million in first-half 2006 to EUR 42.7 million in the first six months of the current financial year.

### ■ Net result: net profit at EUR 22.4 million

The six-month ending at 30 June 2006 showed a positive net result of EUR 22.4 million, including the net capital gain of over EUR 100 million resulting from the disposal of the Dutch and the Germany operations. The capital gain is net of the utilisation of deferred tax assets of approximately EUR 50 million, with no cashout. This result compares with the loss of EUR 74.2 million recorded in first-half 2006. The result of the current financial year is also affected by the EUR 44 million financial charges, EUR 25,1 million of which are related to costs for the early reimbursement of the Silver Point facility and the new financing. Further utilisations or accounting of deferred tax assets will be evaluated at year end.

### ■ Investments

In first-half 2007 network and customer driven capital expenditure stood at approximately EUR 95 million, of which EUR 44.7 million were allocated to intangible assets and approximately EUR 50.1 million to tangible assets.

The intangible asset investments were mainly related to costs for the activation of ADSL customers, as well as for the signing of IRU (Indefeasible rights of use) contracts, related to the acquisition of rights to use network and bandwidth, while the tangible asset investments are mainly related to the development of the unbundling network, including the relevant equipment.

These investments have allowed to reach and activate at 30 June 2007, 650 LLU sites in the United Kingdom and 440 sites in Italy. As at September 2007 activated co-locations in Italy and in The UK were 486 and 800, respectively.

Investor Relations  
Chiara Dorigotti – Lisa Nanu  
Tel. 02 309011209 – [ir@tiscali.com](mailto:ir@tiscali.com)

5

Ufficio Stampa  
Image Building  
Mara Baldessari – Simona Vecchies  
Tel: 02 89 01 13 00 – [info@imagebuilding.it](mailto:info@imagebuilding.it)

■ FINANCIAL POSITION

At 30 June 2007 the Tiscali Group cash and cash equivalents totalled EUR 17.8 million, with a net debt related to continuing operations at EUR 251.1 million (EUR 397.2 million at 31 December 2006).

The financial position related to continuing operations is summarised in the table below:

| EUR thousands   | 30 June 2007   | 31 December 2006 |
|---|----------------|------------------|
| A. Cash and cash equivalents                                    | 17,849         | 3,824            |
| B. Other liquid assets  | 18,433         | 11,494           |
| C. Securities held for negotiation                              | -              | -                |
| <b>D. Total cash and other financial assets (A) + (B) + (C)</b> | <b>36,283</b>  | <b>15,318</b>    |
| <b>E. Current financial assets</b>                              | <b>43,026</b>  | <b>21,257</b>    |
| F. Current bank loans   | 54,825         | 374,787          |
| G. Current part of non current debt                             | -              | -                |
| H. Other current financial debts (*)                            | 17,097         | 12,302           |
| <b>I. Current financial debts (F) + (G) + (H)</b>               | <b>71,923</b>  | <b>387,090</b>   |
| <b>J. Net current financial debt (I) – (E) – (D)</b>            | <b>-7,386</b>  | <b>350,514</b>   |
| K. Non current bank loans                                       | 151,280        | -                |
| L. Bonds issued   | -              | -                |
| M. Other non current debts (**)                                 | 107,242        | 46,648           |
| <b>N. Non current financial debt (K) + (L) + (M)</b>            | <b>258,522</b> | <b>46,648</b>    |
| <b>O. Net financial debt (J) + (N)</b>                          | <b>251,135</b> | <b>397,163</b>   |

(\*) includes leasing debts

(\*\*) includes leasing debts and debts towards shareholders

In order to ensure consistency with data provided in previous reports the above table includes VAT credits as current financial credits and securities as other liquid assets. The table below reconciles the above financial position with the same statement prepared in compliance with Consob's resolution of 28<sup>th</sup> July 2006.

| EUR thousands                                    | 30 June 2007     | 31 December 2006 |
|--|------------------|------------------|
| <b>Net financial debt</b>                        | <b>(251,135)</b> | <b>(397,163)</b> |
| Other liquid assets and current financial assets | (20,989)         | (25,114)         |
| <b>Net financial debt 2</b>                      | <b>(272,124)</b> | <b>(422,277)</b> |

Investor Relations  
Chiara Dorigotti – Lisa Nanu  
Tel. 02 309011209 – [ir@tiscali.com](mailto:ir@tiscali.com)

Ufficio Stampa  
Image Building  
Mara Baldessari – Simona Vecchies  
Tel: 02 89 01 13 00 – [info@imagebuilding.it](mailto:info@imagebuilding.it)

The variation of cash and cash equivalents in first-half 2007, including financial charges, was positive for EUR 14.1 million. These result included the net proceeds from the disposals of the Dutch and German operations, capital expenditures (EUR 94.9 million) for the development of the user base and of the “*unbundling*” network infrastructure as well as by interest charges and refinancing costs (EUR 17.6 and EUR 25.1 million respectively).

#### ■ Significant events in first-half 2007

#### ■ Financing

On February Intesa SanPaolo granted a financing for EUR 280 million, which, has been mostly utilised to repay the existing Silver Point and Export Development Canada (EDC). The facility has been partially reimbursed (EUR 130 million ) in June 2007 at completion of the sale of the Dutch subsidiary.

The Tiscali Group has also completed a so-called “*sale and lease back*” transaction concerning the building located Cagliari, *headquarter* of the Group. Through such transaction the ownership of the building has been transferred with a repurchase option at the expiry of the renting contract, to a pool of lenders including Centro Leasing, Intesa Leasing and Locat, for the equivalent of EUR 61.2 million; the Tiscali Group has then rented the building for 15 years and will pay a rent calculated at about Euribor +140 bps. After the mortgage re-payment and other costs the operation has generate approximately 26 million cash for the Group.

#### ■ Disposals

- On 31<sup>st</sup> January 2007 Tiscali signed an agreement with Freenet AG who acquired the narrowband and broadband consumer customers of Tiscali in Germany. On 5 February 2007 Tiscali signed an agreement with Ecotel Communication AG who acquired the Tiscali B2B operations in Germany. The gross proceeds from the disposal of the B2C and B2B in Germany amounted to approximately EUR 45 million.
- On 19<sup>th</sup> June 2007, following the approval of the Dutch antitrust authorities, Tiscali completed the disposal of its operations in The Netherlands to KPN B.V. The total value is equal to EUR 248.5 million. Net of the reimbursement of inter-company debts, approximately EUR 12.5 million, the final value of the disposal is equal to EUR 236 million.

#### ■ Tiscali launches the Tiscali TV service in the UK

On 5 February 2007 the Group's British subsidiary (Tiscali UK) launched its commercial offer concerning television via Internet (IPTV) in the United Kingdom. The service, starting on March 1<sup>st</sup> 2007 will reach the whole LLU network of Tiscali UK within 2008. The offer is line with Tiscali's philosophy that sees IPTV as a complement to the access and voice broadband

Investor Relations  
Chiara Dorigotti – Lisa Nanu  
Tel. 02 309011209 – [ir@tiscali.com](mailto:ir@tiscali.com)

7

Ufficio Stampa  
Image Building  
Mara Baldessari – Simona Vecchies  
Tel: 02 89 01 13 00 – [info@imagebuilding.it](mailto:info@imagebuilding.it)

service offer, with an option allowing users to choose premium content in addition to the access basic package.

#### ■ **Stock options plan for management**

On 28 June, implementing the incentivisation plan for employees of Tiscali S.p.A. and of its Italian subsidiaries, approved by the shareholders' meeting of 3 May 2007, the Board of Directors has assigned to 22 managers a total of 3,190,000 option for the purchase of the same number of ordinary shares of Tiscali S.p.A. The options will be exercisable from 29 June 2010 to 28 December 2010, at a price of EUR 2.378 per share, which is the average of the official price of the shares traded on the Italian Stock Exchange in the month preceding the current resolution of the Board of Directors, in compliance with tax regulation. The plan is meant to incentives management to create value for the Tiscali Group and its shareholders, favouring the achievement of strategic goals.

#### ■ **Events taking place after the end of the first six months of 2007**

##### ■ **Acquisition of the broadband and voice division of Pipex**

On 13 July 2007 Tiscali and Pipex Communications Plc ("Pipex") have entered into an agreement for the acquisition by Tiscali UK Holdings Limited of the broadband and voice division of Pipex. The Enterprise Value agreed for the acquisition is £210 million (approximately EUR 310 million). The acquisition has been approved by Pipex shareholders' meeting and by the British Office of Fair Trading on 17 August.

On the basis of data recorded in first quarter 2007, Tiscali expects from the division sales of over £300 million in the financial year 2007 and an EBITDA exceeding £ 20 million. The division has approximately 1 million active users, of which 650,000 voice customers, 570,000 residential broadband customers, of which 250,000 dual play, and 100,000 SME business users. The division has approximately 1,400 employees. Following the acquisition, Tiscali UK will have 1.9 million broadband customers. The acquisition of Pipex's broadband and voice division further cements Tiscali's position as a fully integrated telecom and media operator in the top league of the UK market. Significant synergies and efficiencies can be achieved through this acquisition in particular through network integration, customer migration and indirect costs efficiencies. Over a four-year period, we estimate cumulated synergies in the region of £150 million at EBITDA level and ca £50 million to secure such synergies and efficiencies.

The acquisition will be financed through a EUR 650 million debt facility underwritten by Intesa SanPaolo and JP Morgan.

##### ■ **Management&Capitali investment**

On 10<sup>th</sup> August 2007 Management&Capitali S.p.A. (M&C) has approved an investment project supporting Tiscali development plans and the growth opportunities in the markets on which the Group operates.

Investor Relations  
Chiara Dorigotti – Lisa Nanu  
Tel. 02 309011209 – [ir@tiscali.com](mailto:ir@tiscali.com)

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Ufficio Stampa  
Image Building  
Mara Baldessari – Simona Vecchies  
Tel: 02 89 01 13 00 – [info@imagebuilding.it](mailto:info@imagebuilding.it)

M&C investment will range from EUR 50 million up to EUR 165 million in Tiscali UK either through the subscription of a convertible bond or through a capital increase.

■ **Agreement with Telecom for mobile services offer**

Tiscali and Telecom Italia entered on 27<sup>th</sup> July 2007 an agreement allowing Tiscali to become a Mobile Virtual Network Operator. For the first time in Italy an “alternative” fixed network operator will be allowed to offer mobile and integrated telecommunication services nationwide also to residential customers. Thanks to this agreement Tiscali will be in a position to place competitive offers on the market on the whole range of mobile services, both through prepaid cards and subscriptions, operating with its own brand and having the availability of a dedicated numeration. The service will be available both in Italy and abroad thanks to the international roaming coverage provided by the Telecom Italia network. Tiscali will have full freedom concerning the definition of its pricing policies, directly acquiring and managing customers, which will be assisted by a specific customer care service.

The offer of mobile services will enable Tiscali to develop fixed-mobile integrated offers, both for voice and data services. Through this agreement Tiscali intends to complete its telecommunication service offer in a quadruple play framework aiming at the integration of its fixed network data services (mail, portal, content and added value services) and a mobile offer. Thanks to its experience as Internet Service Provider, Tiscali ranks among the first alternative fixed network operators committed to provide access and develop mobile Internet. The terms of the agreement will moreover enable Tiscali to offer on-net fixed-mobile services to its residential and business customers in competition with those offered by Telecom Italia and all other mobile operators.

■ **Approval of capital increase for Tiscali SpA**

On 31<sup>st</sup> August 2007 the shareholders’ meeting of Tiscali S.p.A has empowered the Board of Directors to execute a capital increase up to a maximum of EUR 220 million, including share premium, by 31 December 2008.

The capital increase may be carried out in one or more tranches through the issuance of ordinary shares to be offered in pre-emption to shareholders and ranking pari passu with the currently traded ones. The capital increase could alternatively be used to service, in whole or in part, a convertible loan through the issuance of bonds convertible in ordinary share of the Tiscali, ranking pari passu with the currently traded ones, to be offered in pre-emption to shareholders.

The Board of Directors will establish each time the conditions as well as the number of shares to be issued and the issue price. The Board of Directors will also establish the possible destination of the capital increase to service bond conversion as well as the terms and conditions of the convertible bonds.

■ **New targets for 2007**

On the basis of the business plan and consolidating the Pipex broadband and voice division in 4Q07, the targets for 2007 are:

- Revenues: ca EUR 930 million
- Gross operating result (EBITDA): EUR 160 million
- Capex: EUR 200 million

Positive cash flow and net profit is expected in financial year 2008

| <b>CONSOLIDATED INCOME STATEMENT (EUR 000)</b>                                       | <b>30th June<br/>2007</b> | <b>30th June<br/>2006</b> |
|--|---------------------------|---------------------------|
| Revenues   | 393,053                   | 318,094                   |
| Other operating income   | 4,203                     | 2,375                     |
| Purchases of materials and external services   | 282,755                   | 236,535                   |
| Personnel costs  | 50,204                    | 39,286                    |
| Other operating expenses   | 2,354                     | 5,572                     |
| <b>Gross Operating Result</b>  | <b>61,942</b>             | <b>39,076</b>             |
| Restructuring costs, other provisions and write downs                                | 18,457                    | 11,247                    |
| Amortisation expense   | 71,982                    | 57,789                    |
| <b>Operating result</b>  | <b>(28,496)</b>           | <b>(29,959)</b>           |
| Share of the profit or losses of associates<br>accounted for using the equity method | (422)                     | (224)                     |
| Net financial income (Expenses)  | (26,773)                  | (10,665)                  |
| Other net financial income (Expenses)  | (17,881)                  | -                         |
| <b>Income (loss) before taxes</b>  | <b>(73,572)</b>           | <b>(40,848)</b>           |
| Taxation   | 2,082                     | 816                       |
| <b>Income (loss) from continued operations</b>                                       | <b>(75,654)</b>           | <b>(41,664)</b>           |
| Income (loss) from discontinued operations   | 95,798                    | (32,476)                  |
| <b>Net income (loss)</b>   | <b>20,144</b>             | <b>(74,140)</b>           |
| Minority interests   | (2,285)                   | 93                        |
| <b>Net result of the Group</b>   | <b>22,429</b>             | <b>(74,233)</b>           |

Investor Relations  
 Chiara Dorigotti – Lisa Nanu  
 Tel. 02 309011209 – [ir@tiscali.com](mailto:ir@tiscali.com)

Ufficio Stampa  
 Image Building  
 Mara Baldessari – Simona Vecchies  
 Tel: 02 89 01 13 00 – [info@imagebuilding.it](mailto:info@imagebuilding.it)

| <b>CONSOLIDATED BALANCE SHEET (EUR 000)</b>          | <b>30<sup>th</sup> June<br/>2007</b> | <b>31<sup>st</sup> Decembe<br/>2006</b> |
|--|--------------------------------------|---|
| Non-current assets                                   | 883,629                              | 876,465                                 |
| Current assets                                       | 282,337                              | 195,641                                 |
| Assets held for sale                                 | 3,768                                | 158,642                                 |
| <b>Total Asset</b>                                   | <b>1,169,733</b>                     | <b>1,230,748</b>                        |
| Shareholder's Equity (Group)                         | 267,742                              | 242,829                                 |
| Minority interests                                   | 24,448                               | 26,733                                  |
| <b>Total Shareholder's equity</b>                    | <b>292,190</b>                       | <b>269,562</b>                          |
| Non-current liabilities                              | 417,724                              | 222,299                                 |
| Current liabilities                                  | 458,760                              | 673,957                                 |
| Liabilities directly related to assets held for sale | 1,059                                | 64,932                                  |
| <b>Total Shareholder's equity and liabilities</b>    | <b>1,169,733</b>                     | <b>1,230,748</b>                        |

*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.*

Investor Relations  
Chiara Dorigotti – Lisa Nanu  
Tel: 02 309011209 – [ir@tiscali.com](mailto:ir@tiscali.com)

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Ufficio Stampa  
Image Building  
Mara Baldessari – Simona Vecchies  
Tel: 02 89 01 13 00 – [info@imagebuilding.it](mailto:info@imagebuilding.it)