

First-Half 2002 Report



The European Internet Company

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# Report on Operating Performance

## Market profile

In the first six months of 2002, Tiscali has confirmed its position as one of four dominant providers in the European Internet access market, alongside:

- T-online, the ISP subsidiary of Deutsche Telekom AG, which operates mainly in Germany;
- Wanadoo, the ISP subsidiary of France Telecom which is market leader in France and the UK;
- AOL Europe, the European branch of AOL Time Warner, which operates in Germany, France and the UK.

Competing with the above four leaders are a number of ISPs controlled by ex-incumbent operators. These providers, which include Terra-Lycos in Spain, Seat-Tin.it in Italy and BT Openworld in the UK, enjoy strong positions on their respective markets, generally thanks to their first-mover advantage.

User demand for Internet services in 2002 has been marked by rapid take-up of broadband technologies (especially xDSL), which has generated substantial interest among intensive Internet users in particular, and an unexpected contraction in growth of narrow band services.

The Internet is cementing its position as one of the world's key communications tools and although growth eased slightly in the first half of 2002, there is no sign of a decline. Analysts forecasts showing ever increasing internet penetration rates among the population at large, coupled with ceaseless growth in the content available on the net, remain as valid as ever.

In its drive to promote ADSL, Tiscali is lobbying Europe's national telecommunications regulators to introduce measures that will help secure effective competition in the broadband market and thus generate new and better growth opportunities for independent providers like Tiscali.

Revenues from portal services (chiefly online advertising and e-commerce) were for the most part disappointing in first-half 2002, mainly due to the generalised market slowdown and the less than benign market backdrop for portals.

But sector experts are unanimous in forecasting an increase in online advertising and e-commerce spending, as advertising methods more effective than the now ubiquitous banners are developed, the net user base expands, average connection times rise, and new content and services become available.

As a result, from accounting for only a marginal slice of the total Internet market, portal revenues should grow to become one of the main growth drivers for companies that, thanks to their state-of-the-art technological infrastructure, broad user base and strong domestic market positioning, can promote themselves as the

ideal partner for businesses planning to market their products and services on the net.

## Group operating performance

Tiscali consolidated its position as one of Europe's leading Internet companies in the first half 2002.

At the end of June 2002, on consolidated figures, the company had a total of 20.5mn registered subscribers, of which 7mn were active users.

The Tiscali Group posted consolidated revenues of EUR 367.7mn for the first half of 2002, a 42% advance on the EUR 258.7mn recorded in the first half of 2001.

EUR million	30 June 2001	30 June 2002	% change
Revenues	258.7	367.7	42%
Operating Expenses	(377.7)	(376.3)	(0.1)%
EBITDA	(119.0)	(8.6)	93%
Amortisation/Depreciation & Provisions	(60.5)	(203.3)	(236)%
EBIT before Goodwill Amortisation	(179.5)	(211.9)	(0.8)%
Goodwill Amortisation	(166.7)	(141.1)	16%
EBIT	(346.2)	(353)	2%
Net Financial Income/(Charges)	6.4	(19.2)	(316)%
Extraordinary Charges	(81.5)	(33.5)	62%
Profit (Loss) Before Tax	(421.3)	(405.7)	3.7%
Tax	-	(0.5)	
Minority Interests	9.0	2.5	(72)%
Net Profit/Loss	(412.3)	(403.7)	(2)%

The first six months of 2002 saw Tiscali continuing the process of integrating its European operations and unleashing considerable economies of scale by streamlining its production and management processes. Besides completing its network restructuring program, the Company achieved further savings on connectivity costs in the six-month period, as traffic on Tiscali's own network increased and the Group enjoyed greater bargaining power in renegotiating access contracts. As these costs constitute the Group's main expense item, their percentage decrease against total revenues has led to a significant rise in its gross industrial profit margin.

This positive trend was compounded by growth in revenues, which increased by 42% on the previous year, thanks to both the company's overall growth and the enlargement of its consolidation scope.

A comparison of the Company's revenue breakdown in the first half of 2002 against the same breakdown in 2001 provides a clear illustration of how the company's strategy has evolved so far.

Accounting for about 70% of total turnover in first-half 2002, access revenues were confirmed as the company's main source of income — a reflection both of its acquisitions to date and of growth in the wider market.

Portal revenues (online advertising and e-commerce) accounted for 7% of the total and came to EUR 27.2mn, 30% higher than last year.

Thanks to Tiscali's more comprehensive range and the high quality of its services, revenues from business-to-business services generated 12% of total turnover, confirming the importance of the B2B market.

Voice services have now become a marginal revenue source only, accounting for 6% of the total in the first six months and rising by 13% on the EUR 22.4mn generated in the first half of 2001.

## Revenue breakdown

Revenues	30 June 2001	30 June 2002	% change
Access	169.2	257.7	52%
Portal	20.9	27.2	30%
B2B	33.6	43.9	31%
Voice	22.4	25.3	13%
Other	12.6	13.8	9%
<b>Total</b>	<b>258.7</b>	<b>367.8</b>	<b>42.1%</b>

### Access

Accounting for 70% of total turnover, Internet access revenues were up 52% on the previous year, partly due to the enlargement of the consolidated Group, partly due to growth in the user base.

At the end of June 2002, the Tiscali Group had about 7mn active users between them generating approximately 20bn minutes of Internet traffic in the six-month period.

### Portal

Portal revenues amounted to 7% of the total and were 30% higher than in the first half of 2001—an achievement particularly remarkable given the crisis afflicting the online advertising market and the slower growth in e-commerce registered in 2002.

The Group's enlargement has benefited the portal business at operating level, as the improved market positioning of the Tiscali portals apparent in their increased 'reach' and pan-European spread has helped it secure content and service provision agreements with a number of major international partners. Gross margin on portal activities rose from 43% in first-half 2001 to 51% in the second quarter of 2002.

Data released by research agency Nielsen indicate that the Tiscali Group registered over 11.7mn unique visitors to its portals in the six months to end-June 2002, confirming its place as one of Europe's leading web properties.

### B2B

Business-to-business revenues, at 12% of total, were up 31% on 2001 — an advance attributable to the enlargement of the consolidated Group, the wider range of services available following the integration of national infrastructures into the company's international backbone, and the creation of corporate units dedicated to the development of B2B services.

Tiscali now has one of the most comprehensive ranges of B2B services on the market, spanning broadband access, leased lines and xDSL through to hosting, housing, VPN (Virtual Private Networks), security solutions and streaming. Gross margin rose from 45% of revenues in the first half of 2001 to 49% of the total figure in the first half of 2002.

## **Voice**

Revenues from telephony services came to EUR 25.3mn, up 13% on the first half of 2001 and accounting for 6% of total turnover.

These services, which are available in France, Italy and the UK only, essentially consist of prepaid phone cards, voice/Internet packages and B2B services.

To improve returns in this area of business, low-margin products have now been phased out, a decision that has helped bring about a dramatic improvement in gross industrial margin. From a negative 20% in the second quarter of 2001, margin in the second quarter of 2002 was equivalent to 22% of revenues.

## **Operating costs**

Operating costs totalled EUR 180.3mn, up 3% on first-half 2001 due to changes in the corporate structure as companies acquired in the year were integrated into the Group.

Leased lines and traffic purchase costs came to EUR 80.2mn and EUR 70.5mn respectively.

Aggregate gross profit in first-half 2002 amounted to EUR 171.7mn (or 47% of total revenues), an impressive 206% higher than the figure registered in the same period last year. This advance, as mentioned above, was achieved mainly on the back of synergies harnessed in the integration of companies acquired in 2001. This process of integration continued in the first half of 2002 although its effects are now becoming less pronounced.

Marketing and sales costs were EUR 59.3mn, or 16% of total revenues, down 19% on the previous year.

The brand unification process begun in 2001 can now be considered closed, with 2002 seeing the roll out of a corporate marketing and product campaign designed to increase brand recognition in Europe and maximise the impact of Tiscali's advertising budget.

Staff costs in the six months to 30 June 2002 totalled EUR 71.1mn, a decrease of 5% on the EUR 75mn recorded in first-half 2001. The total Group headcount fell from 3,320 at the end of June 2001 to around 3,200 at the end of June 2002.

At EBITDA level the Group posted a loss of EUR 8.6mn in the first six months, a considerable improvement on the loss of EUR 118.9mn recorded in the first half of 2001 that owes much to the rationalization process rolled out in 2001.

The consolidation process has rendered the new Group companies' operations more streamlined, so bringing about a marked improvement in their economic and industrial performance.

As these new companies have been absorbed into the Group, branch offices have been closed down and redundant overheads eliminated, a process that has brought significant savings.

Charges to the depreciation and amortisation of fixed and intangible assets, net of goodwill amortisation, came to EUR 84mn, up 55% on the EUR 54mn recorded to end-June 2001.

Charges to goodwill amortisation totalled EUR 141mn, less than in the first six months of 2001 due to the write down made at the end of the year and the ongoing amortisation of the various companies acquired.

Due to a reduction in the Group's liquid assets, the net financial income of EUR 6.4mn recorded in the first half of 2001 was turned into a loss of EUR 19.2mn in first-half 2002.

At consolidated level, the Group recorded a net loss of EUR 403.8mn in the six months to end-June 2002, slightly less than the EUR 412.3mn net loss posted for the first half of 2001 thanks to a decline in the hefty restructuring charges that affected 2001 figures.

## **Extraordinary operations**

The first six months of 2002 saw a remarkable reduction in the high level of extraordinary items generated in 2001 by the Group's corporate and operational restructuring.

The balance of extraordinary items at 30 June 2002 showed a loss of EUR 29.8mn, with the main items recorded under the heading being some penalties paid for early termination of line rental and bandwidth provision contracts signed by the companies acquired in 2001, the termination of sponsorship and marketing agreements, charges to reserves and write downs.

However, the restructuring initiative rolled out in 2001 improved the Group's operating and financial performance in first-half 2002 and has laid the foundations for a satisfactory level of efficiency this year.

## **Corporate restructuring**

The first half of 2002, as mentioned above, saw the continuation of the restructuring process begun in 2001 and designed to streamline the corporate structure, cut costs and build a corporate culture.

Each country has adhered to a separate set of guidelines in the reorganisation process, the aim of which is to concentrate the business activities carried out in each. Developments to date are described below.

### Germany

In the first half of 2002 Tiscali GmbH bought Guglielmo GmbH from Tiscali S.p.A. for a sum of EUR 4mn. This company was then absorbed by the Group, along with Time to Trade, SD Informationtechnik, Tiscali Voice GmbH, Addcom AG and SurfEU GmbH.

### France

Tiscali Reseaux SA (formerly Tiscali France SA), a fully owned subsidiary of Tiscali S.p.A, was sold to Liberty Surf Telecom SA for EUR 5mn in March 2002 and wound

up in April. Charles Edouard SCI, Frisbee SCI, C Frisbee SCI, and My Way SCI, all subsidiaries of Liberty Surf Group SA, were also wound up in April 2002.

Tiscali International Network SA (formerly Nets SA), a fully owned subsidiary of Tiscali S.p.A., was sold to Dutch subsidiary Tiscali International B.V. for a sum of EUR 14mn in June 2002.

#### Spain

World Online SA and MAP Telecom SA were merged, prior to their incorporation within Tiscali Espana S.L.U, in March 2002.

Liberty Surf Group SA wound up its entire 55.27% holding in Hispavista S.L. in May 2002. This transaction means that Hispavista S.L. is now no longer a part of the Tiscali Group.

#### United Kingdom

Telinco Business Communication Ltd, Telinco Internet Services Ltd, Telinco Specialist Communication Ltd, Telinco Management Services Ltd and Telinco Residential Communication Ltd, all subsidiaries of Tiscali Uk Ltd, were wound up in March 2002.

#### Austria

PlanetOne Internet Services GmbH and SurfEu GmbH were absorbed by Tiscali Osterreich GmbH in March 2002.

#### Norway

Tiscali Norge AS, Worldmo AS, Wol Mobile AS, and 12Move AS were absorbed by Tiscali AS in the first half of 2002.

#### Sweden

Liberty Surf AB (subsidiary of Liberty Surf Group SA) and 12Move AB (subsidiary of World Online AB) were sold to third parties in May 2002.

#### USA

World Online Acquisition Corporation, a company 100%-controlled by Tiscali International B.V. via The Portal Company B.V., transferred its 70% holding in World Online Merchandising LLC to World Merchandise Inc., a company not belonging to the Tiscali Group, on June 28, 2002.

As of 30 June 2002, there were 132 companies belonging to the Tiscali Group, compared with 164 companies as of 30 December 2001.



## Balance sheet highlights for the Tiscali Group

Figures in EUR (million)	30 June 2001	30 June 2002
Non-current Assets	1,998.3	1,125.3
Current Assets	1,388.4	663.8
<b>Total Assets</b>	<b>3,386.7</b>	<b>1,789.1</b>
Shareholders' Equity	2,262.7	709.4
Risk and Severance Pay Funds	37.0	184.4
Liabilities	1,087.0	895.3
<b>Total Liabilities and Net Sh. Equity</b>	<b>3,386.7</b>	<b>1,789.1</b>

At end-June 2002 the Group's total non-current assets had a value of EUR 1.125bn, EUR 872mn lower than at end-June 2001, due to the write-down of goodwill following the restructuring process.

Current assets also fell, by 52.2%, reflecting the application of cash assets to offset operating losses, pay for (albeit considerably reduced) restructuring costs, and fund investments in equipment and intangible assets in the course of the six-month period.

At 30 June 2002 the Tiscali Group had total cash of EUR 328mn and a net financial position of EUR -10mn, compared to EUR 558mn at end-June 2001.

Consolidated shareholders' equity was EUR 709mn, EUR 399mn lower than at end-December 2001. Liabilities fell by EUR 192mn in the six-month period.

## Group investments

Group investments in the first half of 2002 totalled EUR 88mn, EUR 39mn of which was allocated to intangible assets and EUR 49mn to fixed assets.

Investments in intangible assets consisted mainly of the acquisition of software licences, the creation of new products and applications, and the development of the already launched unified billing technological platform.

Investments in fixed assets consisted mainly of the purchase of equipment and technical instruments for network infrastructure development: in the course of the six months, the Group completed the development of its international and national networks by acquiring routers and bandwidth, connecting the various POPs of its international and national networks.

At present Tiscali's international network comprises over 12,000km of fibre optic cabling running on DWDM transmission technology, linking over 40 cities across Europe and interconnected with the major 'carrier hotels' mainly via six metropolitan networks. In all, the Tiscali network, including local access networks, has a total length of approximately 50,000km.

With this infrastructure as its foundation Tiscali has built one of the world's largest IP networks, running across the whole of Europe from the Czech Republic and reaching as far as the US.

And thanks to a high bandwidth of 2.5 Gbps and over 300 peering agreements with major carriers and ISPs, the network is also one of the most extensively interconnected in Europe.

Finally, redundancy systems ensuring the security of the Tiscali network and a continuous excellent quality of service have also been established.

## Parent company operating performance

The parent company generated revenues of EUR 65.1mn in the first half of 2002, an advance of 7.8% on the first half of 2001. The increase in total revenues was driven mainly by growth in access revenues, with this growth in turn being driven by uptake of the company's ADSL service, which as of 30 June 2002 had attracted 15,000 subscribers, up from 2,000 at 30 June 2001. Portal revenues were also a major contributor to growth, up 21% at EUR 9.3mn in the first half 2002 vs. EUR 7.6mn in the same period last year. Internet traffic minutes rose by 8%, from 4.3bn in the six months to 30 June 2001 to 4.7bn in the six months to 30 June 2002. As of 30 June 2002 the company had a total of 1.3mn active users, 10% more than at the end of the six months to 30 June 2001. Voice revenues came to EUR 8.3mn, a decrease of approximately 29% on the same period last year, due mainly to fierce local competition on the telephony services market and the company's tighter focus on its core business of Internet services for private and business customers. Business revenues moved up from EUR 1.4mn in the first half of 2001 to EUR 2.5mn in first-half 2002. The increase in revenues also reflected, among others, a positive contribution from government subsidies.

At EBITDA level, the company reported a loss of EUR 20.7mn for first-half 2002, vs. a loss of EUR 6.1mn in the six months to 30 June 2001. This deterioration is attributable chiefly to the operating costs associated with Tiscali S.p.A.'s international corporate activities. The total operating costs came to EUR 85.8mn in first-half 2002, EUR 19.2mn higher than in the same period last year. Line rental costs, on the other hand, were down by 1%, despite a significant increase in connectivity options available, and traffic purchasing costs decreased by 43%, thanks to the decrease in voice traffic minutes and lower unit price.

## Breakdown of parent company revenues

*(EUR million)*

Revenues	30 June 2001	30 June 2002	% Change
Access	31.6	33.4	6%
Portal	7.6	9.3	22%
B2B	1.4	2.5	78%
Voice	11.7	8.3	(29%)
Others	8.0	7.7	(4%)
<b>Total</b>	<b>60.3</b>	<b>61.2</b>	<b>1.4%</b>

EUR million	30 June 2001	30 June 2002
Revenues	60.4	65.1
Operating Expenses	(66.6)	(85.8)
EBITDA	(6.1)	(20.7)
Depreciation, Amortisation & Provisions	(230.2)	(197.6)
EBIT	(236.3)	(218.3)
Net Financial Income (Charges)	(6.7)	(10.5)
Net Extraordinary Charges	(5.1)	(12.5)
Write-downs	-	-
Profit (Loss) Before Tax	(248.1)	(241.3)
Tax	-	-
Net Profit (Loss)	(248.1)	(241.3)

Expenses associated with the use of third-party assets increased from 70%, moving up from EUR 5.9mn at 30 June 2001 to EUR 10.1mn in the six months to 30 June 2002.

Salaries and associated costs came to EUR 13.4mn, EUR 3.9mn more than in the six months to 30 June 2001 due to the increased headcount (783 at 30 June 2002 vs. 692 at 30 June 2001) and equal to 20% of revenues. Salaries and costs associated with staff working for the holding company are also included under this heading. Depreciation, amortisation and provisions increased by 41%, up from EUR 4.8mn in the first half of 2001 to EUR 6.8mn in the same period this year due to the increase in non-current assets reflecting investments made in the past twelve months.

Net financial charges came to EUR 10.5mn, reflecting debts owed to Group subsidiaries Tiscali International BV and Tiscali Finance SA.

The balance under extraordinary items was also negative, at -EUR 12mn, as extraordinary charges, at EUR 12.7mn, far exceeded the Company's extraordinary income of EUR 0.6mn. Details of these charges and income are given in the notes to the Financial Statements.

## Parent company balance sheet highlights

(Figures in EUR million)	31 Dec 2001	30 June 2002
Non-current Assets	2,166.8	2,188.6
Current Assets	220.0	224.0
<b>Total Assets</b>	<b>2,386.8</b>	<b>2,412.6</b>
Shareholders' Equity	1,793.0	1,560.4
Risk and Staff Severance Funds	24.8	212.7
Liabilities	569.0	639.5
<b>Total Liabilities and Shareholders' Equity</b>	<b>2,386.8</b>	<b>2,412.6</b>

Total non-current assets were pretty stable compared to the first half 2001, edging up a slight 1%.

The Company's net financial position (ex debts to subsidiaries) was a negative EUR -27.6mn. As a result, net working capital was also negative, at EUR -414mn. However, when intragroup positions (assets and liabilities) are excluded from the calculation, this negative value is almost entirely wiped out and the Company's net financial position improves to EUR -38mn.

### Parent company investments

The company's main investments in the first half of 2002 were made either through leasing or operating lease arrangements. The main items of capital expenditure were the acquisition of new routers, servers and switching exchanges needed to increase service capacity to enable the Group to meet future requirements and increased the value of fixed assets by approximately EUR 7.7mn. The company also invested in intangible assets, including software purchases and development, as part of its drive to standardise its technological platform and billing procedures and also with the aim of providing new services, including the new Tiscali 10.0 package. These investments increased the value of intangible assets by EUR 136mn.

## **Principal subsidiaries and shareholdings**

### *Tiscali International BV (formerly World Online International NV)*

Tiscali acquired this company via a public exchange offer for all World Online shares launched in November 2000 and completed at the end of January 2001. As of this date, Tiscali owned 287,333,645 World Online shares.

A Netherlands-based Internet Services Provider, the World Online Group was founded in 1996 and soon established itself amongst the leaders on the European Internet market by offering a fully comprehensive range of network services designed for both professionals and the wider public.

The absorption of World Online gave Tiscali a pan-European positioning and a place amongst the top-ranked players in the Internet sector. World Online has a wide-ranging, fully comprehensive platform of services, including Internet access, portals, e-commerce and streaming. The company was listed on the Amsterdam Stock Exchange (Euronext) on 17 April 2000 but was delisted on 12 January 2001 after the success of Tiscali's Public Exchange Offer. All the World Online Group's activities have now been integrated into the Tiscali Group.

### *Liberty Surf Group S.A.*

Liberty Surf Group S.A., one of France's leading media and Internet companies, was acquired by Tiscali in March 2001 in an agreement with the two main shareholders, which together owned 72% of share capital. After a Public Purchase and Exchange offer concluded in April 2001, Tiscali's now owns 94.5% of the company.

By taking over Liberty Surf, Tiscali has moved into second place on the French ISP market. The integration of Tiscali and Liberty Surf has also been very beneficial to the Group's geographical coverage outside France, expanding its market share in Liberty's other countries of operation, in addition to bringing significant cost savings that pave the way to a rapid move into profit and thus the release of further resources for investment.

Liberty Surf Group S.A.'s consolidation within the Tiscali Group was effective as of 1 April 2001.

## **Main takeovers carried out by the Tiscali Group in first-half 2002**

### *CD Telekomunikace s.r.o*

In May 2002 Tiscali subscribed a capital increase through a credit contribution.

### *Excite Italia BV*

In March 2002 Tiscali signed an agreement to buy the remaining 30% of Excite Italia B.V. owned by US-based At Home Corporation. Under the terms of the agreement, At Home will also transfer to Tiscali all rights to the Excite brand, technology and domains for the whole of Europe.

A transaction price of EUR 2,985,000 has been agreed and will be paid in newly-issued Tiscali shares.

## **Relationship with Group subsidiaries and associated parties**

Any changes in the Group's relationship with its subsidiaries have for the most part been linked to the corporate restructuring process still underway.

All other intragroup operations falling within the scope of ordinary activities are recorded on the Parent Company's Financial Statements and are eliminated on preparation of the consolidated accounts.

Changes in the Group's relationships with associated parties include Tiscali S.p.A.'s acquisition of a 20% stake in Netchemya S.p.A., a company with which Tiscali director Elserino Piol is indirectly associated via his 0.55% interest in Pino Partecipazioni S.p.A.

## **Recent events**

The main material events in the first half of 2002 are described below.

On 12 July 2002 Tiscali Finance S.A. issued bonds to the value of EUR 150mn extending the due date of an existing issue. The new bond is due to be repaid on the due date in one tranche and at a fixed rate of 6.375%.

On 31 July 2002 Tiscali Osterreich GmbH (a company based in Austria and 100% owned by Tiscali International BV) acquired the entire share capital of Austrian company Vianet Telekommunikations AG, which is active in the B2B market. Tiscali Osterreich GmbH is due to pay a total of EUR 1mn in cash for the Austrian company, 75% when the transaction (which is subject to certain conditions) is concluded and the remaining 25% six months after the date of conclusion. The transaction will be financed entirely by a line of credit secured locally.

## **2002 outlook**

At 30 June 2002 Tiscali had a customer base of 20,5 m registered subscribers, of which 7mn were active.

Tiscali's strategy for the second half of 2002 continues to focus on the development and rationalization of its range of Internet access products at pan-European level, concentrating on broadband services in particular.

In view of past experience and the most reliable market surveys, we expect the Internet to continue developing at a rapid pace, in terms of both user numbers and connection minutes. Accordingly, we feel we can confidently forecast significant growth in access revenues, which should remain Tiscali's core business, with revenues from direct billing and ADSL making an increasing contribution to the total.

Given our Europe-wide user base and enhanced brand awareness, we also expect Tiscali to become a major platform for the distribution of other companies' services and content.

The integration of all our activities under a single brand name should help drive the success of Tiscali portals throughout Europe and allow the Company to promote itself

as the partner of choice for companies looking to sell or advertise their products and services on a pan-European level and to exploit all opportunities arising from the growth of the online advertising and e-commerce markets to the full.

Following the rationalisation of resources, creation of dedicated business units and the development of network infrastructure and specific corporate departments, the B2B sector is set to continue generating a large proportion of revenues.

Tiscali will also continue to offer a wide range of Internet access options, from dial-up to satellite technology, thereby allowing customers to choose the solution best suited to their specific requirements.

## **OTHER INFORMATION**

### **Current disputes**

Tiscali is currently involved in several routine legal proceedings, claims and litigation. However, even assuming a negative outcome, the Group's management does not expect any of the cases pending to have a significant adverse effect on its consolidated financial position or on future results. The main cases pending are listed below.

On 30 March 2001, in Switzerland, Tiscali initiated an arbitration procedure against one of its major shareholders, Nikolai Manek, who, in April 2000, sold German company Nikoma GmbH to Tiscali. Tiscali is claiming damages of over EUR 56mn, alleging that the purchase agreement contained incorrect information on the company's active subscribers and claiming that the number was overestimated. Tiscali has frozen over 800,000 Tiscali shares held as a guarantee and which were part of Mr Manek's payment for the transaction. Mr Manek denies Tiscali's allegations and is claiming damages for illegal custody of the shares.

In February 2002 the US-based company Viatel Global Communications Ltd, which is currently in temporary "Chapter 11" receivership, sued Nacamar Data Communications GmbH, a German subsidiary of the WOL Group (now renamed Tiscali Business GmbH). Viatel is claiming damages of about USD 13 million, alleging that Nacamar breached the obligations incumbent on it under a data transport capacity assignment agreement.

In July 2001 Dutch foundation Vereniging van Effectenbezitters (VEB), which represents a Group of shareholders, sued World Online International N.V. (currently 99.5% controlled by Tiscali) and its main listing sponsors for damages, alleging, in particular, that some of the information provided in the placement prospectus and in the public statements issued by the company and its chairman at the time was inaccurate. Similar proceedings were launched by another Dutch foundation, Stichting Van der Goen, in August 2001.

In December 2000 Jean Philippe Illiesco de Grimaldi and Illiesco de Grimaldi & Co initiated legal proceedings against World Online Ltd, a British subsidiary of the World Online Group. The plaintiffs complain that they were prevented from exercising a

purchase option on World Online Ltd capital and are demanding damages of over EUR 17.4mn for loss of the profit they could have made on the resale of the shares.

In December 2000 Globetrans Ltd and Interglobetrans Ltd began legal proceedings against World Online International N.V. The plaintiffs, both of which are controlled by Jean Philippe Illiesco de Grimaldi, are asserting their right to a 1% commission on the total sum paid by Tiscali for the purchase of World Online International N.V., since they put the company's management in contact with Tiscali. Total litigation costs are about EUR 69mn.

## Shares held by directors and auditors

As required by current legislation, in particular Article 79 of the implementing regulations of Legislative Decree 58/1998 issued by Consob, resolution 11971/99, the number of shares held by Directors and Auditors is listed hereunder.

Surname First Name	Position	No. of shares held at 31.12.01	No. of shares purchased	No. of shares sold	No. of shares held at 30.06.02
Board of Directors					
Soru Renato	Chairman and CEO	108,100,00			108,100,000
Bernabè Franco	Director	-	-	-	-
Hauser Hermann	Director	-	-	-	-
Piol Elserino	Director	-	-	-	-
Bischoff Victor	Director	-	-	-	-
Kinsella James	Director	-	-	-	-
		-	-	-	-

Surname First Name	Position	No. of shares held as at 31.12.01	No. of share purchased	No. of shares sold	No. of shares held as at 30.06.02
Board of Statutory Auditors					
Zini Andrea	Chairman	2,054	-	-	2,054
Casu Rita	Permanent Auditor	50	-	-	50
Maccioni Piero	Permanent Auditor	-	-	-	-
Biondo Giuseppe	Alternative Auditor	60	-	-	60
Bianchi Livio	Alternative Auditor	880	-	-	880

For the Board of Directors  
The Chairman  
Renato Soru



# The Tiscali Group

## First-Half 2002 Consolidated Report

(Amounts in thousands of EUR)

### Balance Sheet

		ASSETS	30.06.2002	31.12.2001
A)		<b>DUE FROM SHAREHOLDERS FOR CAPITAL CONTRIBUTIONS PAYABLE</b>		
		Portion called up	-	80
		Portion not called up	-	154
		<b>DUE FROM SHAREHOLDERS FOR CAPITAL CONTRIBUTIONS PAYABLE</b>	<b>-</b>	<b>234</b>
B)		<b>NON-CURRENT ASSETS</b>		
	I	<b>Intangible assets</b>		
	1)	Start-up and expansion costs	7,593	9,172
	2)	Costs for research, development and advertising	5	44,881
	3)	Industrial patent rights and intellectual property rights	12,353	4,686
	4)	Concessions, licenses, trademarks and similar rights	95,950	63,084
	5)	Goodwill	200	-
	6)	Payments on account and intangible assets in course of acquisition	23,435	16,873
	7)	Other intangible assets	7,478	46,920
	8)	Difference due to consolidation	556,715	685,084
		<b>Intangible assets</b>	<b>703,729</b>	<b>870,700</b>
	II	<b>Fixed assets</b>		
	1)	Land and buildings	15,851	53,073
	2)	Plant and machinery	10,496	40,792
	3)	Industrial and commercial equipment	328,099	201,494
	4)	Other fixed assets	2,954	35,064
	5)	Payments on account and tangible assets in course of acquisition	3,151	55,738
		<b>Fixed assets</b>	<b>360,551</b>	<b>386,161</b>
	III	<b>Financial fixed assets</b>		
	1)	<b>Investments</b>	<b>29,993</b>	<b>43,000</b>
	a)	Investments in subsidiaries	-	1,837
	b)	Investments in non-consolidated subsidiary companies and affiliated companies	29,993	10,611
	c)	Investments in parent companies	-	-
	d)	Investments in other companies	-	30,552
	2)	<b>Receivables</b>		
		due < 1 year	<b>30,991</b>	<b>2,564</b>
		30.06.2002	31.12.2001	
	b)	From non-consolidated subsidiary companies and affiliated companies	442	-
			30,991	-
	c)	From parent companies	-	-
	d)	From others	-	2,564
			442	2,564
	3)	<b>Other securities</b>	<b>1</b>	<b>-</b>
	4)	<b>Own shares</b>	<b>-</b>	<b>-</b>
		<b>Financial fixed assets</b>	<b>60,985</b>	<b>45,564</b>
		<b>NON-CURRENT ASSETS</b>	<b>1,125,265</b>	<b>1,302,425</b>

## Assets (continued)

				30.06.2002	31.12.2001
<b>C)</b>		<b>WORKING CAPITAL</b>			
<b>I</b>		<b>Inventories</b>			
	1)	Raw materials, supplies and consumables		7.518	16.796
	2)	Work in progress and semi-finished products		-	679
	3)	Work in progress to order		-	136
	4)	Finished products and merchandise		-	-
	5)	Advance payments		-	241
		<b>Inventories</b>		<b>7.518</b>	<b>17.852</b>
<b>II</b>		<b>Receivables</b>	due < 1 year		
			30.06.2002	31.12.2001	
	1)	Trade Receivables	-	713	191.652
	3)	From non-consolidated subsidiary companies and affiliated companies	-	-	15.444
	4)	From parent companies	-	-	-
	5)	From others	-	5.075	42.566
		<b>Receivables</b>	<b>-</b>	<b>5.788</b>	<b>249.662</b>
<b>III</b>		<b>Investments other than non-current assets</b>			
	1)	Investments in subsidiaries		-	-
	2)	Investments in non-consolidated subsidiary companies and affiliated companies		-	-
	3)	Investments in parent companies		-	-
	4)	Other investments		-	-
	5)	Own shares		-	-
	6)	Other securities		164.191	162.954
		<b>Investments other than non-current assets</b>		<b>164.191</b>	<b>162.954</b>
<b>IV</b>		<b>Cash and cash equivalents</b>			
	1)	Bank and post-office deposits		164.541	384.862
	2)	Cheques		2	-
	3)	Cash and other negotiable instruments		18	19
		<b>Cash and cash equivalents</b>		<b>164.561</b>	<b>384.881</b>
		<b>WORKING CAPITAL</b>		<b>585.932</b>	<b>913.230</b>
<b>D)</b>		<b>ACCRUED INCOME AND DEFERRED CHARGES</b>			
		Accrued income		18.126	278
		Deferred charges		59.853	44.366
		<b>ACCRUED INCOME AND DEFERRED CHARGES</b>		<b>77.979</b>	<b>44.644</b>
		<b>ASSETS</b>		<b>1.789.176</b>	<b>2.260.533</b>

# Liabilities

		<b>LIABILITIES</b>	<b>30.06.2002</b>	<b>31.12.2001</b>
<b>A)</b>		<b>SHAREHOLDERS' EQUITY</b>		
		<b>Group</b>		
I		Share capital	179,691	179,209
II		Share premium reserve	1,622,095	2,654,963
III		Revaluation reserve	-	-
IV		Legal reserve	1	-
V		Reserve for treasury stock held	-	-
VI		Statutory reserves	-	-
VII		<i>Other reserves</i>		
		Extraordinary reserve	-	-
		Dividend reserve	-	-
		Other reserves	-	-
		Reserve for valuation of net equity participating interests	-	-
		<b>Currency translation reserve</b>		
		BS currency translation reserve	(14,685)	17,692
		P&L currency translation reserve	(2,011)	-
		Subsidiaries' undistributed profits and other reserves	(684,346)	(61,156)
		Consolidation reserve	-	-
		Other reserves	-	-
VIII		Retained earnings (losses carried forward)	-	-
IX		Profit (loss) for the year	(403,778)	(1,664,429)
		<b>Group</b>	<b>696,967</b>	<b>1,126,279</b>
XI		Reserves and share capital from third parties	12,474	(18,336)
		<b>SHAREHOLDERS' EQUITY</b>	<b>709,441</b>	<b>1,107,943</b>
<b>B)</b>		<b>RESERVES FOR RISKS AND FUTURE LIABILITIES</b>		
1)		Reserve for retirement and similar obligations	-	-
2)		Taxation reserve	-	83
3)		Others	161,655	36,335
4)		Consolidated provision for future risks and liabilities	19,845	3,119
		<b>RESERVES FOR RISKS AND FUTURE LIABILITIES</b>	<b>181,500</b>	<b>39,537</b>
<b>C)</b>		<b>STAFF SEVERANCE INDEMNITY RESERVE</b>	<b>2,839</b>	<b>2,591</b>
<b>D)</b>		<b>PAYABLES</b>		
			due > 1 year	
			30.06.2002	31.12.2001
1)		Bonds	250,000	250,000
2)		Convertible bonds	-	-
3)		Due to banks	5,463	7
4)		Other short-term financing	-	43,853
5)		Payment on account	-	-
6)		Trade accounts payable	-	-
7)		Credit instruments payable	-	-
8)		Payable due to subsidiaries	42,479	95,018
9)		Due to non-consolidated subsidiaries and affiliated companies	-	-
10)		Due to parent companies	-	-
11)		Taxes payable	663	-
12)		Payables to social security agencies	-	-
13)		Other payables	15,340	16,883
		<b>PAYABLES</b>	<b>313,945</b>	<b>405,761</b>
			<b>761,748</b>	<b>1,032,736</b>
<b>E)</b>		<b>ACCRUED LIABILITIES AND DEFERRED INCOME</b>		
		Accrued liabilities	82,563	21,323
		Deferred income	51,085	56,403
		<b>ACCRUED LIABILITIES AND DEFERRED INCOME</b>	<b>133,648</b>	<b>77,726</b>
		<b>LIABILITIES</b>	<b>1,789,176</b>	<b>2,260,533</b>

## Memorandum Accounts

		Memorandum Accounts - Liabilities	30.06.2002	31.12.2001
		<b>Guarantees received</b>		
		<b>From subsidiaries and third parties</b>		
		Sureties	8.651	6.131
		Endorsements	.	-
		Other personal guarantees	.	-
		Real guarantees	.	-
		<b>From subsidiaries and third parties</b>	<b>8.651</b>	<b>6.131</b>
		<b>Memorandum Accounts - Liabilities</b>	<b>8.651</b>	<b>6.131</b>
		<b>MEMORANDUM ACCOUNTS</b>		
		<b>Guaranties Given</b>		
		<b>To third parties</b>		
		Sureties	250.650	251.532
		Endorsements	.	-
		Other personal guarantees	.	-
		Real guarantees	.	195.280
		<b>To third parties</b>	<b>250.650</b>	<b>446.812</b>
		<b>Other Memorandum Accounts</b>		
		Warrants	166	12.704
		Guarantees	10.877	15.066
		<b>Other Memorandum Accounts</b>	<b>11.043</b>	<b>27.770</b>
		<b>Guaranties Given</b>	<b>261.693</b>	<b>474.582</b>

## Profit and Loss Account

		30.06.2002	30.06.2001	31.12.2001
<b>A)</b>	<b>VALUE OF PRODUCTION</b>			
1)	Revenues from sales and services	364,183	250,038	615,116
2)	Changes in inventories of work in progress, semi-finished and finished products	-	1	140
3)	Changes in work in progress to order	-	(103)	(1,007)
4)	Increase in assets for work in progress/internal	-	7,752	18,580
5)	Other revenues & incomes	3,536	1,048	2,908
	<b>VALUE OF PRODUCTION</b>	<b>367,719</b>	<b>258,736</b>	<b>635,737</b>
<b>B)</b>	<b>PRODUCTION COSTS</b>			
6)	Raw materials, supplies, consumables and goods	(1,912)	(6,689)	(42,591)
7)	Services Costs	(283,180)	(282,400)	(592,335)
8)	Use of third parties' assets	(17,562)	(9,882)	(13,072)
9)	<i>Personnel Costs</i>			
a)	Wages and salaries	(55,763)	(57,200)	(112,228)
b)	Social security contributions	(12,154)	(7,327)	(22,823)
c)	Provision for staff severance indemnities	(1,805)	(2,134)	(1,696)
d)	Retirement payments and similar obligations	-	(598)	(1,234)
e)	Other costs	(1,421)	(7,856)	(14,721)
10)	<i>Depreciation, amortization and write downs</i>			
a)	Amortization of intangible assets	(175,916)	(184,129)	(402,265)
b)	Depreciation of fixed assets	(49,163)	(39,770)	(81,951)
c)	Other write downs/amortizations of non-current assets	(1,379)	(9)	-
d)	Depreciation of receivables included in working capital and cash & cash equivalents	(4,515)	(3,340)	(8,481)
11)	Changes in inventories of raw materials, supplies & consumables	59	(157)	564
12)	Risk provisions	(113,465)	-	(3,045)
13)	Other provisions	-	-	(2,000)
14)	Other operating expenses	(2,538)	(3,424)	(6,086)
	<b>PRODUCTION COSTS</b>	<b>(720,714)</b>	<b>(604,915)</b>	<b>(1,303,964)</b>
<b>(A - B)</b>	<b>Difference between Value and Costs of production</b>	<b>(352,995)</b>	<b>(346,179)</b>	<b>(668,227)</b>
<b>C)</b>	<b>FINANCIAL INCOME AND CHARGES</b>			
15)	<b>Income from investments</b>			
a)	In subsidiaries	-	82	-
b)	In affiliated companies	-	-	-
c)	In other companies	-	384	561
16)	<b>Income other than the above</b>			
a)	<i>From receivables registered under non-current assets</i>			
	From third parties	-	112	9,738
	From subsidiaries	860	3	-
	From affiliated companies	16	-	-
	From parent companies	-	-	-
b)	<i>From securities registered under non-current assets other than participations</i>	-	574	-
c)	<i>From securities registered in the working capital other than participations</i>	222	21,144	20,156
d)	<i>Earnings other than the above</i>			
	From third parties	27,517	22,412	67,762
	From subsidiaries	-	-	-
	From affiliated companies	50	-	-
17)	<b>Interests and other financial charges</b>			
a)	Due to third parties	(47,907)	(38,265)	(84,385)
b)	Due to subsidiaries	-	-	-
c)	Due to affiliated companies	-	-	-
d)	Due to parent companies	-	-	-
	<b>FINANCIAL INCOME AND CHARGES</b>	<b>(19,242)</b>	<b>6,446</b>	<b>13,832</b>

## Profit and Loss Account (continued)

		30.06.2002	30.06.2001	31.12.2001
D)	<b>VALUATION ADJUSTMENTS TO FINANCIAL ASSETS</b>			
18)	<b>Revaluations</b>			
a)	Of participating interests	-	7,339	950
b)	Of long-term investments other than participating interests	-	-	-
	Of securities in the working capital other than participating interests	-	-	-
19)	<b>Write-downs</b>			
a)	Of participating interests	(3,742)	(767)	-
b)	Of long-term investments other than participating interests	-	-	-
c)	Of securities registered in the working capital other than participating interests	-	-	-
	<b>VALUATION ADJUSTMENTS TO FINANCIAL ASSETS</b>	<b>(3,742)</b>	<b>6,572</b>	<b>950</b>
E)	<b>EXTRAORDINARY INCOME (CHARGES)</b>			
20)	<b>Extraordinary income</b>			
a)	Income	27,978	4,527	36,630
b)	Capital gain on alienation of assets	-	1,976	108
21)	<b>Extraordinary charges</b>			
a)	Charges	(56,415)	(94,473)	(1,073,620)
b)	Capital loss due to alienation of assets	(1,336)	(190)	(138)
c)	Taxes pertaining to previous years	-	(36)	-
	<b>EXTRAORDINARY INCOME (CHARGES)</b>	<b>(29,773)</b>	<b>(88,196)</b>	<b>(1,037,020)</b>
	<b>Profit (loss) before taxes</b>	<b>(405,752)</b>	<b>(421,357)</b>	<b>(1,690,465)</b>
22)	<b>Income taxes for the financial year</b>			
a)	Current	(470)	-	(645)
b)	Deferred	-	-	(446)
	<b>Profit (loss) for the financial year/Group share</b>	<b>(406,222)</b>	<b>(421,357)</b>	<b>(1,691,556)</b>
	(Profit) loss for the period pertaining to third parties	2,444	9,026	27,127
	<b>Profit (loss) for the year</b>	<b>(403,778)</b>	<b>(412,331)</b>	<b>(1,664,429)</b>

# Notes to the Consolidated Financial Statements to 30 June 2002

(Amounts in thousands of EUR)

## FORM AND CONTENT OF THE CONSOLIDATED HALF-YEARLY FINANCIAL STATEMENTS

### 1) Criteria used in the preparation of statements

The consolidated half-yearly financial statements have been prepared in accordance with article 25 and subsequent articles of Legislative Decree 127/91 and consist of the balance sheet, the profit and loss account and the notes to the financial statements, which constitute an integral part of these consolidated half-yearly statements. For ease of comparison the financial statements contain figures for the 2001 financial year and first six months of 2001, which have been prepared and presented in a manner consistent and coherent with those of the half-year to 30 June 2002.

To provide a better overview of the company's operations and financial position, the following documents are supplied as supplementary information to these statements:

- Consolidated Financial Report.

### 2) Scope of consolidation

The consolidated half-yearly statements of the Tiscali Group include the financial statements of the parent company and those of all Italian and foreign companies where Tiscali, either directly or indirectly, controls the majority of votes exercisable at ordinary meetings of shareholders, all companies where Tiscali is the dominant shareholder by virtue of an agreement or statutory clause, in compliance with applicable legislation, and all companies where Tiscali has autonomous control of a majority of votes thanks to agreements with other partners. The scope of consolidation is unchanged since 31 December 2001.

Excluded from the consolidated accounts are all subsidiaries whose financial statements would have no material impact on the values shown, subsidiaries where the exercise of voting rights is subject to severe and lasting restriction, subsidiaries held exclusively with a view to their future disposal, and all non-operating subsidiaries. Participating interests that constitute non-current assets in non-consolidated subsidiaries and participating interests in affiliated companies of material significance are reported by the net equity method. Affiliated companies are those in which Tiscali SpA, either directly or indirectly, controls one fifth of the votes exercisable at ordinary meetings of shareholders or one tenth of the votes if the company is listed on the stock exchange.

Participating interests valued by the equity method are listed at the end of these notes. Participating interests that constitute non-current assets in non-consolidated subsidiary companies and in affiliated companies of immaterial significance are included in the consolidated financial statements at cost value and are also listed at the end of these notes.

For foreign sub-holdings, the sub-consolidated financial statements drafted for the purpose by the subsidiaries themselves are used for consolidation purposes.

### **3) Reference date**

The consolidated half-yearly statements were prepared using the draft financial statements approved by the respective Group companies' boards of directors at 30 June 2002 or, if these were not available, financial statement data submitted by each of the companies in accordance with consolidation procedures.

### **4) Consolidation principles**

The financial statements used for consolidation are, as explained above, those of each company for the period in question. These statements have been reclassified and amended as necessary to bring them in line with the accounting principles and valuation criteria of the parent company, which comply with the rules set out in article 2423 and subsequent articles of the Italian Civil Code and the accounting principles recommended by CONSOB.

All assets and liabilities and profits and losses of the companies included in the consolidated Group were listed in their entirety in the preparation of the consolidated half-yearly financial statements, but receivables and payables, income and charges, and profits and losses originating from operations between companies included in the consolidated Group are offset against each other. The book value of shareholdings in companies included in the consolidated Group are offset against the value of the Group's share in the shareholders' equity of the subsidiary/affiliated company concerned. The book value of own shares and shareholding is deducted from the book value of participating interests and from the shareholders' equity of the companies included in the consolidated Group. These amounts are recorded on the consolidated balance sheet under the "own shares" and "reserve for own shares" headings.

### **5) Translation of items denominated in foreign currency**

Balance sheet items not denominated in euro are converted at the exchange rate in force at the end of the financial year. Items on the profit and loss account converted into EUR at the average exchange rate for the financial year. Any differences between the results for the financial year calculated using average exchange rates and the results obtained using year-end exchange rates and any changes in the value of assets and liabilities resulting from fluctuations in exchange rates between the start and end of the financial year are recorded under shareholders' equity on the "Currency translation reserve" line. Detailed information on the currencies used in the preparation of the consolidated half-yearly financial statements is appended to these notes.

### **6) Valuation**

#### **a) General criteria**

Accounting principles and valuation criteria have been applied in a uniform manner to all consolidated companies. The valuation criteria adopted in preparing the consolidated half-yearly statements are the same as those used by the parent company Tiscali S.p.A. and conform to those stipulated in the aforementioned prevailing regulations. These criteria have been integrated and interpreted in accordance with the accounting principles issued by the national association of Italian chartered accountants (Consiglio Nazionale dei Dottori Commercialisti). The criteria adopted are the same as those applied in the preparation of the financial statements for the preceding year, particularly with regard to valuation principles and continuity in applying the said principles. The valuation of balance sheet items was performed based on general criteria of prudence and competency, with a view to the continuation of activity. For the purposes of accounting entries, the economic substance of transactions prevails over their legal form. Investments are therefore posted at the time of payment. Profits are included only if they accrue within the period under review, while provision is made for risks and losses that may come to light at a later date. Miscellaneous items included under single accounting entries have been valued separately. Assets destined for long-term use have been classified as non-current assets.



## **b) Valuation adjustments and recovery of value**

The values of fixed and intangible assets whose useful life is limited over time are written down respectively through depreciation and amortisation charges. The same fixed and intangible assets and other assets are written down each time a lasting impairment in value is noted; the original value is re-established insofar as the reasons for the previous loss of value are no longer considered current. The analytical method for calculating depreciation and amortisation charges is explained separately in these notes.

## **c) Revaluations**

To date, no revaluations have been performed.

## **d) Exceptions**

No exceptions to the valuation criteria set out in the legislation pertaining to consolidated year-end and half-yearly financial statements have been made either in these financial statements or in the financial statements for the previous financial years.

## **e) Accounting entries made exclusively in application of tax laws**

No accounting entries have been made exclusively in application of tax laws.

The more significant principles and criteria used may be summarized as follows:

## **f) Intangible assets**

Start-up and expansion costs are entered under the appropriate accounting entry on the assets side of the balance sheet and are amortised for a period not exceeding five years starting from the financial year in which the costs were incurred.

Research, development and advertising costs are posted under the appropriate line item under "Assets" and amortised over a five-year period starting from the financial year in which they were incurred, since such costs may generate profits over a number of years.

Industrial property rights and intellectual property rights are recorded at their acquisition cost and amortised systematically in accordance with the period of use established by the contract. Under no circumstances shall the amortisation period exceed five years from the financial year in which the costs were incurred.

Licenses, trademarks, patent rights and similar are also recorded at their acquisition cost and amortised systematically in accordance with the period of use established by the contract. Under no circumstances shall the amortisation period exceed five years from the financial year in which the costs were incurred. Intangible assets are recorded at their purchase or internal production value, including any accessory charges, and amortised in fixed amounts.

Goodwill is recorded only on assets acquired for a significant consideration, within the limits of the costs incurred, and amortised over a period not exceeding the duration of the assets' use, or, if such period cannot be estimated, over a period not exceeding five years.

Consolidation differences are recorded on the consolidated financial statements when the book value of participating interests is offset against the Group's share in the shareholders' equity of the subsidiary/affiliated company in question. Any significant positive balance not attributable to single entries under the assets of consolidated companies is recorded as an adjustment to the value of consolidated shareholders' equity, or, when the necessary prerequisites are met, booked under the "consolidation differences" line on the asset side of the balance sheet and amortised over the period in which it is expected to produce economic benefits, up to a maximum of ten years.

Maintenance and upgrade costs on fixed assets belonging to third parties are included under the "other intangible assets" line and amortized systematically either over the estimated useful life of the asset or the residual period of the lease contract, whichever is the shorter.

Non-current assets whose market value at the end of the financial year shows a lasting impairment on the cost of acquisition amortised in accordance with the above criteria, are written down until the value shown corresponds to their market value. Should the reasons for the impairment cease to apply, the cost is written back.

## **g) Fixed assets and depreciation**

Fixed assets are recorded at purchase or production cost, including any ancillary charges.

Depreciation is calculated on the basis of cost and according to the estimated residual useful life of the asset.

Financial leasing operations for capital equipment are posted on the balance sheet based on the interpretation of prevailing legislation, i.e. leasing fees must be posted in the period to which each payment refers.

Routine maintenance expenses are charged to the profit and loss statement in full. Maintenance expenses of an incremental nature are attributed to the asset to which they refer and depreciated over the estimated residual useful life of the asset.

A summary of depreciation rates, which are unchanged with respect to the last financial year and are generally in line with those of the parent company, follows:

Depreciation percentage	%
Buildings	3.0%
Specific plants	20.0%
Generic plants	20.0%
Other net equipment	20.0%
Other equipment	12.0%
Office machinery	20.0%
Furniture	20.0%
Other tangible assets	20.0%

When an asset is purchased in the course of the financial year, depreciation charges on that asset for the year in question are reduced by 50 per cent. This accounting approach is deemed to provide a reasonable approximation of the time distribution of asset purchases during the year.

Fixed assets which are the subject of financial leasing operations are posted under the relevant line of technical fixed assets and are systematically depreciated, in the same manner as fixed assets owned by the Group, based on their estimated residual useful life. Short-term and medium-term debts payable to the leasing organisation are booked as offsetting entries under the entry for the fixed assets in question. Leasing payments are written off against rental expenses on assets owned by third parties and interest charges for the financial year booked under financial charges. Use of this method ensures that financial leasing operations are represented in accordance with the "financial method" established under IAS International Accounting Principle No 17.

## **h) Long-term investments**

- Participating interests in non-consolidated subsidiary companies and affiliated companies:

Non-current financial assets consisting of investments in non-consolidated subsidiary companies and affiliated companies are carried by the equity method, i.e. booked at an amount equal to the Group's share in the net equity of the company as shown on its last financial statement, after deduction of dividends and application of the adjustments required under the regulations pertaining to consolidated financial statements.

Capital gains or losses resulting from application of the net equity method are booked on the profit and loss statement under the "revaluation of participating interests" and "write-down of participating interests" lines respectively.

- Participating interests in other companies and long-term securities:

Other participating interests and long-term financial investments are booked at their cost value. In the event of lasting impairment in value, including a drop in the market price of listed securities, the value of participating interests and securities is written down accordingly. Should the reasons for the impairment cease to exist, the pre write-down value is restored in the financial statements for the year.

### **i) Inventories**

- Raw materials, work in progress and finished products:

Inventories are valued at either their purchase cost or their estimated market value, whichever is the lower. Inventories of obsolete or slow-turnover goods are written down in line with their use and/or sale potential.

- Work in progress to order:

Work in progress under customer instructions is valued on the basis of the earnings that may, with a reasonable degree of certainty, be expected to accrue on the contract, pro rata to current progress on the work and taking into account all foreseeable risks to the sale contract.

### **l) Receivables**

Receivables are booked at their estimated realisable value. This value is obtained by direct write-down of the receivables, performed analytically in the case of the largest items and on a lump-sum basis for the others.

### **m) Investments other than non-current assets**

Participating interests in subsidiary and affiliated companies held for future disposal are valued at historical cost or market value, whichever is the lower. Other participating interests and securities are valued at the lower of their purchase cost or market value (established on the basis of current stock market prices).

### **n) Accruals and deferrals**

Accruals and deferrals include exclusively earnings and charges for the financial year that will have numerical value in subsequent financial years, and revenues and expenses accruing or incurred before the close of the financial year but that will fall due in subsequent financial years. At no time shall this account include portions of revenues and expenses spread over two or more financial years, the amount of which varies over time.

### **o) Reserves for risks and future liabilities**

Reserves for risks and future liabilities are set aside and booked on the liabilities side of the balance sheet to provide cover for potential company liabilities that are forecast as likely to take place, on the basis of realistic estimates of amounts potentially involved.

### **p) Income tax**

Income tax is calculated on the basis of the taxable income of each consolidated company under the current tax laws of the respective countries. If the net balance of deferred taxes is positive, as a matter of prudence, a deferred charge is not posted. Tax credits resulting from tax loss carry forwards are posted to the profit and loss account only in the financial year in which the said losses are used to offset profits.

### **q) Staff severance indemnity reserve**

The staff severance indemnity reserve provides cover for amounts payable and reserves in respect of commitments to employees under current legislation, employment contracts or any company agreement in force in any country in which the Consolidated Group operates and maturing at the close of the financial year in question.

## r) Liabilities

Payables are recorded at nominal value.

## t) Risks, commitments, guarantees

Commitments and guarantees are included in the memorandum accounts at their contractual value. The risks deemed most likely to generate a liability are described in the notes and an allocation to the risk funds made, as appropriate. Those risks deemed to represent only a possible liability are described in the notes, without allocation to a specific risk fund, in line with standard accounting criteria. Remote risks are not taken into consideration.

## u) Recording of revenues, income, costs and charges

Revenues and income, costs and charges are recorded in the financial statements net of returns, discounts, rebates and prizes, and net of taxes linked directly to the sale of services. Financial income is posted on the basis of pro-tempore accounting principles.

## v) Recording of foreign currency amounts

Receivables and payables in foreign currencies are adjusted to the exchange rates valid at the end of the period, taking into account any hedging agreements that may exist. Profits and losses deriving from exchange rate fluctuations are booked on the profit and loss account as receivables or payables.

Exchange Rates	Closing Rate	Average Rate
Bulgarian Lev	1.95950	1.95088
Bermudian Dollar	0.99111	0.89482
Swiss Franc	1.46800	1.46821
Czech Koruna	29.25901	31.02799
Danish Krone	7.43232	7.43027
EUR	1.00000	1.00000
British Pound	0.64730	0.62142
Hungarian Forint	245.37600	243.12847
Iceland Krona	86.02499	86.93140
Norwegian Krone	7.44323	7.66488
Polish Zloty	4.0244E	3.66284
Swedish Krona	9.08470	9.15554
USA Dollar	0.99210	0.89808
South African Rand	10.23900	9.85320

# Analysis of balance sheet items

## ASSETS

(in thousands of EUR)

### A) Receivable from shareholders in respect of unpaid capital contributions

DUE FROM SHAREHOLDERS FOR CAPITAL CONTRIBUTIONS PAYABLE	30.06.2002	31.12.2001	Difference	% difference
Portion called up	-	80	(80)	-100.0%
Portion not called up	-	154	(154)	-100.0%
<b>Total</b>	<b>-</b>	<b>234</b>	<b>(234)</b>	<b>-100%</b>

### B) Non-current assets

#### I - Intangible assets

The balance of intangible assets at the start of the year and end of the half-year breaks down as follows:

	31.12.2001	Acquisitions	Amortisation	Other movements	30.06.2002
<b>Intangible assets</b>					
Startup and expansion costs	9,172	-	(1,997)	418	7,593
Costs for research, development and advertising	44,881	-	(76)	(44,800)	5
Industrial patent rights and intellectual property rights	4,686	1,322	(4,272)	10,617	12,353
Concessions, licenses, trademarks and similar rights	63,084	28,368	(27,385)	31,883	95,950
Goodwill	-	-	(40)	240	200
Payments on account and intangible assets in course of acquisition	16,873	8,460	-	(1,898)	23,435
Other intangible assets	46,920	798	(1,008)	(39,232)	7,478
Consolidation differences	685,084	26,098	(141,138)	(13,329)	556,715
<b>Total</b>	<b>870,700</b>	<b>65,046</b>	<b>(175,916)</b>	<b>(56,101)</b>	<b>703,729</b>

The "start-up and expansion costs" line relates to the parent company Tiscali S.p.A. and includes the long-term cost of capital increases and start-up costs. The start-up costs, which accrued mainly in 1999, include the cost of starting network implementation activities (installation and data centres activation) and of the launch campaign for the TiscaliFreenet internet access service.

The "concessions, licenses, trademarks and others" line relates mainly to investments in software and the associated implementation costs. The value of this line has increased by approximately EUR 28mn relative to 31 December 2001, mainly due to the purchase of user licenses for software that will be used in the management of the new technological platform for network access and management systems and for IT systems covering billing and administration. This line item also includes the rights of affiliated company Tiscali International Network SA to purchase transmission capacity on a multi-year basis.

The "other movements" column incorporates changes in the sphere of consolidation (EUR 27.4mn impact), the reclassification of assets from tangible to intangible (EUR 3.3mn impact) and exchange rate differences (EUR 25.4mn impact, reflecting mainly the exceptional fluctuation in the EUR/GBP rate over the past six months).

A summary of the composition of the accounts and changes in consolidation differences in the period is given below.

	Net value 31.12.2001	Decreases	Increases	Other movements	Amortisation	Net value 30.06.2002
<b>Consolidation difference The Tiscali Group</b>						
Consolidation difference Tiscali SpA	489,465	(13,327)	-	-	(68,453)	407,685
Consolidation difference Liberty Surf Group SA	54,439	-	11,380	-	(5,197)	60,622
Consolidation difference Tiscali International BV	138,154	-	14,716	-	(67,221)	85,649
Consolidation difference Other	3,026	-	-	-	(267)	2,759
<b>Total consolidation difference</b>	<b>685,084</b>	<b>(13,327)</b>	<b>26,096</b>	<b>-</b>	<b>(141,138)</b>	<b>556,715</b>

The consolidation difference resulting from the consolidation of affiliates by proportional integration is amortised over a maximum period of ten years, starting from the purchase date of the affiliates and according to their sector.

## II - Fixed assets

A summary of the changes in the accounts over the period, with regard to the historical cost of fixed assets, is given below.

	31.12.2001	Acquisitions	Disposals	Capitalisations	Depreciations	Other movements	30.06.2002
<b>Historical cost</b>							
Land and buildings	56,762	4,199	(39,361)	-	-	(1,600)	20,000
Plant and machinery	62,039	2,097	-	-	-	(31,159)	32,977
Industrial and commercial equipment	321,646	40,920	-	10,344	-	123,039	495,949
Other fixed assets	44,390	1,179	-	-	-	(25,087)	20,482
Payments on account and tangible assets in course of acquisition	55,738	867	-	-	-	(53,454)	3,151
<b>Total</b>	<b>540,575</b>	<b>49,262</b>	<b>(39,361)</b>	<b>10,344</b>	<b>-</b>	<b>11,739</b>	<b>572,559</b>

	31.12.2001	Acquisitions	Disposal	Capitalisations	Depreciations	Other accruals	30.06.2002
<b>Accumulated depreciation</b>							
Allowances for buildings depreciation	(3,689)	-	-	-	(516)	56	(4,149)
Plant and machinery	(21,247)	-	-	-	(1,234)	-	(22,481)
Industrial and commercial equipment	(120,152)	-	-	-	(38,462)	(9,236)	(167,850)
Other fixed assets	(9,326)	-	-	-	(8,951)	749	(17,528)
Payments on account and tangible assets in course of acquisition	-	-	-	-	-	-	-
<b>Total</b>	<b>(154,414)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(49,163)</b>	<b>(8,431)</b>	<b>(212,008)</b>

	31.12.2001	Acquisitions	Disposals	Capitalisations	Depreciations	Other movements	30.06.2002
<b>Net value</b>							
Land and buildings	53,073	4,199	(39,361)	-	(516)	(1,544)	15,851
Plant and machinery	40,792	2,097	-	-	(1,234)	(31,159)	10,496
Industrial and commercial equipment	201,494	40,920	-	10,344	(38,462)	113,803	328,099
Other fixed assets	35,064	1,179	-	-	(8,951)	(24,338)	2,954
Payments on account and tangible assets in course of acquisition	55,738	867	-	-	-	(53,454)	3,151
<b>Total</b>	<b>386,161</b>	<b>49,262</b>	<b>(39,361)</b>	<b>10,344</b>	<b>(49,163)</b>	<b>3,308</b>	<b>360,551</b>

The total value of net fixed assets at 30 June 2002 was EUR 361mn, a EUR 49mn increase, before depreciation, on the net value of fixed assets at the end of the previous financial year.

The "Land and buildings" line includes investments in land acquired for the construction of the new company headquarters in Cagliari. The value of the line was reduced by EUR 39mn in the six months to 30 June 2002 following the disposal of a building in Denmark.

The "industrial and commercial equipment" line includes mainly specific network equipment, such as routers, servers and telephone exchanges. These items constitute the bulk of the company's fixed assets.

### III - Long-term investments

The breakdown of long-term investments is as follows:

Financial fixed assets	30.06.2002	31.12.2001	Difference
<b>Investments</b>			
Investments in subsidiaries	-	1,837	(1,837)
Investments in non-consolidated subsidiary companies and affiliated companies	29,993	10,611	19,382
Investments in other companies	-	30,552	(30,552)
<b>Receivables</b>			
From subsidiaries of the Group	30,991	-	30,991
From parent companies	-	-	-
From others	-	2,564	(2,564)
Other securities	1	-	1
<b>Total</b>	<b>60,985</b>	<b>45,564</b>	<b>15,421</b>

The value of participating interests in non-consolidated subsidiaries and affiliated companies at 30 June 2002 was approximately EUR 30mn. The main items included under this line are the parent company Tiscali S.p.A.'s stakes in non-consolidated subsidiaries, including Surf Eu.com Ltd (now in liquidation and booked at a value of EUR 8.5mn) and Connect Software (booked at EUR 1mn), plus the minority interests, that are valued at cost, of Tiscali S.p.A. (EUR 4.7mn), Tiscali International BV (EUR 12.7mn, including First Market Communication, booked at EUR 9.1mn), Tiscali Finance (EUR 12.5mn, mainly pertaining to the former Andala SpA, now renamed H 3G SpA and of which Tiscali Finance owns 0.3%).

### C) Working capital

#### I - Inventories

The breakdown of inventories is as follows:

Inventories	30.06.2002	31.12.2001	Difference
Raw materials, supplies and consumables	9,869	16,796	(6,927)
Work in progress and semi-finished products	-	679	(679)
Work in progress to order	-	136	(136)
Advance payments	-	241	(241)
Allowance for write-downs	(2,351)	-	(2,351)
<b>Total</b>	<b>7,518</b>	<b>17,852</b>	<b>(10,334)</b>

At 30 June 2002 the Group's inventories were worth EUR 7.5mn and consisted mainly of network equipment, consumables, telephone cards, goods for resale by the Company's merchandising business, and modems. The reduction in the value of inventories reflects not only the use of goods but also adjustments to the book value of the goods.

#### II - Receivables

Receivables break down as follows:

Receivables	30.06.2002	31.12.2001
From customers	191,652	245,327
From non-consolidated subsidiary and affiliated companies	15,444	659
From others	42,566	101,557
<b>Total</b>	<b>249,662</b>	<b>347,543</b>

Receivables from customers totalled EUR 191.6mn, after allowance for write-downs of EUR 46.4mn, and have accrued on the sale of Internet services, consisting mainly of the invoicing of network access services, reverse interconnection traffic, advertising revenues and business to business and telephone

services provided by the Group. The reduction in the value of this line reflects the Group's stringent efforts to collect outstanding receivables and the introduction of its new billing platform in certain countries.

To allow receivables to be booked at their assumed realisable value, an "ad hoc" reserve for bad debts is established.

The breakdown of other receivables is as follows:

<b>Other receivables &lt; 1 year</b>	<b>30.06.2002</b>	<b>31.12.2001</b>
Advance to employees	10	7
VAT credit	41,600	63,591
Caution money	281	-
Other receivables	675	32,884
<b>Total</b>	<b>42,565</b>	<b>96,482</b>

### III - Investments other than non-current assets

Other securities constituting current assets are as follows:

<b>Other securities</b>	<b>30.06.2002</b>	<b>31.12.2001</b>	<b>Difference</b>
Bonds	874	40,272	(39,398)
Others	163,318	122,682	40,636
<b>Total</b>	<b>164,192</b>	<b>162,954</b>	<b>1,238</b>

"Other securities" include the investment of liquid assets in bonded securities and other forms of short-term investment and are found mainly in the financial statements of Tiscali International BV, Liberty Surf Group SA, Tiscali Finance and Tiscali Datacomm.

### IV - Cash and cash equivalents

<b>Cash and cash equivalents</b>	<b>30.06.2002</b>	<b>31.12.2001</b>	<b>Difference</b>
Bank and post-office deposits	164,541	384,862	(220,321)
Cheques	2	-	2
Cash and other negotiable instruments	18	19	(1)
<b>Total</b>	<b>164,561</b>	<b>384,881</b>	<b>(220,320)</b>

### D) Accrued income and deferred charges

Accrued income and deferred charges break down as follows:

<b>Accrued income</b>	<b>30.06.2002</b>	<b>31.12.2001</b>	<b>Difference</b>
Accrued rentals	12	-	12
Contributions	-	115	(115)
Others accrued income	18,114	163	17,951
<b>Total</b>	<b>18,126</b>	<b>278</b>	<b>17,848</b>

<b>Deferred charges</b>	<b>30.06.2002</b>	<b>31.12.2001</b>	<b>Difference</b>
Insurance premiums	175	811	(636)
Rentals	-	3,569	(3,569)
Pre-paid expenses	59,678	39,986	19,691
<b>Total</b>	<b>59,853</b>	<b>44,366</b>	<b>15,487</b>

<b>Total</b>	<b>77,979</b>	<b>44,644</b>	<b>33,335</b>
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"Other prepaid expenses " relate mainly to multi-year rental charges for international circuits held by Tiscali International Network SA (formerly Nets SA), hardware and software maintenance fees (one of the most frequent pre-paid expenses in the sector), pre-paid rentals for connectivity circuits and sponsoring costs. Other deferred charges include the disagio (discount to par value) on bonds issued by Tiscali Finance plus a portion of advertising expenses to be divided pro-rate over the next two quarters.

## Liabilities

### A) SHAREHOLDERS' EQUITY

#### STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

The table below sets out changes in the shareholders' equity accounts for the period.

	31.12.2001	Accruals	Distributio n withdrawal	Retained earnings	Exchange difference	Other movements	30.06.2002
<b>SHAREHOLDERS' EQUITY</b>							
<b>Group</b>							
Share capital	179,209	482	-	-	-	-	179,691
Share premium reserve	2,654,963	8,340	(1,041,208)	-	-	-	1,622,095
<b>Other reserves</b>	-	-	-	-	-	-	-
BS currency translation reserve (Group)	17,692	-	-	-	-	(32,377)	(14,685)
L currency translation reserve (Group)	-	-	-	-	(1,396)	(615)	(2,011)
<b>Currency translation reserve (Group)</b>	<b>17,692</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1,396)</b>	<b>(32,992)</b>	<b>(16,696)</b>
Subsidiaries' undistributed profits and other reserves	(61,156)	-	-	(623,221)	-	32	(684,345)
Retained earnings (losses carried forward)	-	-	-	-	-	-	-
Profit (loss) for the year	(1,664,429)	(403,778)	1,041,208	623,221	-	-	(403,778)
<b>Group shareholders' equity</b>	<b>1,126,279</b>	<b>(394,956)</b>	<b>-</b>	<b>-</b>	<b>(1,396)</b>	<b>(32,960)</b>	<b>696,967</b>
<b>Third-parties' equity</b>	<b>(18,336)</b>	<b>(798,734)</b>	<b>1,041,208</b>	<b>-</b>	<b>(1,396)</b>	<b>(32,928)</b>	<b>189,814</b>
<b>Total shareholders' equity</b>	<b>1,107,943</b>	<b>(400,654)</b>	<b>-</b>	<b>-</b>	<b>(1,396)</b>	<b>3,548</b>	<b>709,441</b>

The table below provides a summary comparison of the differences between the parent company's financial statements and the consolidated half-yearly accounts, focussing on those accounts items that have a bearing on results for the financial year and on shareholders' equity.

<b>Summary comparison of parent company and consolidated financial statements</b>				
	<b>Current financial year</b>		<b>Previous financial year</b>	
	<b>Net profit (loss)</b>	<b>Net equity</b>	<b>Net profit (loss)</b>	<b>Net equity</b>
<b>BALANCES POSTED ON THE PARENT COMPANY'S BALANCE SHEET</b>	(241,300)	1,801,786	(1,041,208)	1,792,964
<b>Elimination of effects of transactions between consolidated companies, net of fiscal effects:</b>				
- Internal profits in goods sales				
- Internal profits on tangible fixed assets	692	(2,766)		
- Internal profits on investments		(1,183)		(1,183)
- Write-off of devaluations pertaining to participating interests in subsidiary companies			920,439	
- Dividends paid by consolidated Group companies			(27)	
<b>Effect of the change and harmonization of valuation criteria within the Group, net of fiscal effects:</b>				
- Application of financial method to fixed assets leased from third parties	108	26,746	11,557	14,681
- Net equity valuation of companies registered in the Balance sheet at their cost value	(3,742)	(10,299)	950	(397)
<b>Book value of consolidated participating interests</b>		(2,020,364)		(2,089,088)
<b>Net equity and financial year profit (loss) of consolidated companies</b>	(102,547)	282,027	(911,133)	1,196,180
<b>Attribution of differences to the assets of consolidated companies and associated depreciations:</b>				
- Tangible assets				
- Goodwill Tiscali Spa	(68,453)	407,685	(616,515)	241,203
- Goodwill Tiscali International BV	(5,197)	60,622		
- Goodwill Liberty Surf Group	(67,221)	85,649		
- Other goodwill	(267)	2,759		
<b>Other adjustments:</b>				
- Changes to sphere of consolidation				
- Adjustment of Tiscali International BV consolidation differences				
- Group restructuring and other adjustments			(28,492)	(28,081)
- Elimination losses on investments	(1,336)	(1,336)		
- Elimination reserve for risks and charges, Tiscali Spa	85,485	65,640		
<b>BALANCE VS THE CONSOLIDATED FINANCIAL STATEMENTS – Group</b>	<b>(403,778)</b>	<b>696,967</b>	<b>(1,664,429)</b>	<b>1,126,279</b>
<b>BALANCE VS THE CONSOLIDATED FINANCIAL STATEMENTS – third parties</b>	<b>(2,444)</b>	<b>12,474</b>	<b>(27,127)</b>	<b>(18,336)</b>
<b>BALANCE VS THE CONSOLIDATED FINANCIAL STATEMENTS – total</b>	<b>(406,222)</b>	<b>709,441</b>	<b>(1,691,556)</b>	<b>1,107,943</b>

## B) RESERVES FOR RISKS AND FUTURE LIABILITIES

Reserves for risks and future liabilities are detailed below:

	Opening balance	Allocations	Distribution withdrawal	Exchange difference	Other movements	Closing balance
<b>RESERVES FOR RISKS AND FUTURE LIABILITIES</b>						
<b>Others</b>						
Taxation reserve	83	-	(83)	-	-	-
Exchange fluctuation reserve	252	-	(7)	-	-	245
Provision for future risks and expenses	-	366	-	-	-	366
Provision for legal issues	257	-	-	-	-	257
Other minority provision	-	113,099	-	-	11,809	124,908
Restructuring process	35,826	-	-	-	-	35,826
Debt renunciation	-	-	-	-	53	53
<b>Others</b>	<b>36,335</b>	<b>113,465</b>	<b>(7)</b>	<b>-</b>	<b>11,862</b>	<b>161,655</b>
<b>Consolidated provision for future risks and liabilities</b>						
Other reserve for consolidation	3,119	-	-	-	16,726	19,845
<b>Consolidated provision for future risks and liabilities</b>	<b>3,119</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>16,726</b>	<b>19,845</b>
<b>RESERVES FOR RISKS AND FUTURE LIABILITIES</b>	<b>39,537</b>	<b>113,465</b>	<b>(90)</b>	<b>-</b>	<b>28,588</b>	<b>181,500</b>

Reserves mainly cover the forecast cost of future restructurings, both at operational companies and companies being wound up.

## C) STAFF SEVERANCE INDEMNITY RESERVE

The table below sets out the changes in the past financial year and last six months:

	31.12.2001	Provision	(Use)	FX difference	Other movements	30.06.2002
<b>Reserve for staff severance indemnity</b>						
Office workers	2,417	1,730	(55)	-	(1,488)	2,604
Executive	174	75	(14)	-	-	235
<b>Total staff severance indemnity</b>	<b>2,591</b>	<b>1,805</b>	<b>(69)</b>	<b>-</b>	<b>(1,488)</b>	<b>2,839</b>

This item, which concerns mainly the parent company and other Italian companies of the Group, consists of the staff severance fund.

## D) PAYABLES

### Breakdown of payables

PAYABLES	30.06.2002	31.12.2001	Difference
Bonds	304,178	375,294	(71,116)
Due to banks	34,538	30,362	4,176
Other short-term financing	52,557	63,445	(10,888)
Payment on account	3,000	663	2,337
Trade accounts payable	264,320	352,114	(87,794)
Payable due to subsidiaries	45,697	95,018	(49,321)
Due to non-consolidated subsidiaries and affiliated companies	-	6,103	(6,103)
Due to parent companies	-	-	-
Taxes payable	14,241	31,136	(16,895)
Payables to social security agencies	17,257	6,675	10,582
Other payables	25,960	71,926	(45,966)
<b>Total</b>	<b>761,748</b>	<b>1,032,736</b>	<b>(270,988)</b>

"Bonds" (EUR 304mn) include bonded loans contracted by Tiscali Finance in the last six months of 2000 and those contracted by Tiscali International B.V. to fund the acquisition of Telinco U.K. The loan contracted by Tiscali Finance has a total value of EUR 250mn and is due to be repaid in a lump sum after five years. The Telinco loan is posted under short-term payables and due to be repaid by

the end of the financial year, although it may be rolled over. Interest is accrued at Euribor plus a spread. Swap contracts have been entered into to hedge against interest rate risk. Other short-term financing relates mainly to the principal part of the debt deriving from the reclassification of financial leasing contracts pursuant to IAS principle No. 17 on financial leasing contracts.

Taxes payable break down as follows:

<b>Tax payables &lt; 1 year</b>	<b>30.06.2002</b>	<b>31.12.2001</b>	<b>Difference</b>
Income tax	2.080	406	1.674
VAT payables to inland revenue	3.149	2.374	775
Tax deduction payables to inland revenue	1.199	4.431	(3.232)
Tax deduction on employees payables to inland revenue	7.146	-	7.146
Other taxes payables	4	23.925	(23.921)
<b>Total</b>	<b>13.578</b>	<b>31.136</b>	<b>(17.558)</b>

  

<b>Tax payables &lt; 1 year</b>	<b>30.06.2002</b>	<b>31.12.2001</b>	<b>Difference</b>
Tax deduction payables to inland revenue	83	-	83
Tax deduction on employees payables to inland revenue	539	-	539
Other taxes payables	41	-	41
<b>Total</b>	<b>663</b>	<b>-</b>	<b>663</b>

  

<b>Total</b>	<b>14.241</b>	<b>31.136</b>	<b>(16.895)</b>
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## E) ACCRUED LIABILITIES AND DEFERRED INCOME

The composition of the "accrued liabilities and deferred income" line is as follows:

<b>Accrued liabilities</b>	<b>30.06.2002</b>	<b>31.12.2001</b>	<b>Difference</b>
Rent liabilities	1,921	-	1,921
Bank interest liabilities	-	280	(280)
Accrued Compensation	5,841	535	5,306
Accrued holiday bonus	2,659	-	2,659
Other accrued expenses	72,141	20,508	51,633
<b>Total</b>	<b>82,562</b>	<b>21,323</b>	<b>61,239</b>

  

<b>Deferred income</b>	<b>30.06.2002</b>	<b>31.12.2001</b>	<b>Difference</b>
Rentals	8,509	-	8,509
Pre-paid Internet services	42,406	30,476	11,930
Pre-paid Voice services	-	9,443	(9,443)
Interests earned on securities	-	-	-
Others	170	14,708	(14,538)
Financing rate premium	-	1,776	(1,776)
<b>Total</b>	<b>51,085</b>	<b>56,403</b>	<b>(5,318)</b>

  

<b>Total</b>	<b>133,647</b>	<b>77,726</b>	<b>55,921</b>
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Deferred income for the most part consists of the deferral to future financial years of prepaid services mainly accruing from Nets SA in prepaid connectivity services, from the recording as deferred income of the offsetting tax credit posted to the assets of Tiscali S.p.A. and matured on investments under Law 388/99 and of income from pre-paid voice and dial-up services.

# Profit and Loss Account

## A) Value of production

The value of production breaks down as follows:

Revenues from sales and services	30.06.2002	30.06.2001	Difference
Access revenues	257,720	169,227	88,493
Voice revenues	25,306	22,418	2,888
Business revenues	43,902	33,630	10,272
Portal revenues	27,200	20,883	6,317
Other revenues	10,055	3,880	6,175
<b>Total</b>	<b>364,183</b>	<b>250,038</b>	<b>114,145</b>

The main contributor to Group revenues, which are generated mainly in the EU area, is the Group's Internet Service Provider activities. 70% of revenues were generated by access services, 7% by advertising revenues, 12% from business-to-business services and 7% from voice services. B2B services showed significant growth, reflecting the enlargement of the consolidated Group.

Increase in assets for work in progress/internal	30.06.2002	30.06.2001	Difference
Services	-	7,752	(7,752)
Other expenses	-	-	-
<b>Total</b>	<b>-</b>	<b>7,752</b>	<b>(7,752)</b>

Other revenues & incomes	30.06.2002	30.06.2001	Difference
Trade accounts contribution	3,536	-	3,536
Non extraordinary contingencies	-	739	(739)
Other revenues & incomes	-	309	(309)
<b>Total</b>	<b>3,536</b>	<b>1,048</b>	<b>2,488</b>

## B) PRODUCTION COSTS

### PURCHASES OF RAW MATERIALS, SUPPLIES, CONSUMABLES AND OTHER GOODS

This line breaks down as follows:

Raw materials, supplies, consumables and goods	30.06.2002	30.06.2001	Difference
Purchase of goods for resale	324	451	(127)
Purchase of advertisement and promotion materials	244	474	(230)
Purchase of consumables	360	398	(38)
Others	984	5,366	(4,382)
<b>Total</b>	<b>1,912</b>	<b>6,689</b>	<b>(4,777)</b>

## BREAKDOWN OF EXPENSES FOR THE PROVISION OF SERVICES

Services Costs	30.06.2002	30.06.2001	Difference
Leased lines	80,190	78,197	1,993
Purchase of traffic	70,502	73,976	(3,474)
Advertising and promotion	43,392	53,506	(10,114)
Maintenance costs	8,352	3,694	4,658
Advisory services	9,219	6,370	2,849
Cost of sales	15,936	19,325	(3,389)
Other services	55,589	47,332	8,257
<b>Total</b>	<b>283,180</b>	<b>282,400</b>	<b>780</b>

This account item embraces the main industrial costs detailed below:

**Leased lines:** This is a standard cost item in the sector that is found at all subsidiaries and accounts for 27.6% of the total cost of service provision and 20.6% of total revenues. The cost is generally stable despite the increase in connectivity. The Group's reorganisation has already brought significant savings, with no change in transmission capacity. From financial year 2001, the Group's aim has been to support business expansion by reducing the percentage weighting of these costs.

**Purchase of traffic:** This cost item, totalling EUR 70.5mn for the six months to 30 June 2002, is directly linked to voice services and the type of Internet connection sold through the purchase of traffic. It is a pure variable cost, which has grown in absolute terms, relative to the first half of 2001, mainly due to the enlargement of the consolidated Group, particularly in France where, in addition to Liberty Surf Telecom, the Group has acquired Intercall SA, a company specialising in pre-paid telephone services.

**Advertising and promotional costs:** These costs, which account for approximately 12% of the total cost of service provision and 9% of total revenues, have increased considerably, again as a consequence of the re-branding campaign rolled out last year and designed to boost awareness of the Tiscali brand in all European countries.

**Maintenance costs:** These costs came to around EUR 8.4mn and for the most part consist of regular fees for the maintenance of network equipment and software. The increase in maintenance costs relative to the previous financial year is a direct consequence of the Group's increased investments.

**Advisory and professional services purchased:** The composition of this item was influenced in 2001 by the Group's corporate and operational restructuring, on which considerable costs for legal advisory services were incurred.

**Other services:** This item consists mainly of the cost of purchasing publishing contents.

Use of third parties' assets	30.06.2002	30.06.2001	Difference
Rentals	11,354	-	11,354
Leasing	284	-	284
Equipment rentals	5,716	9,882	(4,166)
Vehicle hire	208	-	208
<b>Total</b>	<b>17,562</b>	<b>9,882</b>	<b>7,680</b>

## BREAKDOWN OF OTHER OPERATING EXPENSES

Other operating expenses	30.06.2002	30.06.2001	Difference
<b>Total</b>	<b>2,538</b>	<b>3,424</b>	<b>(886)</b>

The item is composed mainly of Government concessions and telephone licenses in Italy and France, plus other minor expenses.

## C) FINANCIAL INCOME AND CHARGES

The breakdown of financial income is as follows:

<b>Financial income from securities registered under non-current assets other than participating interests</b>	<b>30.06.2002</b>	<b>30.06.2001</b>	<b>Difference</b>
Interests of treasury stocks	-	20,109	(20,109)
Interests of other securities	222	926	(704)
Others receivables from other securities	-	109	(109)
<b>Total</b>	<b>222</b>	<b>21,144</b>	<b>(20,922)</b>

  

<b>Financial earnings other than the above</b>	<b>30.06.2002</b>	<b>30.06.2001</b>	<b>Difference</b>
Interests earned from banks	19,939	2,029	17,910
Interests earned on other short term receivables	664	-	664
Profit earned on exchange rates	27	2,028	(2,001)
Positive adjustments on exchange rates	6,272	-	6,272
Interest from customers	-	2	(2)
Other financial receivables	615	18,353	(17,738)
<b>Total</b>	<b>27,517</b>	<b>22,412</b>	<b>5,105</b>

This item includes financial income from "other securities" accrued on sums invested by Tiscali International BV, Liberty Surf Group and Tiscali Finance, plus interest actively accruing on liquid assets.

The breakdown of interest payable and other financial charges is as follows:

<b>Interests and other financial charges</b>	<b>30.06.2002</b>	<b>30.06.2001</b>	<b>Difference</b>
Bonds	27,585	9,905	17,680
Due to bank overdraft	17,058	459	16,599
Due to banks for mortgages and other medium/long term loans	58	221	(163)
Due to other short-term financing	1,429	7,934	(6,505)
Other payables	42	642	(600)
Losses on exchange rate	705	68	637
Negative adjustments on exchange rates	-	-	-
Losses on trading of securities	-	16,402	(16,402)
Bank charges	-	209	(209)
Others	1,030	2,425	(1,395)
<b>Total</b>	<b>47,907</b>	<b>38,265</b>	<b>9,642</b>

Financial charges total EUR 48mn and are linked mainly to the bonds issued by Tiscali Finance S.A. and Tiscali International BV. Other financial charges relate to bank overdrafts and interest on financial leasing operations.

Interest rate risk management:

Tiscali takes an active approach to managing interest rate risk by entering into Interest Rate Swap (IRS) arrangements signed by Tiscali Finance with some primary financial institutions. All contracts to date have been concluded under the Company's interest rate risk hedging strategy.

Interest rate swaps are contracted to achieve a better differential interest rate thus reducing overall financing costs.

Under the terms of such contracts, on agreed expiration dates Tiscali agrees to swap with its counterparties the difference between interest accrued on a nominal benchmark at an agreed, fixed or variable, interest rate.

Following the rationalization of the IRS pocket commission in July and recent changes in market conditions, at the end of August the potential loss on Tiscali's entire derivative portfolio (resulting from the revaluation of derivative instruments using the fair value method) comes out 44% lower than the loss booked at 30 June 2002.

## E) EXTRAORDINARY INCOME AND CHARGES

### BREAKDOWN OF EXTRAORDINARY INCOME:

Extraordinary income breaks down as follows:

<b>Extraordinary income</b>	<b>30.06.2002</b>	<b>30.06.2001</b>	<b>Difference</b>
Extraordinary gains & losses	-	1,910	(1,910)
Correction for posting adjustments on previous financial year	26	285	(259)
Income other than recurrent	27,951	-	27,951
Other extraordinary income	1	2,332	(2,331)
<b>Total</b>	<b>27,978</b>	<b>4,527</b>	<b>23,451</b>

Extraordinary charges breaks down as follows:

<b>Extraordinary charges</b>	<b>30.06.2002</b>	<b>30.06.2001</b>	<b>Difference</b>
Extraordinary losses and expenses	52,446	80,076	(27,610)
Correction for posting adjustments on previous financial year	-	1,546	(1,546)
Extraordinary gains & losses	-	12,851	(12,851)
Staff restructuring costs	1,276	-	1,276
Restructuring costs due to tangible assets write downs	214	-	214
Other extraordinary charges	2,743	-	2,743
<b>Total</b>	<b>56,699</b>	<b>94,473</b>	<b>(37,774)</b>

<b>Capital loss due to alienations of assets</b>	<b>30.06.2002</b>	<b>30.06.2001</b>	<b>Difference</b>
Capital loss due to alienations of intangible assets	-	40	(40)
Capital loss due to alienation of financial assets	1,336	131	1,205
Other extraordinary capital loss	-	19	265
Taxes pertaining to previous years	-	36	(36)
<b>Total</b>	<b>1,336</b>	<b>226</b>	<b>1,394</b>

The restructuring costs incurred in first -half 2002 had less of an impact on extraordinary charges than those recorded in 2001.



# Other Information

As required by current regulations, the tables below give the composition of the work force by job category.

Average heads by class	30.06.2002	30.06.2001	31.12.2001
Office workers	3,173	3,192	2,959
Executives	125	128	123
<b>Total</b>	<b>3,298</b>	<b>3,320</b>	<b>3,082</b>

An important feature of the Group's rationalization plan is that it aims to avoid needless operating redundancies in the various countries where takeovers were concluded in the financial year.

## Lists

### List of fully- and proportionately -consolidated Group companies

Company name	Head office	Share capital in thousands of EUR	% held
Best Engineering S.p.A.	Turin	775	60.00%
C D Telekomunikace sro	Prague	29,268	100.00%
Energy Byte S.r.l.	Milan	68	100.00%
Excite Italia B.V.	Amsterdam	75	100.00%
Ideare S.p.A.	Pisa	516	60.00%
Informedia S.r.l.	Roma	52	95% (1)
Liberty Surf Group S.A.	Paris	(3) 75,280	94.50%
Quinary S.p.A.	Milan	1,281	70.00%
STS Studi Technologie e Sistemi S.r.l.	Roma	100	50% ( 2 )
Tiscali Armement S.a.r.l.	Paris	8	100%
Tiscali Datacomm Ag (ex Datacomm AG)	Basle	17,050	80.00%
Tiscali Deutschland GmbH (ex Nikoma )	Hamburg	(3) 72,946	100.00%
Tiscali Finance SA	Brussels	125	100.00%
Tiscali Motoring S.r.l (ex Motorcity S.p.A.)	Cagliari	100	60.00%
Tiscali Telecomunicaciones SA	Madrid Maarsen	2,100	99.99%
World Online International N.V.	(Netherlands)	115,519	99.49%

- (1) The remaining 5% is held by Andaledda S.p.A.
- (2) STS S.r.l. is a subsidiary because the Chairman and CEO, who is also the majority shareholder of Tiscali S.p.A., holds a further 10% share in the company.
- (3) Figures relate to sub-consolidated reports

**List of participating interests in non-consolidated Group companies carried by the net equity method**

Company name		Head office	Share capital in thousands of EUR	% held	Value in BS at 30.06.2002
Andaledda S.p.A.	(1)	Cagliari	103	85%	88
Connect Software Inc.	(1)	S.Francisco (California)	54	100%	1,027
Gilla Servizi Telecomunicazioni S.r.l. (ex Gilla S.p.A.)	(1)	Cagliari	50	90%	45
Tiscali Czech Republic sro	(1)	Prague	34	100%	39
SurfEU. Com Ltd (in liquidation)	(2)	Bermuda	3,918	100%	8,565
					<b>9,764</b>

(1) Company valued at cost as it is inactive or has little material impact on Tiscali Group activity and turnover.

(2) Company valued at cost as it is being wound-up.

**List of other directly-owned companies:**

Company name		Head office	Share capital in thousands of EUR	% held	Value in BS at 30.06.2002
Arête Telemedia S.r.l.		Milan	( * ) 52	40.00%	744
FreeTravel S.p.A. (in liquidation)		Milan	( * ) 500	50.00%	250
					<b>994</b>

( \* ) data at 31 December 2000

## Indirectly-owned companies

Company Name	Country	Held %			Total	Owned By
		Direct	In direct	Sum		
<b><u>World Online International N.V.</u></b>		99.49% (1)				Tiscali S.p.A.
Tiscali Osterreich Gmbh (ex World Online GmbH)	Austria		100.00%	100.00%	99.49%	Tiscali Int.I B.V.
Nacamar Internet Services GmbH	Austria		100.00%	100.00%	99.49%	Nacamar Group PLC
Tiscali SA/ NV	Belgium		100.00%	100.00%	99.49%	Tiscali Int .I B.V.
Tiscali Denmark A/S	Denmark		100.00%	100.00%	99.49%	Tiscali Int.I B.V.
12Move Aps Denmark	Denmark		100.00%	100.00%	99.49%	World Online Partner B.V
Tiscali Int.I Network SA (ex Nets S.A.)	France		100.00%	100.00%	99.49%	Tiscali Int.I B.V.
Tiscali OY	Finland		100.00%	100.00%	99.49%	Tiscali Denmark A/S
SurfEU OY	Finland		100.00%	100.00%	99.49%	Tiscali Int.I B.V.
World Online OY	Finland		100.00%	100.00%	99.49%	Tiscali Int.I B.V.
World Online GmbH	Germany		100.00%	100.00%	99.49%	Tiscali Int.I B.V.
Tiscali Business GmbH	Germany		100.00%	100.00%	99.49%	Nacamar Group PLC
Tiscali Int.I Network GmbH (ex Nets Broadband GmbH)	Germany		100.00%	100.00%	99.49%	Tiscali Int.I Network SA
Tiscali Holdings UK PLC	UK		100.00%	100.00%	99.49%	Tiscali Int.I B.V.
Springboard Internet Services Ltd (Line One)	UK		100.00%	100.00%	99.49%	Tiscali Holdings UK PLC
Tiscali UK Ltd	UK		100.00%	100.00%	99.49%	Tiscali Holdings UK PLC
Telinco UK Ltd	UK		100.00%	100.00%	99.49%	Tiscali UK Ltd
Tiny On line Ltd	UK		100.00%	100.00%	99.49%	Tiscali UK Ltd
World Online Ltd	UK		100.00%	100.00%	99.49%	Tiscali Int.I B.V.
World Online Telecom Ltd	UK		100.00%	100.00%	99.49%	Tiscali Int.I B.V.
Nacamar Group PLC	UK		100.00%	100.00%	99.49%	Tiscali Int.I B.V.
Nacamar Ltd	UK		100.00%	100.00%	99.49%	Nacamar Group PLC
Tiscali Int.I Network Ltd (ex Nets Broadband Ltd)	UK		100.00%	100.00%	99.49%	Tiscali Int.I Network SA
World Online EPE	Greece		100.00%	100.00%	99.49%	Tiscali Int.I B.V.
World Online Iceland ehf	Iceland		100.00%	100.00%	99.49%	Tiscali Int.I B.V.
World Online Ltd	Ireland		100.00%	100.00%	99.49%	Tiscali Int.I B.V.
Nacamar (Ireland) Limited	Ireland		100.00%	100.00%	99.49%	Nacamar Group PLC
World Online Srl (in liquidation)	Italy		80% (*)	80% (*)	99.49% (*)	Tiscali Int.I B.V.
Tiscali International Network S.p.A. (ex Nets Broadband S.p.A)	Italy		90% (***)	90% (***)	99.49% (***)	Tiscali Int.I Network SA
Tiscali Luxembourg SA	Luxembourg		100.00%	100.00%	99.49%	Tiscali Int.I B.V.
Nacamar Sarl	Luxembourg		51.00%	51.00%	50.74%	Nacamar Group PLC
Tiscali AS	Norway		100.00%	100.00%	99.49%	Tiscali Int.I B.V.
Tiscali International B.V.	Netherlands		100.00%	100.00%	99.49%	World Online Int.I N.V.
Tiscali BV	Netherlands		100.00%	100.00%	99.49%	Tiscali Int.I B.V.
E-Trade bv	Netherlands		100.00%	100.00%	99.49%	Tiscali BV
12move VOF	Netherlands		40% (**)	40% (**)	99.49% (**)	E-Trade bv
Sonera Plaza	Netherlands		100.00%	100.00%	99.49%	E-Trade bv
World Online Partner B.V	Netherlands		100.00%	100.00%	99.49%	Tiscali Int.I B.V.
The Internet Plaza BV	Netherlands		100.00%	100.00%	99.49%	Tiscali Int.I B.V.
The Portal company BV	Netherlands		100.00%	100.00%	99.49%	Tiscali Int.I B.V.
Freemail BV	Netherlands		100.00%	100.00%	99.49%	Tiscali Int.I B.V.
Myt Vision BV	Netherlands		100.00%	100.00%	99.49%	Tiscali Int.I B.V.
WOLStar BV	Netherlands		50.00%	50.00%	49.75%	Tiscali Int.I B.V.
World Online Portal BV	Netherlands		100.00%	100.00%	99.49%	Tiscali Int.I B.V.
World Online Merchandising BV	Netherlands		100.00%	100.00%	99.49%	Tiscali Int.I B.V.
World Online Sp.z.o.o.	Poland		100.00%	100.00%	99.49%	Tiscali Int.I B.V.
CZ com s.r.o	Czech Rep		100.00%	100.00%	99.49%	Tiscali Int.I B.V.
World Online S.r.o.	Czech Rep		100.00%	100.00%	99.49%	Tiscali Int.I B.V.
Tiscali Espana S.L.U.	Spain		100.00%	100.00%	99.49%	Tiscali Int.I B.V.
Asepi S.A.	Spain		100.00%	100.00%	99.49%	Tiscali Espana S.L.U.
Oem S.A.	Spain		100.00%	100.00%	99.49%	Tiscali Espana S.L.U.

(continues)

(\*) 20% is owned by Tiscali BV

(\*\*) 60% is owned by World Online Partner BV

(\*\*\*) 10% owned by Tiscali S.p.A.

(1) Directly by Tiscali S.p.A.

Company name	Country	Held %			Total	Owned by
		Directly	Indirectly	Sum		
<b>World Online International N.V. (segue)</b>						
Inicia Comunicaciones Sa	Spain	100.00%	100.00%	99.49%	Tiscali Espana S.L.U.	
Tiscali Int.I Network Sau (ex Nets Broadband S.A.U.)	Spain	100.00%	100.00%	99.49%	Tiscali Int.I Network SA (ex Nets S.A.)	
	South					
Vodacom World Online Ltd.	Africa	100.00%	100.00%	99.49%	Tiscali Int.I B.V.	
World Online AB	Sweden	100.00%	100.00%	99.49%	Tiscali Int.I B.V.	
SurfEu. Sverige AB	Sweden	100.00%	100.00%	99.49%	World Online AB	
X- Stream Sweden AB	Sweden	100.00%	100.00%	99.49%	World Online AB	
	Switzerland					
World Online Holding SA	d	100.00%	100.00%	99.49%	Tiscali Int.I B.V.	
	Switzerland					
World Online SA	d	100.00%	100.00%	99.49%	World Online Holding SA	
	Switzerland					
SurfEu.Com AG	d	100.00%	100.00%	99.49%	World Online Holding SA	
World Online Kft	Hungary	100.00%	100.00%	99.49%	Tiscali Int.I B.V.	
World Online Acquisition Corp	USA	100.00%	100.00%	99.49%	The Portal company BV	

Company name	Country	Held %			Total	Owned by
		Directly	Indirectly	Sum		
<b>Liberty Surf Group S.A.</b>		94.5% (1)			Tiscali S.p.A.	
Film non stop Monsieur Cinema.com S.A.	France	100.00%	100.00%	94.50%	Liberty Surf Group S.A.	
Liberty Surf S.A.	France	100.00%	100.00%	94.50%	Liberty Surf Group S.A.	
Objectif Net S.A.	France	100.00%	100.00%	94.50%	Liberty Surf Group S.A.	
Liberty Contact S.A.	France	50.00%	50.00%	47.25%	Liberty Surf Group S.A.	
CEIC SRL	France	100.00%	100.00%	94.50%	Liberty Surf Group S.A.	
Cyber Press Publishing S.A.	France	15.80%	15.80%	14.93%	Liberty Surf Group S.A.	
Loisir Net SA	France	88.00%	88.00%	13.14%	Cyber Press Publishing S.A.	
Republica S.A.	France	100.00%	100.00%	94.50%	Liberty Surf Group S.A.	
Cent pour Cent SA	France	100.00%	100.00%	94.50%	Republica S.A.	
OVNI Web S.A.	France	100.00%	100.00%	94.50%	Liberty Surf Group S.A.	
Tiscali Business SA	France	100.00%	100.00%	94.50%	Liberty Surf Group S.A.	
Liberty Surf Telecom SA	France	100.00%	100.00%	94.50%	Liberty Surf Group S.A.	
Intercall S.A.	France	67.00%	67.00%	63.32%	Liberty Surf Group S.A.	
Saftel Com Sa	France	99.22%	99.22%	62.82%	Intercall S.A.	
Freesbee PRO SCI	France	100.00%	100.00%	94.50%	Liberty Surf Group S.A.	
Boite Postal SCI	France	100.00%	100.00%	94.50%	Liberty Surf Group S.A.	
Poste Restante SCI	France	100.00%	100.00%	94.50%	Liberty Surf Group S.A.	
Infonie Promotion SA	France	100.00%	100.00%	94.50%	Liberty Surf Group S.A.	
Liberty Surf Gmbh	Germany	100.00%	100.00%	94.50%	Liberty Surf Group S.A.	
Liberty Surf Uk Ltd	UK	100.00%	100.00%	94.50%	X-Stream Technologies Inc	
Liberty Surf Communications Ltd	UK	100.00%	100.00%	94.50%	Liberty Telecom BV	
Intercall Hellas Sa	Greece	100.00%	100.00%	94.50%	Intercall S.A.	
	Netherlands					
X-Stream The Netherlands BV	s	100.00%	100.00%	94.50%	Liberty Surf Uk Ltd	
	Netherlands					
Liberty Surf Network B.V.	s	100.00%	100.00%	94.50%	Liberty Surf Group S.A.	
	Netherlands					
Liberty Telecom BV	s	100.00%	100.00%	94.50%	Liberty Surf Network B.V.	
Liberty Surf Telecom	Spain	100.00%	100.00%	94.50%	Liberty Telecom BV	
Intercall SA U	Spain	100.00%	100.00%	94.50%	Intercall S.A.	
X-Stream Network Inc	USA	100.00%	100.00%	94.50%	Liberty Surf Group S.A.	
X-Stream Technologies Inc	USA	100.00%	100.00%	94.50%	X-Stream Technologies Inc	
AXS Telecom Inc	USA	100.00%	100.00%	94.50%	Liberty Telecom BV	

(1) Held directly by Tiscali SpA

Company name	Country	Held %			Total	Owned by
		Directly	Indirectly	Sum		
<b><u>Tiscali Deutschland GmbH</u></b>		100% (1)				Tiscali S.p.A
Tiscali GmbH	Germany		100.00%	100.00%	100.00%	Tiscali Deutschland GmbH
Tiscali Games GmbH	Germany		100.00%	100.00%	100.00%	Tiscali Deutschland GmbH
Brand Gate	Germany		65.00%	65.00%	65.00%	Tiscali Deutschland GmbH
Finanzdirekt 24	Germany		60.00%	60.00%	60.00%	Tiscali Deutschland GmbH
Nextra Deutschland GmbH & Co KG	Germany		100.00%	100.00%	100.00%	Tiscali Deutschland GmbH
Nextra Deutschland Verwaltungs GmbH	Germany		100.00%	100.00%	100.00%	Tiscali Deutschland GmbH
Nextra Baden-Wurtemberg Communications Service Provide GmbH	Germany		100.00%	100.00%	100.00%	Nextra Deutschland GmbH & Co KG
<b><u>Tiscali Telecomunicaciones S.A.</u></b>		100% (1)				Tiscali S.p.A
Tiscalinet SL	Spain		100.00%	100.00%	100.00%	Tiscali Telec. S.A.
Musica Por Internet X SL	Spain		100.00%	100.00%	100.00%	Tiscali Telec. S.A.
Jamas Navegaras Solo SL	Spain		100.00%	100.00%	100.00%	Tiscali Telec. S.A.
Sport Soul SL	Spain		100.00%	100.00%	100.00%	Tiscali Telec. S.A.
Net To Be SL	Spain		100.00%	100.00%	100.00%	Tiscali Telec. S.A.
Andar Por Las Redes SL	Spain		100.00%	100.00%	100.00%	Tiscali Telec. S.A.
Vol Trabajo Dedicado SL	Spain		100.00%	100.00%	100.00%	Tiscali Telec. S.A.

(1) Directly held by Tiscali SpA

## Financial Statement (Flows)

Cash flow statement – net cash position	30.06.2002	31.12.2001
<b>A - Net cash position – opening balance</b>	<b>354,526</b>	<b>1,365,591</b>
<b>B - Cash flows generated from operations</b>		
Profit (Loss) for the half-year	(403,778)	(1,664,429)
+ Depreciation and amortization of non-current assets	226,458	1,350,857
+ Capital losses for disposal of assets	1,336	-
- Capital gains for disposal of assets	-	-
- Increase in assets for internal works	(10,344)	-
- Revaluations	-	-
+ Devaluations	14,441	-
+/- Change in staff severance indemnity reserve	248	1,427
+/- Change in reserves for risks and charges	141,963	446
<b>Cash generated from operating income before changes in Working Capital</b>	<b>(29,676)</b>	<b>(311,699)</b>
-/+ Change in active working capital	82,778	(272,004)
-/+ Change in passive working capital	(137,239)	186,210
<b>Total net cash flow on operating activities</b>	<b>(54,461)</b>	<b>(397,493)</b>
<b>C - Cash flows from investment activity</b>		
Investment in assets (-):		
Intangible	(38,948)	(1,027,508)
Tangible	(49,262)	(284,796)
Financial	(15,421)	(860)
Disposal of assets (+)		
Intangible	-	-
Tangible	39,361	-
Financial	-	-
<b>Total cash flows from investment activity</b>	<b>(64,270)</b>	<b>(1,313,164)</b>
<b>D - Cash flows from financing activity</b>		
New loans (+)	-	109,310
Increases on net equity (+)	483	-
Trade account contributions (+)	-	-
Loans reimbursements (-)	(71,116)	14,646
Net equity reductions (-)	-	564,983
<b>Total cash flows from financing activity</b>	<b>(70,633)</b>	<b>688,939</b>
<b>Currency translation</b>	<b>-</b>	<b>10,653</b>
<b>E - Earnings distributions (-)</b>	<b>-</b>	<b>-</b>
<b>F - Net cash flow for the half year (B+C+D+E)</b>	<b>(219,040)</b>	<b>(1,011,065)</b>
<b>G - Net cash flow – closing balance (A+F)</b>	<b>135,486</b>	<b>354,526</b>

# Tiscali S.p.A.

Parent company financial statements as of 30 June 2002

(amounts in EUR)

## Balance Sheet - Assets

<b>BALANCE SHEET ASSETS - (amounts in EUR)</b>		<b>30 Jun 2002</b>	<b>31 Dec 2001</b>	<b>30 Jun 2001</b>
<b>DUE FROM SHAREHOLDERS FOR CAPITAL CONTRIBUTIONS</b>				
<b>A) PAYABLE:</b>				
- portion called up		-	-	-
- portion not called up		-	-	-
<b>Total due from shareholders for capital contributions payable:</b>		-	-	-
<b>B) NON-CURRENT ASSETS:</b>				
<b>I Intangible assets:</b>				
1) set-up and expansion costs		7,592,768	9,589,474	10,366,538
2) costs for research, development and advertising		14	2,531	5,149
3) industrial patents rights and intellectual property rights		2,384,980	2,595,797	948,629
4) concessions, licences, trademarks and similar rights		11,838,585	9,167,000	9,147,971
5) goodwill		200,162	240,201	280,234
6) payments on account and intangible assets in course of acquisition		23,434,851	16,522,395	6,187,266
7) Other		7,478,044	7,687,523	5,813,532
<b>Total</b>		<b>52,929,404</b>	<b>45,804,921</b>	<b>32,749,319</b>
<b>II Fixed assets:</b>				
1) land and buildings		4,246,631	-	-
2) plant and machinery		10,496,139	9,632,760	5,962,049
3) industrial and commercial equipment		1,065,682	1,186,163	1,184,435
4) other fixed assets		2,657,856	2,899,643	2,670,317
5) payments on account and fixed assets in course of acquisition		3,150,570	1,994,660	1,952,863
<b>Total</b>		<b>21,616,878</b>	<b>15,713,226</b>	<b>11,769,664</b>
<b>III Long-term investments:</b>				
1) Holdings in:				
a) Group companies		2,108,322,693	2,099,698,160	2,940,032,602
b) affiliated companies		993,698	993,698	3,396,101
d) other companies		4,730,649	4,730,649	155,649
2) Receivables:	falling due within one year	-	-	-
3) Other securities		-	-	-
4) Own shares		-	-	-
<b>Total</b>		<b>2,114,047,040</b>	<b>2,105,422,507</b>	<b>2,943,584,352</b>
<b>Total non-current assets</b>		<b>2,188,593,322</b>	<b>2,166,940,654</b>	<b>2,988,103,335</b>
<b>C) WORKING CAPITAL</b>				
<b>I Inventories:</b>				
1) raw materials, supplies and consumables		1,450,790	1,327,688	638,089
<b>Total</b>		<b>1,450,790</b>	<b>1,327,688</b>	<b>638,089</b>
<b>II Receivables:</b>				
	falling due after more than one year			
	30/06/02	31/12/01		
1) from customers			46,814,579	45,354,339
2) from Group companies	30,033,316	1,914,521	139,913,553	132,899,308
3) from affiliated companies			-	658,600
5) from others	280,706	234,245	21,439,518	22,605,667
<b>Total</b>	<b>30,314,022</b>	<b>2,148,770</b>	<b>208,167,650</b>	<b>201,517,914</b>
<b>III Investments other than non-current assets</b>				
6) other securities			873,675	8,536,315
<b>Total</b>			<b>873,675</b>	<b>8,536,315</b>
<b>IV Cash and cash equivalents:</b>				
1) banks and post office deposits			2,805,985	223,429
3) cash and other negotiable instruments			19,755	16,907
<b>Total</b>			<b>2,825,740</b>	<b>240,336</b>
<b>Total working capital</b>			<b>213,317,855</b>	<b>211,622,253</b>
<b>D) ACCRUED INCOME AND DEFERRED CHARGES:</b>				
Accrued income and deferred charges			10,701,893	8,228,729
<b>Total accrued income and deferred charges</b>			<b>10,701,893</b>	<b>8,228,729</b>
<b>TOTAL ASSETS</b>		<b>2,412,613,070</b>	<b>2,386,791,636</b>	<b>3,147,706,750</b>

## Balance Sheet - Liabilities

<b>BALANCE SHEET - LIABILITIES</b>		<i>(amounts in EUR)</i>		<b>30 Jun 2002</b>	<b>31 Dec 2001</b>	<b>30 Jun 2001</b>
<b>A) SHAREHOLDERS' EQUITY:</b>						
I	Share capital			179,690,750	179,208,829	1,770,632
II	Share premium reserve			1,622,094,893	2,654,963,008	2,850,024,007
III	Revaluation reserve			-	-	-
IV	Legal reserve			-	-	-
V	Reserve for treasury stock held			-	-	-
VI	Statutory reserves			-	-	-
VII	Other reserves:					
1)	Reserve from rounding			1	7	3
VIII	Retained earnings (losses carried forward)			-	-	(106,538,495)
IX	Profit (loss) for the year			(241,299,657)	(1,041,208,375)	(248,117,667)
<b>Total shareholders' equity</b>				<b>1,560,485,987</b>	<b>1,792,963,469</b>	<b>2,497,138,480</b>
<b>RESERVES FOR RISKS AND FUTURE</b>						
<b>B) LIABILITIES:</b>						
1)	reserve for retirement and similar obligations			-	-	-
2)	taxation reserve			-	-	-
3)	Other			210,236,076	23,001,873	230,064,983
<b>Total reserves for risks and future liabilities</b>				<b>210,236,076</b>	<b>23,001,873</b>	<b>230,064,983</b>
<b>C) STAFF SEVERANCE INDEMNITY RESERVE</b>						
				2,422,579	1,806,541	1,275,452
<b>D) PAYABLES:</b>						
		<i>Falling due after more than one year</i>				
		<b>30 Jun 2002</b>	<b>31 Dec 2001</b>			
1)	bonds	-	-	-	-	-
2)	convertible bonds	-	-	-	-	-
3)	due to banks	7,742,641	-	30,235,555	14,590,001	6,750,149
4)	due to other backers	-	129,712	1,137,454	1,746,661	-
5)	Advances	-	-	3,000,000	-	-
6)	trade accounts payable	-	-	75,255,925	64,411,673	60,444,607
7)	Payables represented by negotiable instruments	-	-	-	-	-
8)	due to group companies	-	-	516,058,031	475,845,826	347,621,418
9)	due to affiliated companies	-	-	-	-	56,294
10)	due to parent companies	-	-	-	-	-
11)	taxes payable	-	-	662,673	854,831	507,456
12)	due to social security agencies	-	-	657,072	675,121	403,590
13)	other payables	-	-	2,031,488	949,800	1,962,260
<b>Total payables</b>		<b>7,742,641</b>	<b>129,712</b>	<b>629,038,198</b>	<b>559,073,913</b>	<b>417,745,774</b>
<b>E) ACCRUED LIABILITIES AND DEFERRED INCOME</b>						
Accrued liabilities and deferred income				10,430,230	9,945,840	1,482,061
Premiums on loans				-	-	-
<b>Total accrued liabilities</b>				<b>10,430,230</b>	<b>9,945,840</b>	<b>1,482,061</b>
<b>TOTAL LIABILITIES</b>				<b>2,412,613,070</b>	<b>2,386,791,636</b>	<b>3,147,706,750</b>



# Memorandum Accounts

<b>MEMORANDUM ACCOUNTS</b>	<i>(amounts in EUR)</i>	<b>30 Jun 2002</b>	<b>31 Dec 2001</b>	<b>30 Jun 2001</b>
<b>A) GUARANTEES GIVEN:</b>				
<i>1) to third parties:</i>				
a) Sureties		250,650,000	250,000,000	250,025,823
Total		250,650,000	250,000,000	250,025,823
<b>Total guarantees given</b>				
		250,650,000	250,000,000	250,025,823
<b>B) OTHER MEMORANDUM ACCOUNTS</b>				
-Lease payments falling due		47,187,050	54,937,364	45,353,036
-Warrants		166,563	183,238	7,403,757
-Commitments		10,877,167	11,059,524	296,963
<b>Total other memorandum accounts</b>		<b>58,230,780</b>	<b>66,180,126</b>	<b>53,053,756</b>
<b>C) GUARANTEES RECEIVED:</b>				
<i>1) from third parties and Group companies:</i>				
a) Sureties		8,561,182	7,227,298	6,130,860
<b>Total guarantees received</b>		<b>8,561,182</b>	<b>7,227,298</b>	<b>6,130,860</b>
<b>TOTAL MEMORANDUM ACCOUNTS</b>				
		<b>317,441,962</b>	<b>323,407,424</b>	<b>309,210,439</b>

# Profit and Loss Account

<b>PROFIT AND LOSS ACCOUNT</b>	<b>(amounts in EUR)</b>	<b>30 Jun 2002</b>	<b>31 Dec 2001</b>	<b>30 Jun 2001</b>
<b>A) (+) VALUE OF PRODUCTION:</b>				
1) revenues from sales and services		61,205,629	115,037,997	60,422,651
2) changes in inventory of work in progress, semi-finished and finished products		-	-	-
3) changes in work in progress to order		-	-	-
4) changes in assets for work in progress/internal		-	788,580	-
5) other revenues and income				
- Other revenues and income		3,287	1,960	1,070
- Working account contributions		3,939,300	-	-
<b>Total</b>		<b>65,148,216</b>	<b>115,828,537</b>	<b>60,423,721</b>
<b>B) (-) PRODUCTION COSTS:</b>				
6) for raw materials, supplies, consumables and goods		(890,580)	(10,700,217)	(5,862,709)
7) for services		(61,079,374)	(91,828,676)	(44,773,768)
8) for use of third party assets		(10,158,384)	(15,839,764)	(5,958,103)
9) for personnel:				
a) salaries and wages		(10,972,523)	(16,129,147)	(7,943,160)
b) social security charges		(1,643,448)	(1,913,876)	(912,891)
c) staff severance pay		(684,522)	(1,147,888)	(592,096)
d) retirement and similar costs		-	-	-
e) other costs		(91,520)	(34,703)	-
10) depreciation, amortisation and write-downs:				
a) amortisation of intangible assets		(5,002,473)	(8,521,116)	(3,923,357)
b) depreciation of fixed assets		(1,781,066)	(2,305,141)	(889,388)
c) other write-downs, depreciation and amortisation of non-current assets		-	-	-
d) write-downs of receivables included under working capital and cash equivalents		(3,379,086)	(8,054,917)	(3,098,741)
11) changes in inventory of raw materials, supplies, consumables and goods		58,714	558,901	(130,698)
12) risk provisions		(187,407,675)	(14,371,467)	(222,312,021)
13) other provisions		-	-	-
14) other operating expenses		(397,030)	(1,591,769)	(387,029)
<b>Total</b>		<b>(283,428,967)</b>	<b>(171,879,780)</b>	<b>(296,783,961)</b>
<b>(A - B) DIFFERENCE BETWEEN VALUE AND COST OF PRODUCTION</b>		<b>(218,280,751)</b>	<b>(56,051,243)</b>	<b>(236,360,240)</b>
<b>C) FINANCIAL INCOME AND CHARGES:</b>				
15) (+) income from holdings:				
a) in group companies		50,000	8,555,623	25,823
b) in affiliated companies		-	-	-
c) in other companies		-	-	-
16) (+) other financial income:				
a) from receivables booked under non-current assets:				
- from third parties		-	-	-
- from Group companies		-	-	-
- from affiliated companies		-	-	-
- from parent companies		-	-	-
b) from receivables booked under non-current assets other than holdings		-	-	-
c) from securities booked under non-current assets other than holdings		221,657	465,457	250,998
d) other income:				
- from third parties		33,139	524,858	438,064
- from Group companies		12,466	1,863	-
- from affiliated companies		-	-	-
- from parent companies		-	-	-
17) (-) interest and other financial charges:				
a) due to third parties		(845,489)	(1,241,149)	(1,006,696)
b) due to Group companies		(10,006,464)	(14,527,660)	(6,392,775)
c) due to affiliated companies		-	-	-
d) due to parent companies		-	-	-
<b>Total</b>		<b>(10,534,691)</b>	<b>(6,221,008)</b>	<b>(6,684,586)</b>

## Profit and Loss Account (continued)

<b>PROFIT AND LOSS ACCOUNT (continued)</b>	<b>30 Jun 2002</b>	<b>31 Dec 2001</b>	<b>30 Jun 2001</b>
<b>D) VALUATION ADJUSTMENTS TO FINANCIAL ASSETS</b>			
18) (+) <i>write-ups</i> :			
a) of holdings	-	-	-
b) of long-term investments other than holdings	-	-	-
c) of securities booked under working capital other than holdings	-	-	-
19) (-) <i>write-downs</i> :			
a) of holdings	-	-	-
b) of long-term investments other than holdings	-	-	-
c) of securities booked under working capital other than holdings	-	-	-
Total adjustments	-	-	-
<b>E) EXTRAORDINARY INCOME AND CHARGES</b>			
20) (+) <i>extraordinary income</i> :			
a) Income	642,025	5,747,005	1,512,388
b) capital gains from disposals of non-current assets	-	2,849,430	642
21) (-) <i>extraordinary charges</i> :			
a) Charges	(13,126,240)	(987,513,574)	(6,585,871)
b) capital losses from disposals of non-current assets	-	(18,985)	-
c) tax relating to previous periods	-	-	-
Total extraordinary income and charges	(12,484,215)	(978,936,124)	(5,072,841)
<b>Profit (loss) before tax</b>	<b>(241,299,657)</b>	<b>(1,041,208,375)</b>	<b>(248,117,667)</b>
22) (-) <i>corporation tax for the year</i> :			
a) Current	-	-	-
b) Deferred	-	-	-
Total income tax	-	-	-
<b>23) NET PROFIT (LOSS) FOR THE YEAR</b>	<b>(241,299,657)</b>	<b>(1,041,208,375)</b>	<b>(248,117,667)</b>

# Tiscali S.p.A.

## Notes to the accounts for the six months to 30 June 2002

(amounts in thousands of EUR)

### Form and content of the half-yearly statements

#### 1) Criteria used in the preparation of statements

These half-yearly statements have been prepared in accordance with art. 2423 and subsequent articles of the Italian Civil Code and consist of the balance sheet, the profit and loss account and the notes to the financial statements, which conform to the standards set out in art. 2427 of the Italian Civil Code, and pursuant to art. 2423, constitute an integral part of these financial statements. For ease of comparison the financial statements contain figures for the 2001 financial year and first six months of 2001, which have been prepared and presented in a consistent and coherent manner. Moreover, pursuant to Legislative Decree No. 127 of 1991, the consolidated financial statements are presented together with those of Tiscali S.p.A.

In order to provide a better overview of the company's operations and financial position, the following documents are supplied as supplementary information to these statements:

- Restated Balance Sheet;
- Restated Profit and Loss Account
- Statement of Changes in Financial Position.:

#### 2) Valuation

##### a) General criteria

The criteria used in the preparation of the half-yearly accounts conform to those stipulated by the aforementioned regulations in force on this subject. These criteria have been integrated and interpreted in accordance with the accounting principles issued by the national association of Italian chartered accountants (Consiglio Nazionale dei Dottori Commercialisti e dei Ragionieri). The same criteria are used as in previous years, particularly with regard to valuations and continuity in applying the same principles. The valuation of balance sheet items was performed based on general criteria of prudence and competency, with a view to the continuation of activities. For the purposes of accounting entries, the economic substance of transactions prevails over their legal form. Investments are therefore posted at the time of payment. Profits are included only if they accrue within the period under review, while provision is made for risks and losses that may come to light at a later date. Miscellaneous items included under individual accounting entries have been valued separately. Assets destined for long-term use have been classed as non-current assets.

##### b) Valuation adjustments and recovery of value

The values of fixed and intangible assets whose useful life is limited over time are written down respectively through depreciation and amortisation charges. The same fixed and intangible assets and other assets are written down each time a lasting impairment in value has been noted; the original value is re-established insofar as the reasons for this loss are no longer considered current. The methodology for calculating depreciation and amortisation charges is explained separately in these notes.

## c) Revaluations

To date, no revaluations have been performed.

## d) Exceptions

No exceptions to the valuation criteria laid down by current legislation pertaining to consolidated year-end and half-yearly financial statements have been made to the financial statements for this or any previous period.

The most important principles and criteria are summarised below .

## e) Intangible assets

Start-up and expansion costs are entered under the appropriate accounting entry on the assets side of the balance sheet and are amortised for a period not exceeding five years starting from the financial year in which the costs were incurred.

Research, development and advertising costs are as a rule debited to the profit and loss account of the financial year in which they were incurred. Exception is made for expenditure on the development of new products, whose R&D and advertising costs are posted under the appropriate line item under "Assets" and amortised over a five-year period, in consideration of the time taken to recoup such costs, starting from the financial year in which they were incurred.

Licenses, trademarks, patent rights and similar are recorded at their acquisition cost and amortised systematically in accordance with the period of use established by the contract. Under no circumstances shall the amortisation period exceed five years from the financial year in which the costs were incurred.

Licenses, trademarks and patent rights are recorded at their acquisition cost and amortised in accordance with the period of use as established by the contract. In any event, the amortisation period will not exceed 5 years from the financial year in which it was incurred.

Goodwill is posted within the limits of the costs incurred and amortised over five years.

Maintenance and upgrade costs on fixed assets belonging to third parties are listed under "others" and are depreciated over either the estimated useful life of the asset or the residual contract period, whichever is the shorter.

## f) Fixed assets and depreciation

Fixed assets are recorded at purchase or production cost, including any ancillary charges.

Depreciation is calculated on the basis of cost, according to the estimated residual life of the asset.

Capital equipment leasing operations performed in the financial year under consideration are posted on the balance sheet based on the interpretation of current legislation, i.e. leasing fees must be posted in the period to which each payment refers.

Ordinary maintenance expenses are debited to the profit and loss account in full. Maintenance expenses of an incremental nature are attributed to the asset to which they refer and are depreciated based on the estimated residual life of said asset.

A summary of depreciation rates follows. These remain unchanged with respect to the last financial year:

<b>Plant and machinery</b>	
- general plant and machinery	20%
- minor plant and machinery	12%
- specific plant and machinery	20%
- other plant and machinery	20%
<b>Industrial and trade equipment</b>	
- network and other specific equipment	20%
- other industrial and trade equipment	20%
- miscellaneous minor items	25%
<b>Other goods</b>	
- office furniture	12%
- IT and automated office equipment	20%
- motor vehicles	25%
- mobile phones	33%
- signs and nameplates	25%
- other goods	20%

In the year in which an asset is purchased, the depreciation charge is reduced by 50 per cent. This accounting approach is adopted to provide a reasonable approximation of the time distribution of asset purchases during the year.

### **g) Long-term investments**

- Investments in group and affiliated companies:

Investments in group and affiliated companies, which are non-current financial assets, are valued according to the cost method, as the companies concerned have either been set up or acquired recently. The cost is decreased when there is a lasting loss of value.

Non-current financial assets consisting of receivables are valued at their estimated realisable value.

### **h) Inventories**

- raw materials, work in progress and finished products:

Inventories, mainly consisting of goods for resale, are valued at either their purchase cost, calculated by using the weighted average method, or their estimated market value, whichever is the lower.

### **i) Receivables**

Receivables are listed at their estimated realisable value. This value is obtained by direct write-down of receivables. Receivables also include amounts pertaining to invoices still to be issued for services rendered in the period under review.

### **k) Investments other than non-current assets**

Unlisted securities are valued at their purchase price. Listed securities are valued at either their purchase price or their realisable market value, whichever is the lower.

### **l) Accruals and deferrals**

Accruals and deferrals are calculated in accordance with the matching principle.

### **m) Reserves for risks and future liabilities**

Risk funds are allocated and shown as liabilities on the balance sheet, with the aim of covering potential company liabilities that, on a realistic estimate, are forecast as likely to take place.

### **n) Tax**

In the period under review, the company incurred no tax liabilities, since it generated no taxable income.

### **o) Staff severance indemnity reserve**

This provision corresponds to all amounts due to employees under current laws.

### **p) Payables**

Payables are posted at their nominal value.

### **q) Risks, commitments and guarantees**

Commitments and guarantees are shown in the memorandum accounts at their contractual value. The guarantees take the form of surety bonds issued in favour of third parties in execution of contract terms.

Commitments refer to obligations resulting from agreements that have been signed but which have yet to be executed, and from leasing and operating lease charges to be posted in future financial years.

### **r) Recording of revenues, income, costs and charges**

Revenues from the sale of services are entered on the basis of traffic actually recorded as of 30 June 2002. Financial revenues are recorded in accordance with the matching principle.

### **s) Recording of foreign currency amounts**

Receivables and payables in currencies other than euro are adjusted to the exchange rates valid at the end of the period, through the inclusion of a specifically designated exchange-rate risk fund on the balance sheet. Profits and losses deriving from exchange rate fluctuations are listed as receivables or payables on the profit and loss account.

## Analysis of Balance Sheet items

# ASSETS

(amounts in thousands of EUR)

## B) Non-current assets

### I –Intangible assets

The historical cost of the intangible assets at the beginning and at the end of the period is detailed below:

	06.30.2002			12.31.2001		
	Cost	(Amortisation)	Net book value	Cost	(Amortisation)	Net book value
Start-up and expansion costs	19,994	(12,401)	7,593	19,993	(10,404)	9,589
R&D and advertising costs	26	(26)	0	26	(24)	3
Industrial patent and intellectual property rights	3,594	(1,209)	2,385	3,446	(850)	2,596
Concessions, licences, trademarks	16,698	(4,860)	11,838	12,430	(3,263)	9,167
Goodwill	400	(200)	200	400	(160)	240
Payments on account and assets in course of acquisition	23,435	-	23,435	16,523	--	16,522
Other	11,066	(3,588)	7,478	10,267	(2,579)	7,688
	<b>75,213</b>	<b>(22,284)</b>	<b>52,929</b>	<b>63,085</b>	<b>(17,280)</b>	<b>45,805</b>

The following is a summary of the changes that occurred in the accounts over the period under consideration:

Changes	Balance	Increases	Write-ups. (Write downs)	Other changes	Amortisation	Balance
	12.31.2001					06.30.2002
Start-up and expansion costs	9,589	-	-	-	(1,996)	7,593
R&D and advertising costs	3	-	-	-	(3)	0
Industrial patent and intellectual property rights	2,596	148	-	-	(359)	2,385
Concessions, licences, trademarks	9,167	4,268	-	-	(1,596)	11,839
Goodwill	240	-	-	-	(40)	200
Payments on account and assets in course of acquisition	16,522	8,461	-	(1,548)	-	23,435
Other	7,688	798	-	-	(1,008)	7,478
	<b>45,805</b>	<b>13,675</b>	<b>-</b>	<b>(1,548)</b>	<b>(5,002)</b>	<b>52,929</b>

The "start-up and expansion costs" line includes:

Start-up and expansion costs	06.30.2002	12.31.2001	Change
Capital increase expenses	4,338	5,203	(865)
Start up costs	2,941	3,989	(1,048)
Other	314	397	(83)
<b>Total start-up and expansion costs</b>	<b>7,593</b>	<b>9,589</b>	<b>(1,996)</b>

The "start-up and expansion costs" line, which accrued mainly in 1999, includes the cost of starting network implementation activities (installation and switchboard activation) and of first launch campaign for internet access services.

The "industrial patent rights and utilisation of intellectual property rights" line includes mainly application software acquired for an unlimited period and customised for the exclusive use of the company.



The change in "concessions, licences, trademarks and similar" mainly relates to the purchase of software licences and associated costs. In particular, this includes renewals of licences for management and invoicing software purchased for the whole group, access systems software and network services management.

The "payments on account and intangible assets in course of acquisition" line mainly relates to costs associated with licences and the development of software and other services acquired as part of the project to unify the technological and management platform for services provided by the Group, which is still in progress (approximately EUR 15.6mn). The value of this item increased by EUR 5.2mn in the first half of 2002.

Another important initiative under way that is booked under this item is the Mobile Internet project (about EUR 2.5mn, increased by EUR 0.8mn during the first half of 2002) for the provision of an internet connection service via mobile phone. The item also includes investments in the creation of a data warehouse for the Company's own data.

Decreases ('Other changes') of about EUR 1.5mn are due to the reassessment of costs relating to the company's new headquarters, listed under fixed assets.

The "others" line chiefly includes investments made in adapting technical sites and operational and administrative offices.

## II – Fixed assets

A summary of the changes in the accounts over the period, with regard to the historical costs of fixed assets, is shown below:

Historical cost	Balance		Write ups (downs)	Other movements	(Disposals)	Balance	
	12.31.2001	Increases				06.30.2002	
<i>Land and buildings</i>							
- land	-	2,989	-	1,258	-	-	4,247
	-	2,989	-	1,258	-	-	4,247
<i>Plant and machinery</i>							
- general plant and machinery	1,212	1	-	-	-	-	1,213
- specific plant and machinery	8,465	2,064	-	-	-	-	10,529
- other plant and machinery	1,945	32	-	-	-	-	1,977
	11,622	2,097	-	-	-	-	13,719
<i>Industrial and trade equipment</i>							
- network and other specific equipment	293	76	-	-	-	-	369
- other equipment	1,636	-	-	-	-	-	1,636
- miscellaneous minor items	-	1	-	-	-	-	1
	1,929	77	-	-	-	-	2,006
<i>Other goods</i>							
- office furniture	1,270	26	-	-	-	-	1,296
- IT and automated office equipment	2,265	75	-	-	-	-	2,340
- other goods	350	7	-	-	-	-	357
	3,885	108	-	-	-	-	3,993
<i>Payments on account and assets in course of acquisition</i>							
- assets in course of acquisition	1,995	866	-	290	-	-	3,151
	1,995	866	-	290	-	-	3,151
<b>Total</b>	<b>19,431</b>	<b>6,137</b>	<b>-</b>	<b>1,548</b>	<b>-</b>	<b>-</b>	<b>27,116</b>

Depreciation	Balance		Write downs	Other movements	(Disposals)	Balance	
	12.31.2001	Increases				06.30.2002	
<i>Plant and machinery</i>							
- general plant and machinery	280	88	-	-	-	-	368
- specific plant and machinery	847	949	-	-	-	-	1,796
- other plant and machinery	865	196	-	-	-	-	1,061
	1,991	1,233	-	-	-	-	3,225
<i>Industrial and trade equipment</i>							
- network and other specific equipment	287	196	-	-	-	-	483
- other equipment	455	-	-	-	-	-	455
- miscellaneous minor items	-	1	-	-	-	-	1
	742	197	-	-	-	-	939
<i>Other goods</i>							
- office furniture	216	78	-	-	-	-	294
- IT and automated office equipment	665	230	-	-	-	-	895
- other goods	103	43	-	-	-	-	146
	984	351	-	-	-	-	1,335
<b>Total</b>	<b>3,717</b>	<b>1,781</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,499</b>

Net book value	Balance		Revaluations and other movements	Depreciation and write downs (Disposals)	Balance
	31/12/2001	Increases			
<i>Land and buildings</i>					
- land	-	2,989	1,258	-	4,247
	-	2,989	1,258	-	4,247
<i>Plant and machinery</i>					
- general plant and machinery	932	1	-	(88)	845
- specific plant and machinery	7,618	2,064	-	(949)	8,733
- other plant and machinery	1,081	32	-	(196)	917
	9,631	2,097	-	(1,233)	10,495
<i>Industrial and commercial equipment</i>					
- network and other specific equipment	5	76	-	(196)	(115)
- other equipment	1,181	-	-	-	1,181
- various and small equipment	-	1	-	(1)	-
	1,186	77	-	(197)	1,066
<i>Other goods</i>					
- office furniture	1,054	26	-	(78)	1,002
- IT and automated office equipment	1,600	75	-	(230)	1,445
- other goods	247	7	-	(43)	211
	2,901	108	-	(351)	2,658
<i>Payments on account and assets in course of acquisition</i>					
- assets in course of acquisition	1,995	866	290	-	3,151
	1,995	866	290	-	3,151
<b>Total</b>	<b>15,713</b>	<b>6,137</b>	<b>1,548</b>	<b>(1,781)</b>	<b>21,617</b>

The "land" item covers investment in land acquired for the Company's new headquarters.

Fixed assets mainly consist of technical equipment for the creation of internal networks and equipment for site set-up, servers, personal computers, and call centre equipment.

Increases under this item are due to the purchase and installation of server equipment.

"Fixed assets in course of acquisition" include other investments made to date in the new company headquarters for which work began during the first half of the year (EUR 1.2mn). Telephone switchboards purchased from a Group company last year and awaiting insertion in the production process, are also allocated to this line.

### III – Long-term investments

As of 30 June 2002, this item included holdings in Group, affiliated and other companies amounting to approximately EUR 2,108mn, EUR 0.994mn and EUR 4,731mn respectively.

The tables below show the detailed balance sheet entries and relative changes with respect to the same period of the previous financial year, as well as a list of the company's holdings in Group and affiliated companies pursuant to art. 2427, paragraph 5 of the Italian Civil Code.

	06.30.2002			12.31.2001		
	COST	WRITE-UPS (DOWNS)	B/S VALUE	COST	WRITE-UPS (DOWNS)	B/S VALUE
<b>GROUP COMPANIES</b>						
Best Engineering S.p.A.	5,643	(4,353)	1,290	5,643	(4,353)	1,290
C D Telekomunikace sro	51,890	(8,834)	43,056	22,641	(8,834)	13,807
Energy Byte S.p.A.	677	-	677	523	-	523
Excite Italia B.V.	29,985	-	29,985	27,000	-	27,000
Guglielmo Gmbh	-	-	-	14,704	(10,511)	4,193
Ideare S.p.A.	6,745	(3,747)	2,998	6,745	(3,747)	2,998
Informedia S.r.l.	535	(277)	258	535	(277)	258
Liberty Surf Group SA	599,812	(80,883)	518,929	599,812	(80,883)	518,929
Tiscali Motoring S.r.l (ex Motorcity S.p.A.)	500	-	500	500	-	500
Nets SA	-	-	-	17,720	(3,105)	14,615
Quinary S.p.A.	24,292	(18,378)	5,914	24,292	(18,378)	5,914
STS Studi Technologie e Sistemi S.r.l.	3,228	-	3,228	3,228	-	3,228
Tiscali Armement Sarl	892	-	892	892	-	892
Tiscali Belgium Holding SA in liquidation	-	-	-	57	(57)	-
Tiscali Datacomm Ag (ex Datacomm AG)	63,682	(35,300)	28,382	63,682	(35,300)	28,382
Tiscali Finance SA	125	-	125	125	-	125
Tiscali Reseaux SA (ex Tiscali France SA)	-	-	-	154,597	(149,597)	5,000
Tiscali Deutschland Gmbh (ex Nikoma )	283,475	(230,309)	53,166	283,475	(230,309)	53,166
Tiscali Telecomunicaciones SA	2,452	(2,327)	125	2,452	(2,327)	125
World Online International N.V.	1,809,694	(400,660)	1,409,034	1,809,694	(400,660)	1,409,034
Andaledda S.p.A.	88	-	88	88	-	88
Connect Software Inc.	1,027	-	1,027	1,027	-	1,027
Gilla Servizi Telec. S.r.l. (ex Gilla S.p.A.)	1,295	(1,250)	45	1,250	(1,250)	-
SurfEU.com Ltd in liquidation	26,784	(18,219)	8,565	26,784	(18,219)	8,565
Tiscali Czech Republic sro	461	(422)	39	39	-	39
	<b>2,913,282</b>	<b>(804,959)</b>	<b>2,108,323</b>	<b>3,067,505</b>	<b>(967,807)</b>	<b>2,099,698</b>
<b>06.30.2002</b>						
<b>12.31.2001</b>						
	COST	WRITE-UPS (DOWNS)	B/S VALUE	COST	WRITE-UPS (DOWNS)	B/S VALUE
<b>AFFILIATED COMPANIES</b>						
FreeTravel S.p.A. in liquidation	250	-	250	250	-	250
Ariete Telemedia S.r.l	744	-	744	744	-	744
	<b>994</b>	<b>-</b>	<b>994</b>	<b>994</b>	<b>-</b>	<b>994</b>
<b>06.30.2002</b>						
<b>12.31.2001</b>						
	COST	WRITE-UPS (DOWNS)	B/S VALUE	COST	WRITE-UPS (DOWNS)	B/S VALUE
<b>OTHER COMPANIES</b>						
Crs4	126	-	126	126	-	126
Green Management consortium	5	-	5	5	-	5
Mix S.r.l.	1	-	1	1	-	1
Stud Soc. Consortile	15	-	15	15	-	15
Nets Broadband S.p.A.	34	-	34	34	-	34
Netchemya S.p.A.	4,550	-	4,550	4,550	-	4,550
	<b>4,731</b>	<b>-</b>	<b>4,731</b>	<b>4,731</b>	<b>-</b>	<b>4,731</b>

## CHANGES DURING THE FIRST HALF OF 2002

The changes in the composition of holdings during the first half of 2002 are listed in the table below.

GROUP COMPANIES	BALANCE		(DISPOSALS)	WRITE - UPS(DOWNS)	OTHER MOVEMENTS	BALANCE
	12.31.2001	INCREASES				
Best Engineering S.p.A.	1,290	-	-	-	-	1,290
C D Telekomunikace sro	13,807	29,249	-	-	-	43,056
Energy Byte S.p.A.	523	154	-	-	-	677
Excite Italia B.V.	27,000	2,985	-	-	-	29,985
Guglielmo Gmbh	4,193	-	(4,193)	-	-	-
Ideare S.p.A.	2,998	-	-	-	-	2,998
Informedia S.r.l.	258	-	-	-	-	258
Liberty Surf Group SA	518,929	-	-	-	-	518,929
Tiscali Motoring S.r.l (ex Motorcity S.p.A.)	500	-	-	-	-	500
Nets SA	14,615	-	(14,615)	-	-	-
Quinary S.p.A.	5,914	-	-	-	-	5,914
STS Studi Tecnologie e Sistemi S.r.l.	3,228	-	-	-	-	3,228
Tiscali Armement Sarl	892	-	-	-	-	892
Tiscali Belgium Holding SA in liquidation	-	-	-	-	-	-
Tiscali Datacomm Ag (ex Datacomm AG)	28,382	-	-	-	-	28,382
Tiscali Finance SA	125	-	-	-	-	125
Tiscali Reseaux SA (ex Tiscali France SA)	5,000	-	(5,000)	-	-	-
Tiscali Deutschland Gmbh (ex Nikoma )	53,166	-	-	-	-	53,166
Tiscali Telecomunicaciones SA	125	-	-	-	-	125
World Online International N.V.	1,409,034	-	-	-	-	1,409,034
Andaledda S.p.A.	88	-	-	-	-	88
Connect Software Inc.	1,027	-	-	-	-	1,027
Gilla Servizi Tel ec. S.r.l. (ex Gilla S.p.A.)	-	216	(171)	-	-	45
SurfEU.com Ltd in liquidation	8,565	-	-	-	-	8,565
Tiscali Czech Republic sro	39	422	-	(422)	-	39
	<b>2,099,698</b>	<b>33,026</b>	<b>(23,979)</b>	<b>(422)</b>	<b>-</b>	<b>2,108,323</b>

The changes that took place in the first half of 2002 were increases of EUR 32.6mn and decreases of some EUR 23.9mn.

The rise in value of the holding in CD Telekomunikace sro relates to a capital increase fully subscribed by Tiscali S.p.A. in May 2002 and carried out via a conversion of loans made to the subsidiary for the same amount. The approximate EUR 2.9mn rise in value of the Excite Italia B.V. holding derives from the acquisition of the remaining 30% of the shares still held by Excite@Home at 31 December 2001. 300,121 Tiscali shares were issued as part of this transaction.

The reductions in value shown in the table derive from disposals made during the first half of the year as part of the company's restructuring programme begun in 2001 and described in detail in the annual report for that year. Once the restructuring is complete (expected to be by end-2002), Tiscali will directly own the Italian group companies, the German sub-holding company, the Liberty Surf Group, WOL International (which owns the other holdings in foreign companies) and other companies of a financial nature.

The disposals made during the period are summarised below:

- Guglielmo Gmbh was sold in March 2002 to Tiscali's indirectly-owned German company, Tiscali Gmbh;
- Nets S.A. (now Tiscali International Network S.A.) was sold in June 2002 to Tiscali's Dutch subsidiary, Tiscali International B.V.;
- Tiscali Reseaux S.A. (formerly Tiscali France S.A.) was sold in March 2002 to the French company Tiscali Telecom S.A., which is indirectly owned via the Liberty Surf Group S.A.

The transactions described above were carried out at net book value.

For the period ending 31 December 2001, write-downs amounting to around EUR 922mn were made to align the cost of holdings to prevailing market values. These write-downs were calculated on the basis of valuations and other parameters considered representative, with the aim of determining the residual value of the holdings. Given the major changes in value affecting the internet market in the period under review, and in anticipation of greater stability in key parameters, it was considered prudent to establish a reserve under liabilities to cover any losses that may arise in relation to the item in question.

This reserve contains approximately EUR 187mn, and corresponds to consolidated losses accrued by Group companies in the six months to 30 June 2002.

	BALANCE				WRITE-UPS (DOWNS)	OTHER MOVEMENTS	BALANCE
	12.31.2001	INCREASES (DISPOSALS)					06.30.2002
<b>AFFILIATED COMPANIES</b>							
FreeTravel S.p.A.	250	-	-	-	-	-	250
Ariete Telemedia S.r.l.	744	-	-	-	-	-	744
	<b>994</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>994</b>
<b>OTHER COMPANIES</b>							
	BALANCE						BALANCE
	12.31.2001	INCREASES (DISPOSALS)		WRITE-UPS (DOWNS)	OTHER MOVE.		06.30.2002
Crs4	126	-	-	-	-	-	126
Consortium Green Management	5	-	-	-	-	-	5
Mix S.r.l.	1	-	-	-	-	-	1
Stud Soc. Consortile	15	-	-	-	-	-	15
Nets Broadband S.p.A.	34	-	-	-	-	-	34
Netchemya S.p.A.	4.550	-	-	-	-	-	4.550
	<b>4.731</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4.731</b>

## ADDITIONAL INFORMATION

<b>Holdings in group companies</b>						
Name	Head office	Share Capital	Shareholders' equity	Profit (loss)	% Held	B/S value
Best Engineering S.p.A.	Turin	775	72€	57	60.00%	1,290
C D Telekomunikace sro	Prague	29,268	33,62€	2,778	100.00%	43,05€
Energy Byte S.r.l.	Milan	68	42	-87	100.00%	677
Excite Italia B.V.	Amsterdam	75	15,44€	687	100.00%	29,98€
Ideare S.p.A.	Pisa	516	3,317	491	60.00%	2,99€
Informedia S.r.l.	Rome	52	23	-45	95% (***)	25€
Liberty Surf Group Sa	Paris	75,280	144,91€	-7,290	94.50%	518,92€
Tiscali Motoring S.r.l (ex Motorcity S.p.A.)	Cagliari	100	1€	-199	60.00%	50€
Quinary S.p.A.	Milan	1,281	1,16€	-136	70.00%	5,914
STS Studi Tecnologie e Sistemi S.r.l.	Rome	100	50€	-49	50.00%	3,22€
Tiscali Armament Sarl	Paris	8	9€	94	100.00%	892
Tiscali Datacomm Ag (ex Datacomm AG)	Basle	17,050	6,78€	-1,616	80.00%	28,38€
Tiscali Finance SA	Brussels	125	-16,57€	3,272	100.00%	12€
Tiscali Deutschland GmbH (ex Nikoma)	Hamburg	(*) 72,946	(*) (54,898)	(*) (23,503)	100.00%	53,16€
Tiscali Telecomunicaciones SA	Madrid	2,100	-3,889	-2,852	99.99%	12€
World Online International N.V.	Maarsen (NL)	115,519	1,286,604	-45,084	99.49%	1,409,034
Andaledda S.p.A.	Cagliari	(****) 103	(****) 91	(****) (5)	85.00%	8€
Connect Software Inc.	S.Francisco (USA)	(***) 54	(***) (26)	(**) (52)	100.00%	1,027
Gilla Servizi Telecomunicazioni S.r.l	Cagliari	50	-481	-831	90.00%	4€
SurfEU.com Ltd in liquidation	Bermuda	3,918	10,892	-2,911	100.00%	8,56€
Tiscali Czech Republic sro	Prague	34	-25	483	100.00%	35
						<b>2.108.323</b>

In the framework of the overall group reorganisation under way, which has entailed the revaluation of the book values of holdings to align them with changed market conditions, as detailed above, we believe that the residual value of long-term investments, even if exceeding the proportion of equity in question, provides a fair picture of the sector's development potential.

With regard to STS S.r.l, the company holds a de facto controlling stake, since the President and C.E.O, as well as being majority shareholder of Tiscali S.p.A., owns a further 10% of the same company.

(\*) Data pertaining to sub-consolidated companies

(\*\*) Data referring to the updated accounting situation, since the accounts for the year in question have yet to be approved

(\*\*\*) The remaining 5% is held by Andaledda S.p.A.

(\*\*\*\*) Data as of 31/12/2001

<b>Holdings in affiliated companies</b>						
Company name	Head office	Share capital	Shareholders' equity	Profit (loss)	% Held	B/S Value
Ariete Telemedia S.r.l.	Milan	(*) 52	(*) 114	(*) 48	40%	744
FreeTravel S.p.A. in liquidation	Milan	(*) 50€	(*) 365	(*) (135)	50%	25€
						<b>994</b>

(\*) Data as of 31/12/2000

## C) Current Assets

### I - Inventories

Inventories consist largely of goods for resale and consumables.

Following is a schedule of changes in inventories:

Changes	06/30/2002	12/31/2001	Change
Telephone cards and various consumables	275	244	31
Goods for resale	1,176	1,084	92
	<b>0</b>	<b>1,451</b>	<b>1,328</b>
			<b>123</b>

Goods for resale mainly consist of satellite equipment for the new "Tiscali Sat" service (about EUR 0.8mn), ancillary equipment for the use of the Netphone service, and modems for the ADSL service.

### II – Receivables

Receivables break down as follows:

	06/30/2002	12/31/2001	Change
EU customers	63,872	59,032	4,840
Non-EU customers	-	-	-
less: bad debt provision	(17,057)	(13,678)	(3,379)
	<b>46,815</b>	<b>45,354</b>	<b>1,461</b>

Receivables from customers arise from the sale of telephone and internet services, mainly consisting of the invoicing of reverse interconnection traffic and advertising revenues. The company is currently making stringent efforts to collect outstanding receivables.

To align the value of receivables with that of the estimated market value, bad debt provision has been set at approximately EUR 17mn.

### ANALYSIS OF RECEIVABLES

The table below shows the amounts for each balance sheet item pertaining to receivables, by the period in which they fall due.

WORKING CAPITAL	06/30/02			12/31/01		
	Receivables falling due			Receivables falling due		
	Within 1 year	From 1 to 5 years	Over 5 years	Within 1 year	From 1 to 5 years	Over 5 years
Receivables:						
From customers	46,815	-	-	45,354	-	-
From Group companies	109,880	30,034	-	131,644	1,915	-
From affiliated companies	-	-	-	-	-	-
From parent companies	-	-	-	-	-	-
From others	21,158	281	-	22,371	234	-
	<b>177,853</b>	<b>30,315</b>	<b>-</b>	<b>199,369</b>	<b>2,149</b>	<b>-</b>

## RECEIVABLES FROM GROUP COMPANIES

Receivables from Group companies are detailed as follows:

	Financial receivables		Trade receivables		total
	< 1 year	> 1 year	< 1 year	> 1 year	
<b>GROUP COMPANIES:</b>					
Best Engineering S.p.A.	305	-	2	-	307
CD Telekomunikace Sro	-	23,926	-	-	23,926
Energy Byte S.r.l	225	-	1	-	226
Excite Italia B.V.	-	-	842	-	842
Ideare S.p.A.	-	-	57	-	57
Informedia S.r.l.	98	-	238	-	336
Liberty Surf Group SA	-	-	77	-	77
Quinary S.p.A.	-	-	70	-	70
STS S.r.l.	-	-	13	-	13
Tiscali Datacomm AG	-	-	1,943	-	1,943
Tiscali Deutschland GmbH (ex Nikoma)	-	6,108	3,419	-	9,527
Tiscali Finance SA	-	-	128	-	128
Tiscali International B.V.	89,828	-	10,353	-	100,181
Tiscali International Network SA (ex Nets SA)	44	-	217	-	261
Tiscali Motoring S.r.l. (ex Motorcity S.p.A.)	196	-	3	-	199
Tiscali Telecomunicaciones SA	-	-	1,178	-	1,178
Andaledda S.p.A.	5	-	-	-	5
Connect Software Inc.	49	-	-	-	49
Gilla Servizi Telecomunicazioni S.r.l. (ex Gilla S.p.A.)	349	-	233	-	582
Tiscali Czech Republic sro	-	-	7	-	7
	<b>91,099</b>	<b>30,034</b>	<b>18,781</b>	<b>-</b>	<b>139,914</b>

Receivables from Group companies posted as long-term receivables refer to financial receivables that the parent company intends to convert into increases of value in holdings. In particular, this covers the sum of about EUR 23.9mn in respect of CD Telekomunikace Sro.

Trade receivables derive from the passing on of costs borne by Tiscali S.p.A. in respect of Group companies, which largely cover holding company services and advertising costs.

Receivables from Tiscali International B.V. include EUR 80mn from the acquisition of Springboard Internet Services Ltd concluded in 2001. These receivables do not generate interest since they are destined to form part of an increase in the Group company's capital, following the Group's reorganisation.

Other receivables break down as follows:

	Financial	
	Balance 30/06/2002	Balance 31/12/2001
<b>Receivable within one year</b>		
Withholding taxes	433	433
Receivables from the Treasury for contributions under law 388, art. 8	2,270	6,209
Receivables from employees	14	4
Receivables from others	23	26
VAT receivables	16,920	15,586
Other receivables	1,499	113
	<b>21,159</b>	<b>22,371</b>
<b>Receivable after one year</b>		
Deposits	281	234
	<b>281</b>	<b>234</b>
	<b>21,440</b>	<b>22,605</b>

Receivables from the Treasury include EUR 2.3mn on remaining contributions for investments carried out during the 2001 financial year, accruing from the subsidies granted under art. 8 of Law 388. A matching item to the amount of EUR 6.2mn was posted on the liabilities side under deferrals, since it is planned to include the benefit, which accrued in the first six months of 2002 (EUR 3.9mn), in the profit and loss account in relation to its use.

An application has been made for the reimbursement of VAT amounting to EUR 10mn and is listed under VAT receivables.



“Other receivables” include advance payments from suppliers of EUR 1.4mn. This amount has been reduced in previous financial years by payables to suppliers.

### III – Investments other than non-current assets

Details of costs and changes pertaining to investments other than non-current assets for the period are detailed below.

	30/06/02			31/12/01		
	cost	Write-ups/downs	B/S value	cost	Write-ups/downs	B/S value
Italian bonded securities	874	-	874	8,536	-	8,536

These securities, which were purchased in the previous financial year for the purpose of investing a temporary excess of liquid assets, are used in conjunction with short-term financing operations (swaps) at lower rates than the coupon falling due.

They were sold in June, to take advantage of favourable market prices, and so generated a trading profit.

The securities that matured at the beginning of the following month were not, however, sold.

### IV – Cash and cash equivalents

At 30 June 2002 cash and cash equivalents broke down as follows:

Cash and cash equivalents	30/06/2002	31/12/2001	Change
Bank and postal deposits	2,806	223	2,583
Cash and other negotiable instruments	20	17	3
<b>Cash and cash equivalents</b>	<b>2,826</b>	<b>240</b>	<b>2,586</b>

### D) Accrued income and deferred charges

Following is a summary of accrued income and deferred charges:

Accrued income and deferred charges	30/06/2002	31/12/2001	Change
<i>Accrued income:</i>			
Accrued interest	12	2	10
<i>Deferred charges:</i>			
Insurance premiums	175	63	112
Telephone	-	-	-
Leasing payments	284	2,503	(2,219)
Rentals	342	440	-98
Pre-paid expenses	1,971	201	1,770
Pre-paid interest	-	-	-
Other deferred charges	7,917	5,020	2,897
	10,689	8,227	2,462
	<b>10,701</b>	<b>8,229</b>	<b>2,472</b>

The decrease recorded under “Leasing payments” is attributable to the fact that payments for later periods, which in 2001 were deferred to respect matching criteria, were not booked in the period under review since they did not originate from a similar deferred item.

“Other deferred charges” include EUR 0.6mn in pre-paid maintenance costs, bank charges and ministerial contributions applicable annually and spanning more than one financial year.

This item also includes EUR 3.9mn pertaining to the cost of sponsoring sporting events deferred to the second half of the year, a further EUR 1.6mn in advertising costs relating to the launch of the Tiscali 10.0 service at the end of 2001, which was listed on the profit and loss account, with a twelfth attributed to each month of the current half-year, and lastly, EUR 0.8m spent on a European advertising campaign.

# Liabilities

## A) Shareholders' equity

### Statement of changes in shareholders' equity

The schedule below provides a summary of changes in the shareholders' equity accounts for the period.

	BALANCE 31/12/2001	Allocation of earnings	Dividends	Other movement	Balance sheet Result	BALANCE 30/06/2002
Share capital	179,209	-	-	482	-	179,691
Share premium reserve	2,654,962	(1,041,208)	-	8,341	-	1,622,095
Other reserves:						
Retained earnings (losses)	-	-	-	-	-	-
Net profit (loss) for the year	(1,041,208)	1,041,208	-	-	(241,299)	(241,299)
	<b>1,792,963</b>	<b>-</b>	<b>-</b>	<b>8,823</b>	<b>(241,299)</b>	<b>1,560,487</b>

At 30 June 2002, the Company's share capital was EUR 179,690,749.50 consisting of 359,381,499 ordinary shares with a nominal value of EUR 0.50 each.

The extraordinary general meeting held on 30 April 2002 voted to cover losses relating to the 2001 financial year by using EUR 1,041,208,369.50 from the "Share premium reserve".

Other capital increases and increases in the share premium reserve that occurred during the period under consideration came about as a result of takeover operations by means of share transfers. During the course of the financial year, a total of 963,841 shares were issued, at a nominal amount of EUR 481,920.50.

At the same time, the "share premium reserve" was increased by EUR 8,340,254.48, but after the use of an amount to cover losses, a net decrease of EUR 1,032,868,115.02 was shown on this line.

Changes in share capital are listed below, next to the transaction to which they refer:

	Issue date	No. shares issued	Share capital increase	Share premium reserve
EUR				
Exercise of warrants - Connect Software	29/01/2002	74,349	37,175	-
Neue Medien Ulm HLD GmbH	28/03/2002	589,371	294,686	5,505,315
Acquisition 30% Excite	17/05/2002	300,121	150,060	2,834,940
Use of share premium reserve to cover losses				(1,041,208,370)
			<b>481,921</b>	<b>(1,032,868,115)</b>

The capital increase for Neue Medien was fully subscribed and paid up in cash. The issue for the acquisition of 30% of Excite took place through a transfer of shares.

**SHARE CAPITAL COMPOSITION (N° Shares -thousands)**

<b>Nominal value of each share</b>	€		<b>0.50</b>	
Category	31/12/2001	increase	(decrease)	30/06/2002
Ordinary shares	358,417,658	963,841	-	359,381,499
<b>Total</b>	<b>358,417,658</b>	<b>963,841</b>	<b>-</b>	<b>359,381,499</b>

## B) Reserves for risks and future liabilities

Reserves for risks and future liabilities are detailed below :

	Balance 31/12/2001	provisions	(amounts used)	Other movements	Balance 30/06/2002
Provision for exchange fluctuation losses	129	-	(7)	-	122
Reserves for risks and future liabilities	22,873	187,241	-	-	210,114
	<b>23,002</b>	<b>187,241</b>	<b>(7)</b>		<b>- 210,236</b>

The allocation to the reserves for risks and future liabilities includes a provision of around EUR 187mn to cover any losses arising in relation to holdings, plus a provision of EUR 0.36mn to cover potential losses deriving from any legal disputes arising from the group's restructuring.

## C) Staff severance indemnity reserve

The table below displays the changes that occurred during the financial year:

	Balance 31/12/2001	Provisions	(amounts used)	Other movements	Balance 30/06/2002
Blue-collar workers	12	4	-	-	16
Office workers	1,551	608	(55)	-	2,104
Executives	244	73	(14)	-	303
	<b>1,807</b>	<b>685</b>	<b>(69)</b>		<b>2,423</b>

This reserve consists of the actual amount payable by the Company to its employees as at the dates shown, net of advance payments made. Amounts used represent payments made to employees who resigned in the period.

## D) Payables

### Analysis of payables

	30/06/2002	31/12/2001	Change
Due to banks	30,236	14,590	15,646
Other short-term financing	1,137	1,617	(480)
Advances	3,000	-	3,000
Trade payables	75,256	64,412	10,844
Due to group and affiliated companies	516,058	475,846	40,212
Taxes payable	663	855	(192)
Due to social security institutions	657	675	(18)
Other payables	2,031	950	1,081
	<b>629,038</b>	<b>558,945</b>	<b>70,093</b>

The increase recorded under the "due to banks" line derives from the disbursement of the first tranche of a loan granted to the company by Banca CIS for the construction of its new headquarters (Tiscali Campus) and the purchase of the necessary land. The total amount of the loan is EUR 35mn. A pre-financing amount of EUR 2.28mn has already been paid, which will be absorbed into the same loan in proportion to later disbursements, plus the first tranche of EUR 5.5mn. Later payments will be made based on the progress of the works.

"Other short-term financing" includes payables to French company France Finance S.A. in respect of financing for the purchase of equipment, repayable in 18 months. The remainder will be fully paid off

in the 12 months following the end of the period under review.

The "advances" line covers an advance payment for services provided by Overture Search Services (Ireland) Ltd to the value of EUR 3mn, in respect of an agreement to provide search services relating to the effectiveness of search engines on Tiscali portals throughout Europe.

The increase under "trade payables" is attributable to the large amount spent on advertising during the first half of the year, of which a large proportion remains to be paid.

<b>GROUP COMPANIES:</b>	Financial payables		Trade payables		Total
	< 1 year	> 1 year	< 1 year	> 1 year	
Best Engineering S.p.A.	-	-	4	-	4
Energy Byte S.r.l.	-	-	58	-	58
Excite Italia B.V.	13,145	-	2,404	-	15,549
Ideare S.p.A.	894	-	3	-	897
Informedia S.r.l.	-	-	64	-	64
Liberty Surf Group S.A.	9,000	-	908	-	9,908
Quinary S.p.A.	293	-	-	-	293
Tiscali Datacomm AG	3	-	41	-	44
Tiscali Deutschland GmbH (ex Nikoma)	-	-	424	-	424
Tiscali Finance S.A.	167,246	-	-	-	167,246
Tiscali International B.V.	307,006	-	13,993	-	320,999
Tiscali Motoring S.r.l. (ex Motorcity S.p.A.)	42	-	-	-	42
Tiscali Telecomunicaciones S.A.	-	-	328	-	328
Andaledda S.p.A.	52	-	-	-	52
Gilla Servizi Telecomunicazioni S.r.l. (ex Gilla S.p.A.)	-	-	150	-	150
	<b>497,681</b>	-	<b>18,377</b>	-	<b>516,058</b>

Financial payables to Group companies consist mainly of financing obtained by subsidiaries that had liquid assets to carry out takeovers and partly accrue from corporate restructuring operations.

In particular, payables to Tiscali International B.V. accrued during the last financial year generate interest at a floating rate; payables to Tiscali Finance S.A. partly generate fixed-rate interest; and payables to Excite Italia B.V., accrued entirely during the 2001 financial year, generate interest at a floating rate.

Taxes payable are as follows:

	30/06/2002	31/12/2001	Change
Payables to the Treasury for advance withholding taxes	622	814	(192)
Other taxes	41	41	-
	<b>663</b>	<b>855</b>	<b>(192)</b>

Taxes and levies payable to the Treasury consist mainly of advance withholdings on personal income taxes (IRPEF).

Other payables are:

	30/06/2002	31/12/2001	Change
Payables to personnel in lieu of holidays	1,803	705	1,098
Other payables	228	245	(17)
	<b>2,031</b>	<b>950</b>	<b>1,081</b>

The 'payables to personnel' line mainly consists of payables to personnel for holidays owing and not taken by the end of the period under review (EUR 0.6mn), which are partially deferred to later periods, in addition to payables to personnel in lieu of holidays (EUR 1.1mn).

## E) Accrued liabilities and deferred income

The following is a summary of accrued liabilities and deferred income:

	30/06/2002	31/12/2001	Change
<i>Accrued liabilities:</i>			
Accrued holiday bonus	1,384	535	849
Other	537	63	474
	<u>1,921</u>	<u>598</u>	<u>1,323</u>
<i>Deferred income:</i>			
Prepaid internet services	372	533	(161)
Prepaid voice services	4,785	2,368	2,417
Deferred income for contributions under Law 388, Art.8	2,270	6,209	(3,939)
Other	1,082	238	844
	<u>8,509</u>	<u>9,348</u>	<u>(839)</u>
	<b>10,430</b>	<b>9,946</b>	<b>484</b>

This line item includes provisions of around EUR 1.4mn for holiday bonuses accruing, revenues for internet services (domains) pertaining to the 2002 financial year and residual receivables from the sale of pre-paid phone cards.

Deferred income for contributions pertains to the deferment to future financial years of EUR 2.3mn of contributions on investments made during the 2001 financial year, since the contribution will be posted in the profit and loss account as it becomes available.

## Memorandum Accounts

	30/06/2002	31/12/2001	Change
<b>GUARANTEES GIVEN</b>			
Sureties	250,650	250,000	650
	<u>250,650</u>	<u>250,000</u>	<u>650</u>
<b>OTHER MEMORANDUM ACCOUNTS</b>			
Leasing payments falling due	47,187	54,937	(7,750)
Warrants	167	183	(16)
Commitments	10,877	11,059	(182)
	<u>58,231</u>	<u>66,179</u>	<u>(7,948)</u>
<b>GUARANTEES RECEIVED</b>			
Sureties	8,561	7,227	1,334
	<u>8,561</u>	<u>7,227</u>	<u>1,334</u>
	<b>317,442</b>	<b>323,406</b>	<b>(5,964)</b>

The reduction in the memorandum accounts is mainly due to a EUR 7.7mn reduction in leasing payments falling due.

In addition, new guarantees were given to CASIC (Area Consortium for the Industrial Development of Cagliari) via Banca CIS, in respect of the land acquired as detailed above.

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## Profit and Loss Account

### A) Value of production

#### Breakdown of sales and services

This account increased by EUR 0.8mn on the previous period and includes the following items:

<i>Analysis by category of business:</i>	<b>30/06/2002</b>	<b>30/06/2001</b>	<b>Change</b>
Access	33,428	31,575	1,853
Voice services	8,335	11,760	(3,425)
Internet services	9,267	7,637	1,630
Business services	2,511	1,425	1,086
Other services	7,665	8,026	(361)
	<b>61,206</b>	<b>60,423</b>	<b>783</b>

Overall, revenues increased by 1.3% with respect to the same period of the previous financial year. This was due to the rise in revenues from access services (+5.9%), online advertising (+21.3%) and business services (+76.2%), which was largely offset by the fall in income from voice services (down 29.1%).

The advance in access revenues (EUR 2.1mn) was chiefly attributable to ASDL, a service which was not available until a few months into the previous financial year. Reverse interconnection tariffs also rose, by EUR 0.7mn, with interconnection minutes climbing from 4,351 million in the first half of 2001 to 4,692 million in the first half of this year. The previous period also included EUR 0.9mn in non-recurrent revenues for leasing payments falling due.

In the B2B sector, revenues were mainly generated through the sale of domain names, housing and hosting services, and connection services.

The reduction in phone revenues was the combined result of a deterioration in the tariff mix and a drop in traffic volumes, both hit by strong competition from leading national and regional operators.

Practically all revenues were recorded in EU countries. Transactions between Group companies produced a sum of EUR 8.5mn, as shown in more detail below.

## ANALYSIS OF INTRACOMPANY SALES AND SERVICES

Revenues accruing from sales and services to Group companies are detailed below:

	30/06/2002
Tiscali International B.V.	6,402
Tiscali International Network S.A. (ex Nets S.A.)	148
Tiscali Datacomm AG	285
Excite Italia B.V.	1,545
STS S.r.l.	6
Quinary S.p.A.	108
Ideare S.p.A.	19
Gilla Servizi Telecomunicazioni S.r.l. (ex Gilla S.p.A.)	48
<b>Intracompany revenues</b>	<b>8.561</b>

Revenues from group companies mainly derive from the back-invoicing of expenses borne by the parent company on their behalf.

## OTHER INCOME

Other income	30/06/2002	30/06/2001	Change
Other income	3,943	1	3,942
<b>Other income</b>	<b>3,943</b>	<b>1</b>	<b>3,942</b>

“Other income” includes contributions received in 2001 in respect of incentives set out under art. 8 of Law 388 on investment.

The Company decided to record the full amount of this subsidy on the profit and loss account for the period under review.

## B) Production costs

### Purchase of raw materials, supplies and consumables

The elements included under this item are described in detail below :

Raw materials, supplies and consumables	30/06/2002	30/06/2001	Change
Purchase of sales goods	537	408	129
Purchase of consumable materials	109	305	(196)
Purchase of publicity and promotion materials	244	168	76
Other purchases	1	4,982	(4,981)
<b>Raw materials, supplies and consumables</b>	<b>891</b>	<b>5,863</b>	<b>(4,972)</b>

The reduction in purchasing costs is mainly due to the end of the cabling project that is now being developed by the subsidiary CD Telecomunikace. The “other purchases” line covers fibre optic cables purchased for this project.



## Analysis of expenses for the provision of services

The analysis and composition of this item is described in detail below:

Provision of services	30/06/2002	30/06/2001	Change
Rental of telephone lines	13,994	14,086	(92)
Procurement of traffic	5,197	9,110	(3,913)
Advertising and promotion expenses	22,751	6,973	15,778
Maintenance costs	3,531	2,690	841
Advisory services	1,869	1,529	340
Costs of sales	251	568	(317)
Utilities	629	585	44
Bank and postal charges	261	158	103
Travel and transport fees	41	120	(79)
Other services	12,555	8,955	3,600
<b>Provision of services</b>	<b>61,079</b>	<b>44,774</b>	<b>16,305</b>

Overall, the cost of service provision increased by around 36% on the previous period.

The most significant line items consist of:

Traffic procurement costs to the value of EUR 5.2mn, deriving from voice services and including variable interconnection costs. The decrease reflects the reduction in traffic volumes as referred to in the comments on revenues above.

Advertising and promotion expenses increased by EUR 15.8mn due to the extensive campaign carried out in Italy and throughout Europe and designed to promote the launch of the new 'Tutto Tiscali' service and raise the profile of the Tiscali brand Europe wide, partly through sponsorship agreements, notably with the BAR Formula 1 team and the Danish cycling squad.

Maintenance costs increased sharply to EUR 3.5mn, due to the increase in company investments.

Costs relating to "Other services" included around EUR 2.1mn for the purchase of content, EUR 4.5mn for costs borne on behalf of other Group companies and passed on to same, and around EUR 2.1mn for business trips and relocations.

### INTRACOMPANY PRODUCTION COSTS

Intracompany services	30/06/2002
<i>Company:</i>	amount
Energy Byte S.r.l.	73
Excite Italia B.V.	2,786
Ideare S.p.A.	15
Liberty Surf Group S.A.	660
Tiscali Datacomm AG	38
Tiscali Deutschland GmbH (ex Nikoma)	424
Tiscali International B.V.	2,273
Tiscali Motoring S.r.l. (ex Motorcity S.p.A.)	350
Tiscali Telecomunicaciones S.A.	73
Gilla Servizi Telecomunicazioni S.r.l. (ex Gilla S.p.A.)	148
<b>Intra company services</b>	<b>6,840</b>

Costs invoiced by Tiscali International B.V. mainly refer to the transfer of expenses in respect of services and personnel working in the offices of the parent company.

The costs of Energy Byte, Excite Italia and Tiscali Telecomunicaciones are advertising costs. The remaining costs invoiced by Tiscali Motoring cover the updating of portals throughout Europe.

### Cost of use of third-party assets

Use of third-party assets	30/06/2002	30/06/2001	Change
Financial and operating leasing fees	8,681	5,059	3,622
Rentals	1,183	746	437
Other	294	153	141
<b>Use of third-party assets</b>	<b>10,158</b>	<b>5,958</b>	<b>4,200</b>

The increase with respect to the previous financial year relates to a sharp increase in spending on leases after July 2001.

## Personnel Costs

	Personnel costs	30/06/2002	30/06/2001	Change
Wages and salaries		10,972	7,943	3,029
Social contributions		1,643	913	730
Staff severance indemnity		685	592	93
Other costs		92	-	92
<b>Personnel costs</b>		<b>13,392</b>	<b>9,448</b>	<b>3,944</b>

The increase reflects the significant rise in staff numbers, from 682 at 30 June 2001, to 781 at 30 June 2002, partly as a result of the holding company activities carried out by the parent company.

## Other operating expenses

	Other operating expenses	30/06/2002	30/06/2001	Change
Government concessions and telecommunications licences		240	318	(78)
Taxes other than income tax		65	26	39
Magazine and newspaper subscriptions		22	9	13
Other minor charges		70	34	36
<b>Other operating expenses</b>		<b>397</b>	<b>387</b>	<b>10</b>

## c) Financial income and charges

FROM GROUP COMPANIES

Income generated over the first half of the year is shown in the table below.

	Income from group companies	Interest	Other	Total
Surf EU		-	50	50
Energy Byte, S.p.A.		8	-	8
Best Engineering S.p.A.		4	-	4
<b>Income from group companies</b>		<b>12</b>	<b>50</b>	<b>62</b>

## ANALYSIS OF OTHER FINANCIAL INCOME

	Other financial income	30/06/2002	30/06/2001	Change
<b>From securities listed under current assets other than holdings</b>				
Interest from other securities		222	251	(29)
		222	251	(29)
<b>Income other than the above from third parties:</b>				
Bank interest receivable		6	150	(144)
Income from positive exchange rate fluctuations		27	288	(261)
		33	438	(405)
<b>Other financial income</b>		<b>255</b>	<b>689</b>	<b>(434)</b>

Financial income accruing from "Securities listed under current assets other than holdings" refers to the interest accruing on Cariplo bonds.

## INTEREST AND OTHER FINANCIAL CHARGES

	From associated companies	30/06/2002	30/06/2001	Change
Interest		10,006	6,393	(3,614)
<b>From associated companies</b>		<b>10,006</b>	<b>6,393</b>	<b>(3,614)</b>

Interest payable refers to amounts accrued on loans from Tiscali Finance S.A., Tiscali International B.V. and Excite Italia B.V. of EUR 3.9mn, EUR 5.7mn and EUR 0.03mn respectively.

#### COMPOSITION OF OTHER FINANCIAL CHARGES

<b>Financial charges</b>	<b>30/06/2002</b>	<b>30/06/2001</b>	<b>Change</b>
On:			
Amounts due to banks for overdrafts	524	378	146
Amounts due to banks for medium-/long-term loans	58	-	58
Amounts due to other financiers	47	-	47
Other payables	65	196	(131)
Negative exchange rate fluctuations	5	224	(219)
Other charges	146	209	(63)
<b>Financial charges</b>	<b>845</b>	<b>1,007</b>	<b>(162)</b>

This item mainly comprises interest charges due on bank overdrafts. The "other charges" line covers interest payable on swap transactions and pre-financing from Banca CIS.

## E) Extraordinary income and charges

### Composition of extraordinary income

Extraordinary income is detailed below:

<b>Extraordinary income</b>	<b>30/06/2002</b>	<b>30/06/2001</b>	<b>Change</b>
Contingent assets and non-existent liabilities	642	1,512	(870)
<b>Extraordinary income</b>	<b>642</b>	<b>1,512</b>	<b>(870)</b>

Contingent assets derive from a EUR 0.3mn set-off transaction in respect of loans granted to Group subsidiary Liberty Surf group and a EUR 0.3mn payment for withdrawal from options contracts.

### Composition of extraordinary charges

Extraordinary charges are set out below:

<b>Extraordinary charges</b>	<b>30/06/2002</b>	<b>30/06/2001</b>	<b>Change</b>
Contingent liabilities and non-existent assets	2,467	6,431	(3,964)
Other extraordinary charges	10,658	155	10,503
Write-downs on holdings	1	-	1
<b>Extraordinary charges</b>	<b>13,126</b>	<b>6,586</b>	<b>6,540</b>

"Contingent liabilities" includes EUR 0.9mn in interest payable on loans taken out in 2001 for the subsidiaries Tiscali Belgium and Tiscali Telecomunicaciones and EUR 1.3mn in a number of minor cost items not established in previous financial years.

"Other extraordinary charges" include EUR 2.7mn for the higher acquisition price paid for Surf Eu, a company taken over from the subsidiary Tiscali International B.V., EUR 5.8mn in subscriber acquisition costs for Germany spent by the parent company and payments totalling EUR 1.5mn to Telecom Italia and Autostrade in respect of agreements terminated early.

## Other Information

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As required by current regulations, the tables below give the composition of the workforce by job category.

	<b>AVERAGE 2002</b>	<b>30/06/02</b>	<b>AVERAGE 2001</b>	<b>30/06/01</b>
BLUE-COLLAR WORKERS	7	7	7	7
OFFICE WORKERS	702	716	618	643
MIDDLE MANAGEMENT	27	28	21	24
EXECUTIVES	31	32	22	21
	<b>767</b>	<b>783</b>	<b>668</b>	<b>695</b>

# Financial statement analysis

To provide a comprehensive overview of the parent company's financial statements, the following tables contain a short analysis consisting of the Restated Balance Sheet, the Restated Profit and Loss Account, a series of Balance Sheet Ratios and the Statement of Changes in Financial Position. The balance sheet has been restated according to the criterion of increasing liquidity, to provide a brief summary of total assets and liabilities so as to enable an accurate valuation of the financial position. The profit and loss account has been restated in single column format and showing the different elements making up operating profit and costs. For ease of reference, balance sheet ratios are calculated using data from the final consolidated balance sheet for each of the two financial years under comparison. The consolidated Statement of Changes in Financial Position is intended to highlight the most significant changes in the accounts in a comprehensive and structured manner. The statement is organised according to financial flows, as recommended by the Italian Association of Chartered Accountants (Consiglio Nazionale dei Dottori Commercialisti e dei Ragionieri).

## BALANCE SHEET ANALYSIS

<b>ASSETS</b>	<b>30/06/2002</b>	<b>%</b>	<b>31/12/2001</b>	<b>%</b>	<b>Change</b>	<b>Change %</b>
<b>CURRENT ASSETS</b>						
Cash and banks	2,826		240		2,586	1077.50%
Receivables	177,854		199,369		(21,515)	-10.79%
Inventory	1,451		1,328		123	9.26%
Pre-payments and accrued income	10,702		8,229		2,473	30.05%
Other current assets	874		8,536		(7,662)	-89.76%
<b>Total current assets</b>	<b>193,707</b>	<b>8.03%</b>	<b>217,702</b>	<b>9.12%</b>	<b>(23,995)</b>	<b>-11.02%</b>
<b>NON CURRENT ASSETS:</b>						
Fixed assets	21,617		15,713		5,904	37.57%
Intangible assets	52,929		45,805		7,124	15.55%
Investments and securities	2,114,047		2,105,423		8,624	0.41%
Other non-current assets	30,314		2,149		28,165	1310.61%
<b>Total non-current assets</b>	<b>2,218,907</b>	<b>91.97%</b>	<b>2,169,090</b>	<b>90.88%</b>	<b>49,817</b>	<b>2.30%</b>
<b>TOTAL ASSETS</b>	<b>2,412,614</b>	<b>100.00%</b>	<b>2,386,792</b>	<b>100.00%</b>	<b>25,822</b>	<b>1.08%</b>
<b>LIABILITIES AND S. EQUITY</b>						
<b>CURRENT LIABILITIES</b>						
Banks	22,493		14,590		7,903	54.17%
Trade creditors	75,256		64,412		10,844	16.84%
Other creditors	522,884		479,088		43,796	9.14%
Accrued liability and deferred income	10,430		9,946		484	4.87%
Taxation creditors	663		855		(192)	-22.46%
<b>Total current liabilities</b>	<b>631,726</b>	<b>26.18%</b>	<b>568,891</b>	<b>23.83%</b>	<b>62,835</b>	<b>11.05%</b>
<b>TOTAL MEDIUM-/LONG-TERM LIABILITIES</b>						
Loans	7,743		130		7,613	5856.15%
Staff severance indemnity	2,423		1,807		616	34.09%
Reserves for risks and charges	210,236		23,002		187,234	813.99%
<b>Total medium-/long-term liabilities</b>	<b>220,402</b>	<b>9.14%</b>	<b>24,939</b>	<b>1.04%</b>	<b>195,463</b>	<b>783.76%</b>
<b>Total liabilities</b>	<b>852,128</b>	<b>35.32%</b>	<b>593,830</b>	<b>24.88%</b>	<b>258,298</b>	<b>43.50%</b>
<b>SHAREHOLDERS' EQUITY</b>						
Share capital	179,691		179,209		482	0.27%
Reserves	1,622,095		2,654,963		(1,032,868)	-38.90%
Net profit	(241,299)		(1,041,209)		799,910	-76.83%
<b>Total shareholders' equity</b>	<b>1,560,487</b>	<b>64.68%</b>	<b>1,792,963</b>	<b>75.12%</b>	<b>(232,476)</b>	<b>-12.97%</b>
<b>TOTAL</b>	<b>2,412,614</b>	<b>100.00%</b>	<b>2,386,792</b>	<b>100.00%</b>	<b>25,822</b>	<b>1.08%</b>

## ANALYSIS OF PROFIT AND LOSS ACCOUNT

<b>PROFIT AND LOSS ACCOUNT</b>	<b>30/06/2002</b>		<b>31/12/2001</b>		<b>change</b>	<b>change %</b>
		<b>%</b>		<b>%</b>		
<b>Net sales</b>	<b>61,206</b>	<b>100.00%</b>	<b>115,038</b>	<b>100.00%</b>	<b>(53,832)</b>	<b>-46.79%</b>
<i>Operating costs:</i>						
Purchases	(891)	-1.46%	(10,700)	-9.30%	9,809	-91.67%
Services rendered	(61,079)	-99.79%	(91,829)	-79.82%	30,750	-33.49%
Amortisation/depreciation	(6,784)	-11.08%	(10,826)	-9.41%	4,042	-37.34%
Labour costs	(13,392)	-21.88%	(18,437)	-16.03%	5,045	-27.36%
Increase (decrease) in inventories	59	0.10%	559	0.49%	(500)	-89.45%
Other running costs	(201,342)	-328.96%	(39,858)	-34.65%	(161,484)	405.15%
<b>Operating profit</b>	<b>(222,223)</b>	<b>-363.07%</b>	<b>(56,053)</b>	<b>-48.73%</b>	<b>(166,170)</b>	<b>296.45%</b>
Financial income	317	0.52%	9,548	8.30%	(9,231)	-96.68%
Financial charges	(10,852)	-17.73%	(15,769)	-13.71%	4,917	-31.18%
Miscellaneous income	4,585	7.49%	8,598	7.47%	(4,013)	-46.67%
Miscellaneous charges	(13,126)	-21.45%	(987,533)	-858.44%	974,407	-98.67%
<b>Profit before tax</b>	<b>(241,299)</b>	<b>-394.24%</b>	<b>(1,041,209)</b>	<b>905.10%</b>	<b>799,910</b>	<b>-76.83%</b>
<b>PROFIT (LOSS) FOR THE PERIOD</b>	<b>(241,299)</b>	<b>-394.24%</b>	<b>(1,041,209)</b>	<b>-905.10%</b>	<b>799,910</b>	<b>-76.83%</b>

## Cash Flow Statement

<b>CASH FLOWS GENERATED FROM OPERATIONS:</b>	<b>30/06/2002</b>	<b>31/12/2001</b>
<i>Net loss for the period</i>	<b>(241,299)</b>	<b>(1,041,209)</b>
<i>Adjustments for amounts not affecting cash flow:</i>		
Depreciation and amortisation	6,783	15,055
Provision to staff severance indemnity reserve	685	1,148
Staff severance indemnities paid during the period	(69)	(84)
Provision (use) of reserve for risks and future liabilities	187,234	10,511
	(46,666)	(1,014,579)
<i>Changes in current assets and liabilities:</i>		
Amounts due from customers	21,515	(67,941)
Other receivables	7,662	715
Inventories	(123)	1,013
Accrued income and deferred charges	(2,473)	(2,306)
Trade accounts payable	10,844	(4,514)
Other liabilities	43,796	418,732
Accrued liabilities and deferred income	484	7,299
Reserve for taxes payable	(192)	441
	276,146	380,069
<b>Cash flow generated from operations</b>	<b>34,847</b>	<b>(661,140)</b>
<b>CASH FLOWS FROM INVESTMENT ACTIVITY:</b>		
Net book value of assets sold	-	0
Purchase of fixed assets	(6,137)	(12,417)
Increases in intangible assets	(13,674)	(29,025)
Reduction (increase) in other non-current assets	(8,623)	152,946
	(28,434)	111,504
<b>CASH FLOWS FROM FINANCING ACTIVITY:</b>		
New loans	7,743	130
Reimbursement of loans	(130)	-
Capital increases	8,822	546,798
Dividends paid	-	-
Reduction (increase) in other non-current assets	(28,165)	(1,929)
	(11,730)	544,999
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(5,317)</b>	<b>(4,637)</b>
<b>CASH AND CASH EQUIVALENTS: OPENING BALANCE</b>	<b>(14,350)</b>	<b>(9,714)</b>
<b>CASH AND CASH EQUIVALENTS: CLOSING BALANCE</b>	<b>(19,667)</b>	<b>(14,350)</b>