

- **Half-year financial information as of 30 June 2004**

- **HALF-YEAR REPORT TO 30 JUNE 2004** ..... 1
- **DIRECTORS AND AUDITORS** ..... 3
- **BOARD OF DIRECTORS** ..... 3
- **BOARD OF AUDITORS** ..... 3
- **EXTERNAL AUDITORS** ..... 3
- **HIGHLIGHTS** ..... 4
- **REPORT ON OPERATIONS**..... 5
- **TISCALI SHARES** ..... 5
- **THE CONSUMER INTERNET MARKET** ..... 8
- **RESULTS AND OPERATING PERFORMANCE** ..... 9
- **TISCALI GROUP: KEY FIGURES** .....11
- **REVENUES BY COUNTRY** .....14
- **GROSS MARGIN AND OPERATING COSTS** .....15
- **INVESTMENT** .....16
- **FINANCIAL POSITION** .....17
- **SIGNIFICANT EVENTS SINCE THE END OF THE PERIOD** .....19
  - Ongoing disputes ..... 22
  - Parent company: key figures ..... 24
  - Parent company operating performance ..... 24
  - Breakdown of parent company revenues ..... 25
  - Financial position of the parent company ..... 27
  - Parent company investments ..... 27
  - Significant events since the end of the period ..... 28

■ **Directors and Auditors**

■ **Board of Directors**

Chairman

Renato Soru

**CEO**

Ruud Huisman

**Directors**

Tomaso Barbini

Franco Bernabè

Victor Bischoff

Massimo Cristofori

Gabriel Pretre

Mario Rosso

■ **Board of Statutory Auditors**

**Chairman**

Aldo Pavan

**Statutory Auditors**

Piero Maccioni

Massimo Giaconia

**Deputy Auditors**

Andrea Zini

Rita Casu

■ **Independent Auditors**

Deloitte & Touche SpA

## ■ Highlights

Consolidated revenues were up 25% on the first half of 2003, to EUR 538 million.

The number of ADSL users shot up by 600,000 to 1,440,000. This was a 72% increase on December 2003 and a 213% jump versus June 2003.

Tiscali invested heavily in developing unbundled networks in Italy and France in the first six months. Unbundling continues to be a success in the Netherlands and Denmark, where over 55% and over 80% of ADSL customers respectively subscribe to these services, generating profit margins of around 70%.

EBITDA for the first half stood at EUR 48.2 million (9% of revenues), an increase of 47% on the EUR 32.7 million generated in the first half of 2003.

The group generated an EBIT loss of EUR 66.4 million, an improvement on the loss of EUR 98.8 million posted in the same period of 2003.

The loss excluding minorities was EUR 134.3 million, from a loss of EUR 129.3 million in the first half of 2003.

Net debt stood at EUR 371.1 million at 30 June 2004, while cash and cash equivalents totalled EUR 218.5 million.

■ **Report on operations**

■ **Tiscali shares**

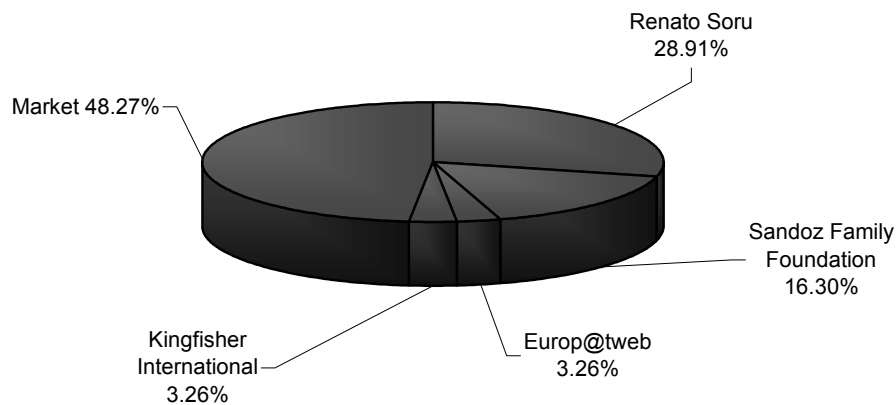
Tiscali is listed on the TechStar segment of the Milan Nuovo Mercato (TIS), and on the Paris Nouveau Marché (005773). At 30 June 2004, its market capitalisation was EUR 1,380 million. Tiscali has retained its position as the most highly-capitalised company on the Nouveau Marché.

Tiscali's share capital comprised 373,918,764 shares at 30 June 2004.

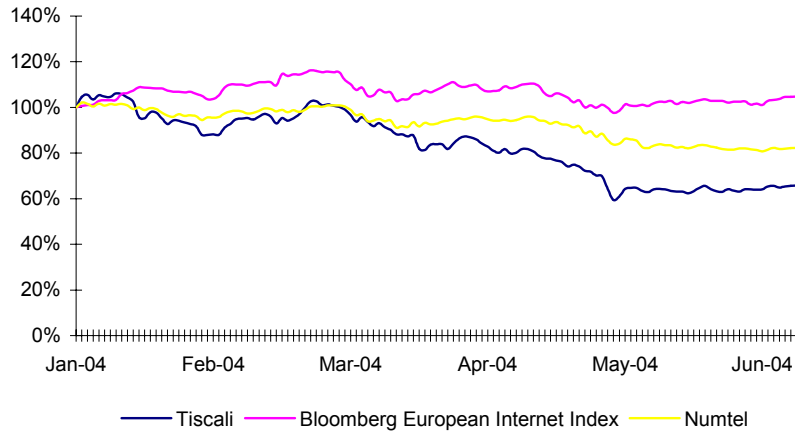
The table below lists the capital increases transactions carried out during the first half of the year:

Date	Description	Shares issued	Share capital
16.06.04	Capital increase to issue shares in exchange for a credit from Via Net Work UK Ltd	1,060,249	373,918,764
24.02.04	Capital increase to issue shares in exchange for the entire share capital of EUnet EDV und Internet Dienstleistungs AG	3,604,899	372,858,515
17.02.04	Capital increase to issue shares in exchange for the entire share capital of Home.se AB	333,189	369,253,616

The chart below shows Tiscali's shareholder base at 30 June 2004:

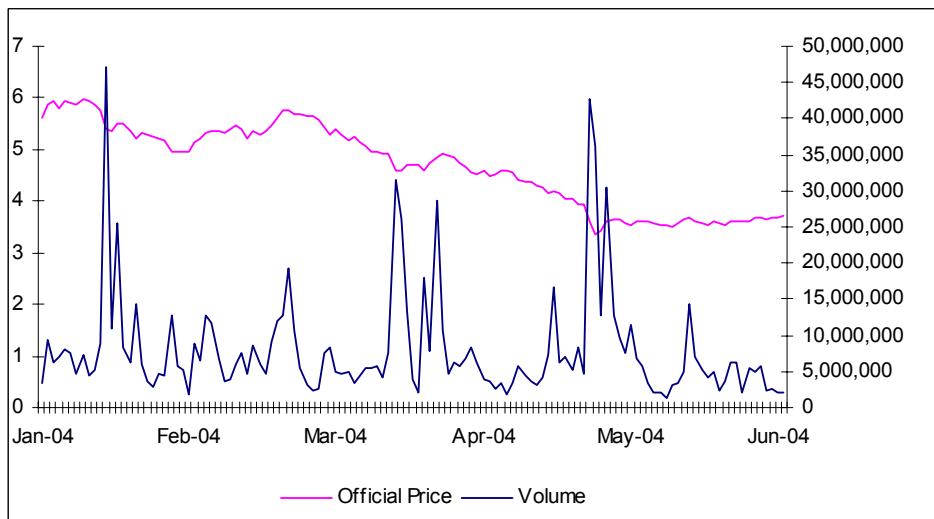


Tiscali shares underperformed both the Numtel and the Bloomberg European Internet Index in the first half of 2004.



Source: Bloomberg

An average of around 8 million Tiscali shares were traded daily in the period, while the average daily value of trades was around EUR 38 million.



Source: Bloomberg

The Nuovo Mercato remains Tiscali's main market, accounting for 99.7% of total trades.

**Average daily trades of Tiscali shares on its two markets.**

Number of shares

Date	Nuovo Mercato		Nouveau Marche'		Total	
	Number of shares	in %	Number of shares	in %	Number of shares	in %
January 04	<b>9,598,341</b>	99.78%	<b>20,737</b>	0.22%	<b>9,619,077</b>	100%
February 04	<b>7,102,954</b>	99.79%	<b>14,760</b>	0.21%	<b>7,117,713</b>	100%
March 04	<b>8,589,810</b>	99.81%	<b>16,332</b>	0.19%	<b>8,606,143</b>	100%
April 04	<b>6,894,626</b>	99.87%	<b>9,020</b>	0.13%	<b>6,903,646</b>	100%
May 04	<b>11,657,484</b>	99.67%	<b>38,123</b>	0.33%	<b>11,695,607</b>	100%
June 04	<b>4,384,632</b>	99.14%	<b>38,153</b>	0.86%	<b>4,422,786</b>	100%
<b>Daily average</b>	<b>8,037,974</b>	<b>99.68%</b>	<b>22,854</b>	<b>0.32%</b>	<b>8,060,829</b>	<b>100.00%</b>

Source: Bloomberg

## Market background

### ■ The consumer internet market

In the first half of 2004, consumer demand for broadband internet services in Europe shot up, outstripping growth rates in dial-up and consolidating the trend already established in 2003.

The sustained increase in broadband users in Europe was partly due to the migration of dial-up users, but also to new demand from users embracing broadband technology immediately without trying dial-up first.

There were no significant changes in the market shares of Europe's leading operators compared with end-2003. T-online (Deutsche Telekom) remains the leading operator in Europe with a 19% share of the internet market and around 12% of the broadband market. Wanadoo (France Telecom) has a 19% share of the internet market and around 14% of the ADSL market in Europe. Tiscali is confirmed as the third operator in Europe with an internet market share of around 16% and 7% of the broadband market (up from 5% registered at end-2003).

The broadband services market saw a number of changes in the first half of 2004, accompanied by increasingly fierce competition, which caused pressure on access charges in some European markets. This was partly offset by the launch of "triple play" and "double play" products, which shifted some of the competition away from simple internet access and on to packages comprising voice, video, music, films and games.



## ■ Results and operating performance

The Tiscali group consolidated its position in the broadband market during the period.

After adjusting its strategic focus during 2003, the group saw a change in its access revenues mix in the first half of 2004, and has now firmly established itself as a provider of broadband access services, thanks to the improvement in the regulatory situation and an effective and targeted commercial policy.

EBITDA increased during the period, while the EBITDA margin also continued to improve, rising to 9% of sales. The EBITDA figure went up in all the countries in which Tiscali operates, with profitability improving even in businesses that had only reported operating breakeven (before depreciation and amortisation) at the end of 2003.

Tiscali has achieved a critical mass of ADSL customers, and given their potential for raising ARPU (average revenue per user), last year the group adopted a strategy of selective unbundling in the Netherlands and Denmark. France and Italy were added in the first half of 2004. Offering unbundled broadband enables Tiscali to control the quality of service delivered to its customers, and the group introduced a “double play” package of data and voice transmission services to the French market in June 2004. This may be extended to a “triple play” package once all networks have been unbundled in each country.

The rise in revenues to EUR 538 million, up 25% on the same period last year, was driven by growth in the access business, thanks to the increase in broadband users described above. The business services and voice sectors also made a contribution, registering strong growth of 47% and 32% respectively.

Gross profit was up 14% on the first half of 2003, at EUR 246.8 million. The figure stood at 46% of revenues, a slight fall on last year. This decline was due to the increasing importance of ADSL services, since wholesale broadband offers far lower profitability than narrowband. Profitability should improve substantially as ADSL customers migrate to unbundled services.

Tiscali further reduced its operating costs during the period, thanks to the increase in revenues. General and personnel costs remained broadly level, while marketing costs fell owing to a reallocation of investment to the second half of 2004, since the group plans to focus on promoting its unbundled broadband and voice over IP services (VoIP) later on in the year.

**Operating costs** came to EUR 198.5 million, up slightly compared with last year. However, they fell as a percentage of revenues from 43% to 37%.

Operating costs break down as follows:

**Marketing costs** rose from EUR 66.4 million in the first half of 2003 to EUR 70.7 million at the end of June 2004, but fell slightly as a percentage of revenues (from 15% to 13%).

**Personnel costs** rose from EUR 68.9 million in the first half of 2003 to EUR 77.9

million at the end of June 2004, but were down from 16% to 14% as a percentage of revenues.

**General and administrative costs** rose from EUR 48.5 million in the first half of 2003 to EUR 50 million at the end of June 2004, but fell slightly as a percentage of revenues (11% to 9%).

EBITDA for the first half was in positive territory at EUR 48.2 million (9% of revenues), an increase of 47% on the EUR 32.7 million posted in the same period last year.

The group made an EBIT loss of EUR 66.4 million, although this was a 33% improvement on the loss of EUR 98.8 million posted the previous year.

In particular, depreciation accounted for around EUR 40 million, while amortisation was EUR 59.7 million, of which EUR 28.1 million related to goodwill (consolidation difference).

The group made a first-half loss of EUR 134.3 million excluding minorities, compared with a loss of EUR 129.3 million in the first half of 2003 (which however included extraordinary income of EUR 12.9 million).

Cash resources totalled EUR 218.5 million at the end of the period (including tax receivables and term deposits), while net debt was EUR 371.1 million. If liabilities to other lenders are included, net debt comes to a total of EUR 418.8 million, compared with EUR 188.3 million at the end of June 2003.

Moreover, in August and September 2004, Tiscali announced the sale of subsidiaries in Austria, Norway, Sweden, South Africa and Switzerland for a total of over EUR 80 million in cash, as part of its disposals plan. This plan comes under the group's strategy of refocusing its activities and concentrating on markets that offer the best growth and profitability opportunities.

Although the disposals represented around 9% of first-half revenues (or 12% including the sale of the mobile business in South Africa), they accounted for less than 5% of the group's broadband users as of 30 June 2004, and less than 6% of dial-up users.

### ■ Tiscali group: key figures

The group posted first-half revenues of EUR 538 million, a rise of 25% on the same period of 2003.

The number of active users increased from 7.6 million at the end of June 2003 to 7.9 million at the end of this period. ADSL user numbers shot up by 600,000 versus 31 December 2003 to 1.44 million. Active dial-up users numbered 6.46 million at 30 June 2004, slightly down on the first half of 2003, owing to the migration of dial-up users to broadband and a seasonal decline in June. Over 55% of broadband users in the Netherlands and over 80% in Denmark (a total of 127,000 customers) now receive unbundled services, and even more customers are expected to be switched to this method in Italy and France after the launch of unbundled services there in the second half of the year.

The number of unique visitors to the Tiscali portal also grew steadily, reaching 17.4 million in June (source: Nielsen/Netratings), and confirming Tiscali as one of Europe's biggest web properties.

The change in the access revenues mix due to sustained growth in ADSL user numbers—most of whom still receive wholesale services—boosted gross profit, which came in at EUR 246.8 million, an increase of 14% on the first half of 2003. As a percentage of revenues, the figure narrowed from 50% in the first half of last year to 46%. Gross profit is expected to improve gradually over the next few quarters as a result of growth in unbundled broadband services.

First-half EBITDA improved to EUR 48.2 million, up by 47% on the first half of 2003 (EUR 32.7 million).

Depreciation, amortisation and provisions totalled EUR 114.6 million, compared with EUR 131.5 million in the first half of 2003.

In particular, depreciation of tangible assets accounted for around EUR 40 million, while amortisation was EUR 59.7 million, of which EUR 28.1 million related to goodwill.

The company made an operating (**EBIT**) loss of EUR 66.4 million, compared with a loss of EUR 98.8 million at the end of the first half of 2003.

The pre-tax loss was EUR 135.1 million at the end of June 2004, compared with a loss of EUR 141.6 million at the end of the first half of 2003.

As a matter of prudence, the figure incorporates an extraordinary capital loss of EUR 17 million on the sale of the Swiss subsidiary Tiscali AG (at less than book value) completed on 16 September 2004. It does not however include capital gains of EUR 42 million expected on the sale of other assets before the end of this year.

<b>Profit and loss account</b>	<b>30.06.2004</b>	<b>30.06.2003</b>	<b>Change</b>	<b>Change %</b>
<b>Net sales</b>	<b>538,048</b>	<b>429,687</b>	<b>108,361</b>	<b>25%</b>
Operating costs				
Purchasing	(1,597)	(2,015)	418	-21%
Service provision costs	(393,418)	(301,073)	(92,345)	31%
Personnel costs	(77,916)	(68,900)	(9,016)	13%
Increase (decrease) in inventories	-	-	-	-
Other running costs	(16,875)	(24,998)	8,123	-32%
<b>EBITDA</b>	<b>48,242</b>	<b>32,701</b>	<b>15,541</b>	<b>48%</b>
Depreciation, amortisation and write-downs	(114,625)	(131,480)	16,855	-13%
<b>EBIT</b>	<b>(66,383)</b>	<b>(98,779)</b>	<b>32,396</b>	<b>-33%</b>
Financial income	13,234	11,753	1,481	13%
Financial charges	(31,980)	(22,170)	(9,810)	44%
Extraordinary income	5,855	8,133	(2,278)	-28%
Extraordinary charges	(55,850)	(40,571)	(15,279)	38%
<b>Profit (loss) before tax</b>	<b>(135,124)</b>	<b>(141,634)</b>	<b>6,510</b>	<b>-5%</b>
Current taxes	-	(620)	620	-100%
Deferred taxes	-	-	-	-
<b>Profit before minorities</b>	<b>(135,124)</b>	<b>(142,254)</b>	<b>7,130</b>	<b>-5%</b>
Minorities	816	12,897	(12,081)	-94%
Conversion difference	-	-	-	-
<b>Net profit (loss)</b>	<b>(134,308)</b>	<b>(129,357)</b>	<b>(4,951)</b>	<b>4%</b>

Revenues by business area	30.06.2004	30.06.2004	30.06.2003	30.06.2003
	3 months	6 months	3 months	6 months
Access	184,959	365,879	150,448	298,701
Voice	21,876	42,830	16,913	32,517
Business	49,861	101,976	35,232	69,437
Portal	11,254	22,635	11,923	23,905
Other revenues	3,030	4,728	2,659	5,127
<b>Total revenues</b>	<b>270,980</b>	<b>538,048</b>	<b>217,175</b>	<b>429,687</b>

Access revenues totalled EUR 365.9 million in the first half of 2004 (or 68% of total revenues), a rise of 22% on the same period last year. This result is significant, as it reflects the sharp rise in the number of ADSL subscribers.

Broadband services generated revenues of EUR 145.3 million in the period (40% of total access revenues), up 141% on the EUR 60.3 million generated in the first half of last year.

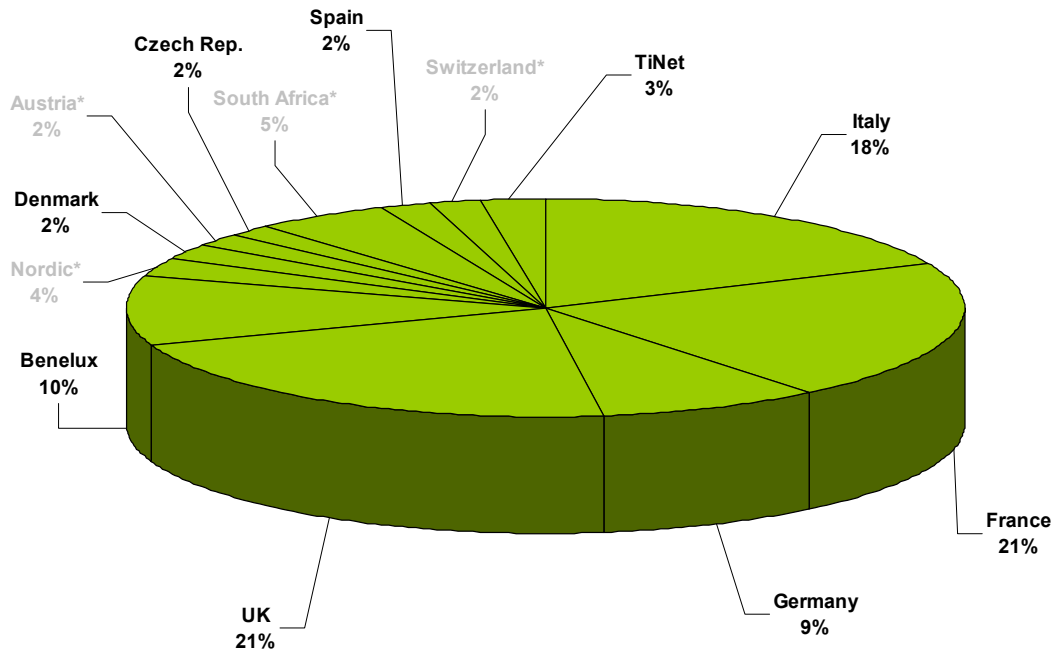
Dial-up revenues, at EUR 220.5 million, were affected by a drop in user numbers and online minutes compared to the first half of 2003, as a result of both greater migration of users to broadband services and a seasonal lull in June.

Revenues from business services stood at EUR 102 million (19% of revenues), an increase of 47% on the first half of 2003 thanks to synergies arising from the integration of the businesses acquired in 2003. This sector has now become Tiscali's second-biggest revenue source, and offers strong synergies with the B2C market.

Portal revenues in the first half came in at EUR 22.6 million (4% of revenues), a slight drop on the same period in 2003. The end of June 2004 saw Tiscali confirmed as one of Europe's leading web properties, with over 17.4 million unique visitors in June 2004, an increase of 30% on June 2003.

Voice revenues came in at EUR 42.8 million (8% of total revenues), up 32% on the first half of 2003. This sharp increase compared with last year was due to both organic and external growth, following the consolidation of npower in September 2003.

■ Revenues by country



The chart above shows that 80% of revenues are generated in Europe's five main markets. In the first half of the year, the contribution from each of these markets remained stable, with the UK accounting for around 22% of revenues, France for 21%, Italy for 18%, the Netherlands for 10% and Germany for 9%.

Tiscali International Network (TiNet) accounted for 3% of the group's total revenues. Revenues from TiNet were generated by selling bandwidth and services to other group companies and other operators. It is active throughout Europe, with offices in France, Spain, Italy and the Netherlands.

### ■ Gross margin and operating costs

Tiscali's gross profit stood at 46% of total revenues (EUR 246.8 million) in the first half of 2004, a slight decrease on the 50% registered in the same period last year. This result was affected by the lower profitability of ADSL services, which are mainly sold wholesale.

**Operating costs**, at EUR 198.5 million, fell from 43% of revenues in the first half of 2003 to 37% this year. In absolute terms, however, operating costs rose by 8% year on year.

Operating costs break down as follows:

**Marketing costs** rose by 6% versus the first half of 2003 to EUR 70.7 million, but fell from 15% to 13% of revenues.

This drop was due to the reallocation of investment towards the second half of this year, when the group will focus on promoting its unbundled broadband and voice services.

**Personnel costs** rose by 13% compared to the first half of 2003 to EUR 77.9 million, but fell from 16% to 14% of revenues. At 30 June 2004, the Tiscali group had 3,253 employees, compared to 3,226 at end-December 2003.

**General and administrative costs** increased by 3% to EUR 50 million, but fell as a proportion of revenues from 11% to 9%.

First-half **EBITDA** rose 47% to EUR 48.2 million, from EUR 32.7 million in the first half of 2003, while the EBITDA margin expanded from 8% to 9% in the same period. This result was in line with the company's projections, as the sharp contraction in the gross margin due to the substantial rise in ADSL subscriber numbers—who largely receive the less profitable wholesale services—was offset by a reduction in operating costs.

Depreciation, amortisation and provisions totalled EUR 114.6 million, compared with EUR 131.5 million in the first half of 2003.

Specifically, depreciation accounted for EUR 40 million in the first half of 2004, while amortisation was EUR 59.7 million, of which EUR 28.1 million related to goodwill.

The company made an **EBIT** loss of EUR 66.4 million, a marked improvement on the loss of EUR 98.8 million posted in the first half of 2003.

The pre-tax loss was EUR 135.1 million, compared with a loss of EUR 141.6 million in the first half of 2003. As a precaution, the figure incorporates an extraordinary capital loss of EUR 17 million on the sale of the Swiss subsidiary Tiscali AG (at less than book value) completed on 16 September 2004. It does not however include capital gains of EUR 42 million expected on the sale of other assets by the end of this year.

The group made a first-half loss of EUR 134.3 million, compared with a loss of EUR 129.3 million in the first half of 2003 (which however included extraordinary income of EUR 12.9 million).

## ■ Capital expenditures

Capital expenditures totalled EUR 51.2 million, of which around EUR 29.7 million was spent on tangible assets and EUR 21.5 million on intangible assets. The “capex” in tangible assets includes EUR 4 million relating to leasing costs capitalised under IAS 17 (not mentioned in the second-quarter report).

The EUR 29.7 million spent on tangible assets related to the roll-out and maintenance of network infrastructure, including the purchase of new servers and routers, and to the introduction of unbundled ADSL infrastructure.

The EUR 21.5 million invested in intangible assets was mostly spent on purchasing software to improve service quality and new user licences for acquiring capacity (IRUs) for the construction of the Metropolitan Area Network (MAN) needed for unbundled services.



## ■ Financial position

At 30 June 2004, the group's total fixed assets were worth EUR 921.9 million.

At the same date, consolidated shareholders' equity stood at EUR 289.6 million. The decrease over the period was largely due to the loss posted (EUR 134.3 million) and capital increases carried out by the parent company (EUR 7.5 million).

Cash burn was EUR 95.7 million in the first half of the year. Most of this (EUR 58.6 million) occurred in the first quarter; the figure dropped sharply in the second.

In July 2004, the group, excluding the redemption of the bond falling due and coupon payments, had a cash burn of around EUR 7 million, confirming the positive trend.

Cash resources totalled EUR 218.5 million at the end of the first half, including short-term financial assets. Net debt—excluding liabilities to other lenders of EUR 47.7 million—stood at EUR 371.1 million, compared with EUR 279.6 million at 31 December 2003.

	<b>30.06.2004</b>
<b>Cash</b>	<b>EUR 137.0 million</b>
<b>Other financial assets</b>	<b>EUR 81.5 million</b>
<i>Term deposits</i>	EUR 39.2 million
<i>Tax receivables and other financial assets*</i>	EUR 42.3 million
<b>TOTAL CASH AND CASH EQUIVALENTS</b>	<b>EUR 218.5 million</b>
<b>Bonds due in July 2004**</b>	<b>EUR 73.1 million</b>
<b>Bonds due in July 2005</b>	<b>EUR 250.0 million</b>
<b>Equity-linked bonds due in September 2006</b>	<b>EUR 209.5 million</b>
<b>Telinco bonds</b>	<b>EUR 0.6 million</b>
<b>Loans and other long-term debt</b>	<b>EUR 32.0 million</b>
<b>Other short-term financial liabilities</b>	<b>EUR 24.4 million</b>
<b>GROSS DEBT 1****</b>	<b>EUR 589.6 million</b>
<b>Liabilities to other lenders ***</b>	<b>EUR 47.7 million</b>
<b>GROSS DEBT 2****</b>	<b>EUR 637.3 million</b>
<b>NET DEBT 1</b>	<b>EUR 371.1 million</b>
<b>NET DEBT 2</b>	<b>EUR 418.8 million</b>
<b>PRO FORMA NET DEBT 1</b>	<b>EUR 161.6 million</b>
<b>PRO FORMA NET DEBT 2 (assuming full conversion of convertible bonds)</b>	<b>EUR 209.3 million</b>

\* Mainly VAT credits

\*\* Redeemed on 12 July 2004

\*\*\* Mainly leasing payments

\*\*\*\* Does not include other payables

To ensure the prompt repayment of the EUR 250 million bond issue due July 2005—regardless of the conditions on the financial markets—the company has approved a plan to dispose of non-strategic assets, which was partly implemented in August and September 2004.

However, the group will continue to evaluate the possible use of alternative financing methods, such as capital increases, bonds (including convertible bonds) and bank loans, as it deems appropriate.

The board of directors has also set out a cost-cutting plan aimed at reducing running costs by 15% over the next twelve months: this also includes the asset disposals mentioned above.

In particular, attainment of the targets set out in the strategic plan and detailed under the “Targets” section of this report, represent a key factor in the development of Tiscali’s financial position and the stability of its businesses and finances; this will ensure the group is able to redeem the next bond issues falling due and comply with the related covenants, and will be able to raise the finances necessary to sustain growth, particularly in broadband services.

## ■ Significant events since the end of the period

### Bonds due in July 2004

On 12 July 2004 Tiscali redeemed the remaining bonds issued by its Luxembourg-based subsidiary Tiscali Finance SA (EUR 72.867 million, plus interest totalling EUR 4.645 million). The bond issue was originally worth EUR 150 million, but this amount was reduced following a public offer for early redemption launched in December 2003.

### Disposal of non-strategic assets

Tiscali has successfully implemented its disposals plan, which is part of its strategy of focusing financial and managerial resources on its key markets. Specifically:

- On 16 August 2004 Tiscali sold its **Austrian subsidiary** Tiscali Österreich GmbH to Nextra Telecom GmbH (an Austrian company belonging to the Jordan Industries group) for EUR 12 million.
- On 20 August 2004 Tiscali agreed to sell its **South African subsidiary** Tiscali (Pty) Ltd to MWEB, a South African internet provider and subsidiary of MWEB Holdings (Pty) Ltd. The sale is subject to the approval of the South African competition authorities. The agreed price of ZAR 320 million (around EUR 40 million) is to be paid in cash on completion of the sale. The price does not include the mobile telephone business, which will be sold separately, bringing in a further EUR 5 million by the end of 2004.
- On 23 August 2004 Tiscali sold its **Norwegian subsidiary**, Tiscali AS, to Telenor Telcom Solutions AS, a subsidiary of Telenor ASA (TEL, Oslo Stock Exchange, NASDAQ) for NOK 49.9 million (around EUR 6 million).
- On 30 August 2004 Tiscali agreed to sell its **Swedish subsidiary** Tiscali AB to Spray Network AB, a subsidiary of Lycos Europe. The acquisition price of SEK 120 million (around EUR 13 million) will be paid in cash once the transaction has been approved by the Swedish competition authorities, expected by the end of September.
- On 16 September 2004 Tiscali sold its **Swiss subsidiary** Tiscali AG to the Swiss ISP Smart Telecom AG for CHF 8 million (around EUR 5.3 million).

In total, the foreign subsidiaries described above represent 9% of the group's first-half revenues, 1% of EBITDA, 4.5% of ADSL customers and 5.5% of dial-up users.

The disposals generated a net capital gain of around EUR 25 million, the combined result of gains of around EUR 42 million and a loss of around EUR 17 million. The only transaction that generated a capital loss, the disposal of Swiss subsidiary Tiscali AG,

has already been recorded under extraordinary charges at 30 June 2004 as a matter of prudence.

**Change of management at Tiscali France**

On 31 August 2004 Tiscali announced that Rafi Kouyoumdjian, CEO of Liberty Surf Group SA since 2001, was leaving Tiscali to pursue a career outside the group. Diego Massidda, 39, CEO of Tiscali South Africa since August 2003, will replace Mr Kouyoumdjian on 1 October 2004. Jean Michel Soulier has been appointed as Deputy General Manager.

## ■ Targets

Tiscali has set the following targets for the short term (i.e. until the end of 2004):

- Revenues of over EUR 1.2 billion, an increase of more than 30% on 2003
- EBITDA at 10% of revenues
- 1.7 million ADSL users
- Capital expenditures at 10% of revenues
- Net profit before extraordinary items in positive territory in 2005
- Positive Cash flow generation from the fourth quarter of 2004
- Further disposals of non-strategic assets and a 15% reduction in operating costs (excluding marketing costs) over the next 12 months

The group will continue to invest in the infrastructure needed to provide unbundled services in the Netherlands (completion of the network), France and Italy in the second half of 2004. Furthermore, the unbundled package (already launched in the Netherlands, Denmark and France) includes integrated voice, data and content services, thus helping to boost both customer loyalty and ARPU.

### ■ Ongoing disputes


Tiscali is currently involved in a number of legal disputes. However, even assuming a negative outcome, the group's management does not expect any of the cases pending to have a major impact on its consolidated or non-consolidated financial position or on future results. The main cases pending at 30 June 2004 are listed below, in respect of which Tiscali has made provisions of around EUR 3 million, corresponding to the amount the group is prepared to pay the counterparties by way of settlement.

In July 2001, the Dutch foundation Vereniging van Effectenbezitters, which represents a group of minority shareholders of World Online International NV, made a claim for damages against World Online (currently 99.5% owned by Tiscali) and the financial institutions involved in its stock market listing, alleging, in particular, that some of the information provided in the IPO prospectus and in public statements issued by the company and its chairman at the time was incomplete and inaccurate. The Dutch court ruled on 17 December 2003 that the IPO prospectus did not contain any misleading information and that many other claims were groundless. In the same ruling, however, the Dutch judges upheld the claim that a press release issued by World Online did not sufficiently clarify comments made by its former chairman at the time of the listing regarding her own shareholding. World Online plans to appeal against this decision, as it claims it did not need to provide any further clarification, given that the IPO prospectus was not deemed to be inaccurate. Furthermore, any damages to be paid will have to be established in a new court case, with the onus on the shareholders' association to substantiate the causal link and the amount of damages claimed. Similar proceedings were launched by another Dutch foundation, Stichting Van der Goen WOL Claims, in August 2001.

The Dutch tax authorities have begun to investigate an alleged failure to pay social security contributions totalling EUR 40 million in relation to payments allegedly received by former World Online chairman James Kinsella from the company Reggenborg, a former World Online shareholder. The payments in question relate to 2002, well after Mr Kinsella left the group in February 2001. The company claims that these payments, of which it knows nothing, are in any event a personal matter between Mr Kinsella and Reggenborg, and do not therefore involve Tiscali.

### ■ Transition to IAS/IFRS

In the first half of 2004, the Tiscali group continued its programme to apply IAS/IFRS international accounting principles, as set out in the 2003 annual report.



For the Board of Directors

The Chairman  
Renato Soru



- **Parent company: key figures**

- **Parent company operating performance**

In the first half of 2004 parent company revenues were EUR 104.5 million, an increase of around 23% on the same period of 2003. This performance was mainly due to access revenues, which jumped by 32% thanks to sharp growth in ADSL services in the first half. Despite the success of broadband, dial-up revenues remained broadly stable.

The company made an EBITDA loss of EUR 23.7 million, from a loss of EUR 16.4 million last year. The result was affected by that fact that broadband services are still at the growth stage, and that holding and Group operating costs (which were lower in the first half of this year than in the same period of 2003) are affecting the results of Tiscali SPA.

The pre-tax loss of EUR 41.4 million (compared with a loss of EUR 30.1 million in the first half of 2003) was partly due to the EUR 13 million write-down of the company's shareholding in Tiscali AG.

### Parent company: profit and loss account

EUR million	30/06/2004	30/06/2003	Change
Revenues	104.5	85.0	+22.9
Operating costs	(110.7)	(88.9)	+24.5
EBITDA	(6.2)	(3.9)	(59.0)
Depreciation and provisions	(17.5)	(12.5)	(40.0)
EBIT	(23.7)	(16.4)	(44.5)
Net financial income (charges)	(1.4)	(0.8)	(75.0)
Net extraordinary charges	(3.7)	(9.5)	+61.1
Write-downs	(12.6)	(3.4)	(270.6)
Pre-tax profit	(41.4)	(30.1)	(37.5)



## ■ Breakdown of parent company revenues

EUR million

Revenues	30/06/2004	30/06/2003	Change
Access	60.4	45.9	31%
Portal	5.2	7.2	-28%
B2B	4.4	4.5	-2%
Voice	17.3	13.9	24%
Other	17.2	13.5	27%
Total	104.5	85.0	23%

**Access:** revenues from internet access came in at EUR 60.4 million, up 31% on the same period of 2003. Access accounted for 60% of total revenues, compared with 55% last year. This rise was due mainly to growth in the number of broadband users, which jumped from around 69,500 at 30 June 2003 to some 197,000 at 30 June 2004. The number of dial-up users at 30 June 2004 was broadly stable year on year, at 1.6 million, while the number of minutes online totalled 4 billion, from 4.6 billion at 30 June 2003. The migration of users to a single national number (702) significantly boosted revenues per minute, and continues to do so.

**Portal:** portal revenues fell by 28% year on year to EUR 5.2 million, or 5.2% of total revenues. The drop was due mainly to the company's withdrawal from premium-rate internet access services. Tiscali has maintained its position as one of the Italian leaders in generating online advertising revenues.

**Business services:** revenues from business services totalled EUR 4.4 million, broadly unchanged versus the first half of 2003.

**Voice:** the company generated voice revenues of EUR 17.4 million, an increase of 24% on the same period of last year. This was due to growth in both retail and wholesale volumes.

## Operating costs

Operating costs stood at EUR 110.7 million, compared with EUR 88.9 million in the same period of 2003.

More specifically, line and port rental costs went up by EUR 15 million, and traffic purchasing costs remained broadly flat, at EUR 19.8 million (from EUR 19.4 million in the first half of 2003), while the number of dial-up minutes using the single national number increased.

Advertising and promotional costs dropped sharply, from EUR 8.7 million at 30 June 2003 to EUR 6.5 million at 30 June 2004.

Salaries and personnel costs came in at EUR 18.4 million, and remained at 17.6% of revenues. The EUR 3.5 million increase in absolute terms was due partly to a rise in staff numbers, from 799 at 30 June 2003 to 901 at 30 June 2004, and partly to an increase in salaries, as well as the end of government tax breaks on training contracts.

Depreciation, amortisation and provisions went up from EUR 12.5 million in the first half of 2003 to EUR 17.5 million in the same period of this year. Some EUR 1 million of this increase related to intangible fixed assets and EUR 2.5 million to tangible fixed assets, following the depreciation of the new headquarters in Cagliari.

Extraordinary items were negative at EUR 3.7 million (the combined result of EUR 0.9 million of non-recurring income and EUR 4.6 million of charges), compared with a negative figure of EUR 9.4 million in the first half of 2003.

### ■ Financial position of the parent company

EUR million	30/06/2004	30/06/2003	Change
Non-current assets	2,113.7	2,201.9	(4.0)
Current assets	202.8	296.5	(31.6)
Total assets	2,316.6	2,498.4	(7.3)
Shareholders' equity	1,542.7	1,649.9	(6.5)
Reserve for risks and charges / Staff severance indemnity reserve	26.2	58.4	(55.1)
Liabilities	747.7	790.1	(5.4)
Total liabilities and shareholders' equity	2,316.6	2,498.4	(7.3)

The total value of fixed assets was down 7% on the figure at 31 December 2003, while the values of subsidiaries remained broadly unchanged, except for the Swiss subsidiary, whose value has been adjusted to its sale price.

Short-term debt totalled EUR 17 million, compared with EUR 28 million at 30 June 2003. Debt including medium- to long-term debt was down at EUR 49 million, from EUR 60 million at 30 June 2003. The figure was affected by the company's results and investment strategy. This situation is purely temporary, and will change as revenues grow and gross profit goes into the black.

### ■ Parent company capital expenditures

In the first half of the year, the parent company made "capex" totalling around EUR 12 million, and carried out leasing operations worth EUR 2.2 million, also included under capital expenditures. EUR 8.4 million was spent on intangible assets, and EUR 3.6 million on tangible assets.

The company continued investing in expanding its capacity, and more especially, in upgrading its ADSL networks.

- **Significant events since the end of the period**

Since the end of June the company has begun investing in preparation for the launch of its unbundled broadband services, expected by the end of October. As users migrate from the current wholesale system to unbundled services, gross profitability will improve, while ARPU will increase thanks to the offer of additional services.

For the Board of Directors  
The Chairman



**CONSOLIDATED HALF-YEAR FINANCIAL INFORMATION AS OF 30 JUNE 2004**

**CONSOLIDATED HALF-YEAR FINANCIAL INFORMATION AS OF 30 JUNE 2004**

**The Tiscali Group**

**Consolidated accounting statements as of 30 June 2004**

*(figures in EUR 000)*

## Balance Sheet - Assets

		Assets	30.06.2004	31.12.2003	30.06.2003
A)		Capital contributions due from shareholders			
		Portion not called up			
		<b>Other shareholders</b>	-	-	<b>28</b>
		Capital contributions due from shareholders	-	-	28
B)		Non-current assets			
	I	Intangible assets			
	1)	<b>Start-up and expansion costs</b>	<b>1,309</b>	<b>2,602</b>	<b>3,450</b>
	2)	<b>Research, development and advertising costs</b>	<b>4,978</b>	<b>8,987</b>	<b>12,039</b>
	3)	<b>Industrial patent rights and intellectual property rights</b>	<b>26,513</b>	<b>28,195</b>	<b>20,927</b>
	4)	<b>Concessions, licenses, trademarks and similar rights</b>	<b>153,554</b>	<b>159,358</b>	<b>143,201</b>
	5)	<b>Goodwill</b>	<b>208</b>	<b>208</b>	<b>120</b>
	6)	<b>Payments on account and intangible assets in course of acquisition</b>	<b>3,062</b>	<b>1,979</b>	<b>6,657</b>
	7)	<b>Other</b>	<b>13,520</b>	<b>10,666</b>	<b>11,490</b>
	8)	<b>Consolidation difference</b>	<b>458,780</b>	<b>503,908</b>	<b>522,582</b>
		Intangible assets	661,923	715,903	720,466
	II	Tangible assets			
	1)	<b>Land and buildings</b>	<b>28,804</b>	<b>30,947</b>	<b>11,842</b>
	2)	<b>Plant and machinery</b>	<b>157,583</b>	<b>171,838</b>	<b>180,113</b>
	3)	<b>Industrial and commercial equipment</b>	-	<b>767</b>	<b>802</b>
	4)	<b>Other tangible assets</b>	<b>37,339</b>	<b>40,491</b>	<b>27,555</b>
	5)	<b>Payments on account and tangible assets in course of acquisition</b>	<b>8,854</b>	<b>2,507</b>	<b>37,447</b>
		Tangible assets	232,581	246,550	257,759
	III	Financial fixed assets			
	1)	<i>Investments in:</i>			
	a)	<b>non-consolidated subsidiaries</b>	<b>921</b>	<b>714</b>	<b>87</b>
	b)	<b>affiliated companies</b>	<b>66</b>	<b>66</b>	<b>66</b>
	c)	<b>parent companies</b>	-	-	-
	d)	<b>other companies</b>	<b>12,546</b>	<b>12,547</b>	<b>12,673</b>
	2)	<i>Receivables</i>			
		<b>Due within one year</b>			
			30.06.2004	31.12.2003	
	a)	<b>from non-consolidated subsidiaries</b>	-	-	<b>5,142</b>
	b)	<b>from affiliated companies</b>	-	-	-
	c)	<b>from parent companies</b>	-	-	-
	d)	<b>from others</b>	-	-	<b>8,038</b>
			-	-	-
	3)	<i>Other securities</i>	<b>730</b>	-	-
	4)	<i>Own shares</i>	-	-	-
		Financial fixed assets	27,443	21,365	16,414
		Non-current assets	921,947	983,818	994,639

**Balance Sheet - Assets (continued)**

			30.06.2004	31.12.2003	30.06.2003	
C)	Current assets					
I	Inventories					
	<b>Raw materials, supplies and consumables</b>		<b>2,656</b>	<b>3,171</b>	<b>5,301</b>	
1)	<b>Work in progress and semi-finished products</b>		<b>22</b>	<b>-</b>	<b>-</b>	
2)	<b>Contract work in progress</b>		<b>-</b>	<b>1,431</b>	<b>-</b>	
3)	<b>Finished goods</b>		<b>6,942</b>	<b>4,914</b>	<b>-</b>	
4)	<b>Payments on account</b>		<b>200</b>	<b>390</b>	<b>-</b>	
5)						
	Inventories		9,820	9,906	5,301	
		<b>Receivable after one year</b>				
II	Receivables					
		30.06.2004	31.12.2003			
1)	<b>Receivables from customers</b>	-	-	<b>171,796</b>	<b>173,152</b>	<b>155,774</b>
2)	<b>from non-consolidated subsidiaries</b>	-	-	<b>785</b>	<b>6,808</b>	<b>824</b>
3)	<b>from affiliated companies</b>	-	-	<b>-</b>	<b>-</b>	<b>-</b>
4)	<b>from parent companies</b>	-	-	<b>-</b>	<b>-</b>	<b>-</b>
4 bis)	<b>Tax receivables</b>	-	-	<b>60,886</b>	<b>59,981</b>	<b>55,684</b>
4 ter)	<b>Deferred tax assets</b>	<b>51,753</b>	-	<b>51,753</b>	<b>52,221</b>	<b>-</b>
5)	<b>from others</b>	-	<b>2,439</b>	<b>17,955</b>	<b>11,881</b>	<b>26,890</b>
	Receivables	51,753	2,439	303,175	304,043	239,172
III	Short term financial assets					
1)	<b>Investments in non-consolidated subsidiaries</b>			<b>-</b>	<b>-</b>	<b>-</b>
2)	<b>Investments in affiliated companies</b>			<b>-</b>	<b>-</b>	<b>-</b>
3)	<b>Investments in parent companies</b>			<b>-</b>	<b>-</b>	<b>-</b>
4)	<b>Other investments</b>			<b>-</b>	<b>-</b>	<b>-</b>
5)	<b>Own shares</b>			<b>-</b>	<b>-</b>	<b>-</b>
6)	<b>Other securities</b>			<b>39,211</b>	<b>69,038</b>	<b>124,227</b>
	Short term financial assets			39,211	69,038	124,227
IV	Cash and cash equivalents					
1)	<b>Bank and post office deposits</b>			<b>136,981</b>	<b>203,544</b>	<b>160,289</b>
2)	<b>Cheques</b>			<b>-</b>	<b>-</b>	<b>-</b>
3)	<b>Cash and other negotiable instruments</b>			<b>-</b>	<b>-</b>	<b>-</b>
	Cash and cash equivalents			136,981	203,544	160,289
	Current assets			489,187	586,531	528,989
D)	Accrued income and deferred charges					
	<b>Accrued income</b>			<b>34,218</b>	<b>40,117</b>	<b>28,239</b>
	<b>Deferred charges</b>			<b>112,586</b>	<b>50,795</b>	<b>34,306</b>
	Accrued income and deferred charges			146,804	90,912	62,545
	Assets			1,557,938	1,661,261	1,586,201





	<b>Accrued liabilities</b>	<b>96,566</b>	<b>77,612</b>	<b>96,706</b>
	<b>Deferred income</b>	<b>98,088</b>	<b>75,659</b>	<b>63,799</b>
	Accrued liabilities and deferred income	194,654	153,271	160,505
	Liabilities	1,557,938	1,661,261	1,586,201

### Memorandum Accounts

MEMORANDUM ACCOUNTS		30.06.2004	31.12.2003	30.06.2003
	GUARANTEES RECEIVED			
	from third parties and group companies			
	<b>Sureties</b>	1,246	1,826	2,792
	<b>Real guarantees</b>	-	-	1,571
	From third parties and group companies	<b>1,246</b>	<b>1,826</b>	<b>4,363</b>
	OTHER MEMORANDUM ACCOUNTS			
	<b>Warrants</b>	-	-	183
	<b>Commitments</b>	10,912	13,578	11,060
	OTHER MEMORANDUM ACCOUNTS	<b>10,912</b>	<b>13,578</b>	<b>11,243</b>
	GUARANTEES GIVEN			
	To third parties			
	<b>Sureties</b>	18,625	18,332	267,521
	<b>Real guarantees</b>	-	-	3,612
	To third parties	<b>18,625</b>	<b>18,332</b>	<b>271,133</b>
	To subsidiaries			
	<b>Real guarantees</b>	-	-	2,996
	To subsidiaries	-	-	<b>2,996</b>

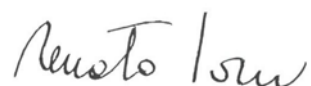
Profit and Loss Account		30.06.2004	31.12.2003	30.06.2003
A)	Value of production			
1)	<b>Revenues from sales and services</b>	<b>536,646</b>	<b>894,919</b>	<b>428,346</b>
	<b>Changes in inventories of work in progress, semi-finished and finished products</b>	<b>(3)</b>	<b>4</b>	<b>-</b>
2)	<b>Changes in contract work in progress</b>	<b>-</b>	<b>1,431</b>	<b>-</b>
3)	<b>Increases in assets for work in progress (internal)</b>	<b>1,405</b>	<b>1,794</b>	<b>-</b>
4)	<b>Other income</b>	<b>-</b>	<b>2,874</b>	<b>1,341</b>
5)				
	Value of production	538,048	901,022	429,687
B)	Production costs			
	<b>Raw materials, supplies and consumables</b>	<b>(1,597)</b>	<b>(5,005)</b>	<b>(2,015)</b>
6)	<b>Services</b>	<b>(393,418)</b>	<b>(641,399)</b>	<b>(301,080)</b>
7)	<b>Use of third-party assets</b>	<b>(15,372)</b>	<b>(29,405)</b>	<b>(16,533)</b>
8)	<b>Personnel costs</b>			
9)	a) <b>Wages and salaries</b>	<b>(57,275)</b>	<b>(107,286)</b>	<b>(52,495)</b>
	b) <b>Social security contributions</b>	<b>(14,661)</b>	<b>(22,577)</b>	<b>(12,517)</b>
	c) <b>Staff severance indemnity Pension provisions and similar obligations</b>	<b>(2,283)</b>	<b>(4,790)</b>	<b>(2,134)</b>
	d) <b>Other costs</b>	<b>-</b>	<b>-</b>	<b>-</b>
	e) <b>Depreciation, amortisation and write-downs</b>	<b>(3,697)</b>	<b>(7,413)</b>	<b>(1,747)</b>
10)	a) <b>Amortisation of intangible assets</b>	<b>(59,713)</b>	<b>(131,724)</b>	<b>(77,185)</b>
	b) <b>Depreciation of tangible assets</b>	<b>(39,996)</b>	<b>(94,899)</b>	<b>(40,834)</b>
	c) <b>Other write-downs of non-current assets</b>	<b>(248)</b>	<b>(50,421)</b>	<b>(7,632)</b>
	d) <b>Write-downs of receivables included in current assets and cash and cash equivalents</b>	<b>(12,467)</b>	<b>(16,591)</b>	<b>(5,829)</b>
11)	<b>Changes in inventories of raw materials, supplies and</b>	<b>-</b>	<b>(388)</b>	<b>-</b>

		<b>consumables</b>			
	12)	<b>Risk provisions</b>	<b>(2.201)</b>	<b>(9,741)</b>	-
	13)	<b>Other provisions</b>	-	<b>(223)</b>	-
	14)	<b>Other operating expenses</b>	<b>(1.503)</b>	<b>(8,030)</b>	<b>(8,465)</b>
		Production costs	(604,431)	(1,129,892)	(528,466)
(A - B)		Difference between value of production and costs	(66.383)	(228.870)	(98.779)
C)		Financial income and charges			
	15)	Income from equity investments	-	-	-
	a)	<b>In non-consolidated subsidiaries</b>	-	-	-
	b)	<b>In affiliated companies</b>	-	-	-
	c)	<b>In other companies</b>	-	-	-
	16)	Other financial income			
	a)	<b>From receivables listed under non-current assets</b>			
		<b>from subsidiaries</b>	<b>4</b>	<b>25</b>	-
		<b>from affiliated companies</b>	<b>3</b>	<b>7</b>	<b>4</b>
	b)	<b>From securities listed under non-current assets other than equity investments</b>	<b>128</b>	<b>303</b>	-
	c)	<b>From securities listed under current assets other than equity investments</b>	-	-	<b>124</b>
	d)	<b>Earnings other than the above from third parties</b>	<b>12,064</b>	<b>44,384</b>	<b>6,884</b>
		<b>from non-consolidated subsidiaries</b>	<b>35</b>	-	-
	17)	Interest and other financial charges			
	a)	<b>from third parties</b>	<b>(29,640)</b>	<b>(72,555)</b>	<b>(21,594)</b>
	b)	<b>from subsidiaries</b>	<b>(1,443)</b>	<b>(26)</b>	<b>(264)</b>
	c)	<b>from affiliated companies</b>	-	-	-
	d)	<b>from parent companies</b>	-	-	-
	17 bis)	Exchange rate gains and losses	<b>103</b>	<b>7,273</b>	<b>4,429</b>
		Financial income and charges	(18,746)	(20,589)	(10,417)

			30.06.2004	31.12.2003	30.06.2003
D)		Adjustments to the value of financial assets			
	18)	Write-ups			
	a)	<b>of equity investments</b>	<b>207</b>	<b>749</b>	-
	b)	<b>of long-term investments other than equity investments of securities listed under current assets other than equity investments</b>	-	-	-
	c)	<b>investments</b>	-	-	-
	19)	Write-downs			
	a)	<b>of equity investments</b>	-	-	-
	b)	<b>of long-term investments other than equity investments of securities listed under current assets other than equity investments</b>	-	-	-
	c)	<b>investments</b>	-	-	-
		Adjustments to the value of financial assets	207	749	-
E)		Extraordinary income (charges)			
	20)	Extraordinary income			
	a)	<b>Income</b>	<b>4,370</b>	<b>61,603</b>	<b>7,130</b>
	b)	<b>Capital gains on disposals of non-current assets</b>	<b>1,278</b>	<b>976</b>	<b>1,003</b>
	21)	Extraordinary charges			
	a)	<b>Charges</b>	<b>(38,837)</b>	<b>(107,460)</b>	<b>(40,040)</b>
	b)	<b>Capital losses on disposals of non-current assets</b>	<b>(17,013)</b>	<b>(1,975)</b>	<b>(531)</b>
	c)	<b>Taxes relating to previous years</b>	-	-	-

	Extraordinary income (charges)		(50,202)	(46,856)	(32,438)
	Profit (loss) before tax		(135,124)	(295,566)	(141,634)
22)	Income tax				
a)	<b>Current taxes</b>		-	<b>(2,035)</b>	<b>(620)</b>
b)	<b>Deferred taxes</b>		-	-	-
c)	<b>Pre-paid taxes</b>		-	<b>51,619</b>	-
	Profit (loss) before minority interest		(135,124)	(245,982)	(142,254)
	<b>Minorities interest</b>		<b>816</b>	<b>3,534</b>	<b>12,897</b>
	Group profit (loss)		(134,308)	(242,448)	(129,357)

For the Board of Directors



The Chairman

Renato Soru

## **The Tiscali Group**

### **Explanatory notes to the consolidated accounting statements as of 30 June 2004**

*(figures in EUR 000)*

#### **ACCOUNTING PRINCIPLES AND POLICIES**

The half-year financial information was prepared in accordance with the provisions of art. 81 of Consob regulation 11971 of 14 May 1999 and subsequent amendments and additions, and with the regulations governing the preparation of accounts contained in the civil code. The balance sheet and profit and loss statements have been adjusted pursuant to new regulations introduced by legislative decree no. 6 of 17 January 2003 and subsequent amendments. Equivalent items from previous years have been restated for comparative purposes. In the absence of appropriate regulations from the relevant authorities, the group has deferred the application of other company law provisions not expected to have a material effect to the accounts to 31 December 2004.

#### **GENERAL ACCOUNTING CRITERIA**

Accounting principles and policies have been applied in a uniform manner to all consolidated companies. The accounting policies adopted in preparing the consolidated half-year accounts are the same as those used by the parent company Tiscali SpA, 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 Italian association of chartered accountants, supplemented by IFRS accounting principles where appropriate. The criteria used to prepare the half-year accounts to 30 June 2004 are the same as those used 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 competence, on a going concern basis. With regard to this, please note the following:

##### *Going concern basis*

These half-year accounts have been prepared on a going concern basis, since the prospects for the sector in which Tiscali operates and the group's competitive position mean that its target of achieving a better financial structure is well within its grasp, as the business plans, the disposal programme for non-core assets and the refinancing strategy indicate. In particular, attainment of the targets set out in the strategic plan represent a key factor in the development of Tiscali's financial position and the stability of its businesses and finances; this would consequently ensure the group is able to redeem the next bond issues falling due and comply with the related covenants, and will be able to raise the finances necessary to sustain growth, particularly in broadband services.

The company's position as a going concern is also supported by the substantial improvement in results achieved in 2003 and the first half of 2004, and by the expectations of further substantial and ongoing advances in the second half of 2004 and subsequent years, as set out in the business plan, which was drawn up based on assumptions that take into account the information currently available on market trends. Specifically, the company's business plan points to the generation of cash flow from the last quarter of 2004, and the achievement of a net profit in 2005.

For the purposes of accounting entries, the economic substance of transactions prevails over their legal form.. Profits are included only if they are recorded 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 listed under non-current assets.

As allowed by art. 81 of Consob regulation 11971 of 14 May 1999 and subsequent amendments and additions, the result for the period is shown before taxes.

#### *Basis of consolidation*

The consolidated half-year report of the Tiscali group includes the accounting position 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 shareholders' meetings, holds sufficient votes to exert a dominant influence at shareholders' meetings, is the dominant shareholder owing to an agreement or clause in the articles of association (in accordance with applicable legislation) or controls a majority of votes, thanks to agreements with other shareholders.

Excluded from the consolidated accounts are all subsidiaries whose accounting statements would have no material impact on the values shown, subsidiaries held solely with a view to their future disposal, and all non-operating subsidiaries. Stakes in non-consolidated subsidiaries that constitute non-current assets and stakes held in affiliated companies of a significant size are valued according with the equity method. Affiliated companies are those where Tiscali SpA—either directly or indirectly—controls one fifth of the votes exercisable at ordinary shareholders' meetings or one tenth of the votes if the company is listed on the stock market.

#### *Consolidation principles*

The half-year accounting statements used for consolidation have been restated and amended as necessary to bring them into line with the accounting principles and policies of the parent company, which comply with the rules set out in art. 2423 and subsequent articles of the Italian civil code, and the accounting principles issued by the Italian association of chartered accountants.

The half-year accounts of companies included in the basis of consolidation are reported using the global integration method. The following adjustments were made for consolidation purposes:

- a) the book value of the investments held in consolidated companies is eliminated in respect of the corresponding proportion of shareholders' equity;
- b) any negative differences that are not the result of adverse forecasts are booked under the consolidation reserve shown under consolidated shareholders equity; as for any positive differences, the portion not attributable to subsidiaries is booked under assets as a consolidation difference and treated as goodwill;
- c) profits and losses arising from transactions carried out between group companies and still listed on the balance sheet are eliminated, as are any credits, debits, costs, revenues and any transactions conducted between consolidated companies;
- d) any write-downs or provisions made solely for tax purposes are eliminated;
- e) minority interests and net profit attributable to minorities are listed separately under the appropriate items on the consolidated balance sheet and profit and loss account.

#### *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 are converted into euro at the average exchange rate for the financial year. Any differences between the results for the financial year calculated using average exchange rates and those obtained using year-end exchange rates, and any changes in the value of assets/liabilities resulting from fluctuations in exchange rates during the financial year are recorded under shareholders' equity on the "currency translation reserve" line.

### *Write-downs and write-backs*

The value of fixed and intangible assets whose useful life is limited over time is written down respectively through depreciation and amortisation charges. These fixed and intangible assets, and any other assets, are written down each time a permanent loss of value is noted; but if the reasons for the loss of value are considered to no longer apply, then the original value is re-established. The method for calculating depreciation and amortisation charges is explained separately in these notes.

### *Write-ups*

The value of tangible and intangible assets does not include write-ups.

### *Exceptions*

No exceptions to the accounting policies set out in the legislation pertaining to consolidated accounting statements have been made in this, or any other financial year.

### *Accounting entries made solely in application of tax laws*

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

## **ACCOUNTING POLICIES**

### *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. Costs incurred in 2003 relating to specific advertising campaigns for the launch of new broadband (ADSL) products and services are posted under the appropriate line under “assets” and amortised using the straight-line method over a two-year period, 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 using the straight-line method in accordance with the period of use established by the agreement. Under no circumstances shall the amortisation period exceed five years from the financial year in which the costs were incurred.

“Concessions, licences, trademarks and similar rights” are recorded at their acquisition cost and are amortised over five years. For contracts with a duration exceeding five years, particularly IRU (indefeasible right of use) agreements for the use of networks and/or fibre optics, amortisation is calculated using the straight-line method, either over the remaining life of the agreement or the estimated period of use of the right, whichever is the shorter.

“Other intangible assets” are recorded at their purchase or internal production cost, including any additional charges, and amortised in fixed amounts.

“Goodwill” is recorded only if acquired for a substantial amount, within the limits of the costs incurred, and amortised over a period not exceeding the duration of the asset’s use. Where this cannot be estimated, goodwill on such assets shall be amortised over a period not exceeding five years.

Maintenance and upgrade costs on third-party assets are included under “other intangible assets” and amortised using the straight-line method over either the estimated useful life of the asset or the remaining term of the lease, whichever is the shorter.

Non-current assets whose market value at the end of the financial year suffers a permanent reduction versus the acquisition cost, and which are amortised in accordance with the above

criteria, are written down until the value shown corresponds to their market value. Should the reasons for the loss of value cease to apply, the cost is written back.

*Consolidation difference*

Consolidation differences (goodwill) are recorded in the consolidated accounts when the book value of a stake in a company is offset against the group's portion of the shareholders' equity of that company. 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 requirements are met, booked under "consolidation difference" on the assets side of the balance sheet and amortised over the period in which it is expected to produce economic benefits, taking into account the type of activity of the group companies to which this difference refers.

The consolidation difference is amortised from the acquisition date of the company or division over 12 years.

This period was used in the preparation of the accounts to 31 December 2003 with respect to the 5 years period applied until 31 December 2002. This change in the estimated useful life of the consolidation difference was due to the following structural conditions:

- 1) the Tiscali group's businesses are now well established on its core markets, partly thanks to greater liberalisation;
- 2) the results achieved by the various companies within the group have been continually improving.

In addition, the board of directors commissioned a report by an independent consultant, who confirmed that there was a significant difference between the value of goodwill estimated on the basis of the business plans for each business unit, and the book value of goodwill recorded for each business unit. The consultant also suggested that an amortisation period of between 10 and 15 years was sustainable for the group.

*Tangible assets*

Tangible assets are recorded at purchase or production cost, including any additional charges.

Depreciation is calculated on a straight-line basis depending on cost and the estimated residual life of the asset.

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

Depreciation rates are the same as those for the parent company:

Depreciation	
<b>Buildings</b>	<b>3 %</b>
<b>Specific plant</b>	<b>20 %</b>
<b>General plant</b>	<b>20 %</b>
<b>Other equipment</b>	<b>12 %</b>
<b>Other tangible assets</b>	<b>20 %</b>

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



Assets obtained through financial leasing agreements and some of those obtained through comparable operating leasing agreements are posted under the relevant line of tangible assets, and are depreciated using the straight-line method in the same manner as tangible assets owned by the group, based on their estimated residual life. Short- and medium-term payables to the leasing organisation are booked as offsetting entries under the appropriate tangible asset item. Leasing payments are written off against the cost of using third-party assets, and interest charges for the financial year are booked under financial charges. This ensures that financial leasing operations are represented in accordance with the methodology established under IAS 17.

#### *Long-term financial assets*

Non-current assets consisting of investments in non-consolidated subsidiaries and affiliated companies are valued at equity, i.e. booked in proportion to the group's portion of the shareholders' equity of the company as shown on its accounts for the previous year, after application of adjustments required under the regulations pertaining to consolidated accounting statements.

Capital gains or losses resulting from application of the equity method are booked on the profit and loss account under write-ups and write-downs respectively, under "adjustments in valuation of long-term investments".

Other stakes held in companies and long-term financial investments are valued at cost. In the event of a permanent loss of value, including a drop in the market price for listed securities, the value of shareholdings and securities is written down accordingly. Should the reasons for the loss of value cease to apply, the previous value is restored in the accounts for the year.

Long-term investments in the form of loans are valued at their estimated realisable value.

#### *Inventories*

Inventories are valued at the lower of the purchase cost and estimated market value. Inventories of obsolete or slow turnover goods are written down according to their use and/or sale potential.

#### *Receivables*

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

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

Investments other than non-current assets are valued at the lower of their purchase cost and market value (based on prevailing stock market prices).

#### *Accruals and deferrals*

Accruals and deferrals include only the proportion of earnings and charges for the period that will be booked in subsequent periods, and the proportion of revenues accruing and expenses incurred before the end of the period but pertaining to the subsequent periods. 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.

#### *Provisions for risks and charges*

Reserves for risks and charges are intended to provide cover for company liabilities of a particular type, that are likely or certain to be incurred, for which the amount or period of application are not known at the end of the financial year.

#### *Deferred taxes*

Deferred taxes in respect of previous losses carried forward are only included if there is reasonable certainty that they will be recovered and if companies report taxable income for the period.

*Staff severance indemnity reserve*

The staff severance fund provides cover for amounts payable to employees under current legislation, employment contracts or any company agreement in force in any country in which the group operates.

*Payables*

Payables are recorded at nominal value.

*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 to third parties in compliance with contractual obligations.

Commitments refer to obligations resulting from agreements that have been signed but which have yet to be carried out.

The risks deemed most likely to generate a liability are described in the notes, and an allocation to the risk funds is made as appropriate. Those risks deemed to represent only a possible liability are described in the notes, although no allocation is made to a specific risk fund, in line with standard accounting principles. Remote risks are not taken into consideration.

*Revenues, income, costs and charges recognition*

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

Revenues and costs relating to ADSL activation (installation and modems/equipment) for broadband services are recorded on the profit and loss account in relation to the expected duration of the customer accounts, estimated at 36 months based on company data and recent trends. Amounts relating to other financial years are listed separately under deferred income (revenues) or deferred charges (costs).

*Recording of foreign currency amounts*

Receivables and payables in foreign currencies are adjusted to the exchange rates in force at the end of the period, taking into account any hedging agreements that may exist. Exchange rate gains and losses are booked to the profit and loss account.

Exchange rates	ISO code	End-of-year rate	Average rate
Swiss franc	CHF	1.520000	1.550000
Czech koruna	CSK	31.760000	30.860000
Danish krone	DKK	7.430000	7.440000
Euro	EUR	1.000000	1.000000
British pound	GBP	0.670000	0.670000
Norwegian krone	NOK	8.440000	8.450000
Swedish krona	SEK	9.150000	9.160000
US dollar	USD	1.220000	1.230000
South African rand	ZAR	7.620000	8.220000

## Notes to the consolidated balance sheet

### Assets

(figures in EUR 000)

#### A) Capital contributions due from shareholders

There are no receivables due from shareholders in respect of unpaid capital contributions.

#### B) Non-current assets

##### I – Intangible assets

Changes in intangible assets are shown below:

Intangible assets	31.12.2003	Increases	Decreases	Other changes	Depreciation	30.06.2004
<b>Start-up and expansion costs</b>	<b>2,602</b>	-	<b>(120)</b>	-	<b>(1,174)</b>	<b>1,309</b>
<b>Research, development and advertising costs</b>	<b>8,987</b>	<b>841</b>	-	<b>102</b>	<b>(4,952)</b>	<b>4,978</b>
<b>Industrial patent rights and intellectual property rights</b>	<b>28,195</b>	<b>8,065</b>	<b>(301)</b>	<b>389</b>	<b>(9,834)</b>	<b>26,513</b>
<b>Concessions, licenses, trademarks and similar rights</b>	<b>159,358</b>	<b>7,353</b>	<b>(1,352)</b>	<b>2,510</b>	<b>(14,315)</b>	<b>153,554</b>
<b>Goodwill</b>	<b>208</b>	-	-	-	-	<b>208</b>
<b>Payments on account and tangible assets in course of acquisition</b>	<b>1,979</b>	<b>1,083</b>	-	-	-	<b>3,062</b>
<b>Other</b>	<b>10,666</b>	<b>4,049</b>	<b>(262)</b>	<b>369</b>	<b>(1,303)</b>	<b>13,520</b>
<b>Consolidation difference</b>	<b>503,908</b>	<b>67</b>	<b>(17,061)</b>	-	<b>(28,134)</b>	<b>458,780</b>
Total	715,903	21,458	(19,095)	3,370	(59,713)	661,923

The “start-up and expansion costs” line relates to the parent company Tiscali SpA and includes the long-term cost of capital increases and start-up costs.

“Research development and advertising costs” include capitalised advertising costs of around EUR 18.8 million incurred last year, which will be amortised over two years (2003-2004).

Patent rights relate to costs incurred on acquiring patents relating to new (value-added) services.

“Concessions, licences, trademarks and similar rights” included investments in software and installation costs of EUR 52.3 million, and EUR 102.9 million for the rights of subsidiary Tiscali International Network BV and its directly-owned subsidiary Tiscali International Network SA to purchase transmission capacity on a multi-year basis (IRUs).

Other non-current assets mainly include upgrade costs on third-party assets.

**Consolidation difference**

The consolidation difference fell by EUR 45.1 million compared to the previous year, as a result of:

- a EUR 17 million write-down on goodwill relating to Tiscali AG. This write-down was made to reflect the loss registered following the disposal of the Swiss subsidiary for around EUR 5.3 million in September 2004, although this operation was settled after 30 June 2004. Note that further sales of shareholdings recorded after 30 June 2004 generated a profit, which is not included in these half-year accounts in compliance with standard accounting principles. Please see the report on operations for further information;
- amortisation of EUR 28.1 million.

For further information, the changes in the consolidation difference relating to individual legal entities in the first half of 2004 are set out below.

Company	31.12.2003	increases	decreases	amortisation	30.06.2004
Tiscali Telekomunikace sro	426			(24)	402
Tiscali Denmark A/S	875			0	875
Tiscali Oy	1			(0)	1
Tiscali Ab	1,559			(92)	1,467
@HOME SA	0			0	0
Tiscali Espana SA	12,520			(544)	11,977
Tiscali Telecomunicaciones Sa	54			0	54
World Online SRL in liquidation	0			0	0
Excite Italia BV	3,473			(191)	3,283
Ideare Spa	1,866			(103)	1,763
Tiscali Motoring Srl	63			(4)	59
Informedia Srl	(0)			0	(0)
Quinary Spa	1,477			(88)	1,389
Best Engineering Spa	(0)			0	(0)
STS Studi Technologie Sistemi SpA	1,046			(65)	981
Tiscali Österreich GmbH	1,750			(104)	1,647
World Online Holding SA	0			0	0
Tiscali Datacomm Ag (Datacomm Ag)	18,642		(17,035)	(1,032)	575
World Online GmbH	0			0	0
Tiscali Business GmbH	2			0	2
Tiscali Deutschland GmbH	54,088			(3,319)	50,769
Guglielmo GmbH	(0)			0	(0)
Tiscali GmbH	10,267			(467)	9,800
Tiscali Business Sa	0			0	0
Tiscali International Network SA	7,854			(462)	7,391
Liberty Surf Group Sa	39,221			(2,130)	37,091
Tiscali Access Sa (ex Liberty Surf Sa)	3,806			(210)	3,596
Film Non Stop Monsieur Cinema.Com Sa	0			0	0
Ovni Web Sa	319			(19)	301
Ceic Srl	0			0	0
Cent Pour Cent Sa	0			0	0
Respublica Sa	0			0	0
Tiscali Media Sa (ex Objectif Net Sa)	535			(33)	502
Infonie Promotions	6,243			(431)	5,811
Tiscali Telecom Sa (ex Liberty Surf Telecom Sa)	21,907			(1,216)	20,691
Tiscali Reseaux SA	(0)			0	(0)
Intercall SA	3,794			(370)	3,424
Chez.com	0			0	0
Tiscali Uk Ltd	43,062			(1,987)	41,075
Tiscali Holdings UK Plc	56,444			(2,545)	53,899
World Online Telecom Ltd	3,581			(685)	2,895
Tiscali Internet Limited	553			(25)	528
Tiscali Network Distribution Ltd	0			0	0
Tiscali B.V.	8,396	67	(26)	(882)	7,555
World Online International Nv	187,001			(10,465)	176,536
Tiscali N.V.	0			0	0
Wanadoo Belgium SA	8,495		0	(386)	8,109
Vodacom World Online Ltd	4,590			(257)	4,333
Other Minors	0			0	0
	503,908	67	(17,061)	(28,134)	458,780

## II – Tangible assets

Changes in tangible assets are shown below:

Tangible assets						
Net book value	31.12.2003	Increases	Decreases	Other changes	Depreciation	30.06.2004
<b>Land and buildings</b>	<b>30,947</b>	-	<b>(992)</b>	<b>(556)</b>	<b>(595)</b>	<b>28,804</b>
<b>Plant and machinery</b>	<b>171,838</b>	<b>20,998</b>	<b>(341)</b>	<b>35</b>	<b>(34,948)</b>	<b>157,583</b>
<b>Industrial and commercial equipment</b>	<b>767</b>	-	-	<b>(767)</b>	-	-
<b>Other tangible assets</b>	<b>40,491</b>	<b>3,098</b>	<b>(409)</b>	<b>(1,387)</b>	<b>(4,454)</b>	<b>37,339</b>
<b>Payments on account and tangible assets in course of acquisition</b>	<b>2,507</b>	<b>5,616</b>	-	<b>730</b>	-	<b>8,854</b>
<b>Total</b>	<b>246,550</b>	<b>29,713</b>	<b>(1,741)</b>	<b>(1,945)</b>	<b>(39,996)</b>	<b>232,581</b>

The total value of net tangible assets at 30 June 2004 was EUR 232.5 million. Investments totalled around EUR 29.7 million and chiefly relate to the roll out and maintenance of network infrastructure.

“Land and buildings” mainly includes the investment in the group’s new headquarters in Cagliari (SA Illetta).

The “plant and machinery” line largely includes dedicated equipment and networks, routers, servers and telephone exchanges that make up most of the tangible assets. Investments in the period came to EUR 21 million and mainly relate to the roll out of the infrastructure necessary to support unbundled ADSL services.

The “other tangible assets” line mainly includes furnishings, IT and office equipment and vehicles.

“Payments on account and other assets in course of acquisition” shows an increase of EUR 5.6 million, due to new investment in unbundled local loops made by the Dutch subsidiary.

## III – Long-term financial assets

The breakdown of long-term investments is as follows.

Long-term investments	30.06.2004	31.12.2003
<b>Investments in:</b>		
<b>non-consolidated subsidiaries</b>	<b>921</b>	<b>714</b>
<b>affiliated companies</b>	<b>66</b>	<b>66</b>
<b>parent companies</b>	-	-
<b>other companies</b>	<b>12,546</b>	<b>12,547</b>
<b>Receivables</b>	<b>13,180</b>	<b>8,038</b>
<b>Other securities</b>	<b>730</b>	-
<b>Own shares</b>	-	-
<b>Total</b>	<b>27,443</b>	<b>21,365</b>

Equity investments in consolidated and non-consolidated subsidiaries and affiliates companies are valued at equity. These mainly include stakes held by Tiscali SpA in non-consolidated subsidiaries.

Equity investments in other companies are valued at cost, and relate to the smallest stakes held by Tiscali SpA. This item mainly relates to the 0.3% stake in H3G SpA, a 3G mobile telephony company operating under the “3” brand, acquired by Luxembourg-based Tiscali Finance for EUR 12.5 million.

Other receivables listed under long-term investments relate to Eurolight Associates Ltd (EUR 8 million), which bought Tiscali's stake in Czech company CD Telekomunikace Sro in 2003, and to other receivables from non-consolidated subsidiaries (EUR 5.1 million).

Receivables from Eurolight Associates Ltd, which originally totalled EUR 25.3 million, were written down by EUR 17.3 million at 31 December 2003, to bring them into line with their estimated realisable value. The residual value of EUR 8 million was calculated based on the amount expected to be recovered through local subsidiary Tiscali Telekomunikace Sro, which signed an agreement with CD Telekomunikace Sro to purchase fibre optics. The estimated realisable value takes into account prevailing market conditions in the Czech fibre optics market.

### C) Current assets

#### I – Inventories

At 30 June 2004 the group's inventories were worth EUR 9.8 million and consisted mainly of network equipment, consumables, telephone cards, goods for resale by the company's merchandise department, and modems.

#### II – Receivables

##### Customer receivables

At 30 June 2004 receivables from customers totalled EUR 171.8 million, after write-down provisions of EUR 56.4 million. These receivables accrued from the sale of internet services, billing of internet access services, billing of usage-based fees for traffic generated by Tiscali subsidiaries on third-party fixed lines, advertising revenues and business and telephone services provided by the group.

There are no receivables due after more than 5 years.

##### Tax receivables

	30.06.2004	31.12.2003
<b>Tax receivables</b>	<b>60,886</b>	<b>59,981</b>

Tax credits mainly include VAT credits and/or tax credits applied for.

##### Deferred tax assets

	30.06.2004	31.12.2003
<b>Deferred taxes</b>	<b>51,753</b>	<b>52,221</b>

This item mainly refers to deferred tax assets recorded as of 31 December 2003, that relate to past losses generated by group companies. Specifically, the figure refers to Tiscali's Dutch and South African subsidiaries, Tiscali BV (EUR 49.1 million) and Tiscali PTY (EUR 2.6 million). As stated in the section on accounting policies, the deferred tax credits recorded refer only to subsidiaries that generated taxable income in 2003.

## Receivables from others

A breakdown of other receivables is shown below.

From others	30.06.2004	31.12.2003
<b>Advances to employees</b>	<b>3,040</b>	<b>3,171</b>
<b>Other receivables</b>	<b>14,915</b>	<b>8,710</b>
Total	17,955	11,881

The advances to employees item consists of EUR 3 million paid out to employees, including EUR 2.6 million in interest-bearing loans to directors of the former World Online International, before the company became part of the Tiscali group. This amount chiefly consists of a loan to the current CEO of the parent company, for which a repayment plan has been drawn up.

There are no receivables due after more than 5 years.

## III – Short term financial assets

These break down as follows.

Investments other than non-current assets	30.06.2004	31.12.2003
<b>Other financial assets</b>	<b>39,211</b>	<b>69,038</b>
Total	39,211	69,038

"Other financial assets" breaks down as follows:

- EUR 16 million relate to term deposits in respect of disputes (escrow) and guarantees on loans granted to group companies;
- EUR 23.2 million relate to deposits on leasing and other contracts as well as other financial assets.

The decrease compared to 31 December 2003 was mainly due to the settlement of various disputes and the realisation of some assets over the period.

## IV – Cash and cash equivalents

Cash and cash equivalents	30.06.2004	31.12.2003
<b>Bank and post office deposits</b>	<b>136,981</b>	<b>203,544</b>
Total	136,981	203,544

This item includes liquid resources in the form of cash, current accounts and negotiable money market instruments.

Cash and cash equivalents includes EUR 72.8 million held by French subsidiary Liberty Surf Group, EUR 10.6 million held by UK subsidiaries, EUR 5.1 million by Tiscali International BV and EUR 6.9 million by Tiscali Finance SA.



The use of the resources belonging to Liberty Surf Group for extraordinary operations (such as loans to the parent company and/or other Tiscali group companies) requires the approval of that company's board of directors, with reasons given for their decision. In July 2004, in compliance with these conditions, Liberty Surf Group granted parent company Tiscali SpA a loan of EUR 30 million.

Cash and cash equivalents fell compared to 31 December 2003 as a result of spending requirements arising from normal operations.

*D) Accrued income and deferred charges*

Accrued income and deferred charges break down as follows.

Accrued income and deferred charges	30.06.2004	31.12.2003
Accrued income		
<b>Bank interest</b>	<b>65</b>	<b>176</b>
<b>Other accrued income</b>	<b>34,153</b>	<b>39,941</b>
Total	34,218	40,117
Deferred charges		
<b>Rentals</b>	<b>2,639</b>	<b>120</b>
<b>Pre-paid expenses</b>	<b>109,945</b>	<b>50,675</b>
<b>Interest</b>	<b>2</b>	<b>-</b>
Total	112,586	50,795
Total	146,804	90,912

Accrued income relates to revenues from ADSL and IRU agreements and other services. The fall of EUR 5.8 million compared to end-2003 is chiefly due to the optimisation of the billing process, particularly for certain types of ADSL contracts.

Deferred charges largely relate to the costs incurred in activating ADSL and other services (dial-up and voice), together with costs associated with multi-year rental of lines pertaining to international circuit agreements.

The increase of EUR 59.3 million in the item versus 31 December 2003 is mainly due to strong growth in ADSL services in the first half of 2004 (new contracts).

Liabilities

A) Shareholders' equity

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

	31.12.2003	Increases	Transfers	Exch. rate difference	30.06.2004
Shareholders' equity					
Total shareholders' equity					
<b>Share capital</b>	<b>184,460</b>	<b>2,499</b>	-	-	<b>186,959</b>
<b>Share premium reserve</b>	<b>1,506,686</b>	<b>5,066</b>	<b>(114,534)</b>	-	<b>1,397,218</b>
<b>Currency translation reserve</b>	<b>(32,184)</b>	-	-	<b>(8,085)</b>	<b>(40,269)</b>
<b>Previous profit (losses) of subsidiaries</b>	<b>(997,294)</b>	-	<b>(127,914)</b>		<b>(1,125,208)</b>
<b>Profit (loss) for the period</b>	<b>(242,448)</b>	<b>(134,308)</b>	<b>242,448</b>	-	<b>(134,308)</b>
Total	419,220	(126,743)	-	(8,085)	284,392
<b>Minority interests</b>	<b>6,336</b>	<b>(1,140)</b>	-	-	<b>5,196</b>
Total	425,556	(127,883)	-	(8,085)	289,588

At end-June 2004, consolidated shareholders' equity stood at EUR 289.6 million.

The capital increases in respect of the acquisition in 2003 of EuNet (3,604,899 shares issued) and Home AB (333,189 shares issued) were approved at the shareholders' meeting in early 2004.

Changes to the currency translation reserve are chiefly due to fluctuations in the euro/sterling exchange rate.

## Shareholders' equity: parent company and group

### Statement of shareholders' equity: parent company and group

	30.06.2004		31.12.2003	
	Net loss	Shareholders' equity	Net loss	Shareholders' equity
Tiscali SpA	(41,467)	1,542,710	(114,535)	1,576,612
Elimination of effects of transactions between consolidated companies, after tax adjustments:				
- <b>Cancellation of write-downs of holdings in subsidiaries</b>	<b>1,250</b>	<b>19,231</b>	<b>60,438</b>	<b>21,925</b>
Effects of the change in/harmonisation of group accounting policies, after tax adjustments:				
- <b>Application of financial method for assets leased from third parties</b>	<b>(38)</b>	<b>9,514</b>	<b>(11,332)</b>	<b>18,734</b>
- <b>Valuation at equity of companies recorded on the balance sheet at cost</b>	<b>207</b>	<b>987</b>	-	-
Book value of consolidated equity investments	-	(1,427,139)	-	(1,425,228)
Shareholders' equity and net profit of consolidated companies	(42,250)	(331,610)	(118,425)	(277,224)
Allocation of differences to the assets of consolidated companies and related depreciation and amortisation:				
- <b>Consolidation difference pertaining to the parent company</b>	<b>(40,770)</b>	<b>463,180</b>	<b>(72,063)</b>	<b>504,401</b>
- <b>Consolidation difference pertaining to Tiscali SpA</b>	<b>(4,399)</b>	<b>(4,399)</b>	-	-
Effect of other adjustments:				
- <b>Group restructuring and other adjustments</b>	-	-	<b>13,469</b>	-
- <b>Other adjustments</b>	<b>(6,841)</b>	<b>11,918</b>	-	-
<b>BALANCE FROM THE CONSOLIDATED ACCOUNTS – group</b>	<b>(134,308)</b>	<b>284,392</b>	<b>(242,448)</b>	<b>419,220</b>
<b>BALANCE FROM THE CONSOLIDATED ACCOUNTS – minorities</b>	<b>(816)</b>	<b>5,196</b>	<b>(3,534)</b>	<b>6,336</b>
<b>BALANCE FROM THE CONSOLIDATED ACCOUNTS</b>	<b>(135,124)</b>	<b>289,588</b>	<b>(245,982)</b>	<b>425,556</b>

### B) Provisions for risks and charges

Provisions for risks and future liabilities	31.12.2003	Provisions	Amounts used	Other changes	30.06.2004
<b>Total</b>	<b>27,011</b>	<b>2,231</b>	<b>(8,103)</b>	-	<b>21,139</b>
Total	27,011	2,231	(8,103)	-	21,139

Provisions for risks and future charges stood at EUR 21.1 million at 30 June 2004 and mainly relates to outstanding disputes.

In particular, the balance at 30 June 2004 includes EUR 3 million relating to the Dutch subsidiaries in respect of risks relating to the dispute with Philippe Illiesco de Grimaldi and Illiesco de Grimaldi & Co, and a dispute regarding a leased building no longer in use. This dispute was resolved in July 2004 when a payment broadly in line with the amount earmarked for this purpose was made.

The reserve decreased by EUR 8.1 million compared to 31 December 2003, mainly due to the settlement of the dispute with I-Way in May 2004 (EUR 5.7 million).

C) Staff severance indemnity reserve

	31.12.2003	Provisions	Amounts used	Other changes	30.06.2004
Staff severance fund					
<b>Total</b>	<b>10,850</b>	<b>1,049</b>	<b>(3,576)</b>	<b>-</b>	<b>8,323</b>
Total	10,850	1,049	(3,576)	-	8,323

The staff severance fund stood at EUR 8.3 million at 30 June 2004 and mainly relates to the parent company.

D) Payables

Breakdown

	30.06.2004	31.12.2003
<b>Bonds</b>	<b>533,278</b>	<b>540,684</b>
Payables to banks	56,361	71,495
Due to other lenders	47,731	43,551
Payables to suppliers	302,158	310,647
Payables to non-consolidated group companies	4,443	2,210
Payables to affiliated companies	-	54
Taxes payable	43,021	29,055
Due to social security agencies	9,542	10,729
Other payables	47,700	36,148
Total	1,044,234	1,044,573

Bonds

	30.06.2004	31.12.2003
<b>Bonds</b>	<b>533,278</b>	<b>540,684</b>

This item, totalling EUR 533.2 million, includes the following:

Issuer	Nominal value (EUR million)	Issue date	Coupon	Maturity	Guarantor
Tiscali Finance SA	73.1*	July 2002	6.375%	July 2004	Tiscali SpA
Tiscali Finance SA	250	July 2000	Euribor + 3.25%	July 2005	Tiscali SpA
Tiscali Finance SA	209.5	September 2003	4.25%	September 2006	Tiscali SpA
Tiscali UK Holdings plc	0.6			On request	Tiscali International BV
Total	533.2				

\* Original issue value: EUR 150 million.

The remaining portion of the bond issued by Tiscali UK Holdings plc relates to financing for the acquisition of Telinco UK.

*Important bond clauses*

- Equity-linked bonds 2006

The equity-linked bond issue maturing in 2006 involves a convertible bond, issued at a price of EUR 7.57, with a soft mandatory feature. This means that the issuer may assign shares, even where, at maturity, Tiscali's market price is lower than the conversion price. In this case, but only at maturity, the difference between the conversion price and the market price would have to be made up by the issuer. The bond will be convertible from September 2004, although any difference between the conversion price above and the Tiscali share's market price will not be made up.

- Covenant on bonds maturing in 2004 and 2005

The bonds maturing in 2004 and 2005 include a covenant linked to the company's gross debt and consolidated shareholders' equity as of 31 December each year. The two types of covenant are set out in the table below. The covenant applying to the Tiscali group (negative consolidated cash flow) is listed first.

Covenant period	calculation	Consolidated cash flows	Covenant
Annual, at 31.12 each year		Negative	Consolidated gross debt must not exceed the greater of: i) EUR 600 million and ii) 2x consolidated shareholders' equity
Annual, at 31.12 each year		Positive	Consolidated net debt must not exceed the greater of: i) 3x consolidated EBITDA, ii) EUR 600 million and iii) 2.5x consolidated shareholders' equity

Given consolidated shareholders' equity of EUR 425.6 million and consolidated gross debt of EUR 655.6 million as of 31 December 2003, the ratio is 1.5x, and therefore lower than the limit of 2x imposed by the covenant.

With bond issues reaching maturity in July 2004, consolidated gross debt is lower than EUR 600 million. It is expected that, at 31 December 2004, the ratio between consolidated shareholders' equity and consolidated gross debt stayed below the upper limit imposed by the covenant.

The Telinco loan is posted under short-term payables and due to be repaid on request, although it may be rolled over.

Swap contracts have been entered into to hedge against interest rate risk. At 30 June, the following contracts were in force:

- interest rate swap agreement entered into with Banca Intesa SpA on 31 July 2003, with a notional value of EUR 162.5 million;
- interest rate swap agreement entered into with Banca IMI SpA on 19 June 2000 with a notional value of EUR 87.5 million.

These agreements relate solely to the EUR 250 million bond maturing in July 2005. All such agreements have been taken out as part of the company's interest rate risk hedging strategy, and expire on the same date as the underlying bond loan.

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

### Payables to banks

	30.06.2004	31.12.2003
<b>Payables to banks</b>	<b>56,361</b>	<b>71,495</b>

Short-term bank debt, falling due within the next financial year, totalled EUR 24.3 million.

Long-term bank debt (EUR 32 million) relates to the loan granted by Banca CIS (Cagliari) for the new company headquarters in Sa Illetta.

The total amount of the loan is EUR 34.8 million, of which EUR 2.8 million is due by the end of 2004, EUR 12.5 million falls due from one to five years and the remaining EUR 19.5 million falls due after five years. This loan is backed by a EUR 70 million guarantee in respect of the property.

### Payables to other lenders

	30.06.2004	31.12.2003
<b>Payables to other financial institutions</b>	<b>47,731</b>	<b>43,551</b>

“Payables to other financial lenders” include payables to leasing companies for capitalised financial leasing agreements. These payables total EUR 47.7 million, of which EUR 42.3 million are due after one year. The agreements chiefly relate to networks, servers and other equipment used directly in the production process.

### Payables to suppliers

	30.06.2004	31.12.2003
<b>Payables to suppliers</b>	<b>302,158</b>	<b>310,647</b>

“Payables to suppliers” of EUR 302.1 million mainly refer to the provision of content, and telephone and traffic data services.

### Payables to non-consolidated subsidiaries and affiliated companies

	30.06.2004	31.12.2003
<b>Payables to non-consolidated subsidiaries</b>	<b>4,443</b>	<b>2,210</b>
<b>Payables to affiliated companies</b>	<b>-</b>	<b>54</b>

This includes payables to companies that have not been consolidated either because they are being wound up or because their effect on the accounts is not significant.

### Taxes payable

	30.06.2004	31.12.2003
<b>Taxes payable</b>	<b>43,021</b>	<b>29,055</b>

Taxes payable break down as follows:

	30.06.2004	31.12.2003
<b>Corporate income tax and other taxes</b>	<b>3,170</b>	<b>3,876</b>
<b>VAT payables to the Treasury</b>	<b>32,929</b>	<b>17,773</b>
<b>Payables to the Treasury for advance withholding tax</b>	<b>419</b>	<b>413</b>
<b>Payables to the Treasury for employee withholding tax</b>	<b>6,503</b>	<b>6,993</b>
<b>Other taxes payable</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>43,021</b>	<b>29,055</b>

VAT payables to the Treasury totalled EUR 32.9 million. Tax payables will be partly offset during the year against the related sum recorded under tax receivables.

### **Payables to social security agencies**

	30.06.2004	31.12.2003
<b>Due to social security agencies</b>	<b>9,542</b>	<b>10,729</b>

“Payables to social security agencies” include pension contributions made by the company and employees, and voluntary and compulsory social security and industrial accident insurance contributions.

### **Other payables**

	30.06.2004	31.12.2003
<b>Other payables</b>	<b>47,700</b>	<b>36,148</b>

Other payables break down as follows:

	30.06.2004	31.12.2003
<b>Payables to directors and auditors (emoluments)</b>	<b>15</b>	<b>517</b>
<b>Payables to employees (accrued holiday pay)</b>	<b>335</b>	<b>5,326</b>
<b>Other payables</b>	<b>47,350</b>	<b>30,305</b>
<b>Total</b>	<b>47,700</b>	<b>36,148</b>

“Other payables“ includes EUR 27.5 million relating to a temporary loan from shareholders, to be repaid in the next few months.

*E) Accrued liabilities and deferred income*

Accrued liabilities and deferred income break down as follows.

Accrued liabilities and deferred income	30.06.2004	31.12.2003
Accrued liabilities		
<b>Bank interest</b>	<b>16,001</b>	<b>9,566</b>
<b>Accrued payments (employees)</b>	<b>5,822</b>	<b>2,828</b>
<b>Accrued holiday bonuses</b>	<b>5,369</b>	<b>3,234</b>
<b>Other accrued expenses</b>	<b>69,374</b>	<b>61,984</b>
Total	96,566	77,612
Deferred income		
<b>Pre-paid internet services</b>	<b>85,872</b>	<b>63,778</b>
<b>Other deferred income</b>	<b>12,217</b>	<b>11,881</b>
Total	98,088	75,659
Total	194,654	153,271

Accrued liabilities mainly consist of operating expenses, such as payments for content, network access costs, consultancy fees and line rental costs.

Deferred income largely concerns the deferral to later financial years of revenues from pre-payments for line rental services provided by Tiscali International Network SA (EUR 26.8 million) and Tiscali International Network Spain (EUR 9.3 million).

This item also includes income relating to subsequent periods from the supply of modems and ADSL installation and activation, as well as income from dial-up and other products.

The increase of EUR 22.4 million in deferred income compared to 31 December 2003 is mainly due to revenues generated by new ADSL contracts of around EUR 18.4 million, following significant growth in sales of services.



## **Memorandum accounts**

“Guarantees received” (EUR 1.2 million) take the form of surety bonds issued by suppliers to guarantee the provision of services in accordance with contractual obligations.

“Commitments” (EUR 10.9 million) chiefly relate to shares to be issued to employees and directors under the stock option plan.

“Guarantees given” (EUR 18.6 million) include sureties issued to the tax office for VAT refunds applied for and in part received in early 2004 (EUR 10.7 million).

## Notes to the consolidated profit and loss account

### A) Value of production

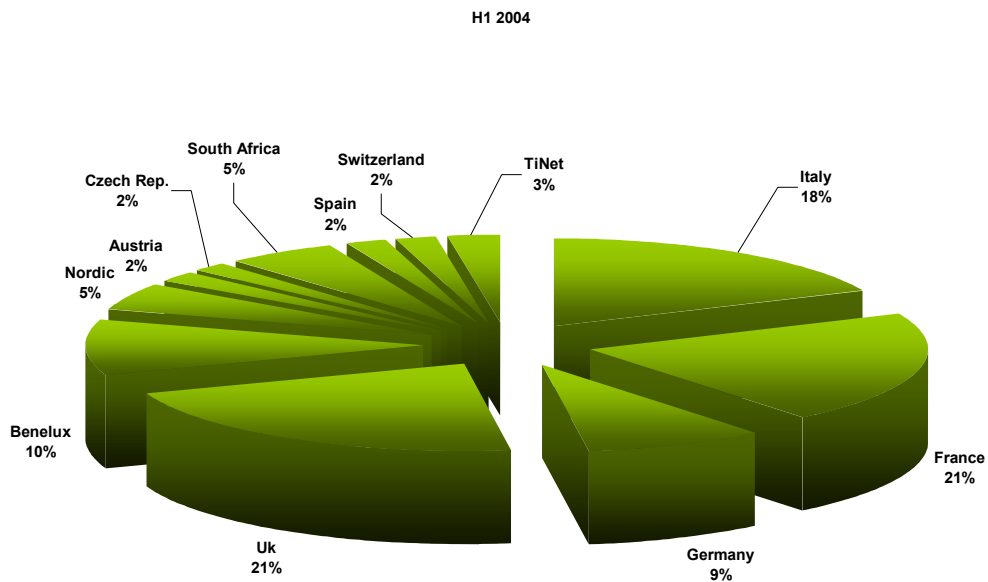
#### Breakdown of value of production

Value of production	30.06.2004	30.06.2003
Access	365,879	298,701
Voice	42,830	32,517
Business	101,976	69,437
Portal	22,635	23,905
Other revenues	4,728	5,127
<b>Total</b>	<b>538,048</b>	<b>429,687</b>

The increase in revenues to EUR 538 million, an increase of 25% on the same period last year, was driven by growth in the access business, thanks to the sharp rise in the number of ADSL subscribers. Business services (EUR 102 million) and telephony (EUR 42.8 million) revenues also made a contribution, with strong growth of 47% and 32% respectively.

Following a shift in its strategic focus, Tiscali's revenues mix changed in the first half of 2004 and the group has now firmly established itself as a provider of broadband access services. Broadband (ADSL) services generated revenues of EUR 145.3 million (40% of total access revenues), a jump of 141% compared to the first half of 2003 (EUR 60.3 million).

### Revenues by country



The breakdown of revenues by country above shows that around 80% of revenues is generated in Europe's five main markets. The contribution of each remained stable, with the UK accounting for 21% of revenues, France for 21%, Italy for 18%, the Netherlands for 10% and Germany for 9%.

## **B) Production costs**

### **Purchases of raw materials, supplies, consumables and other goods**

Purchases of raw materials, supplies, consumables and other goods include the cost of consumables and equipment for pre-paid telephone cards, goods intended for resale and modems.

### **Breakdown of costs for the provision of services**

	30.06.2004	30.06.2003
<b>Service costs</b>		
Line rental	158,458	89,119
Purchase of traffic	98,834	79,720
Installation	5,426	5,105
Portal services	5,282	4,841
Call centres	8,335	15,511
Advertising and promotional expenses	63,659	50,568
Maintenance	12,389	10,268
Utilities	1,822	1,904
Business travel	3,159	3,894
Insurance	732	603
Selling costs	6,995	15,847
Other services	28,327	23,700
<b>Total</b>	<b>393,418</b>	<b>301,080</b>

The most important cost elements for the provision of services are described below.

**Line rental.** This is a standard cost item in the sector that applies to all subsidiaries. In the first half of 2004, it rose to 40% as a proportion of total services costs, as a result of growth in broadband and FRIACO dial-up user numbers, and represented 30% of total revenues. In addition, the group's restructuring has already delivered significant savings, with no change in transmission capacity. The weighting of these costs is expected to fall further as revenues increase.

**Purchase of traffic.** This cost item rose by 24% versus the same period last year to EUR 98.8 million, due to growth in the number of traffic minutes and dial-up connections. Traffic costs mainly relate to the UK, where the group has acquired control of npower's telephony business (26% of total traffic costs), France (16%) and Italy, where telephony is one of the company's core businesses (20%).

**Installation costs.** Installation costs totalled EUR 5.4 million. They are closely connected to installation revenues, a component of broadband revenues, which grew significantly in the last quarter of 2003 and in the first quarter of 2004.

**Advertising and promotional costs.** These costs rose 6% compared to the first half of 2003 to EUR 70.7 million, but fell from 15% to 13% of revenues.

This drop was due to the reallocation of investment towards the second half of the current year, when the group will focus on promoting its unbundled broadband and voice services.

**Maintenance.** This item came to around EUR 12.4 million, and was largely spent on maintenance agreements for network equipment and software. Maintenance costs accounted for 3% of total costs and 2% of revenues. The increase in maintenance costs compared to last year is a direct consequence of the group's increased investment in this area.

### Personnel costs

Personnel costs rose by 13% compared to the first half of 2003 to EUR 77.9 million, but fell from 16% to 14% of revenues.

At 30 June 2004, the Tiscali group had 3,253 employees, compared to 3,226 at end-December 2003.

### Other operating expenses

Other operating expenses totalled EUR 1.5 million for the period.

### C) Financial income and charges

Other financial income	30.06.2004	30.06.2003
From securities listed under non-current assets other than equity investments	128	-
From securities listed under current assets other than equity investments	-	124
From receivables listed under non-current assets	7	4
<b>Total</b>	<b>135</b>	<b>128</b>
<b>Earnings other than the above</b>		
From non-consolidated subsidiaries	35	-
<b>From third parties</b>		
Interest earned from banks	11,873	6,374
Interest earned on other securities	67	388
Interest from customers	1	1
Other financial income	123	121
<b>Total</b>	<b>12,064</b>	<b>6,884</b>
<b>Total</b>	<b>12,234</b>	<b>7,012</b>

"Interest earned from banks" refers to cash investments, mostly made by Liberty Surf Group SA, Tiscali International BV and Tiscali Finance SA, and gains on swap contracts taken out by Tiscali Finance in respect of its bond liabilities (EUR 6.9 million in interest receivable).

<b>Interest and other financial charges</b>	<b>30.06.2004</b>	<b>30.06.2003</b>
<b>Due to third parties</b>		
Overdrafts	25,907	17,115
Due to other financial institutions	721	1,447
Payables to suppliers	277	121
Other payables	1,078	541
Other	1,657	2,370
<b>Total</b>	<b>29,640</b>	<b>21,594</b>

Interest and other financial charges due to third parties totalled EUR 29.6 million, and mainly related to bonds issued by Tiscali Finance SA (EUR 22.6 million) and Tiscali International BV, and the associated swap contract charges.

Financial charges were higher than in the first half of 2003, due to the new bond issue launched in September 2003.

The remainder relates to bank overdrafts and interest on financial leasing operations.

<b>Exchange rate gains and losses</b>	<b>30.06.2004</b>	<b>30.06.2003</b>
Positive adjustments on exchange rates	(3,794)	(4,741)
Exchange rate losses	3,691	312
<b>Total</b>	<b>(103)</b>	<b>(4,429)</b>

#### ***D) Adjustments to the value of financial assets***

Adjustments stood at EUR 207,000. This item includes income generated by the valuation at equity of non-consolidated minority investments belonging to the parent company.

#### ***E) Extraordinary income and charges***

##### **Extraordinary income**

Extraordinary income items are shown in the table below.

<b>Extraordinary income</b>	<b>30.06.2004</b>	<b>30.06.2003</b>
Other extraordinary income	4,370	7,130
<b>Total</b>	<b>4,370</b>	<b>7,130</b>
<b>Capital gains on disposals of non-current assets</b>		
Capital gains on disposals of tangible assets	-	48
Capital gains on disposals of long-term investments	-	955
Other extraordinary gains	1,278	-
<b>Total</b>	<b>1,278</b>	<b>1,003</b>
<b>Total</b>	<b>5,648</b>	<b>8,133</b>

### Extraordinary charges

Extraordinary charges are detailed in the table below.

<b>Extraordinary charges</b>	<b>30.06.2004</b>	<b>30.06.2003</b>
Redundancy costs	828	886
Restructuring costs relating to contracts terminated early	2,293	371
Restructuring costs relating to the write-down of tangible assets	-	801
Other restructuring costs	5,891	17,335
Other extraordinary charges	46,839	21,178
<b>Total</b>	<b>55,850</b>	<b>40,571</b>

Restructuring costs totalled EUR 9 million, from EUR 10.4 million in the first half of 2003. They chiefly related to: the settlement of the dispute with I-Way (an under-provision at 31 December 2003 by the UK subsidiary), totalling EUR 1.2 million; rental charges for two unused buildings (EUR 1.1 million for the UK subsidiary and EUR 1 million for the Dutch subsidiary); costs of EUR 2.1 million relating to the integration of Tiscali Integration NV into Tiscali NV, Belgium and of EUR 1.4 million resulting from the sale of its Norwegian, Swedish, South African and Austrian subsidiaries.

Other extraordinary charges, totalling EUR 46.8 million, include a EUR 17 million write-down on goodwill relating to Swiss subsidiary Tiscali AG. Please see the note on the "Consolidation Difference" for more information. This item also includes charges of EUR 7.9 million following an investigation by the tax authorities into the German subsidiaries in the second quarter of 2004. The remainder includes other extraordinary charges, including some asset write-downs and other contingent assets.

## Other information

### Employees

Average number of employees by category	30.06.2004	31.12.2003
Senior managers	150	146
Middle managers	518	505
Office staff	2,563	2,551
Manual workers	22	24
<b>Total</b>	<b>3,253</b>	<b>3,226</b>

## List of holdings

The table below lists Tiscali subsidiaries, specifying the consolidation method used.

COMPANY NAME	COUNTRY	% OWNED		SHARE OF PROFIT	SECTOR	CONSOLIDATION METHOD (8)
		% DIRECT	% INDIRECT			
<b>Tiscali S.p.A.</b>	Italy				Internet & telecoms	G
Tiscali Czech Republic a.s.	Czech Rep.	100.0%		100.0%	Internet	G
Tiscali Telecomunicaciones Sa	Spain	99,99%		99,99%	Internet	G
Excite Italia BV	Neth	100.0%		100.0%	Portal	G
Ideare S.p.A.	Italy	60.0%		60.0%	Software devt	G
Tiscali Motoring Srl	Italy	60.0%		60.0%	Portal	G
Informedia Srl	Italy	0.0%	0.0%	0.0%	Wound down on 29.06.2004	E
Tiscali Information Technology System Srl	Italy	100.0%		100.0%	Information Tecnology	E
Andaledda Spa	Italy	100.0%		100.0%	Inactive	E
Energy Byte Srl	Italy	100.0%		100.0%	Portal	E
Quinary S.p.A.	Italy	85.0%		85.0%	Software devt	G
Best Engineering Spa	Italy	60.0%		60.0%	Software devt	G
STS Studi Tecnologie Sistemi S.P.A. (1)	Italy	20.0%	30.0%	50.0%	Software devt	G
Gilla Servizi Telecomunicazione Srl (2)	Italy	90%	10.0%	100.0%	Call Center	E
Nextra S.p.A.	Italy	100.0%		100.0%	B2B	G
Tiscali Datacomm Ag (3)	Switz	83.4%	16.6%	99.9%	Sold on 16.09.2004	G
Connect Sofware Inc	USA		100.0%	100.0%	Inactive	E
Tiscali Finance Sa	Luxembourg	100.0%		100.0%	Finance	G
Tiscali Deutschland Gmbh	Germany	100.0%		100.0%	Holding	G
Time to market 1 Gmbh (ex Brandgate Gmbh)	Germany		100.0%	100.0%	Inactive	G
Finanzdirect 24 Gmbh	Germany		60.0%	60.0%	Inactive	G
Tiscali GmbH	Germany		100.0%	100.0%	Internet & telecoms	G
Tiscali Games Gmbh	Germany		100.0%	100.0%	Portal	G
Tiscali Business Solution GmbH & Co KG (ex Nextra Deutschland GmbH)	Germany		100.0%	100.0%	B2B	G
Tiscali Verwaltungs Gmbh (ex Nextra Deutschland Verwaltungs Gmbh)	Germany		100.0%	100.0%	B2B	G
Liberty Surf Group Sa	France	94,5%		94.5%	Holding	G
Cyber Press Publishing Sa	France		15.8%	14.9%	Portal	G
Losir Net Sa	France		88.0%	13.1%	Portal	G
Tiscali Acces Sa (ex Liberty Surf Sa)	France		100.0%	94.5%	Internet	G
Film Non Stop Monsieur Cinema.Com Sa	France		100.0%	94.5%	Portal	G
Tiscali Média Sa (ex Objectif Net Sa)	France		100.0%	94.5%	Network mgt	G
Liberty Contact Sa	France		50.0%	47.3%	Inactive	G
Tiscali Télécom SA	France		100.0%	94.5%	Telecoms	G
Intercall SA	France		67.0%	63.3%	Telecoms	G
Intercall Hellas Sa	Greece		100.0%	94.5%	Telecoms	G
Liberty Surf Network Bv	Neth		100.0%	94.5%	Inactive	E
Liberty Telecom Bv	Neth		100.0%	94.5%	Inactive	E
Tiscali Telecom Sa	Spain		100.0%	94.5%	Inactive	E
Liberty Surf Communication Ltd	UK		100.0%	94.5%	Inactive	E
X-Stream Network Inc	USA		100.0%	94.5%	Inactive	E
X-Stream Technologies Inc	USA		100.0%	94.5%	Inactive	E
Liberty Surf Uk Ltd	UK		100.0%	94.5%	Inactive	E



COMPANY NAME	COUNTRY	% OWNED		SHARE OF PROFIT	SECTOR	CONSOLIDATION METHOD (8)
		% DIRECT	% INDIRECT			
<b>Tiscali S.p.A.</b>						
World Online International Nv	Neth	99.5%		99.5% Holding		G
Tiscali International Bv	Neth		100.0%	99.5% Holding		G
TISCALI Telekomunikace Ceská republika s.r.o.	Czech Rep.		100.0%	99.5% Internet		G
World Online Kft	Hungary		100.0%	99.5% Inactive		E
World Online Poland Sp Z.O.O.	Poland		100.0%	99.5% Inactive		E
Tiscali Denmark A/S	Denmark		100.0%	99.5% Internet		G
Tiscali Oy (ex Surfeu Oy)	Finland		100.0%	99.5% Internet		G
Tiscali As	Norway		100.0%	99.5% Sold on 24.08.2004		G
Tiscali Ab	Swed		100.0%	99.5% Sold. Waiting for the antitrust approval		G
Home SA	Swed		100.0%	99.5% Merged into Tiscali Ab		G
@Home AB	Swed		100.0%	99.5% Merged into Tiscali Ab		
Tiscali Espana SA	Spain		100.0%	99.5% Internet		E
World Online Epe	Greece		100.0%	99.5% Inactive		E
World Online S.r.l. in liquidazione	Italy	0.0%		0.0% Sold the residual 5% on 10.02.2004		E
Tiscali Österreich GmbH	Austria		100.0%	99.5% Sold on 13.08.2004		G
EUNET EDV und Internet Dienstleistungs AG	Austria	0.0%		0.0% Merged in Tiscali Österreich		G
Tiscali N.V.	Belgium		100.0%	99.5% Internet & telecoms		G
Tiscali Integration SA ( ex Wanadoo Belgium SA)	Belgium		100.0%	99.5% Internet		G
Tiscali Holding S.A.	Switz		100.0%	99.5% Internet & telecoms		G
Surfeu.Com Ag	Switz		100.0%	99.5% In liquidazione		G
Tiscali Business UK Ltd	UK		100.0%	99.5% Holding		G
Tiscali Business GmbH	Germany		100.0%	99.5% B2B		G
Nacamar Luxembourg Sarl (5)	Luxembourg		100.0%	99.5% B2B		G
Nacamar Ltd	UK		100.0%	99.5% B2B		G
Tiscali Holdings UK Ltd	UK		100.0%	99.5% Holding		G
Tiscali Uk Ltd	UK		100.0%	99.5% Internet & telecoms		G
Hambalt Services Ltd (ex Tiscali Internet Limited Ltd)	UK	0.0%	100.0%	100.0% Internet		G
Tiscali Network Distribution Ltd	UK		100.0%	100.0% Internet		G
Telinko Uk Ltd	UK		100.0%	99.5% Internet & telecoms		G
Connect Free Internet Services Ltd	UK		100.0%	99.5% Internet		G
Springboard Internet Services Ltd	UK		100.0%	99.5% Internet		G
World Online Telecom Ltd.	UK		100.0%	99.5% Telecoms		G
World Online Ltd.	UK		100.0%	99.5% Internet		G
Tiscali Luxembourg Sa	Luxembourg		100.0%	99.5% Internet		G
Tiscali B.V.	Neth		100.0%	99.5% Internet		G
12Move Vof (6)	Neth		100.0%	99.5% Portal		G
Sonera Plaza	Neth		100.0%	99.5% Portal		G
Xoip BV	Neth		100.0%	99.5% Portal		G
Wolstar B.V.	Neth	50.0%		49.7% Inactive		G
Tiscali Partner B.V.	Neth		100.0%	99.5% Holding		G
12Move ApS	Denmark		100.0%	99.5% Inactive		G
Tiscali International Network B.V.	Neth		100.0%	99.5% Network mgt		G
Tiscali International Network SpA	Italy		100.0%	99.5% Network mgt		G
Tiscali International Network SA	France		100.0%	99.5% Network mgt		G
Tiscali International Network SAU	Spain		100.0%	99.5% Network mgt		G
Tiscali International Network GmbH	Germany		100.0%	99.5% Network mgt		G
Tiscali International Network Ltd	UK		100.0%	99.5% Network mgt		G
Myt Vision Bv	Neth		100.0%	99.5% Inactive		G
Tiscali (Pty) Ltd	South Africa		100.0%	99.5% Sold. Waiting for the approval of the antitri		G

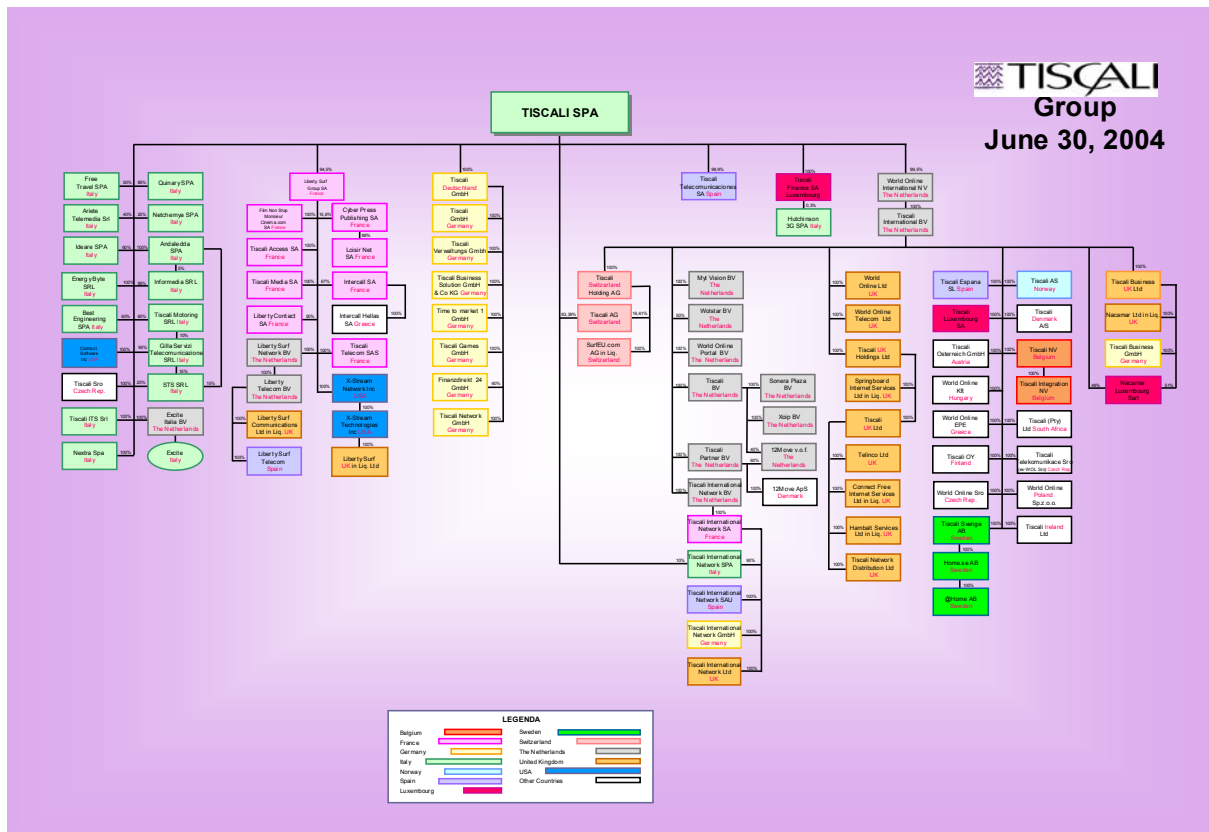
## Notes

- (1) Tiscali SpA owns 20%, Gilla Srl owns 15% and Andaledda SpA owns 15%.
- (2) Tiscali SpA owns 90% and Tiscali Motoring Srl owns 10%.
- (3) Tiscali SpA owns 83.39% and Tiscali Holding SA owns 16.61%. Sold on 16.09.2004.
- (4) Consolidated on 30.06.2004. Sold on 23.08.2004.
- (5) Tiscali Business UK plc owns 51% and Tiscali International BV owns 49%.
- (6) Tiscali BV owns 40% and Tiscali Partner BV owns 60%. Consolidated on 30.06.2004. Sold on 30.08.2004, pending approval from competition authorities
- (7) Consolidated on 30.06.2004. Sold on 20.08.04, pending approval from competition authorities.
- (8) Consolidated on 30.06.2004. Sold on 13.08.04.
- (9) Consolidation method **G** = global; **E** = Equity method
- (10)

The table below shows a list of the group's holdings in non-consolidated subsidiaries, affiliated and other companies:

Name	Head office	Share capital	Profit (loss) for the period	% owned	Value on BS
<b>Holdings in affiliated companies</b>					
Freetravel SpA (being wound up)	Milan	268	(19)	50.0%	134
Ariete Telemidia Srl	Milan	46	(36)	40.0%	18
Janna scarl	Cagliari	100	-	33,0%	33
Netchemya SpA (being wound up)		20,032	(2.632)	20.0%	-
Studi Scari		45	(5)	33.3%	14
<b>Total</b>					<b>185</b>
<b>Holdings in other companies</b>					
Consorzio Green Management					-
CRS4 Scarl					126
Mix Srl					1
<b>Total</b>					<b>127</b>

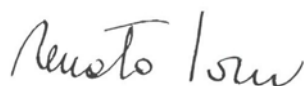
# GROUP STRUCTURE



**CONSOLIDATED CASH FLOW STATEMENT**

Cash flow statement		30.06.2004	31.12.2003
<b>A)</b>	<b>Net debt at the end of the previous year</b>	<b>213,387</b>	<b>286,911</b>
	Net profit (loss) for the period	(134,308)	(242,448)
	Depreciation, amortisation and write-downs	112,424	293,635
	Net change in provisions for risks and future liabilities	(5,872)	6,852
	Net change in staff severance indemnity reserve	(2,527)	3,848
	Write-downs on long-term investments	(207)	(749)
	<b>Change in net working capital, of which:</b>	<b>16,521</b>	<b>(1,666)</b>
	- change in receivables	20,080	(8,818)
	- change in inventories	86	(3,596)
	- change in accrued income and deferred charges	(55,892)	(49,040)
	- change in payables	10,864	40,209
	- change in accrued liabilities and deferred income	41,383	19,579
<b>B)</b>	<b>Cash flows from operations</b>	<b>(13,969)</b>	<b>59,472</b>
	Net changes in non-current assets		
	- tangible assets	(26,027)	(60,353)
	- intangible assets	(5,981)	(166,034)
	- long-term investments	(55,206)	(1,194)
<b>C)</b>	<b>Cash flows from investments</b>	<b>(87,214)</b>	<b>(227,581)</b>
	Change in financial payables	(1,410)	80,543
	Change in the basis of consolidation		
	Changes in minorities' portions of shareholders' equity	(1,140)	(9,973)
	Other medium-/long-term liabilities	11,337	(21,625)
	Other medium-/long-term assets		
	Changes in shareholders' equity	(520)	45,640
<b>D)</b>	<b>Cash flows from financing operations</b>	<b>8,267</b>	<b>94,585</b>
<b>E)</b>	<b>Cash flows for the year (B + C + D)</b>	<b>(92,916)</b>	<b>(73,524)</b>
<b>F)</b>	<b>Net debt at year end (A - E), of which:</b>	<b>120,471</b>	<b>213,387</b>
	Cash and cash equivalents and receivables from banks	136,981	203,544
	Short-term investments	81,536	129,019
	Short-term bank debt	(98,046)	(119,176)
	<b>Total</b>	<b>120,471</b>	<b>213,387</b>

For the Board of Directors



The Chairman  
Renato Soru



**PARENT COMPANY HALF-YEAR REPORT TO 30 JUNE 2004**

**Tiscali SpA**

**Accounting statements and notes to the accounts to 30 June 2004**

*(figures in EUR 000)*

## Balance Sheet - Assets

		Assets	30.06.2004	31.12.2003	30.06.2003
A)		Capital contributions due from shareholders	-	-	-
B)		Non-current assets	-	-	-
	I	Intangible assets	-	-	-
	1)	<b>Start-up and expansion costs</b>	<b>1,071</b>	<b>2,206</b>	<b>3,974</b>
	2)	<b>Research, development and advertising costs</b>	<b>879</b>	<b>1,758</b>	-
	3)	<b>Industrial patent rights and intellectual property rights</b>	<b>20,305</b>	<b>22,792</b>	<b>21,934</b>
	4)	<b>Concessions, licenses, trademarks and similar rights</b>	<b>34,710</b>	<b>35,852</b>	<b>37,452</b>
	5)	<b>Goodwill</b>	<b>40</b>	<b>80</b>	<b>120</b>
	6)	<b>Payments on account and intangible assets in course of acquisition</b>	<b>403</b>	<b>321</b>	<b>1,283</b>
	7)	<b>Other</b>	<b>9,576</b>	<b>6,140</b>	<b>6,869</b>
	8)	<b>Consolidation difference</b>	-	-	-
		Intangible assets	66,984	69,149	71,631
	II	Tangible assets	-	-	-
	1)	<b>Land and buildings</b>	<b>24,662</b>	<b>24,438</b>	<b>4,247</b>
	2)	<b>Plant and machinery</b>	<b>29,039</b>	<b>31,621</b>	<b>16,518</b>
	3)	<b>Industrial and commercial equipment</b>	<b>1,825</b>	<b>1,403</b>	<b>802</b>
	4)	<b>Other tangible assets</b>	<b>3,493</b>	<b>3,356</b>	<b>1,969</b>
	5)	<b>Payments on account and tangible assets in course of acquisition</b>	<b>10</b>	-	<b>25,259</b>
		Tangible assets	59,028	60,818	48,795
	III	Financial fixed assets	-	-	-
	1)	<i>Investments in:</i>	-	-	-
	a)	<b>Subsidiaries</b>	<b>1,979,460</b>	<b>1,992,852</b>	<b>2,081,316</b>
	b)	<b>affiliated companies</b>	<b>49</b>	<b>49</b>	<b>49</b>
	c)	<b>parent companies</b>	<b>210</b>	<b>160</b>	<b>160</b>
	d)	<b>Other companies</b>	-	-	-
	2)	<i>Receivables</i>			
		<b>Due within one year</b>			
			30.06.2004	31.12.2003	
	a)	<b>from subsidiaries</b>	-	-	-
	b)	<b>from affiliated companies</b>	-	-	-
	c)	<b>from parent companies</b>	-	-	-
	d)	<b>from others</b>	-	-	-
			<b>8,038</b>	<b>8,038</b>	-
	3)	<i>Other securities</i>	-	-	-
	4)	<i>Own shares</i>	-	-	-
		Financial fixed assets	1,987,758	2,001,099	2,081,525
		Non-current assets	2,113,770	2,131,067	2,201,952

**Balance Sheet - Assets (continued)**

			30.06.2004	31.12.2003	30.06.2003
C)		Current assets			
I		Inventories			
		<b>Raw materials, supplies and consumables</b>			
1)			998	941	1,237
2)		<b>Work in progress and semi-finished products</b>	-	-	-
3)		<b>Contract work in progress</b>	1,683	1,431	-
4)		<b>Finished goods</b>	-	-	-
5)		<b>Payments on account</b>	-	-	-
		Inventories	2,681	2,372	1,237
II		Receivables	<b>Receivable after one year</b>		
			30.06.2004	31.12.2003	
		<b>Receivables from customers</b>	17,328	17,328	52,053
1)					49,099
2)		<b>from subsidiaries from affiliated companies</b>	-	-	170,217
3)			-	-	-
4)		<b>from parent companies</b>	-	-	-
4 bis)		<b>Tax receivables</b>	-	-	31,679
4 ter)		<b>Deferred taxes</b>	-	-	-
5)		<b>from others</b>	235	328	32,168
		Receivables	17,563	17,656	186,872
III		Short term financial assets	-	-	-
1)		<b>Investments in subsidiaries</b>	-	-	-
2)		<b>Investments in affiliated companies</b>	-	-	-
3)		<b>Investments in parent companies</b>	-	-	-
4)		<b>Other investments</b>	-	-	-
5)		<b>Own shares</b>	-	-	-
6)		<b>Other securities</b>	-	-	-
		Short term financial assets	-	-	-
IV		Cash and cash equivalents	-	-	-
1)		<b>Bank and post office deposits</b>	3,266	3,599	6,979
2)		<b>Cheques</b>	-	-	-
3)		<b>Cash and other negotiable instruments</b>	161	119	10
		Cash and cash equivalents	3,427	3,718	6,989
		Current assets	192,980	201,640	292,416
D)		Accrued income and deferred charges			
		<b>Accrued income and deferred charges</b>	9,881	5,394	4,125
		Accrued income and deferred charges	9,881	5,394	4,125
		Assets	2,316,632	2,338,101	2,498,492



## Balance Sheet - Liabilities

		Liabilities		30.06.2004	31.12.2003	30.06.2003
A)		Shareholders' equity				
		Total shareholders' equity				
	<b>I</b>	<b>Share capital</b>		<b>186,959</b>	<b>184,460</b>	<b>183,057</b>
	<b>II</b>	<b>Share premium reserve</b>		<b>1,397,217</b>	<b>1,506,686</b>	<b>1,496,977</b>
	<b>III</b>	<b>Revaluation reserve</b>		-	-	-
	<b>IV</b>	<b>Legal reserve</b>		-	-	-
	<b>V</b>	<b>Reserve for own shares held</b>		-	-	-
	<b>VI</b>	<b>Statutory reserves</b>		-	-	-
	<b>VII</b>	<b>Other reserves</b>		-	-	-
		<b>Retained earnings (losses carried forward)</b>		-	-	-
	<b>VIII</b>	<b>Profit (loss) for the year</b>		<b>(41,466)</b>	<b>(114,535)</b>	<b>(30,127)</b>
		Shareholders' equity		1,542,710	1,576,612	1,649,907
B)		Provisions for risks and charges		-	-	-
	<b>1)</b>	<b>Pension provisions and similar obligations</b>		-	-	-
	<b>2)</b>	<b>Provisions for taxes (including deferred taxes)</b>		-	-	-
	<b>3)</b>	<b>Other</b>		<b>21,377</b>	<b>23,437</b>	<b>54,914</b>
		Provisions for risks and charges		21,377	23,437	54,914
C)		Staff severance Indemnity reserve		4,828	4,233	3,496
D)				<b>Receivable after one year</b>		
		Payables		30.06.2004	31.12.2003	
	<b>1)</b>	<b>Bonds</b>	-	-	-	-
	<b>2)</b>	<b>Convertible bonds</b>	-	-	-	-
	<b>3)</b>	<b>Loan payments due to shareholders</b>	-	-	-	-
	<b>4)</b>	<b>Due to banks</b>	<b>32,049</b>	<b>31,946</b>	<b>53,088</b>	<b>64,506</b>
	<b>5)</b>	<b>Due to other financial institutions</b>	-	-	-	<b>843</b>
	<b>6)</b>	<b>Payments on account</b>	-	-	-	-
	<b>7)</b>	<b>Due to suppliers</b>	<b>8,448</b>	<b>8,448</b>	<b>113,142</b>	<b>111,892</b>
	<b>8)</b>	<b>Payables in the form of credit instruments</b>	-	-	-	-
	<b>9)</b>	<b>Due to subsidiaries</b>	-	-	<b>566,205</b>	<b>539,398</b>
	<b>10)</b>	<b>Due to affiliated companies</b>	-	-	-	-
	<b>11)</b>	<b>Due to parent companies</b>	-	-	-	-
	<b>12)</b>	<b>Taxes payable</b>	-	-	<b>1,270</b>	<b>429</b>
	<b>13)</b>	<b>Due to social security agencies</b>	-	-	<b>1,225</b>	<b>596</b>
	<b>14)</b>	<b>Other payables</b>	-	-	<b>5,183</b>	<b>33,180</b>
		Payables	40,497	40,394	740,113	727,406
E)		Accrued liabilities and deferred income				
		<b>Accrued liabilities and deferred income</b>		<b>7,604</b>	<b>6,414</b>	<b>7,642</b>
		Accrued liabilities and deferred income		7,604	6,414	7,642
		Liabilities		2,316,632	2,338,101	2,498,492

## Memorandum Accounts

MEMORANDUM ACCOUNTS		30.06.2004	31.12.2003	30.06.2003
GUARANTEES RECEIVED				
From third parties and group companies				
	<b>Sureties</b>	<b>1,246</b>	<b>1,826</b>	<b>2,792</b>
	<b>Real guarantees</b>	-	-	-
	From third parties and group companies	1,246	1,826	2,792
OTHER MEMORANDUM ACCOUNTS				
	<b>Leasing payments falling due</b>	<b>21,767</b>	<b>28,292</b>	<b>33,974</b>
	<b>Warrants</b>	-	-	<b>73</b>
	<b>Commitments</b>	<b>13,946</b>	<b>15,879</b>	<b>10,877</b>
OTHER MEMORANDUM ACCOUNTS		35,713	44,171	44,925
GUARANTEES GIVEN				
To third parties				
	<b>Sureties</b>	<b>563,548</b>	<b>565,976</b>	<b>267,521</b>
	<b>Real guarantees</b>	-	-	-
	To third parties	563,548	565,976	267,521

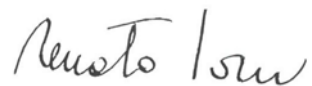
Profit and Loss Account		30.06.2004	31.12.2003	30.06.2003
A)	Value of production			
1)	<b>Revenues from sales and services</b>	<b>99,946</b>	<b>174,885</b>	<b>83,651</b>
2)	<b>Changes in inventories of work in progress, semi-finished and finished products</b>	-	-	-
3)	<b>Changes in contract work in progress</b>	<b>1,479</b>	<b>1,431</b>	-
4)	<b>Increases in assets for work in progress (internal)</b>	<b>1,158</b>	<b>1,174</b>	-
5)	<b>Other income</b>	<b>1,935</b>	<b>2,874</b>	<b>1,341</b>
	Value of production	104,519	180,364	84,991
B)	Production costs			
6)	<b>Raw materials, supplies and consumables</b>	<b>(1,642)</b>	<b>(3,723)</b>	<b>(1,880)</b>
7)	<b>Services</b>	<b>(79,193)</b>	<b>(129,089)</b>	<b>(61,770)</b>
8)	<b>Use of third-party assets</b>	<b>(10,445)</b>	<b>(20,850)</b>	<b>(9,929)</b>
9)	<b>Personnel costs</b>			
a)	<b>Wages and salaries</b>	<b>(13,656)</b>	<b>(25,646)</b>	<b>(11,605)</b>
b)	<b>Social security contributions</b>	<b>(3,499)</b>	<b>(5,820)</b>	<b>(2,607)</b>
c)	<b>Staff severance indemnity</b>	<b>(865)</b>	<b>(1,527)</b>	<b>(739)</b>
d)	<b>Pension provisions and similar obligations</b>	-	-	-
e)	<b>Other costs</b>	<b>(473)</b>	<b>(73)</b>	<b>(31)</b>
10)	<b>Depreciation, amortisation and write-downs</b>			
a)	<b>Amortisation of intangible assets</b>	<b>(10,629)</b>	<b>(20,920)</b>	<b>(9,164)</b>
b)	<b>Depreciation of tangible assets</b>	<b>(5,448)</b>	<b>(8,202)</b>	<b>(2,905)</b>
c)	<b>Other write-downs of non-current assets</b>	-	-	-
d)	<b>Write-downs of receivables included in current assets and cash and cash equivalents</b>	<b>(1,479)</b>	<b>(22,505)</b>	<b>(177)</b>
11)	<b>Changes in inventories of raw materials, supplies and consumables</b>	<b>57</b>	<b>(267)</b>	<b>29</b>
12)	<b>Risk provisions</b>	-	<b>(14,401)</b>	<b>(241)</b>
13)	<b>Other provisions</b>	-	-	-
14)	<b>Other operating expenses</b>	<b>(986)</b>	<b>(970)</b>	<b>(374)</b>
	Production costs	(128,258)	(253,993)	(101,393)
(A - B)	Difference between value of production and	(23,740)	(73,628)	(16,401)

		costs			
C)		Financial income and charges	-	-	-
	15)	Income from equity investments	-	-	-
		<b>a) in non-consolidated subsidiaries</b>	-	-	-
		<b>b) in affiliated companies</b>	-	-	-
		<b>c) in other companies</b>	-	-	-
	16)	Other financial income	-	-	-
		<b>a) From receivables listed under non-current assets from third parties</b>	-	-	-
		<b>b) From securities listed under non-current assets other than equity investments</b>	-	-	-
		<b>c) From securities listed under current assets other than equity investments</b>	-	-	-
		<b>d) Earnings other than the above from third parties</b>	67	346	174
		<b>from subsidiaries</b>	21	42	30
	17)	Interest and other financial charges	-	-	-
		<b>a) from third parties</b>	(1,452)	(2,744)	(1,024)
		<b>b) from subsidiaries</b>	(36)	(106)	(69)
		<b>c) from affiliated companies</b>	-	-	-
		<b>d) from parent companies</b>	-	-	-
	17 bis)	Exchange rate gains and losses	27	172	122
		Financial income and charges	(1,372)	(2,290)	(767)

			30.06.2004	31.12.2003	30.06.2003
D)		Adjustments to the value of financial assets			
	18)	Write-ups			
		<b>a) of equity investments</b>	-	-	-
		<b>b) of long-term investments other than equity investments</b>	-	-	-
		<b>c) of securities listed under current assets other than equity investments</b>	-	-	-
	19)	Write-downs			
		<b>a) of equity investments</b>	(12,636)	(41,784)	(3,474)
		<b>b) of long-term investments other than equity investments</b>	-	-	-
		<b>c) of securities listed under current assets other than equity investments</b>	-	-	-
		Adjustments to the value of financial assets	(12,636)	(41,784)	(3,474)
E)		Extraordinary income (charges)	-	-	-
	20)	Extraordinary income	-	-	-
		<b>a) Income</b>	911	20,626	2,102
		<b>b) Capital gains on disposals of non-current assets</b>	-	-	-
	21)	Extraordinary charges	-	-	-
		<b>a) Charges</b>	(4,630)	(16,854)	(11,586)
		<b>b) Capital losses on disposals of non-current assets</b>	-	(604)	-
		<b>c) Taxes relating to previous years</b>	-	-	-
		Extraordinary income (charges)	(3,719)	3,168	(9,484)
		Profit (loss) before taxes	(41,466)	(114,535)	(30,127)
	22)	Income tax	-	-	-

a)	<b>Current taxes</b>	-	-	-
b)	<b>Deferred taxes</b>	-	-	-
c)	<b>Pre-paid</b>	-	-	-
	Profit (loss) for the period	(41,466)	(114,535)	(30,127)

For the Board of Directors



The Chairman  
Renato Soru

## **Tiscali SpA**

### **Explanatory notes to the consolidated accounting statements to 30 June 2004**

*(all figures in EUR 000)*

#### **ACCOUNTING PRINCIPLES AND POLICIES**

The accounting statements have been prepared in accordance with art. 81 of Consob resolution 11971 of 14 May 1999 and subsequent amendments and additions, and with the regulations governing the preparation of accounts contained in the civil code. The balance sheet and profit and loss tables have been adjusted pursuant to new regulations introduced by legislative decree no. 6 of 17 January 2003 and subsequent amendments. Equivalent items from previous years have been restated for comparative purposes. In the absence of appropriate regulations from the relevant authorities, the group has deferred the application of other company law provisions not expected to have a material effect to the accounts to 31 December 2004.

#### **GENERAL ACCOUNTING PRINCIPLES**

The same criteria have been used to prepare the accounts for this period as were used for the accounts for the year ending 31 December 2003, to which the figures are compared. As allowed by article 81 of Consob regulation 11971 of 14 May 1999 and subsequent amendments and additions, the results for the period are shown before tax.

Further important notes are given below to enable the accounts to be interpreted accurately.

#### **Notes to the parent company half-year financial information**

##### **Investments**

Holdings in subsidiaries

This item includes holdings in subsidiaries totalling EUR 1,979 million.

The tables below show a breakdown of equity investments and changes since 31 December 2003.

BREAKDOWN OF EQUITY INVESTMENTS

SUBSIDIARIES	30.06.2004			31.12.2003		
	Cost	Write-ups (downs)	B/S value	cost	Write-ups (downs)	B/S value
<b>Best Engineering SpA</b>	<b>5,643</b>	<b>(4,353)</b>	<b>1,290</b>	<b>5,643</b>	<b>(4,353)</b>	<b>1,290</b>
<b>Energy Byte Srl</b>	<b>677</b>	<b>(677)</b>	<b>-</b>	<b>677</b>	<b>(677)</b>	<b>-</b>
<b>Excite Italia BV</b>	<b>17,770</b>	<b>(5,000)</b>	<b>12,770</b>	<b>17,770</b>	<b>(5,000)</b>	<b>12,770</b>
<b>Ideare SpA</b>	<b>6,745</b>	<b>(3,747)</b>	<b>2,998</b>	<b>6,745</b>	<b>(3,747)</b>	<b>2,998</b>
<b>Informedia Srl</b>	<b>535</b>	<b>(535)</b>	<b>-</b>	<b>535</b>	<b>(535)</b>	<b>-</b>
<b>Liberty Surf Group SA</b>	<b>599,812</b>	<b>(80,883)</b>	<b>518,929</b>	<b>599,812</b>	<b>(80,883)</b>	<b>518,929</b>
<b>Quinary SpA</b>	<b>29,814</b>	<b>(29,474)</b>	<b>340</b>	<b>29,474</b>	<b>(28,378)</b>	<b>1,096</b>
<b>STS Studi Tecnologie e Sistemi Srl</b>	<b>1,291</b>	<b>-</b>	<b>1,291</b>	<b>1,291</b>	<b>-</b>	<b>1,291</b>
<b>Tiscali Business Service SpA (ex Nextra SpA)</b>	<b>1,252</b>	<b>-</b>	<b>1,252</b>	<b>1,252</b>	<b>-</b>	<b>1,252</b>
<b>Tiscali Datacomm AG (ex Datacomm AG)</b>	<b>75,623</b>	<b>(71,247)</b>	<b>4,376</b>	<b>75,623</b>	<b>(58,610)</b>	<b>17,013</b>
<b>Tiscali Deutschland GmbH (ex Nikoma)</b>	<b>283,475</b>	<b>(247,088)</b>	<b>36,387</b>	<b>283,475</b>	<b>(247,088)</b>	<b>36,387</b>
<b>Tiscali Finance SA</b>	<b>125</b>	<b>-</b>	<b>125</b>	<b>125</b>	<b>-</b>	<b>125</b>
<b>Tiscali Motoring Srl (ex Motorcity SpA)</b>	<b>500</b>	<b>-</b>	<b>500</b>	<b>500</b>	<b>-</b>	<b>500</b>
<b>Tiscali Telecomunicaciones SA</b>	<b>2,452</b>	<b>(2,327)</b>	<b>125</b>	<b>2,452</b>	<b>(2,327)</b>	<b>125</b>
<b>World Online International NV</b>	<b>1,811,994</b>	<b>(415,724)</b>	<b>1,396,270</b>	<b>1,811,994</b>	<b>(415,724)</b>	<b>1,396,270</b>
<b>Andaledda SpA</b>	<b>103</b>	<b>-</b>	<b>103</b>	<b>103</b>	<b>-</b>	<b>103</b>
<b>Connect Software Inc</b>	<b>1,027</b>	<b>-</b>	<b>1,027</b>	<b>1,027</b>	<b>-</b>	<b>1,027</b>
<b>Gilla Servizi Telecomunicaz. Srl (ex Gilla SpA)</b>	<b>1,295</b>	<b>(1,250)</b>	<b>45</b>	<b>1,295</b>	<b>(1,250)</b>	<b>45</b>
<b>Tiscali Czech Republic Sro</b>	<b>39</b>	<b>-</b>	<b>39</b>	<b>39</b>	<b>-</b>	<b>39</b>
<b>Tiscali ITS Srl</b>	<b>1,593</b>	<b>-</b>	<b>1,593</b>	<b>1,593</b>	<b>-</b>	<b>1,593</b>
	<b>2,841,763</b>	<b>(862,304)</b>	<b>1,979,460</b>	<b>2,841,424</b>	<b>(848,572)</b>	<b>1,992,852</b>

## CHANGES

The changes in each holding over the first six months are shown in the table below.

SUBSIDIARIES	31.12.2003	Increases	(Disposals)	Write-ups (downs)	Other changes	30.06.2003
<b>Best Engineering SpA</b>	<b>1,290</b>	-	-	-	-	<b>1,290</b>
<b>Energy Byte Srl</b>	-	-	-	-	-	-
<b>Excite Italia BV</b>	<b>12,770</b>	-	-	-	-	<b>12,770</b>
<b>Ideare SpA</b>	<b>2,998</b>	-	-	-	-	<b>2,998</b>
<b>Informedia Srl</b>	-	-	-	-	-	-
<b>Liberty Surf Group SA</b>	<b>518,929</b>	-	-	-	-	<b>518,929</b>
<b>Quinary SpA</b>	<b>1,096</b>	<b>340</b>	-	-	<b>(1,096)</b>	<b>340</b>
<b>STS Studi Tecnologie e Sistemi Srl.</b>	<b>1,291</b>	-	-	-	-	<b>1,291</b>
<b>Tiscali Business Service SpA. (ex Nextra SpA)</b>	<b>1,252</b>	-	-	-	-	<b>1,252</b>
<b>Tiscali Datacomm Ag (ex Datacomm AG)</b>	<b>17,012</b>	-	-	<b>(12,636)</b>	-	<b>4,376</b>
<b>Tiscali Deutschland GmbH (ex Nikoma)</b>	<b>36,387</b>	-	-	-	-	<b>36,387</b>
<b>Tiscali Finance SA</b>	<b>125</b>	-	-	-	-	<b>125</b>
<b>Tiscali Motoring Srl (ex Motorcity SpA)</b>	<b>500</b>	-	-	-	-	<b>500</b>
<b>Tiscali Telecomunicaciones SA</b>	<b>125</b>	-	-	-	-	<b>125</b>
<b>World Online International NV</b>	<b>1,396,270</b>	-	-	-	-	<b>1,396,270</b>
<b>Andaledda SpA</b>	<b>103</b>	-	-	-	-	<b>103</b>
<b>Connect Software Inc</b>	<b>1,027</b>	-	-	-	-	<b>1,027</b>
<b>Gilla Servizi Telecomunicaz. Srl. (ex Gilla SpA)</b>	<b>45</b>	-	-	-	-	<b>45</b>
<b>Tiscali Czech Republic Sro</b>	<b>39</b>	-	-	-	-	<b>39</b>
<b>Tiscali ITS Srl</b>	<b>1,593</b>	-	-	-	-	<b>1,593</b>
	<b>1,992,852</b>	<b>340</b>	-	<b>(12,636)</b>	<b>(1,096)</b>	<b>1,979,460</b>

With regard to the changes that took place since the end of last year, increases totalled EUR 0.3 million while decreases came to EUR 13.7 million.

The decreases consisted of write-downs of EUR 12.6 million and other changes of EUR 1.1 million. The other changes relate to the reallocation of reserves for risks and future liabilities recorded in last year's accounts, to cover charges relating to shareholdings. At 30 June 2004, the value of Tiscali SpA's holding in Quinary SpA was directly reduced by this amount. Equity investments are recorded at cost and written down in the event of a permanent loss of value, as required by the Italian civil code.

The balance sheet value of shareholdings, including cases where these figures are higher than those obtained by valuing the shareholdings using the equity method, are still representative of their value, taking into account the goodwill attached to each holding.

This was confirmed by a report from an independent consultant, requested by Tiscali SpA's board of directors, appointed to verify the book values and identify any permanent losses of value of the

holdings in the 2003 accounts. For information on the treatment of holdings in the consolidated accounts, please consult the section on “Consolidation differences” (goodwill) in the notes to the consolidated accounts of the Tiscali group.

The balance sheet value of each shareholding is set out below, with a brief description of the most important operations carried out during the period.

**Best Engineering SpA** (EUR 1.2 million)

Best Engineering provides georeferencing services and technologies. No changes took place during the year with regard to this company, nor were any additional permanent losses of value noted following those recorded in previous years.

**Energy Byte Srl**

This shareholding was written off in 2001. The company was wound up during the period following a shareholders’ resolution on 11 March 2004. Accordingly, there were no grounds for writing up the book value.

**Excite Italia BV** (EUR 12.8 million)

Excite Italia BV operates in the internet media sector via its Italian branch. It operates as a portal and Tiscali SpA acts as an advertising agency on its behalf.

In March 2003, the shareholders of Excite Italia BV approved a EUR 13.5 million reduction in the company’s share capital, which was deemed to be higher than necessary, and the value of Tiscali’s shareholding was reduced by the same amount.

The shareholding has been written down by a further EUR 5 million, as the company’s results—although positive in 2003—indicated that a permanent loss of value had taken place, taking into account the book value of the holding.

No changes took place during the period.

**Ideare SpA** (EUR 3 million)

Ideare operates in the internet sector, particularly in the development of search engines and related activities. No changes took place during the period with regard to this company, nor were any additional permanent losses of value noted following those recorded in previous years.

**Informedia Srl**

This shareholding was written off in 2002. The company started liquidation proceedings in 2003 and was completely wound up in September 2004.

**Liberty Surf Group SA** (EUR 518.9 million)

Liberty Surf Group SA, a company listed on the Paris stock market (Premier Marché) is the sub-holding company for group activities in France, and represents one of its biggest investments. In the same way as with other holdings, the controlling stake acquired in Liberty Surf in early 2001 was written down at the end of that year, when a permanent loss of value was identified. Since then, however, no other changes have taken place, and no reasons for further write-downs have arisen, taking into account the trend in results recorded over the last two financial years and those set out in the group’s business plan. The value of the holding, which includes a substantial amount of goodwill, was confirmed by the independent consultancy report that was used to prepare the 2003 accounts.

**Tiscali Business Service SpA, formerly Nextra SpA** (EUR 1.3 million)

This ISP specialises in business telecommunications services. The entire share capital of Nextra SpA was acquired by Norwegian companies Telenor Business Solution AS and Telenor Business Solutions Holding AS in 2003. Nextra was later renamed Tiscali Business Service SpA.

**Quinary SpA** (EUR 0.3 million)



This company operates in systems integration and software development. The holding was written down by EUR 10.0 million in 2003. In the first half of 2004, its capital was fully written off and restructured. Quinary has also been undergoing a reorganisation aimed at redefining its role within the Tiscali group. The residual book value of the holding mainly consists of goodwill.

**STS Studi Tecnologie e Sistemi Srl** (EUR 1.3 million)

This company operates in software development and IT systems. Tiscali SpA owns a 20% shareholding in STS Srl. In addition, GST Gilla Servizi Telecomunicazioni Srl and Andaledda SpA each own 15% of the remaining share capital. Book value mainly consists of goodwill.

**Tiscali AG** (EUR 4.4 million)

The Swiss company was sold to third parties in September 2004 for EUR 5.3 million. Please see the report on operations for further information. The book value of the holding was written down by EUR 12.6 million to EUR 4.4 million, to match the sales price of Tiscali SpA's share in the company (83%). As set out in the sales contract, all payables and receivables in respect of this subsidiary were fully written off. This did not have any significant effects on the accounts.

**Tiscali Deutschland GmbH** (EUR 36.4 million)

Tiscali Deutschland GmbH (which controls Tiscali GmbH) owns a substantial proportion of the group's operating assets in Germany. No other changes were recorded in the value of this holding during the period, which remained representative of its underlying assets, as confirmed by the independent consultant's report. The accounts of Tiscali Deutschland GmbH show a negative figure for shareholders' equity from previous years. This situation is expected to be resolved via operations under way to convert the share capital into credits in respect of other Tiscali group companies.

**Tiscali Finance SA** (EUR 0.1 million)

This Luxembourg-based company is used as a vehicle by the Tiscali group to issue bonds. The provision for risks and future liabilities includes EUR 18.7 million earmarked to remedy the negative shareholders' equity position, which is currently being resolved. The subsidiary's result for the period ending 30 June 2004 was in positive territory.

**Tiscali Motoring Srl** (EUR 0.5 million)

Although this company is being wound up, it maintains its value because its auto website is now operational.

**Tiscali Telecomunicaciones SA** (EUR 0.1 million)

The value of this company, after write-downs booked in previous years, relates to one of the group's ISPs in Spain. The value recorded in the accounts is broadly supported by the independent consultant's report on the assets owned in the countries in which the group is present.

**World Online International NV** (EUR 1,396.3 million)

This is a sub-holding company based in the Netherlands, which controls Tiscali group companies operating in several countries, including the UK, the Netherlands and Denmark.

The book value is given after write-downs following permanent losses of value of EUR 400.7 million booked in 2001, and the restatement of EUR 15 million in 2003 relating to an amount previously included in provisions for risks and future liabilities.

No other changes took place over the period, and no reasons for further write-downs arose, taking into account the trend in results recorded in recent financial years, and in particular, those set out in the group's business plan for the countries in which legal entities are controlled by World Online International NV, which is a directly-owned subsidiary of Tiscali SpA.

In August 2004, World Online International NV disposed of the following directly-owned companies: Tiscali Oesterreich GmbH, Tiscali AS (Norway), Tiscali AB (Sweden) and Tiscali Pty Limited (South Africa) as part of the group's plan to dispose of its non-strategic assets approved at the Tiscali SpA shareholders' meeting on 6 May 2004. Completion of the sales of the Swedish and

South African subsidiaries is subject to the approval of the competition authorities in those countries. As indicated in the report on operations, these disposals will realise significant capital gains for the group.

**Andaledda SpA** (EUR 0.1 million)

This company is not operating at present, and is recorded at book value.

**GST Gilla Servizi Telecomunicazioni**

GST provides call centre services. Its valuation reflects the loss of value following a sustained period of losses. The provisions for risks and future liabilities contain an amount to cover the company's accumulated losses.

In August 2004, Tiscali signed an agreement to sell GST, which will be completed in the next few months.

**Tiscali Czech Republic Sro**

This holding relates to a Czech company that is not operating at present.

**Tiscali ITS Srl** (EUR 1.6 million)

As part of the plan to spin off the Italian assets and corporate services into other group companies, Tiscali ITS is to receive the group's IT assets.

**Receivables from subsidiaries**

Receivables from group companies are detailed below.

	30.06.2004
Financial receivables	
<b>due within a year</b>	<b>35,154</b>
<b>due after a year</b>	<b>17,328</b>
Total	52,482
Trade receivables	
<b>due within a year</b>	<b>53,595</b>
<b>due after a year</b>	-
Total	53,595
Total	106,077

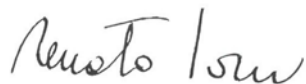
Receivables from subsidiaries posted as long-term receivables are to be used by the parent company to boost the shareholders' equity of certain subsidiaries, by converting them into capital increases and/or covering their losses. In particular, this relates to receivables of EUR 17.3 million from Tiscali GmbH, its German subsidiary, which is indirectly controlled by Tiscali SpA via Tiscali Deutschland GmbH.

## Payables to subsidiaries and affiliated companies

Payables due to the group break down in the following table.

	30.06.2004
Financial payables	
<b>due within a year</b>	<b>536,650</b>
<b>due after a year</b>	<b>-</b>
Total	536,650
Trade payables	
<b>due within a year</b>	<b>29,555</b>
<b>due after a year</b>	<b>-</b>
Total	29,555
Total	566,205

Payables to the group's subsidiaries and affiliated companies mainly relate to Tiscali International BV. The figure rose EUR 38.5 million compared to 31 December 2003 to EUR 538 million, mainly due to loans made directly by Tiscali International BV to Tiscali SpA (EUR 37.9 million). This increase was partly offset by decreases chiefly arising from the transfer of receivables (owed to the parent company by companies owned directly or indirectly by Tiscali International BV) to Tiscali International BV.



For the Board of Directors

The Chairman  
Renato Soru

## AUDITORS' REVIEW REPORT ON THE INTERIM FINANCIAL INFORMATION FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2004

To the Shareholders of  
Tiscali S.p.A.

1. We have reviewed the accompanying interim financial information of Tiscali S.p.A. for the six-month period ended June 30, 2004, consisting of the accounting schedules (balance sheet, income statement and related explanatory notes) both at Company and consolidated level. This interim financial information is the responsibility of the Company's directors. Our responsibility is to issue a report on the interim financial information based on our review. In addition, we have verified the consistency of the explanatory notes with the other data contained in the above interim financial information.
2. Our review was carried out in accordance with the standards recommended by the Italian Regulatory Commission for Companies and the Stock Exchange ("Consob") for the review of the half-yearly interim financial statements under Resolution n° 10867 of July 31, 1997. Our review consisted principally of applying analytical procedures to the underlying financial data, assessing whether accounting policies have been consistently applied and making enquiries of management responsible for financial and accounting matters. The review excluded audit procedures such as tests of controls and substantive verification procedures of the assets and liabilities and was therefore substantially less in scope than an audit performed in accordance with established auditing standards. Accordingly, unlike our report on the year-end financial information, we do not express an audit opinion on the half-yearly interim financial information.

As far as comparative figures related to the year ended December 31, 2003 and the six-month period ended June 30, 2003 are concerned, reference should be made to our auditors' report dated April 16, 2004 and our auditors' review report dated September 19, 2003 respectively.

3. Based on our review, we are not aware of any material modifications that should be made to the accompanying interim financial information mentioned in paragraph 1. above in order for them to be in conformity with the criteria provided by Consob regulations for the preparation of the half-yearly interim financial information approved with Resolution n° 11971 of May 14, 1999 and subsequent modifications.
4. For a better understanding of the financial information, we draw your attention to the following items:

- a) As disclosed in the report on operations and in the explanatory notes, at the date of the present report, the Tiscali Group, after reimbursing in July 2004 the balance amount of a bond for Euro 72.9 million, currently shows bonds issued by Tiscali Finance S.A., a fully owned subsidiary of the holding company Tiscali S.p.A., incorporated in Luxembourg, for a total amount of Euro 459.8 million, of which Euro 250.0 million falls due in July 2005 and Euro 209.5 million in convertible bonds falls due in September 2006. The related repayment terms and conditions are specified in the explanatory notes. In this regard, the bonds maturing in July 2005 include a covenant linked to the Tiscali Group's debt finance and consolidated shareholders' equity at 31 December each year, whose non-fulfillment would result in default. The Directors, on the basis of a business plan, expect that the ratio between the consolidated shareholders equity and the consolidated gross debt finance at December 31, 2004 will result lower than the maximum limit imposed by the covenant.

In order to ensure the prompt repayment of the EUR 250 million bond issue due July 2005 the Company has approved a plan to dispose of non-strategic assets, which was partly implemented in August and September 2004. In addition the Company is evaluating the possible use of alternative financing methods, such as capital increases, bonds (including convertible bonds) and bank loans.

Therefore, the achievement of the objectives indicated by the Directors in the context of the strategic plan, including the short-term collection of the receivables considered by the Tiscali Group for assessing its net financial position, represents an essential condition in assuring that Tiscali Group reaches financial equilibrium, and therefore guarantee the capacity that the Tiscali Group is able to meet the commitments connected to the next bonds issue falling due and comply with the related covenants, and that it will be able to raise the finances necessary to sustain growth, particularly in the ADSL services.

- b) As disclosed in the report on operations and in the explanatory notes, the Tiscali Group is involved in certain legal disputes instituted by third parties against the Tiscali Group's entities World Online International NV and World Online Ltd, dating back to the time of the acquisition of the former World Online Group by the Tiscali Group. The Directors, based on their legal advisors' opinion, believe those claims are unfounded. In addition, a tax dispute, for a total amount of Euro 40 million, exists with reference to World Online International NV, arising from social security contributions on the payments received in previous years by its former Managers. With reference to this litigation, the Tiscali Group, on the basis of its fiscal advisors' opinion, did not account for a provision under reserves for risks and charges, as these claims were considered unfounded. At the time being, it is not possible to foresee the final result of these litigations.

DELOITTE & TOUCHE S.p.A.

Signed by  
Antonio Cocco  
Partner

Cagliari, Italy  
October 29, 2004

This report has been translated into the English language solely for the convenience of international readers.