TISCALI

# Tiscali Group

## 1H – 2Q 2001 Report

# INDEX

## 1st H Report at 30th June 2001

# Composition of the Board of Statutory Auditors

## Board of Directors

| | |
|---|---|
| **Chairman** | Renato Soru |
| **Directors** | Franco Bernabè<br>Victor Bischoff<br>Maurizio Decina<br>Simon Duffy<br>Hermann Hauser<br>James Kinsella<br>Elserino Piol |

## Board of Auditors

| | |
|---|---|
| **Chairman** | Andrea Zini |
| **Auditors** | Rita Casu<br>Piero Maccioni |
| **Alternate Auditors** | Giuseppe Biondo<br>Livio Bianchi |

## Accounting firm

Deloitte & Touche S.p.A.

# Business Overview

## Information on the Management of the Group

The Tiscali Group has closed the first six month period of 2001 with consolidated revenues amounting to 258.7 million Euro, against the 68.6 million of the corresponding period in 2000. The change in the consolidation perimeter has already had a significant effect with respect to the first six months of the preceding accounting period. This itself is a consequence of the policy of expansion which has permitted us to gain a position of leadership in Europe among Internet Service Providers (ISP). The operating margin (EBITDA) was 118.9 million Euro, against the 15.3 million Euro of the first 6 months of 2000.

The management over the 6 months has been characterised, as for the earlier period, by important operations of an extraordinary nature, involving the purchase of ISP Operators in the main European markets, with particular reference to the United Kingdom, Germany and France. This has been carried out in pursuit of the objective of achieving the critical mass required to guarantee economies of scale in the short term. It is hoped that this in turn will facilitate stable profitability into the future. The acquisitions have been effected both in cash and by means of share capital increase operations, as well as through the launch of a Public Offer of exchange for a residual part of the share capital of Liberty Surf Group in France, which increased the controlling stake to 94.5%.

In the meantime, operating management has been focused on reorganising existing assets and companies. This has involved the implementation of operating consolidation in Germany, Switzerland, Belgium, Spain and the United Kingdom.

The reorganisation processes carried out up to this moment have lead, even after the reorganisation charges involved, to significant cutting of costs, particularly in the areas of structural and personnel costs. On the completion of the network re-organisation plan, further connectivity cost savings are expected for the second six months. These costs alone represent the area of expenditure with the greatest impact on the overall cost structure. The reduction is expected following the achievement of greater transmission capacity.

The increase in revenues with respect to the preceding accounting period amounts to 277% and has, as already mentioned, been influenced by the widening of the consolidation area as well as by the growth in income generated by the parent company.

The EBITDA, in percentage terms, has a smaller share than in the first six months of 2000, decreasing from minus 24% in 2000 to minus 49% for 2001. The results are influenced by the results of its subsidiaries. The operating results of these companies are still affected by a cost structure which has not yet reaped the benefits expected from the re-organisation activities. Benefits are expected in terms of reductions both in structuring and costs of goods solds over the next six months.

Over the 6-month period under consideration, staff costs amounted to 75 million Euro. This represents 29% of income, with an increase of about 66 million Euro resulting from the widening of the consolidation area. Staff numbers increased from 915 on 30 June, 2000 to 3,931 on 31 December 2000 and 3,320 on 30 June 2001.

Amortisation amounted to 224 million Euro, showing a marked increase against the 17 million Euro for the first six months of 2000. Of the overall figure, about 167 million is attributable to amortisation of consolidation differences.

The positive balance shown by financial management has increased from minus 0.7 million Euro to 6.4 million Euro. These figures reflect, in particular, the benefit derived from the entry of the sub-holding WOL International DV into the consolidation perimeter. Its name has been changed, as from 11 June 2001, to Tiscali International BV.

Extraordinary management showed a negative balance amounting to 84 million Euro. The figure is particularly large because it includes reorganisation costs incurred in various different European countries.
These reorganisation costs amounted to total expenditure for the Group of 79 million Euro. They are made up, for the most part, of staff costs, early termination of existing contracts and elimination of activities.

65% of group income has come from access, 8% from portal services and 13% from B2B.

We have set out below the most important data and information relating to management trends for the Group for the Accounting period closing on 30 June 2001.

**Group Financial Results**
(Data in thousands of Euro)

| | 30 June 2001 | 30 June 2000 | Variation |
|---|---|---|---|
| Income | 258.736 | 68.625 | 190.111 |
| Operating costs | (377.667) | (83.934) | (293.733) |
| Amortisation and provisions | (227.248) | (18.509) | (208.739) |
| Operating results (EBITDA) | (118.931) | (15.309) | (103.622) |
| Net financial income and charges. | 6.446 | (685) | 5.761 |
| Extraordinary income/charges | (88.196) | (1.812) | (86.384) |
| Results for the six month period | (412.331) | (35.310) | (377.021) |

## Information on the Parent company

We have set out the most important data and information on company management trends for the six month period closing on 30 June 2001.

**Financial Results of Parent company**
(Data in thousands of Euro)

| | 30 June 2001 | 30 June 2000 | Variation |
|---|---|---|---|
| Income | 60.423 | 52.687 | 7.736 |
| Operating costs | (66.561) | (63.111) | (3.450) |
| Amortisation and provisions | (230.223) | (4.017) | (226.206) |
| Operating results (EBITDA) | (6.138) | (10.424) | 4.286 |
| Net financial income and charges. | (6.684) | (1.031) | (5.653) |
| Extraordinary income/charges | (5.073) | (1.388) | (3.685) |
| Results for the six month period | (248.118) | (14.081) | (234.037) |

The Parent company showed important growth in the first 6 months of 2001 with respect to the same period of the preceding accounting period. This was particularly with regard to the expansion of activities in the Internet field, even though simultaneous with a slow down in market growth.

The company strategy has been aimed at increasing the subscriber base, both through actions aimed at increasing brand awareness and with the launch of new services. It has resulted in an overall growth in income of about 15% with respect to the same period of the preceding accounting period.

The increase in income generated by the Internet area has been achieved, in particular, thanks to the development of on-line advertising. This produced income of 7.6 million Euro, against 1.8 million Euro in the first 6-month period of 2000. This represents a growth of 329%. Income from access amounted to 31.5 million Euro, against 20.9 million Euro in the same period in 2000. This represents a growth of 51%, as a direct consequence of the increase in connection minutes. Voice services showed a decrease of 55%.

The EBITDA of Tiscali S.p.A., net of holding costs and of the adjustments due to IAS 17 on rent fees, produced positive results of 7 million Euro. In percentage terms it has shown a net improvement with respect to 2000, as a direct consequence of production volume expansion, guaranteeing an ever-increasing cover of fixed and semi-fixed network management costs, combined with a careful policy of cost savings.

Wages and related charges, amounting to about 9.4 million Euro, representing 16% of income, increased by about 5 million Euro with respect to the same period in 2000. This is due to an increase in the work-force from 473 on 30 June 2000 to 692 on 30 June 2001.

Amortisation costs have increased by 61%, from 2.9 million Euro in the first 6-month period of 2000 to 4.8 million Euro over the corresponding period of 2001. The increase can be explained by reference to the substantial increase in investments.

The negative balance of financial management amounts to 6.7 million Euro. This is due to cross-group indebtedness with particular reference to Tiscali International BV and Tiscali Finance.

Extraordinary management produced a negative balance of 5 million Euro. This is made up of income of 1.5 million Euro and charges of 6.5 million Euro. Of the latter, about 3 million are related to costs of settling the dispute over the transfer of shares in the subsidiary, CD Telekomunikace, referred to in the notes to the financial statements at 31 December 2000.

## Factors influencing performance over the 6 months

A process of integration has been pursued over the six month period, involving activities in Belgium, Switzerland, Germany and Spain. This has involved a unification of management and the basic infrastructures.

At a consolidated level, the Group's subscriber base has increased to approximately 7.1 million active subscribers on 30 June 2001 and minutes online (including new acquisitions) amount to 19 billion.

The decision to increase subscriber numbers through a policy of company acquisitions was made considering market positioning in the shortest time possible as strategic, compared with customer acquisition through "traditional" marketing policies.

The results for the 6-month period are essentially the results of the consolidated group subsidiaries and of the direct activities of the Group Parent company, of Tiscali International BV (previously WOL International BV) and of the Liberty Surf Group.

It is expected that it will be possible to bring the group re-organisation process to an end by the end of this accounting period. The Group's results are still negatively impacted by loss-making companies based both in European and non-European countries. The company re-organisation currently underway will result in the creation of a single parent company per country, through intra-group merger and sale operations or else the direct liquidation of loss-making companies which cannot be integrated in this way.

The main business remains the supply of access services, both on a free and payment basis.

The portal services, relating mainly to advertising, have increased by 597%, from 3 million Euro for the first 6 months of 2000 to 20.9 million Euro for the first six months of 2001, due to the enlargement of the area of consolidation and an increase in the page views.

There is a strong trend towards the increasing unification of services offered in Europe. While the prevailing model remains the offer of free access services, the number of subscribers to ADSL services has increased. The offer of free network access services guarantees income through a Telecom reverse charge where there is an inter-connection contract or through the revenue sharing mechanism.

## Equity and Financial Trends of the Group

**Group Data**
(thousands of Euro)

| | 30 June 2001 | 31 Dec 2000 | Variation |
|---|---|---|---|
| Total assets | 3.386.696 | 3.028.379 | 358.317 |
| Fixed Assets | 1.998.320 | 1.357.274 | 641.046 |
| Net financial situation | 558 | 1.163 | (605) |
| Shareholders' Equity | 2.212.626 | 2.224.382 | (11.756) |

At the close of the six month period, total assets amounted to 3,388 million Euro, with a growth of 360 million Euro. It is made up, for the most part, of "Consolidation Differences" under intangible assets. This growth can be explained by the purchase of the further shareholding in WOL over the 6-month period (increasing from 94.5 on 31 December 2000 to 99.7 on 30 June 2001), and in Liberty Surf. The expansion of the consolidation area has therefore resulted in a growth in all items under assets.

The short-term net financial situation amounts to 558 million Euro. Short term liquid assets, net of the bonded loan of 250 million Euro (falling due in 2005), stand at 811 million Euro.

## Equity and financial trends for the Parent company

**Parent company data**
(in thousands of Euro)

| | 30 June 2001 | 31 Dec 2000 | Variation |
|---|---|---|---|
| Total Assets | 3.147.706 | 2.444.078 | 703.628 |
| Fixed Assets | 2.988.104 | 2.293.720 | 684.384 |
| Net financial situation | 4.681 | (464) | 5.145 |
| Shareholders' equity | 2.497.138 | 2.287.374 | 209.765 |

Total fixed assets increased by 704 million Euro, mainly due to the purchase of shareholdings effected over the period and, to a lesser extent, to increases in tangible and intangible fixed assets.

The net financial situation stands at 4.6 million Euro and shows a positive difference of 5 million Euro with respect to 31 December 2000. The data is net of payables owed to subsidiaries. The full financial dynamic is set out in detail in the statement of source and application of funds.

## Group Investments

Over the first six months of 2001, the Group made investments in intangible assets, net of consolidation differences and changes in the area of consolidation, of approximately 43,310 million Euro, and investments in tangible assets of 126,262 million Euro. The increase in intangible fixed assets is mainly due to the purchase of software and its implementation. Increases in tangible fixed assets can be explained, for the most part, by the purchase of technical apparatus and equipment intended for use in business development and in the implementation of the offer of new services by subsidiaries.
The Group's investment activities have mainly been focused on the creation of a unified technological platform and on the integration of management and IT systems. Important synergies can be achieved in this way, deriving both from the opportunity it gives of offering the same services in different countries, and through single management of administration services and management and accounting information systems.

## Parent company investments

The main areas of investment over the six months were in new ports, servers and disc space to support the expansion in production capacity and in apparatus for the improvement of network monitoring and service quality. Substantial investments are currently being made in software for the administration and control area, relating to the entire parent company, the network redundancy project and the creation of 14 new POPs for the expansion of cover over the country, following the inter-connection agreements made with Telecom Italia, together with new investment in the intelligent network.

As a whole, investment in tangible and intangible assets amounted to 16 million Euro.

## Personnel

At 30 June, there were 692 staff employed by the Parent company, against 625 on 31 December 2000. The Group closed the 6-month period with 3,320 staff, against 3,931 on 31 December 2000, a reduction of 15.5%. The Parent company has resolved to implement a Stock Option Plan as an incentive to its staff.

The Board of Directors, using the powers delegated to it by the Shareholders' Meeting, resolved on a Group Stock Options Plan in order to promote staff loyalty. 15,000,000 options were issued for subscription of 15,000,000 ordinary shares of Tiscali S.p.A. with a nominal value of 0.50 Euro each. In the event of full take up, the shares which can be subscribed would represent 4% of the Company's share capital at the date of the informative prospectus filed on 27 August 2001. Shares are dematerialised in accordance with Legislative Decree no. 213 of 24 June 1998.

## Company operations

Changes in share capital over the period are discussed in the accompanying notes.

## Shares held by Directors and Statutory Auditors

As required under the relevant legislation in force, particularly Article 79 of the Implementation Regulations of Legislative Decree 58/1998, issued by CONSOB through its resolution no. 119781/99, the following table sets out the number of shares held by Directors and Statutory Auditors.

| Surname, First name | Position held | No. of shares owned at 31 Dec 2000 | No. of shares purchased | No. of shares sold | No. of shares owned at 30 June 2001 |
|---|---|---|---|---|---|
| Board of Directors | | | | | |
| Soru Renato | Chairman, Managing Director | 108.100.000 | - | - | 108.100.000 |
| Bernabè Franco | Director | - | - | - | - |
| Decina Maurizio | Director | 38.293 | - | (6.293) | 32.000 |
| Hauser Hermann | Director | - | - | - | - |
| Piol Elserino | Director | - | - | - | - |
| Bischoff Victor | Director | - | - | - | - |
| Duffy Simon | Director | - | - | - | - |
| Kinsella James | Director | - | - | - | - |

| Surname, First name | Position held | No. of shares owned at 31 Dec 2000 | No. of shares purchased | No. of shares sold | No. of shares owned at 30 June 2001 |
|---|---|---|---|---|---|
| Collegio sindacale | | | | | |
| Zini Andrea | Chairman | 2.054 | | | 2.054 |
| Casu Rita | Statutory Auditor | 50 | | | 50 |
| Maccioni Piero | Statutory Auditor | - | | | - |
| Biondo Giuseppe | Alternate Auditor | 60 | | | 60 |
| Bianchi Livio | Alternate Auditor | 880 | | | 880 |

## Principal Group Companies

*Principal shareholdings at 30 June and Companies purchased in the six month period*

**World Onlne International NV**
The company was bought in November 2000 through a Public Offer of exchange made by Tiscali for all World Online shares, terminating at the end of January 2001. At that date Tiscali held 287,333,645 World Online shares.

World Online began business as an Internet Services Provider in the Netherlands in 1996. It operated as a market leader in Europe, offering a complete range of network services designed for both professionals and the wider public. Integration with the WOL Group has given the Tiscali Group the opportunity of becoming one of the main players in the European Internet sector. Its business activities cover a wide ranging and complete services platform providing Internet access, portal services, e-commerce and streaming services within a market covering the greater part of Europe. The company was listed on the Amsterdam Stock exchange (Euronext) on 17 April 2000. In light of the results deriving from the public exchange offer made by Tiscali S.p.A., the shares were withdrawn from listing on 12 January 2001.
Over the first six months of 2001, World Online generated revenues of about 129 million Euro.
The EBITDA over the period was minus 79 million Euro.

**Liberty Surf Group SA**
Liberty Surf Group S.A. is one of the leading companies in the French media and Internet sector. It was bought in March 2001 through an agreement with the two main shareholders, which altogether held 72% of the share capital. Following the closing of the public purchase offer in April 2001, Tiscali has increased its shareholding to 94.5%.
In March, 2001, Liberty Surf was the second largest Internet Service Provider in France, with more than 2 million registered users. Of these, more than 700,000 were active in France and 900,000 in Europe as a whole. It had the third most important portal in France, with a reach of 38.6%. The Liberty Surf Group has effected numerous strategic purchases over the last year. For the main part, these have been carried out by means of a share exchange. It currently has an important presence both in England and Spain. The integration between Tiscali and Liberty Surf has lead to substantial benefits in terms of growth of market share in the European countries concerned, together with a significant reduction in costs. This will make it possible to achieve profitability over a shorter time frame and will make greater investment resources available.

**Tiscali France S.A. (ex A Telecom S.A.)**
The company has its Registered Office in Marseilles and was acquired in 1999. It continues to operate in the telecommunications sector, since it is a concession holder for the supply of all fixed telephone services to the French government (internet, voice and network). Tiscali France S.A. is involved in the process of integration currently underway on the French Market, involving the Liberty Surf Group and World Online companies. Revenues for the six-month period amounted to 9.3 million Euro and the EBITDA was minus 8.8 million Euro.

**Tiscali Germany GmbH (ex Nikoma)**
The company operates as an ISP in Germany providing telecommunication services. In addition to Dial up access, hosting services and unified messaging, Tiscali Germany offers value added voice and multi-media services. All German activities of B2C will fall under Tiscali Germany. It is anticipated that the merger and integration process with the other German companies bought by Tiscali S.p.A. will be brought to a conclusion by the end of the year. This process involves Addcomm AG, SurfEu GmbH and Guglielmo GmbH.

**AddComm A.G.**
AddComm AG is a company with share capital previously controlled by Web Media GmbH, the Internet parent company for the Ebner Group. It is active in the media and publishing sector, publishing among other things, specialised Internet and technology publications.
In December 2000, Tiscali acquired a 100% stake in the company's share capital. It is one of the leading Internet Service Providers in Germany. The operation was completed in March 2001, through the issue of 1,532,887 new Tiscali shares.
Addcomm has developed a complete range of portal services, including the following: Top Mail, with about

190,000 active users; bigbag.de which offers one of the widest selections of CDs, video cassettes and video games, gamesmania.de, a webzone dedicated to games and the games community; movieline.de – the most complete and accessible collection of cinema data and information in the country.
In conjunction with its purchase of Addcomm, Tiscali intends to develop a business partnership with the Ebner Group, which will continue to distribute AddComm's services together with those of the other companies of the Tiscali Group in Germany through its own titles, at the same time as developing content for the German language market.

**Tiscali DataComm S.A. (ex DataComm)**
This company was bought in January 2000. It is an important independent ISP in Switzerland, offering dial-up access to more than 98,000 subscribers, line rental and hosting services. The company currently hosts about 9,000 sites and manages two internet cafés in Zurich and Berne. Datacom will be connected to the rest of the Tiscali European network through the planned Tiscali southern ring, a fibre optics circuit connecting France, Switzerland, Italy and Spain, which should be completed by the end of 2001. In the first six months of 2001, revenues amounted to 7 million Euro and a negative EBITDA of 1.2 million Euro.

**CD Telekomunikace s.r.o**
CD Telekomunikace holds a concession from the Czech government for the supply of telecommunications services and represents a strategic acquisition in the context of Tiscali's expansion into Eastern and Central Europe. The company holds the exclusive rights offered by the Czech railways for the installation and management of a fibre optics network along the entire railway system in the Czech Republic, with a total length of about 9,600 kilometres. Tiscali acquired 80% of the circulating share capital of the Czech company CD-Telekomunikace SRO in July 2000. In July 2001, purchase of the remaining 20% was completed.

**Excite Italia B.V.**
In February 2001 Tiscali concluded a strategic partnership agreement with **Excite@Home**. Under the terms of the agreement, Tiscali purchased 70% of Excite Italia BV, a Dutch company with its operational headquarters in Italy. Excite@Home has retained a 30% stake. The total investment was 27 million Euro, of which 23.4 million by way of an increase in share capital in Excite Italia. Excite Italia was formed in 1999 and is one of the main Italian portals, with more than 1 million registered users and about 1.5 unique users (data at December 2000). The acquisition will permit Tiscali to increase its advertising revenues. Excite Italia will maintain its operational and managerial independence, acting at the same time as a distribution channel for Tiscali's innovative Online Services. These will include access, Voice Over IP and voice navigation services.

**Ariete Telemedia S.r.l.**
In February 2001, Tiscali acquired 40% of the share capital of Ariete Telemedia S.r.l., a company with its Registered Office in Milan, producing Internet content in the field of medicine. The remaining 60% of Ariete Telemedia is held by the publishing group EDM. The above operation, concluded with the payment of 743,698 Euro (about 1.4 billion Lire) will give Tiscali the opportunity to acquire the know how required to develop content and services with high value added in the health field, both for the consumer and the specialist markets. The EDM group has been involved in the production of information relating to the medicine sector for years, through its magazines, which have achieved high distribution levels, both with doctors and users.

## Litigation in progress

The Tiscali Group is currently involved in legal action and proceedings relating to ordinary administration. With the exception of the proceedings referred to below, Group management does not believe that an unsuccessful outcome of the proceedings in progress will have a negative effect on the financial position of Tiscali, consolidated Group position or the future results of activities.

Tiscali is involved in legal action brought by Netfraternity Network S.p.A., a company providing services in the IT sector. Netfraternity is disputing Tiscali's right to provide the Flatzero service, on the basis of prior registration by Netfraternity of the basic characteristics of the fixed banner service. This service allows Internet users full or partial refunding of connection costs. Information in the public domain confirms that Netfraternity has brought similar action in relation to identical services supplied by other ISP. In one of these cases, Netfraternity was unsuccessful in the first degree of the proceedings, whereas in another, settlement was reached. Management believes that the dispute will be settled in favour of Tiscali. Even if the case should go against Tiscali, the Flatzero service activities have, in any case, been halted by Tiscali for commercial reasons.

On 30 March, Tiscali filed for arbitration proceedings at the Zurich Chamber of Arbitration, claiming total damages of 27,652,000 Euro from Nikolai Manek, the chief seller of the German company, Nikoma Gmbh, acquired in April, 2000. The application is based on the lower number of active subscribers effectively encountered compared with the number declared by Mr. Manek, i.e. 73,000 instead of 80,000. Tiscali blocked 806,020 shares in the company, part of the purchase fee, deposited in an escrow account at the ABN Amro bank. Nikolai Manek filed counter-claims against Tiscali under independent arbitration proceedings. Management believes the dispute will be settled in favour of Tiscali. However, if the outcome of arbitration should go against the company, Tiscali would be required to compensate Mr. Manek for any losses relating to depreciation of the shares deposited in the escrow account.

Following listing of World Online on the Dutch Stock Exchange on 17 March, 2000, various legal actions against World Online have been both brought and announced.
A claim was filed with the Dutch Advertising Standards Authority (Reclame Code Commissie) relating to an advert made when listing on the Stock Exchange took place. This claim was rejected in both the first degree and in appeal.
The Dutch Stock Exchange Commission (Stichting Toezicht Effectenverkeer) started an inquiry into the public offer of World Online shares, but the latter claims to have received no report concerning the results of this inquiry.
In September, 2000, the Dutch foundation, Stichting Lipstick-Effect, and a number of other shareholders, initiated legal proceedings at the Amsterdam District Court against one of the principal co-ordinators of the placement, ABN AMRO BANK NV, to request annulment of acquisition of their stakes and, in second place, compensation of damages.
If the proceedings brought by the Stichting Lipstick Effect Foundation against ABN AMRO Bank N.V. should develop, the bank could take action against World Online, applying a compensation clause included in the Underwriting Agreement.

In October 2000, an application for a preliminary hearing was made by two investors in World Online against World Online, ABN AMRO and three members of World Online's Supervisory Board at the time of the placement. It has been requested that the witnesses (including former and current members of the Supervisory Board) be heard before any proceedings on this are commenced. Various groups of shareholders have announced the intention of taking action against World Online. World Online has declared that no judicial action of this kind was started within the necessary times, with the exception of the application of a preliminary hearing of the witnesses referred to above. A group of former shareholders, represented by the VEB Foundation, have served a writ on World Online, on the principal co-ordinators of placement (ABN AMRO BANK NV and Goldman Sachs International) and a number of shareholders selling Mallowdale Corporation N.V., Melkpad B.V. and N.S. Telecom B.V. VEB has publicly announced that it represents a group of former shareholders, holding over 4,000,000 World Online shares, and has indicated the intention of claiming damages of 25 Euro per share.

On application by a number of former shareholders, the Public Prosecutor at the Amsterdam District Court has begun a preliminary enquiry against World Online on the basis of suspected breaches of articles 46 (insider trading) and 47 (untrue declaration) of the 1995 Law on Supervision of Operations on Securities (Wet toezicht effectenverkeer 1995). World Online has declared that it has so far received no information on the outcome of the inquiry.

Other legal actions may well be brought following hearing of the witnesses, or for other motives, against the directors of World Online who were in office at the time of listing, selling shareholders or the principal co-ordinators. World Online has declared that it disputes the validity of all claims and legal actions and continues to claim that no civil or criminal violations concerning its initial public offers have occurred. World Online has also indicated its intention of defending itself against any claim or legal action with counterclaims against the plaintiffs. However, the fact remains that the outcome of these proceedings could have a significant adverse effect on World Online activities, with serious consequences for the Tiscali Group.

## Other legal actions

In December, 2000, Jean Philippe Illiesco de Grimaldi and Illiesco de Grimaldi & Co initiated proceedings against World Online. They allege that the company prevented them from exercising an option on the purchase of shares in World Online Ltd, thereby depriving them of the profits they could have obtained on reselling the World Online shares. Grimaldi and his company are claiming damages of 17,499,999 Euro plus interest.

Globetrans and Interglobetrans (both controlled by Jean Philippe Illiesco de Grimaldi) began proceedings against World Online by serving a writ on 22nd December 2000, claiming commission of 1% on the total amount paid by Tiscali for the purchase of World Online shares, which they allege is due to them as consideration for a "chasse de tête" mission corresponding with the entry of Simon Duffy into World Online and as remuneration for other services. The total value of the claim is about 69 million Euro. World Online has stated that it disputes the validity of all these requests.

## Subsequent Events

In July, the Parent company announced its decision not to exercise its option to buy back up to 25.2% of the share capital of Hutchinson Italia S.p.A. from Hutchison Whampoa, maintaining its 0.3% shareholding.
The decision was taken in line with the priorities and objectives of the Group, which is currently involved in consolidating its leadership position as a European Internet Communication company, concentrating all its activities and financial resources in this direction.

On 16 July, the Ordinary and Extraordinary Shareholders' Meeting of Tiscali S.p.A. resolved to cover the losses of the 2000 accounting period, amounting to ITL 206,287,291,724, through the use of the Share premium reserve and to convert the Company's share capital into Euro. A gratuitous increase in the company's share capital was also resolved as a means to achieving this conversion, with the consequent re-denomination of the shares in Euro, changing the nominal value of Tiscali S.p.A. shares from ITL10 to 0.50 Euro, through use of the Share premium reserve. The Extraordinary Shareholders' Meeting approved and resolved upon the increase in share capital for the issue of shares agreed in the context of the acquisition of the companies Guglielmo GmbH and SurfEU.com concluded in April 2001. The company Guglielmo GmbH, owning Planet-interkom ISP, a German ISP and business portal, was bought from VIAG Intercom GmbH & Co for consideration comprising newly issued Tiscali shares and cash amounting to a total value of 77.1 million Euro, while SurfEU.com, a pan-European ISP and portal, with a leadership position in Germany and a significant presence in Austria, Switzerland and Finland, was bought for a price of 69.6 million Euro, including about 51 million of newly issued Tiscali shares and the remaining part in cash.

The same meeting saw the issue of the shares used to complete the agreement for purchase of the company Springboard Internet Service Ltd through the English subsidiary, World Online (UK) Holding plc. The company concerned is the owner of the Line One portal. The total payment involved in the operation, which included the transfer of a number of receivables by the sellers to the Tiscali Group Parent company, amounted to 5,367,668 newly issued Tiscali plus 20 million Euro in cash. Line One is one of the main British ISPs, with more than 1.3 unique visitors generating more than 81 million page views in March 2001. Following this operation, Tiscali has become the fourth largest player in the United Kingdom. It will also serve to accelerate the achievement of Tiscali's operational break-even on the same market, together with the production of annual synergies with an estimated value of around 20 million Euro.
1,043,333 shares were issued for the purchase of the remaining 20% of CD Telecomunikace SRO's share capital, to be released on the conferral in kind of the remaining shareholding currently held by Liberco Holdings Ltd.

A divisible increase in share capital, reserved to the Ebner Publishing Group, was approved, with the aim of consolidating Tiscali's position on the German market. The publishing company is a strategic partner in the promotion of Tiscali's services in Germany and the operation will be carried out through the issue of a maximum of 1,000,000 Tiscali shares with a nominal value of ITL10 each. This issue may be subscribed by a number of instalments.

After the closure of the first 6 months of 2001, Tiscali has continued with the process of European expansion, together with the consolidation of its position in a number of different European countries such as Spain, Belgium and Great Britain, through the acquisition of various Internet Service providers and portals.

In July 2001, the ISP Inicia S.A was bought in Spain from Prisa, an important Spanish media group which is a leader in the local market in content production, through subsidiary company, World Online Sa. An important business partnership agreement was also initialled with the same group. The combination of Inicia and Tiscali in Spain has brought the company up to the position of the fourth largest ISP in the country, with an aggregate subscriber base of 570,000.

In the same month, Tiscali bought Yucom S.A. in Belgium from British Communications plc (BT), and from Banque Bruxelles Lambert (BBL), through its subsidiary Tiscali Belgium Holding S.A. This is one of the leading ISPs and portals in Belgium, with 85,000 active users generating monthly traffic of 43 million minutes.
Following the above operation, resulting in a payment of 4 million Euro in cash, Tiscali and Banque Bruxelles Lambert will enter into a partnership agreement involving the distribution of Tiscali products and services to BBL's customers.

In August 2001, Tiscali, through its English sub-holding, concluded a preliminary agreement for the acquisition of the Tiny Online ISP from Tiny Computers Limited in Great Britain. The latter company is a leader in the production and sale of computers. An important agreement has been initialled with the same company for the distribution of Tiscali services through Tiny's sales network.

On 14 August 2001, Tiscali and its shareholders, Kingfisher International Holding Limited and Europatweb NV, announced the termination of the lock-up commitment reached on the occasion of the acquisition of the controlling shareholding in Liberty Surf by Tiscali. This commitment envisaged the possible disposal by Kingfisher and Europatweb of their Tiscali shareholdings in three equal instalments, falling due on 16 June 2001, 7 September 2001 and 16 December 2001. Cancellation of the lock-up commitment for the final two instalments (representing a shareholding for each shareholder of 2.3% of Tiscali's share capital) was agreed in order to allow the shareholders concerned to dispose of their shareholdings in Tiscali prior to the due dates, with the agreement that this will be carried out in a manner which does not have a negative influence on the market price of Tiscali shares.

## Relations with subsidiaries

For details of relations with controlled companies, reference should be made to the accompanying notes. The details are primarily concerned with operations of a financial nature. These operations have been carried out under market conditions. Over the six months no operations involving the assignment of shares within the Group have been carried out.

## Expected development

It is expected that there will be an improvement in management results over the second six months of 2001, in line with the Group's development plans, together with an expansion of services offered, through the strengthening of the marketing structure and with internal re-organisation into four specific business areas. The development of activities indicates an ever-increasing uniformity of services offered in Europe.

Significant advances are expected in the Group reorganisation and integration processes, both from a corporate point of view and in terms of operations in specific countries. As a consequence, important synergies both with respect to greater competitiveness on national and international markets and with regard to the improvement of operating results are predicted.

For the Board of Directors
The Chairman
Renato Soru

# Tiscali Group

# 1H Consolidated Report
# at 30 June 2001

# Consolidated Balance Sheet
## amounts in euro/ 000

| | Assets | | | 30 June 2001 | 31 Dec 2000 |
|---|---|---|---|---|---|
| A) | **Receivables from shareholders for share capital still to be paid** | | | | |
| | Portion already called up: | | | | |
| | Portion not yet called up: | | | 248 | 28 |
| | **Total** | | | **248** | **28** |
| B) | **Non-current assets:** | | | | |
| | **I Intangible assets:** | | | | |
| | 1) set-up and expansion costs | | | 12.097 | 12.783 |
| | 2) research, development and advertising costs | | | 10.330 | 11.601 |
| | 3) patents and right to use intellectual property | | | 10.878 | 2.969 |
| | 4) concessions, licenses, trademarks and similar rights | | | 71.381 | 52.516 |
| | 5) goodwill | | | 284 | 320 |
| | 6) assets under construction and payments on account | | | 9.708 | 3.119 |
| | 7) other | | | 8.600 | 5.860 |
| | 8) consolidation difference | | | 1.487.116 | 1.022.930 |
| | **Total** | | | **1.610.394** | **1.112.098** |
| | **II Fixed assets:** | | | | |
| | 1) land d buildings | | | 38.988 | 8.342 |
| | 2) plant and machinery | | | 57.776 | 30.393 |
| | 3) industrial and trade equipment | | | 182.967 | 134.372 |
| | 4) other goods | | | 22.563 | 7.452 |
| | 5) fixed assets under construction and payments on account | | | 32.224 | 2.757 |
| | **Total** | | | **334.518** | **183.316** |
| | **III Financial assets:** | | | | |
| | *1)* Investments in | | | | |
| | a) group companies | | | | |
| | b) group and associated companies non consolidated | | | 1.288 | 27.178 |
| | c) parent companies | | | | |
| | d) others | | | 38.341 | 14.858 |
| | 2) Loans receivable: | *Receivable in less than one year* | | | |
| | | **30 June 2001** | **31 Dec 2000** | | |
| | a) from group companies: | | | | |
| | b) associated companies: | 142 | | 142 | |
| | c) parent companies: | | | | |
| | d) others: | 5.974 | 9.223 | 13.637 | 19.720 |
| | | 6.116 | 9.223 | | |
| | 3) other securities | | | | 104 |
| | 4) treasury stock | | | | |
| | **Total** | | | **53.408** | **61.860** |
| | | | | | |
| | **Total non-current assets** | | | **1.998.320** | **1.357.274** |

| Consolidated Balance Sheet - Assets | | | | 30 June 2001 | 31 Dec 2000 |
|---|---|---|---|---|---|
| C) | **Current assets** | | | | |
| | **I Inventory:** | | | | |
| | 1) raw, ancillary and consumables materials | | | 3.056 | 1.109 |
| | 2) work in process and semifinished goods | | | 1.190 | 40 |
| | 3) work in progress on job orders | | | 904 | 697 |
| | 4) finished products and goods | | | 9.442 | 2.603 |
| | 5) advances | | | | 1.572 |
| | **Total** | | | **14.592** | **6.021** |
| | **II Receivables:** | *In less than one year* | | | |
| | | 30 June 2001 | 31 Dec 2000 | | |
| | 1) trade accounts | 3.873 | 1.509 | 185.447 | 119.381 |
| | 2) due from group companies | | | | |
| | 3) due from associated companies | | | 34.708 | 19.419 |
| | 4) due from parent companies | | | | |
| | 5) due from others: | 1.842 | 1.588 | 130.713 | 46.691 |
| | **Total** | **5.715** | **3.097** | **350.868** | **185.491** |
| | **III Current financial assets:** | | | | |
| | 1) investments in group companies | | | | |
| | 2) investments in group and associated companies non consolidated | | | | |
| | 3) investments in parent companies | | | | |
| | 4) other investments | | | 3.768 | |
| | 5) treasury stock | | | | |
| | 6) other securities | | | 194.619 | 50.256 |
| | **Total** | | | **198.387** | **50.256** |
| | **IV Liquid assets:** | | | | |
| | 1) cash at banks and post offices | | | 525.120 | 1.130.700 |
| | 2) cheques outstanding | | | | |
| | 3) cash and cash equivalentes on hand | | | 258.360 | 248.532 |
| | **Total** | | | 783.480 | 1.379.232 |
| | Total current assets | | | 1.347.327 | 1.621.000 |
| D) | **Prepayament and accrued income** | | | | |
| | *Accrued and Fiferred Charges* | | | 37.770 | 49.949 |
| | *Discounts on loans* | | | 3.031 | 128 |
| | **Total prepayments and accrued income** | | | 40.801 | 50.077 |
| | **Total assets** | | | 3.386.696 | 3.028.379 |

| | Liabilities | | | 30 June 2001 | 31 Dec 2000 |
|---|---|---|---|---|---|
| A) | **Shareholders' equity:** | | | | |
| | **Group:** | | | | |
| | I Share capital | | | 1.771 | 1.573 |
| | II Share premium reserve | | | 2.850.024 | 2.392.340 |
| | III Revaluation reserve | | | | |
| | IV Legal reserve | | | | |
| | V Reserve for treasury stock held | | | | |
| | VI Statutory reserves | | | | |
| | VII *Other reserves:* | | | | |
| | Extraordinary reserve | | | | |
| | Reserve for the equity accounting for investments | | | | |
| | Foreign exchange reserve | | | (2.545) | 7.039 |
| | Retained earnings of subsidiaries and other reserves | | | (117.755) | 1.043 |
| | Consolidation reserve | | | | |
| | i) Other | | | | |
| | VIII Retained earnings (losses) | | | (106.538) | (5.537) |
| | IX Net profit (loss) for the year | | | (412.331) | (181.386) |
| | **Total Group shareholders' equity** | | | **2.212.626** | **2.215.072** |
| | **Minority interests:** | | | | |
| | X Minority interests in equity | | | 59.107 | 14.097 |
| | XI Minority interests in income | | | (9.026) | (4.787) |
| | **Total minority interests** | | | 50.081 | 9.310 |
| | **Total shareholders' equity** | | | **2.262.707** | **2.224.382** |
| B) | **Reserves for risks and charges:** | | | | |
| | 1) for pension and similar obligations | | | | |
| | 2) for taxation | | | 183 | 83 |
| | 3) other | | | 34.863 | 10.269 |
| | 4) consolidation reserve for future risks and charges | | | | 417 |
| | **Total** | | | 35.046 | 10.769 |
| C) | **Staff leaving indemnity** | | | 1.718 | 1.164 |
| | | *Due beyond the following financial year:* | | | |
| D) | **Payables:** | **30 June 2001** | **31 Dec 2000** | | |
| | 1) bonds | 250.000 | 250.000 | 383.558 | 380.932 |
| | 2) convertible bonds | | | | |
| | 3) due to banks: | 2.416 | 2.739 | 36.173 | 16.380 |
| | 4) due to other financiers: | 36.901 | 28.039 | 148.564 | 44.042 |
| | 5) advances | | | 1 | 114 |
| | 6) trade accounts | | | 290.954 | 213.278 |
| | 7) payables represented by negotiable instruments | | | | |
| | 8) due to group companies | | | | |
| | 9) due to associated companies | | | 448 | 1.182 |
| | 10) due to parent company | | | | |
| | 11) taxes payable | | | 19.818 | 53.456 |
| | 12) due to social security authorities | | | 27.351 | 1.278 |
| | 13) other payables | 12.666 | 9.509 | 86.783 | 22.372 |
| | **Total** | 301.983 | 290.287 | 993.650 | 733.034 |
| E) | **Accrued liabilities and deferred income** | | | | |
| | Accrued Income and Deferred charges | | | 93.575 | 58.830 |
| | Premiums on loans | | | | 200 |
| | **Total** | | | 93.575 | 59.030 |
| | | | | | |
| | **Total liabilities** | | | 3.386.696 | 3.028.379 |

| | Memorandum accounts | 30 June 2001 | 31 Dec 2000 |
|---|---|---|---|
| **A)** | **Guarantees given:** | | |
| | 1) to third parties: | | |
| | a) sureties | 250.026 | 6.020 |
| | b) endorsements | 106.572 | 29.227 |
| | c) other personal guarantees | 6.597 | 186 |
| | d) real guarantees | 294.240 | 241.142 |
| | **Total** | 657.435 | 276.575 |
| **B)** | **Other memorandum accounts:** | | |
| | Lease committments | 92.254 | 108.845 |
| | Notes payables not yet expired | | |
| | Raw materials and finished products by third parties | | |
| | Securities by third parties | 5.834 | |
| | Warrants | 28.422 | 70.075 |
| | Liabilities | 5.281 | |
| | **Total** | 131.791 | 178.920 |
| **C)** | **Guarantees received:** | | |
| | 1) sureties | 13.938 | 826 |
| | 2) endorsements | | |
| | 3) other personal guarantees | | |
| | 4) real guarantees | | |
| | **Total** | 13.938 | 826 |
| | **Total memorandum** | 803.164 | 456.321 |

| | Profit and loss | 30 June 2001 | 30 June 2000 | 31 Dec 2000 |
|---|---|---|---|---|
| **A)** | **(+) Value of production:** | | | |
| | 1) revenue from sales and services: | 250.038 | 65.482 | 169.730 |
| | 2) changes in inventory of work in process, semi-finished goods and finished products | 1 | | |
| | 3) changes in job order work in progress | (103) | | 981 |
| | 4) increases in fixed assets constructed internally | 7.752 | | 476 |
| | 5) other income and revenues: | | | |
| | other income and revenues: | 1.048 | 3.143 | 1.983 |
| | **Total** | **258.736** | **68.625** | **173.170** |
| **B)(-) Production costs** | | | | |
| | 6) raw, ancillary and consumable materials and goods: | (6.689) | (3.234) | (8.698) |
| | 7) services: | (282.400) | (68.634) | (170.228) |
| | 8) use of third party assets: | (9.882) | (2.300) | (5.451) |
| | 9) personnel: | | | |
| | a) wages and salaries | (57.200) | (7.617) | (22.177) |
| | b) social contributions | (7.327) | (802) | (4.104) |
| | c) staff leaving indemnity | (2.134) | (234) | (787) |
| | d) pensions and similar | (598) | | (31) |
| | e) other costs | (7.856) | (38) | (1.208) |
| | 10) depreciation, amortization and writedowns: | | | |
| | a) amortization of intangible assets | (184.129) | (14.356) | (90.560) |
| | b) depreciation of fixed assets | (39.770) | (2.875) | (12.059) |
| | c) other writedowns of non-current assets | (9) | | |
| | d) writedowns of receivables included in working capital and liquid assets | (3.340) | (1.268) | (6.897) |
| | 11) changes in inventory of raw, ancillary and consumable materials and goods | (157) | (562) | (188) |
| | 12) provisions for risks | | | (13.656) |
| | 13) other provisions | | (10) | (7.132) |
| | 14) other operating costs | (3.424) | (513) | (3.375) |
| | **Total** | **(604.915)** | **(102.443)** | **(346.551)** |
| **(A - B)** | **Difference between value of production and production costs** | (346.179) | (33.818) | (173.381) |
| **C)** | **Financial income and charges:** | | | |
| | *15) (+) income from investments:* | | | |
| | a) from group companies | 82 | | |
| | b) from associated companies | | | |
| | c) from other investments | 384 | | 791 |
| | *16) (+) other financial income:* | | | |
| | a) from receivables shown under non-current assets: | | | |
| | from third parties | 112 | | 1.681 |
| | from associated companies | 3 | | |
| | from parent companies | | | |
| | b) from securities shown under non-current assets which do not constitute equity investments | 574 | | |
| | c) from securities shown under current assets which do not constitute equity investments | 21.144 | 6 | |
| | d) income other than those mentioned above: | | | |
| | from third parties | 22.412 | 951 | 9.853 |
| | from associated companies | | | |
| | from parent companies | | | |
| | *17) (-) interest and other financial charges:* | | | |
| | a) from third parties | (38.262) | (1.642) | (19.486) |
| | b) from associated companies | | | |
| | c) from parent companies | (3) | | |
| | **Total** | **6.446** | **(685)** | **(7.161)** |

| | Income statement (Continue) | 30 June 2001 | 30 June 2000 | 31 Dec 2000 |
|---|---|---|---|---|
| **D)** | **Adjustments to the value of financial assets** | | | |
| | *18) (+) revaluations:* | | | |
| | a) of equity investments | 7.339 | | |
| | b) of non-current financial assets which do not constitute equity investments | | | |
| | c) of securities shown under current assets which do not constitute equity investments | | | |
| | *19) (-) writedowns:* | | | |
| | a) of equity investments | (767) | | (1.040) |
| | b) of non-current financial assets which do not constitute equity investments | | | |
| | c) of securities shown under current assets which do not constitute equity investments | | | |
| **Total adjustments** | | 6.572 | | (1.040) |
| **E)** | **Extraordinary income and charges** | | | |
| | *20) (+) extraordinary income:* | | | |
| | a) income | 4.527 | 405 | 2.461 |
| | b) gains on disposal of fixed assets | 1.976 | | 786 |
| | *21) (-) extraordinary charges:* | | | |
| | a) charges | (94.473) | (2.217) | (3.168) |
| | b) losses on disposals of fixed assets | (190) | | (338) |
| | c) taxes relating to previous periods | (36) | | (4.115) |
| | **Total extraordinary items** | (88.196) | (1.812) | (4.374) |
| | **Profit (loss) before taxes** | (421.357) | (36.315) | (185.956) |
| | *22) (-) income taxes for the year:* | | | |
| | a) current | | | (439) |
| | b) deferred | | | 222 |
| **23) Total income taxes** | | (421.357) | (36.315) | (186.173) |
| | Minority interests in income | 9.026 | 1.005 | 4.787 |
| | **Net profit (loss) for the year** | (412.331) | (35.310) | (181.386) |

For the Board of Directors
The Chairman
Renato Soru

# Tiscali Group

# Notes to the Consolidated Half-Yearly Statements at 30 June 2001

# Form and contents of the half-yearly consolidated financial statements

**1) Compilation criteria**

The following half-yearly statements comprise the balance sheet, the income statement and the accompanying notes, which form an integral part of these consolidated half-yearly statements. The accounts are presented in such a way as to allow comparison with the previous half-year and with the situation at 31 December, 2000. All data is consistent and standardised with those for the half-yearly period and the pervious year.
The statement of source and application of funds is attached to these notes.

**2) Area of consolidation**

The Group's consolidated half-yearly statements include the half-yearly statements of the Parent company and the Italian and foreign companies in which it directly or indirectly holds the majority of votes at general shareholders' meetings, the companies in which it holds sufficient votes to exercise a dominant influence at the general shareholders' meeting, companies in which it has a dominant influence by virtue of a contract or clause in the Company articles of association, or where this is allowed by the applicable law, and those companies in which it autonomously controls the majority of voting rights as a result of agreements with other shareholders.
The area of consolidation has altered since 31 December 2000 following the entry of Liberty Surf Group, CD Telekomunikace, Addcomm, Excite, Tiscali Telecomunicationes and Energy Byte, consolidated on a line by line basis.
Subsidiary companies whose size is insignificant, subsidiary companies held solely for the purpose of subsequent sale and non-operative companies are excluded from consolidation on a line by line basis. Shareholdings consisting of fixed assets in subsidiary companies excluded from consolidation and shareholdings in affiliated companies which are not of insignificant size have been valued on an equity basis. Companies in which Tiscali SpA directly or indirectly controls a fifth of votes at general shareholders' meetings are regarded as affiliated companies. The list of the shareholdings valued on an equity basis is included in the notes.
In the case of foreign subholdings, sub-consolidated statements prepared specifically by the subsidiary companies themselves have been used for consolidation purposes.

**3) Consolidation principles**

The half-yearly statements of the individual subsidiary companies were used to compile the consolidated accounts after any necessary reclassifications and adjustments to bring them into line with the accounting principles and valuation criteria used by the parent company, which comply with those specified by Articles 2423 ff. of the Civil Code and those recommended by CONSOB.
When drawing up the consolidated accounts, the assets and liabilities have been included in full, as well as revenues and charges of the companies included in the consolidation area. On the contrary, all receivables and payments, revenues and charges, profits and losses generated by operations between companies included in the consolidation area have been eliminated. The book value of shareholdings in companies included in the consolidation area has been cancelled against the corresponding fractions of the shareholders' equity of the subsidiary companies. The difference between the book value of shareholdings, which is cancelled, and the corresponding part of shareholders' equity, which is entered, has been used to adjust the consolidated shareholders' equity. In the case of acquisitions, the aforesaid difference is attributed to the assets and liabilities of companies included in the consolidation area. Any remainder, if negative, is entered under a heading entitled consolidation reserve, or, when it can be attributed to expected profit warnings, under a heading entitled "consolidation reserve for future risks and charges". If positive, it is allocated to a heading under assets entitled "consolidation difference".
The total capital and reserves of subsidiary companies corresponding to third-party shareholdings are entered under shareholders' equity as "third-party capital and reserves". The part of consolidated profits/losses corresponding with third party shareholdings is entered under "third-party profits (losses) for the period".

### 4) Conversion of balance sheets in foreign currency

Items on the balance sheet expressed in non-EU currencies are converted into euro using the exchange rates at the end of the accounting period, whereas those on the income statement are converted into euro using the average exchange rates for the period. The difference between the operating result resulting from conversion at average exchange rates and that based on conversion using exchange rates at the end of the accounting period and the effects on assets and liabilities of variations in exchange rates between the start and end of the period are entered under shareholders' equity under the “Reserve resulting from conversion differences of balance sheets in foreign currencies”.
The non-EU currencies included in balance sheets subject to consolidation are the Swiss Franc (1,522=1euro), Czech koruna (33,78=1euro), US dollar (0.8532$=1euro) and British sterling (0.6031=1euro).

### 5) Valuation criteria

#### a) General criteria

The accounting principles and valuation criteria have been applied uniformly to all consolidated companies. The valuation criteria used to draw up the accounts are those used by the parent company Tiscali S.p.A. and they comply or are compatible with the statutory provisions currently in force mentioned earlier, integrated and interpreted by the Accounting Principles issued by the National Accounting Association. The criteria used in the half-year that has just ended do not differ from those used to compile the consolidated balance sheet for the previous year, in particular with regard to valuations and continuation of the same principles. The valuation of the individual entries in the accounts has been inspired by the general criteria of prudence and accrual, on the assumption that the company will continue as a going concern. For the purpose of making entries, prevalence was given to the economic substance of operations rather than to their legal form. Financial assets were only entered into accounts after settlement. Profits were only included if collected before the end of the financial year, whereas account has been taken of contingencies and losses even if they only became known at a later date. Miscellaneous items entered under a single balance-sheet entry have been evaluated individually. Assets destined for long-term use have been classified as intangible fixed assets.

#### b) Adjustments to value and recovery of value

The value of tangible and intangible assets with limited use over time has been decreased using depreciation. Writedown of these assets and other asset items takes place each time there is a long-term loss of value; the original value is restored when it is felt that the reasons underlying the previous writedown no longer exist. The analytical methods of depreciation and writedown used are described below in the notes.

#### c) Exceptions

No exceptions have been made in this financial year or in the past to the valuation criteria laid down by the law on financial statements and consolidated financial statements.

#### d) Accounting entries made exclusively in application of tax regulations

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

**The most important principles and criteria are set out below.**

#### e) Intangible fixed assets

Plant and formation costs are entered in the appropriate item under assets and amortised over a period of not more than 5 years, starting from the year in which they were incurred. R&D and advertising costs are entered in the appropriate item under assets and amortised over a 5-year period, starting from the year in which they were incurred, in view of their long-term use. Design patents and utilisation of inventions are entered at purchase cost and have been systematically amortised depending on the contractual period, but not in excess of five years starting from the year in which they were incurred. Concessions, trademarks, licences and similar rights are entered at purchase cost and have been systematically amortised depending on the contractual period, but not in excess of five years starting from the year in which they were incurred. Intangible fixed assets have been entered at the cost of purchase or in-house production, inclusive of accessory charges, and amortised on a straight-line basis.
Goodwill is entered only if purchased, subject to the limits of the cost incurred, and is amortised over a period not exceeding its use, or, if this cannot be calculated, over a period of not more than five years.

The difference arising after consolidation emerges during the compilation of the consolidated balance sheet if the accounting value of shareholdings are set against the corresponding fractions of the shareholders' equity of the subsidiary companies. Any surplus, which cannot be attributed to individual elements in the assets of companies included in consolidation, is used to adjust consolidated shareholders' equity, or, in the appropriate circumstances, entered in assets under “consolidation differences”. This item is amortised over a period of time within which the economic benefits will have been enjoyed, with a maximum limit of five years.
Writedown to the corresponding economic value is carried out on fixed assets whose economic value at the end of the accounting period is substantially lower than cost, after amortisation according to the aforesaid criteria. If the grounds for writedown subsequently cease to exist, the original values are re-instated.
Extraordinary maintenance costs and improvements of third-party assets are entered under "others" and amortised systematically for the lesser between the period of expected future usefulness and the period of the leasing contract.

**f) Tangible fixed assets and depreciation**
Tangible assets are entered at purchase or production cost, inclusive of accessory charges. Depreciation is calculated with reference to cost, on a straight-line basis depending on the residual possibility of use.
The costs of ordinary maintenance are charged in full to the income statement. Maintenance costs of an incremental nature are charged to the asset to which they refer and amortised on the basis of the remaining useful life of the asset itself.
The depreciation rates used, unchanged from the previous year, are set out below and are broadly in line with those used by the parent company:

| | |
|---|---|
| **Plant and machinery** | |
| generic Plant and machinery | 20% |
| miscellaneus plants | 12% |
| specific plant e machinery | 20% |
| intermet plant and exchanges | 20% |
| **Industrial and commercial equipment** | |
| network and other specific equipment | 20% |
| industrial and commercial equipment | 20% |
| miscellaneous and minor equipment | 25% |
| **Other assets** | |
| furniture, furnishings and office equipment | 12% |
| electronic office equipment and computers | 20% |
| vehicles | 25% |
| furniture, furnishings and office equipment | 12% |
| other assets | 20% |

Depreciation is reduced by half during the financial year in which assets are purchased, in the belief that this represents a reasonable approximation of the timing of purchases over the course of the year.
Assets which are the object of leasing contracts are entered under the relevant classes of the technical fixed assets and are amortised, like fully-owned assets, on a straight-line basis, according to their remaining useful life. The short and medium-term debt towards the leasing company is inserted as a balancing entry to the asset; instalments are deducted from the costs of using third-party assets and interest payments accrued during the year are entered under financial charges. This provides an analysis of the leasing operations according to the so-called “financial method” set out in I.A.S. International Accounting Principle no. 17.

**g) Financial investments**
**Shareholdings in subsidiary companies excluded from consolidation and in affiliated companies**
Financial investments in the form of shareholdings in non-consolidated subsidiary companies and in affiliated companies are valued on an equity basis, or in other words for an amount equivalent to the corresponding portion of the shareholders' equity entered on the most recent balance sheet of the companies concerned, after detracting dividends and having made any adjustments required by the principles for compiling the consolidated balance sheet. Financial assets in the form of receivables are entered at their presumed realisable value. Capital gains or capital losses deriving from the application of the equity method are entered in the income statement respectively as “revaluations of shareholdings” and “writedown of shareholdings”.

**Other shareholdings, securities and receivables under fixed assets**
Other shareholdings and securities are entered at cost and their value is written down where necessary on the basis of long-term losses, also arising from market prices for listed investments. Should the conditions leading to writedown no longer hold good, the value prior to writedown is restored.

**h) Inventories**
**Raw materials, work in progress and finished products**
Inventories are valued at which ever is the lower between the purchase cost or the presumed realisable value based on market trends. Stocks of obsolete items or products with a slow turnaround are depreciated, taking into account their possible use and realisable values.

**Work in progress on orders**
Work in progress on orders is valued on the basis of the contractual payments accrued with reasonable certainty, in proportion to the state of progress of work and taking account of all foreseeable contractual risks.

**i) Receivables**
Receivables are entered at their presumed realisation value. This value is calculated by direct writedown of the receivables made on an analytical basis for the largest accounts and using a flat-rate basis for other items.

**k) Financial assets not classified as fixed assets**
Other shareholdings and securities are valued at purchase cost or, if lower, at the realisation value based on market trends for listed investments.

**l) Accruals and deferrals**
Accruals and deferrals, which may be either positive or negative, refer solely to revenues and charges for the year whose cash effect will occur in subsequent years, and income received and costs incurred before the end of the accounting period but referring to later years. In either case, only portions of these costs and revenues covering two or more years, and the value of which varies according to the period considered, are entered.

**m) Reserves for risks and charges**
Reserves are allocated in the liabilities section of the balance sheet in order to cover potential losses which are deemed probable according to realistic estimates of their entity.

**n) Employees severance reserve**
The employee severance reserve represents the payments to be made and the reserves for commitments accrued at year end on behalf of employees, in compliance with the law and according to employment contracts and any corporate agreements in force in the individual countries where the consolidated companies are based.

**o) Payable**
All payables are entered at discharge value.

**p) Risks, commitments, guarantees**
Commitments and guarantees are entered under the memorandum accounts at their contractual value. The risks for which a liability is deemed probable are described in the notes to the balance sheet and have been allocated using adequate criteria in the provisions for risks and losses. Risks for which a liability is only deemed possible are described in the notes to the balance sheet, but no allocation has been made to the contingency reserves in line with the accounting principles. No account has been taken of risks of a remote nature.

**q) Sums in foreign currency**
Receivables and payables in non-EU currencies have been aligned to the year-end exchange rate by entry on the balance sheet of an appropriate exchange risks reserve. Profits and losses resulting from conversion have been credited or debited to the income statement.

**r) Revenues**
Revenues from the sale of services are entered on an accruals basis and on the basis of the traffic effectively produced at the end of the period.

## Analysis of items on the balance sheet:

**Assets**

**B) Fixed Assets**

**I - Intangible Assets**

Intangible assets at the beginning and end of the period are shown below.

| Description | Balance 31 Dec 2000 | Additions | Revaluations (Devaluations) | Other Changes | (Amortization) | Balance 30 June 2001 |
|---|---|---|---|---|---|---|
| formation and expansion costs | 12.783 | 15 | (76) | 1.443 | (2.068) | 12.097 |
| R&D and advert costs | 11.601 | 1.343 | | | (2.614) | 10.330 |
| design patents and util. of inventions | 2.969 | 1.603 | | 8.261 | (1.955) | 10.878 |
| concessions, licenses trademarks | 52.516 | 28.499 | (12) | (3.038) | (6.584) | 71.381 |
| goodwill | 320 | | | 4 | (40) | 284 |
| fixed assets in progress and advances | 3.119 | 8.276 | | (535) | (1.152) | 9.708 |
| other | 5.860 | 3.574 | 3 | 2.158 | (2.995) | 8.600 |
| consolidation difference | 1.022.930 | | 6.156 | 624.751 | (166.721) | 1.487.116 |
| **Total** | **1.112.098** | **43.310** | **6.071** | **633.044** | **(184.129)** | **1.610.394** |

The increase in intangible assets in the period refers mainly to investments in software and the relative implementations.
Fixed assets in progress include costs relating to projects in progress relating to realisation of a single technological platform for the Group.
"Other fixed assets" refer principally to the parent company, particularly to investments made in improvement of technical sites, the offices of the new call centre in Cagliari and the new office in Milan.
The column "other changes" includes changes in the item attributable particularly to changes in the area of consolidation.
The consolidation difference is amortised over 3 or 5 years, starting from the date of purchase of the shareholdings. Compared with 31 December, 2000, the increase is due in particular to the acquisitions of the Liberty Surf Group sub-holding and a further 5% stake in World Online.

"Formation and expansion costs" and "R&D and advertising costs" are shown by item in the table below.

| Formation and expansion costs | 30 June 2001 | 31 Dec 2000 | Change |
|---|---|---|---|
| Set-up costs | 1.592 | 364 | 1.228 |
| Costs of increase of share capital | 4.864 | 5.606 | (742) |
| New plant start-up costs | 5.159 | 6.813 | (1.654) |
| Others | 482 | | 482 |
| **Total** | **12.097** | **12.783** | **(686)** |

| R&D and advertising | 30 June 2001 | 31 Dec 2000 | Change |
|---|---|---|---|
| **Total** | **10.330** | **11.601** | **(1.271)** |

The costs refer mainly to costs of developing portals for companies belonging to the sub-holding, World Online International BV.

## II - Fixed assets

| Costs | Balance 31 Dec 2000 | Additions | Revaluations | Other changes | (Disposals) | Balance 30 June 2001 |
|---|---|---|---|---|---|---|
| land and buildings | 9.030 | 29.375 | 9 | 2.556 | (108) | 40.862 |
| plant and machinery | 35.298 | 12.853 | 121 | 23.549 | (803) | 71.018 |
| industrial and trade equipment | 176.161 | 64.333 | 1.040 | 36.745 | (5.917) | 272.362 |
| other assets | 11.029 | 9.617 | 91 | 12.029 | (67) | 32.699 |
| fixed assets under construction and payments on account | 2.757 | 10.084 | | 19.711 | (328) | 32.224 |
| **Total** | **234.275** | **126.262** | **1.261** | **94.590** | **(7.223)** | **449.165** |

| Depreciation | Balance 31 Dec 2000 | Depreciation | Devaluation | Other movements | (Disposals) | Balance 30 June 2001 |
|---|---|---|---|---|---|---|
| land and buildings | 688 | 805 | 1 | 380 | | 1.874 |
| plant and machinery | 4.905 | 6.534 | 21 | 1.782 | | 13.242 |
| industrial and trade equipmen | 41.789 | 28.004 | 328 | 19.274 | | 89.395 |
| other assets | 3.577 | 4.427 | (341) | 2.473 | | 10.136 |
| fixed assets under construction and payments on account | | | | | | |
| **Total** | **50.959** | **39.770** | **9** | **23.909** | | **114.647** |

| Net book value | Balance 31 Dec 2000 | Additions | (Depreciations and devaluation) | Other movements | (Disposals) | Balance 30 June 2001 |
|---|---|---|---|---|---|---|
| land and buildings | 8.342 | 29.384 | (806) | 2.176 | (108) | 38.988 |
| plant and machinery | 30.393 | 12.974 | (6.555) | 21.767 | (803) | 57.776 |
| industrial and trade equipmen | 134.372 | 65.373 | (28.332) | 17.471 | (5.917) | 182.967 |
| other assets | 7.452 | 9.708 | (4.086) | 9.556 | (67) | 22.563 |
| fixed assets under construction and payments on account | 2.757 | 10.084 | | 19.711 | (328) | 32.224 |
| **Total** | **183.316** | **127.523** | **(39.779)** | **70.681** | **(7.223)** | **334.518** |

Tangible assets at 30 June, 2001, totalled approximately 332 million Euro and increased compared with the previous year by a total of 103 million Euro, before depreciation. This increase is linked to the investments needed to support development of activities in all countries. "Other changes" includes changes relating to the area of consolidation.

"Land and buildings" basically includes properties owned by Tiscali Denmark, an indirectly controlled subsidiary.

"Plant and machinery" and "equipment" mainly includes specific equipment and network apparatus (mainly routers, servers and telephone switchboards).

The column "other changes" includes changes in the item attributable particularly to changes in the area of consolidation and any reclassifications carried out during the period.

### III - Financial Assets

Financial assets are shown in the table below.

| Investments in | 30 June 2001 | 31 Dec 2000 | Change |
|---|---|---|---|
| associated and gruop companies non consolidatede | 1.288 | 27.178 | (25.890) |
| others | 38.341 | 14.858 | 23.483 |
| Loans receivable: | | | |
| associated and gruop companies non consolidated | 142 | | 142 |
| others : | 13.637 | 19.720 | (6.083) |
| **Total** | **53.408** | **61.860** | **(8.452)** |

Investments in other firms relates to minority shareholdings of World Online International BV, to a value of 25.8 million Euro, and the 0.3% stake held by Tiscali Finance in Andala S.p.A., to a value of 13.5 million Euro. Non-consolidated subsidiary companies at 31 December included CD Telekomunikace.

## C) Current Assets

### I - Inventories

Inventories are shown in the table below.

| Inventory: | 30 June 2001 | 31 Dec 2000 | Change |
|---|---|---|---|
| raw materials, auxiliares and consumables | 3.056 | 1.109 | 1.947 |
| work in process and semifinished goods | 1.190 | 40 | 1.150 |
| work in progress on job orders | 904 | 697 | 207 |
| finished products and goods | 9.442 | 2.603 | 6.839 |
| advances | | 1.572 | (1.572) |
| **Total** | **14.592** | **6.021** | **8.571** |

At 30 June, 2001, inventories totalled around 14.5 million Euro and referred mainly to consumables, telephone cards, goods destined for resale for merchandising activities, modems and equipment used in the supply of services.

### II - Receivables

Receivables are shown in the table below:

| Receivables: | 30 June 2001 | 31 Dec 2000 | Variazione |
|---|---|---|---|
| trade accounts | 185.447 | 119.381 | 66.066 |
| due from associated companies not consolidate | 34.708 | 19.419 | 15.289 |
| due from others: | 130.713 | 46.691 | 84.022 |
| **Total** | 350.868 | 185.491 | 165.377 |

Receivables from customer, totalling 185 million Euro, derived from the sale of Internet services, constituted mainly of invoicing of network access services, inverse interconnection traffic, advertising revenue and business customer and telephone services supplied by the group. The sizeable increase is due mainly to the change in the area of consolidation.

Receivables are stated at presumed realisation value, through entry of a special reserve for bad debts totalling approximately 24 million Euro.

Receivables from associated companies of 35 million Euro include financial receivables and relate to the Tiscali International BV sub holding.

Receivables from customers are shown below.

| | 30 June 2001 | 31 Dec 2000 | Change |
|---|---|---|---|
| UE customers | 200.693 | 129.387 | 71.306 |
| extra UE customers | 8.678 | 6.022 | 2.656 |
| less: bad debt provision | (23.924) | (16.028) | (7.896) |
| **Total** | **185.447** | **119.381** | **66.066** |

Other receivables are shown in the table below.

| | 30 June 2001 | 31 Dec 2000 | Change |
|---|---|---|---|
| *receivable within one year* | | | |
| Witholding taxes | 693 | 427 | 266 |
| Employee loans | 3.978 | 1.491 | 2.487 |
| Other loans | 30 | 7.177 | (7.147) |
| Tax credits on dividends | 366 | | 366 |
| Corporation tax | 31 | 170 | (139) |
| VAT receivable | 49.367 | 36.540 | 12.827 |
| Other receivables | 80.380 | 8.520 | 71.860 |
| | 134.845 | 54.325 | 80.520 |
| *receivable after one year* | | | |
| Corporation tax | 1.042 | 1.042 | |
| Deposis | 727 | 785 | (58) |
| Other receivables after one year | 7.736 | 10.259 | (2.523) |
| | **9.505** | **12.086** | **(2.581)** |
| **Total** | **144.350** | **66.411** | **77.939** |

**III - Current financial assets**

The balance of current financial assets is shown in the table below.

| | 30 June 2001 | 31 Dec 2000 | Change |
|---|---|---|---|
| other investments | 3.768 | | 3.768 |
| other securities | 194.619 | 50.256 | 144.363 |
| **Total** | **198.387** | **50.256** | **148.131** |

"Other securities" includes investments of liquid assets in short-term securities with market interest rates.

**IV - Cash and current accounts**

Cash and current accounts are shown in the table below.

| | 30 June 2001 | 31 Dec 2000 | Change |
|---|---|---|---|
| Cash and cash equivalentes on hand | 783.480 | 1.379.232 | (595.752) |

At 30 June, 2001, cash and current accounts totalled 783 million Euro, relating mainly to World Online International BV and the LibertySurf Group. The considerable deviation compared with the end of the previous year is due to acquisitions of shareholdings during the period, investments and liquidity absorbed by operations.

**D) Analysis of pre-paid expenses and accrued income**

Pre-paid expenses and accrued income are shown in the table below.

| | 30 June 2001 | 31 Dec 2000 | Change |
|---|---|---|---|
| *Accrued income:* | **3.247** | **13.934** | **(10.687)** |
| *Prepayments:* | | | |
| | **34.523** | **36.015** | **(1.492)** |

Pre-paid expenses refer mainly to the costs of renting lines, sponsorship contracts and initial leasing payments. The discount on issues of loans compared with the previous year has been classified under the specific item under accrued expenditure and deferred income.

**Liabilities**

**A) Shareholders' equity**

Table of changes in shareholders' equity

This table shows the changes in the various items under shareholders' equity during the period

| Shareholder's equity | Balance 31 Dec 2000 | Allocation of prior year profit | Dividends | Translaction adjustement | Other movements | Balance 30 June 2001 |
|---|---|---|---|---|---|---|
| **Group:** | | | | | | |
| Share capital | 1.573 | | | | 198 | 1.771 |
| Share premium reserve | 2.392.340 | | | | 457.684 | 2.850.024 |
| Traslation adjustement reserve subsidiaries undistr. | 7.039 | | | (9.584) | | (2.545) |
| Profits and other reserves | 1.043 | 34 | | | (118.832) | (117.755) |
| Other | | | | | | |
| Profit (loss) for the period | (5.537) | (181.420) | | | 80.419 | (106.538) |
| Net profit (loss) for the year | (181.386) | 181.386 | | | (412.331) | (412.331) |
| **Total Group shareholders' equity** | 2.215.072 | | | (9.584) | 7.138 | 2.212.626 |
| **Minority interests:** | | | | | | |
| Minority interests in equity | 14.097 | (4.787) | | | 49.797 | 59.107 |
| Minority interests in income | (4.787) | 4.787 | | | (9.026) | (9.026) |
| **Total minority interests** | **9.310** | | | | **40.771** | **50.081** |
| **Total shareholders' equity** | **2.224.382** | | | **(9.584)** | **47.909** | **2.262.707** |

The changes in the items under shareholders' equity, indicated under "other changes", refers to extension of the area of consolidation and principally to increases in capital made by the parent company during the year. The conversion difference derives mainly from the subsidiaries indirectly controlled through World Online International N.V., which were adversely affected by the heavy fluctuation of exchange rates during the period.

The table below shows a summary of the differences between the balance sheet of the parent company and the consolidated balance sheet, with reference to the items which impacted on results for the year and shareholders' equity.

## Summary comparative schedule of parents company and consolidated financial statement

| | *Current financial year* | | *Previous F.Y.* | |
|---|---|---|---|---|
| | **Net ptofit (loss)** | **Net Equity** | **Net ptofit (loss)** | **Net Equity** |
| **Balances posted in the parent Company Balnce sheet** | (248.119) | 2.497.138 | (101.002) | 2.287.375 |
| **Elimination on effects of transaction between consolidated companies net of fiscal effects:** | | | | |
| - Internal profits on inventories | | | | |
| - Internal profits on fixed assets | | | | |
| - Internal profits of intangible assets | | | | |
| - Intenal profits on long ter investments | | (1.183) | (1.183) | |
| - Writeoff of devalutations pertaining to partecipations in subsidiary companies | | | 46.017 | |
| - Dividend received from consolidated companies | | | | |
| **Effect of the change and harmonisation of valutation criteria within the criteria within the group, net of fiscal effects:** | | | | |
| - Currency exchange rate adjustmenti | | | | |
| - Application of financial method to fixed assets leased from third parties | (74) | 3.022 | 2.923 | 3.104 |
| - Application of financial method to fixed assets leased to third parties | | | | |
| - net equity valutation of companies registred in the balance sheet at their cost value | (13) | (1.283) | (939) | (943) |
| - Taxes on subsidiaries' undistribuited profits | | | | |
| **Carryn value oh consolidated partecipations** | | (2.941.185) | | (2.232.592) |
| **Net equity and financial year profit (loss) of consolidated companieste** | (300.793) | 1.677.406 | (55.878) | 1.471.105 |
| **Attribution of differences to the assets of consolidated entreprises and related depreciations:** | | | | |
| - Fixed assets | | | | |
| - Consolidation goodwill | (85.644) | 756.399 | (71.189) | 682.439 |
| - Consolidation risk and charges found | | | | |
| **Other adjustment:** | | | | |
| - Consolidation area adjustment | | | | |
| - Parent company's share owned by subsidiaries | | | | |
| - Writeoff reserve for risk on shareholdings | 222.312 | 222.312 | | |
| - Other adjustments | | | (135) | 4.584 |
| - Application IAS 17 new leasing | | | | |
| - Other adjustments | | | | |
| **Balance as per the consolidated financial statements Group quota** | **(412.331)** | **2.212.626** | **(181.386)** | **2.215.072** |
| **Balance as per the consolidated financial statements Third parties quota** | **(9.026)** | **50.081** | **(4.787)** | **9.310** |
| **Balance as per the consolidated financial statements** | **(421.357)** | **2.262.707** | **(186.173)** | **2.224.382** |

### B) Reserves for risk and future liabilities

The reserves for risks and charges are shown in the table below.

| | Balance 31 Dec 2000 | Provision | (Writebaks) | Other movements | Balance 30 June 2001 |
|---|---|---|---|---|---|
| for pension and similar obligations | | | | | |
| for taxation | 83 | | 53 | 47 | 183 |
| consolidation reserve for future risks and charges | 417 | | | (417) | |
| other: | | | | | |
| Provision for foreign exchange losses | | 123 | | | 123 |
| Provision for legal claims | 1.531 | 507 | (213) | | 1.825 |
| Other minor provisions | 8.738 | 6.986 | (4.916) | 22.107 | 32.915 |
| **Total other provisions** | **10.269** | **7.616** | **(5.129)** | **22.107** | **34.863** |
| **Total** | **10.769** | **7.616** | **(5.076)** | **21.737** | **35.046** |

Other reserves refers to provisions made against reorganisation costs, particularly 17.6 million Euro relating to Liberty Surf. The column "other changes" includes changes in the item attributable particularly to changes in the area of consolidation.

### C) Staff severance pay

The table below shows changes during the period.

| | Balance 31 Dec 2000 | Provision | (Writebaks) | Other movements | Balance 30 June 2001 |
|---|---|---|---|---|---|
| Factory workers | 5 | | | | 5 |
| Intermediary workers | 54 | 19 | | 1 | 74 |
| Office workers | 1.018 | 2.115 | (76) | (1.505) | 1.552 |
| Managers | 87 | | | | 87 |
| **Total employees** | **1.164** | **2.134** | **(76)** | **(1.504)** | **1.718** |

### D) Liabilities

**Analysis of liabilities:**

| | 30 June 2001 | 31 Dec 2000 | Change |
|---|---|---|---|
| bonds | 383.558 | 380.932 | 2.626 |
| bank loans and overdraft | 36.173 | 16.380 | 19.793 |
| other loans | 148.564 | 44.042 | 104.522 |
| payment on account received | 1 | 114 | (113) |
| account payables | 290.954 | 213.278 | 77.676 |
| due to associated companies | 448 | 1.182 | (734) |
| due to parent company | | | |
| taxes payable | 19.818 | 53.456 | (33.638) |
| social security contributions payable | 27.351 | 1.278 | 26.073 |
| other payables | 86.783 | 22.372 | 64.411 |
| **Total** | **993.650** | **733.034** | **260.616** |

The items "bonds", totalling 383 million Euro, includes bonded loans contracted by Tiscali Finance in the second half of 2000 and by Word Online International B.V. to finance purchase of Telinco U.K. The loan contracted by Tiscali Finance totals 250 million Euro and involves repayment in a single instalment, falling due after 5 years. Interest accrues on the basis of the Euribor plus a 3.25% spread. Swap contracts have been signed to cover the risk of fluctuations in exchange rates, as indicated in the memorandum accounts.

**Tax liabilities are shown below.**

| | 30 June 2001 | 31 Dec 2000 | Change |
|---|---|---|---|
| State tax on profit | 419 | 287 | 132 |
| Local tax on profit | | | |
| Tax on equity | | | |
| VAT payable | (74) | 312 | (386) |
| Witholding taxes | 1.777 | 645 | 1.132 |
| Other taxes | 17.696 | 52.212 | (34.516) |
| **Total** | **19.818** | **53.456** | **(33.638)** |

The amount "other tax liabilities" refers to withholding tax on interest accrued by subsidiary company, World Online.

**Other payables are shown in the table below.**

| | 30 June 2001 | 31 Dec 2000 | Change |
|---|---|---|---|
| Evecutive directors' remunerations | 74 | 4 | 70 |
| Statutory auditors' remunerations | 452 | 750 | (298) |
| Employee debt | 3.470 | 2.951 | 519 |
| Other payables | 82.787 | 18.667 | 64.120 |
| **Total** | **86.783** | **22.372** | **64.411** |

"Other payables" of approximately 52 million Euro refers mainly to the Libertysurf Group.

**E) Accrued expenditure and deferred income**

**Accrued income and deferred expenditure is shown in the table below.**

| | 30 June 2001 | 31 Dec 2000 | Change |
|---|---|---|---|
| Accrued liabilities | 76.028 | 49.432 | 26.596 |
| Deffered income | 17.547 | 9.398 | 8.149 |
| **Total** | **93.575** | **58.830** | **34.745** |

Accrued expenditure refers mainly to the World Online Group and relates to reorganisation charges resulting from the new corporate and organisational set-ups, relating to charges sustained for voluntary redundancies, charges for early withdrawal from contracts and elimination of activities.

Deferred income refers mainly to postponement to future years of amounts due on pre-paid services.

## Income statement

### A) Value of production

#### Analysis of sales and services

**Breakdown of revenues by category of activity**

| | 30 June 2001 | 31 Dec 2000 | Change |
|---|---|---|---|
| Access services | 169.227 | 28.178 | 141.049 |
| Voice services | 22.418 | 31.299 | (8.881) |
| Portal services | 20.883 | 2.980 | 17.903 |
| Business services | 33.630 | 2.287 | 31.343 |
| Other services | 3.880 | 738 | 3.142 |
| **Total** | **250.038** | **65.482** | **184.556** |

Group revenues generated mainly in the EU refer principally to Internet Service Provider activities. In particular, 67% of revenues was generated by access services and 12.5% from advertising revenues. Business services are mainly generated by the activities of the French company, NETS S.A. and the German company, Nacamar, as well as minority Italian shareholdings, STS and Quinary.

**Breakdown of revenues by geographical area**

| | 30 June 2001 | 30 June 2000 | Change |
|---|---|---|---|
| EU sales | 226.211 | 54.683 | 171.528 |
| Extra EU sales | 23.827 | 10.799 | 13.028 |
| **Total** | **250.038** | **65.482** | **184.556** |

**Other revenues and income are shown in the table below.**

| | 30 June 2001 | 30 June 2000 | Change |
|---|---|---|---|
| Contributions received | | 10 | (10) |
| Other ordinary income | 739 | | 739 |
| Other receipts | 309 | 3.133 | (2.824) |
| **Total** | **1.048** | **3.143** | **(2.095)** |

At 30 June, 2000, other revenues and income included invoicing of CD Telekomunikace, which was not a subsidiary at the time.

### B) Production costs

#### Purchase of raw materials, auxiliaries, consimables and goods

**Purchases are shown below.**

| | 30 June 2001 | 30 June 2000 | Change |
|---|---|---|---|
| Purchase of sales goods | 451 | 146 | 305 |
| Purchase of consumable materials | 398 | 402 | (4) |
| Purchase of pubblicity and promotion materials | 474 | 269 | 205 |
| Other purchases | 5.366 | 2.417 | 2.949 |
| **Total** | **6.689** | **3.234** | **3.455** |

This item includes costs sustained by the parent company for creation of a fibre-optic network in the Czech Republic, which were then re-invoiced to subsidiary, CD Telekomunikace, goods destined for resale for merchandising activities and various types of promotional materials.

**Breakdown of costs for supply of services**

**Costs of supply of services are shown by item in the table below.**

| | 30 June 2001 | 30 June 2000 | Change |
|---|---|---|---|
| Backbone costs | 78.197 | 21.757 | 56.440 |
| Procurement of traffic | 73.976 | 20.696 | 53.280 |
| Advertising and promotion expenses | 53.506 | 12.568 | 40.938 |
| Maintenance costs | 3.694 | 689 | 3.005 |
| Advisory services | 6.370 | 1.799 | 4.571 |
| Costs sales | 19.325 | 940 | 18.385 |
| Other services | 47.332 | 10.185 | 37.147 |
| **Total** | **282.400** | **68.634** | **213.766** |

This item includes the major industrial costs, which are summarised below:

Backbone costs: these constitute a typical cost for all the principal subsidiary companies. The increase is directly linked with development of activities and extension of the area of consolidation during 2001. With the same amount of transmission capacity, Group reorganisation activities have already led to achievement of considerable economies of scale. The Group objective for the next six months is sustaining expansion of activities with a further reduction in the incidence of this type of cost.

Traffic procurement costs: these refer to purchase of interconnection services from operators of fixed networks and carrying of calls by carriers mainly for the international routes and to mobile telephones, as well as ISP connection.

Advertising and promotion expenses: the increase is due to the change in the area of consolidation.

**Breakdown of sundry operating charges**

**Sundry operating charges are shown by item in the table below.**

| | 30 June 2001 | 30 June 2000 | Change |
|---|---|---|---|
| Excise licences and other concessions | 794 | 145 | 649 |
| Other taxes | 764 | 185 | 579 |
| Other minor expenses | 1.866 | 183 | 1.683 |
| **Total** | **3.424** | **513** | **2.911** |

## C) Financial income and charges

Financial income is analysed in the table below:

| | 30 June 2001 | 30 June 2000 | Change |
|---|---|---|---|
| **from securities shown under non-current assets which do not constitute equity investments** | | | |
| **Government bonds** | | | |
| Transaction profits | 106 | | 106 |
| Other | 468 | | 468 |
| **Total** | **574** | | **574** |
| **from securities shown under current assets which do not constitute equity investments** | | | |
| **Government bonds** | | | |
| Interest | 20.109 | | 20.109 |
| **Other Shares** | | | |
| Interest | 926 | | 926 |
| Other | 109 | 6 | 103 |
| **Total** | **21.144** | **6** | **21.138** |
| **income other than those mentioned above:** | | | |
| Interest receivable from banks | 2.029 | 800 | 1.229 |
| Unrealized exchange gains | 2.028 | 5 | 2.023 |
| Interests from customers | 2 | | 2 |
| Other financial income | 18.353 | 146 | 18.207 |
| **Total** | **22.412** | **951** | **21.461** |
| **Total** | **44.130** | **957** | **43.173** |

Financial income includes interest income accruing on Group liquidity. Other financial income refers to amounts accruing on swap contracts taken out by Tiscali Finance to cover fluctuations in interest rates.

Interest charges and other financial charges are shown in the table below.

| | 30 June 2001 | 30 June 2000 | Change |
|---|---|---|---|
| **Financial costs in relation to:** | | | |
| bonds | 9.905 | | 9.905 |
| bank overdrafts | 459 | 262 | 197 |
| bank loans | 221 | 45 | 176 |
| other liabilities | 7.934 | 930 | 7.004 |
| trade accounts | 36 | | 36 |
| other payables | 642 | 2 | 640 |
| **Other financial costs:** | | | |
| realized exchange losses | 68 | | 68 |
| losses on securities transactions | 16.402 | | 16.402 |
| bank commissions and expenses | 209 | 1 | 208 |
| other expenses | 2.386 | 402 | 1.984 |
| **Total** | **38.262** | **1.642** | **36.620** |

Financial charges totalling 38.2 million Euro refers mainly to charges on bonded loans and charges on swap operations connected with coverage of interest rates. The remaining financial charges refer to overdrafts on current accounts and interest on financial leasing operations.

## D) Adjustments in the value of financial assets

Revaluations, restoring of value and writedown of investments and other financial assets are shown and discussed above, in the part relating to financial fixed assets.

## E) Extraordinary income and charges

### Breakdown of extraordinary income

A breakdown of extraordinary income is shown below.

| | 30 June 2001 | 30 June 2000 | Change |
|---|---|---|---|
| Extraordinary gains: | | | |
| Miscellaneous gains | 1.910 | 284 | 1.626 |
| Revaluations (effects of change in accounting principles) | 285 | 100 | 185 |
| Other extraordinary gains | 2.332 | 21 | 2.311 |
| Total | 4.527 | 405 | 4.122 |
| Gains on sales of fixed assets: | | | |
| Gains on sales of intangible assets | 1 | | 1 |
| Gains on sales of tangible assets | 29 | | 29 |
| Other extraordinary gains | 1.946 | | 1.946 |
| **Total** | **1.976** | | **1.976** |
| **Total** | **6.503** | **405** | **6.098** |

A breakdown of extraordinary charges is shown below.

| | 30 June 2001 | 30 June 2000 | Change |
|---|---|---|---|
| Extraordinary losses: | | | |
| Expenses and losses of an extraordinary nature | 80.076 | 262 | 79.814 |
| Correction of prior year errors | 1.546 | 120 | 1.426 |
| Miscellaneous losses | 6.434 | 1.672 | 4.762 |
| Other extraordinary losses | 6.417 | 163 | 6.254 |
| Total | 94.473 | 2.217 | 92.256 |
| Losses on sales of fixed assets: | | | |
| Losses on sales of intangible assets | 40 | | 40 |
| Losses on sales of tangible assets | 131 | | 131 |
| Other extraordinary losses | 19 | | 19 |
| Total | 190 | | 190 |
| Taxes relating to prior years: | | | |
| Other taxes relative to prior years | 37 | | 37 |
| **Total** | **37** | | **37** |
| **Total** | **94.700** | **2.217** | **92.483** |

Extraordinary charges refers mainly to reorganisation costs sustained and to be sustained over the coming months in relation to the reorganisation plan. They relate to charges to be sustained for voluntary redundancies, charges for early withdrawal from contracts and elimination of activities.

## Other information

Employees are shown cumulatively by category below.

**Average number of employees**

| | 30 June 2001 | 30 June 2000 | 31 Dec 2000 |
|---|---|---|---|
| Factory workers | 3 | 2 | 33 |
| Intermediary workers | 460 | 5 | 867 |
| Office workers | 2.729 | 158 | 755 |
| Managers | 128 | 7 | 85 |
| **Total** | 3.320 | 172 | 1.740 |

## Lists

**List of shareholdings possessed directly and consolidated on a line by line basis.**

| Company name: | Head Office | Share Capital | % Quota held |
|---|---|---|---|
| **Subsidiaries:** | | | |
| Addcomm Ag | Munich | 7.500 | 100,00% |
| Best Engineering S.p.A | Turin | 775 | 60,00% |
| C D Telekomunikace sro | Prague | 18 | 80,00% |
| Energy Byte S.p.A | Milan | 950 | 55,00% |
| Excite Italia B.V | Amsterdam | 76 | 70,00% |
| Ideare S.p.A | Pisa | 516 | 60,00% |
| Informedia S.r.l | Rome | 52 | 100,00% |
| Liberty Surf Group S.A | Paris | 77.486 | 100,00% |
| Motorcity S.p.A. | Cagliari | 100 | 60,00% |
| Nets SA | Paris | 11.284 | 100,00% |
| Quinary S.p.A | Milan | 1.280 | 70,00% |
| STS S.r.l | Rome | 21 | 50% ( * ) |
| Tiscali Belgium Holding SA | Brussels | 62 | 100,00% |
| Tiscali Datacomm Ag (ex Datacomm AG) | Basle | 16.483 | 80,00% |
| Tiscali Finance SA | Brussels | 125 | 100,00% |
| Tiscali France SA (ex A Telecom SA) | Marseilles | 923 | 100,00% |
| Tiscali Germany Gmbh (ex Nikoma ) | Hamburg | 20.487 | 100,00% |
| Tiscali Telecomunicaciones SA | Madrid | 2.100 | 99,90% |
| World Online International N.V | Maarsen (Netherlands) | 125.522 | 99,50% |

**List of shareholdings possessed directly and consolidated on an equity basis.**

| Company Name | Head Office | Share Capital in euro/000 | % Quota held |
|---|---|---|---|
| Ariete Telemedia S.r.l. | Milan | ( * ) 52 | 40,00% |
| Gilla S.p.A. | Cagliari | 2.500 | 50,00% |
| FreeTravel S.p.A. | Milan | ( * ) 500 | 50,00% |

( * * ) Data at 31 December 2000

**List of shareholdings possessed directly and consolidated on a cost basis.**

| Company Name | Head Office | Share Capital | % Quota held |
|---|---|---|---|
| Andaledda S.p.A | Cagliari | ( ** )103 | 85% |
| Tiscali Czech Republic sro | Prague | 30 | 100% |
| Connect Software Inc. | S.Francisco (California) | ( * ) 54 | 100% |

( * * ) Data at 31 December 2000

**Companies indirectly held**

| Held By | Company Name | Country | % Quota held. |
|---|---|---|---|
| **World Online International N.V.** | | | |
| | CZ com s.r.o, CZ | Czech Rep. | 100,00% |
| | World Online A/S, DK | Denmark | 100,00% |
| | 12Move Aps Denmark, DK | Denmark | 100,00% |
| | World Online EPE, Greece | Grece | 100,00% |
| | World Online Sp.z.o.o., Poland | Poloni | 100,00% |
| | World Online Kft Hungary, H | Hungary | 100,00% |
| | World Online AS Norway, N | Norway | 100,00% |
| | World Online SA, E | Spain | 49,22% |
| | Ready Soft SA, E | Spain | 100,00% |
| | World Internet Online SL, E | Spain | 100,00% |
| | Map Telecom SL, E | Spain | 100,00% |
| | World Online Srl, I | Italy | 80,00% |
| | World Online GmbH, A | Austria | 100,00% |
| | Nacamar Internet Services GmbH, A | Austria | 100,00% |
| | World Online NV, B | Belgium | 100,00% |
| | World Online Holding SA, CH | Switzerland | 100,00% |
| | World Online SA, CH | Switzerland | 100,00% |
| | World Online GmbH, D | Germany | 100,00% |
| | Nacamar Data Communication GmbH, D | Germany | 100,00% |
| | Nacamar Sued-West GmbH, D | Germany | 100,00% |
| | 12Move Germany, D | Germany | 100,00% |
| | World Online France SA, F | France | 100,00% |
| | Nacamar France Sarl, F | France | 100,00% |
| | World Online Ltd., GB | United Kingdom | 100,00% |
| | Nacamar PLC | United Kingdom | 100,00% |
| | Telinco | United Kingdom | 100,00% |
| | Telinco Specialist Communication Ltd, GB | United Kingdom | 100,00% |
| | Telinco Ltd, GB | United Kingdom | 100,00% |
| | Telinco Internet Services Limited, GB | United Kingdom | 100,00% |
| | Telinco Management Services Limited, GB | United Kingdom | 100,00% |
| | Telinco Business Communications Ltd, GB | United Kingdom | 100,00% |
| | World Online UK Holdings PLC, UK | United Kingdom | 100,00% |
| | Nacamar Limited UK, UK | United Kingdom | 100,00% |
| | World Online Telecom Ltd, UK | United Kingdom | 100,00% |
| | Line One, UK | United Kingdom | 100,00% |
| | World Online SA, LUX | Luxemburg | 100,00% |
| | Nacamar Sarl, LUX | Luxemburg | 51,00% |
| | World Online BV, NL | Netherlands | 100,00% |
| | The Internet Plaza BV, NL | Netherlands | 100,00% |
| | Freemail BV, NL | Netherlands | 100,00% |
| | The Portal company BV, NL | Netherlands | 100,00% |
| | 12Move Netherlands, NL | Netherlands | 60,00% |
| | WOLStar BV, NL | Netherlands | 50,00% |
| | E-Trade bv, NL | Netherlands | 100,00% |
| | 12move VOF, NL | Netherlands | 60,00% |
| | Vodacom World Online Ltd., SA | South Africa | 60,00% |
| | World Online Merchandising LLC, USA | USA | 70,00% |
| | US Portal, USA | USA | 100,00% |
| | World Online Acquisition Corp, USA | USA | 100,00% |
| | Nacamar (Ireland) Limited, IRL | Ireland | 100,00% |

| Held by | Company name | Country | % Quota held |
|---|---|---|---|
| **Liberty Surf Group S.A.** | | | |
| | Film non stop Monsieur Cinema.com S.A. | France | 100% |
| | Liberty Surf S.A. | France | 100% |
| | Objectif Net S.A. | France | 100% |
| | Liberty Surf | Italy | 100% |
| | Liberty Contact S.A. | France | 50% |
| | CEIC SRL | France | 100% |
| | Praxitel S.A. | France | 51% |
| | Liberty Surf | Spain | 100% |
| | Respublica S.A. | France | 100% |
| | Liberty Surf AB | Sweden | 100% |
| | Liberty Surf Gmbh | Germany | 100% |
| | OVNI Web S.A. | France | 100% |
| | None Networks S.A. | France | 100% |
| | Liberty Surf Holding A.S. | Norway | 100% |
| | Cyber Press Publishing S.A. | France | 15,80% |
| | X-Stream Network Inc | USA | 100% |
| | Liberty Surf Network B.V. | Netherlands | 100% |
| | Intercall S.A. | France | 67% |
| **Nets S.A.** | | | |
| | Nets Broadband Ltd | Uk | 100% |
| | Nets Broadband S.A.U. | Spain | 100% |
| | Nets Broadband Gmbh | Germany | 100% |
| | Nets Broadband S.p.A | Italy | 90% |
| **Tiscali France S.A.** | | | |
| | A Telecom Enterprise S.A | France | 100% |
| | Trastel S.A. | France | 100% |
| | Taxiphone S.A. | France | 100% |
| | M.C.I S.A. | France | 100% |
| **Tiscali Germany Gmbh** | | | |
| | Tiscali GmbH | Germany | 100% |
| | SDI Informationstechnik GmbH | Germany | 100% |
| | Tiscali Games GmbH | Germany | 100% |
| | Brand Gate | Germany | 65% |
| | Time to Trade GmbH | Germany | 100% |
| | Finanzdirekt 24 | Germany | 60% |
| | Tiscali Voice GmbH | Germany | 100% |
| | Tiscali Technics GmbH | Germany | 100% |
| **Tiscali Holding Belgium S.A.** | | | |
| | Tiscali Belgium S.A. (ex Link Line) | Belgium | 99,99% |
| **Tiscali Telecomunicaciones S.A.** | | | |
| | Asepi S.A. | Spain | 100% |
| | Oem S.A. | Spain | 100% |

## Statement of source and application of funds (cash flows)

| Cash flows generated by operations | | 30 June 2001 | | 31 Dec 2000 |
|---|---|---|---|---|
| *Profits (losses) for the year* | | **(412.331)** | | **(181.387)** |
| *Adjustments to items which have no effect on liquidity:* | | | | |
| Depreciation | 223.908 | | 102.619 | |
| Employee severance accrued during the period | 2.134 | | 787 | |
| Employee severance paid during the period | (1.580) | | 174 | |
| Provisions to (application of) reserve for deferred taxes | | | (222) | |
| Losses (gains) on disposal of assets | (1.786) | | (447) | |
| Changes in current assets and liabilities: | | **(189.655)** | | **(78.476)** |
| Customers | (162.759) | | (152.973) | |
| Other receivables | (145.244) | | (49.394) | |
| Inventories | (8.571) | | (5.054) | |
| Accrued income and pre-paid expenses | 9.276 | | (45.693) | |
| Suppliers | 77.676 | | 178.268 | |
| Sundry payables | 184.766 | | 160.350 | |
| Accrued expenditure and deferred income | 34.545 | | 54.109 | |
| Tax liabilities | (33.638) | **178.727** | 53.293 | **295.817** |
| *Cash flows generated by operating activities* | | **(233.604)** | | **114.430** |
| **Cash flows generated by investment activities:** | | | | |
| Revenues from sale of technical assets | (88.934) | | (2.262) | |
| Acquisition of technical fixed assets | (100.261) | | (175.451) | |
| Increase in intangible assets | (682.425) | | (1.175.879) | |
| (Increase) decrease in shareholdings | 2.511 | **(869.109)** | (40.159) | **(1.393.751)** |
| **Cash flows generated by financing activities:** | | | | |
| Taking out of new loans | 77.468 | | 271.075 | |
| Repayment of loans | (68.929) | | (1.314) | |
| Other changes in shareholders' equity | 419.469 | | 2.251.383 | |
| Dividends distributed | | | | |
| Reduction (increase) in other fixed assets | 216 | | (9.431) | |
| Increase (reduction) in other medium/long-term liabilities | 68.205 | **496.429** | 25.817 | **2.537.530** |
| *Differences from conversion of financial statements in foreign currencies* | | **(9.584)** | | **7.039** |
| **Increase (decrease) in cash and current accounts** | | **(615.868)** | | **1.265.248** |
| **Opening cash and current accounts** | | **1.365.591** | | **100.343** |
| **Closing cash and current accounts** | | **749.723** | | **1.365.591** |

For the Board of Directors
The Chairman
Renato Soru

# Parent company half-yearly report
# 30 June 2001

| **Assets** | **30 June 2001** | **31 Dec 2000** | **30 June 2000** |
|---|---|---|---|
| **A) Due from shareholder for capital contributions to be paid** | | | |
| **Total due from shareholders for capital Contributions to be paid** | | | |
| **B) Non-current assets:** | | | |
| **I Intangible assets:** | | | |
| 1) formation and expansion | 10.367 | 12.233 | 13.875 |
| 2) costs for research, development and advertising | 5 | 8 | 502 |
| 3) industrial patents and rights to intellectual property | 949 | 991 | 745 |
| 4) concessions, licenses, trademarks and similar rights | 9.148 | 9.134 | 5.391 |
| 5) goodwill | 280 | 320 | 355 |
| 6) fixed assets in progress and advances | 6.187 | 2.178 | 7.962 |
| 7) other | 5.814 | 4.666 | 1.805 |
| **Total** | 32.750 | 29.530 | 30.635 |
| **II Fixed assets:** | | | |
| 1) land and buildings | | | |
| 2) plant and machinery | 5.962 | 2.182 | 1.932 |
| 3) industrial and commercial equipment | 1.184 | 1.096 | 1.031 |
| 4) other fixed assets | 2.670 | 2.323 | 1.829 |
| 5) assets in course of acquisition and payments on account | 1.953 | | |
| **Total**11.769 | 5.601 | 4.792 | |
| **III Financial assets:** | | | |
| *1) Investments in:* | | | |
| a) group companies | 2.941.185 | 2.256.713 | 503.309 |
| b) associated companies | 2.244 | 1.500 | 4.729 |
| c) other companies | 156 | 156 | 132 |
| 2) Loans receivables: | | | |
| 3) other securities | | | |
| **Total** | 2.943.585 | 2.258.369 | 508.170 |
| **Total non current assets** | **2.988.104** | **2.293.500** | **543.597** |

| Assets Balance Sheet | | | 30 June 2001 | 31 Dec 2000 | 30 June 2000 |
|---|---|---|---|---|---|
| **C) Current assets** | | | | | |
| **I Inventory:** | | | | | |
| 1) raw materials, supplies and consumable | | | 638 | 769 | 405 |
| 2) work in process and semifinished goods | | | | | |
| 3) work in progress on job orders | | | | | |
| 4) finished products and merchendise | | | | | |
| 5) down payments | | | | 1.572 | 585 |
| **Total** | | | 638 | 2.341 | 990 |
| **II Receivables:** | *due in more than one year:* | | | | |
| | **30 June 2001** | **12 Dec 2000** | | | |
| 1) from customers | | | 57.292 | 59.350 | 58.717 |
| 2) from group companies | 26.558 | | 71.769 | 59.879 | 25.767 |
| 3) due from associated companies | | | 480 | 49 | 65 |
| 4) due from parent companies | | | | | |
| 5) due from others | 226 | 220 | 12.470 | 12.371 | 17.456 |
| **Total** | 26.784 | 220 | 142.011 | 131.649 | 102.005 |
| **III Current financial assets:** | | | | | |
| 6) other securities | | | 9.251 | 9.251 | |
| **Total** | | | 9.251 | 9.251 | |
| **IV Liquid assets:** | | | | | |
| 1) cash at banks and post offices | | | 2.145 | 1.409 | 2.089 |
| 2) cheques | | | | | |
| 3) cash and cash equivalentes on hand | | | 35 | 5 | 8 |
| **Total** | | | 2.180 | 1.414 | 2.097 |
| Total current assets | | | 154.080 | 144.655 | 105.092 |
| **D) Prepayments and accrued income** | | | | | |
| *Prepaiments and accrued income* | | | 5.522 | 5.923 | 15.691 |
| **Total prepayments and accrued assets** | | | 5.522 | 5.923 | 15.691 |
| **Total assets** | | | 3.147.706 | 2.444.078 | 664.380 |

| **Liabilities** | **30 June 2001** | **31 Dec 2000** | **30 June 2000** |
|---|---|---|---|
| **A) Shareholders' equity:** | | | |
| I Share capital | 1.771 | 1.573 | 863 |
| II Share premium reserve | 2.850.024 | 2.392.340 | 582.661 |
| III Revaluation reserve | | | |
| IV Legal reserve | | | |
| V Reserve for treasury stock held | | | |
| VI Statutory reserve | | | |
| VII *Other reserves:* | | | |
| - Extraordinary reserve | | | |
| - Reserve for the equity accounting for investments | | | |
| - Other | | | |
| VIII Retained earnings (losses) | (106.538) | (5.537) | (5.538) |
| IX Net profit (loss) for the year | (248.119) | (101.002) | (14.800) |
| **Total shareholders' equity** | 2.497.138 | 2.287.374 | 563.186 |
| **B) Reserves for risks and chargers:** | | | |
| 1) for pension and similar obligations | | | |
| 2) for taxation | | | |
| 3) other | 230.065 | 12.490 | |
| **Total reserves for risks and charges** | 230.065 | 12.490 | |
| **C) Staff leaving indemnity** | | | |
| | 1.275 | 743 | 419 |
| *due in more than one year* | | | |
| **D) Payables:** **30 June 2001** **31 Dec 2000** | | | |
| 1) convertible bonds | | | |
| 3) due to banks: | 6.750 | 11.129 | 13.932 |
| 4) due to the other financiers: | | 6 | |
| 5) advances | | | |
| 6) trade accounts | 60.445 | 68.925 | 74.683 |
| 7) payables represented by negotiable intstruments | | | |
| 8) due to group companies | 347.622 | 57.927 | 6.325 |
| 9) due to associated companies | 56 | 1.050 | 1.050 |
| 10) due to parent company | | | |
| 11) taxes payable | 507 | 414 | 311 |
| 12) due to social security authorities | 404 | 336 | 199 |
| 13) other payables | 1.962 | 1.037 | 1.129 |
| **Total payables** | 417.746 | 140.824 | 97.629 |
| **E) Accrued liabilities and deferred income** | | | |
| Accrued liabilities and defered income | 1.482 | 2.647 | 3.146 |
| Premiums on loans | | | |
| **Total accrued liabilities and deferred income** | 1.482 | 2.647 | 3.146 |
| **Total liabilities** | 3.147.706 | 2.444.078 | 664.380 |

| Contingencies | 30 June 2001 | 31 Dec 2000 | 30 June 2000 |
|---|---|---|---|
| **A) Guarantees given:** | | | |
| 1) to third parties: | | | |
| a) sureties | 250.026 | 250.716 | 5.105 |
| b) endorsements | | | |
| c) other personal guarantees | | | |
| d) real guarantees | | | |
| **Total guarantees given** | 250.026 | 250.716 | 5.105 |
| **B) Other contingencies:** | | | |
| Lease committments | 45.353 | 45.881 | 30.673 |
| Notes payables not yet expired | | | |
| Raw materials and finished products by third parties | | | |
| Securities by third parties | | | |
| Warrants | 7.404 | 10.577 | 10.579 |
| other contingencies | 297 | 55.243 | 28.809 |
| **Total other contingencies** | 53.054 | 111.701 | 70.061 |
| **C) Guarantees received:** | | | |
| 1) from group companies: | | | |
| a) sureties | 6.131 | 6.131 | 826 |
| b) endorsements | | | |
| c) other personal guarantees | | | |
| d) real guarantees | | | |
| **Total guarantees received** | 6.131 | 6.131 | 826 |
| **Total contingencies** | 309.211 | 368.548 | 75.992 |

| **Profit and loss** | **30 June 2001** | **31 Dec 2000** | **30 June 2000** |
|---|---|---|---|
| **A) (+) Value of production:** | | | |
| 1) revenue from sales and services: | 60.422 | 120.089 | 50.153 |
| - other income and revenues: | 1 | 892 | 2.534 |
| **Total** | 60.423 | 120.981 | 52.687 |
| **B) (-) Production costs:** | | | |
| 6) raw, ancillary and consumable materials and goods: | -5.864 | -6.758 | -3.235 |
| 7) services: | -44.774 | -117.195 | -50.820 |
| 8) use of third party assets: | -5.958 | -9.734 | -3.806 |
| 9) personnel: | | | |
| a) wages and salaries | -7.943 | -9.963 | -3.795 |
| b) social contributions | -913 | -965 | -355 |
| c) staff leaving indemnity | -592 | -608 | -235 |
| e) other costs | | -27 | -3 |
| 10) depreciation, amortization and writedowns: | | | |
| a) amortization of intangible assets | -3.923 | -5.892 | -2.554 |
| b) depreciation of fixed assets | -889 | -966 | -430 |
| c) other writedowns of non-current assets | | | |
| d) writedowns of receivables included in working capital and liquid assets | -3.099 | -5.379 | -1.033 |
| 11) changes in inventory of raw, ancillary and consumable materials and goods | -131 | -199 | -563 |
| 12) provisions for risks | -222.312 | -12.490 | |
| 13) other provisions | | | |
| 14) other operating costs | -387 | -739 | -302 |
| **Total** | -296.785 | -170.915 | -67.131 |
| | | | |
| **(A - B)** Difference between value of production and production costs | -236.362 | -49.934 | -14.444 |
| **C) Fianacial income and charges:** | | | |
| *15) (+) income from investments:* | | | |
| a) from group companies | 26 | | |
| *16) (+)* other financial income: | | | |
| a) from receivables shown under non-current assets: | | | |
| from third parties | | | |
| from associated companies | | 1.107 | |
| c) from current assets securities | 251 | 212 | |
| d) income other than those mentioned above: | | | |
| from third parties | 438 | 1.166 | 596 |
| from associated companies | | | 728 |
| *17) (-) interest and other financial charges:* | | | |
| a) from third parties | -1.006 | -982 | -293 |
| b) from associated companies | -6.393 | -2.613 | |
| **Total** | -6.684 | -1.110 | 1.031 |

| Income (segue) | | 30 June 2001 | 31 Dec 2000 | 30 June 2000 |
|---|---|---|---|---|
| **D) Adjustments to the value of financial assets** | | | | |
| *18)* | *(+) revaluation:* | | | |
| *19)* | *(-) writedowns:* | | | |
| | a) of equity investments | | -46.118 | |
| **Total adjustments** | | | -46.118 | |
| **E) Extraordinary income and charges** | | | | |
| *20)* | *(+) extraordinary income:* | | | |
| | a) income | 1.512 | 300 | 284 |
| | b) gains on disposal of fixed assets | 1 | 1.938 | |
| *21)* | *(-) extraordinary charges:* | | | |
| | a) charges | -6.586 | -2.062 | -1.672 |
| | b) losses on disposals of fixed assets | | -9 | |
| | c) taxes relating to previous periods | | -4.007 | |
| **Total extraordinary items** | | -5.073 | -3.840 | -1.388 |
| | | | | |
| Profit (loss) before taxes | | -248.119 | -101.002 | -14.801 |
| 22) | (-) income taxes for the year: | s | | |
| **Total income taxes** | | | | |
| 23) | **Net profit (loss) for the year** | -248.119 | -101.002 | -14.801 |

For the Board of Directors
The Chairman
Renato Soru

# Notes to the financial statements
# of the parent company
# at 30 June 2001

## Form and contents of the half-yearly report

### 1) Compilation criteria

The following half-yearly statements comprise the balance sheet, the income statement and the accompanying notes. The half-yearly accounts are present in such a way as to allow comparison with the previous year. Moreover, pursuant to Legislative Decree No 127 of 1991, the consolidated balance sheet has been prepared and presented together with the balance sheet of Tiscali S.p.A. for the financial year.

### 2) Valuation

**a) General criteria**

The criteria used in the preparation of the financial statements conform to those stipulated by aforementioned current regulations on the subject. Such criteria have been integrated and interpreted by the accounting principles issued by the National Accounting Association (Consiglio Nazionale dei Dottori Commercialisti e dei Ragionieri). The criteria used during the financial year referred to herein do not vary from those applied for the preparation of the financial statements for the preceding year, in particular with regard to valuations and continuation of the same principles. The valuation of the individual entries in the accounts has been inspired by the general criteria of prudence and accrual, on the assumption that the company will continue as a going concern. For the purposes of making entries, prevalence was given to the economic substance of the operations rather than their legal form. Financial assets were only entered into accounts after settlement. Profits were only included if collected before the end of the financial year, whereas account has been taken of contingencies and losses even if they only became known at a later date. Miscellaneous items entered under a single balance-sheet entry have been evaluated individually. Assets destined for long-term use have been classified as intangible fixed assets.

**b) Adjustments to value and recovery of value**

The value of tangible and intangible assets with limited use over time has been decreased using depreciation. Writedown of these assets and other asset items takes place each time there is a long-term loss of value; the original value is restored when it is felt that the reasons underlying the previous writedown no longer exist. The analytical methods of depreciation and writedown used are described below in the notes.

**c) Revaluations**

To date, no revaluations have been performed.

**d) Exceptions**

No exceptions have been made in this financial year or in the past to the valuation criteria laid down by the law on financial statements and consolidated financial statements.

**The most important principles and criteria are set out below.**

**e) Intangible assets**

Formation and expansion costs are entered in the appropriate item under assets and amortised over a period of not more than 5 years, starting from the year in which they were incurred.
R&D and advertising costs are normally charged to the income statement for the year in which they are incurred, with the exception of new costs relating to development of new products, for which R&D and advertising costs are entered in the specific item under assets and amortised over a period of five years, starting from the year when they were incurred, in view of their long-term use.
Design patents and utilisation of inventions are entered at purchase cost and have been systematically amortised depending on the contractual period, but not in excess of five years starting from the year in which they were incurred.
Concessions, trademarks, licences and similar rights are entered at purchase cost and have been systematically

amortised depending on the contractual period, but not in excess of five years starting from the year in which they were incurred
Goodwill is entered at the cost sustained and amortised over five years.
Extraordinary maintenance costs and improvements of third-party assets are entered under "others" and amortised systematically for the lesser between the period of expected future usefulness and the period of the leasing contract.

**f) Tangible fixed assets and depreciation**
Tangible assets are entered at purchase or production cost, inclusive of accessory charges.
Depreciation is calculated with reference to cost, on a straight-line basis depending on the residual possibility of use.
Entry of financial leasing operations for capital goods reflects interpretation of current regulations thereon, i.e. accounting of leasing payments on an accruals basis, according to the period of reference.
The costs of ordinary maintenance are charged in full to the income statement. Maintenance costs of an incremental nature are charged to the asset to which they refer and amortised on the basis of the remaining useful life of the asset itself.

The depreciation rates used, unchanged from the previous year, are set out below:

| | |
|---|---|
| **plant and machinery** | |
| general plant and machinery | 20% |
| minor general plant | 12% |
| specific plant and machinery | 20% |
| other plant and machinery | 20% |
| **industrial and commercial equipment** | |
| network and other specific equipment | 20% |
| other industrial and commercial equipment | 20% |
| miscellaneous and minor equipment | 25% |
| **other assets** | |
| furniture, furnishings and office machines | 12% |
| electronic office machines and computers | 20% |
| vehicles | 25% |
| other assets | 20% |

Depreciation is reduced by half during the financial year in which assets are purchased, in the belief that this represents a reasonable approximation of the timing of purchases over the course of the year.

**g) Financial investments**
**Shareholdings in subsidiary and affiliated companies**
Investments in subsidiary and associated companies are entered on a cost basis. The value of entry on the balance sheet is determined on the basis of the purchase or subscription price and the cost is adjusted to take long-term losses in value into account.
Financial assets in the form of receivables are entered at their presumed realisable value.

**h) Inventories**
**raw material, work in progress and finished products**
Inventories, formed mainly of goods destined for resale, are stated at the lesser between purchase cost, calculated using the method of weighted average, and the presumed realisation value according to market trends.

**i) Receivables**
Receivables are entered at their presumed realisation value, calculated by direct writedown of the receivables themselves, and include amounts relating to invoices to be issued for services supplied during the year.

**k) Financial assets not classified as fixed assets**
Securities are valued at purchase cost or, if lower, at the realisation value based on market trends for listed investments.

**l) Accruals and deferrals**
Il principio della competenza temporale viene realizzato per mezzo della appostazione di Ratei e Risconti attivi e passivi.

**m) Reserves for risks and charges**
Reserves are allocated in the liabilities section of the balance sheet in order to cover potential losses which are deemed probable according to realistic estimates of their entity.

**n) Income Tax**
The company did not accrue tax liabilities for income tax during the year, since there was no taxable income.

**o) Employees severance reserve**
Provisions correspond with the full amount accrued in favour of employees under current laws.

**p) Payables**
All payables are entered at discharge value.

**q) Risks, commitments, guarantees**
Commitments and guarantees provided and received are entered under the memorandum accounts at their contractual value.
Guarantees refer to guarantees issued in favour of third parties in application of contractual requirements.
Commitments refer to obligations deriving from contracts already signed but still to be executed and financial and operative leasing payments relating to future years.

**r) Entry of revenues**
Revenues from the sale of services are entered on the basis of the traffic effectively produced at the end of the period. Financial revenues are entered on an accruals basis.

**s) sums in foreign currency**
Receivables and payables in non-EU currencies have been aligned to the year-end exchange rate by entry on the balance sheet of an appropriate exchange risks reserve. Profits and losses resulting from conversion have been credited or debited to the income statement.

## Analysis of balance-sheet items

**Attivo**

**B) Fixed assets**

**I - Intangible assets**

The historic cost of the intangible assets at the beginning and at the end of the period is as follows:

| Description | Cost | 30 June 2001 (Amortisation) | Net Book Value | Cost | 31 Dec 2000 (Amortisation) | Net Book Value |
|---|---|---|---|---|---|---|
| start-up and expansion costs | 18.664 | (8.297) | 10.367 | 18.664 | (6.431) | 12.233 |
| costs forresearch, development and advertising | 26 | (21) | 5 | 26 | (18) | 8 |
| industrial patents and rights to intellectual property | 1.240 | (291) | 949 | 1.160 | (169) | 991 |
| concessions, licenses, trademarks and similar rights | 11.655 | (2.507) | 9.148 | 10.475 | (1.341) | 9.134 |
| goodwill | 400 | (120) | 280 | 400 | (80) | 320 |
| assets in course of acquisition and payments on account | 6.187 | | 6.187 | 2.178 | | 2.178 |
| other | 7.260 | (1.446) | 5.814 | 5.387 | (721) | 4.666 |
| **Total** | **45.432** | **(12.682)** | **32.750** | **38.290** | **(8.760)** | **29.530** |

Below is a summary of the changes which occurred in these items over the period:

| Description | Balance 31 Dec 2000 | Increases | Revaluations (Devaluations) | Others Changes | (Amortization) | Balance 30 June 2001 |
|---|---|---|---|---|---|---|
| formation and expansion costs | 12.233 | | | | (1.866) | 10.367 |
| costs forresearch, development and advertising | 8 | | | | (3) | 5 |
| industrial patents and rights to intellectual property | 991 | 80 | | | (122) | 949 |
| concessions, licenses, trademarks and similar rights | 9.134 | 1.147 | | 32 | (1.165) | 9.148 |
| goodwill | 320 | | | | (40) | 280 |
| assets in course of acquisition and payments on account | 2.178 | 6.053 | | (2.043) | (1) | 6.187 |
| other | 4.666 | 1.223 | | 651 | (726) | 5.814 |
| **Total** | **29.530** | **8.503** | | **(1.360)** | **(3.923)** | **32.750** |

Formation and expansion costs are shown below.

| Set-up and expansion costs | 30 June 2001 | 31 Dec 2000 | Change |
|---|---|---|---|
| set-up costs | | 1 | (1) |
| costs of increase of share capital | 4.846 | 5.579 | (733) |
| new plant start-up costs | 5.039 | 6.653 | (1.614) |
| others | 482 | | 482 |
| **Total** | **10.367** | **12.233** | **(1.866)** |

Formation and expansion costs, mainly arising in 1999, include setting-up costs of activities, regarding the network realisation process (installation and activation of the switchboards), as well as the "Tiscali Freenet" launching campaign.
"Design patents and utilisation of inventions" mainly includes application software acquired "sine die" and customised for exclusive use by Tiscali Spa. The increase relative to the period is due to the purchase of software for the development of new internet services.

The variation in the item "concessions, licenses, trademarks and similar" mainly consists of the purchase of software licenses and related charges. In particular, the investments refer to access network and portal management software (mainly management of banners, voice over IP and investments in the search engine).

The item "Fixed assets in progress and payments on account" mainly includes, for a total amount of 3.3 million Euro, portions of costs relating to software licenses and other services acquired in order to develop a single technological and management platform for the services offered by Tiscali group, now in progress; due to this fact, the process of amortisation has been suspended. The related decreases ('other changes'), for nearly 2 million Euro, are due to the allocation of costs suspended in the previous year to the final accounts.

The item “others" mainly refers to the investments made for upgrading technical sites and the operating and administrative offices.
The remaining amount of nearly 1,2 million Euro refers to intangible assets of the "Voltrade" company branch (except for the goodwill, included in the specific item).

### II - Fixed assets

The changes which occurred in the items for the period, with regard to the historic cost of the fixed assets, are shown below:

| **Cost** | **Balance 31 Dec 2000** | **Increases** | **Revaluations (Devaluations)** | **Others Changes** | **(Disposal)** | **Balance 30 June 2001** |
|---|---|---|---|---|---|---|
| *plants and machinery* | | | | | | |
| general plant and machinery | | 83 | | 940 | | 1.023 |
| specific plant and machinery | 799 | 3.770 | | (799) | | 3.770 |
| other plant and machinery | 1.968 | 384 | | (110) | | 2.242 |
| | 2.767 | 4.237 | | 31 | | 7.035 |
| *industrial and commercial equipment* | | | | | | |
| network equipment and other specific equipment | 656 | 163 | | (656) | | 163 |
| other equipment | 485 | 89 | | 1.010 | | 1.584 |
| minor equipment | 478 | | | (478) | | |
| | 1.619 | 252 | | (124) | | 1.747 |
| *other assets* | | | | | | |
| office furniture | | 267 | | 908 | | 1.175 |
| electronic machinery | | 243 | | 1.645 | | 1.888 |
| other goods | 2.628 | 105 | | (2.460) | | 273 |
| | 2.628 | 615 | | 93 | | 3.336 |
| *assets in course of acquisition and payments on account* | | | | | | |
| fixed assets under construction | | 1.953 | | | | 1.953 |
| | | 1.953 | | | | 1.953 |
| | **7.014** | **7.057** | | | | **14.071** |

Investments in fixed assets mainly consist of technical equipment destined for internal networks and transmission network equipment for sites, servers, personal computers and call centre equipment.
Increases derive mainly from the purchase of server machines on which the group company information systems currently run (approximately 3 million Euro) and equipment for management of telephones systems on the Internet (0.6 million Euro).
Fixed assets in progress include equipment for telephone switchboards acquired from a group company which have still to be placed in operation.

The table below shows changes in depreciation reserves during the year.

| **Depreciation** | **balance 31 Dec 2000** | **Depreciation** | **Write downs** | **Other** | **(Disposals)** | **Balance 30 June 2001** |
|---|---|---|---|---|---|---|
| *plants and machinery* | | | | | | |
| - general plant | | 65 | | 130 | | 195 |
| - and machinery | | | | | | |
| - specific plant and machinery | 185 | 189 | | (185) | | 189 |
| - other plant and machinery | 400 | 204 | | 85 | | 689 |
| | 585 | 458 | | 30 | | 1.073 |
| *industrial and commercial equipment* | | | | | | |
| - network equipment and other specific equipment | 523 | 8 | | (522) | | 9 |
| - other equipment | | 154 | | 400 | | 554 |
| - minor equpment | | | | | | |
| | 523 | 162 | | (122) | | 563 |
| *other assets* | | | | | | |
| - office furniture | | 63 | | 85 | | 148 |
| - electronic machinery | | 177 | | 274 | | 451 |
| - other goods | 305 | 29 | | (267) | | 67 |
| | 305 | 269 | | 92 | | 666 |
| | **1.413** | **889** | | | | **2.302** |

Changes in the net book value of fixed assets are shown below.

| **Net value** | **Balance 31 Dec 2000** | **Increases** | **Revaluations and other** | **(Depreciations and write downs)** | **(Disposal)** | **Balance 30 June 2001** |
|---|---|---|---|---|---|---|
| *plants and machinery* | | | | | | |
| - general plant and machinery | | 83 | 810 | -65 | | 828 |
| - specific plant and machinery | 614 | 3.770 | -614 | -189 | | 3.581 |
| - other plant and machinery | 1.568 | 384 | -195 | -204 | | 1.553 |
| | **2.182** | **4.237** | **1** | **-458** | | **5.962** |
| *industrial and commercial equipment* | | | | | | |
| - network equipment and other specific equipment | 133 | 163 | -134 | -8 | | 154 |
| - other equipment | 485 | 89 | 610 | -154 | | 1.030 |
| - minor equipment | 478 | | -478 | | | |
| | **1.096** | **252** | **-2** | **-162** | | **1.184** |
| *other assets* | | | | | | |
| - office furniture | | 267 | 823 | -63 | | 1.027 |
| - electronic machinery | | 243 | 1.371 | -177 | | 1.437 |
| - other goods | 2.323 | 105 | -2.193 | -29 | | 206 |
| | **2.323** | **615** | **1** | **-269** | | **2.670** |
| *fixed assets in progress and advances* | | | | | | |
| - fixed assets in progress | | 1.953 | | | | 1.953 |
| | | 1.953 | | | | 1.953 |
| | **5.601** | **7.057** | | **-889** | | **11.769** |

**III - Financial Assets**

**I - Shareholdings**

At 30 June, 2001, this item included investments in subsidiary companies totalling 2,941.2 million Euro, investments in associated companies totalling 2.2 million Euro and investments in other companies totalling 0.2 million Euro.

The tables below show the balance at 30 June, 2001, and changes compared with the previous year, together with a list of the investments possessed by the company in subsidiary and associated companies in accordance with art. 2427, point 5, of the Italian Civil Code.

## Balance

| Subsidiaries | Cost | 30 June 2001 Reval.(Deval.) | B/S Value | Cost | 31 Dec 2000 Reval.(Deval.) | B/S Value |
|---|---|---|---|---|---|---|
| Addcomm Ag | 2.528 | | 2.528 | - | | - |
| Best Engineering S.p.A. | 5.644 | | 5.644 | 5.644 | | 5.644 |
| C D Telekomunikace sro | 20.372 | | 20.372 | 20.372 | | 20.372 |
| Energy Byte S.p.A. | 523 | | 523 | 523 | | 523 |
| Excite Italia B.V. | 27.000 | | 27.000 | - | | - |
| Ideare S.p.A. | 6.745 | | 6.745 | 6.745 | | 6.745 |
| Informedia S.r.l. | 558 | (101) | 457 | 558 | (101) | 457 |
| Liberty Surf | 596.540 | | 596.540 | - | | - |
| Motorcity S.p.A. | 500 | | 500 | 500 | | 500 |
| Nets SA | 17.720 | | 17.720 | 17.720 | | 17.720 |
| Quinary S.p.A. | 24.292 | | 24.292 | 23.559 | | 23.559 |
| STS S.r.l. | 3.228 | | 3.228 | 3.228 | | 3.228 |
| Tiscali Belgium SA (Ex Link Line) | | | | - | | - |
| Tiscali Belgium Holding SA | 57 | | 57 | 57 | | 57 |
| Tiscali Datacomm Ag (ex Datacomm AG) | 63.682 | (3.861) | 59.821 | 63.682 | (3.861) | 59.821 |
| Tiscali Finance SA | 125 | | 125 | 125 | | 125 |
| Tiscali France SA (ex A Telecom SA) | 121.365 | (25.494) | 95.871 | 121.365 | (25.494) | 95.871 |
| Tiscali Germany Gmbh (ex Nikoma) | 283.475 | (16.662) | 266.813 | 283.475 | (16.662) | 266.813 |
| Tiscali Telecomunicaciones SA | 2.100 | | 2.100 | 2.100 | | 2.100 |
| World Online International N.V. | 1.809.695 | | 1.809.695 | 1.752.051 | | 1.752.051 |
| Andaledda S.p.A. | 88 | | 88 | 88 | | 88 |
| Tiscali Czech Republic sro | 39 | | 39 | 39 | | 39 |
| Connect Software Inc. | 1.027 | | 1.027 | 1.000 | | 1.000 |
| | **2.987.303** | **(46.118)** | **2.941.185** | **2.302.831** | **(46.118)** | **2.256.713** |

| Affiliated companies | Cost | 30 June 2001 Reval.(Deval.) | B/S Value | Cost | 31 Dec 2000 Reval.(Deval.) | B/S Value |
|---|---|---|---|---|---|---|
| Ariete Telemedia S.r.l. | 744 | - | 744 | - | - | - |
| Gilla S.p.A. | 1.250 | - | 1.250 | 1.250 | - | 1.250 |
| FreeTravel S.p.A. | 250 | - | 250 | 250 | - | 250 |
| | **2.244** | **-** | **2.244** | **1.500** | **-** | **1.500** |

| Other companies | Cost | 30 June 2001 Reval.(Deval.) | B/S Value | Cost | 31 Dec 2000 Rival.(Sval.) | B/S Value |
|---|---|---|---|---|---|---|
| Crs4 | 126 | - | 126 | 126 | - | 126 |
| Consorzio Green Management | 5 | - | 5 | 5 | - | 5 |
| Mix S.r.l. | 1 | - | 1 | 1 | - | 1 |
| Stud Soc. Consortile | 15 | - | 15 | 15 | - | 15 |
| Nets Broadband S.p.A | 9 | - | 9 | 9 | - | 9 |
| | **156** | **-** | **156** | **156** | **-** | **156** |

**Changes**

Changes in investments over the period are listed in the table below:

| Subsidiaries | Balance 31 Dec 2000 | Increases | (Disposals) | Reval.(Deval.) | Other changes | Balance 30 June 2001 |
|---|---|---|---|---|---|---|
| Addcomm Ag | - | 2.528 | | | | 2.528 |
| Best Engineering S.p.A. | 5.644 | | | | | 5.644 |
| C D Telekomunikace sro | 20.372 | | | | | 20.372 |
| Energy Byte S.p.A. | 523 | | | | | 523 |
| Excite Italia B.V. | - | 27.000 | | | | 27.000 |
| Ideare S.p.A. | 6.745 | | | | | 6.745 |
| Informedia S.r.l. | 457 | | | | | 457 |
| Liberty Surf | - | 596.540 | | | | 596.540 |
| Motorcity S.p.A. | 500 | | | | | 500 |
| Nets SA | 17.720 | | | | | 17.720 |
| Quinary S.p.A. | 23.559 | 733 | | | | 24.292 |
| STS S.r.l. | 3.228 | | | | | 3.228 |
| Tiscali Belgium Holding SA | 57 | | | | | 57 |
| Tiscali Datacomm Ag (ex Datacomm AG) | 59.821 | | | | | 59.821 |
| Tiscali Finance SA | 125 | | | | | 125 |
| Tiscali France SA (ex A Telecom SA) | 95.871 | | | | | 95.871 |
| Tiscali Germany Gmbh (ex Nikoma) | 266.813 | | | | | 266.813 |
| Tiscali Telecomunicaciones SA | 2.100 | | | | | 2.100 |
| World Online International N.V. | 1.752.051 | 57.644 | | | | 1.809.695 |
| Andaledda S.p.A. | 88 | | | | | 88 |
| Tiscali Czech Republic sro | 39 | | | | | 39 |
| Connect Software Inc. | 1.000 | 27 | | | | 1.027 |
| | **2.256.713** | **684.472** | | | | **2.941.185** |

Investments increased compared with 31 December, 2000, by 684,472,000 Euro (1,325 million Lire). This increase is linked to the purchase operations concluded in the first half of 2001 of Addcomm Ag, Excite Italia B.V. and Liberty Surf Group S.A., as well as conclusion of the public exchange offer launched in November, 2000, on all World Online shares.
A controlling stake in AddCom A.G., one of Germany's leading Internet Service Providers, was obtained in December, 2000. The operation was concluded in March, 2001, via issuing of 1,532,887 new Tiscali shares of a total value of 1.5 million Euro.
In February, 2001, Tiscali concluded a strategic partnership agreement with Excite@Home. Under the terms of the agreement, Tiscali purchased 70% of Excite Italia BV, a Dutch company with its operational headquarters in Italy and owner of one of the main Italian portals. Excite@home retains a 30% stake. The total investment was 27 million Euro, of which 23.4 million by way of an increase in share capital in Excite Italia.
Acquisition of Liberty Surf Group S.A., one of the leading companies in the French media and Internet sector, was concluded in March, 2001, through an agreement with Europ@web, an Arnault Group company, and Eijsvogel, which held a 72.9% stake in the share capital of Liberty Surf in equal shares.
According to the agreement, Europ@web and Eijsvogel granted Tiscali 23,353,988 Liberty Surf shares each in exchange for 24,354,874 newly issued Tiscali shares and sold 10,008,852 Liberty Surf shares each to Tiscali, receiving a total payment of 142,125,698,40 Euro.
Tiscali also launched a public purchase and exchange offer on the remaining Liberty Surf shares in circulation, guaranteeing the same financial terms contemplated for the controlling shareholders. The offer, launched on 22 March, 2001, and concluded on 27 April, 2001, allowed Tiscali to increase its stake in Liberty Surf to 94.5%. Following the operation, Tiscali shares were admitted for dealing on the Nouveau Marché of the Paris Stock Exchange on 18 June, 2001.

At the end of the period of the public exchange offer, launched in November, 2000, on all World Online shares, Tiscali possessed 278,772,154 shares on 6 December, 2000, equal to a 96.5% stake in capital. In exchange for these shares, Tiscali issued and allocated 136,347,460 shares. Following acceptance of the late applications for the offer, up until 29 December, 2000, 6,388,659 World Online shares were exchanged against 3,124,693 Tiscali shares. Finally, during the period until 26 January, 2001 (further period of acceptance for late applications), 2,172,832 World Online shares were exchanged with 1,062,732 Tiscali shares. In total, at the end of the period, Tiscali possessed a 99.5% stake in World Online share capital.

The change in the book value of subsidiary Quinary S.p.A. is due to subscription of the increase in share capital, for an amount of 733,000,000 Euro (around 1,415 million Lire.), resolved by the extraordinary shareholders' meeting of the associated company in June, 2001.

Further information and comments on the major shareholdings held by Tiscali S.p.A. at 30 June, 2001, are contained in the management report.

| **Affiliated Companies** | **Balance 31 Dec 2000** | **Increases** | **(Disposals)** | **Reval.(Deval)** | **Other changes** | **Balance 30 June 2001** |
|---|---|---|---|---|---|---|
| Ariete Telemedia S.r.l. | | 744 | | | | 744 |
| Gilla S.p.A. | 1.250 | | | | | 1.250 |
| FreeTravel S.p.A. | 250 | | | | | 250 |
| | **1.500** | **744** | | | | **2.244** |

The increase in the period is due to acquisition in February, 2001, of a 40% stake in the share capital of Ariete Telemedia S.r.l., which operates in the production of Internet contents in the field of medicine. The remaining 60% in capital is held by the EDM publishing group. Through this partnership, Tiscali, in addition to strengthening its presence in the Internet content sector, will be able to exploit its technological resources and penetrate the Internet market, offering the public an integrated system of contents and services at the very forefront of the market.
The value of the investments in Gilla S.p.A. , set up in 1999 to offer Directory telephone services to the public, and in Freetravel S.p.A., set up in March, 2000, for online sale of tickets and holiday packages, remain unchanged compared with the previous year.

| **Other Companies** | **Balance 31 Dec 2000** | **Increases** | **(Disposals)** | **Reval.(Deval)** | **Other changes** | **Balance 30 June 2001** |
|---|---|---|---|---|---|---|
| Crs4 | 126 | | | | | 126 |
| Consorzio Green Management | 5 | | | | | 5 |
| Mix S.r.l. | 1 | | | | | 1 |
| Stud Soc. Consortile | 15 | | | | | 15 |
| Nets Broadband S.p.A. | 9 | | | | | 9 |
| | **156** | | | | | **156** |

Tiscali owns a 10% stake in Nets Broadband, while the remaining 90% is held by Nets S.A., a wholly owned subsidiary of Tiscali Spa. Tiscali therefore indirectly owns a 100% stake in Nets Broadband.

## Additional Information

### Investments in Subsidiaries

| Company Name | Head-Office | Share Capital | Shareholders Equity | Profit (Loss) | % held | Carrying value |
|---|---|---|---|---|---|---|
| Addcomm Ag | Munich | 7.500 | (2.605) | (2.605) | 100,00% | 2.528Turin |
| Best Engineering S.p.A. | Torino | 775 | 712 | (69) | 60,00% | 5.644 |
| C D Telekomunikace sro | Pragu | 18 | (717) | (104) | 80,00% | 20.372 |
| Energy Byte S.p.A. | Milan | 950 | 339 | (163) | 55,00% | 523 |
| Excite Italia B.V. | Amsterdam | 76 | 15.764 | (1.406) | 70,00% | 27.000 |
| Ideare S.p.A. | Pisa | 516 | 2.581 | (235) | 60,00% | 6.745 |
| Informedia S.r.l. | Rome | 52 | (142) | (219) | 100,00% | 457 |
| Liberty Surf Group S.A. | Paris | (*) 77.486 | (*) 467.137 | (*) (127.776) | 94,50% | 596.540 |
| Motorcity S.p.A. | Cagliari | 100 | 164 | (45) | 60,00% | 500 |
| Nets SA | Paris | (*) 11.284 | (*) 3.493 | (*) (3.780) | 100,00% | 17.720 |
| Quinary S.p.A. | Milan | 1.280 | 1.358 | (65) | 70,00% | 24.292 |
| STS S.r.l. | Rome | 21 | 320 | (262) | 50,00% | 3.228 |
| Tiscali Belgium Holding SA | Brussels | (*) 62 | (*) (19.560) | (*) (8.391) | 92,00% | 57 |
| Tiscali Datacomm AG (ex Datacomm AG) | Basle | 16.483 | 10.282 | (2.509) | 80,00% | 59.821 |
| Tiscali Finance SA | Brussels | 125 | (4.515) | (1.928) | 100,00% | 125 |
| Tiscali France SA (ex A Telecom SA) | Marseilles | (*) 923 | (*) (23.479) | (*) (13.913) | 100,00% | 95.871 |
| Tiscali Germany Gmbh (ex Nikoma) | Hamburg | (*) 20.487 | (*) (10.070) | (*) (7.486) | 100,00% | 266.813 |
| Tiscali Telecomunicaciones SA | Madrid | (*) 2.100 | (*) (1.716) | (*) (3.155) | 100,00% | 2.100 |
| World Online International N.V. | Maarsen (Netherlands) | (*) 125.522 | (*) 1.287.248 | (*) (191.246) | 100,00% | 1.809.695 |
| Andaledda S.p.A. | Cagliari | (**) 103 | (**) 96 | (**) (7) | 85,00% | 88 |
| Tiscali Czech Republic sro | Pragu | 30 | (381) | (77) | 100,00% | 39 |
| Connect Software Inc. | S.Francisco (California) | (**) 54 | (**) 54 | - | 100,00% | 1.027 |
| | | | | | | **2.941.185** |

The difference between recorded book value and the subsidiaries' shareholders' equity is considered to be justified by the positive economic outlook for the sector and the potential benefits of initiatives under way. Moreover, as far as concerns the company STS Srl, a situation of control is determined in practice, since the chairman and CEO, also a majority shareholder of Tiscali Spa, holds a further 10% of the same company.

(*) Data referring to the sub-consolidated figures
(* *) Data at 31 Dec 2000

### Investments in affiliated companies

| Company Name | Head-office | Share capital | Shareholders equity | Profit (Loss) | % Held | Carrying value |
|---|---|---|---|---|---|---|
| Ariete Telemedia S.r.l. | Milan | (**) 52 | (**) 111 | (**) 45 | 40,00% | 744 |
| Gilla S.p.A. | Cagliari | 2.500 | 798 | (990) | 50,00% | 1.250 |
| FreeTravel S.p.A. | Milan | (**) 500 | (**) 365 | (**) (135) | 50,00% | 250 |
| | | | | | | **2.244** |

(**) Data at 31 Dec 2000

## C) Current Assets

### I - Inventories

Changes in inventories are shown below

| **raw materials, auxiliaries and and consumable materials** | **30 June 2001** | **31 Dec 2000** | **Change** |
|---|---|---|---|
| telephone cards and various consumables | 211 | 213 | -2 |
| goods for resale | 427 | 556 | -129 |
| **Total** | **638** | **769** | **-131** |

Goods for resale are mainly accessories for the Voispring service.

### II - Receivable

Receivables are broken down as follows:

| | **30 June 2001** | **31 Dec 2000** | **Change** |
|---|---|---|---|
| EU customers | 66.082 | 65.041 | 1.041 |
| Extra-EU customers | | | |
| less: bad debt provision | -8.790 | -5.691 | -3.099 |
| **Total** | **57.292** | **59.350** | **-2.058** |

Receivables from customers arise from the sale of telephone and internet services, mainly consisting in the invoicing of inverse interconnection traffic and advertising revenues. They did not change substantially over the period.
In order to align the value of receivables with that of their presumed market value, a reserve for bad debts of approximately Euro 8,8 million has been set up.

**Analysis of receivables based on their maturity date**

The following table shows the amounts for each item under receivables on the balance sheet, divided according to when they fall due.

| | 30 June 2001 Receivable coming due | | | 31 Dec 2000 Receivable coming due | | |
|---|---|---|---|---|---|---|
| **Current assets** | **Within 1 years** | **1 to 5 years** | **Beyond 5 years** | **Within 1 years** | **1 to 5 years** | **Beyond 5 anni** |
| *Receivables:* | | | | | | |
| from customers | 57.292 | | | 59.350 | | |
| from group companies | 45.211 | 26.558 | | 59.879 | | |
| due from associated companies | 480 | | | 49 | | |
| due from parent companies | | | | | | |
| due from others | 12.244 | 226 | | 12.151 | 220 | |
| | **115.227** | **26.784** | | **131.429** | **220** | |

**Receivables from group companies**

Receivables from group companies are broken down as follows:

| | Financial Receivables | | Commercial Receivables | | TOTAL |
|---|---|---|---|---|---|
| **Subsidiary companies:** | **< 1 Year** | **> 1 Year** | **< 1 Year** | **> 1 Year** | |
| World Online International N.V. | | | 124 | | 124 |
| Tiscali France Sa | | | 1.345 | | 1.345 |
| Tiscali Germany Gmbh (Nikoma) | | | 3.315 | | 3.315 |
| Addcomm Ag | | 1.915 | | | 1.915 |
| Nets Sa | 40 | | | | 40 |
| Tiscali Datacomm Ag | | | 1.503 | | 1.503 |
| Tiscali Belgium Holding Sa | 1.712 | | 33.127 | | 34.839 |
| Tiscali Finance | | | 96 | | 96 |
| Cd Telekomunikace Sro | | 10.330 | 1.228 | 14.313 | 25.871 |
| Quinary S.P.A. | | | 50 | | 50 |
| Best Engineering S.P.A. | | | 3 | | 3 |
| Informedia S.P.A. | 98 | | 238 | | 336 |
| Tiscali Telecomunicaciones Sa | | | 1.530 | | 1.530 |
| Motorcity S.P.A. | 775 | | 9 | | 784 |
| Ideare S.P.A. | | | 15 | | 15 |
| Energy Byte S.P.A. | | | 3 | | 3 |
| | **2.625** | **12.245** | **42.586** | **14.313** | **71.769** |

Receivables from subsidiary companies reclassified under long-term receivables refer to trade and financial receivables which the parent company has indicated its intention of converting into increases in the value of the investments.
In particular, this refers to approximately 24.6 million Euro from CD Telekomunikace Sro, of which 14.3 million Euro refer to re-invoicing of costs for cables and the relative supply of services by the parent company for fulfilment of the cabling project in the Czech Republic. Starting from the second half of the year, supply contracts were signed directly with the parent company. The remaining 10 million Euro refer to amounts disbursed as loans during the previous year, on which interest of 7.5% was charged for 2000.
The 1.9 million Euro in receivables from Addcomm Ag refer to transfer of credit due to the previous shareholders.
Receivables from Tiscali Belgium Holding S.A. refer to sale of Tiscali Belgium S.A. in December, 2000. The operation was carried out as part of the corporate reorganisation plan of the Belgian companies.

## Analysis of other receivables

Other receivables are broken down as follows:

| | Commercial | |
|---|---|---|
| | Balance 30-06-2001 | Balance 31-12-2000 |
| **Receivable within one year** | | |
| Witholding taxes | 428 | 389 |
| Employee loans | 9 | 9 |
| Other loans | 26 | 25 |
| VAT receivable | 11.564 | 11.669 |
| Other receivables | 217 | 59 |
| | 12.244 | 12.151 |
| **receivable after one year** | | |
| Deposits | 226 | 220 |
| | 226 | 220 |
| | **12.470** | **12.371** |

## III - Current financial assets

The details of cost and changes during the year in current financial assets are shown below, together with comparison, for listed securities, between the book value and the market value, determined on the basis of the arithmetical average of listings over the last month of the year.

### Other securities

| | 30 June 2001 | | | 31 Dec 2000 | | |
|---|---|---|---|---|---|---|
| | Cost | Reval.(Deval.) | B/S Value | Cost | Reval.(Deval.) | B/S Value |
| Domestic bonds | **9.251** | | **9.251** | **9.251** | | **9.251** |

The securities, which were purchased during last year to invest a temporary surplus in liquidity, have a return higher than the interest rate paid on average on the bank overdraft, so it has been decided to keep them in the portfolio until expiry.

### Cash and cash equivalents in hand

The balance is broken down as follows:

| | 30 June 2001 | 31 Dec 2000 | Change |
|---|---|---|---|
| cash at banks and post offices | 2.145 | 1.409 | 736 |
| cash and cash equivalentes on hand | 35 | 5 | 30 |
| **Total** | **2.180** | **1.414** | **766** |

## D) Accrued income and pre-paid expenses

These are broken down as follows:

| | 30 June 2001 | 31 Dec 2000 | Change |
|---|---|---|---|
| Accrued income and pre-paid expenses | **5.522** | **5.923** | **-1.034** |

This item includes 3.8 million Euro in advance rents paid on direct digital circuits (CDN) by Telecom Italia; leasing payments (2.4 million Euro) and the initial fees (1.3 million Euro) to be referred to future periods; pre-paid maintenance costs of 0.6 million Euro, bank commission and annual ministerial contributions.

**Liabilities**

**A) Shareolders' equity**

**Statement of changes in Shareolders' equity**

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

| | Balance 31 Dec 2000 | Allocation of earnings | Distributed dividends | Other changes | Net result | Balance 30 June 2001 |
|---|---|---|---|---|---|---|
| Share capital | 1.573 | | | 198 | | 1.771 |
| Share premium reserve | 2.392.340 | | | 457.684 | | 2.850.024 |
| Legal reserve | | | | | | |
| Retained earnings (losses) | -5.537 | -101.002 | | 1 | | -106.538 |
| Net profit (loss) for the year | -101.002 | 101.002 | | | -248.119 | -248.119 |
| | **2.287.374** | | | **457.883** | **-248.119** | **2.497.138** |

Share capital at 30 June, 2001, was 1,770,632 Euro (3.428.421.500 Lire), represented by 342,842,150 ordinary shares of a par value of 10 Lire each (share capital was converted into Euro in July, converting the net value of each share into 0.52 Euro).
The increases in share capital and the share premium reserve relate to increases in share capital during the six-month period in order to support operations relating to purchase of affiliated companies, via contribution. A total of 38,216,068 shares were issued during the period, with a par value of 382,160,680 Lire (197,370 Euro). The share premium reserve simultaneously rose by 886,199,152,243 Lire (457,683,666 Euro).

Changes in share capital are listed below, specifying the transaction to which they refer.

| | Issue date | N° of shares issued | Increase of share capital Lit | Eur |
|---|---|---|---|---|
| Acquisition WOL - through PO | 3-1-01 | 3.124.693 | 31.246.930 | 16.138 |
| Acquisition Addcomm AG | 29-3-01 | 1.532.887 | 15.328.870 | 7.917 |
| Acquisition Liberty Surf - 71% | 31-3-01 | 24.354.874 | 243.548.740 | 125.782 |
| Acquisition WOL - through OPS | 29-1-01 | 1.062.732 | 10.627.320 | 5.489 |
| Acquisition Liberty Surf - OPS | 16-3-01 | 8.103.707 | 81.037.070 | 41.852 |
| Acquisition Connect Software | 6-4-01 | 37.175 | 371.750 | 192 |
| | | | **382.160.680** | **197.370** |

**B) Reserves for risks and charges**
The reserves for risks and charges are shown below.

| (thousands of euro) | Balance 31 Dec 2000 | Provision | (Writebacks) | Other changes | Balance 30 June 2001 |
|---|---|---|---|---|---|
| Provision for foreign exchange losses | | 123 | | | 123 |
| Reserves for risks and future liabilities | 12.490 | 222.311 | -4.859 | | 229.942 |
| | **12.490** | **222.434** | **-4.859** | | **230.065** |

The increase in 'Reserves for future risks and charges' of 222 million Euro is due to a prudent provision against possible obligations relating to adjustment of losses on direct and indirect subsidiary companies.
A total of 4.9 million Euro from the reserve for future risks and charges was used for premium operations, described in the notes to the financial statements at 31.12.2001.

**C) Employee severance pay**

The table below shows the changes which occurred during the period

| | Balance 31 Dec 2000 | Provision | (Writebacks) | Other changes | Balance 30 June 2001 |
|---|---|---|---|---|---|
| | **743** | **592** | **-60** | | **1.275** |

This reserve consists of the amount owed by the company to its current employees at the date shown, net of any advance payments made.
Applications refer to severance paid out to personnel who left during the period.

**D) Liabilities**

**Analysis of payables by due date**

| | 30 June 2001 | 31 Dec 2000 |
|---|---|---|
| | Whitin 1 year | |
| due to banks | 6.750 | 11.129 |
| trade accounts | 60.445 | 68.925 |
| due to group companies | 347.622 | 57.927 |
| due to associated companies | 56 | 1.050 |
| taxes payable | 507 | 414 |
| due to social security authorities | 404 | 336 |
| other payables | 1.962 | 1.037 |
| | **417.746** | **140.818** |

### Intercompany payables

Intercompany payables are detailed below.

| | Financial Payables | | Commercial Payables | | Total |
|---|---|---|---|---|---|
| **Subsiadiary companies:** | **< 1 Year** | **> 1 Year** | **< 1 Year** | **> 1 Year** | |
| World Online International N.V. | | 229.915 | 10.161 | | 240.076 |
| Tiscali Germany Gmbh (Nikoma) | | | 12 | | 12 |
| Tiscali Datacomm Ag | | 3 | | | 3 |
| Tiscali Belgium Holding Sa | | 6.149 | | | 6.149 |
| Tiscali Finance | | 91.578 | | | 91.578 |
| Excite Italia B.V. | 7.746 | | 71 | | 7.817 |
| Quinary S.P.A. | 513 | | | | 513 |
| Best Engineering S.P.A | | | 17 | | 17 |
| Informedia S.P.A. | | | 56 | | 56 |
| Tiscali Telecomunicaciones Sa | | | 111 | | 111 |
| Motorcity S.P.A. | 42 | | 707 | | 749 |
| Ideare S.P.A. | | | 469 | | 469 |
| Energy Byte S.P.A. | | | 72 | | 72 |
| **Total** | **8.301** | **327.645** | **11.676** | | **347.622** |

Financial payables to group companies mainly refer to loans obtained from subsidiary companies with available liquidity for purchase operations.
In particular, payables to World Online International, which were formed entirely during the period, relate to an interest-bearing loan with a variable interest rate (Euribor + 0,50%), calculated on a monthly basis. Payables to Tiscali Finance, which increased by 37 million Euro during the period, refer to an interest-bearing loan with a fixed interest rate (9%), calculated at the date of expiry of the contract. Payables to Excite Italia SpA, which were formed entirely during the period, refer to an interest-bearing loan with a variable interest rate (Euribor + 1,50%), calculated on expiry of the contract.

### Analysis of tax liabilities

| | 30 June 2001 | 31 Dec 2000 | Change |
|---|---|---|---|
| Witholding taxes | 466 | 414 | 52 |
| Other taxes | 41 | | 41 |
| **Total** | **507** | **414** | **93** |

Tax liabilities refer to withholdings on personnel income tax (IRPEF) on subordinate employees and freelancers.

### Analysis of other payables

| | 30 June 2001 | 31 Dec 2000 | Change |
|---|---|---|---|
| Employee debt | 1.894 | 5 | 1.889 |
| Other payables | 68 | 1.032 | -964 |
| **Total** | **1.962** | **1.037** | **925** |

'Payables to personnel' refers basically to amounts owed to employees by way of salaries for the month of June, which were paid, in exceptional circumstances, during the first days of July.
'Other payables' during the previous year included payables to former shareholders in 'Connect Software'.

### E) Accrued expenditure and deferred income

These are shown in the table below.

| | 30 June 2001 | 31 Dec 2000 | Change |
|---|---|---|---|
| Accrued liabilities and deferred incom | **1.482** | **2.647** | **-1.165** |

This account includes approximately 0.5 million Euro in accrued liabilities for employees and holidays owed, and accrued receivables for pre-paid services.

## Memorandum accounts

| | 30 June 2001 | 31 Dec 2000 | Change |
|---|---|---|---|
| Guarantees issued | | | |
| sureties | 250.026 | 250.716 | -690 |
| | 250.026 | 250.716 | -690 |
| Other contingencies | | | |
| Lease committments | 45.353 | 45.881 | -528 |
| Warrants | 7.404 | 10.577 | -3.173 |
| Other contingencies | 297 | 55.243 | -54.946 |
| | 53.054 | 111.701 | -58.647 |
| Guarantees received | | | |
| sureties | 6.131 | 6.131 | |
| | 6.131 | 6.131 | |
| | **309.211** | **368.548** | **-59.337** |

The reduction in the memorandum accounts is due principally to elimination of the commitment on the issuing of securities for the acquisition of WOL and Addcomm which effectively took place during the first half of 2001.

## Income statement

### A) Value of production

### Analysis of sales and services

This increased by 8.1 million Euro compared with the first half of the previous year and includes the following items:

**Analysis by category of business:**

| | 30 June 2001 | 30 June 2000 | Change |
|---|---|---|---|
| access | 31.575 | 20.933 | 10.642 |
| phone service | 11.761 | 26.310 | -14.549 |
| portal | 7.635 | 1.780 | 5.855 |
| business | 1.425 | 1.123 | 302 |
| other services | 8.027 | 2.541 | 5.486 |
| | 60.423 | 52.687 | 7.736 |

The increase in revenues from sales and services is attributable to the considerable increase in network access (+51%), with a consequent increase in minutes of connection, to the heavy impact of online advertising revenues (+328%), a sector which received a particular boost, and other revenues from the so-called 'B2B' ('business to business') sector (+215%), such as housing and hosting.
Revenues from voice services fell drastically, due to the combined effect of the reduction of tariffs and traffic, as a result of the impact of heavy competition from the company's principal national and regional competitors.
Total sales were achieved in the EU area, with 8.1 million Euro with other group companies, as specified below.

**Intercompany sales and services**

| | Amount |
|---|---|
| **Company:** | |
| WORLD ONLINE INTERNATIONAL N.V. | 124 |
| TISCALI FRANCE SA | 356 |
| TISCALI GERMANY GMBH (NIKOMA) | 254 |
| TISCALI DATACOMM AG | 278 |
| TISCALI BELJUNEM HOLDING SA | 518 |
| TISCALI FINANCE | 69 |
| CD TELEKOMUNIKACE sro | 4.982 |
| EXCITE ITALIA B.V. | 439 |
| QUINARY S.p.A. | 50 |
| BEST ENGINEERING S.p.A. | 2 |
| INFORMEDIA S.p.A. | 165 |
| TISCALI TELECOMUNICACIONES SA | 874 |
| MOTORCITY S.p.A. | 1 |
| IDEARE S.p.A. | 12 |
| | **8.124** |

Revenues from CD Telecomunikace, as already stated, include re-invoicing of cables and services for cabling of the Czech Republic. Revenues from Tiscali Telecomunicaciones, Tiscali Belgium, Excite Italia and Informedia are advertising revenues.

**Other income and revenues**

| | 30 June 2001 | 30 June 2000 | Change |
|---|---|---|---|
| Other income | **1** | **892** | **891** |

"Other revenues and income" in 2000 mainly referred to revenues of approximately 0.8 million Euro from supply of general and administrative services to group companies, as well as exchange gains, reclassified in this period as financial income.

**B) Production costs**

**Purchases of raw materials, auxiliaries, consimables and goods3**

| | 30 June 2001 | 30 June 2000 | Change |
|---|---|---|---|
| Purchase of sales goods | 408 | 146 | 262 |
| Purchase of consumable materials | 305 | 402 | -97 |
| Purchase of pubblicity and promotion materials | 168 | 269 | -101 |
| Other purchases | 4.983 | 2.418 | 2.565 |
| | **5.864** | **3.235** | **2.629** |

"Other purchases" includes purchases of fibre-optic cables for development of the cabling project started in April, 2000, on the Czech Republic. The costs sustained are re-invoiced to subsidiary CD-Telekomunikace sro.

**Breakdown of costs for supply of services**

| Description | 30 June 2001 | 30 June 2000 | Change |
|---|---|---|---|
| Backbone costs | 14.085 | 14.260 | -175 |
| Procurement of traffic | 9.110 | 18.424 | -9.314 |
| Advertising and promotion expenses | 6.974 | 12.221 | -5.247 |
| Maintenance costs | 2.690 | 631 | 2.059 |
| Advisory services | 1.529 | 1.033 | 496 |
| Costs sales | 568 | 941 | -373 |
| Utilities | 585 | 191 | 394 |
| Bank charges | 158 | 99 | 59 |
| Travel and trasportation | 120 | 819 | -699 |
| Other services | 8.955 | 2.201 | 6.754 |
| | **44.774** | **50.820** | **-6.046** |

Costs for services decreased overall during the first half of 2000.
In detail, the principal items are as follows:

- backbone costs: the charge of 14 million Euro refers to renting of the national and international circuits used for operating the data and voice network; the cost is basically in line with 2000, although with a greater amount of data and traffic;
- costs of traffic procurement: these totalled 9 million Euro and derive from voice services, as well as including variable interconnection costs; the decrease is mainly attributable to the reduction in volumes;
- advertising and promotional costs: these totalled approximately 7 million Euro (12.2 million Euro in the first half of 2000). The heavy reduction in this type of cost derives from the company strategy adopted for the period in question, where attention was focused on cutting costs, as well as to the launching of new products in 2000;
- maintenance costs: these total 2.7 million Euro and are mainly generated by current maintenance contracts for switchboards, routers and other network equipment (approx. 1.4 million Euro), software (approximately 1.2 million Euro) and other office machines and equipment;
- other supplies of services: these include approximately 2.8 million Euro in costs sustained in the interest of other group companies and re-invoiced to them, approximately 2 million Euro in costs sustained for business travel and secondment of employees and 1.5 million Euro for the production of contents.

**Intercompany production costs**

The following costs were incurred with respect to group companies:

| Company: | Amount |
|---|---|
| TISCALI GERMANY GMBH (NIKOMA) | 12 |
| EXCITE ITALIA B.V. | 480 |
| BEST ENGINEERING S.p.A. | 14 |
| INFORMEDIA S.p.A. | 3 |
| TISCALI TELECOMUNICACIONES SA | 111 |
| MOTORCITY S.p.A. | 1.751 |
| ENERGY BYTE S.p.A. | 135 |
| | **2.506** |

Costs invoiced by WOL International and WOL UK relate to consultancy on the international plan.
The costs of Energy Byte, Excite Italia, Tiscali Telecomunicaciones and a part (around 0.3 million Euro) of the costs invoiced by Motorcity are advertising costs.
The remaining costs invoiced by Motorcity (around 1.4 million Euro) are costs of unification and updating of the portals on a European base.

**Costs for use of third party assets**

| | 30 June 2001 | 30 June 2000 | Change |
|---|---|---|---|
| financial and operational locations | 5.059 | 3.311 | 1.748 |
| real estate locations | 746 | 401 | 345 |
| others | 153 | 94 | 59 |
| | **5.958** | **3.806** | **2.152** |

The increase compared with the previous year is due to investment activities during the year through use of leasing.

**Personnel costs**

| | 30 June 2001 | 30 June 2000 | Change |
|---|---|---|---|
| Salaries and wages | 7.943 | 3.795 | 4.148 |
| Social security charges | 913 | 355 | 558 |
| Staff leaving indemnities | 592 | 235 | 357 |
| Other expenses | | 3 | -3 |
| | **9.448** | **4.388** | **5.060** |

The increase is due to the increase in the workforce.

**C) Financial income and charges**

**Analysis of other financial income**

| | 30 June 2001 | 30 June 2000 | Change |
|---|---|---|---|
| **from current assets securities** | | | |
| Interest from other securities | 251 | | 251 |
| | 251 | | 251 |
| **income other than those mentioned above:** | | | |
| Interest receivable from banks | 150 | 596 | -446 |
| Realized exchange gains | 288 | | 288 |
| | 438 | 596 | -158 |
| | **689** | **596** | **93** |

Financial income deriving from "securities under current assets which are not investments" refers to interest accruing on Cariplo bonds.
Exchange gains of 0.05 million Euro were classified during the previous year under 'Other revenues'.

**Intercompany financial charges**

A breakdown of financial charges per individual group company is shown below.

| | Interest | Losses on finan receivable | Financial services | Total |
|---|---|---|---|---|
| *Company:* | | | | |
| WORLD ONLINE INTERNATIONAL N.V. | 2.793 | | | 2.793 |
| TISCALI FINANCE | 3.579 | | | 3.579 |
| EXCITE ITALIA B.V. | 21 | | | 21 |
| | **6.393** | | | **6.393** |

**Analysis of other financial charges**

| | 30 June 2001 | 30 June 2000 | Change |
|---|---|---|---|
| **Financial charges on:** | | | |
| bank overdrafts | 377 | 37 | 340 |
| other payables | 196 | 195 | |
| realized exchange losses | 224 | 224 | |
| other expenses | 209 | 255 | -46 |
| | **1.006** | **293** | **713** |

This item is mainly formed of exchange losses and accrued interest charges on current account overdrafts. Financial charges on other payables refers to interest on overdue payment of supplies.
Commission and bank charges have also been more appropriately classified under costs for services.
'Other financial charges' includes interest charges on swap operations.

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

Writedown of shareholdings, which was made 'on account' in 2001, directly reducing the value of the shareholdings, was carried out indirectly at 30 June, by creating a specific reserve under "Reserves for risks and charges". The relative provision was entered under item B) 12. 'Provisions for risks'.
Revaluations, restoring of values and writedown of shareholdings and other financial assets are shown and discussed above, in the part relating to financial fixed assets.

**E) Extraordinary income and charges**

**Breakdown of extraordinary income**

| | 30 June 2001 | 30 June 2000 | Change |
|---|---|---|---|
| **Extraordinary gains:** | | | |
| Miscellaneous gains | 1.512 | 284 | 1.228 |
| | **1.512** | **284** | **1.228** |

**Breakdown of extraordinary charges**

| Description | 30 June 2001 | 30 June 2000 | Change |
|---|---|---|---|
| **Extraordinary losses:** | | | |
| Miscellaneous losses | 6.431 | 1.672 | 4.759 |
| Other extraordinary losses | 155 | | 155 |
| | **6.586** | **1.672** | **4.914** |

'Contingent losses' includes costs from previous years of 3.4 million Euro and indemnity of 3 million Euro paid to third parties.

**Additional information**

As required by current regulations, the tables below show the work-force divided by job category and the amounts paid to company directors and statutory auditors, cumulatively for each category.

**Average number of employees**

| | 30 June 2001 | 31 Dec 2000 | 30 June 2000 |
|---|---|---|---|
| Blue collar workers | 7 | 6 | 5 |
| Clerical staff | 618 | 572 | 435 |
| Middle managers | 45 | 29 | 17 |
| Executives | 22 | 18 | 16 |
| | **692** | **625** | **473** |

**Analysis of the financial statements**

For a better understanding of the financial statements as a whole, the tables below show a brief analysis of said financial statements, formed on the reclassified balance sheet, the reclassified income statement, a series of balance sheet indicators and the statement of source and application of funds.

**Analysis of the financial statements - Balance Sheet**

| Assets | 30 June 2001 | % | 31 Dec 2000 | % | variation | variation% |
|---|---|---|---|---|---|---|
| **Short-Term assets** | | | | | | |
| Cash and bank | 2.180 | | 1.414 | | 766 | 54,17% |
| Receivable from customers | 115.227 | | 131.429 | | -16.202 | -12,33% |
| Inventories | 638 | | 2.341 | | -1.703 | -72,75% |
| Accrued income and pre-paid expenses | 5.522 | | 5.923 | | -401 | -6,77% |
| Other short-term assets | 9.251 | | 9.251 | | | |
| **Total short-term assets** | **132.818** | **4,22%** | **150.358** | **6,15%** | **-17.540** | **-11,67%** |
| **Fixed assets** | | | | | | |
| Technical assets | 11.769 | | 5.601 | | 6.168 | 110,12% |
| Intangible assets | 32.750 | | 29.530 | | 3.220 | 10,90% |
| Shareholding and securities | 2.943.585 | | 2.258.369 | | 685.216 | 30,34% |
| Other fixed assets | 26.784 | | 220 | | 26.564 | 12074,55% |
| **Total fixed assets** | **3.014.888** | **95,78%** | **2.293.720** | **93,85%** | **721.168** | **31,44%** |
| **Total assets** | **3.147.706** | **100,00%** | **2.444.078** | **100,00%** | **703.628** | **28,79%** |

| Liabilities and shareholders equity | 30 June 2001 | % | 31 Dec 2000 | % | variation | variation% |
|---|---|---|---|---|---|---|
| **Short-Term liabilities** | | | | | | |
| Banks | 6.750 | | 11.129 | | -4.379 | -39,35% |
| Suppliers | 60.445 | | 68.925 | | -8.480 | -12,30% |
| Other payables | 350.044 | | 60.356 | | 289.688 | 479,97% |
| Accrued expenditure and defereed income | 1.482 | | 2.647 | | -1.165 | -44,01% |
| Tax liabilities | 507 | | 414 | | 93 | 22,46% |
| **Total short-Term liabilities** | **419.228** | **13,32%** | **143.471** | **5,87%** | **275.757** | **192,20%** |
| **Medium/Long Term liabilities** | | | | | | |
| Medium/long term loans | | | | | | |
| Employee sev. reserve | 1.275 | | 743 | | 532 | 71,60% |
| Reserves for risks and charges | 230.065 | | 12.490 | | 217.575 | 1741,99% |
| **Total medium/long Term liabilities** | **231.340** | **7,35%** | **13.233** | **0,54%** | **218.107** | **1648,21%** |
| **Total liabilities** | **650.568** | **20,67%** | **156.704** | **6,41%** | **493.864** | **315,16%** |
| **Shareholders' equity** | | | | | | |
| Share capital | 1.771 | | 1.573 | | 198 | 12,59% |
| Riserves | 2.743.486 | | 2.386.803 | | 356.683 | 14,94% |
| Net profits | -248.119 | | -101.002 | | -147.117 | 145,66% |
| **Total Shareholders' equity** | **2.497.138** | **79,33%** | **2.287.374** | **93,59%** | **209.764** | **9,17%** |
| **Total** | **3.147.706** | **100,00%** | **2.444.078** | **100,00%** | **703.628** | **28,79%** |

## Analysis of fin. statements - Income statement

| Income statement | 30 June 2001 | % | 31 Dec 2000 | % | variation | variation % |
|---|---|---|---|---|---|---|
| **Net sales** | **60.422** | **100,00%** | **120.089** | **100,00%** | **-59.667** | **-49,69%** |
| Operating costs | | | | | | |
| purchases | -5.864 | -9,71% | -6.758 | -5,63% | 894 | -13,23% |
| supply of services | -44.774 | -74,10% | -117.195 | -97,59% | 72.421 | -61,80% |
| depreciation | -4.812 | -7,96% | -6.858 | -5,71% | 2.046 | -29,83% |
| payroll | -9.448 | -15,64% | -11.563 | -9,63% | 2.115 | -18,29% |
| increases (decreases) in inventories | -131 | -0,22% | -199 | -0,17% | 68 | -34,17% |
| other operating costs | -231.756 | -383,56% | -28.342 | -23,60% | -203.414 | 717,71% |
| **Operating results** | **-236.363** | **-391,19%** | **-50.826** | **-42,32%** | **-185.537** | **365,04%** |
| financial income | 715 | 1,18% | 2.485 | 2,07% | -1.770 | -71,23% |
| financial charges | -7.399 | -12,25% | -3.595 | -2,99% | -3.804 | 105,81% |
| sundry income | 1.514 | 2,51% | 3.130 | 2,61% | -1.616 | -51,63% |
| sundry charges | -6.586 | -10,90% | -52.196 | -43,46% | 45.610 | -87,38% |
| **Pre-tax profits/losses** | **-248.119** | **-410,64%** | **-101.002** | **-84,11%** | **-147.117** | **145,66%** |
| Income tax: | | | | | | |
| current | | | | | | |
| deferred | | | | | | |
| **Profits (losses) for the year** | **-248.119** | **-410,64%** | **-101.002** | **-84,11%** | **-147.117** | **145,66%** |

## Statement of source and application of funds (cash flows)

| Cash flows generated by operations: | | 30 June 2001 | | 31 Dec 2000 |
|---|---|---|---|---|
| **Losses for the year** | | **-248.119** | | **-101.002** |
| *Adj. to items whitch have no effect on liquidity:* | | | | |
| Depreciation | 4.812 | | 6.858 | |
| Employee severance accrued during the year | 592 | | 608 | |
| Employee severance paid during the year | -60 | | -68 | |
| Prov. (application) of reserves for risks and charges | 217.575 | -25.200 | 12.480 | -81.124 |
| *Changes in current assets and liabilities:* | | | | |
| Customers | 16.202 | | -101.036 | |
| Other receivables | | | -9.251 | |
| Inventories | 1.703 | | -1.373 | |
| Accrued income and pre-paid expenses | 401 | | 360 | |
| Suppliers | -8.480 | | 34.792 | |
| Sundry payables | 289.688 | | 55.293 | |
| Accrued expenditure and deferred income | -1.165 | | -2.214 | |
| Tax reserves | 93 | **521.361** | 257 | **-3.294** |
| Cash flows generated by operations | | **273.242** | | **-104.296** |
| **Cash flows generated by investment activities:** | | | | |
| Net book value of assets sold | | | 6 | |
| Acquisition of technical fixed assets | 7.057 | | -3.622 | |
| Increases in intangible assets | -7.143 | | -17.296 | |
| Increase (decrease) in shareholdings | -685.216 | **-699.416** | -2.248.953 | **-2.269.865** |
| **Cash flows generated by investment activities:** | | | | |
| New loans | | | | |
| Acquisitions of technical fixed assets | | | | |
| Increases in intangible assets | 457.883 | | 2.250.448 | |
| Distribution of dividends | | | | |
| Reduction (increase) in other fixed assets | -26.564 | **431.319** | 13.928 | **2.264.376** |
| **Increase (decr.) in cash and bank accounts** | | **5.145** | | **-109.785** |
| **Opening cash and bank accounts** | | **-9.715** | | **100.070** |
| **Closing cash and bank accounts** | | **-4.570** | | **-9.715** |

For the Board of Directors
The Chairman
Renato Soru