TISCALI

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Renato Soru

Directors
Franco Bernabè
Victor Bischoff
Tomaso Barbini
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Chairman Aldo Pavan

Statutory Auditors
Massimo Giaconia
Piero Maccioni

Deputy Auditors
Rita Casu
Andrea Zini

Independent Auditors

Deloitte & Touche SpA

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REPORT ON OPERATIONS

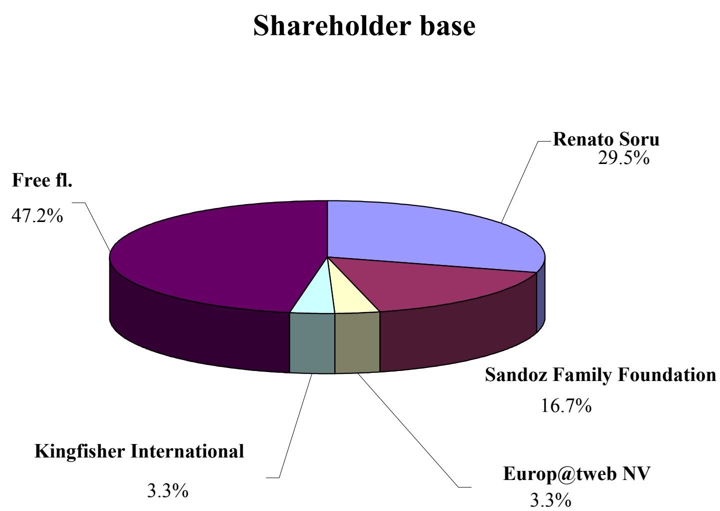
Tiscali shares

Tiscali's shares are listed on both the Milan Nuovo Mercato (TIS) and the Paris Nouveau Marché (005773). In the first half of the year Tiscali once again had the highest capitalisation of any company on both the Nuovo Mercato and the Nouveau Marché: EUR 1.66 billion as of June 2003. In the same period the total number of shares rose from 361,734,135 at 31 December 2002 to 366,114,338 at 30 June 2003.

The table below lists the capital increases carried out during the period.

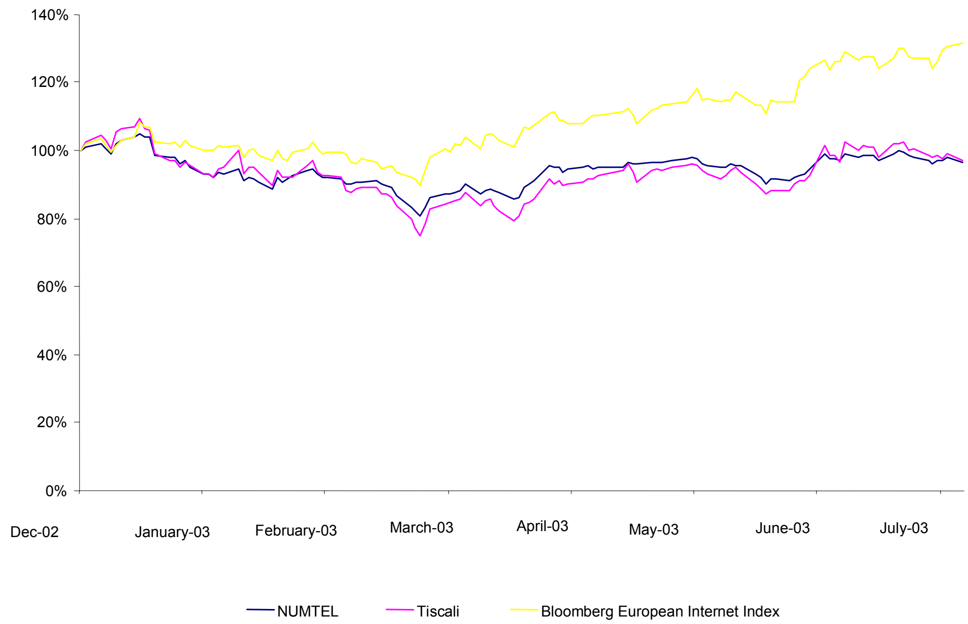
Date	Description	Shares issued	Share capital
17.06.2003	Capital increase subscribed by Wanadoo International SA	2,290,924	366,114,338
23.05.2003	Capital increase subscribed by Dell Product BV	152,380	363,823,414
20.05.2003	Capital increase underwritten by VTL Inc	840,228	363,671,034
09.04.2003	3rd tranche of Connect Software warrant	74,350	362,830,806
09.01.2003	Capital increase subscribed by Messrs. Cavallotto, Decio, Gilardoni and Massironi and Trayboard Holding SA (Quinary SpA)	1,022,321	362,756,456

The chart below shows Tiscali's shareholder base at 30 June 2003



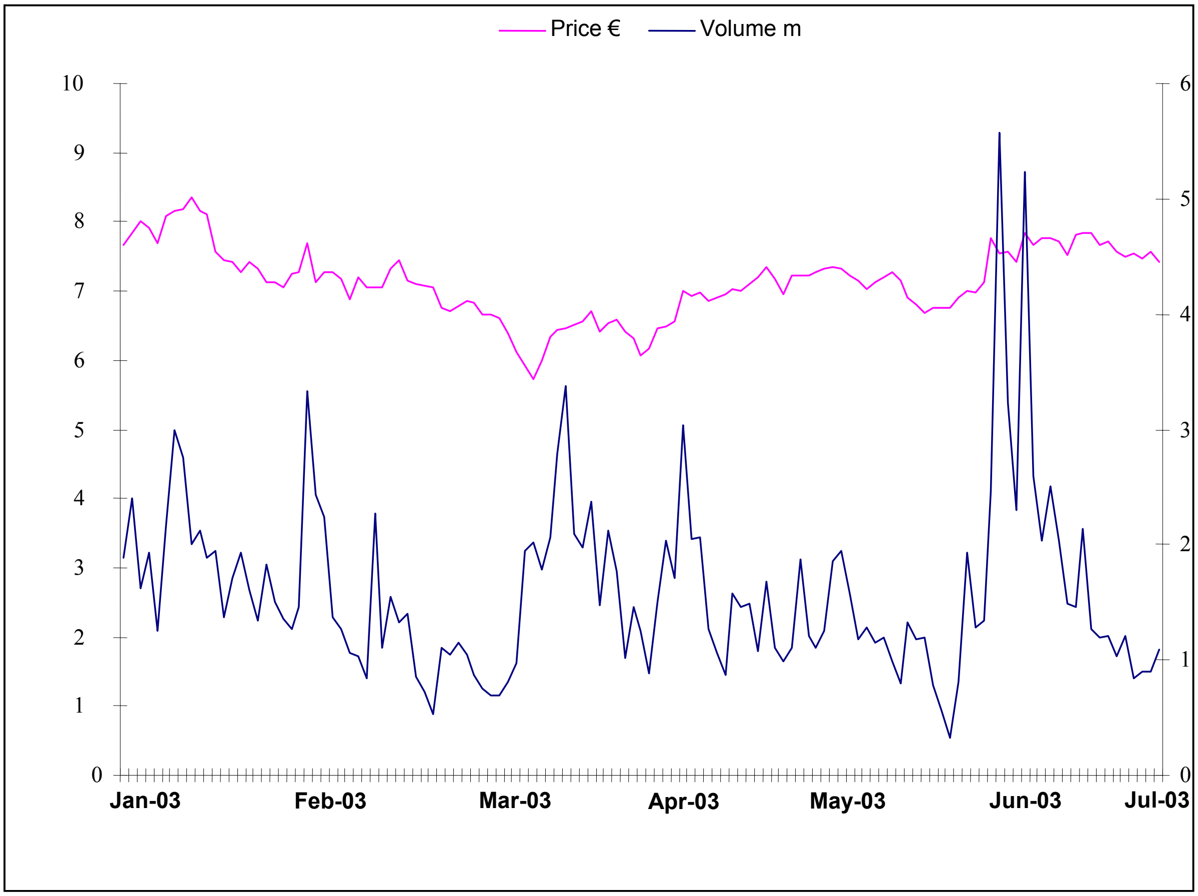
Source: Tiscali

In the first half of 2003, Tiscali's share price performed steadily, in line with other internet stocks, thanks to good first-quarter results, to investors' renewed interest and confidence in technology stocks and the equity market in general.



Tiscali posted the highest monthly value of trades in the period, at EUR 339.5 million in June, an increase of 83% on May.
An average of 2.7 million Tiscali shares were traded daily, down slightly on the same period of last year. The average daily value of trades was EUR 11 million, making Tiscali the most liquid stock on the Italian Nuovo Mercato and one of the most traded internet stocks in Europe.
Above-average daily volumes were recorded in early June, with a peak of 9.3 million shares traded on 3 June 2003. The highest price of the year to date (EUR 5.00) was registered on 14 January 2003, while the lowest (EUR 3.40) came on 12 March 2003.

On 2 June, Tiscali was included in the S&P/MIB index of 40 leading stocks listed on the main Milan market and the Nuovo Mercato. The index, created by Borsa Italiana and Standard & Poor's, is set to become the main Italian equity market benchmark. Tiscali entered at number 33, the highest position of any Nuovo Mercato stock.



The Nuovo Mercato remains Tiscali's main market, accounting for 99.76% of total trades.

Average daily trades of Tiscali shares on its two markets.

Number of shares

	Nuovo Mercato		Nouveau Marché		Total	
Date	**Number of shares**	**%**	**Number of shares**	**%**	**Number of shares**	**%**
January-03	3,056,821	99.87%	3,872	0.13%	3,060,692	100%
February-03	2,305,031	99.72%	6,410	0.28%	2,311,440	100%
March-03	2,719,402	99.72%	7,761	0.28%	2,727,163	100%
April-03	2,500,580	99.76%	5,907	0.24%	2,506,487	100%
May-03	1,988,456	99.56%	8,713	0.44%	1,997,168	100%
June-03	3,387,675	99.89%	3,580	0.11%	3,391,255	100%
Daily average	**2,659,661**	**99.76%**	**6,040**	**0.24%**	**2,665,701**	**100.00%**

Source: Tiscali Finanza

Market background

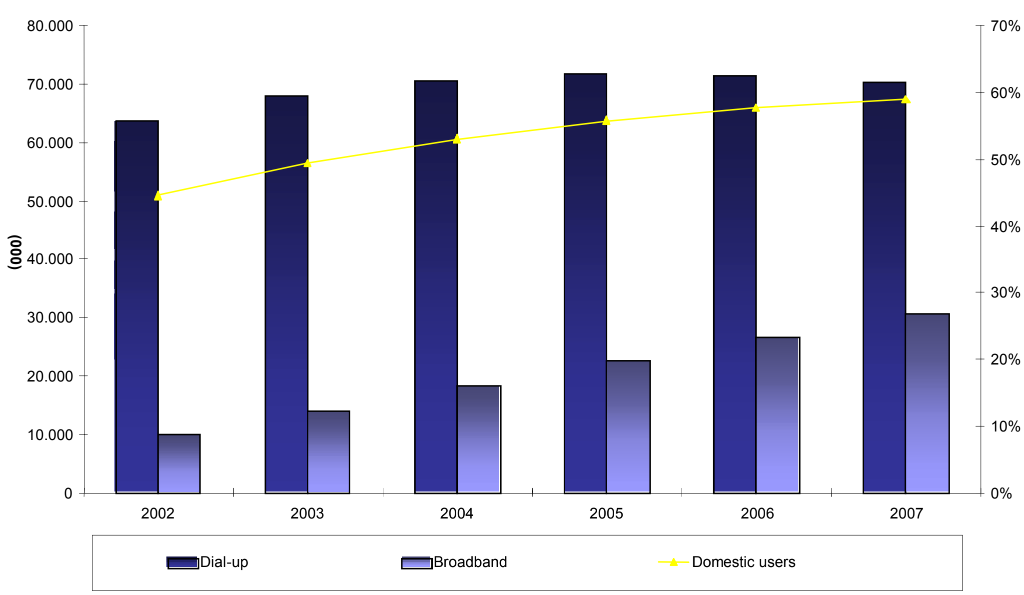
Macroeconomic situation

In the first half of the year estimates for economic growth for 2003 and 2004 were cut further owing to a disappointing performance early in the year and a lack of positive indicators for future months.
Projections for GDP growth now stand at 0.5% this year, compared with earlier forecasts of 0.7%, way behind the US economy, which is expected to expand by 2.1%. Europe's economy is looking increasingly shaky: economic activity has ground to a halt and inflation is slowing more sharply than forecast, heightening fears that the eurozone may be sucked into a deflationary spiral.
The inflation rate has broken through the 2% ceiling earlier than the European Central Bank had expected. Given deteriorating growth prospects and sliding inflation, the ECB cut interest rates by 50 basis points to 2% at the beginning of June, their lowest level since 1948.

The internet market

Countering the trend of the wider economy, the European internet market saw an increase in active user numbers and spending on services. Broadband services continued their rapid rise and now account for around 5% of home internet connections. This percentage is expected to reach 15% by 2007 (source: Gartner).
At year-end 2002 European business and home internet users numbered around 184 million, with 90% of this group based in Western Europe (source: Gartner).
The narrowband user base is expected to expand at a CAGR of 2% between 2002 and 2007, while the number of broadband connections should soar by 25% per year in the same period—a significant performance when set against the annual GDP growth rate of 2.4% expected in the next five years.

Internet connection and domestic user numbers in Western Europe



Source: Gartner Dataquest (May 2003)

Central and Eastern Europe offer the brightest prospects for the next few years, while in the more mature UK and German markets growth rates will be lower.

The first half of 2003 saw further concentration in the sector, and the leading players (T-Online, Wanadoo, Tiscali and AOL) consolidated their market positions. In the broadband segment, incumbent operators, which had previously enjoyed quasi-monopolies, experienced a loss in market share.

	Dial-up market share %
T-Online	7.4%
Tiscali	7.3%
Wanadoo	7.2%
AOL	6.5%
Oth.	71.6%

	Broadband market share %
T-Online	21.5%
Wanadoo	11.2%
Tiscali	1.9%
AOL	1.0%
Oth	64.4%

	Total market share %
T-Online	8.9%
Wanadoo	7.7%
Tiscali	6.7%
AOL	5.9%
Oth	70.8%

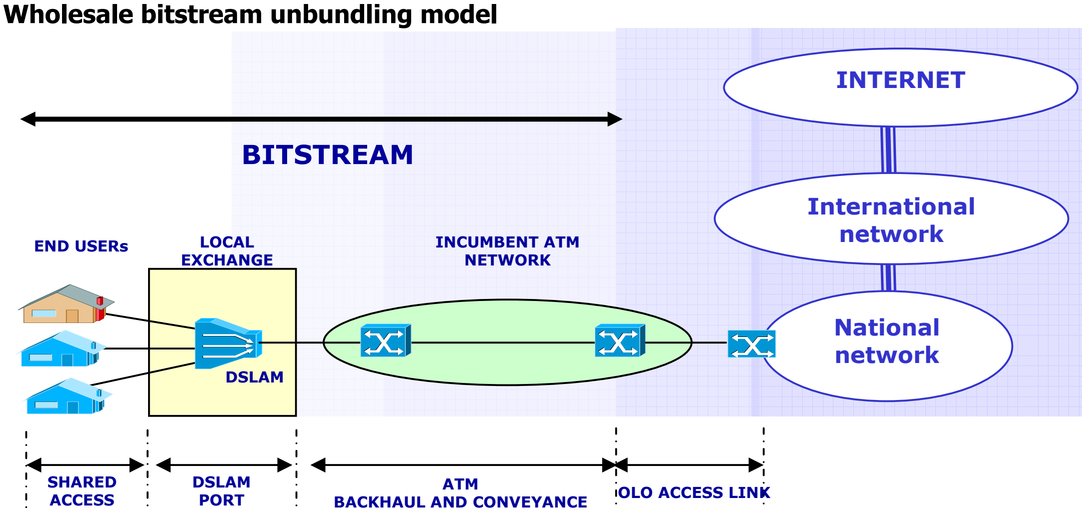
Source: Gartner Dataquest (as of December 2002)

The dial-up market
Over the next three or four years, the dial-up market will remain important in terms of subscriber numbers, although the user base will grow slowly, and total spending in the segment is likely to fall.
However, the ongoing downtrend in online advertising spending and the increasing range of broadband services will lead to growing convergence between dial-up and broadband business models and services. There is an increasingly evident shift away from pay-as-you-go (or "free internet") services towards subscription-based FRIACO (flat rate internet access call origination) models.
FRIACO services are now well established in the UK and France, and are being developed for the end user and wholesale markets in the other major European countries. The business rationale for operators is that they attract enough users to cover the costs, and they are popular with end users as they can be customised and are cheaper than the DSL services currently available.
However, these types of services are now paving the way for the expected dominance of broadband.

The broadband market
2002 saw huge growth in broadband services. At the end of 2001 just over 4 million users in western Europe were connected via ADSL, but by the end of 2002 the number had skyrocketed to over 9 million. The upwards trend of late 2002 continued into 2003, and forecasts now put growth for the next few years at over 25% a year.
The rapid rise of broadband follows the liberalisation of the sector across all European markets, which is enabling independent operators such as Tiscali to expand their services.
The market opened up after intervention by the European Commission, which recently demonstrated its commitment to developing a competitive broadband market by fining Wanadoo (France Telecom) and T-Online (Deutsche Telekom) for anti-competitive practices.
The most widespread and accessible business for non-incumbent operators remains wholesale, which limits the role of ISPS to that of resellers and squeezes their margins. However, new tariff mechanisms based on the costs of interconnecting to the incumbent's network and local loop unbundling should enable independent operators to operate more effectively on the broadband market, and thus improve services for end users.

Broadband growth is therefore highly dependent on the regulatory framework, and, more specifically, on decisions regarding wholesale bitstream unbundling, whereby the "best European price" is applied to the whole basket of unbundled access services, and especially to the fixed costs of co-locating equipment at the sites of the incumbent operator. These costs should no longer represent a barrier to entry, allowing more players to come into the market.

Wholesale bitstream unbundling model



Once again, in the first half of 2003 broadband services were the main driver of revenue growth for the major European ISPs, as first-time internet users increasingly opted for broadband over dial-up. This trend was boosted by heavy internet users shifting from dial-up to broadband. ISPs see broadband as the future of internet access, as this means portals will be less dependent on advertisers once revenues from the sale of value-added content such as games, music and videos increase.

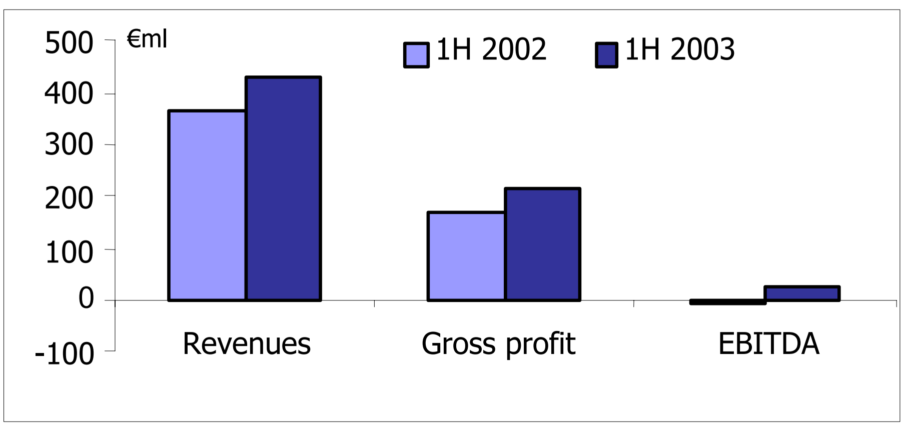
Tiscali group: key figures

In the first half of 2003 Tiscali continued to deliver vigorous organic growth together with profitability improvements, thanks to its increased presence in the broadband market, and to the completion of the integration and restructuring programme implemented over the last two years.
Despite a difficult market situation that hit all sectors, Tiscali posted impressive first-half results:

- revenues of EUR 429.7 million, up 17% on 1H02
- gross margin at 50% of revenues, from 47% in the same period last year
- positive EBITDA for the third consecutive quarter, at EUR 33 million (8% of revenues)—a complete turnaround from the EUR 8.6 million loss posted in 1H02
- 470,000 ADSL users, an increase of 370% on the 100,000 customers recorded in the same period of 2002

These results bear out the validity of Tiscali's business model, which has made the group a leading player on the internet market, and the only truly independent pan-European operator.
Tiscali's challenge this year has been to take broadband market share from incumbent operators and work towards introducing new internet access systems.
The ADSL segment offers the brightest prospects for growth in Europe, and although incumbent operators still dominated in early 2003, the market is undergoing gradual liberalisation. Thanks to an improvement in the regulatory framework and a dynamic commercial strategy, broadband is now Tiscali's main growth driver: the ADSL user base is expanding rapidly, with attendant advances in revenues and profitability.

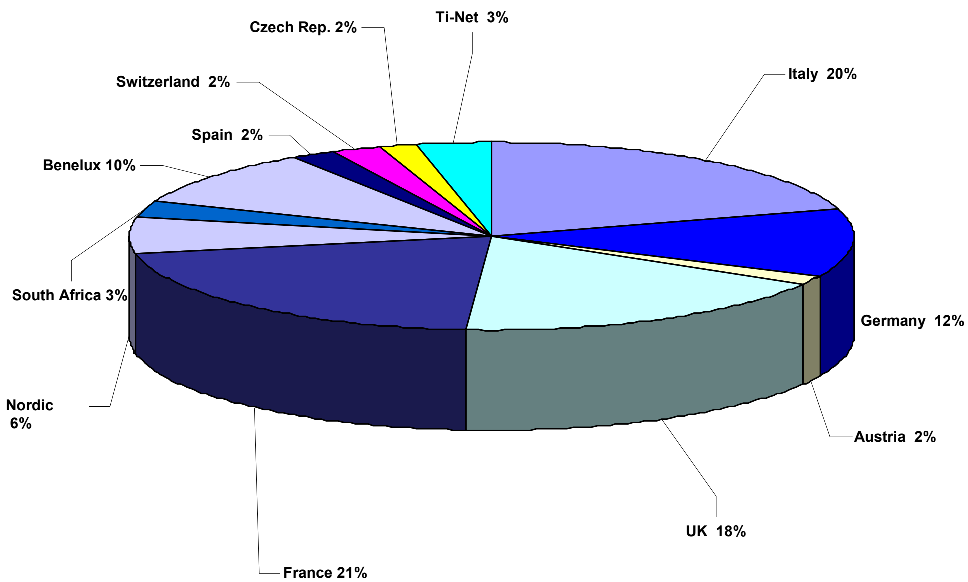
Revenues, gross profit and EBITDA y/y



Profit and Loss Account – EUR million	30.06.2003 6 months	30.06.2002 6 months
Revenues	429.7	367.7
Value of production	**429.7**	**367.7**
Cost of goods sold	212.6	196
Gross profit	**216.9**	**171.7**
Sales and marketing costs	66.4	59.3
Personnel costs	68.9	71.1
G&A	48.5	49.9
EBITDA	**33.0**	**-8.6**
Depreciation and amortisation	(131.5)	(344.4)
EBIT	**(98.8)**	**(353.0)**
Financial income (charges)	(10.4)	(19.2)
Extraordinary income (charges)	(32.4)	(29.8)
Gross profit (loss)	**(141.6)**	**(405.7)**
Taxes	(0,620)	(0,470)
Minorities	12.9	2.4
Net profit (loss)	**(129.4)**	**(403.7)**

Tiscali posted consolidated revenues of EUR 429.7 million in 1H03, an increase of 17% on the 1H02 figure of EUR 367.7 million.
A breakdown of revenues by business area confirms the growth trend in access revenues—boosted by broadband—and highlights the increasing importance of business services, where Tiscali recently made acquisitions aimed at lifting its market share.

Breakdown of 1H03 revenues by region



Revenues by region also remained steady in the period, with the five biggest European countries accounting for around 80% of the total—specifically: Italy 20%, France 21%, Germany 12%, the UK 18% and Benelux 10%. Revenues in Spain, Switzerland, the Czech Republic, Austria and South Africa, which make a smaller contribution to the total, remained stable in 1H03.

Also significant was the increasing contribution of TINET (Tiscali International Network), accounting for 3% of revenues. TINET provides network services to the whole group, boosting margins through synergies and cost savings, and has now begun generating revenues by offering its services to companies outside the group.

Extraordinary Operations

As part of its pan-European expansion strategy, Tiscali acquired three companies operating in the consumer segment and two corporate service providers. The new acquisitions were: Airtelnet in Spain, Wanadoo in Belgium, Tiscali Internet Ltd in the UK, Nextra SpA in Italy and EUnet AG in Austria.

On 31 January 2003 Tiscali acquired Airtelnet, Vodafone's Spanish ISP business. The company was valued at EUR 9.86 million, and will be paid for in newly issued Tiscali shares (2,162,139). The acquisition consolidates Tiscali's position on the Spanish market and improves profitability. Airtelnet has around 110,000 active dial-up users, of which around 5,000 are corporate clients. The acquisition came at an important time for Tiscali Spain, as it was undergoing a restructuring process, and was in line with the group's strategy of increasing its broadband user base.

On 6 February 2003, Tiscali's Belgian subsidiary completed the acquisition of the Wanadoo group company Wanadoo Belgium SA, for EUR 9.5 million to be paid for in newly issued Tiscali shares (2,290,924). Wanadoo Belgium (2002 revenues: EUR 13 million) is a leading Belgian ISP and portal, with around 85,000 active users, of which 25,000 are ADSL customers. This acquisition will deliver substantial economies of scale in the short term, with the migration of traffic generated by Wanadoo Belgium onto Tiscali's IP network. This should boost the company's profit and loss account, while consolidating Tiscali's position on the Belgian internet market, as well as increasing its presence on the broadband market with the addition of over 30,000 ADSL customers. The acquisition confirms Tiscali's strong commitment to a pan-European strategy and will strengthen the company's position in the Benelux market. First-half revenues were EUR 6.5 million, pushing up EBITDA by EUR 334,000.

On 11 March 2003, the UK company Tiscali Internet Ltd was acquired for approximately EUR 600,000, corresponding to 152,380 newly issued Tiscali shares. The acquisition led to the addition of over 13,000 dial-up users.

On 18 March 2003 Nextra SpA was acquired from the Telenor group for EUR 2.4 million, paid for in newly issued Tiscali shares (643,950). Nextra SpA is one of Italy's leading suppliers of corporate internet services, with a reputation for high quality advanced IP services, such as fixed and wireless internet access, hosting, virtual private networks (IP-VPNs) and messaging services. The Bologna-based company has around 3,000 corporate clients, mostly based in central and north-eastern Italy. It employs 35 staff and posted 2002 revenues of EUR 10.7 million. This acquisition enables Tiscali to generate substantial synergies and economies of scale via its proprietary IP network, boosting the profitability of its Italian business and strengthening its competitive position on the business services market in Italy. First-half revenues were around EUR 4 million, and the impact on EBITDA was neutral.

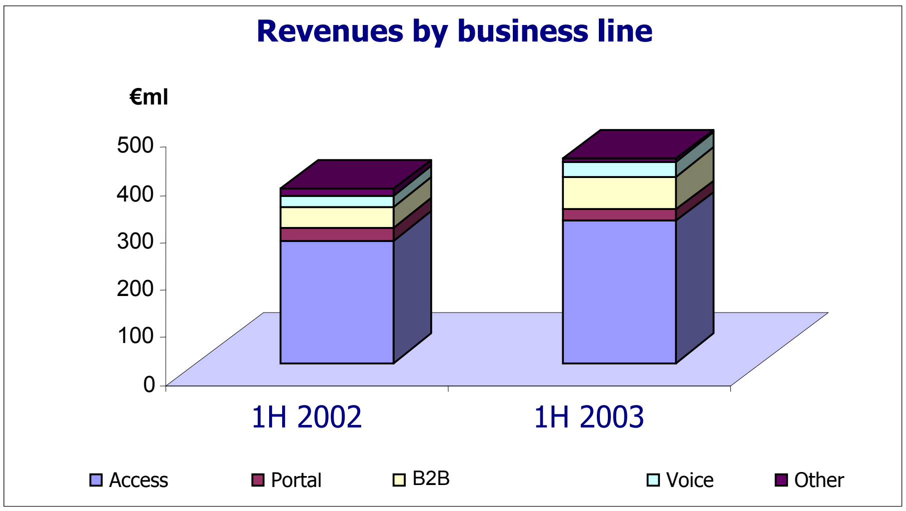
On 6 May, Tiscali announced the acquisition of the Austrian company Eunet EDV und Internet Dienstleistungs AG. The acquisition cost was EUR 15.9 million, paid in newly issued Tiscali shares. Given that the company had a cash position of EUR 1.9 million at 31 March 2003, the true cost of the acquisition was EUR 14 million. Operational since 1991, EUnet is Austria's leading ISP, and ranks second behind Telekom Austria in the country's B2B segment, with 15,000 customers. It offers high-quality internet products and innovative solutions, as well as internet access (using a wide range of technologies), hosting and housing services, managed network services (IP-VPNs), security packages and value-added services. The company is based in Vienna and has 64 employees. After its exit from the KPNQwest group, EUnet was restructured and relaunched last June. Its 2002 revenues are estimated at around EUR 18 million (annualised), with EBITDA at EUR 3.3 million, and positive net profit and cash flow figures. Taking into account projected synergies of around 2.5 million for the year, the acquisition should boost the Austrian subsidiary's EBITDA by almost EUR 6 million per year. Eunet's first-half revenues came in at EUR 7.7 million, with EBITDA at EUR 1.8 million. This acquisition represents a turning point for Tiscali in Austria: with aggregate revenues estimated at EUR 28 million for 2003, Tiscali looks set to become market leader in corporate internet services, which should help boost its penetration of the consumer market.

The access business remains Tiscali's main revenue driver, bringing in EUR 298.7 million in 1H03, or 70% of total revenues. This was a rise of 16% on the EUR 257.7 million generated in 1H02.

Following an excellent performance in 2002 and recent acquisitions made to strengthen the group's presence in the sector, revenues from corporate services shot up by 58%, from EUR 43.9 million in 1H02 to EUR 69.4 million (16% of the total) in 1H03.

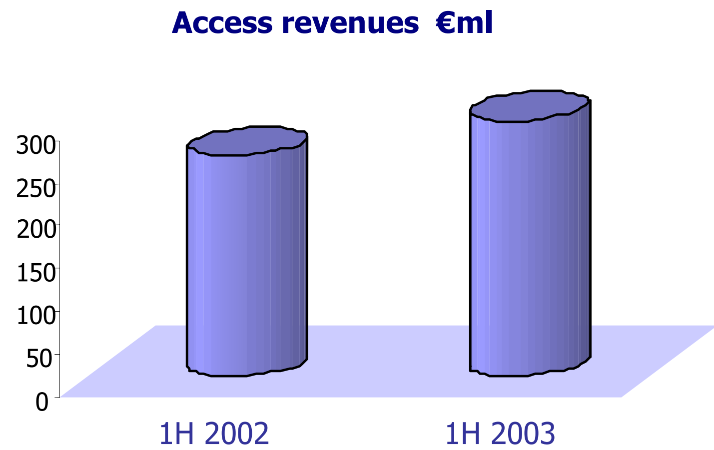
Despite the sluggish advertising market, portal revenues remained stable compared with the same period of last year, at EUR 23.9 million, and once again accounted for 6% of total revenues owing to the sale of value-added services (e.g. Tiscali Music Club) and anti-spam services (Secure Mail).

Voice revenues were up 29% on 1H02, at EUR 32.5 million, and weighed in at 8% of the total, confirming the strategic significance of the segment and its excellent fit with the access business.



Access

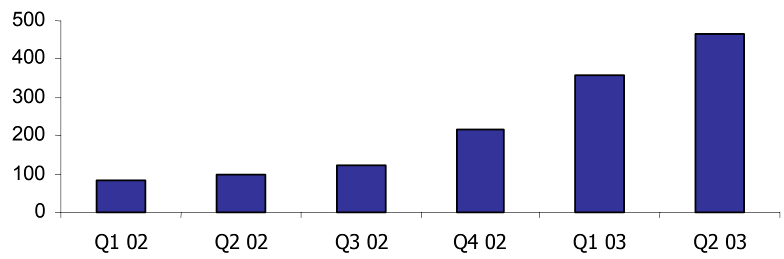
Internet access revenues were up 16% on 1H02, at EUR 298.7 million. In the second quarter they stood at EUR 150.4 million, an increase of 25% on the same quarter of 2002, and roughly in line with the 1Q03 figure.



The sharp rise in access revenues against last year was due mainly to exponential growth in broadband access, mainly via xDSL.
At the end of the second quarter, the company had 7.6 million active users—a big increase on 30 June 2002, but stable compared with the first quarter. Note that the drop in narrowband users over the period was amply offset by growth in both the number of minutes online (22 billion in the first half, up 10% on 1H02) and the number of broadband users, which led to a rise in average revenues per user.
The broadband user base shot up by around 110,000 in the second quarter, making a total of 470,000 at 30 June 2003. This is also a significant performance compared with June last year, when user numbers stood at 100,000.
Tiscali was able to take market share from incumbent operators in the UK, France, Benelux, Italy and Germany thanks to the successful positioning of its services.
The group offers broadband on all its European markets, and backs up its services with a targeted marketing campaign aimed at boosting growth in each country.
The number of subscribers rose significantly in all of Tiscali's main markets in 1H03.
At 30 June the group had 69,500 broadband customers in Italy, compared with just 16,000 at the end of June last year. This sharp growth was due partly to the incumbent Telecom Italia further reducing the tariffs it charges to alternative operators and offering a discount of around 45% on retail charges.
The number of ADSL users in France, where alternative operators have just been given bitstream access, rose from 16,000 at end-June 2002 to 123,000 this year.
In Germany, a fiercely competitive market where the two national operators T-online and Freenet.de dominate in both dial-up and broadband, Tiscali had 86,000 ADSL customers, from just 8,000 in the same period last year—proof that the company has good prospects in this country too.
Tiscali put in an outstanding first-half performance in the UK, with impressive growth in both access and business services, thanks partly to the group's extensive proprietary IP network, which generates synergies between the various business areas and helps boost margins.
Although the UK is one of the most competitive markets in Europe—as well as one of the most mature as regards internet access and portal services (e-commerce especially)—Tiscali had 51,000 broadband customers at the end of June, a figure which is all the more impressive given that the company only launched this service in the second half of 2002. Note that the UK was the first country in Europe to offer bitstream access, which enabled Tiscali to offer a particularly competitive ADSL package at a time when it was not possible to generate adequate margins in other countries.

In the Benelux countries Tiscali has a leading position on the ISP market, ranking second in Belgium and the Netherlands. The number of broadband customers in the three countries rose significantly compared to 2002: at 30 June there were 80,000 users, mainly in the Netherlands, compared with only 31,000 this time last year.

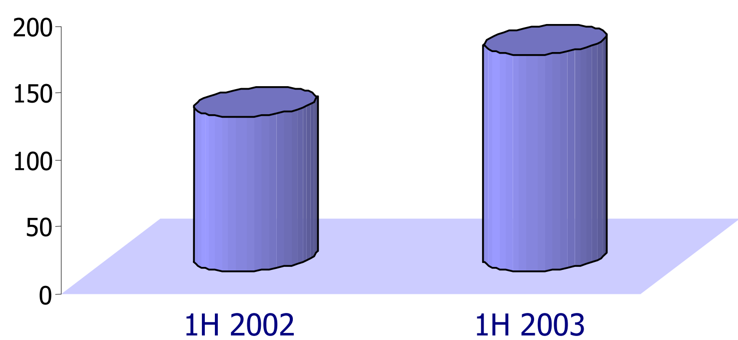
ADSL user (000)



Average revenue per user (ARPU) for internet access stood at EUR 7. This was a slight improvement on the figure recorded in 2Q02, owing partly to a higher contribution from ADSL users, who generated an ARPU of about EUR 26.

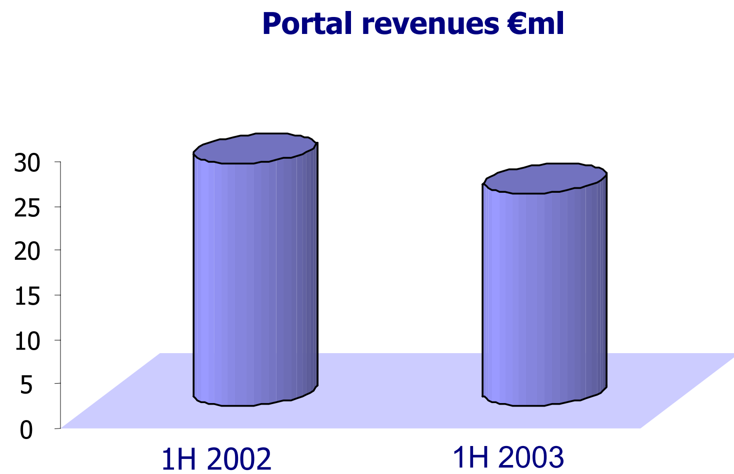
First-half gross profit from internet access came to EUR 162.3 million, or 54% revenues. This was a rise of 41% on the 1H02 figure of EUR 115.3 million (45% of revenues). Gross profit in the second quarter of 2003 totalled EUR 82.7 million (55% of revenues), a sharp increase on the same period last year, when the figure stood at 45% of revenues.

Access gross profit €ml



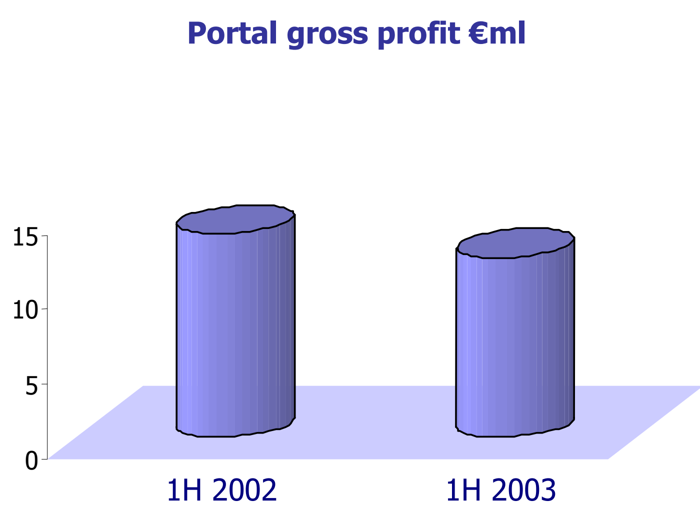
Portal

The group generated portal revenues totalling EUR 23.9 million in the first six months, down 12% on the EUR 27.2 million registered in the same period of 2002.
However, in the second quarter they grew 57% y/y, to EUR 11.9 million.

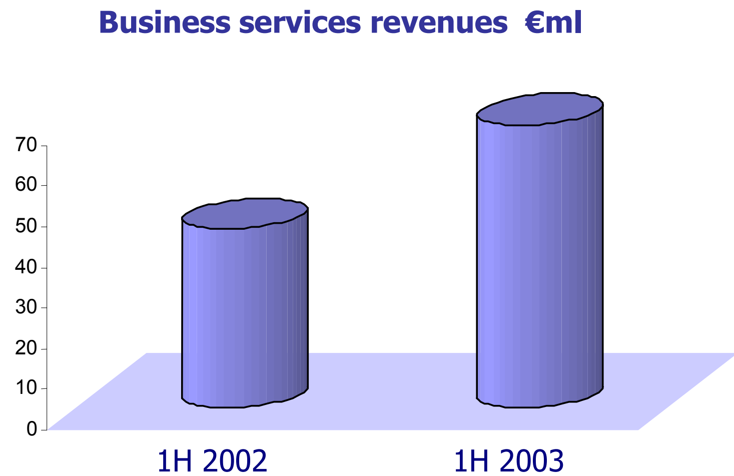


The decrease in the first half was due to the ongoing crisis in the advertising market, which is also affecting the internet sector. Tiscali has succeeded in offsetting the drop in advertising revenue by concentrating on the development of value-added content and services, with the aim of cementing its leading position in Europe and benefiting from the sale of premium content developed for the broadband market over the next few years.
In June 2003, there were over 12.3 million unique visitors to Tiscali's portals in the group's five key markets of Italy, France, the UK, the Netherlands and Germany (source: Nielsen NetRatings). [This figure cannot be compared with that of previous quarters as it has been taken from a smaller "panel".]

First-half gross profit totalled EUR 12 million, or 50% of revenues, with no change on 1H02. In the second quarter, the figure stood at EUR 5.9 million (50% of revenues), again with no change on 2Q02.

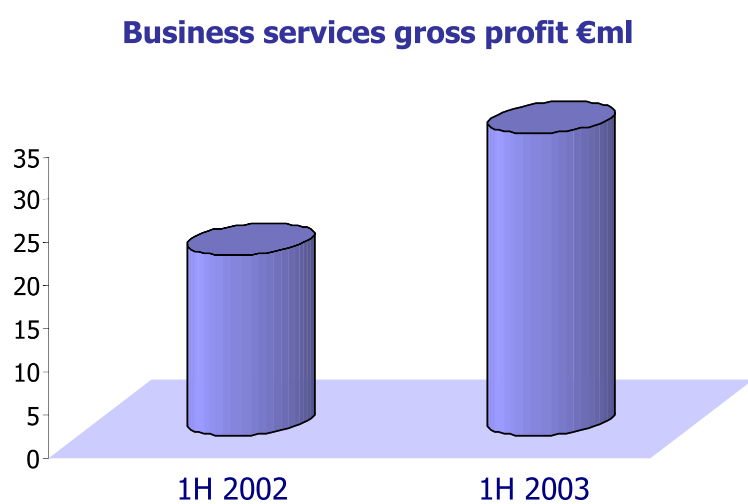


Business services
Revenues from business services came in at EUR 69.4 million in the first half, up 58% on the EUR 43.9 million generated in the same period of 2002.
In the second quarter they jumped 59% y/y, to EUR 35.2 million.



This excellent performance was mainly due to the company's focus on offering a wider range of business services, which generate high margins and attract a loyal and stable user base unaffected by seasonal factors. These products and services include broadband (leased lines and xDSL), virtual private networks (VPN), web housing, web hosting and co-location, wholesale IP and voice traffic services, and value-added services such as managed hosting, firewalls and security solutions. They also offer immediate synergies and efficiency gains thanks to Tiscali's proprietary network (this is also true for Tiscali's newly-acquired companies, thanks to the migration of their customer bases on to the group's network).
Throughout 2002 the business services division experienced steady growth—both organic and external—following the acquisition of leading players on the Italian, and Austrian markets.

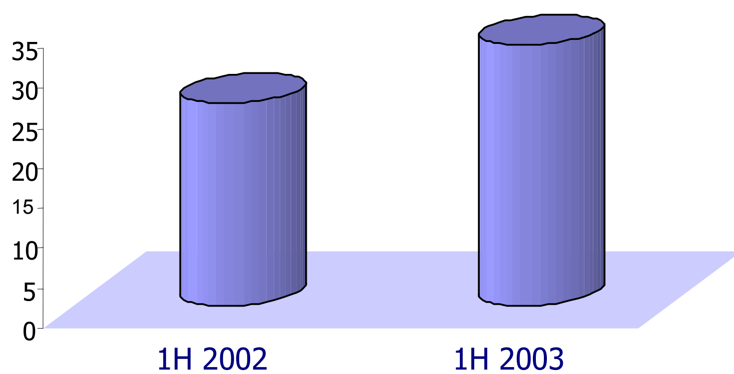
First-half gross profit stood at EUR 36.2 million, or 52% of revenues (versus 48% in 1H02). In the second quarter, the figure stood at EUR 18.8 million, or 53% of revenues (versus 45% in 2Q02).



Voice services

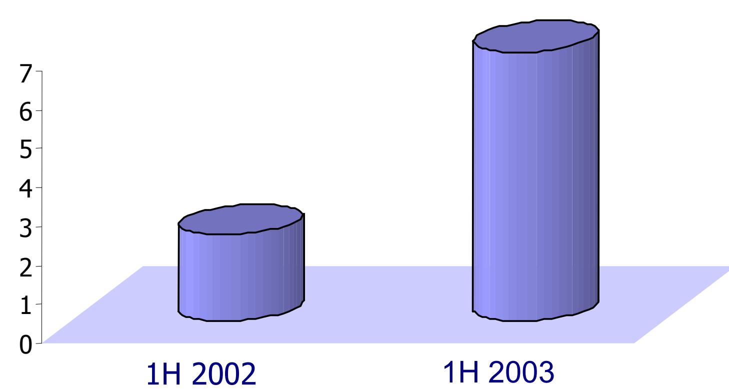
In the first half of 2003, revenues from voice services came in at EUR 32.5 million, up 8% on the same 2002 period.
Second-quarter revenues were EUR 16.9 million, up 36% on 2Q02.
Following last year's relaunch of voice services, Tiscali has recaptured market share and consolidated its position on the Italian and French voice markets, mainly through increased popularity of pre-paid cards and long distance telephone services.

Voice revenues €ml



Gross profit in the voice business rose substantially compared to 1H02, to EUR 6.9 million. The gross margin also improved considerably over the period, from 9% in the first half of 2002 to 21% this time.
Second-quarter gross profit was EUR 3.8 million, representing 22% of revenues (versus 10% in 2Q02).

Voice gross profit €ml

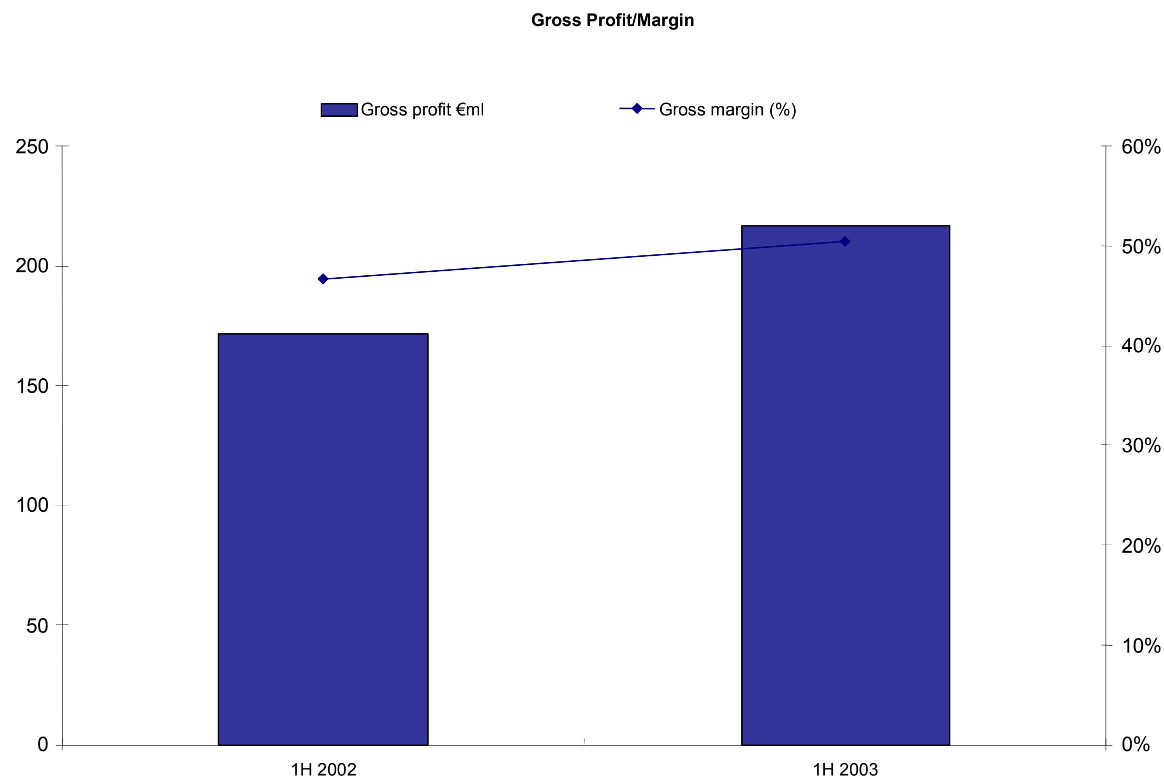


The voice segment remains a business of substantial strategic interest, given its profitability levels and the ease with which its technology and commercial aspects can be integrated with other group activities.
In particular, these services can be integrated with both consumer and corporate products, providing the group with another source of revenues.

Gross margin and operating costs

The group attained a satisfactory level of business efficiency in 2002, which was consolidated in the first six months of 2003. The gross margin expanded to 50% of total revenues, from 47% in the first half of 2002. Gross profit totalled EUR 216.9 million in the first half of 2003, a 26% increase on first half 2002 (EUR 171.7 million).

Second-quarter gross profit was EUR 111.3 million, representing 51% of revenues (unchanged from 2Q02).



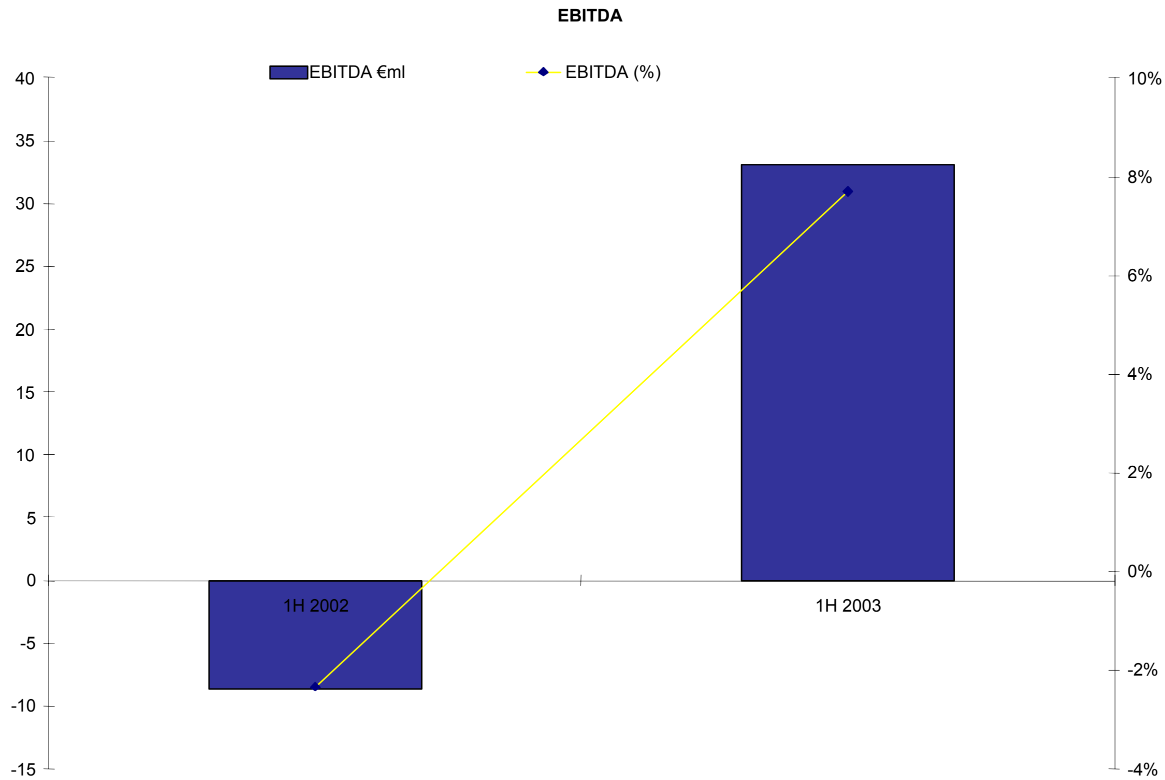
The main reason for this significant improvement compared to the same period last year lies in the synergies generated by the implementation and operation of the proprietary network. This confirms the validity of Tiscali's strategic decision to create, develop and manage its own national and international infrastructure. A major improvement in operating efficiency has been achieved thanks to:

1. extensive local networks that enable the group to obtain a high kick-back rate on dial-up business and slash local loop costs on narrowband, ADSL and corporate access services
2. considerable cost savings on fees for using other networks, after obtaining favourable terms on IRUs (Indefeasible Rights of Use)
3. reduction of IP transit costs to a negligible amount
4. major reduction in operating and maintenance costs

These factors should enable the company to benefit from high operating leverage, i.e. by reducing the large proportion of variable costs (largely linked to the termination of traffic) and increasing the proportion of fixed or semi-fixed costs (mainly associated with operating the proprietary network). This shift in the weighting of cost components will mean that increases in traffic volumes and revenues contribute more than proportional increases in operating profit.

By reducing the variable cost component, the group has improved its business performance significantly, especially in countries where the user base and the traffic it generates have enabled the company to take full advantage of its network.

However, the slight quarterly fall is the result a higher proportion of revenues being generated by ADSL, since the incumbents' tariff policies mean that margins are much slimmer than in narrowband at present.



In the first half of 2003, sales and marketing costs totalled EUR 66.4 million, up from EUR 59.3 million for the same period 2002, but remaining at around 15% of revenues (in line with 1H02). Marketing expenses focused on promoting ADSL services in all of the countries in which Tiscali operates.
Personnel costs came to EUR 68.9 million, 3% lower than in 1H02 (EUR 71.1 million), thereby reducing this component's proportion of revenues from 19% to 16%.
As of 30 June 2003, the Tiscali group had 3,036 employees (compared to 3,039 at 31 December 2002).

First-half G&A costs were EUR 48.5 million, or 11% of revenues, down from EUR 49.9 million in 1H02.

Operating costs totalled EUR 183.8 million, up from EUR 180.3 million in the first half 2002, but fell substantially as a proportion of revenues from 49% in 1H02 to 43% in 1H03.

The marked reduction in operating costs produced a positive EBITDA figure of EUR 33 million, versus a loss of EUR 8.6 million in 2002.
This result is an indication of the efforts the group has made to attain full profitability and achieve its goals, by pursuing an aggressive acquisitions policy aimed at capturing a substantial share of the European market.
EBIT was negative to the tune of EUR -98.8 million, although this was a 72% reduction on the EUR 353 million loss recorded in the same period of 2002. The EBITA figure was also negative, at EUR -48.5 million, but again, a substantial improvement on the EUR 211.9 million loss posted in 1H02.

The group made a first-half net loss of EUR 129.4 million, a considerable reduction on the 1H02 figure (EUR -403.8 million).

Group Balance sheet and Financial position

Balance sheet – EUR million	**30.06.2003**	**31.12.2002**
Figures in EUR million		
Non-current assets	994.6	1,052.2
Current assets	591.5	639.3
Total Assets	**1,586.2**	**1,691.5**
Shareholders' equity	487.5	616.0
Provisions for risks and future liabilities and Severance indemnities reserve	31.6	27.2
Liabilities	1,067.1	1,048.3
Total liabilities and shareholders' equity	**1,586.2**	**1,691.5**

At 30 June 2003, the group's non-current assets were worth EUR 994.6 million, a decrease of around EUR 32.2 million on year-end December 2002.
The decrease was mainly due to certain depreciation/amortisation periods coming to an end.
Consolidated shareholders' equity as of 30 June 2003, excluding minorities, stood at EUR 479.8 million. This represented a decrease, mainly due to the EUR 129.4 million loss recorded in the first six months of the year.

The group's financial resources totalled EUR 284.5 million at the end of the first half of 2003 including short term financing (other securities), while net debt excluding payables to other financial institutions stood at EUR 188.2 million, compared to EUR 134.7 million at 31 December 2002.

Financial position – EUR million	**30.06.2003**	**31.03.2003**	**31.12.2002**
Cash and cash equivalents	284,516	314,636	333,757
Short-term bank debt	(39,276)	(52,876)	(56,057)
Short-term cash position	245.240	261,760	277,700
Medium-/long-term debt	(433,503)	(420,488)	(412,460)
Net debt	(188,263)	(158,728)	(134,760)

The group's cash resources declined by 53.5 million in the period to June, chiefly due to the following: investments of EUR 43 million (including EUR 12.2 million for the new headquarters in Cagliari; interest payments of EUR 8.4 million on bonds (essentially a EUR 150 million fixed coupon issue maturing in July 2004); and interest paid on leasing agreements and other short-term loans, totalling EUR 14.8 million.

Group investments

Gross investments in tangible (EUR 35.5 million) and intangible (EUR 8.4 million) assets for January-June totalled EUR 44 million.
The main projects involved the installation of network infrastructure, the purchase of new servers and routers and software upgrades to improve the quality of the company's services and boost growth in internet traffic, the integration of technology platforms and the construction of the new technical and administrative headquarters and new server farm in Cagliari (EUR 12.2 million of a total investment of EUR 29 million).
The server farm will considerably reduce the company's rental bill for the different premises from which it is currently operating, and make the Italian business and holding company more efficient, as well as improving network management (partly thanks to the new data centre).

Parent company operating performance

The parent company posted revenues of EUR 84.9 million in the first half of 2003, an increase of around 30% on the equivalent 2002 period. In particular, access revenues shot up 37.2%, on the back of impressive ADSL growth. The number of dial-up connections remained for the most part steady, despite cannibalisation by ADSL services.

First-half EBITDA was negative at EUR -3.9 million, compared to a loss of EUR 20.7 million in the equivalent 2002 period. This improvement was the result of lower holding company and management costs than in 1H02.

The parent company made a net loss of EUR 30.1 million (compared to a loss of EUR 241.3 million in the first half of 2002), helped by extraordinary income of EUR 9.5 million.

P&L - EUR million	30.06.2003	30.06.2002	% change
Revenues	85.0	65.1	31%
Operating costs	(88.9)	(85.8)	4%
EBITDA	(3.9)	(20.7)	-81%
Depreciation, amortisation and provisions	(12.5)	(197.6)	-
EBIT	(16.4)	(218.3)	-
Financial income/(charges)	0.8	(10.5)	-
Extraordinary income/(charges)	(9.5)	(12.5)	-24%
Write-downs	(3.4)		-
Profit (loss) before tax	(30.1)	(241.3)	-
Tax	-	-	-
Net profit (loss)	(30.1)	(241.3)	-

Parent company: revenue breakdown

Revenues - EUR million	30.06.2003	30.06.2002	% change
Access	45.9	33.4	37%
Portal	7.2	9.3	-22%
Business	4.5	2.5	80%
Voice	13.9	8.3	67%
Other	12.1	7.7	57%
Total	**83.6**	**61.2**	**37%**

Access

Access revenues came to EUR 45.9 million, up 37% on 1H02. This business accounted for around 55% of total revenues, unchanged from 1H02.
The increase was largely due to the growth in ADSL user numbers, from 16,000 as of 30 June 2002 to approximately EUR 69,500 at 30 June 2003. Active 'free' dial-up users numbered 1.7 million as of 30 June 2003, up from 1.3 million at 30 June 2002, despite cannibalisation by ADSL. Dial-up minutes were down slightly at 4.6 billion versus 4.7 billion in 1H02. The *decade 7* internet service (carrier pre-selection) rose in popularity over the period, with a substantial increase in minutes online.

Portal

Portal revenues (advertising and e-commerce) were down 22% versus 1H02 at EUR 7.2 million, 9% of the total. The decline is partly attributable to the decision to abandon banner sales of premium tariff connection services. However, Tiscali has maintained its leading position in the Italian advertising market.

Business

Revenues from business services came in at EUR 4.5 million, an 80% increase on first half 2002.

Voice

Voice revenues rose 67% versus 1H02, to EUR 13.9 million. The increase was mainly attributable to growth in long-distance and wholesale products.

Operating costs

Operating costs totalled EUR 88.9 million in 1H03, up from EUR 85.8 million in the same 2002 period.

Specifically, line and port rental costs fell by around EUR 1 million, while traffic purchase costs increased by EUR 14 million owing to migration from dial-up to the *decade 7* service and a rise in voice minutes.
Advertising and promotional expenses dropped substantially, from EUR 22.7 million in 1H02, to EUR 8.7 million.

Salaries and related charges increased by EUR 1.5 million to EUR 14.9 million as the headcount rose from 783 at 30 June 2002 to 799 at end-June 2003. However, this item accounted for a lower proportion of total costs, falling from 21% in 1H02 to 18% in 1H03. In addition to the expansion in employee numbers, salary increases and the end of subsidies on training contracts contributed to the higher figure for the period.

Depreciation, amortisation and provisions fell from EUR 197 million for 1H02 to EUR 12.5 million in 1H03. In particular, depreciation and amortisation rose by EUR 5.2 million due to an increase in the value of non-current assets and assets in course of acquisition.

The balance of extraordinary income and charges was EUR -9.4 million (income: EUR 2.1 million; charges: EUR 11.5 million).

Parent company financial position

Balance Sheet - EUR million	30.06.2003	30.06.2002	% change
Non-current assets	2,201.9	2,188.6	0.5%
Current assets	296.5	224.0	32%
Total assets	**2,498.4**	**2,412.6**	**3.5%**
Shareholders' equity	1,649.9	1,560.4	5.7%
Provisions for risks and future liabilities and Severance indemnities reserve	58.4	212.7	-72.6%
Liabilities	790.1	639.5	23.6%
Total liabilities and shareholders' equity	**2,498.4**	**2,412.6**	**3.5%**

The total value of non-current assets rose by 3% compared to 1H02. Valuations of long-term investments were unchanged from 31 December 2002.

Short-term debt increased by EUR 24 million, or EUR 57.5 million including medium- and long-term debt. The increase in medium-/long-term debt relates to financing obtained for the construction of the new group's headquarters. Financial flows, set out in detail in the parent company's cash flow statement, largely refer to profit for the year and investment activities. This position naturally changes as revenues increase and margins expand.

Parent company investments

In 1H03 the company's investments totalled EUR 22 million, with leasing transactions accounting for EUR 0.5 million. Investments in intangible assets came to around EUR 4 million, while spending on tangible assets was EUR 18 million.
Investment projects included expansion of production capacity (particularly by upgrading the network for the development of ADSL services) and the new headquarters in Cagliari, which the group moved into during August 2003.

Significant events since the end of the period

With the aim of consolidating its position in France, Tiscali acquired the French internet business of Cable & Wireless (annual sales: EUR 35 million) via its subsidiary Tiscali France on 24 June. This acquisition will increase Tiscali France's B2B revenues to around EUR 50 million.

The acquisition cost of EUR 5.6 million will be paid in two tranches, in cash.

The new acquisition represents an important stage in the strategy of developing a range of services for the corporate sector, and will considerably enhance Tiscali's competitive position in one of Europe's biggest markets, thanks to the company's proprietary network infrastructure.

The integration of the Cable & Wireless internet business will bring Tiscali France a highly prestigious client base, and generate substantial synergies and profitability improvements.

The acquisition will enable the company to broaden its product and services portfolio (particularly in the area of VPN/IP and VISP services), extend Tiscali's network in France and improve its efficiency, thanks to the integration of the Cable & Wireless transmission network (24 PoPs, plus a metropolitan network in Paris connecting the various nodes) and value-added services platform (VISP, VPN/IP, firewalls).

Outlook

Tiscali's main objective in 2003 is to be ready for the challenge presented by the development of the ADSL market in Europe and to capture market share, by leveraging its positioning in the narrowband market to take full advantage of the opportunities offered by liberalisation of the broadband market in Europe.
At the beginning of February 2003, the European Commission issued its "Recommendation on relevant product and service markets within the electronic communications sector susceptible to ex-ante regulation", which is at the heart of the new regulatory package for the European telecoms sector.
This recommendation invites each member state to adopt regulations to facilitate the establishment of effective competition between all operators, thereby boosting the broadband market.
In most EU countries the incumbents continue to hold de facto monopolies in broadband, which limits competition and consumer choice.
The Commission's recommendation, already being implemented in some countries, will erode the incumbents' monopoly position and make it easier for independent operators to sell ADSL services in Europe.
In particular, independent operators will be able to compete effectively via network interconnections (i.e. through bitstream access to the incumbents' local networks, which will bring consumers lower prices and better services). Once the user base reaches critical mass, Tiscali will be able to offer ADSL services via the local loop, i.e. by investing in the unbundling process with the aim of reaching end users, thereby substantially improving profitability and providing direct control over final clients.
To take full advantage of the opportunities afforded by the changes to interconnection regulations, Tiscali has launched a wide range of broadband services to meet the needs of a diverse customer base, at competitive rates.
The Tiscali group also aims to consolidate its market share in the access business, by launching new products and services (such as WIFI and other value-added services) to boost traffic on its own network, strengthen customer loyalty and increase ARPU.
Business services should represent a growth driver for the group, thanks to the potential offered by the network infrastructure and Tiscali's know-how, which it intends to use to expand its own range of high quality business services.
To this end, the rationalisation and development of resources dedicated to business services should drive future revenue growth and boost operating profitability
Tiscali believes that its pan-European presence makes it one of the most attractive partners for any company seeking to promote and sell its own products and services on the internet.
The company will therefore continue to develop its own range of services and content for the European

market, while closely monitoring the opportunities offered by new markets where Tiscali does not have a presence.
In addition, Tiscali will keep a close eye on consolidation in the internet market, whereby the competitive environment is increasingly characterised by a small number of operators in each European market, bringing into play its expertise in evaluating potential targets and integrating the companies or divisions it acquires.

First-half results were in line with the group's business plan, which projects revenue growth of over 20% and an EBITDA margin of 8% for full-year 2003. The group also expects to generate cash flow from the last quarter of the year and to achieve positive EBITA in 2004.
In addition, the group may decide to take advantage of low interest rates and its share price performance to refinance part of its existing debt at improved conditions.

Ongoing disputes

The Tiscali group is currently involved in a number of minor legal disputes. The group's management does not believe that an unfavourable outcome of any of the ongoing disputes will impact substantially on the financial position of the parent company or the group, or on future business performance. The main disputes are summarised below.

In March 2001, Tiscali SpA began arbitration proceedings in Switzerland against Nikolai Manek, who—together with other parties—sold German company Nikoma GmbH to Tiscali in April 2000. Tiscali is claiming damages of over EUR 56 million, based on the inaccuracy of information contained in the purchase agreement, which overestimated the number of active subscribers on the German company's books. Tiscali has therefore blocked over 800,000 shares representing part of the payment owed to Mr Manek. However, Mr Manek has contested the accusation of inaccuracy, and is seeking compensation for unlawful withholding of the shares in question. At the first hearing of the case, the arbitration court made a preliminary decision (subject to modification) in Tiscali's favour, ruling that Mr Manek should pay the company EUR 6 million. The next hearing is scheduled for Autumn/Winter 2003.

In July 2001, the Dutch foundation Vereniging van Effectenbezitters, representing a group of shareholders, sued World Online International NV (99.5%-owned by Tiscali) and its IPO co-ordinators for failing to supply full and accurate information in the flotation prospectus and in a number of public statements released by the company and its chairman at the time of the flotation. Legal proceedings of a similar nature were started by another Dutch foundation, Stichting Van der Goen WOL Claims, in August 2001.

In December 2000, Jean Philippe Illiesco de Grimaldi and Illiesco de Grimaldi & Co began legal proceedings against World Online Ltd, a UK subsidiary of the World Online group. The plaintiffs allege that they were prevented from exercising an option to purchase shares in World Online Ltd, and are claiming damages of around EUR 17.4 million for loss of earnings from the resale of these shares.

In December 2000, Globetrans Ltd and Interglobetrans Ltd began legal proceedings against World Online International NV. The plaintiffs, both controlled by Jean Philippe Illiesco de Grimaldi, allege that they were entitled to a commission of 1% of the acquisition price paid by Tiscali to acquire World Online International NV, since they had put the management of the company in contact with Tiscali. The amount of compensation claimed in this case is EUR 69 million.

In June 2000, European Unique Resource Organisation 2000 BV sued Tiscali BV (formerly known as World Online BV) for breach of an agreement signed in December 1999 for the development and provision of internet services. European Unique Resource Organization 2000 BV has publicly declared that it is EUR 4.5 million out of pocket as a result. In June 2002, the court of Amsterdam ruled against Tiscali BV, but put the onus on the plaintiff to substantiate the amount claimed. Tiscali BV is appealing against this decision.

Corporate governance

Introduction

The Code of Conduct for Listed Companies ("the **Code**") was revised by the Committee for the Corporate Governance of Listed Companies in July 2002, which was responsible for drafting the original version. Tiscali has now fully implemented the Code's recommendations, as indicated in its annual report and accounts.

The Code represents a guideline of best practice that aims to contribute to the establishment of an organisational model capable of managing risk and avoiding any conflicts of interest arising between the directors and shareholders as a whole, and between majority and minority shareholders.

Implementation of the Code is voluntary and not compulsory, and companies are free to decide whether or not to adapt their organisation to the recommendations.

Section IA.2.13 of the Instructions for the Regulation of the Nuovo Mercato produced by Borsa Italiana SpA states that listed companies must provide specific notification of organisational decisions made in the light of recommendations formulated by the Committee for Corporate Governance, which is to be made available to shareholders together with the documentation prepared for the shareholders' meeting called to approve the financial statements. This notification must be simultaneously transmitted to Borsa Italiana, which makes it available to the market.

The board of directors of Tiscali has examined the updated Code, and with the aim of achieving best practice in company disclosure, has adopted the corporate governance procedures set out below, in compliance with the Instructions for the Regulation of the Nuovo Mercato and the guidelines published by Borsa Italiana SpA.

Role of the board of directors

The responsibilities and powers exercised by the board of directors in respect of its strategic, supervisory and management functions, as laid down in article 14 of the company's articles of association (Powers of the board of directors) and in company procedures, are largely in line with those set out in articles 1.1 and 1.2 of the Code.

During the first six months of 2003, the board of directors met three times, mainly to discuss and approve the quarterly and half-yearly results and other major transactions carried out by the company, which are set out in detail in the reports prepared by the board for shareholders.

The 2003 timetable for board meetings was approved on 12 November 2002. Five meetings have been scheduled for the approval of the quarterly, half-yearly and annual results.
In addition, as required by article 14 of the articles of association (Powers of the board of directors), the board of directors provides the board of auditors with a quarterly report on activities and major business and financial transactions, and any asset-related operations that have been carried out by the company or its subsidiaries.

Prior to each board meeting, the company secretary provides the directors with the necessary documentation in due time so that board members can express an informed view regarding matters on the agenda.

Composition of the board of directors

The board of directors currently comprises four non-executive directors, out of a total of five members. Gabriel Pretre was co-opted to the board on 12 February 2003, following the resignation of James Kinsella on 24 January 2003, and Tomaso Barbini was co-opted to the board on 14 May 2003, following the resignation of Hermann Hauser. In addition, Elserino Piol resigned from the board on 16 July 2003.

The mandate of the board of directors appointed by the shareholders meeting on 29 April 2002 will expire once the shareholders meeting held to approve the annual report and accounts for 2004 has taken place.

The only executive director of the company is the chairman and chief executive, Renato Soru.

The functions of the current board members as directors or auditors of other listed companies or of banking, insurance or other major companies are listed below. No current board member is a member of the board of auditors of a listed company, a banking or insurance company, or any other major company. Taking into account the functions held by board members for other companies, the company believes that its board members have the abilities and time necessary to effectively fulfil their roles as directors.

	Director at other listed companies or banking, insurance or other major companies
Renato Soru	Director, Liberty Surf SA (Euronext Paris) Director, World Online International NV (traded but not listed - Euronext Amsterdam) Director, Hutchison 3G Italia SpA Director, Banca CIS
Franco Bernabè	Chairman, Franco Bernabè Group and subsidiaries Vice Chairman, H3G SpA Vice Chairman, Hutchison 3G Italia SpA Director, TPG-TNT Post Group Director, Petrochina company Limited
Victor Bischoff	Director, Sandoz Family Foundation Chairman, Interoute/C21 Director, Citco Group Vice Chairman, BB Biotech AG
Tomaso Barbini	Chairman, Conectra Srl Director, Rothschild Italia SpA
Gabriel Pretre	Director, Sandoz Family Foundation Director, Banque Edouard Constant (BEC) Director, Sandoz FF Holding Bancaire et Financière Director, SFF Financial Services SA Director, Citco Bank B.V.I. Ltd Director, Interoute Communications Group Director, G.G.B. (Gornergrat-Monte Rosa-Bahnen) listed on the SWX (Swiss market)

The board of directors has established that Franco Bernabè is an independent board member who meets the independence requirements set out in article 3 of the Code. As the table above indicates, Mr Bernabè is vice chairman of Hutchison 3G Italia SpA, in which group company Tiscali Finance SA holds a 0.3% stake.

The board will ensure that the market is informed of its assessments of the independence of directors, as required by article 3.2 of the Code.

Chairman and Chief Executive

The chairman of the board of directors fulfils the functions described in articles 4.1 and 4.2 of the Code. The chairman also carries out the functions of chief executive, and was attributed with full powers by a decision of the board of directors on 14 May 2002.

Information provided to the board of directors

During meetings of the board of directors, the chief executive reports to the board of auditors every quarter, or more frequently, on major operations carried out. The chief executive also provides board meetings with appropriate information on an ongoing basis on any atypical or unusual operations, for which board approval is not required.

Appointment of Directors

Article 11 (Board of directors) of the articles of association stipulates that directors must be appointed through a list voting system, so that the procedure is transparent and fair.

A shareholders' meeting is to be called to vote on the proposed amendment of article 11, which states that the list containing the nominations for the post of director must be delivered to the company's registered office at least ten days before the first date scheduled for the meeting, together with a detailed curriculum vitae of the candidates. This amendment is in line with the recommendations contained in article 7.1 of the Code, and is aimed at harmonising the regulation governing the appointment of board members with the provisions of article 18 (board of auditors) of the articles of association in respect of the lodging of lists for the appointment of auditors.

Based on the above, it was not considered necessary to establish a committee for the management of nominations to the board.

Directors' remuneration

The board of directors meeting held on 27 March 2001 voted to establish a Remuneration Committee, as set out in article 8 of the Code.

The Remuneration Committee was reformed at the board meeting held on 14 May 2002, following the shareholders' meeting on 29 April 2002 that appointed the new members to the board of directors. The committee now comprises Renato Soru and Victor Bischoff. Please note that Elserino Piol resigned from the board on 16 July 2002, till that date chairman of the remuneration committee.

On 14 May 2001 the board also approved the Regulations for the remuneration committee. Under these regulations the Committee must formulate proposals for the remuneration of directors and those performing particular duties, and (at the request of the directors) for the remuneration criteria. These proposals are to be submitted to the board of directors. The Committee is also responsible for formulating proposals on company stock option plans and related procedures. In carrying out its duties, the Committee may use the services of outside consultants, at the company's expense.

Handling of confidential information

The company has implemented a procedure for supervising the management of confidential information that separates the task between members of staff appointed for that purpose and senior management. This procedure is to be included in the internal regulations to be adopted following approval by the board of directors.

The procedure states that the communication of confidential information to the public is to be managed by the Investor Relations Office referred to in the paragraph on "Communications with institutional investors and other shareholders" below, which prepares the text of press releases and handles subsequent publication via a network of companies employed for that purpose. In detail:

- press releases relating to the information that must be released on a regular basis (annual report and accounts, half-yearly report, quarterly reports, etc.) are approved by the chief financial officer and chief executive after obtaining the opinion of the board of directors, where possible;

- press releases relating to extraordinary operations (mergers, acquisitions, increases in share capital, etc.) are approved by the chief executive after obtaining the opinion of the chief financial officer;

- in all other cases, the investor relations manager is responsible for managing information provided to the public. Where possible, publication of price sensitive information is decided in conjunction with the Legal Department, after obtaining the approval of the chief financial officer.

Directors, auditors, the investor relations manager and all other employees are required to treat as confidential all price sensitive documents and information that they have acquired because of their position or in the course of performing their duties, unless the documents or information have already been made public in the prescribed forms. The persons listed above are also strictly prohibited from granting interviews to press organisations or making any public statements containing information on important events that could be considered price sensitive, and which has not appeared in press releases or documents already made public, or expressly authorised by the Investor Relations Office.

In addition, the company adopted a Code of Conduct on Internal Dealing on 12 November 2002, in compliance with articles 2.6.3, 2.6.4 and 2.6.4 bis of the Regulations of the Nuovo Mercato, and informed the market of this fact in a timely manner. This Code of Conduct (see Annex 3) identifies the persons with disclosure obligations, defines the transactions that must be disclosed and sets out the related disclosure obligations of interested parties and the company itself, as well as penalties to be applied by the company in the event of breaches of the Code.

Internal audit

The board of directors meeting on 2 October 2001 formalised the company's internal audit procedures. These have been adapted in line with the recommendations contained in article 8 of the Code, through the establishment of an Internal Audit Committee and the appointment of an internal audit manager.

The internal audit manager has no operating line manager, as recommended by article 9.4 of the Code, and instead reports directly to the chief executive, the Internal Audit Committee and the board of auditors. As a further safeguard of the independence of the Internal Audit Manager, the person holding this post is provided with his/her own budget.

In 2001 an internal audit of the main group companies was carried out with the aim of raising operating effectiveness and improving methods of identifying, preventing and dealing with operating and financial risk, including those concerning efficiency of operations and compliance with laws and regulations, as well as any fraud perpetrated against the company.

Internal Audit Committee

In compliance with the recommendations of article 9 of the Code, the board of directors voted to set up an Internal Audit Committee at a meeting held on 2 October 2001.

The Internal Audit Committee was reformed at the board meeting held on 14 May 2002, following the shareholders' meeting held on 29 April 2002, at which the new board members were appointed. Two non-executive directors were appointed to the Internal Audit Committee: Elserino Piol and Victor Bischoff (Chairman). However, Elserino Piol resigned from the board on 16 July 2003, and it will be necessary to set up a new Internal Audit Committee.

The Internal Audit Committee is autonomous and independent. Its function is to advise and make proposals, and in particular, to:

- assess the effectiveness of the internal audit;
- assess the schedule prepared by the Internal Audit Manager and receive his/her regular reports;
- assess proposals made by the company's external auditors and any work schedules, and manage day-to-day contact with the auditing firm;
- report to the board of directors on the activities carried out and the effectiveness of the internal audit procedures;
- carry out any other duties assigned to it by the board of directors.

The chairman of the board of auditors and the chief executive may participate in the work of the Internal Audit Committee.

Related parties

It is company practice to keep transactions with related parties to a minimum. Any transactions of this nature that are carried out, however, are conducted in such a way as to ensure compliance with legal and procedural criteria, as indicated in article 11.1 of the Code.

When transactions that may involve a direct or indirect interest of a director are approved, the director(s) concerned must abstain from voting, as recommended in article 11.2 of the Code.

Communications with institutional investors and other shareholders

Communications with institutional investors and other shareholders are handled by the Investor Relations Office. This office reports to the chief financial officer, and its responsibilities include the release of information on the company and its operations to the financial community, including the confidential and price sensitive information referred to in the paragraph "Handling of confidential information" above.

Information is provided via press releases and meetings with institutional investors and the financial community. Additional documentation is made available on the company website under the section entitled "Investor Relations". It is also possible to contact the company by e-mail at ir@tiscali.com

Shareholders' meetings

The company has always sought to encourage and facilitate the participation of shareholders at shareholders' meetings, by responding to investors' requests for company information, in accordance with the regulations governing price sensitive communications.

At its meeting of 14 May 2001, the board of directors drafted the Shareholders' Meeting Regulations as recommended by article 12.4 of the Code, which were subsequently approved and adopted by the ordinary shareholders' meeting held on 16 July 2001.

The board of directors believes that the interests of minority shareholders have been respected, as the current articles of association do not allow any majorities other than those contemplated by law.

Statutory Auditors

Auditors are appointed on the basis of a transparent procedure that complies with article 18 of the articles of association (Board of auditors), and involves a list voting system. The list containing the nominations for the post of director must be delivered to the company's registered office at least ten days before the first date scheduled for the shareholders' meeting, together with a detailed curriculum vitae of the candidates.

Furthermore, in compliance with Decree no. 162 issued by the Ministry of Justice on 30 March 2000, the extraordinary shareholders' meeting held on 16 July 2001 amended article 18 (Board of auditors) of the articles of association so that at least one statutory auditor, and at least one deputy auditor, must be chosen from the official register of auditors who have at least three years experience. Auditors that do not fulfil this condition must have at least three years experience in the sector in which the company operates, or in a related field, such as telecoms.

Stock option scheme

On 12 March 2001 the ordinary shareholders' meeting of Tiscali SpA approved the introduction of a stock option scheme for directors and other employees of Tiscali group companies, granting a mandate to the board of directors to draw up the necessary guidelines and assign the stock options. At the extraordinary meeting held on the same date, two capital increases were approved pursuant to article 2442, paragraphs 5 and 8 of the Italian Civil Code, for the purpose of issuing 15 million shares for the stock option scheme.

At a meeting on 27 March 2001, the board of directors adopted the "Stock Option Regulations and Procedures for Allocating Shares 2001-2005" (the Scheme), which is intended to motivate and reward the management and other staff, and to give all employees the opportunity to benefit from company growth, as well as focusing attention on the creation of value at all companies in the Tiscali group.
Under the Scheme, employees are awarded options to purchase ordinary shares in Tiscali, allocated according to the position held. The Scheme is only available to designated beneficiaries, at the discretion of the board of directors or (under certain circumstances) the chairman, in conjunction with the Remuneration Committee. Each option gives the right to purchase one share at the price set by the board of directors or (under certain circumstances) the chairman, taking into account the tax regulations in force in the relevant country, so as to take advantage of any tax benefits.
The options are awarded to named individuals and are non-transferable and non-negotiable, unless they are bequeathed in a will. The Scheme is to run for three years, during which time stock options may be exercised in three lots, with each lot corresponding to a third of the total number of options assigned. These lots may also be exercised in part. The exercise periods are set each year by the board of directors, from September 2001.
In compliance with the law, a report on the scheme was delivered to Consob on 27 April 2001.
Stock options can be exercised under the scheme as long as they are held from the date they are assigned until the end of that financial year, as long as the beneficiary continues to work for Tiscali, or for one of the companies in the group. Furthermore, in line with established practice, certain measures have been taken to protect the rights of beneficiaries in the event of extraordinary operations such as a merger or the sale of the company, or if control of the company changes hands.
On 14 May 2001, the board of directors assigned 15 million stock options to employees of the Tiscali group.
On 13 March 2002, the board of directors cancelled all of the stock options previously awarded, and effectively replaced them with options carrying a different exercise price. In both cases, the exercise price, as set by the board of directors, corresponded to "normal value", as defined by article 9, paragraph 4, point

a) of Presidential Decree 917 of 1986, i.e. the arithmetic mean of the official Tiscali share price during the month prior to the allocation of the options.
As of the date of this report, none of the stock options assigned had been exercised. As a result, the capital increase approved by the shareholders' meeting of 12 March 2001 for the period of five years, has yet to be even partially subscribed.

Shares held by directors and auditors

As required by law, specifically article 79 of the regulation implementing Legislative Decree 58/1988 issued by Consob with resolution 11971/99, the table below shows the number of shares held by directors and auditors.

Name	Position	No. of shares owned at 30.06.2003	No. of shares purchased	No. of shares sold	No. of shares owned at 31.12.2002
Board of Directors					
Renato Soru	Chairman and Chief Executive	108,100,000	-	-	108,100,000
Franco Bernabè	Director	-	-	-	-
Tomaso Barbini	Director	-	-	-	-
Victor Bischoff	Director	-	-	-	-
Gabriel Pretre	Director	489	-	-	489
		-	-	-	-

Name	Position	No. of shares owned at 30.06.2003	No. of shares purchased	No. of shares sold	No. of shares owned at 31.12.2002
Board of Auditors					
Aldo Pavan	Chairman	-	-	-	
Massimo Giaconia	Statutory Auditor		-	-	
Piero Maccioni	Statutory Auditor	-	-	-	-
Andrea Zini	Deputy Auditor	2,054	-	-	2,054
Rita Casu	Deputy Auditor	50	-	-	50

For the Board of Directors
The Chairman

Renato Soru

Renato Soru

Interim report to 30 June 2003
The Tiscali Group

Balance Sheet – Assets

(figures in EUR 000)

			ASSETS			30.06.2003	31.12.2002	30.06.2002
A)			**Capital contributions due from shareholders**					
			Portion called up					
			Other shareholders			-	-	-
			Portion not called up					
			Group companies			-	-	-
			Other shareholders			28	28	-
			Capital contributions due from shareholders			**28**	**28**	**-**
B)			**NON-CURRENT ASSETS**					
I			**Intangible assets**					
	1)		Start-up and expansion costs			3,450	5,281	7,593
	2)		Research, development and advertising costs			12,039	38,000	5
	3)		Industrial patent rights and intellectual property rights			20,927	3,686	12,353
	4)		Concessions, licenses, trademarks and similar rights			143,201	141,933	95,950
	5)		Goodwill			120	160	200
	6)		Payments on account and intangible assets in course of acquisition			6,657	6,161	23,435
	7)		Other intangible assets			11,490	13,005	7,478
	8)		Consolidation differences			522,582	540,987	556,715
			Intangible assets			**720,466**	**749,213**	**703,729**
II			**Fixed assets**					
	1)		Land and buildings			11,842	11,224	15,851
	2)		Plant and machinery			180,113	224,461	10,496
	3)		Industrial and commercial equipment			802	636	328,099
	4)		Other fixed assets			27,555	41,306	2,954
	5)		Payments on account and intangible assets in course of acquisition			37,447	9,582	3,151
			Fixed assets			**257,759**	**287,209**	**360,551**
III			**Long-term investments**					
	1)		***Investments in:***					
		a)	Non-consolidated group companies			87	288	-
		b)	Affiliated companies			66	185	29,993
		c)	Parent companies			-	-	-
		d)	Other companies			12,673	12,687	-
	2)		***Receivables***	-				
				30.06.2003	**31.12.2002**			
		a)	From non-consolidated group companies	-	26,715	3,588	26,714	30,991
		b)	From affiliated companies	-	-	-	-	-
		c)	From parent companies	-	-	-	-	-
		d)	From other companies	-	-	-	-	-
				-	**26,715**			
	3)		***Other securities***			**-**	**-**	**1**
	4)		***Own shares***			**-**	**-**	**-**
			Long-term investments			**16,414**	**39,874**	**60,985**
			Non-current assets			**994,639**	**1,076,296**	**1,125,265**

Balance Sheet – Assets (continued)

					30.06.2003	31.12.2002	31.06.2003
C)		**Current Assets**					
I		**Inventories**					
	1)	Raw materials, supplies and consumables			5,301	6,310	7,518
	2)	Work in progress and semi-finished products			-	-	-
	3)	Contract work in progress			-	-	-
	4)	Finished products and goods			-	-	-
	5)	Advance payments			-	-	-
		Inventories			**5,301**	**6,310**	**7,518**
II		**Receivables**	-				
			30.06.2003	**31.12.2002**			
	1)	Trade receivables	155,774	190,572	155,774	190,572	191,652
	2)	From non-consolidated group companies	824	830	824	830	15,444
	3)	From affiliated companies	-	-	-	-	-
	4)	From parent companies	-	-	-	-	-
	5)	From other companies	57,247	36,042	82,574	38,631	42,566
		Receivables	**213,845**	**227,444**	**239,172**	**230,033**	**249,662**
III		**Investments other than non-current assets**					
	1)	Holdings in non-consolidated subsidiaries			-	3,209	-
	2)	Holdings in affiliated companies			-	-	-
	3)	Holdings in parent companies			-	-	-
	4)	Other holdings			-	-	-
	5)	Own shares			-	-	-
	6)	Other securities			124,227	124,187	164,191
		Investments other than non-current assets			**124,227**	**127,396**	**164,191**
IV		**Cash and cash equivalents**					
	1)	Bank and post office deposits			160,289	209,564	164,541
	2)	Cheques			-	3	2
	3)	Cash and other negotiable instruments			-	3	18
		Cash and cash equivalents			**160,289**	**209,570**	**164,561**
		Current Assets			**528,989**	**573,309**	**585,932**
D)		**Accrued income and deferred charges**					
		Accrued income			28,239	13,622	18,126
		Deferred charges			34,306	28,250	59,853
		Accrued income and deferred charges			**62,545**	**41,872**	**77,979**
		Assets			**1,586,201**	**1,691,505**	**1,789,176**

Balance Sheet – Liabilities

		Liabilities			30.06.2003	31.12.2002	31.06.2003
A)		**Shareholders' equity**					
		Total shareholders' equity					
	I	Share capital			183,057	180,867	179,691
	II	Share premium reserve			1,496,977	1,632,896	1,622,095
	III	Revaluation reserve			-	-	-
	IV	Legal reserve			-	-	1
	V	Reserve for own shares held			-	-	-
	VI	Statutory reserves			-	-	-
	VII	*Other reserves:*					
		Extraordinary reserves			-	-	-
		Dividend reserves			-	-	-
		Other reserves			-	-	-
		Reserve for holdings valued at equity			-	-	-
		Currency translation reserve			(74,950)	(28,613)	(16,696)
		Subsidiaries' undistributed profits (losses) and other reserves			(995,901)	(575,977)	(684,346)
		Consolidation reserve			-	-	-
		Other reserves			-	-	-
	VIII	Retained earnings (losses carried forward)			-	-	-
	IX	Profit (loss) for the year			(129,357)	(593,145)	(403,778)
		Total shareholders' equity			**479,826**	**616,028**	**696,967**
	XI	Minorities' portion of shareholders' equity			7.692	16,309	12,474
		Minorities' portion of profit (loss) for the year					
		Shareholders' equity			**487,518**	**632,337**	**709,441**
B)		**Provisions for risks and charges**					
	1)	Pension provisions and similar obligations			-	-	-
	2)	Tax provisions			-	100	-
	3)	Other			24,156	20,059	181,500
		Provisions for risks and charges			**24,156**	**20,159**	**181,500**
C)		**Severance indemnities reserve**			**7,407**	**7,002**	**2,839**
D)		**Payables**	-				
			30.06.2003	**31.12.2002**			
	1)	Bonds	400,000	400,000	407,403	409,211	304,178
	2)	Convertible bonds	-	-	-	-	-
	3)	Due to banks	33,503	12,460	72,779	59,306	34,538
	4)	Due to other financial institutions	34,884	46,941	54,374	62,929	52,557
	5)	Advance payments	-	-	-	-	3,000
	6)	Trade accounts payable	-	-	279,514	306,676	264,320
	7)	Payables in the form of debt securities	-	-	-	-	-
	8)	Due to non-consolidated group companies	3,045	-	4,081	4,482	45,697
	9)	Due to affiliated companies	52	-	52	468	-
	10)	Due to parent companies	-	-	-	-	-
	11)	Taxes payable	-	11,483	27,311	32,375	14,241
	12)	Due to social security agencies	-	-	7,975	10,726	17,257
	13)	Other payables	11,998	9,025	53,126	12,142	25,960
		Payables	**483,482**	**479,909**	**909,615**	**898,315**	**761,748**
E)		**Accrued liabilities and deferred income**					
		Accrued liabilities			96,706	66,684	82,563
		Deferred income			63,799	67,008	51,085
		Accrued liabilities and deferred income			**160,505**	**133,692**	**133,648**
		Liabilities			**1,586,201**	**1,691,505**	**1,789,176**

Memorandum Accounts

MEMORANDUM ACCOUNTS	30.06.2003	31.12.2002	31.06.2003
GUARANTEES RECEIVED			
From third parties and group companies			
sureties	2,792	2,448	6,131
real guarantees	1,571	1,571	-
From third parties and group companies	**4,363**	**4,019**	**6,131**
OTHER MEMORANDUM ACCOUNTS	**-**	**-**	**-**
warrants	183	183	12,704
guarantees	11,060	11,060	15,066
OTHER MEMORANDUM ACCOUNTS	**11,243**	**11,243**	**27,770**
GUARANTEES GIVEN			
To third parties			
sureties	267,521	254,829	251,532
real guarantees	3,612	3,612	195,280
To third parties	**271,133**	**258,441**	**446,812**
To subsidiaries	**-**	**-**	**-**
real guarantees	2,996	2,996	-
To subsidiaries	**2,996**	**2,996**	**-**

Profit and Loss Account

				30.06.2003	30.06.2002	31.12.2002
A)			**Value of production**			
	1)		Revenues from sales and services	428,346	364,183	739,312
	2)		Changes in inventories of work in progress, semi-finished and finished products	-	-	-
	3)		Changes in contract work in progress	-	-	-
	4)		Increases in assets for work in progress (internal)	-	-	153
	5)		Other revenues and income	1,341	3,536	8,893
			Value of production	**429,687**	**367,719**	**748,358**
B)			**Production costs**			
	6)		Raw materials, supplies, consumables and goods	(2,015)	(1,912)	(12,034)
	7)		Services	(297,333)	(283,180)	(572,172)
	8)		Use of third-party assets	(16,533)	(17,562)	(13,837)
	9)		*Personnel costs*			
		a)	Wages and salaries	(54,242)	(55,763)	(111,462)
		b)	Social security contributions	(12,517)	(12,154)	(20,290)
		c)	Severance indemnities reserve	(2,134)	(1,805)	(3,400)
		d)	Pension provisions and similar obligations	-	-	-
		e)	Other costs	(3,747)	(1,421)	(4,900)
	10)		*Depreciation, amortisation and write-downs*			
		a)	Amortisation of intangible assets	(77,185)	(175,916)	(253,560)
		b)	Depreciation of fixed assets	(40,834)	(49,163)	(117,376)
		c)	Other write-downs of non-current assets	(7,632)	(1,379)	(4,342)
		d)	Write-off of receivables included in current assets and cash and cash equivalents	(5,829)	(4,515)	(23,293)
	11)		Changes in inventories of raw materials, supplies and consumables	-	59	(177)
	12)		Risk provisions	-	(113,465)	(2,242)
	13)		Other provisions	-	-	-
	14)		Other operating expenses	(8,465)	(2,538)	(9,104)
			Production costs	**(528,466)**	**(720,714)**	**(1,148,189)**
(A - B)			**Difference between value of production and production costs**	**(98,779)**	**(352,995)**	**(399,831)**
C)			**Financial income and charges**			
	15)		**Income from equity investments**			
		a)	In non-consolidated group companies	-	-	-
		b)	In affiliated companies	-	-	-
		c)	In other companies	-	-	-
	16)		**Income other than the above**			
		a)	*From receivables listed under non-current assets*			
			From third parties	-	-	-
			From group companies	-	860	-
			From affiliated companies	4	16	619
			From parent companies	-	-	-
		b)	*From securities listed under non-current assets other than equity investments*	-	-	*4*
		c)	*From securities listed under current assets other than equity investments*	*124*	*222*	*941*
		d)	*Earnings other than the above*			
			From third parties	11,625	27,517	70,073
			From non-consolidated group companies	-	-	24,053
			From affiliated companies	-	50	2,376
	17)		**Interest and other financial charges**			
		a)	From third parties	(21,906)	(47,907)	(87,932)
		b)	From group companies	(264)	-	-
		c)	From affiliated companies	-	-	-
		d)	From parent companies	-	-	-
			Financial income and charges	**(10,417)**	**(19,242)**	**10,134**

Profit and Loss Account (continued)

				30.06.2003	30.06.2002	31.12.2002
D)			**Adjustments in valuation of long-term investments**			
	18)		**Write-ups**			
		a)	of equity investments	-	-	-
		b)	of long-term investments other than equity investments	-	-	-
		c)	of securities listed under current assets other than equity investments	-	-	-
	19)		**Write-downs**			
		a)	of equity investments	-	(3,742)	(81,088)
		b)	of long-term investments other than equity investments	-	-	-
		c)	of securities listed under working capital other than equity investments	-	-	-
			Adjustments in valuation of long-term investments	**-**	**(3,742)**	**(81,088)**
E)			**Extraordinary income / (charges)**			
	20)		**Extraordinary income**			
		a)	Income	20,906	27,978	92,122
		b)	Capital gains from disposal of non-current assets	1,003	-	-
	21)		**Extraordinary charges**			
		a)	Charges	(53,816)	(56,415)	(209,692)
		b)	Capital losses from disposal of non-current assets	(531)	(1,336)	(1,527)
		c)	Taxes relating to previous periods	-	-	-
			Extraordinary income (charges)	**(32,438)**	**(29,773)**	**(119,097)**
			Profit (loss) before taxes	**(141,634)**	**(405,752)**	**(589,882)**
	22)		**Corporate income tax for the financial year**			
		a)	Current	(620)	(470)	(2,796)
		b)	Deferred	-	-	(92)
			Profit (loss) for the year	**(142,254)**	**(406,222)**	**(592,770)**
			Minorities' portion of profit (loss) for the year	12,897	2,444	(375)
			Group profit (loss)	**(129,357)**	**(403,778)**	**(593,145)**

For the Board of Directors
The Chairman

Renato Soru

Renato Soru

The Tiscali Group

Notes to the interim financial information for the period to 30 June 2003

(figures in EUR 000)

Form and content

1) Criteria used in the preparation of the accounts

This interim financial information consists of a balance sheet, profit and loss account and notes to the accounts, which constitute an integral part of the report. For ease of comparison, the accounts contain figures for the equivalent period of the previous year and for the last full financial year, and have been prepared and presented in the same format as in previous financial years.

The following documents are supplied as supplementary information:

? Reclassified Balance Sheet
? Reclassified Profit and Loss Account
? Cash Flow Statement

2) Basis of consolidation

The group's interim report includes the accounts of the parent company and figures for the Italian and foreign companies it controls directly or indirectly (i.e. where the group holds a majority of voting rights at shareholders' meetings), companies where the group has a sufficient number of votes to exercise a dominant influence at ordinary shareholders' meetings, companies where the group has a dominant influence due to the existence of an agreement or a clause in the articles of association of the company concerned (where the law in force allows this), and companies where the group has de facto control through a majority of the voting rights based on agreements with other shareholders.

The consolidation area has changed since 31 December 2002 as a result of the group's ongoing restructuring. Following the approval of the acquisition of Wanadoo Belgium SA, Tiscali Internet Ltd and Nextra SpA at the extraordinary shareholders' meeting of Tiscali SpA held on 29 April 2003, these companies are now included. Since then, the group has also acquired Home SA, Eunet EDV and Internet Dienstleistungs AG.

The consolidated accounts do not contain figures for subsidiaries that are too small to make a material impact on the accounts, or for non-operating subsidiaries owned solely with a view to their future disposal. Holdings in companies considered as long-term investments but not included in the consolidation basis, and holdings in affiliated companies too small to make a material impact on the accounts, are valued at equity. Affiliated companies are those where Tiscali SpA controls (directly or indirectly) one-fifth of the votes exercisable at ordinary shareholders' meetings, or one-tenth if the company is listed on the stock market.

A list of the equity investments valued at equity is provided in the notes to the accounts. Holdings in non-consolidated subsidiaries and affiliated companies too small to make a material impact on the accounts are valued at cost. A list of the holdings valued at cost is also provided in the notes to the accounts.

3) Accounting date

The consolidated interim report was prepared using the draft accounts approved by the boards of directors of group companies for the period to 30 June 2003, or if these were not available, on the basis of accounting data submitted by the individual companies in accordance with consolidation procedures.

4) Consolidation principles

The accounts used for consolidation purposes have been restated and amended as necessary to bring them into line with standard accounting procedures and the accounting policies of the parent company, which comply with the stipulations of article 2423 and subsequent articles of the Italian Civil Code, and with Consob recommendations.

The accounts of the companies included in the basis of consolidation are consolidated by the global integration method. The consolidation procedures involve the following adjustments:

a) the book value of holdings in consolidated companies is offset against the value of the group's portion of the shareholders' equity in the subsidiary or affiliated company concerned;

b) any difference in the values described in a), if negative and not attributable to expectations of poor business performance, is booked under consolidation reserves in the consolidated shareholders' equity section; if the difference is positive, however, the portion that does not relate to the assets of subsidiaries is booked on the assets side of the balance sheet under consolidation differences;

c) any profits or losses arising from intragroup transactions and still included under assets are eliminated, as are any credits, debits, costs or revenues and all transactions between consolidated companies;

d) any adjustments of value and provisions made solely in application of tax laws, where applicable, are eliminated;

e) the portion of shareholders' equity and share of net profit attributable to minorities are listed separately under the appropriate item on the consolidated balance sheet and profit and loss account.

5) Conversion of foreign currency amounts

Balance sheet items recorded in currencies other than the euro are converted into euro at the exchange rate in force at the end of the period, while profit and loss account items are converted into euro using the average exchange rate for the period. The difference between the net profit figure calculated using the period's average exchange rate and the figure obtained using the end of period exchange rate, and the effect on assets and liabilities of variations in the exchange rate between the beginning and end of the financial year, are booked in the "Currency translation reserve" account under shareholders' equity. Details of currencies recorded in the consolidated accounts are annexed to this report.

6) Accounting policies

a) General criteria

The accounting principles and policies have been applied in a uniform manner to all consolidated companies. The criteria used in the preparation of the accounts are those used by the parent company, Tiscali SpA, and comply with the regulations referred to above. These criteria are based on the accounting principles issued by the national association of Italian chartered accountants (Consiglio Nazionale dei Dottori Commercialisti e dei Ragionieri), and, where necessary, the accounting principles recommended by the International Accounting Standards Board. The criteria used to draw up the report are the same as those employed in preparing the last full-year consolidated accounts, particularly with regard to valuations and continuity in applying accounting principles. The valuation of balance sheet items was performed based on general criteria of prudence and competence, on a going concern basis. For the purposes of accounting entries, the economic substance of transactions prevails over their legal form. Investments are therefore booked at the time of payment. Profits are included only if they accrue within the period under review, while provision is made for risks and losses that may come to light at a later date. Miscellaneous items included under individual accounting entries have been valued separately. Assets destined for long-term use have been classed as non-current assets.

b) Valuation adjustments and recovery of value

The values of tangible and intangible assets whose useful life is limited over time are written down respectively through depreciation and amortisation charges. Tangible and intangible assets and other assets are written down each time a permanent reduction in value has been noted; and the original value is restored where the reasons for the drop in value no longer apply. The method for calculating depreciation and amortisation charges is explained separately in these notes.

c) Revaluations

To date, no revaluations have been carried out.

d) Exceptions

No exceptions to the valuation criteria laid down by current legislation pertaining to consolidated annual accounts have been made to the accounts for this or any previous period.

e) Accounting entries made solely in application of tax laws

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

The most important principles and criteria are as follows:

f) Intangible assets

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

R&D and advertising costs are booked under the appropriate item under assets and amortised over a five-year period to take into account the time taken to recoup such costs, starting from the financial year in which they were incurred.

Industrial patent rights and intellectual property rights are recorded at their acquisition cost and amortised on a straight-line basis in accordance with the period of use established by specific agreements. The amortisation period will run for a maximum of five years from the financial year in which the costs were incurred.

Licenses, trademarks and patent rights are recorded at their acquisition cost and amortised in accordance with the period of use as established by the agreement concerned. The amortisation period will not exceed five years from the financial year in which the costs were incurred. Other intangible assets are recorded at purchase or production cost, including any additional charges, and are amortised using the straight-line method.

Goodwill is booked under assets if it has been acquired for a specific sum, up to a maximum of the sum paid, and amortised over a period not exceeding the duration of its use. Where this cannot be estimated, the amortisation period will not, in any event, exceed ten years.

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

Consolidation differences

Consolidation differences are recorded in the consolidated accounts when the book value of a holding is offset against the group’s portion of the shareholders’ equity of the subsidiary or affiliated company concerned. Any significant positive balance not attributable to individual entries under the assets of consolidated companies is recorded as an adjustment to the value of consolidated shareholders’ equity, or, where the necessary conditions are met, is recorded under “Consolidation differences” on the assets side of the balance sheet, and generally treated in the same way as goodwill.

This item, which was subject to substantial extraordinary write-downs in 2001, is amortised over the period of time in which it is expected to produce economic benefits, taking into account the type of activity of the group company to which the consolidation difference refers.

At the end of June, an in-depth evaluation of the residual useful life of the consolidation differences was carried out, with reference to the different amounts pertaining to group companies, which covered most of the countries/geographical areas in which the group operates. As a result of this analysis, the estimates of residual useful life were adjusted.

In particular, consolidation differences will now be amortised from the date a business unit is acquired by a group company, generally over 7-8 years, but in any event over a period not exceeding 10 years. In the past, consolidation differences were usually amortised over five years, until 31 December 2002.

This change in the estimate of residual useful life reduced the amortisation charge in the first six months of 2003 by around EUR 50 million versus the first half of 2002, boosting net result and shareholder's equity by the same amount.

The change was made for structural reasons, relating to:

- The current conditions in the market in which the group operates, in general and in relation to specific geographical areas, and the market prospects. In this context, the consolidation of the business in individual countries is important. Prospects for the European internet access market look bright, and the latest sector studies from leading research organisations estimate a CAGR of 8% in 2002-2007, versus a CAGR of 2.4% for Europe's GDP. Broadband—especially ADSL, which opened up major growth prospects for Tiscali in the second half of 2002—is the group's main growth driver. The broadband segment accounted for 5.3% of the market in 2002, and is set to rise to 15.7% in 2007. This scenario applies to all of the local markets in which Tiscali operates, particularly those that represent a large proportion of the consolidation differences.

  With regard to connection costs, the ex-incumbents still retain a dominant presence in the broadband market. However, these operators should lose market share as the market is gradually liberalised following action by national authorities in favour of independents. The first signs of this development became visible earlier this year. In addition, the European Union issued a recommendation in July 2003, requesting that member states and former incumbents open up their internet access markets.
- The results achieved in the first half of 2003 by the various group companies and the prospects indicated by the business plan point to a substantial improvement in the group's financial position, including the generation of cash flow, in the short/medium term. These improvements are expected at all divisions and in all countries—evidence of the consolidation of the group's business.
- Completion of the group's restructuring: the rationalisation of the group's structure already generated significant synergies and economies of scale in the second half of 2002, with a similar result in the first half of 2003 (see Report on Operations), benefiting operations and performance, and at the same time extending the goodwill amortisation period for local management teams and the group as a whole.

These circumstances demonstrate that the business risk attached to the group's activities is now substantially lower than in previous years, thereby allowing for estimates of residual useful life in respect of consolidation differences to be extended.

Non-current assets whose value at the end of the period is substantially lower than the cost, and which are amortised according to the criteria described above, are written down to their market value. If the reasons for the write-down cease to apply, the original value is restored.

g) Tangible assets and depreciation

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

Depreciation is based on the cost and estimated residual life of the asset, using the straight-line method.

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

A summary of depreciation rates follows. These remain unchanged with respect to the previous financial year and are broadly in line with the rates used by the parent company.

Depreciation rates	
Buildings	3 %
Specific plant	20 %
Generic plant	20 %
Other equipment	12 %
Other tangible assets	20 %

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

Assets obtained through leasing agreements are recorded under the relevant item of tangible assets, and are depreciated in the same manner as assets owned by the group, based on their estimated residual life. Short- and medium-term liabilities in respect of the leasing company are booked as offsetting entries under the entry for the asset concerned. Leasing payments are written off against rental expenses on assets belonging to third parties, and interest charges for the year are booked under financial charges. This ensures that financial leasing operations are represented in accordance with IFRS procedures.

h) Long-term investments

Investments in non-consolidated subsidiaries and affiliated companies

Investments consisting of holdings in non-consolidated subsidiaries and affiliated companies are valued at equity. The amount corresponds to the portion of shareholders' equity owned by the group as shown in the last set of accounts produced by the relevant companies, after deduction of dividends and adjustments required by the regulations for preparing consolidated accounts.

Capital gains or losses arising from the application of the equity method are booked on the profit and loss account under "Write-ups of equity investments" or "Write-down of equity investments" respectively.

Long-term investments consisting of receivables are valued at their estimated realisable value.

Holdings in other companies and investments in securities

Other holdings and securities are valued at cost. In the event of a permanent reduction in value for whatever reason, including a fall in the market price of listed securities, an appropriate write-down will be made. Where the reason for the drop in value ceases to apply during the year, the value prior to the write-down will be restored.

i) Inventories

raw materials, work in progress and finished products

Inventories are valued at the lower of the purchase cost and the estimated realisable value. Inventories of obsolete or slow turnover goods are written down taking into account opportunities for their use or their sale potential.

l) Receivables

Receivables are recorded at their estimated realisable value. This value is obtained through a direct write-down of the relevant receivables on a case-by-case basis for large items and on a flat-rate basis for smaller items.

m) Investments other than non-current assets

Investments in subsidiaries and affiliated companies intended for future disposal are valued at the lower of historical cost and estimated realisable value. Other holdings and securities are valued at the lower of their purchase price and sale price. Listed securities are valued at the lower of their purchase price and their realisable market value.

n) Accruals and deferrals

Accruals and deferrals include only income and charges for the financial year that will be booked in future years, and revenues earned or expenses incurred before the end of one financial year but that pertain to future years. In any event, this account will not contain portions of expenses or income spread over two or more financial years, the amount of which varies over time.

o) Provisions for risks and charges

Provisions for risks and charges are intended to cover potential company liabilities that are certain or very likely to materialise, although the amount of such liabilities and the date on which they will arise are not known at the end of the financial year.

p) Corporate income tax

Corporate income tax is calculated on the basis of the taxable income of each consolidated company in accordance with the law applicable in the relevant country. As a precaution, tax benefits carried forward in respect of losses from previous years are not included in the accounts.

q) Severance indemnities reserve

The severance indemnities reserve provides cover for amounts accrued and payments due to employees at the end of the financial year, in accordance with the law, employment contracts and any company agreements in force in the country in which each consolidated company is based.

r) Payables

Payables are posted at their nominal value.

t) Risks, commitments and guarantees

Commitments and guarantees are shown in the memorandum accounts at their contractual value. The risks deemed most likely to generate a liability are described in the notes and an allocation is made to the risk funds as appropriate. For risks deemed least likely to generate a liability, no allocation is made to the risk funds. Such risks are, however, described in the notes, in line with standard accounting principles. Remote risks are not taken into consideration.

u) Recording of revenues, income, costs and charges

Revenues, income, costs and charges are recorded in the accounts net of returns, discounts, rebates and bonuses, and net of taxes directly related to the sale of services. Financial income is booked in the period in which it accrued.

v) Foreign currency amounts

Receivables and payables in foreign currencies are recorded at the exchange rate in force at the end of the financial year, taking into account any hedging agreements that may exist. Gains or losses deriving from exchange rate fluctuations are booked as receivables or payables on the profit and loss account.

Exchange rates	ISO code	Final	Average
Swiss franc	CHF	1.554400	1.492000
Czech koruna	CSK	31.572000	31.549667
Danish krone	DKK	7.429900	7.427767
Euro	EUR	1.000000	1.000000
British pound	GBP	0.693200	0.685633
Norwegian krone	NOK	8.293500	7.764467
Polish zloty	PLZ	4.477500	4.272933
Swedish krona	SEK	9.248800	9.162250
US dollar	USD	1.142700	1.104917
South African rand	ZAR	8.542200	8.884467

Detail of balance sheet items

Assets

(figures in EUR 000)

A) Capital contributions due from shareholders [EUR 28,000]

Capital contributions due from shareholders relate to payments pledged to the subsidiary Tiscali Motoring Srl by shareholders outside the group. The amount in question has never been called up.

B) Non-current assets [EUR 994,639,000]

I – Intangible assets [EUR 720,466,000]

Changes in the value of intangible assets over the period are detailed below:

Intangible assets	31.12.2002	Increases	Decreases	Other changes	Depreciation	30.06.2003
Start-up and expansion costs	5,281	-	-	-	(1,831)	3,450
Research, development and advertising costs	38,000	1,114	-	(10,902)	(16,173)	12,039
Industrial patent rights and intellectual property rights	3,686	20,158	-	-	(2,917)	20,927
Concessions, licenses, trademarks and similar rights	141,933	4,256	-	-	(2,988)	143,201
Goodwill	160	-	-	-	(40)	120
Payments on account and intangible assets in course of acquisition	6,161	496	-	-	-	6,657
Other intangible assets	13,005	1,324	-	-	(2,839)	11,490
Consolidation differences	540,987	23,157	(2,365)	11.200	(50,397)	522,582
Total	**749,213**	**50,505**	**(2,365)**	**298**	**(77,185)**	**720,466**

The "Start-up and expansion costs" item mainly refers to capitalised costs in respect of the parent company, including start-up costs and capital increase expenses. These costs largely accrued in 1999, and include network roll-out costs (installation and switchboard activation) and the cost of the campaign to launch TiscaliFreenet.

The "Concessions, licenses, trademarks and similar rights" item mainly relates to investments in software and the associated installation costs. This item has increased by EUR 4 million since 31 December 2002. The increase is largely due to the purchase of user licenses for software to be used in the management of the new technology platform for access and network management systems, and the installation of IT systems for billing and administration. This item also includes the rights of the subsidiary Tiscali International Network BV, and its subsidiary International Network SA (formerly Nets SA), to purchase transmission capacity over several years.

The increases in consolidation differences relate to acquisitions made during the year, specifically to Belgian subsidiary Wanadoo Belgium SA, Spanish ISP AirtelNet, the Italian subsidiary Nextra SpA, the Swedish subsidiary Home.se SA and Austrian subsidiary EUnet EDV und Internet Dienstleistungs AG.

The table below shows the consolidation differences pertaining to group companies.

Consolidation differences	31.12.2002	Increases	Decreases	Other changes	Depreciation	30.06.2003
Tiscali SpA (*)	362,004	23,157	-	11,200	(31,563)	364,798
Tiscali International BV	134,408	-	(2,263)	-	(11,515)	120,630
Liberty Surf Group SA	44,575	-	(102)	-	(7,319)	37,154
Total	**540,987**	**23,157**	**(2,365)**	**11,200**	**(50,397)**	**522,582**

*Consolidation difference relating to the parent company

Please note that as in previous years, an analysis of the consolidation differences was carried out (impairment test), based on a detailed valuation of the group company concerned. The method used was a discounted cash flow calculation, taking forecasts from the business plans for individual geographical areas (country management). The analysis showed that the net book value of goodwill pertaining to the different geographical areas was substantially lower than values obtained using the methodology described above, partly because of changes in the circumstances that were taken into account when the original valuation was made.

II – Tangible assets [EUR 257,759,000]

The changes in the value of tangible assets over the period, with regard to historical cost, are shown below:

Tangible assets

Historical cost	31.12.2002	Increases	Decreases	Other changes	Depreciation	30.06.2003
Land and buildings	14,815	298	-	(1,043)		14,070
Plant and machinery	377,931	-	-	(14,879)		363,052
Industrial and commercial equipment	1,684	-	-	(1,684)		-
Other tangible assets	136,179	-	-	(9,542)		126,637
Payments on account and tangible assets in course of acquisition	9,582	17,134	-	10,731		37,447
Total	**540,191**	**17,432**	**-**	**(16,417)**	**-**	**541,206**

Accumulated depreciation	31.12.2002	Increases	Decreases	Other changes	Depreciation	30.06.2003
Land and buildings	3,591	-	-	(1,391)	29	2,229
Plant and machinery	153,468	-	-	(1,337)	30,808	182,939
Industrial and commercial equipment	1,047	-	-	(1,047)	-	-
Other tangible assets	94,874	-	-	(6,591)	9,997	98,280
Payments on account and tangible assets in course of acquisition	-	-	-	-	-	-
Total	**252,980**	**-**	**-**	**(10,366)**	**40,834**	**283,448**

Net book value	31.12.2002	Increases	Decreases	Other changes	Depreciation	30.06.2003
Land and buildings	11,224	298	-	349	(29)	11,842
Plant and machinery	224,461	-	-	(13,540)	(30,808)	180,113
Industrial and commercial equipment	636	-	-	166	-	802
Other tangible assets	41,306	-	-	(3,754)	(9,997)	27,555
Payments on account and tangible assets in course of acquisition	9,582	17,134	-	10,731	-	37,447
Total	**287,209**	**17,432**	**-**	**(6,048)**	**(40,834)**	**257,759**

The net book value of tangible assets as of 30 June 2003 was EUR 258 million, an increase (before depreciation) of around EUR 11 million. The increase largely reflects the investment in the group's new headquarters in Cagliari.

The "Land and buildings" item includes investments in land acquired for the construction of the new headquarters in Cagliari. The part of the building already completed, representing EUR 24 million, is booked under "Payments on account and tangible assets in course of acquisition".

The "Plant and machinery" item includes specific network equipment such as routers, servers and telephone exchanges. These items represent the bulk of the group's tangible assets and rise in value as the group invests in upgrading network and access equipment.

The "Other tangible assets" item chiefly includes office furniture, office machinery and equipment, and vehicles.

III – Long-term investments [EUR 16,414,000]

A summary of long-term investments is shown below.

Long-term investments	30.06.2003	31.12.2002	Change
Investments in:			
non-consolidated group companies	87	288	(201)
affiliated companies	66	185	(119)
parent companies	-	-	-
other companies	12,673	12,687	(14)
Receivables	3,588	26,714	(23,126)
Other securities	-	-	-
Own shares	-	-	-
Total	**16,414**	**39,874**	**(23,460)**

Holdings in non-consolidated group companies are valued at equity, and mainly include investments made by Tiscali SpA in subsidiaries that are not included in the basis of consolidation.

Holdings in other companies are valued at cost, and represent minor holdings owned by the parent company.

The "Other companies" item largely covers the EUR 12.5 million holding (0.3% of the capital) in mobile operator H3G SpA, which is owned by Luxembourg subsidiary Tiscali Finance.

The change in this item compared to the same period last year relates to holdings in companies that have been written off because they have been wound up or are no longer included in the basis of consolidation.

The figure for financial receivables from non-consolidated subsidiaries has decreased as CD Telekomunikace Sro, which owed the parent company EUR 25.3 million, was no longer consolidated in the quarter prior to its sale. Tiscali signed an agreement to sell 100% of CD Telekomunikace Sro to Eurolight Associates Limited on December 2002. It was therefore considered appropriate to state it under receivables falling due after one year.

C) Current assets

I - Inventories [EUR 5,301,000]

As of 30 June 2003, the group's inventories were worth EUR 5.3 million and largely consisted of network apparatus, consumables, telephone cards, goods for resale by the company's merchandising business and modems. The reduction in the value of inventories reflects the use of assets and adjustments in the book value of inventory items.

II – Receivables [EUR 239,172,000]

As of 31 December 2002, receivables from customers totalled EUR 155 million after write-down provisions. These receivables accrued from the sale of internet services, access services' billing, usage-based fees for traffic generated on other networks, advertising revenues, and business-to-business and telephone services provided by the group. This figure has fallen by around EUR 35 million since 31 December 2002, reflecting the group's stringent efforts to collect outstanding receivables, and the introduction in certain countries of a new billing platform, which has shortened payment collection times.

To allow receivables to be booked at their estimated realisable value, a reserve for bad debts has been established. As a precaution, this reserve was adjusted during the year.

Receivables from non-consolidated group companies rose to around EUR 800,000. These items relate to the smaller companies in the group, which are not consolidated as they have no material impact on the accounts or have been wound up.

Miscellaneous receivables came to around EUR 82 million. These include EUR 25.3 million relating to Eurolight Associates Limited, approximately EUR 55 million in VAT credits that have not been used or refunded, and some EUR 3 million in respect of advance payments to employees.

III – Investments other than non-current assets [EUR 124,227,000]

Investments other than non-current assets include the investment of liquid assets in securities and other short-term investment products. These items mainly appear on the balance sheets of Tiscali International BV, Tiscali Finance SA and Tiscali Datacomm AG. This heading also includes around EUR 50 million in deposits in respect of guarantees given by group companies.

IV – Cash and cash equivalents [EUR 160,289,000]

The balance of cash and cash equivalents chiefly relates to the subsidiaries Liberty Surf Group SA and Tiscali Finance SA. Please see the Report on Operations for the detail of the changes to the overall financial position. The reduction in this item since 31 December 2002 is chiefly attributable to investments made by the group during the first six months of the year, as shown in the cash flow statement annexed to these notes. In addition, liquid resources of EUR 99 million were used by French subsidiary Liberty Surf Group SA (of which Tiscali owns 94.5%) for extraordinary operations (including loans made to the parent company) requiring the approval of the board of directors.

D) Accrued income and deferred charges [EUR 62,545,000]

Accrued income includes advertising revenues and revenue from the ISP business that has not yet fallen due.

Deferred charges mainly cover several years' rental of international circuits by Tiscali International Network SA (formerly Nets SA), software and hardware maintenance fees (some of the most common pre-paid expenses in the sector), and pre-paid rentals for connectivity circuits and sponsorship costs.

Accrued income rose by EUR 15 million compared to the first half of 2002, mainly due to a year-on-year increase in operating revenues.

Liabilities

A) Shareholders' equity [EUR 487,518,000]

Statement of changes in shareholders' equity

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

Shareholders' equity	31.12.2002	Increases	Capital distribution	Transfer	Exch. diff.	30.06.2003
Total shareholders' equity						
Share capital	180,867	2,190	-	-	-	183,057
Share premium reserve	1,632,896	16,378	-	(152,297)	-	1,496,977
Currency translation reserve (group)	(28,613)	-	-	-	(46,337)	(74,950)
Subsidiaries' undistributed profits (losses) and other reserves	(575,977)	-	-	(419,924)	-	(995,901)
Profit (loss) for the year	(593,145)	(129,357)	-	593,145	-	(129,357)
Total	**616,028**	**(110,789)**	**-**	**20,924**	**(46,337)**	**479,826**
Minorities	16,309	-	-	(8,617)	-	7,692
Total	**632,337**	**(110,789)**	**-**	**12,307**	**(46,337)**	**487,518**

Changes in shareholders' equity, particularly the amounts indicated in the "Increases" column, largely refer to the capital increases carried out by the parent company during the year.

In addition, EUR 152 million from the share premium reserve was used to cover the parent company's losses for the 2002 financial year. This action was approved by the extraordinary shareholders' meeting of Tiscali SpA held on 29 April 2003.

The change in the currency translation reserve reflects fluctuations in the euro/sterling exchange rate following the conversion of the first-half accounts of the UK subsidiaries.

The decrease in subsidiaries' undistributed profits (or losses) is chiefly attributable to uncovered losses pertaining to subsidiaries for the 2002 financial year.

The table below provides a summary comparison between the parent company and consolidated accounts, highlighting any items that have a bearing on results and shareholders' equity.

Summary comparison of parent company and consolidated accounts	30.06.2003		31.12.2002	
	Net profit	Shareholders' equity	Net profit	Shareholders' equity
Balances: Tiscali SpA	**(30,125)**	**1,649,909**	**(152,297)**	**1,661,466**
Elimination of effects of transactions between consolidated companies, after tax adjustments:				
- Internal profits on investments	-	-	-	
- Write-off of write-downs of holdings in subsidiaries	26,000	-	935	-
- Dividends received from consolidated companies	-	-		-
Effect of the change and harmonisation of group accounting policies, after tax adjustments:				
- Application of financial method for assets leased from third parties	(1,106)	18,048	(330)	19,064
- Valuation at equity of companies listed on the balance sheet at cost	-	-	(9,054)	(8,627)
Book value of consolidated equity investments	-	(2,081,229)	-	(2,072,766)
Shareholders' equity and net profit of consolidated companies	(121,497)	(304,969)	(373,674)	567,765
Attribution of differences to the assets of consolidated companies	-	-	-	-
and related depreciation and amortisation:	-	-	-	-
- Consolidation goodwill (parent company)	(50,397)	522,582	(127,613)	540,987
Effect of other adjustments:	-	-	-	-
- Group restructuring and other adjustments	25,247	78,049	56,516	(91,861)
- Exchange rate differences	10,589	(12,502)	-	-
- Other adjustments	11,932	-	12,372	-
BALANCE VS THE CONSOLIDATED ACCOUNTS - group	**(129,357)**	**479,826**	**(593,145)**	**616,028**
BALANCE VS THE CONSOLIDATED ACCOUNTS - minorities	**(12,897)**	**7,692**	**376**	**16,309**
BALANCE VS THE CONSOLIDATED ACCOUNTS	**(142,254)**	**487,518**	**(592,769)**	**632,337**

B) Provisions for risks and future liabilities [EUR 24,156,000]

These provisions mainly cover the estimated cost of future restructuring of both operating companies and companies that have been wound up.

During the year, certain events took place for which provision had been made in previous years, and EUR 2.3 million was used as a result. These events largely concerned ongoing legal action.

The table below shows the changes in provisions for risks and future liabilities over the period.

Provisions for risks and future liabilities	31.12.2002	Provisions	Amounts used	Other changes	30.06.2003
Taxes	100	-	-	-	100
Provisions for exchange rate losses	8	-	-	-	8
Provisions for risks and future expenses	20.051	-	(2.306)	6.303	24.048
Total	**20.159**	**-**	**(2.306)**	**6.303**	**24.156**

C) Severance indemnities reserve [EUR 7,407,000]

The table below shows the changes that occurred during the period.

Severance indemnities reserve	31.12.2002	Provisions	Amounts used	Other changes	30.06.2003
Manual workers	6	2	-	-	19
Office workers	6,723	1,975	(1,653)	-	6,964
Senior managers	273	157	(76)	-	424
Total	**7,002**	**2,134**	**(1,729)**	**-**	**7,407**

This item mainly relates to the parent company and Italian subsidiaries, and to French subsidiary Liberty Surf Group SA.

D) Payables [EUR 909,532,000]

Breakdown

Payables	30.06.2003	31.12.2002	Change
Bonds	407,403	409,211	(1,808)
Convertible bonds	-	-	-
Due to banks	72,779	59,306	13,473
Due to other financial organisations	54,374	62,929	(8,555)
Advance payments	-	-	-
Trade accounts payable	279,514	306,676	(27,162)
Credit instruments payable	-	-	-
Due to non-consolidated group companies	4,081	4,482	1,388
Due to subsidiaries	52	468	(416)
Due to parent companies	-	-	-
Taxes payable	27,311	32,375	(5,064)
Due to social security agencies	7,975	10,726	(2,751)
Other payables	52,793	12,116	40,677
Total	**906,282**	**898,289**	**9,782**

"Bonds" (EUR 407 million) include bond loans agreed with Tiscali Finance (second half of 2000 and first half of 2002) and with Tiscali International BV (to finance the acquisition of Telinco UK). The terms of the Tiscali Finance loan (EUR 400 million) require repayment in a lump sum after five years. The first tranche (EUR 250 million) is to be repaid on 12 July 2004, with a second tranche (EUR 150 million) scheduled for repayment on 7 July 2005. This agreement also set a debt limit of two times consolidated shareholders' equity. The Telinco loan is recorded under short-term debt and is to be repaid before the end of the financial year, although the term may be extended. The interest rate on the loan is Euribor plus a variable spread. Swap contracts have been taken out to hedge against interest rate risk.

Payables to banks include an overdraft and long-term financing for the construction of the group's new headquarters at Sa Illetti (Cagliari).

Trade payables largely refer to the provision of content and voice and data traffic services. The reduction recorded over the period is attributable to an improvement in the group's credit terms.

Payables to group companies of EUR 4 million relate to non-consolidated subsidiaries.

Payables to other financial institutions mainly refer to the principal portion of the debt arising from the restatement of leasing agreements under IFSR.

Payables falling due after five years total EUR 21.4 million, and relate to instalments of the loan financing the new headquarters that have already been drawn down.

Tax payables chiefly include around EUR 2 million in corporate income tax and VAT in the region of EUR 16 million. The remainder reflects tax contributions outstanding at the end of the period.

"Other payables" include EUR 30 million to be paid to the former shareholders of EUnet EDV und Internet Dienstleistungs AG, Home SA and Wanadoo Belgium SA, following the purchase of the remaining shares in each of these companies during the period to achieve 100% ownership.

E) Accrued liabilities and deferred income [EUR 160,505,000]

Accrued liabilities mainly refer to operating expenses such as content and access costs, consultancy fees and line rental, mainly in respect of the UK subsidiaries.

Deferred income largely concerns the deferral to later financial years of pre-payments for services such as line rental, mostly pertaining to Tiscali International Network SA and Tiscali International Network BV.

Memorandum Accounts

The memorandum accounts are largely unchanged on the position at 31 December 2002. The sureties mainly relate to guarantees given by the parent company in respect of the issue of the bond loan by Luxembourg-based subsidiary Tiscali Finance SA.

Profit and Loss Account

A) Value of production [EUR 429,687,000]

Breakdown of value of production

Revenues from sales and services	30.06.2003	30.06.2002	Change
Access revenues	298,701	257,720	40,981
Voice revenues	32,517	25,306	7,211
Business revenues	69,437	43,902	25,535
Portal revenues	23,905	27,200	(3,295)
Other revenues	3,786	10,055	(6,269)
Total	**428,346**	**364,183**	**64,163**

The main contributor to group revenues, which are predominantly earned in the EU, is the ISP business (access). Access revenues rose by EUR 41 million or 11% in the first half of 2003 compared to the same 2002 period, contributing 69.7% of revenues. Advertising accounted for 5.6% of revenues, while business services and voice revenues contributed 16.2% and 7.6% respectively. Business services have grown considerably following their inclusion in the basis of consolidation.

During the year, the group has focused on developing its access and business products, which offer the widest gross margins and brightest growth prospects. In particular, access revenues are growing thanks to the increase in ADSL subscriber numbers, an area that the group has been targeting since the end of 2002 via a major pan-European marketing campaign.

B) Production costs [EUR 528,466,000]

Purchase of raw materials, supplies and consumables

Purchases of raw materials, supplies and consumables include purchasing costs, equipment for pre-paid telephone cards, goods for resale and modems.

Breakdown of expenses for the provision of services

This item includes the group's main business expenses, as detailed below.

Service costs	30.06.2003	30.06.2002	Change
Rental of telephone lines	89,119	80,190	8,929
Purchase of traffic	79,720	70,502	9,218
Portal services	4,841	9,746	(4,905)
Call centres	15,511	10,558	4,953
Advertising and promotional expenses	50,568	43,392	7,176
Maintenance	10,268	8,352	1,916
Consultants and professional services	9,145	9,219	(74)
Sales expenses	15,847	15,937	(90)
Other costs relating to the provision of services	26,061	35,284	(16,717)
Total	**301,080**	**283,180**	**10,406**

Line rental. This is a standard cost item in the sector that applies to all subsidiaries, and accounts for 30% of the total cost of service provision. This is a marked reduction on the previous period, due to the expansion of the group's proprietary network. The group's restructuring has also achieved significant economies of scale, with no loss of transmission capacity. Line rental is expected to fall as a percentage of total costs, as revenues rise.

Purchase of traffic. This cost item, totalling EUR 79 million, is directly linked to the voice business and to the type of internet connection sold through the purchase of traffic. Traffic purchasing costs mainly relate to France—where, in addition to the Liberty Surf Telecom subsidiary, the group has acquired control of pre-pay telephony specialist Intercall SA—and the UK, as well as Italy, where telephony is one of the parent company's core activities.

Advertising and promotional expenses. These costs account for 16.8% of the total, largely unchanged from the first half of 2002. These expenses consist of spending on communications and campaigns to re-brand the company, raise the profile of the Tiscali brand and launch new products in various countries.

Maintenance. This item came to around EUR 9 million, and was largely spent on maintenance agreements for network equipment and software. The increase compared to the previous period directly relates to the rise in group investments.

Consultants and other professional services. This item, which amounted to around EUR 10 million, reflects the restructuring of the group's operations and organisation. A large proportion of this sum relates to legal expenses.

Other service costs include around EUR 15 million spent on call centres, portal costs of EUR 3.6 million (lower than last time) and installation costs of some EUR 5 million (installation of equipment, such as ADSL, at customer premises).

Other operating expenses

This item, which totalled EUR 8.5 million, mainly includes the cost of telephone licenses in Italy and France, and other minor expenses.

C) Financial income and charges [EUR 10,417,000]

Financial income [EUR 11,753,000]

A breakdown of financial income is shown in the table below.

Financial income	**30.06.2003**	**30.06.2002**	**Change**
Income from equity investments:	-	-	-
From securities listed under non-current assets other than equity investments	-	-	-
From securities listed under current assets other than equity investments	124	222	(98)
From receivables listed under non-current assets	4	876	(872)
Total	**128**	**1,098**	**(970)**
Income other than the above			
From non-consolidated group companies	-	-	-
From affiliated companies	-	50	(50)
From third parties			-
Interest from banks	6,374	19,939	(13,565)
Interest on tax credits	-	-	-
Interest on other securities	388	664	(276)
Exchange rate gains	-	27	(27)
Positive adjustments on exchange rates	4,741	6,271	(1,530)
Interest from customers	1	-	1
Other financial income	121	615	(494)
Total	**11,625**	**27,566**	**(15,941)**
Total	**11,753**	**28,664**	**(16,911)**

“Interest on other securities” relates to investments of liquid assets by Tiscali International BV, Liberty Surf Group and Tiscali Finance.

“Interest from banks” refers to investments of liquid assets by Liberty Surf Group SA, Tiscali International BV and Tiscali Finance SA, and to interest accrued on hedging agreements taken out by Tiscali Finance, such as swaps. These agreements largely concern interest rate swaps entered into by Luxembourg-based Tiscali Finance SA, and are aimed at reducing the financing cost of bonds issued by this subsidiary.

Financial charges [EUR 21,906,000]

The table below shows interest payable and other financial charges.

Interest and other financial charges	30.06.2003	30.06.2002	Change
Owed to third parties			
On medium-/long-term financing	17,115	44,643	(27,528)
Due to banks for mortgages and medium-/long-term loans	-	58	(58)
Due to other financial institutions	1,447	1,429	18
Trade accounts payable	121	65	56
Other payables	541	42	499
Exchange rate losses	312	705	(393)
Other	2,370	965	1,405
Total	**21,906**	**47,907**	**(26,001)**

Financial charges for the period came to around EUR 22 million, and mainly refer to subsidiaries Tiscali Finance SA and Tiscali International BV (bond loans). The remainder reflects bank overdrafts and interest on financial leasing transactions.

Medium-/long-term financing includes coupon payments of around EUR 12.3 million on bonds maturing in July 2003.

Interest rate risk management:

Tiscali takes an active approach to managing interest rate risk by using interest rate swaps. Tiscali Finance enters into these swap agreements with leading financial institutions. All such swap agreements are part of a strategy of hedging interest rate risk.

Interest rate swaps are used to obtain a better differential interest rate, which reduces financing costs.

Under the terms of these agreements, Tiscali agrees to swap with its counterparties the difference between interest amounts calculated using a nominal benchmark, at fixed or variable rates agreed in advance, on a number of agreed maturity dates.

D) Adjustments in the valuation of long-term investments

[EUR 0]

No adjustments in the value of long-term investments and holdings were carried out during the period.

E) Extraordinary income and charges [EUR (32,438,000)]

Extraordinary income [EUR 8,133,000]

The table below shows a breakdown of extraordinary income.

Extraordinary income (charges)	30.06.2003	30.06.2002	Change
Correction of errors posted in previous years	-	26	(26)
Non-recurring items	-	27,951	(27,951)
Other extraordinary income	7,131	1	7,130
Total	**7,131**	**27,978**	**(20,847)**
Capital gains on disposals of non-current assets			
Capital gains on disposals of tangible assets	48	-	48
Capital gains on disposals of financial assets	954		954
Total	**1,002**	**-**	**1,002**
Total	**8,133**	**27,978**	**19,845**

Extraordinary charges [EUR 40,571,000]

The table below shows a breakdown of extraordinary charges.

Extraordinary charges	30.06.2003	30.06.2002	Change
Extraordinary expenses and losses	-	2,468	(2,468)
Not recurring expenses		23,593	(23,593)
Redundancy costs	886	1,276	(390)
Restructuring costs relating to contracts terminated early	371	-	371
Restructuring costs relating to the write-down of tangible assets	801	214	587
Other restructuring costs	17,335	26,405	(9,070)
Other extraordinary charges	21,178	3,795	17,383
Total	**40,571**	**57,751**	**(17,180)**

"Extraordinary expenses and losses" include charges relating to the parent company for the previous financial year; "Redundancy costs" relate to group restructuring; "Restructuring costs relating to contracts terminated early" refer to supplier contracts inherited with acquisitions that were terminated early due to overlap or conditions deemed disadvantageous, and arose as part of group restructuring and the rationalisation of global purchasing; "Restructuring costs relating to the write-down on tangible assets" include write-downs of non-current assets carried out by the UK subsidiaries in the context of the rationalisation of flows and systems for providing services to users. "Other restructuring costs" cover extraordinary charges relating to the group restructuring, "Other extraordinary charges" include a EUR 11.3 million increase in charges relating to the parent company's renegotiation of tariffs for the previous year with Telecom Italia SpA.

Other information

As required by current regulations, the table below shows the composition of the workforce by job category.

Average number of employees by category	30.06.2003	31.12.2002	Change
Senior managers	131	131	-
Middle managers	479	479	-
Office workers	2,402	2,405	(3)
Manual workers	24	24	-
Total	**3,036**	**3,039**	**(3)**

Pursuant to article 78 of Legislative Decree 58/1998 issued by Consob with resolution 11971/1999, the tables below set out the remuneration of directors and auditors. For the number of shares owned by directors and auditors, please see the Report on Operations.

Name	Position	Term in office	Emoluments	Non-monetary benefits	Bonuses and other incentives
Board of Directors					
Renato Soru	Chairman & CEO (1)	until approval of 2004 results	-	-	-
Elserino Piol	Director (2)	until approval of 2004 results	-	-	-
Tomaso Barbini	Director (6)	until approval of 2004 results	-	-	-
Franco Bernabè	Director (3)	until approval of 2004 results	-	-	-
Gabriel Prêtre	Director (4)	until approval of 2004 results	-	-	-
Victor Bischoff	Director (3)	until approval of 2004 results	-	-	-
Board of Auditors					
Aldo Pavan	Chairman (5)	3 years	-	-	-
Piero Maccioni	Statutory Auditor(5)	3 years	-	-	-
Massimo Giaconia	Statutory Auditor(5)	3 years	-	-	-
Andrea Zini	Deputy Auditor (5)	3 years	-	-	-
Rita Casu	Deputy Auditor (5)	3 years	-	-	-

(1) Chairman from 30 June 1999 and Chief Executive since 21 July 1999, subject to renewal

(2) Appointed on 30 June 1999; resigned on 16 July 2003

(3) Appointed on 30 June 2000

(4) Appointed on February 2003

(5) Appointed on 29 April 2003

(6) Co-opted to the board by Director Herman Hauser on 14 May 2003

DEALINGS WITH RELATED COMPANIES

During the year, members of the board maintained, either directly or indirectly, various dealings with related companies. Specifically, director Franco Bernabè had dealings with Kelyan SMC SpA and Kelyan SpA. These dealings, worth around EUR 0.5 million, involved consultancy services relating to accounting and billing procedures for the parent company and subsidiaries.

Lists of holdings

Tiscali group companies are listed below, with details of the relevant consolidation method.

Name	Countr	Percentage owned directly	indirectly	Total	Sector	Consolidatio method (8)
Tiscali SpA	Italy				Internet and telecoms	I
Tiscali Czech Republic as	Czech Rep	100.0%		100.0%	Internet	I
Tiscali Telekomunikace sro	Czech Rep	0.0%		0.0%	B2B	I
Tiscali Telecomunicaciones	Spain	99.99%		99.99%	Internet	I
Excite Italia BV	Neth	100.0%		100.0%	Portal	I
Ideare SpA	Italy	60.0%		60.0%	Software devt	I
Tiscali Motoring Srl	Italy	100.0%		100.0%	Portal	I
Informedia Srl (1)	Italy	95.0%	5.0%	100.0%	Software devt	I
Tiscali Information Tecnology System	Italy	100.0%		100.0%	IT	N
Andaledda SpA	Italy	85.0%		85.0%	Inactive	N
Energy Byte SpA	Italy	100.0%		100.0%	Portal	N
Quinary SpA	Italy	70.0%		70.0%	Software devt	I
Best Engineering SpA	Italy	60.0%		60.0%	Software devt	I
STS Studi Tecnologie Sistemi SpA	Italy	50.0%		50.0%	Software devt	I
Gilla Servizi Telecomunicazione Srl	Italy	90%	10.0%	100.0%	Call centres	N
Andala SpA	Italy	85.0%		85.0%	Inactive	N
Home SA	Swed		100.0%	99.5%	Internet	I
Nextra SpA	Italy	100.0%		100.0%	B2B	I
Pianeta Srl	Italy		100.0%	100.0%	ISP	N
Factotum Srl	Italy		19.0%	19.0%	Portal	N
Mix Srl	Italy		1.1%	1.1%	Publish.	N
Tiscali Datacomm Ag	Switz	83.4%	16.6%	99.9%	Internet and telecoms	I
Connect Sofware Inc	US		100.0%	100.0%	Inactive	N
Tiscali Armement Sarl	France	100.0%		100.0%	Sports and promotions	I
Tiscali Finance SA	Luxembourg	100.0%		100.0%	Finance	I
Tiscali Internet Ltd	UK	100.0%		100.0%	Internet	I
Eunet EDV und Internet Dienstleistungs AG	Austria	100.0%		100.0%	B2B	I
Tiscali Deutschland	Germany	100.0%		100.0%	Holding	I
World Online Gmbh	Germany		100.0%	100.0%	Internet	I
Brandgate Gmbh	Germany		65.0%	65.0%	Inactive	I
Finanzdirect 24 Gmbh	Germany		60.0%	60.0%	Inactive	I
Tiscali GmbH	Germany		100.0%	100.0%	Internet and telecoms	I
Tiscali Games	Germany		100.0%	100.0%	Portal	I
Nextra Deutschland GmbH	Germany		100.0%	100.0%	B2B	I
Nextra Deutschland Verwaltungs GmbH	Germany		100.0%	100.0%	B2B	I
Liberty Surf Group SA	France	94.5%		94.5%	Holding	I
Tiscali Business SA	France		100.0%	94.5%	B2B	I
Cyber Press Publishing SA	France		15.8%	14.9%	Portal	I
Losir Net SA	France		88.0%	13.1%	Portal	I
Tiscali Acces SA (ex Liberty Surf SA)	France		100.0%	94.5%	Internet	I
Film Non Stop Monsieur Cinema.Com	France		100.0%	94.5%	Portal	I
Ovni Web SA	France		100.0%	94.5%	Network mgt	I
Ceic Srl	France		100.0%	94.5%	Portal	N
Respublica SA	France		100.0%	94.5%	Portal	I
Tiscali Média Sa (ex Objectif Net Sa)	France		100.0%	94.5%	Network mgt	I
Liberty Contact Sa	France		50.0%	47.3%	Inactive	I
Infonie Promotions SA	France		100.0%	94.5%	Portal	I
Tiscali Télécom SA	France		100.0%	94.5%	Telecoms	I
Intercall SA	France		88.0%	83.2%	Telecoms	I
Intercall S A	Spain		100.0%	94.5%	Telecoms	I
Intercall Hellas SA	Greece		100.0%	94.5%	Telecoms	I
Saftel Com SA	France		99.2%	82.5%	Telecoms	I
Liberty Surf Network BV	Neth		100.0%	94.5%	Inactive	N
Liberty Telecom BV	Neth		100.0%	94.5%	Inactive	N
Tiscali Telecom	Spain		100.0%	94.5%	Inactive	N
Liberty Surf Comunication Ltd	UK		100.0%	94.5%	Inactive	N
X-Stream Network Inc	US		100.0%	94.5%	Inactive	N
X-Stream Technologies Inc	US		100.0%	94.5%	Inactive	N
Liberty Surf Uk Ltd	UK		100.0%	94.5%	Inactive	N

Name	Countr	Percentage owned directly	Percentage owned indirectly	Total	Sector	Consolidati method (8)
Tiscali SpA						
World Online International	Neth	99.5%		99.5%	Holding	I
Tiscali International	Neth		100.0%	99.5%	Holding	I
TISCALI Telekomunikace Èeská republika	Czech rep		100.0%	99.5%	Internet	I
World Online Kft	Hungary		100.0%	99.5%	Inactive	N
World Online Poland Sp	Poland		100.0%	99.5%	Inactive	N
Tiscali Denmark	Denmark		100.0%	99.5%	Internet	I
Surfeu Oy	Finland		100.0%	99.5%	Internet	I
Tiscali As	Norway		100.0%	99.5%	Internet	I
Tiscali Ab	Swed		100.0%	99.5%	Internet	I
Tiscali Espana SA	Spai n		100.0%	99.5%	Internet	I
World Online Epe	Greece		100.0%	99.5%	Inactive	N
World Online Srl (wound up)(4)	Italy		100.0%	99.5%	Inactive	N
Tiscali Österreich	Austria		100.0%	99.5%	Internet	I
Tiscali NV	Belg		100.0%	99.5%	Internet and telecoms	I
Wanadoo Belgium	Belg		100.0%	99.5%	Internet	I
Tiscali Switzerland Holding	Switz		100.0%	99.5%	Internet and telecoms	I
Surfeu.Com Ag	Switz		100.0%	99.5%	Internet	I
World Online Ltd	UK		100.0%	99.5%	B2B	I
Tiscal i Business UK	UK		100.0%	99.5%	Holding	I
Tiscali Business	Germany		100.0%	99.5%	B2B	I
Nacamar Luxembourg Sarl	Luxembourg		100.0%	99.5%	B2B	I
Nacamar Ltd	UK		100.0%	99.5%	B2B	I
Tiscali Business Austria	Austria		100.0%	99.5%	B2B	I
Tiscali Holdings UK	UK		100.0%	99.5%	Holding	I
Tiscali UK	UK		100.0%	99.5%	Internet and telecoms	I
TelinkoUK Ltd	UK		100.0%	99.5%	Internet and telecoms	I
Connect Free Internet Services Ltd	UK		100.0%	99.5%	Internet	I
Springboard Internet Services	UK		100.0%	99.5%	Internet	I
World Online Telecom	UK		100.0%	99.5%	Telecoms	I
World Online Ltd	UK		100.0%	99.5%	Internet	I
Tiscali Luxembourg	Luxembourg		100.0%	99.5%	Internet	I
Tiscali BV	Neth		100.0%	99.5%	Internet	I
12Move Vof (6)	Neth		100.0%	99.5%	Portal	I
Sonera Plaza	Neth		100.0%	99.5%	Portal	I
Wolstar BV	Neth		50.0%	49.7%	Inactive	I
World Online Partner	Neth		100.0%	99.5%	Holding	I
12Move ApS	Denmark		100.0%	99.5%	Inactive	I
Tiscali International Network	Neth		100.0%	99.5%	Network mgt	I
Tiscali International Network	France		100.0%	99.5%	Network mgt	I
Tiscali International Network	Spain		100.0%	99.5%	Network mgt	I
Tiscali International Network SpA	Italy		100.0%	99.5%	Network mgt	I
Tiscali International Network	Germany		100.0%	99.5%	Network mgt	I
Tiscali International Network	UK		100.0%	99.5%	Network mgt	I
Myt Vision BV	Neth		100.0%	99.5%	Inactive	I
Tiscali (Pty) Ltd	S Africa		100.0%	99.5%	Internet and telecoms	I
World Online Merchandising	US		0.0%	0.0%	Sold	I
Wol Acquisition Corp	US		100.0%	99.5%	Inactive	I

Notes

(1) Tiscali SpA owns 95% and Andaledda SpA owns 5%

(2) Tiscali SpA owns 90% and Tiscali Motoring Srl owns 10%

(3) Tiscali SpA owns 83.39% and Tiscali Switzerland Holding SA owns 16.61%

(4) Tiscali International BV owns 80% and Tiscali BV owns 20%

(5) Tiscali Business UK plc owns 51% and Tiscali International BV owns 49%

(6) Tiscali BV owns 40% and World Online Partner BV owns 60%

(7) Tiscali International Network SA owns 90% and Tiscali SpA owns 10%

(8) **I** = full consolidation **P** = proportional consolidation; **N** = equity method

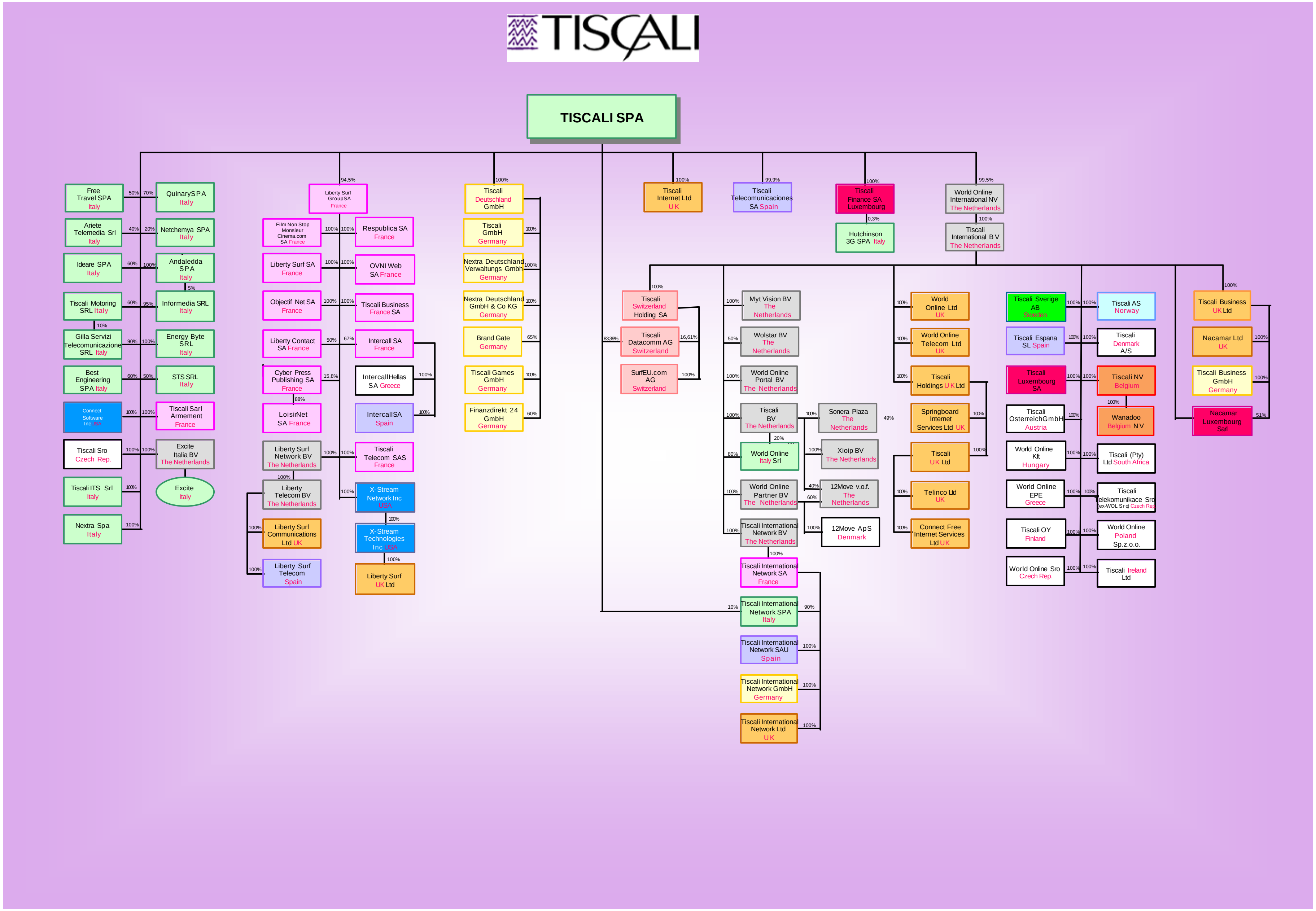
List of directly-owned holdings in non-consolidated subsidiaries, affiliated companies and other companies.

Company name	Based in	Share capital	Profit (loss) for the year	% owned	Value on BS
Holdings in subsidiaries					
Informedia Srl	Milan	12	-	100.0%	12
Andaledda SpA	Milan	88	(3)	85.0%	76
Connect Soft Inc	San Francisco	(43)	(2)	100.0%	-
Gilla Telecomunicazione e Servizi Srl	Cagliari	(1,157)	(1,507)	100.0%	-
Tiscali Czech Rep. Sro	Prague	(43)	(23)	100.0%	-
Total					**88**

Company name	Based in	Share capital	Profit (loss) for the year	% owned	Value on BS
Holdings in group companies				-	
Freetravel SpA (being wound up)	Milan	268	(19)	50.0%	-
Ariete Telemedia Srl	Milan	46	(36)	40.0%	18
Janna Scarl	Cagliari	100	-	33.0%	33
Netchemya SpA (being wound up)		20,032	(2,632)	20.0%	-
Stud Scarl		43	(5)	33.3%	14
Total					**66**

Holdings in other companies	
Consorzio Green Management	-
CRS4 Scarl	126
Mix Srl	1
Total	**127**

The organisational chart below illustrates the basis of consolidation of the Tiscali group.



Accounting summary

To provide a comprehensive overview of the consolidated accounts, the following tables contain a short analysis consisting of the Restated Balance Sheet, the Restated Profit and Loss Account and the Cash Flow Statement. The balance sheet has been restated with the least liquid items listed first. This summary of current assets and liabilities is aimed at providing an accurate representation of the overall financial position. The profit and loss account has been restated in a single column format and shows the different items making up operating profit and costs.

The cash flow statement is intended to highlight the most significant changes in accounting items in a comprehensive and structured manner. It is organised according to financial flows, as recommended by the Italian association of chartered accountants (Consiglio Nazionale dei Dottori Commercialisti e dei Ragionieri).

Restated consolidated balance sheet summary - assets

Assets	30.06.2003	31.12.2002	Change	% change
Current assets				
Cash, banks and marketable securities	284,516	333,757	(49,241)	(14.8)
Receivables from customers	155,774	190,572	(34,798)	(18.3)
Inventories	5,301	6,310	(1,009)	(16.0)
Accrued income and deferred charges	62,545	41,872	20,673	49.4
Other current assets	58,099	66,824	(8,725)	(13.1)
Total current assets	**566,235**	**639,335**	**(73,100)**	**(11.4)**
Non-current assets				
Tangible assets	257,759	287,209	(29,450)	(10.3)
Intangible assets	720,466	749,213	(28,747)	(3.8)
Investments and securities	12,826	13,160	(334)	(2.5)
Other non-current assets	28,915	2,588	26,327	1.017.3
Total non-current assets	**1,019,966**	**1,052,170**	**(32,204)**	**(3.1)**
Total assets	**1,586,201**	**1,691,505**	**(105,304)**	**(6.2)**

Restated consolidated balance sheet summary - liabilities

Liabilities and shareholders' equity	30.06.2003	31.12.2002	Change	% change
Current liabilities				
Banks	39,276	46,846	(7,570)	(16.2)
Other financial payables	26,893	25,199	1,694	6.7
Trade payables	279,514	306,676	(27,162)	(8.9)
Other payables	50,139	18,793	31,346	166.8
Accrued liabilities and deferred income	160,505	133,692	26,813	20.1
Tax payables	27,311	20,892	6,419	30.7
Total current liabilities	**583,638**	**552,098**	**31,540**	**5.7**
Medium - / long-term liabilities				
Medium-/long-term financing	468,387	459,401	8,986	2.0
Severance indemnities reserve	7,407	7,002	405	5.8
Other provisions for risks and future liabilities	24,156	20,159	3,997	19.8
Other medium-/long-term liabilities	15,095	20,508	(5,413)	(26.4)
Total medium - / long-term liabilities	**515,045**	**507,070**	**7,975**	**1.6**
Minorities	**7,692**	**16,309**	**(8,617)**	**(52.8)**
Total liabilities	**1,106,375**	**1,075,477**	**30,898**	**2.9**
Shareholders' equity				
Share capital	183,057	180,867	2,190	1.2
Reserves	426,126	1,028,306	(602,180)	(58.6)
Net profit	(129,357)	(593,145)	463,788	(78.2)
Total shareholders' equity	**479,826**	**616,028**	**(136,202)**	**(22.1)**
Total liabilities and shareholders' equity	**1,586,201**	**1,691,505**	**(105,304)**	**(6.2)**

Restated consolidated profit and loss account summary

Profit and loss account	30.06.2003	31.12.2002	Change	% change
Net sales	**429,687**	**748,358**	**(318,671)**	**(42.6)**
Operating costs				
Purchasing	(2,015)	(12,034)	10,019	(83.3)
Service provision costs	(297,333)	(572,172)	274,839	(48.0)
Personnel costs	(72,640)	(140,052)	67,412	(48.1)
Increase (decrease) in inventories	-	(177)	177	(100.0)
Other running costs	(24,998)	(22,941)	(2,057)	9.0
EBITDA	**32,701**	**982**	**31,719**	**3.230.0**
Depreciation, amortisation and write-downs	(131,480)	(400,813)	269,333	(67.2)
EBIT	**(98,779)**	**(399,831)**	**301,052**	**(75.3)**
Financial income	11,753	98,066	(86,313)	(88.0)
Financial charges	(22,170)	(87,932)	65,762	(74.8)
Miscellaneous income	8,133	92,122	(83,989)	(91.2)
Miscellaneous charges	(40,571)	(292,307)	251,736	(86.1)
Profit (loss) before tax	**(141,634)**	**(589,882)**	**448,248**	**(76.0)**
Current taxes	(620)	(2,796)	2,176	(77.8)
Deferred taxes	-	(92)	92	(100.0)
Profit before minorities	**(142,254)**	**(592,770)**	**450,516**	**(76.0)**
Minorities	12,897	(375)	13,272	(3,539.2)
Net profit (loss)	**(129,357)**	**(593,145)**	**463,788**	**(78.2)**

Cash flow statement

	Cash flow statement	30.06.2003
A)	**Net financial position at the end of the previous period**	**286,911**
	Net profit (loss) for the period	(129,357)
	Depreciation, amortisation and write-downs	131,480
	Net change in provisions for risks and future liabilities	3,997
	Net change in severance indemnities reserve	405
	Write-downs on long-term investments	-
	Change in net working capital, of which:	**31,838**
	- change in receivables	12,392
	- change in inventories	1,009
	- change in accrued income and deferred charges	(20,673)
	- change in payables	12,297
	- change in accrued liabilities and deferred income	26,813
B)	**Cash flow from operations**	**38,3639**
	Net investments in non-current assets	
	- tangible assets	(11,384)
	- intangible assets	(56,070)
	- long-term investments	(691)
C)	**Cash flow from investments**	**(68,145)**
	Change in financial payables	8,986
	Change in basis of consolidation	
	Change in minorities' portion of shareholders' equity	(8,617)
	Other medium-/long-term liabilities	(5,413)
	Other medium-/long-term assets	
	Changes in shareholders' equity	(6,845)
D)	**Cash flow from financing operations**	**(11,889)**
E)	**Cash flow for the period (B + C + D)**	**(41,671)**
F)	**Net financial position at the end of the period (A - E), of which:**	**245,240**
	Cash and cash equivalents and receivables from banks	160,289
	Short-term investments	124,227
	Short-term payables to banks	(39,276)
	Total	**245,240**

For the Board of Directors
The Chairman

Renato Soru

Interim accounts of Tiscali SpA

Balance Sheet - Assets

			ASSETS (EUR)	30.06.2003	31.12.2002	30.06.2002
A)			**Capital contributions due from shareholders**			
			Portion called up			
			Other shareholders	-	-	-
			Portion not called up			
			Other shareholders	-	-	-
			Capital contributions due from shareholders	**-**	**-**	**-**
B)			**Non-current assets**			
	I		**Intangible assets**			
		1)	Start-up and expansion costs	3,973,727	5,769,504	7,592,768
		2)	Research, development and advertising costs	-	-	14
		3)	Industrial patent rights and intellectual property rights	21,933,560	20,299,049	2,384,980
		4)	Concessions, licenses, trademarks and similar rights	37,451,515	38,355,385	11,838,585
		5)	Goodwill	120,100	160,134	200,162
		6)	Payments on account and intangible assets in course of acquisition	1,282,950	5,712,022	23,434,851
		7)	Other intangible assets	6,869,157	6,861,823	7,478,044
			Intangible assets	**71,631,009**	**77,157,917**	**52,929,404**
	II		**Tangible assets**			
		1)	Land and buildings	4,246,631	4,246,631	4,246,631
		2)	Plant and machinery	16,517,734	17,919,611	10,496,139
		3)	Industrial and commercial equipment	802,422	998,472	1,065,682
		4)	Other tangible assets	1,969,462	2,348,737	2,657,856
		5)	Payments on account and tangible assets in course of acquisition	25,259,135	9,261,892	3,150,570
			Tangible assets	**48,795,384**	**34,775,343**	**21,616,878**
	III		**Long-term investments**			
		1)	***Investments in:***			
			a) subsidiaries	2,081,315,663	2,075,144,548	2,108,322,693
			b) affiliated companies	49,000	-	993,698
			c) parent companies	-	-	-
			d) other companies	160,484	209,484	4,730,649
		2)	***Receivables***			
		3)	***Other securities***	**-**	**-**	**-**
		4)	***Own shares***	**-**	**-**	**-**
			Long-term investments	**2,081,525,147**	**2,075,354,032**	**2,114,047,040**
			Non-current assets	**2,201,951,540**	**2,187,287,292**	**2,188,593,322**

Balance Sheet – Assets (continued)

			due < 1 year 30.06.2003	due < 1 year 31.12.2002	30.06.2003	31.12.2002	30.06.2002
C)		**Current assets**					
	I	**Inventories**					
	1)	Raw materials, supplies and consumables			1,237,438	1,207,975	1,450,790
	5)	Advance payments			-	-	-
		Inventories			**1,237,438**	**1,207,975**	**1,450,790**
	II	**Receivables**					
	1)	From customers	-	-	50,126,499	46,582,593	46,814,579
	2)	From subsidiaries	97,328,067	97,328,067	170,216,545	161,556,422	139,913,553
	3)	From affiliated companies	-	-	-	-	-
	4)	From parent companies	-	-	-	-	-
	5)	From other companies	25,628,628	293,054	63,846,649	33,603,727	21,439,518
		Receivables	**122,956,695**	**97,621,121**	**284,189,693**	**241,742,742**	**208,167,650**
	III	**Investments other than non-current assets**					
	1)	In subsidiaries			-	3,209,000	-
	6)	Other securities			-	-	873,675
		Investments other than non-current assets			**-**	**3.209.000**	**873,675**
	IV	**Cash and cash equivalents**					
	1)	Bank and post office deposits			6,978,712	2,073,386	2,805,985
	2)	Cheques			-	-	-
	3)	Cash and other negotiable instruments			10,343	6,086	19,7556
		Cash and cash equivalents			**6,989,055**	**2,079,472**	**2,825,740**
		Current assets			**292,416,186**	**248,239,189**	**213,317,855**
D)		**Accrued income and deferred charges**					
		Accrued income and deferred charges			4,124,510	1,863,668	10,701,893
		Accrued income and deferred charges			**4,124,510**	**1,863,668**	**10,701,893**
		Total assets			**2,498,492,236**	**2,437,390,149**	**2,412,613,070**

Balance Sheet - Liabilities

			Liabilities	Due > 1 year		30.06.2003	31.12.2002	30.06.2002
				30.06.2003	**31.12.2002**			
A)			**Shareholders' equity**					
			Total shareholders' equity					
	I		Share capital			183,057,169	180,867,068	179,690,750
	II		Share premium reserve			1,496,976,876	1,632,896,251	1,622,094,893
	III		Revaluation reserve			-	-	-
	IV		Legal reserve			-	-	-
	V		Reserve for own shares held			-	-	-
	VI		Statutory reserves			-	-	-
	VII		*Other reserves*					
			Reserve for rounding differences			(1)	-	1
	VIII		Retained earnings (losses carried forward)			-	-	-
	IX		Profit (loss) for the year			(30,126,594)	(152,296,834)	(241,299,657)
			Total shareholders' equity			**1,649,907,450**	**1,661,466,485**	**1,560,485,987**
B)			**Provisions for risks and future liabilities**					
		1)	Pension provisions and similar obligations			-	-	-
		2)	Tax provisions			-	-	-
		3)	Other			54,914,351	54,701,926	210,236,076
			Provisions for risks and future liabilities			**54,914,351**	**54,701,926**	**210,236,076**
C)			**Severance indemnities reserve**			**3.496.138**	**2,952,163**	**2,422,579**
D)			**Payables**					
		3)	Due to banks	33,503,017	12,460,008	64,505,630	44,118,548	30,235,555
		4)	Due to other financial institutions	-	-	842,749	1,919,336	1,137,454
		5)	Advance payments					3,000,000
		6)	Trade accounts payable	14,520,600	14,520,600	109,652,753	100,692,421	75,255,925
		8)	Due to subsidiaries	-	-	573,325,437	554,159,937	516,058,031
		9)	Due to affiliated companies	-	-	-	-	-
		11)	Taxes payable	-	-	429,225	888,832	662,673
		12)	Due to social security agencies	-	-	596,103	918,907	657,072
		13)	Other payables	-	-	33,179,944	7,597,092	2,031,488
			Payables	**48,023,617**	**26,980,608**	**782,531,841**	**710,295,073**	**629,038,198**
E)			**Accrued liabilities and deferred income**					
			Accrued liabilities and deferred income			7,642,456	7,974,502	10,430,230
			Premiums on loans			-	-	-
			Accrued liabilities and deferred income			**7,642,456**	**7,974,502**	**10,430,230**
			Liabilities			**2,498,492,236**	**2,437,390,149**	**2,412,613,070**

Memorandum Accounts

			MEMORANDUM ACCOUNTS	30.06.2003	31.12.2002	30.06.2002
A)			**GUARANTEES RECEIVED**			
	1)		**From third parties and group companies**			
		a)	Sureties	267,521,312	254,828,643	250,650,000
			Total guarantees	267,521,312	254,828,643	250,650,000
B)			**OTHER MEMORANDUM ACCOUNTS**			
		-	Leasing payments falling due	33,974,321	42,055,418	47,187,050
		-	Warrants	73,197	110,372	166,563
		-	Guarantees	10,877,167	10,877,167	10,877,167
			OTHER MEMORANDUM ACCOUNTS	**44,924,685**	**53,042,957**	**58,230,780**
C)			**GUARANTEES GIVEN**			
	1)		**To third parties**			
		a)	Sureties	2,791,708	2,448,331	8,561,182
			Total guarantees	2,791,708	2,448,331	8,561,182
			TOTAL MEMORANDUM ACCOUNTS	**315,237,705**	**310,319,931**	**317,441,962**

Profit and loss account

			30.06.2003	31.12.2002	30.06.2002
A)		**Value of production**			
	1)	Revenues from sales and services	83,650,644	131,993,785	61,205,629
	2)	Changes in inventories of work in progress, semi-finished and finished products	-	-	-
	3)	Changes in contract work in progress	-	-	-
	4)	Increases in assets for work in progress	-	-	-
	5)	Other revenues and income			
		- Other revenues and income	5,568	8,184	3,287
		- Contributions to the operating account	1,335,000	8,885,062	3,939,300
		Value of production	**84,991,212**	**140,887,031**	**65,148,216**
B)		**Production costs**			
	6)	Raw materials, supplies, consumables and goods	(1,879,657)	(2,068,325)	(890,580)
	7)	Service costs	(61,770,458)	(120,063,778)	(61,079,374)
	8)	Use of third-party assets	(9,929,251)	(20,436,809)	(10,158,384)
	9)	*Personnel costs*			
		a) Wages and salaries	(11,605,368)	(21,689,510)	(10,972,523)
		b) Social security contributions	(2,606,899)	(4,207,629)	(1,643,448)
		c) Severance indemnities reserve	(739,274)	(1,375,259)	(684,522)
		e) Other costs	(30,707)	(372,007)	(91,520)
	10)	*Depreciation, amortisation and write-downs*			
		a) Amortisation of intangible assets	(9,163,513)	(15,327,621)	(5,002,473)
		b) Depreciation of tangible assets	(2,905,026)	(4,537,348)	(1,781,066)
		c) Other write-downs of non-current assets	-	-	-
		d) Depreciation of receivables included in working capital and cash and cash equivalents	(177.000)	(13.163.061)	(3,379,086)
	11)	Changes in inventories of raw materials, supplies and consumables	29.463	(176.789)	58.714
	12)	Risk provisions	(241.302)	(31,995,843)	(187,407,675)
	13)	Other provisions	-	-	-
	14)	Other operating expenses	(373.546)	(683,896)	(397,030)
		Production costs	**(101,392,538)**	**(236,097,875)**	**(283,428,967)**
(A - B)		**Difference between value of production and costs**	**(16,401,326)**	**(95,210,844)**	**(218,280,751)**
C)		**Financial income and charges**			
	15)	**Income from equity investments**			
		a) In subsidiaries	-	35,435,475	50,000
		b) In affiliated companies	-	-	-
		c) In other companies	-	-	-
	16)	**Other financial income**			-
		a) From receivables listed under non-current assets			
		from third parties	-	-	-
		from subsidiaries	-	-	-
		from affiliated companies	-	-	-
		from parent companies	-	-	-
		b) From securities listed under non-current assets other than equity investments	-		
		c) From securities listed under current assets other than equity investments		221,657	221,657
		d) Income other than the above			
		from third parties	302,843	391,169	33,139
		from subsidiaries	29,863	44,835	12,466
		from affiliated companies	-	-	-
	17)	**Interest and other financial charges**			
		a) from third parties	(1,030,714)	(2,057,914)	(845,489)
		b) from subsidiaries	(68,803)	(753,114)	(10,006,464)
		c) from affiliated companies	-	-	-
		d) from parent companies	-	-	-
		Financial income and charges	**(766.811)**	**33.282.108**	**10.534.691**

Profit and Loss Account (continued)

	30.06.2003	30.06.2003	30.06.2003
D) Adjustments in valuation of long-term investments			
18) Write-ups			
a) of equity investments	-	-	-
b) of long-term investments other than equity investments	-	-	-
c) of securities listed under working capital other than equity investments	-	-	-
19) Write-downs			
a) of equity investments	(3,474,246)	(71,344,556)	-
b) of long-term investments other than equity investments	-	-	-
c) of securities listed under working capital other than equity investments	-	-	-
Adjustments in valuation of long-term investments	**(3,474,246)**	**(71,344,556)**	**-**
E) Extraordinary income (charges)			
20) Extraordinary income			
a) Income	2,101,871	979,240	642,025
b) Capital gains on disposals of non-current assets	-	-	-
21) Extraordinary charges			
a) Charges	(11,586,082)	(20,001,229)	(13,126,240)
b) Capital losses from disposal of non-current assets	-	(1,553)	-
c) Taxes relating to previous periods	-	-	-
Extraordinary income (charges)	**(9,484,211)**	**(19,023,542)**	**(12,484,215)**
Profit (loss) before tax	**(30,126,594)**	**(152,296,834)**	**(241,299,657)**
22) Corporate income tax for the financial year			
a) Current	-	-	-
b) Deferred	-	-	-
Profit (loss) for the year	**(30,126,594)**	**(152,296,834)**	**(241,299,657)**

For the Board of Directors
The Chairman

Renato Soru

Notes to the interim accounts of Tiscali SpA 30 June 2003

(figures in EUR 000)

Form and content

1) Criteria used in the preparation of the accounts

These accounts have been prepared in accordance with article 2423 and subsequent articles of the Italian Civil Code, and consist of the balance sheet, the profit and loss account and the notes to the accounts, which conform to the standards set out in article 2427 of the Italian Civil Code; and pursuant to article 2423, constitute an integral part of this annual report and accounts. For ease of comparison the accounts contain figures for the previous period, which have been prepared and presented in a consistent and coherent manner. Moreover, pursuant to legislative decree no. 127 of 1991, the consolidated accounts are presented together with those of Tiscali SpA.

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

- Reclassified Balance Sheet
- Reclassified Profit and Loss Account
- Cash Flow Statement

2) Accounting policies

a) General criteria

The criteria used in the preparation of the accounts conform to those stipulated by the aforementioned regulations. These criteria have been integrated and interpreted in accordance with the accounting principles issued by the national association of Italian chartered accountants (Consiglio Nazionale dei Dottori Commercialisti e dei Ragionieri), and where necessary, the accounting principles recommended by the International Accounting Standards Board. The same criteria are used as in previous years, particularly with regard to valuations and continuity in applying the same principles. The valuation of balance sheet items was performed based on general criteria of prudence and competence, on a going concern basis. For the purposes of accounting entries, the economic substance of transactions prevails over their legal form. Investments are therefore posted at the time of payment. Profits are included only if they accrue within the period under review, while provision is made for risks and losses that may come to light at a later date. Miscellaneous items included under individual accounting entries have been valued separately.

Assets destined for long-term use have been classed as non-current assets.

b) Valuation adjustments and recovery of value

The values of tangible and intangible assets whose useful life is limited over time are written down respectively through depreciation and amortisation charges. The same tangible and intangible assets and other assets are written down each time a permanent reduction in value has been noted; and the original value is restored where the reasons for the reduction no longer apply. The methodology for calculating depreciation, amortisation and write-downs is explained separately in these notes.

c) Revaluations

To date, no revaluations have been carried out.

d) Exceptions

No exceptions to the accounting procedures laid down by current legislation pertaining to consolidated annual accounts have been made to the accounts for this or any previous period.

The most important principles and criteria are as follows:

e) Intangible assets

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

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

Licenses, trademarks and patent rights are recorded at their acquisition cost and amortised over the period of use established by the contract using the straight-line method. In any event, the amortisation period will not exceed five years from the financial year in which it was incurred.

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

Maintenance and upgrade costs on tangible assets belonging to third parties are listed under “Other” and are amortised (using the straight-line method) over either the estimated useful life of the asset or the residual period of the agreement, whichever is the shorter.

f) Tangible assets and depreciation

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

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

Capital equipment leasing transactions agreed during the period are posted on the balance sheet based on the interpretation of current legislation, i.e. leasing fees must be posted in the period to which each payment refers.

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

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

plant and machinery	
- generic plant and machinery	20%
- minor plant and machinery	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 minor items	25%
other tangible assets	
- office furniture	12%
- IT and automated office equipment	20%
- vehicles	25%
- other assets	20%

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

g) Long-term investments

Investments in subsidiaries and affiliated companies:

Investments in subsidiaries and affiliated companies that are classified as non-current financial assets are valued at cost (acquisition or subscription price). The cost is lowered if a permanent reduction in value is deemed to have occurred.

Long-term investments consisting of receivables are valued at their estimated realisable value.

h) Inventories

raw materials, work in progress and finished products:

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

I) Receivables

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

k) Accruals and deferrals

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

l) Funds for risks and future liabilities

Risk funds are allocated and shown as liabilities on the balance sheet, and are intended to cover potential company liabilities that are certain or very likely to take place.

m) Corporate income tax

The company incurred no tax liabilities during the year, since it generated no taxable income. As a precaution, tax benefits carried forward in respect of losses from previous years are not included in the accounts.

n) Severance indemnities reserve

These provisions correspond to all amounts due to employees under current laws.

o) Payables

Payables are posted at their nominal value.

p) Risks, commitments and guarantees

Commitments and guarantees are shown in the memorandum accounts at their contractual value.

The guarantees take the form of surety bonds issued in favour of third parties in execution of contractual obligations.

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

q) Recording of revenues and costs

Revenues from the sale of services are recorded based on the amount of traffic generated during the period. Financial income is booked in the period in which it accrued

r) Recording of foreign currency amounts

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

s) Other information

During the period the following items were restated: holdings relating to Stud Soc. Consortile, Netchemya SpA (in the course of being wound up) and Janna Scpa, worth a total of EUR 49,000, which were previously booked under “Holdings in other companies”, are now recorded under “Holdings in group companies”.

Breakdown of balance sheet items

ASSETS

(figures in EUR 000)

B) Non-current assets

I – Intangible assets

The book value of intangible assets at the beginning and end of the period is detailed below.

	30.06.2003			31.12.2002		
	Cost	**(Amortisation)**	**Net book value**	**Cost**	**(Amortisation)**	**Net book value**
Start-up and expansion costs	19,990	(16,016)	3,974	19,989	(14,219)	5,770
R&D and advertising costs		-	-	26	(26)	-
Industrial patent rights and intellectual property rights	31,057	(9,123)	21,934	26,328	(6,029)	20,299
Concessions, licences, trademarks and similar rights	47,915	(10,464)	37,451	45,765	(7,410)	38,355
Goodwill	400	(280)	120	400	(240)	160
Payments on account and assets in course of acquisition	1,283	-	1,283	5,712	-	5,712
Other	12,728	(5,859)	6,869	11,541	(4,679)	6,862
	113,373	**(41,742)**	**71,631**	**109,761**	**(32,603)**	**77,158**

The following is a summary of changes that occurred in the accounts during the year.

	Balance 31.12.2002	Increases	Write-ups (Write-downs)	Other changes	Amortisation	Balance 30.06.2003
Start-up and expansion costs	5,770	-	-	-	(1,797)	3,973
R&D and advertising costs	-	-	-	-	-	-
Industrial patent rights and intellectual property rights	20,299		-	4,729	(3,094)	21,934
Concessions, licences, trademarks and similar rights	38,355	2,150	-	-	(3,053)	37,452
Goodwill	160	-	-	-	(40)	120
Payments on account and assets in course of acquisition	5,712	397		(4,826)	-	1,283
Other	6,862	1,187	-	-	(1,180)	6,869
	77,158	**3,734**	**-**	**(97)**	**(9,164)**	**71,631**

The “Start-up and expansion costs” line includes:

	30.06.2003	31.12.2002	Change
Start-up and expansion costs			
Capital increase expenses	2,617	3,473	(856)
Start-up costs	1,208	2,066	(858)
Others	148	231	(83)
	3,973	**5,770**	**(1,797)**

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

Decreases are due to the normal process of amortisation.

The “Industrial patent rights and use of intellectual property rights” line mainly includes applications software acquired for an unlimited period and customised for the exclusive use of the company. The EUR 4.7 million increase is mainly due to the capitalisation of costs relating to licences and the development of software and other services acquired as part of the Mobile Internet project and the capitalisation of investments relating to the creation of a European data warehouse to support the company’s business activities. Both of these projects became operational during the period.

The change in “Concessions, licences, trademarks and similar rights” relates to the purchase of software licences and associated costs (EUR 2.2 million). In particular, this includes renewals of licences for management and billing software purchased for the whole group, access systems software and network services management.

This item includes EUR 27.8 million relating to IRU agreements for exclusive use of dark fibre optics for 15 years. These rights will be amortised over the term of the agreement.

The “Payments on account and assets in the course of acquisition” line fell by EUR 4.8 million, included under “Other changes, due to EUR 4.7 million of the investments listed above being recorded under the “Industrial patent rights and intellectual property rights item”.

The “Other” line chiefly includes investment in adapting technical sites and commercial and administrative offices.

II – Tangible assets

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

COSTS	**Balance 31.12.2002**	**Increases**	**Write-ups**	**Other changes**	**(Disposals)**	**Balance 30.06.2003**
land and buildings						
- land	4,247		-	-	-	4.247
	4,247		**-**	-	**-**	**4.247**
plant and machinery						
- generic plant and machinery	1,381		-	-	-	1.381
- specific plant and machinery	19,979	761	-	-	-	20.740
- other plant and machinery	1,977	140	-	-	-	2.117
	23,337	**901**	**-**	-	**-**	**24.238**
industrial and commercial equipment						
- network and other specific equipment	466	20	-	-	-	486
- other equipment	1,677		-	-	-	1.677
- miscellaneous minor items	7		-	-	-	7
	1,930	**20**	**-**	-	**-**	**2.170**
other fixed assets						
- office furniture	1,321	3	-	-	-	1,324
- IT and automated office equipment	2,348	5	-	-	-	2,353
- other assets	367	-	-	-	(2)	365
	4,036	**8**	**-**	-	**(2)**	**4,042**
payments on account and assets in course of acquisition						
- payments on account and other assets in course of acquisition	9,262	15,997	-	-	-	25,259
	9,262	**15,997**	**-**	-	**-**	**9,262**
	43,032	**16,926**	**-**	**-**	**(2)**	**59,956**

The “land” item covers investment in land acquired for the company’s new headquarters in Cagliari.

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

The increases recorded under “tangible assets in course of acquisition” relate to investments of EUR 15 million in the new company headquarters for which work began last year and was completed in August 2003.

A summary of changes in depreciation over the period is shown below:

DEPRECIATION	Balance 31.12.2002	Rate of depreciation	Write-downs	Other changes	(Disposals)	Balance 30.06.2003
plant and machinery						
- generic plant and machinery	472	99	-	-	-	571
- specific plant and machinery	3,693	1,996	-	-	-	5,689
- other plant and machinery	1,255	208	-	-	-	1,463
	5,420	**2,303**	**-**	-	**-**	**7,723**
industrial and commercial equipment						
- network and other specific equipment	104	48	-	-	-	152
- other equipment	1,045	168	-	-	-	1,213
- miscellaneous minor items	2	1	-	-	-	3
	1,151	**217**	**-**	-	**-**	**1,368**
other tangible assets						
- office furniture	375	80	-	-	-	455
- IT and automated office equipment	1.123	232	-	-	-	1,355
- other assets	188	73	-	-	-	261
- payments on account and other assets in course of acquisition	-	-	-	-	-	-
	1,686	**385**	**-**	-	**-**	**2,071**
	8,257	**2,905**	**-**	**-**	**-**	**11,162**

A summary of the changes in the accounts over the period, with regard to the net book value of tangible assets, is shown below:

NET BOOK VALUE	Balance 31.12.2002	Increases	Write-ups and other changes	(Depreciation and write-downs)	(Disposals)	Balance 30.06.2003
land and buildings						
- land	4,247	-	-	-	-	4,247
	-	**-**	**-**	-	**-**	**4,247**
plant and machinery						
- generic plant and machinery	909	-	-	(99)	-	810
- specific plant and machinery	16,286	761	-	(1,996)	-	15,051
- other plant and machinery	723	140	-	(208)	-	654
	17,918	**901**	**-**	**(2,303)**	**-**	**16,515**
industrial and commercial equipment						
- network and other specific equipment	361	20	-	(48)	-	335
- other equipment	632	-	-	(168)	-	464
- miscellaneous minor items	5	-	-	(1)	-	4
	998	**20**	**-**	**(217)**	**-**	**803**
other tangible assets						
- office furniture	946	3	-	(80)	-	869
- IT and automated office equipment	1,225	5	-	(232)	-	998
- other assets	179	-	-	(73)	(2)	104
payments on account and assets in course of acquisition	-	-	-	-	-	-
	2,350	**8**	**-**	**(385)**	**(2)**	**1,971**
payments on account and assets in course of acquisition						
- payments on account and other assets in course of acquisition	9,262	15,997	-	-	-	25,259
	9,262	**15,997**	**-**	-	**-**	**25,259**
	34,775	**16,926**	**-**	**(2,905)**	**(2)**	**48,795**

III – Long-term investments

As of 30 June 2003, this item included holdings in subsidiaries (EUR 2,081.3 million), affiliated companies (EUR 0.05 million) and other companies (EUR 0.2 million).

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

BREAKDOWN OF EQUITY INVESTMENTS

SUBSIDIARIES	30.06.2003 cost	30.06.2003 write-ups (downs)	30.06.2003 B/S value	31.12.2002 cost	31.12.2002 write-ups (downs)	31.12.2002 B/S value
Best Engineering SpA	5,643	(4,353)	1,290	5,643	(4,353)	1,290
Energy Byte Srl	677	(677)	-	677	(677)	-
Excite Italia BV	17,769	-	17,769	30,648	-	30,648
Eunet Edv und Internet Dienstleistungs AC	15,894	-	15,894	-	-	-
Home.Se AB	1,306		1,306			
Ideare Spa	6,745	(3,747)	2,998	6,745	(3,747)	2,998
Informedia Srl	535	(535)	-	535	(535)	-
Liberty Surf Group SA	599,812	(80,883)	518,929	599,812	(80,883)	518,929
Nextra SpA	1.252		1,252			
Tiscali Motoring Srl (ex Motorcity SpA)	500	-	500	500	-	500
Quinary SpA	29,474	(18,378)	11,096	29,474	(18,378)	11,096
STS Studi Tecnologie e Sistemi Srl	3,228	-	3,228	3,228	-	3,228
Tiscali Armement Sarl	892	-	892	892	-	892
Tiscali Datacomm Ag (ex Datacomm AG)	75,622	(35,300)	40,322	75,622	(35,300)	40,322
Tiscali Finance SA	125	-	125	125	-	125
Tiscali Deutschland Gmbh (ex Nikoma)	283,475	(230,309)	53,166	283,475	(230,309)	53,166
Tiscali Telecomunicaciones SA	2,452	(2,327)	125	2,452	(2,327)	125
World Online International NV	1,809,694	(400,660)	1,409,034	1,809,694	(400,660)	1,409,034
Andaledda SpA	88	-	88	88	-	88
Connect Software Inc	1,027	-	1,027	1,027	-	1,027
Gilla Servizi Telecomunicaz. Srl (ex Gilla SpA)	1,295	(1,250)	45	1,295	(1,250)	45
Tiscali Czech Republic Sro	39	-	39	39	-	39
Tiscali Internet Ltd	598		598			
Tiscali I.T.S. Srl	1,593	-	1,593	1,593		1,593
	2,859,735	**(778,419)**	**2,081,316**	**2,853,564**	**(778,419)**	**2,075,145**

AFFILIATED COMPANIES	30.06.2003 cost	30.06.2003 write-ups (downs)	30.06.2003 B/S value	31.12.2003 cost	31.12.2003 write-ups (downs)	31.12.2003 B/S value
FreeTravel SpA (being wound up)	250	(250)	-	250	(250)	-
Janna SCpa	34	-	34	34		34
Netchemya SpA (being wound up)	4,550	(4,550)	-	4,550	(4,550)	-
Ariete Telemedia Srl	744	(744)	-	744	(744)	-
STUD Soc. Consortile Srl	15		15	15		15
	5,593	**(5,544)**	**49**	**5,593**	**(5,594)**	**49**

OTHER COMPANIES	31.12.2001 cost	write-ups (downs)	B/S value	31.12.2002 cost	write-ups (downs)	B/S value
Crs4	125	-	125	125	-	125
Consorzio Green Management	5	(5)	-	5	(5)	-
Mix Srl	1	-	1	1	-	1
Tiscali Int.l Network SpA (ex Nets Broadband SpA)	34	-	34	34	-	34
	165	**(5)**	**160**	**165**	**(5)**	**160**

CHANGES DURING THE PERIOD

The changes in the composition of holdings during the period are shown in the table below.

GROUP COMPANIES	Balance 31.12.2002	Increases	(Disposals)	write-ups (downs)	other changes	Balance 30.06.2003
Best Engineering SpA	1,290	-	-	-	-	1,290
Energy Byte Srl	-	-	-	-	-	-
Excite Italia BV	30,648	3,398	(2,777)	-	(13,500)	17,769
Eunet Edv und Internet Dienstleistungs AG	-	15,894	-	-	-	15,894
Home.Se AB	-	1,306	-	-	-	1,306
Ideare SpA	2,998	-	-	-	-	2,998
Informedia Srl	-	-	-	-	-	-
Liberty Surf Group SA	518,929	-	-	-	-	518,929
NextraSpA	-	1,252	-	-	-	1,252
Quinari SpA	11,096	-	-	-	-	11,096
STS Studi Tecnologie e Sistemi Srl	3,228	-	-	-	-	3,228
Tiscali Armement Sarl	892	-	-	-	-	892
Tiscali Datacomm Ag (ex Datacomm AG)	40,322	-	-	-	-	40,322
Tiscali Deutschland Gmbh (ex Nikoma)	53,166	-	-	-	-	53,166
Tiscali Finance SA	125	-	-	-	-	125
Tiscali Motoring Srl (ex Motorcity SpA)	500	-	-	-	-	500
Tiscali Telecomunicaciones SA	125	-	-	-	-	125
World Online International NV	1,409,034	-	-	-	-	1,409,034
Andaledda SpA	88	-	-	-	-	88
Connect Software Inc	1,027	-	-	-	-	1,027
Gilla Servizi Telecomunicaz. Srl (ex Gilla SpA)	45	-	-	-	-	45
Tiscali Czech Republic Sro	39	-	-	-	-	39
Tiscali Internet Limited	-	598	-	-	-	598
Tiscali I.T.S. Srl	1,593	-	-	-	-	1,593
	2,075,145	**22,448**	**(2,777)**	**-**	**(13,500)**	**2,081,316**

Over the period, the value of holdings increased by EUR 22.4 million and decreased by EUR 16.3 million. The decrease included disposals amounting to EUR 2.8 million and EUR 13.5 million relating to other changes.

The main transactions that took place during the period are described below.

Excite Italia BV

In March 2003, the shareholders' meeting of Excite Italia BV decided to reduce the company's share capital by EUR 13.5 million, given that the value of the holding had fallen by the same amount. The credit generated as a result of this transaction was used to settle bank debt and other trade payables.

A further increase of around EUR 3.4 million and a decrease of EUR 2.7 million related to the exercise of an option to purchase 384 shares in Excite Italia BV that had been allocated to company managers, and their subsequent sale in March 2003.

The acquisition price was set at EUR 7,230.40 per share and the sale price was EUR 8,847.87 per share.

EUnet Edv und Internet Dienstleistungs AG

In June 2003 Tiscali SpA acquired 100% of the capital of EUnet Edv und Internet Dienstleistungs AG from a number of shareholders. The company is an ISP operating in Austria. The acquisition cost of EUR 15.9 million is to be paid using newly-issued Tiscali shares. The issue of the necessary shares will be voted on at the shareholders' meeting of Tiscali SpA within eight months of the date of the transaction being approved by the Austrian competition authorities (this approval was received at the end of June 2003).

Home.se AB

In April 2003, Tiscali SpA signed an agreement to acquire 100% of Swedish company Home.se AB. The acquisition cost of EUR 1.3 million is to be paid using newly-issued Tiscali shares. Under the terms of the agreement, the issue of shares to pay for the acquisition will have to be approved before 16 December.

Nextra SpA

Tiscali acquired 100% of Nextra SpA in March 2003 from Norway's Telenor Business Solutions AS and Telenor Business Solutions Holding AS. The acquisition cost of EUR 1.3 million is to be met using 643,950 Tiscali shares issued in July 2003.

Tiscali Internet Ltd

In March 2003, Tiscali SpA acquired 100% of Tiscali Internet Ltd, the dial-up user base of Dell Products (Europe) BV. The total cost of the transaction was EUR 598,240, which was paid using 152,380 Tiscali shares.

AFFILIATED COMPANIES	**Balance 31.12.2002**	**increases**	**(disposals)**	**write-ups (downs)**	**other changes**	**Balance 30.06.2003**
FreeTravel SpA (being wound up)	-	-	-	-		-
Ariete Telemedia Srl	-	-	-	-	-	-
Janna Scpa	-	-	-	-	34	34
Netchemya	-	-	-	-	-	-
STUD Soc. Consortile Srl	-	-	-	-	15	15
	-	**-**	**-**	**-**	**49**	**49**

The figures in the "Other changes" column derive from the restatement of holdings in Janna Scpa, Netchemya SpA and Stud Soc. from the "Holdings on other companies" line to "Holdings in affiliated companies".

OTHER COMPANIES	**Balance 31.12.2002**	**increases**	**(disposals)**	**write-ups (downs)**	**other changes**	**Balance 30.06.2003**
Crs4	125	-	-	-	-	125
Consorzio Green Management	-	-	-	-	-	-
Mix Srl	1	-	-	-	-	1
Stud Soc. Consortile	15	-	-	-	(15)	-
Tiscali Int.l Network SpA(ex Nets Broadband SpA)	34	-	-	-	-	34
Netchemya SpA (being wound up)	-	-	-	-	-	-
Janna Scpa	34	-	-	-	(34)	-
	209	**-**	**-**	**-**	**(49)**	**160**

Please note that although Tiscali SpA has a direct stake of just 10% in Tiscali International Network SpA (formerly Nets Broadband SpA), it controls the company indirectly, as the other 90% is owned by Tiscali International BV (Netherlands)—a wholly-owned subsidiary of Tiscali SpA.

OTHER INFORMATION

Holdings in subsidiaries

Company name	Head office	Share capital	Shareholders' equity	Net profit	% held	BS value
Best Engineering SpA	Turin	843	704	(20)	60.00%	1,290
Energy Byte Srl	Milan	68	(63)	(18)	100.00%	-
Excite Italia BV	Amsterdam	76	2,611	595	100.00%	17,768
Eunet Edv und Internet Dienstleistungs AG	Vienna	70	2,873	1,453	100.00%	15,894
Home.Se AB	Solna (Sweden)	108	214	(945)	100.00%	1,306
Ideare SpA	Pisa	520	2,703	(242)	60.00%	2,998
Informedia Srl	Rome	52	12	-	95% (***)	-
Liberty Surf Group Sa	Paris	(*) 75,280	(*) 97,167	(*) (33,816)	94.50%	518,929
Nextra SpA	Casalecchio di Reno(BO)	100	753	(817)	100.00%	1,252
Quinary SpA	Milan	1,280	(387)	(1,344)	84.97%	11,096
STS Srl	Rome	100	285	(259)	50.00%	3,228
Tiscali Armament Sarl	Paris	8	(313)	(212)	100.00%	892
Tiscali Datacomm Ag (ex Datacomm AG)	Basel	19,364	6,221	(3,597)	100,00%	40,322
Tiscali Finance SA	Brussels	125	(16,992)	2,177	100.00%	125
Tiscali Motoring Srl (ex Motorcity SpA)	Cagliari	100	92	(8)	60.00%	500
Tiscali Telecomunicaciones SA	Madrid	2,100	(7,324)	(2,652)	99.99%	125
World Online International NV	Maarsen (NL)	115,519	207,771	(249,608)	99.49%	1,409,034
Andaledda SpA	Cagliari	(**) 103	(**) 88	(**) (3)	85.00%	88
Connect Software Inc	S.Francisco (US)	(**) 48	(**) (43)	(**) (2)	100.00%	1,027
Gilla Servizi Telecomunicaz. Srl (ex Gilla SpA)	Cagliari	50	(1,157)	(1,507)	90,00%	45
Tiscali Czech Republic Sro	Prague	(**) 505	(**) (43)	(**) (23)	100.00%	39
Tiscali Internet Limited	Bracknell (UK)	(^) 581	(^) 581	(^) -	100.00%	598
Tiscali I.T.S. Srl	Cagliari	780	1,459	(5)	100.00%	1,593
						2,081,316

(*) Data pertaining to subsidiaries' consolidated companies
(**) Balance sheet data as of 31/12/2002
(***) The remaining 5% is held by Andaledda SpA
(^) Accounting data updated on 28/02/2003

The ongoing group reorganisation has entailed the revaluation of book values of holdings to align them with changes in market conditions since last year. However, we believe that the residual value of long-term investments—while exceeding the amount of equity—provides a fair picture of the value of these investments, given the sector's development potential. The differences between the book values and amount of equity are mainly attributable to goodwill.

Holdings in group companies

Company name	Head office		Share capital		Shareholders' equity		Net profit	% held	BS value
Ariete Telemedia Srl	Milan	(*)	52	(*)	46	(*)	(36)	40%	-
Gilla SpA	Cagliari		2,500		798		2.500	50%	-
FreeTravel SpA (being wound up)	Milan	(**)	500	(**)	154	(**)	(132)	50%	-
STUD Soc. Consortile Sarl	Cagliari	(*)	45	(*)	43		(5)	33.33%	15
Netchemya SpA (being wound up)	Milan	(**)	22,750	(**)	20,032	(**)	(2.632)	20%	-
Janna Scpa	Cagliari	(*)	102	(*)	100	(*)	(2)	33.33%	34
									49

(*) Balance sheet data as of 31/12/2002
(**) Balance sheet data as of 31/12/2001

C) Current assets

I - Inventories

Inventories largely consist of goods for resale and consumables.

Changes in inventories are shown below.

raw materials, supplies and consumables	30.06.2003	31.12.2002	Change
telephone cards and various components	407	346	61
goods for resale	830	862	(32)
	1,237	**1,208**	**29**

Goods for resale mainly consist of satellite equipment for the new “Tiscali Sat” service (around EUR 0.5m), and modems for the ADSL service.

II – Receivables

Receivables from customers:

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

	30/06/2003	31/12/2002	Change
Receivables	57,693	72,647	(14,954)
Provisions for bad debts	(7,567)	(26,064)	(18,497)
	50,126	**46,583**	**3,543**

Net receivables from customers rose to EUR 50.1 million. The company will therefore be taking action to recover outstanding receivables.

To align the value of receivables with that of the estimated market value, bad debt provision has been set at approximately EUR 7.6 million. During the period some of these provisions were used to cover debts that were written off.

BREAKDOWN OF RECEIVABLES

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

	30.06.2003			**31.12.2002**		
	Receivables falling due			Receivables falling due		
CURRENT ASSETS	**within 1 year**	**in 1-5 years**	**after 5 years**	**within 1 year**	**in 1-5 years**	**after 5 years**
Receivables:						
from customers	50,126	-	-	46,583	-	-
from subsidiaries	72,889	97,328	-	64,228	97,328	-
from affiliated companies	-	-	-	-	-	-
from others	38,218	25,629	-	33,311	293	-
	161,233	**122,957**	**-**	**144,122**	**97,621**	**-**

RECEIVABLES FROM GROUP COMPANIES

Receivables from group companies are detailed below.

	financial receivabales		trade receivables		total
	< 1 year	> 1 year	< 1 year	> 1 year	
GROUP COMPANIES					
Best Engineering SpA	1,094	-	129	-	1,223
Energy Byte Srl	350	-	74	-	424
Excite Italia BV	516	-	1,326	-	1,842
Ideare SpA	-	-	76	-	76
Informedia Srl	140	-	238	-	378
Liberty Surf Group SA	-	-	216	-	216
Quinary SpA	516-	-	383	-	899
STS Srl	-	-	4	-	4
Tiscali Datacomm AG	-	-	700	-	700
Tiscali Deutschland Gmbh (ex Nikoma)	-	17,328	3,567	-	20,895
Tiscali Finance SA	-	-	-	-	
Tiscali International BV	28,224	80,000	27,291	-	135,515
Tiscali International Network SA (ex Nets SA)	40	-	753	-	793
Tiscali Motoring Srl (ex Motorcity SpA)	217	-	12	-	229
Tiscali Telecomunicaciones SA	-	-	1,184	-	1,184
Andaledda SpA	6	-	-	-	6
Connect Software Inc	54	-	-	-	54
Gilla Servizi Telecomunicazioni Srl (ex Gilla	1,629	-	352	-	1,981
Tiscali Armement Sarl	271	-	-	-	271
Tiscali I.T.S. Srl	3,251	-	-	-	3,251
Tiscali Czech Republic Sro	-	-	7	-	7
World On line Italia srl (being wound up)	269	-	-	-	269
	36,577	**97,328**	**36,312**	**-**	**170,217**

Receivables from group companies posted as long-term receivables refer to financial receivables that the parent company intends to convert into capital increases for companies in which it holds a stake. In particular, this covers the sum of about EUR 17.3 million in respect of German company Tiscali Gmbh, indirectly owned by Tiscali SpA through Tiscali Deutschland Gmbh. EUR 11.2 million relates to financial receivables acquired after its subsidiary SurfEU.Com Ltd was wound up in July 2002.

Receivables include EUR 80 million in relation to a loan granted to a subsidiary of Worldonline International NV, deriving from the acquisition of Springboard Internet Services Ltd in 2001. These receivables do not generate interest since they are destined to form part of an increase in the capital of the subsidiary, as part of the group's reorganisation.

Financial receivables from Worldonline International NV of EUR 28.2 million include receivables of EUR 9.5 million in respect of Wanadoo Belgium NV, which was acquired in the first half of 2003 via Belgium's Tiscali NV (which is controlled indirectly by Tiscali SpA).

This item also includes receivables of EUR 9.8 million in respect of Tiscali España SA in relation to its acquisition of Vodafone's fixed-line internet access business in Spain, Airtel Movil SA.

Trade receivables relate to the billing of group companies for services carried out by the holding company, as well as the passing on of costs incurred by Tiscali SpA that pertain to group companies.

BREAKDOWN OF OTHER RECEIVABLES

Other receivables break down as follows:

	Trade	
	Balance 30.06.2003	Balance 31.12.2002
receivable within one year		
withholding taxes	449	436
receivables from the Treasury for contributions under Law 388, art. 8	572	572
receivables from employees	56	15
receivables from others	31	33
tax credits on dividends	6,815	9,019
VAT refunds receivable	13,833	13,834
VAT receivables	9,923	6,751
Other receivables	6,539	2,651
	38,218	**33,311**
receivable after one year		
Deposits (guarantees)	327	293
Other receivables	25,302	
	25,629	**293**
	63,847	**33,604**

The item “Tax credits on dividends” includes tax credits resulting from the payment of dividends by Tiscali I.T.S. International Technology Services Srl, which was acquired last year.

An application was made for the reimbursement of VAT amounting to EUR 13.8m in 2002, of which EUR 8.6 million has so far been received.

“Other receivables” include advance payments in respect of suppliers for EUR 3.2 million and receivables from Eurolight Associates Ltd, which purchased the holding in CD Telekomunikace Sro (for EUR 3.2 million).

Amounts receivable after one year, listed under “Other receivables” refer to Eurolight Associates Ltd, and come under the receivables from CD Telekomunikace Sro.

III – Investments other than non-current assets

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

Other securities

	30.06.2003			31.12.2002		
	cost	write-ups (downs)	B/S value	cost	write-ups (downs)	B/S value
issued by subsidiaries	-	-	-	3,209	-	3,209
bonds	-	-	-	-	-	-
Total	**-**	**-**	**-**	**3,209**	**-**	**3,209**

Holdings owned at the end of the previous period were adjusted in the period under review.

IV – Cash and cash equivalents

Cash and cash equivalents break down as follows:

	30.06.2003	31.12.2002	Change
bank and post office deposits	6,979	2,073	4,906
cash and other negotiable instruments	10	6	4
	6,989	**2,079**	**4,910**

D) Accrued income and deferred charges

A summary of accrued income and deferred charges is set out below:

	30.06.2003	31.12.2002	Change
Accrued income:			
Accrued interest	326	184	142
Deferred charges:			
Leasing payments	220	338	(118)
Rentals	-	43	(43)
Pre-paid expenses	537	312	225
Other deferred charges	3,042	987	2,055
	3,799	**1,680**	**2,119**
Accrued income and deferred charges	**4,125**	**1,864**	**2,261**

The "Accrued interest" item includes EUR 0.16 million for interest on VAT refunds receivable.

"Other deferred charges" include costs already incurred that will be recorded in later periods in accordance with the matching principle. This refers to telecom rental charges (EUR 1.1 million), insurance, publicity costs and portal content.

A) Shareholders' equity

Statement of changes in shareholders' equity

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

	Balance 31.12.2002	Allocation of net profit	Dividends	Other changes	Net profit for the period	Balance 30.06.2003
Share Capital	180,867	-	-	2,190	-	183,057
Share premium reserve	1.632.896	(152,297)	-	16,378	-	1,496,977
Other reserves:						
Retained earnings (losses carried forward)	-	-	-	-	-	-
Profit (loss) for the year	(152,297)	152,297	-	-	(30,127)	(30,127)
	1,661,466	**-**	**-**	**18,568**	**(30,127)**	**1,649,907**

At 30 June 2003, the company's share capital was EUR 183,057,169.00, consisting of 366,114,338 ordinary shares with a nominal value of EUR 0.50 each.

The extraordinary general meeting held on 29 April 2003 voted to cover losses relating to the 2002 financial year by using EUR 152,296,833.87 from the share premium reserve.

Other capital increases and increases in the share premium reserve that occurred during the year came about as a result of takeover operations carried out by means of share transfers. During the first half of the year, a total of 4,380,203 shares were issued, at a nominal amount of EUR 2,190,101.50.

At the same time, the share premium reserve was increased by EUR 16,377,458.65, but after the use of an amount to cover losses, this item suffered a net decrease of EUR 135,919,375.22.

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

	issue date	no. shares issued	share capital increase	share premium reserve
			EUR	
Trayboard Holding SA (Quinary SpA) share issue	16/12/2002	789,110	394,555	3605444
Cavallotto, Decio, Gilardoni and Massironi (Quinary SpA) share issue	12/12/2002	233,211	116,606	1,065,541
Exercise of warrants - Connect Software - II tranche	09/04/2003	74,350	37,175	
Receivables from Wanadoo International SA	13/06/2003	2,290,924	1,145,462	8,354,538
Receivables from VTL Inc	20/05/2003	840,228	420,114	2,829,886
Dell Product (Europe) BV share issue (Tiscali Internet Ltd)	07/11/2002	152,380	76,190	522,050
		4,380,203	**2,190,102**	**16,377,459**

SHARE CAPITAL COMPOSITION (No. shares - 000)

Nominal value of each share	**EUR**	***0.50***

Category		**31.12.2002**	**Increases**	**(Decreases)**	**30.06.2003**
Ordinary shares		361,734,135	4,380,203	-	366,114, 338
	Total	361,734,135	4,380,203	**-**	366,114,338

B) Provisions for risks and future liabilities

Provisions for risks and future liabilities are detailed below:

	Balance 31.12.2002	Provisions	(Amounts used)	Other changes	Balance 30.06.2003
Provision for exchange rate losses	8	11	-	-	19
Provisions for risks and future liabilities	54,319	-	(29)	-	54,290
Other provisions	375	230	-	-	605
	54,702	**241**	**(29)**	**-**	**54,914**

C) Severance indemnities reserve

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

	Balance 31.12.2002	Provisions	(Amounts used)	Other changes	Balance 30.06.2003
Manual workers	16	4	-	-	20
Office workers	2,570	578	(160)	-	2,988
Senior managers	366	157	(35)	-	488
	2,952	**739**	**(195)**	**-**	**3,496**

D) Payables

Breakdown

	30.06.2003	31.12.2002	Changes
Due to banks	64,506	44,119	20,387
Due to other financial organisations	843	1,919	(1,076)
Trade accounts payable	109,653	100,692	8,961
Due to group and affiliated companies	573.325	554.160	19,165
Taxes payable	429	889	(460)
Due to social security agencies	596	919	(323)
Other payables	33,180	7,597	25,583
	782,532	**710,295**	**72,237**

The increase recorded under the “Due to banks” line mainly derives from the disbursement of the first tranche of a loan granted to the company by Banca CIS for the construction of its new headquarters (Tiscali Campus) and the purchase of the necessary land. The loan term is ten years.

BREAKDOWN OF PAYABLES

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

	30.06.2003			31.12.2002		
	Financial payables, etc			Trade payables		
CURRENT ASSETS	within 1 year	in 1-5 years	after 5 years	within 1 year	in 1-5 years	after 5 years
Due to banks	31,003	12,030	21,473	-	-	-
Due to other financial organisations	843	-	-	-	-	-
Trade accounts payable	-	-	-	95,132	12,859	1,662
Taxes payable	429	-	-	-	-	-
Due to social security agencies	596	-	-	-	-	-
Due to others	33,180	-	-	-	-	-
	66,051	**12,030**	**21,473**	**95,132**	**12,859**	**1,662**

INTRACOMPANY PAYABLES

Intracompany payables break down as follows:

	Financial payables		Trade payables		total
	< 1 year	> 1 year	< 1 year	> 1 year	
GROUP COMPANIES					
Best Engineering SpA	-	-	362	-	362
Energy Byte Srl	-	-	80	-	80
Excite Italia BV	-	-	4,291	-	4,291
Ideare SpA	927	-	935	-	1,862
Informedia Srl	-	-	64	-	64
Liberty Surf Group SA	-	-	1,750	-	1,750
Quinary SpA	293	-	33	-	326
Tiscali Datacomm AG	1,358	-	96	-	1,454
Tiscali Deutschland Gmbh (ex Nikoma)	-	-	1,290	-	1,290
Tiscali Finance SA	3,721	-	-	-	3,721
Worldonline International NV	531,024	-	21,687	-	552,711
Tiscali Motoring Srl (ex Motorcity SpA)	42	-	230	-	272
Tiscali Telecomunicaciones SA	-	-	290	-	290
Andaledda SpA	56	-	1	-	57
Gilla Servizi Telecomunicazioni Srl (ex Gilla SpA)	-	-	686	-	686
Tiscali I.T.S. Srl	1,790	-	-	-	1,790
Tiscali International Network SA (ex Nets SA)	-	-	303	-	303
Tiscali Armament Sarl	-	-	300	-	300
World onLine Italia Srl (being wound up)	-	-	216	-	216
Nextra SpA	1,500	-	-	-	1,500
	540,711	**-**	**32,614**		**-573,325**

Financial payables to group companies mainly consist of loans to subsidiaries.

In particular, payables to Worldonline International NV include an interest-free loan received by the indirect subsidiary of Tiscali International BV, which showed an increase of EUR 25.2 million over the period. This was because of EUR 22.7 million being passed on by Tiscali International BV to Tiscali Finance SA. The remaining EUR 2.6 million relates to other loans made directly by the subsidiary.

BREAKDOWN OF TAXES PAYABLE

	30.06.2003	31.12.2002	Change
Payables to the Treasury for advance withholding tax	429	848	(419)
Other taxes	-	41	(41)
	429	**889**	**(460)**

Tax payables to the Treasury consist of advance withholdings on personal income tax (IRPEF) for employees and contractors.

BREAKDOWN OF OTHER PAYABLES

	30.06.2003	31.12.2002	Change
Payables to directors (emoluments)	815	585	230
Payables to employees	4,002	1,744	2,258
Other payables	28,363	5,268	23,095
	33,180	**7,597**	**25,583**

Payables to directors include emoluments.

The “Payables to employees” item includes EUR 1.9 million for June salaries and EUR 1.9 million for holidays accrued and not yet taken.

The “Other payables” item includes payables of EUR 28.3 million still outstanding following the acquisitions of EU.net AG, Tiscali Internet Ltd and Home.se AB during the period, which are to be paid for in newly issued Tiscali SpA shares. The capital increase for the purpose of acquiring Tiscali Internet Ltd was approved by the extraordinary shareholders’ meeting held on 29 April 2003.

E) Accrued liabilities and deferred income

A summary of accrued liabilities and deferred income is set out below:

	30.06.2003	31.12.2002	Change
Accrued liabilities:			
Accrued holiday bonuses	953	724	229
Other	673	587	86
	1,626	**1,311**	**315**
Deferred income:			
Pre-paid internet services	2,419	3,235	(816)
Pre-paid voice services	2,146	1,988	158
Deferred income for contributions under law 388, art. 8	572	572	-
Other	879	869	10
	6,016	**6,664**	**(648)**
	7,642	**7,975**	**(333)**

The “Accrued liabilities” item includes provisions of around EUR 0.7 million for holiday bonuses accrued, and EUR 0.3 million for costs to be attributed to the current financial year for interest payable, government grants and commissions.

Deferred income refers to future financial years' revenues for internet services pertaining to the period under review and residual receivables from the sale of pre-paid phone cards.

Deferred income for contributions pertains to the deferment to future financial years of EUR 0.6 million of contributions on investments made during the 2001 financial year, since the contribution will be posted in the profit and loss account as it becomes available.

MEMORANDUM ACCOUNTS

	30.06.2003	31.12.2002	Change
GUARANTEES GIVEN			
sureties	267,522	254,830	12,692
	267,522	**254,830**	12,692
OTHER MEMORANDUM ACCOUNTS			
Leasing payments falling due	33,974	42,055	(8,081)
Warrants	73	110	(37)
Guarantees	10,877	10,877	-
	44,924	**53,042**	**(8,118)**
GUARANTEES RECEIVED			
sureties	2,792	2,448	344
	2,792	**2,448**	**344**
	315,238	**310,320**	**4,918**

Sureties issued to third parties relate to EUR 250 million in guarantees given in relation to the bond issued on the Euromarket by subsidiary Tiscali Finance SA.

The reduction in the memorandum accounts is mainly due to a EUR 8.1 million decrease in leasing payments falling due.

A) Value of production

Breakdown of value of production

Revenues in the first six months of 2003 were EUR 0.8m higher than the previous year, and include the following items:

Breakdown by business line:	30.06.2003	30.06.2002	Change
Access	45,866	33,428	12,438
Voice services	13,932	8,335	5,597
Portal services	7,194	9,267	-2,073
Business services	4,490	2,511	1,979
Other services	12,169	7,665	4,504
	83,651	**61,206**	**22,445**

Overall, revenues increased by 36.7% in the first six months versus the same period of 2002, thanks to a rise in revenues from access services (+37.2%), business services (+78.8%) and voice services (+67.2%).

The advance in access revenues was chiefly attributable to the contribution from ASDL (EUR 3.5 million).

In addition, dial-up revenues (EUR 8.7 million) increased with take up of the “decade 7” (carrier pre-selection) services, which brings in higher revenue than usage-based fees for traffic generated by Tiscali subscribers on third-party networks. Minutes online increased from 4.7 billion in the first six months of 2002, to 4.6 billion in the first half of 2003.

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

Practically all revenues were recorded in EU countries. Transactions between group companies produced a sum of EUR 12.7 million, as shown in more detail below.

BREAKDOWN OF INTRACOMPANY REVENUES

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

	Amount
Tiscali International BV	10,887
Tiscali Deutschland Gmbh (ex Nikoma)	147
Tiscali International Network SA (ex Nets SA)	354
Tiscali Datacomm AG	585
Energy Byte Srl	4
Excite Italia BV	542
STS Srl	7
Quinary SpA	95
Ideare SpA	9
Tiscali Telecomunicaciones SA	7
Gilla Servizi Telecomunicazioni Srl (ex Gilla SpA)	46
Liberty Surf Group SA	83
	12,766

Revenues from group companies mainly derive from the invoicing of expenses borne by the parent company on their behalf and services carried out centrally by the holding company.

OTHER INCOME

	30.06.2003	30.06.2002	Change
Other income	1,341	3,943	1,339

“Other income” includes contributions received in respect of incentives set out under article 8 of Law 388 on investment (EUR 1.2 million) and those set out under article 7 of Law 388 (EUR 0.1 million).

B) Production costs

Purchase of raw materials, supplies and consumables

	30.06.2003	30.06.2002	Change
Purchase of goods destined for resale	1,528	537	991
Purchase of consumables	138	109	29
Purchase of advertising and promotional materials	214	244	(30)
Other purchases	-	1	(1)
	1,880	**891**	**989**

The increase in the "Purchase of goods destined for resale" reflects the rise in the cost of purchasing ADSL modems, following the rapid expansion of broadband services in the first half of 2003.

Breakdown of expenses for the provision of services

	30.06.2003	30.06.2002	Change
Rental of telephone lines and ports	13,002	13,994	(992)
Traffic acquisition costs	19,425	5,197	14,228
Advertising and promotional expenses	8.743	22,751	(14,008)
Maintenance costs	4,989	3,531	1,458
Advisory services	2.322	1,869	453
Sale charges	1,745	251	1,494
Utilities	681	629	52
Bank and postal charges	354	261	93
Travel and transport costs	53	41	12
Other services	10,456	12,555	(2,099)
	61,770	**61,079**	**691**

Total costs incurred in the provision of services remained unchanged versus the same period of last year.

The most significant line items are listed below.

Rental of telephone lines and ports fell despite an increase in production capacity, particularly in relation to connectivity.

Traffic acquisition costs rose to EUR 19.5 million, and relate to voice services, termination costs for international mobile calls and variable interconnection costs. The increase was attributable to the development of the "decade 7" internet services and the proportion of wholesale services.

Advertising and promotional expenses fell by EUR 14 million, and include the costs of national and pan-European advertising campaigns.

Maintenance costs rose to EUR 5 million, mainly due to the increase in company investments.

Costs under the "Other services" item included around EUR 2.9 million for the purchase of portal content, EUR 1.3 million for costs borne on behalf of other group companies (and passed on to these companies), around EUR 1.9 million for business trips and relocations, EUR 0.9 million for general services, EUR 0.5 million for miscellaneous sales- and billing-related expenses, and EUR 0.3 million for emoluments to company directors.

INTRACOMPANY PRODUCTION COSTS

Intracompany production costs break down as follows:

	Amount
Best Engineering SpA	107
Energy Byte Srl	89
Excite Italia BV	1,969
Liberty Surf Group SA	197
Tiscali Datacomm AG	11
Tiscali Deutschland Gmbh (ex Nikoma)	291
Worldonline International NV	1,524
Tiscali Motoring Srl (ex Motorcity SpA)	238
Gilla Servizi Telecomunicazioni Srl (ex Gilla SpA)	539
Tiscali Armement Sarl	300
STS Srl	96
	5,361

Costs listed for Worldonline International BV mainly refer to the transfer of expenses in respect of services and personnel working in the offices of the parent company by the indirectly-controlled subsidiary Tiscali International BV.

The costs of Excite Italia BV, LibertySurf Group SA, Tiscali Deutschland Gmbh and Tiscali Armement Sarl are mainly advertising costs. The costs invoiced by Tiscali Motoring Srl cover the content updates of motoring channel content.

COST OF USING THIRD-PARTY ASSETS

	30.06.2003	30.06.2002	Change
Financial and operating leasing fees	8,675	8,681	(6)
Rentals	945	1,183	(238)
Others	309	294	15
	9,929	**10,158**	**(229)**

PERSONNEL COSTS

	30.06.2003	30.06.2002	Change
Wages and salaries	11,605	10,972	633
Social security contributions	2,607	1,643	964
Severance indemnities reserve	739	685	54
Other costs	31	92	(61)
	14,982	**13,392**	**1,590**

The increase reflects the rise in the number of employees from 783 at 30 June 2002 to 799 as of 30 June 2003. Furthermore, tax benefits received in previous years ceased to apply in 2002.

BREAKDOWN OF MISCELLANEOUS OPERATING COSTS

	30.06.2003	30.06.2002	Change
Government concessions and telecommunications licences	211	240	(29)
Taxes other than corporate income tax	48	65	(17)
Magazines and newspaper subscriptions	4	22	(18)
Other non-extraordinary contingent liabilities	31	-	31
Other minor charges	80	70	10
	374	**397**	**(23)**

C) FINANCIAL INCOME AND CHARGES

INCOME FROM EQUITY INVESTMENTS

Income generated over the year is shown in the table below.

from group companies:

	Interest	Other	total
Tiscali International BV	5	-	5
Energy Byte, Srl,	5	-	5
Best Engineering SpA	12	-	12
Tiscali Armament Sarl	8	-	8
Total	**30**	**-**	**30**

ANALYSIS OF OTHER FINANCIAL INCOME

Income from securities listed under current assets other than equity investments is set out in the table below.

	30.06.2003	30.06.2002	Change
Interest from other securities	-	222	(222)
earnings other than the above:			
from third parties			
Interest from banks	14	6	8
Interest on VAT refunds requested	161	-	161
Interest on short-term loans	-	-	-
Exchange rate gains	128	27	101
	303	**33**	**270**
	303	**255**	**48**

INTEREST PAYABLE AND OTHER FINANCIAL CHARGES

	30.06.2003	30.06.2002	Change
to subsidiaries			
Interest	69	10,007	(9,938)

The decrease relates to interest-free loans.

BREAKDOWN OF OTHER FINANCIAL CHARGES

	30.06.2003	30.06.2002	Change
Financial charges on:			
Amounts due to banks for overdrafts	908	524	384
Amounts due to banks for medium-/long-term loans	-	58	-58
other short term financing	39	47	(8)
Other payables	77	65	12
Exchange rate losses	7	5	2
Other	-	146	(146)
	1,031	**845**	**186**

This item mainly comprises interest charges due on bank overdrafts.

Interest on loans is capitalised as additional investment charges (Tiscali Campus).

E) Extraordinary income and charges

Breakdown of extraordinary income

Description	30.06.2003	30.06.2002	Change
Extraordinary income:			
Contingent assets and non-existent liabilities	2,102	642	1,460
	2,102	**642**	**1,460**

The “Contingent assets” item includes revenues of EUR 0.4 million pertaining to previous financial years, and EUR 1.4 million in costs incurred in previous years that have been written off.

Breakdown of extraordinary charges

Description	30.06.2003	30.06.2002	Change
Extraordinary charges:			
Contingent liabilities and non-existent assets	2,117	2,467	(350)
Other extraordinary charges	9,469	10,658	(1,189)
Write-downs on holdings	-	1	(1)
	11,586	**13,126**	**(1,540)**

The “Contingent liabilities” item mainly covers minor costs relating to previous financial years.

“Other extraordinary charges” include residual costs of EUR 2.3 million invoiced by Telecom Italia during the period, in relation to the local loop unbundling project, which was shelved last year. A further EUR 7.2 million relates to lower revenues being recorded than expected last year, after new agreements were signed with Telecom Italia in respect of usage-based fees for traffic generated by Tiscali subscribers.

OTHER INFORMATION

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

	Average 2003	30.06.2003	Average 2002	30.06.2002
Manual workers	7	8	7	7
Office workers	680	695	702	716
Middle managers	60	63	27	28
Senior managers	33	33	31	32
	780	**799**	**767**	**783**

DIRECTORS' AND AUDITORS' REMUNERATION

Pursuant to article 78 of legislative decree 58/1998 issued by Consob with resolution 11971/99, the tables below set out the remuneration of directors and auditors and the number of shares they hold.

Name	Position	term in office	emoluments	non-monetary benefits	bonuses and other incentives
Board of Directors					
Renato Soru	Chairman & CEO (1)	until approval of 2004 results	-	-	-
Victor Bischoff	Director (4)	until approval of 2004 results	-	-	-
Franco Bernabè	Director (3)	until approval of 2004 results	-	-	-
Gabriel Prêtre	Director (5)	until approval of 2004 results	-	-	-
Tomaso Barbini	Director (6)	until approval of 2004 results	-	-	-
Elserino Piol	Director (2)	resigned in July 2003	-	-	-
Board of Auditors					
Aldo Pavan	Chairman (7)	3 years		-	-
Piero Maccioni	Statutory Auditor(7)	3 years		-	-
Massimo Giaconia	Statutory Auditor(7)	3 years		-	-
Andrea Zini	Deputy Auditor (7)	3 years		-	-
Rita Casu	Deputy Auditor (7)	3 years		-	-

(1) Chairman from 30 June 1999 and Chief Executive since 21 July 1999, subject to renewal
(2) Appointed on 30 June 1999
(3) Appointed on 30 June 2000
(4) Appointed on 12 March 2001
(5) Appointed on 29 April 2003
(6) Appointed on 14 May 2003
(7) Appointed on 29 April 2003

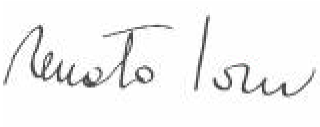
DEALINGS WITH RELATED COMPANIES

During the period, members of the board of directors had dealings with related companies, in which they held a direct or indirect stake. Specifically, consultancy services were commissioned for the development of IT systems from Kelyan SpA, in which Bernabè Franco SpA holds a stake. These services involved the development of a data warehouse and installation of existing IT management systems and cost a total of EUR 0.5 million, charged at market rates.

CASH FLOW STATEMENT

CASH FLOW STATEMENT	30.06.2003	31.12.2002
A) Net financial position at the end of the previous year	**(29,580)**	**(14,350)**
Net profit (loss) for the year	(30,127)	(152,297)
Depreciation, amortisation and write-downs	12,166	23,768
Net change in provisions for risks and future liabilities	212	31,700
Net change in severance indemnities reserve	544	1,145
Write-downs on long-term investments		
Change in net working capital, of which:	**115,326**	**106,910**
- change in receivables	66,098	(19,426)
- change in inventories	(29)	120
- change in accrued income and deferred charges	(2,261)	6,365
- change in payables	51,851	121,822
- change in accrued liabilities and deferred income	(333)	(1,971)
B) Cash flows from operations	**98,121**	**11,226**
Net changes in non-current assets		
- tangible assets	(16,924)	(20,213)
- intangible assets	(3,734)	(53,969)
- long-term investments	(6,171)	30,069
C) Cash flows from investments	**(26,829)**	**(44,113)**
Change in financial payables	21,043	12,330
Other medium-/long-term payables	-	-
Other medium-/long-term assets	(105,337)	(15,472)
Changes in shareholders' equity	18,568	20,799
D) Cash flows from financing operations	**(65,726)**	**17,657**
E) Cash flows for the year (B + C + D)	**5,566**	**(15,230)**
F) Net financial position at the end of the year (A - E), of which:	**(24,014)**	**(29,580)**
Cash and cash equivalents and receivables from banks	6,989	2,079
Short-term investments	-	-
Short-term payables to banks	(31,003)	(31,659)

For the Board of Directors
The Chairman



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AUDITORS' REVIEW REPORT ON THE INTERIM FINANCIAL INFORMATION FOR THE SIX MONTHS ENDED 30 JUNE 2003

To the Shareholders of
Tiscali S.p.A.

We have reviewed the accompanying interim financial information for the six months ended 30 June 2003 of Tiscali S.p.A. (the "Company"), made up of the accounting schedules (balance sheet and income statement), both statutory and consolidated, and of the related explanatory notes. In addition, we have verified the consistency of the explanatory notes with the related information contained in the above accounting schedules.

Our review was carried out in accordance with the auditing standards recommended by CONSOB, the Italian Commission for listed Companies and Stock Exchange under Resolution n. 10867 of 31 July 1997. Our review consisted principally of applying analytical procedures to the underlying financial data, assessing whether accounting policies have been consistently applied and making enquiries of management responsible for financial and accounting matters. The review excluded audit procedures such as tests of controls and verification of assets and liabilities and was therefore substantially less in scope than an audit performed in accordance with auditing standards. Accordingly, unlike our report on the year-end financial statements, we do not express and audit opinion on the interim financial information.

As far as comparable data for the financial statements and the six-month period of the previous year are concerned, reference should be made to our auditor's reports issued respectively on 11 April 2003 and to our review report issued on 13 November 2002.

Based on our review, we are not aware of any material modifications that should be made to the interim financial information mentioned in the first paragraph above in order for it to be in conformity with the criteria provided by CONSOB regulations for the preparation of the interim financial information for the six months approved with Resolution n. 11971 of 14 May 1999 and subsequent modifications.

As disclosed in the explanatory notes to the consolidated accounting schedules, for the purpose of the interim financial information, the Company's Directors, have decided to modify the residual useful life of the consolidation difference, accounted for under Intangible Assets. The reasons for and the effects of this change in this estimation, which has caused an extension in the amortisation period of the consolidation difference, have been disclosed in the above-mentioned explanatory notes.

DELOITTE & TOUCHE S.p.A.

Signed by

Antonio Cocco
Partner

Cagliari, 19 September 2003

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