Half-year report at 30 June 2009

Contents

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TISCALI S.P.A.

Registered offices: SS195 Km 2.3, Sa Illetta, Cagliari, Italy

Share Capital EUR 156,071,496.25

Cagliari Companies' Register and VAT No. 02375280928 Econ. & Admin. Roster - 191784

1 Highlights

Income statement *(EUR mln)*	**30 June 2009**	**30 June 2009 Re-calculated**	**% change**
Revenues	151.6	164.5	-7.9%
Adjusted Gross Operating Result (EBITDA)	48.4	36.2	33.9%
Gross Operating Result (EBITDA)	37.9	25.6	48.3%
Operating result	10.9	0.0	n.m.

Equity and Finacial Position *(EUR mln)*	**30 June 2009**	**31 Dec 2008**	**% change**
Total Assets	913.9	1,205.8	-24.2%
Net Financial Debt	607.9	601.1	-1.1%
Net financial debt as per Consob	613.3	616.4	0.5%
Shareholders' equity	-272.2	4.8	n.a.
Investments	8.6	174.3	n.a.

Operating figures *(000)*	**30 June 2009**	**30 June 2008 Recalculated**	**%change**
Internet Access and Voice users	621.1	674.7	-7.9%
ADSL (broadband) users	549.2	574.5	-4.4%
of which: Direct ADSL users (LLU)	374.3	363.4	3.0%

2 Alternative performance indicators

In this report on operations, in addition to the conventional indicators in accordance with IFRS, a number of alternative performance indicators are present (EBITDA and Adjusted EBITDA) used by Tiscali Group management for monitoring and assessing the operational performance of the same and which not having been identified as an accounting measure in the IFRS context, must not be considered as alternative measures for the assessment of the performance of the Tiscali Group's result. Since the composition of the EBITDA and Adjusted EBITDA is not regulated by the reference accounting standards, the calculation criteria applied by the Tiscali Group might not be the same as that adopted by others and therefore may not be comparable.

The Gross Operating Result (EBITDA) and the operating result before the writedown of receivables and costs for the stock option plans (Adjusted EBITDA) are economic performance indicators not defined by the reference accounting standards and are formed as indicated below:

Pre-tax result and result deriving from discontinued operation

+ Financial charges

- Financial income

+/- Income/Charges from equity investments in associated companies

Operating result

+ Restructuring costs

+ Amortisation/depreciation

+/- Atypical charges/income

Gross Operating Result (EBITDA)

+ Write-downs of customer receivables

+ Stock option plan cost

Gross Operating Result (Adjusted EBITDA)

3 Directors and Auditors

Board of Directors

Chairman and Chief Executive Officer: Mario Rosso

Directors

Francesco Bizzarri

Massimo Cristofori

Umberto De Iulio

Renato Soru[1]

Board of Statutory Auditors[2]

Chairman

Aldo Pavan

Acting Auditors

Piero Maccioni

Andrea Zini

Alternate Auditors

Rita Casu

Giuseppe Biondo

Executive appointed to draw up the corporate accounting documents

Romano Fischetti

Independent Auditing Firm

Reconta Ernst & Young S.p.A.

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[1] From 19 March 2009.

[2] Appointed by the shareholders' meeting held on 30 April 2009

Interim Report on operations

4 Report on operations

4.1 Tiscali's position within the market scenario

The Tiscali Group provides telecommunications services on the fixed network in Italy. Within this context, Tiscali is placed among the main alternative operators who offer integrated Internet access and telephone services, mainly to residential customers. Tiscali is positioned in the IP technology services segment which uses a standardized technological platform for providing all its product range. The Tiscali brand is synonymous with innovation in terms of price and packaging but at the same time offers outstanding value for money.

The broadband market in Italy

According to sector studies, the growth of broadband connections in Italy has been one of the most elevated in Europe over the last few years, passing from just under 6 million lines in 2006 to more than 11 million lines in 2008.

The Italian broadband market therefore, despite having reached a stage of maturity is currently experiencing a period of further expansion, destined to continue over the next few years and linked to a differentiation of the customer demand profiles. It follows that over the next few years, a greater breakdown of the products and services is expected depending, for example, on the geographic context and the transmission technology used by the operators to offer said services (xDSL, cable, fibre optics or other technologies).

Technological evolution and the increasingly greater availability of bundled multimedia services (thanks to IP technological platforms) have over the last few months experienced consolidation of the trend of Italian users, already evident in previous periods, towards the choice of voice and data connections (so-called dual play). In contrast to initial expectations, triple play products (voice+data+video) still remain fairly uncommon.

In this context, during 2009, progressive territorial coverage of the broadband networks continued in Italy. Alongside first generation broadband (up to 7 Mbps), which covers around 96% of the population, coverage of 20 Mbps connections has also grown, now reaching around 57% of the population. Concurrently, the level of infrastructuralization of the operators has risen, which by now potentially permits more than half the population to avail of broadband services in LLU mode (Local Loop Unbundling).

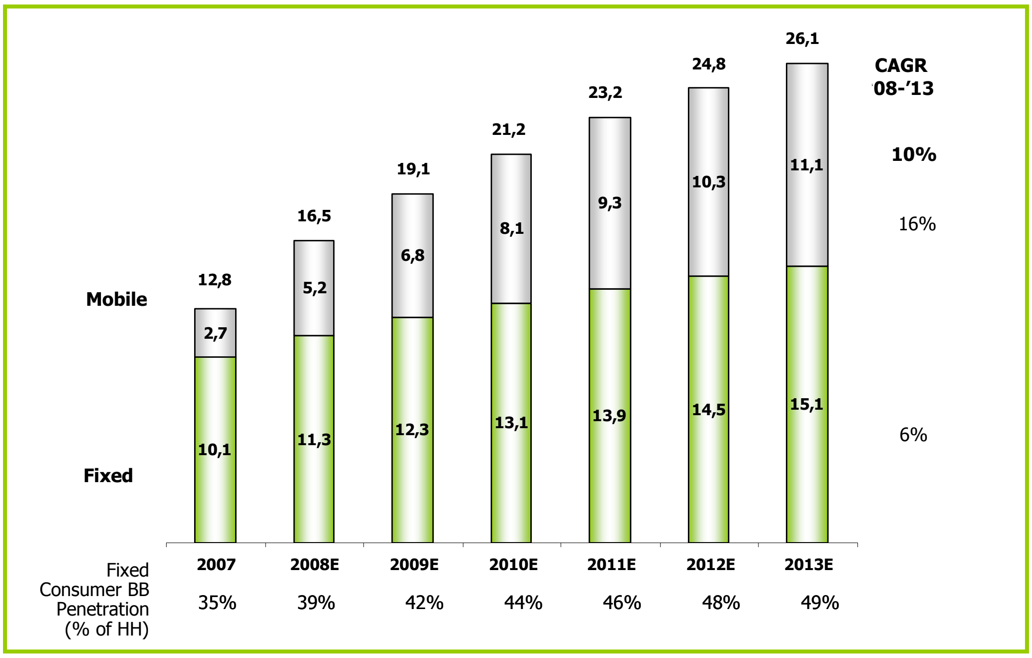
The competitive scenario still remains characterized by the strong vertical integration of the incumbent operator and a reduced presence of alternative broadband infrastructures.

It is estimated that broadband connections on the fixed network will grow with an annual average of around 6% between 2008 and 2013, when they will reach 15 million users.

In relative terms, or rather percentage of families, it is foreseen that between 2008 and 2013 broadband penetration will rise respectively from 39% to 49%.

Market growth will also be further stimulated by evolution of broadband products on the mobile networks, whose expected annual average growth rate comes to 16% between 2007 and 2013, when they will reach around 11 million users, from the current 5 million.

Fig. 4.3: Evolution of residential and business broadband connections in Italy, 2007-2013 (Mln)



Source: Tiscali analysis, 2008

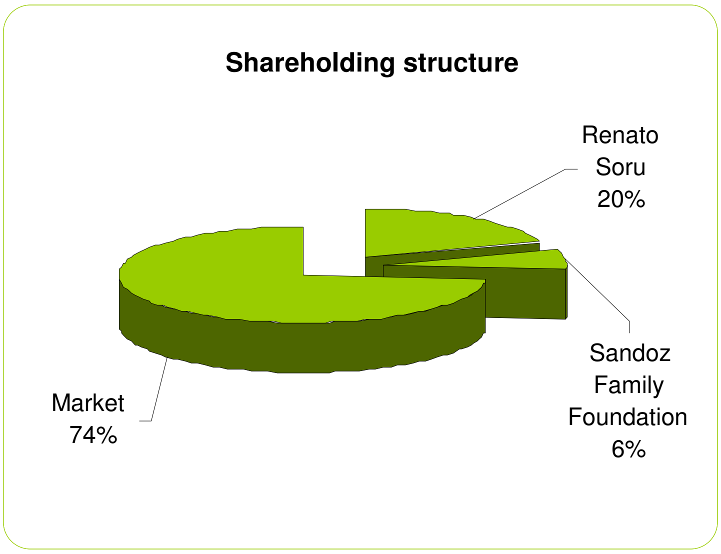
The expected growth dynamics on supply and demand suggest growth in revenues relating to the fixed network broadband segment which, between 2008 and 2013 will pass respectively from EUR 2.6 billion to EUR 3.9 billion, involving an annual average growth rate for the period of 9%.

4.2 Tiscali Shares

Tiscali shares have been listed on the Italian Stock Exchange (Milan: TIS) since October 1999. At 30 June 2009, market capitalization came to around EUR 183.2 million, calculated on the value of EUR 0.2972 per share as of that date.

At 30 June 2009, the number of shares representative of the Group's share capital came to 616,545,485.
Tiscali's shareholder base at 30 June 2009 is illustrated below:

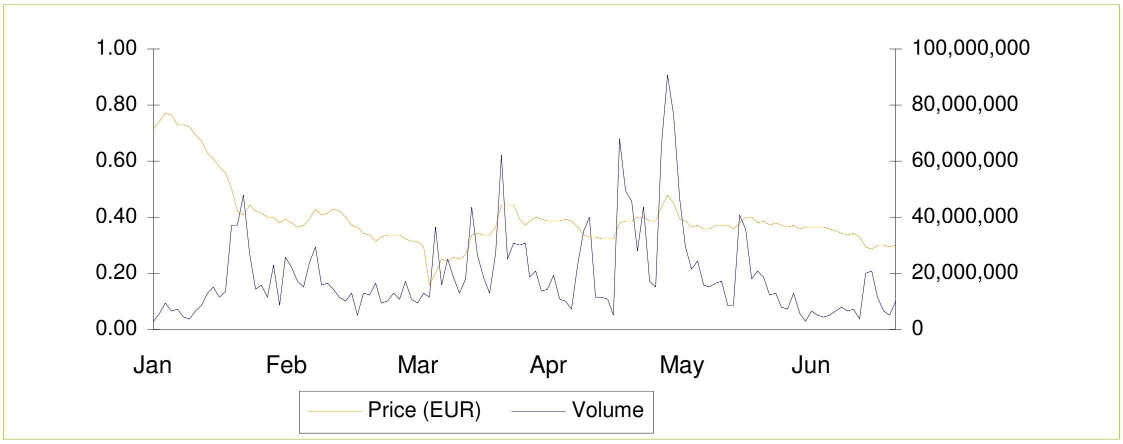
Fig. 4.1 - Tiscali shares



Source: Tiscali:

The graph below illustrates the Tiscali stock trend during the first half of 2009 characterized by sustained trading volumes, in particular in the period April - May.

Fig. 4.2 - Tiscali stock trend during the first half of 2009



Source: Bloomberg data processing

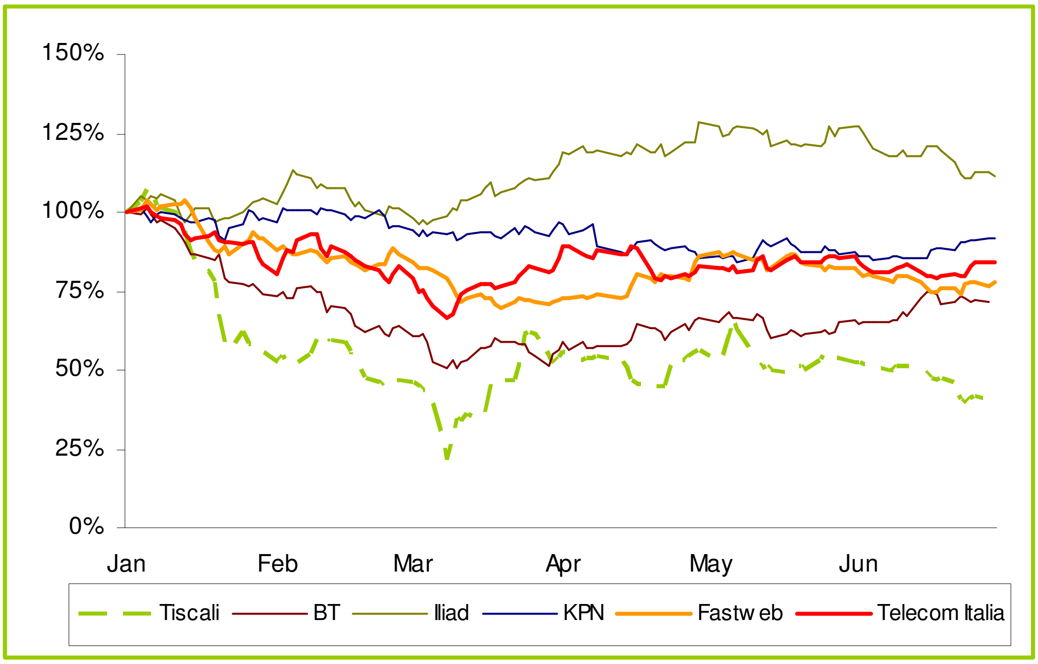
The average monthly price for the period was EUR 0.396. The maximum price of EUR 0.7711 for the period was recorded on 6 January 2009, and the minimum of EUR 0.1561 on 9 March 2009.

Volumes stood at a daily average of about 19.3 million items, with a daily average trade value of EUR 7.7 million.

Average trading of Tiscali stock on the Italian Stock Exchange during the 1st half of 2009

	Price (EUR)	**Number of shares**
January	0.586	15,316,727
February	0.376	15,038,347
March	0.318	22,983,637
April	0.369	24,267,551
May	0.388	30,055,968
June	0.341	8,478,179
Average	**0.396**	**19,356,735**

Fig. 4.3 – Stock trend of the main TLC operators in Europe during the 1st half of 2009



Source: Bloomberg, Tiscali Analysis

4.3 Significant events during the first half of 2009

The first half of 2009 was mainly characterized by the activities launched by Company Management, aimed at restructuring the Group's debt and guaranteeing long-term financial equilibrium. These activities, which overall can be categorised within the sphere of the so-called Restructuring Plan as launched by means of the standstill request on 6 March, resulted in a series of agreements with Senior Financing Institutions (Outline Agreement) and culminated in the transfer of the subsidiary TiNet on 26 May, the shareholders' resolutions dated 30 June and the disposal of the assets in the UK, at the same time as the signing of a debt restructuring agreement with the Company's main creditors on 3 July. In conclusion the Restructuring Plan will be completed with the execution of the share capital increases approved on 30 June.

For a more comprehensive understanding of the events during the half-year period, we shall therefore analyze first of all those linked to the Restructuring Plan and then describe the other significant events during the period.

Launch of the Company Restructuring Plan and action implemented as of the date of preparation of this half-year report

Situation as of the date of approval of the financial statements for the year ended at 31 December 2008

At the time of drawing up the financial statements at 31 December 2008, having taken due note of the Group's equity, economic and financial situation, as well as in light of the deterioration of the macro-economic conditions and the worsening of the competitive context in the sector, already indicated in the results for the year and the business outlook and prospects on the basis of the trends underway during the first few months of 2009, the Board of Directors had assessed the need to prepare a new Business Plan and an associated Financial Plan which will permit the Tiscali Group to launch a process aimed at restructuring the debt and guaranteeing financial balance over the long-term.

As of this date, the Board of Directors, despite highlighting uncertainties existing with regard to the Company as a going concern, considered it appropriate to draw up the financial statements at 31 December 2008 on the basis of the assumption of the Company as a going concern, in particular deeming that there was a reasonable probability of achieving the restructuring of the Tiscali Group's financial debt on a consistent basis with the cash flows, suitable for supporting the new Business Plan. With regard to these financial statements, the independent auditing firm Ernst & Young declared that it was impossible to express an opinion due to the uncertainties expressed with regard to the assumption of the Company as a going concern. This position was however countered by the clear position of the Company's Board of Statutory Auditors in favour of the assumption of the business continuity.

The shareholders' meeting, held on 30 April 2009, resolved the approval of the 2008 financial statements and the partial coverage of the losses accumulated by the Parent Company, by means of the full use of the share premium reserve, carrying forward the residual portion of EUR 151.8 million.

Signing of the Outline Agreement and action implemented as of the date of preparation of the half-year report

On 8 May 2009, the Board of Directors approved the guidelines of the plan for restructuring the Group's debt, on a consistent basis with the financial and equity requirements of Tiscali Italia's business plan, which the banks declared they were willing to back.

In particular, the following primary objectives were outlined:

- the reduction, reorganisation of the maturities and review of the debt conditions, also by means of use of proceeds from the disposal of assets (the UK subsidiary);

- the enhancement of the Group's asset endowment, to be achieved by means of one or more share capital increases, also under option, for a total amount of up to a maximum of EUR 236.5 million with the guarantee by Senior Lenders and a number of shareholders to subscribe the portion of shares which may remain unopted, by means of the waiver of receivables due from the Group

It is appropriate to emphasise the connection existing, from the moment of definition by the Board of Directors of the above objectives, between the decision to dispose of the assets – which under current market conditions would have likewise determined a loss on transfer – and the decision to carry out the share capital increases already fully guaranteed by the Senior Lenders.

In fact, as of the same date, the Board of Directors also approved the disposal of the UK operating company Tiscali UK Ltd to Carphone Warehouse Group Plc (by means of the transfer of 100% of the share capital of Tiscali Ltd UK and related subsidiaries, by the Parent Company Tiscali UK Holdings Plc, in turn owned, via two Dutch subsidiaries, by Tiscali SpA), for a total of GBP 236 million (net of around GBP 20 million represented by the undertaking of an number of financial debts by the Purchaser), of which approximately GBP 36 million restricted to guarantee certain contractual commitments ("Escrow").

The resolution – subject among other things to a settlement agreement with the minority shareholder and creditor of Tiscali UK Ltd ("VNIL") for the re-purchase of the minority holding and the partial write-off of the debt of the UK subsidiary vis-à-vis said VNIL – was subordinate to the usual regulatory approvals and finalization of the agreements for the restructuring of the Group's total debt.

For the intents of the Board of Directors, these are in fact related transactions, resolved in relation to each other. In particular, the hypothesis of disposal of the UK operating companies was considered subordinately to the finalization of the agreements for the restructuring of the Group's total debt (and with these the obligation of the Senior Lenders to guarantee the share capital increases) and the approval of the shareholders' resolution for the Company's share capital increase (on 30 June 2009), the latter in turn necessary for the issue of certification of the reasonableness of the restructuring plan pursuant to Article 67.3, letter d) of the Bankruptcy Law (D.R. No. 267 of 16 March 1942).

On 28 May 2009, Tiscali S.p.A.'s Board of Directors therefore approved the so-called Outline Agreement aimed at restructuring the Group's debt, with particular regard to:

- around EUR 500 million in Senior debt, plus the related interest, subject to a standstill agreement;
- around EUR 100 million of debt due to the minority shareholders of Tiscali UK (VNIL);
- around EUR 30 million of debt due to Andalas, a company owned by the shareholder Renato Soru.

This agreement, subsequently resulting in the Restructuring Agreement as signed by Senior Financing Institutions and the Company (Tiscali Spa and Tiscali UK Holding) on 3 June, state:

1) the disposal of Tiscali UK Ltd and use of the proceeds to repay the portion of the Senior debt and the amount due to the minority shareholders of Tiscali UK for around EUR 200 million and EUR 8 million, respectively;
2) the restructuring of the Group's residual debt due to Senior Lenders, after the partial repayment made with the proceeds from the disposal of Tiscali UK as follows:
    a. with regard to a total of EUR 165 million (which subsequent to closing became around EUR 160 million), according to the new terms, conditions and maturities, in three tranches:

- **tranche A**: for a maximum amount equating to EUR 100 million and with a duration of 5 years;
- **tranche B**: for a maximum amount equating to EUR 45 million and with a duration of 6 years;
- **tranche C**: for a maximum amount equating to EUR 20 million, with a duration of 7 years, to be repaid by means of funds deriving from the release of the restricted account relating to the disposal of Tiscali UK, or also by means of the share capital increase described further on (see below Third share capital increase);

b. with regard to a total of EUR 193.5 million – inclusive of the related interest and costs for closing the hedging agreements, including around EUR 147 million relating to the so-called **tranche D1** and a maximum of around EUR 46.5 million relating to the so-called **tranche D2** by means of share capital increases under the terms described in point 3) below.

3) The execution of share capital increases, to be offered under option to the shareholders, intended to repay the residual amount of the Senior debt and the amounts due to Andalas, a company owned by the shareholder Renato Soru, and to the minority shareholders of Tiscali UK, respectively for EUR 31 million and EUR 11 million, approximately. The Outline Agreement includes the guarantee of subscription of these share capital increases by the afore-mentioned creditors by means of offsetting, fully or partly, the amounts due to the Company, as follows:

   c. **Increase 1**: share capital increase for an amount up to a maximum of EUR 190 million, with bonus warrants assigned. The subscription of this increase, whose execution is envisaged by 31 December 2009, has been guaranteed:

      (i) for EUR 32 million by Andalas, a company owned by the shareholder Renato Soru;

      (ii) for EUR 11 million by the minority shareholders of Tiscali UK whose residual debt, net of the amount already repaid with the disposal of the UK subsidiary, would therefore be cancelled;

      (iii) for the remaining balance, up to a maximum of around EUR 147 million, by the Senior Lenders.

   At the same time, a share capital increase is envisaged serving the afore-mentioned warrants up to a maximum of 5% of the share capital after the increase;

   d. **Increase 2**: share capital increase for an amount up to a maximum of EUR 46.5 million, following the completion of Increase 1 and whose amount will be determined in relation to the related level of subscription. In particular, for each Euro of cash subscribed by the market in relation to Increase 1, the Senior Lenders would write-off around 32 EUR cents of Senior debt, up to a maximum of EUR 46.5 million. In essence, if the market should subscribe EUR 147 million, the Senior debt would be written off for EUR 46.5 million and the share capital increase envisaged by Increase 2 would not be launched. To the contrary, if the market should not subscribe the share capital increase of Increase 1 in full, Increase 2 would be launched in full and offered under option to the market with subscription guaranteed by the Senior Lenders. The eventual execution of the share capital increase is foreseen by 28 February 2010;

   e. **Increase 3**: share capital increase for an amount up to a maximum of EUR 25 million, delegated to the Board of Directors, whose subscription would also be guaranteed by the Senior Lenders, to be carried out within three years of resolution, in one or more tranches, for the purpose of the possible repayment of an additional portion of the Senior debt, on occurrence of specific conditions.

4) In conclusion, the contractual terms relating to the so-called Sale and Lease Back of the property where the headquarters are based in Cagliari have been renegotiated.

The Outline Agreement approved by the Board of Directors was subordinate to the occurrence of certain conditions, including:

- the resolution by the shareholders' meeting of the above share capital increases together with the subscription agreements with the Senior Lenders;
- certification by Consob from exemption of the performance of a mandatory take-over bid (so-called "rescue" exemption) stated by Article 49.1, letters b) and d) of Consob Regulation No. 11971/99 (Issuers' Regulations) in relation to the restructuring of the debt and the execution of the above-mentioned share capital increases;
- certification of a restructuring plan by an independent expert as per Article 67.3, letter d) of the Bankruptcy Law (D.R. No. 267 of 16 March);
- finalization of the transaction for the disposal of Tiscali UK to the Carphone Warehouse Group, subject to receiving the related go-ahead from the European anti-trust authority.

<u>Action carried out as of the date of preparation of this half-year report, as part of implementation of the Restructuring Plan and Outline Agreement</u>

1) On 26 May, Tiscali finalized the sale of the TiNet Group, supplier of IP transit services, to the private equity fund BS. The transaction valued Tinet at an Enterprise Value of around EUR 47 million, inclusive of a potential earn out of around EUR 7 million. The Equity Value, net of the debt, came to approximately EUR 35 million. On the basis of the agreements for restructuring the Group's debt, the net proceeds from the sale of Tinet were left at the Company's availability to serve the working capital requirements, also by means of the recapitalization of the Italian subsidiary.
2) On 30 June, the extraordinary shareholders' meeting in third calling approved the following measures:
    - Elimination of the par value of the shares and grouping together of the same at a ratio of 1 share for every 10 existing shares, to be carried out subject to resolution by the Company's Board of Directors;
    - Reduction in the share capital for losses, pursuant to Article 2446 of the Italian Civil Code. Further to this resolution, the share capital decreased to around EUR 156.1 million;
    - Share capital increase against payment pursuant to Article 2441 sub section 1 of the Italian Civil Code up to a maximum of EUR 190 million, by means of the issue of ordinary shares without par value, with accompanying bonus warrants, at a price of EUR 0.01 (EUR 0.1 after grouping them together) per share (so-called Increase 1);
    - Share capital increase against payment pursuant to Article 2441 sub section 1 of the Italian Civil Code, against payment, up to a maximum of EUR 46.5 million, by means of the issue of ordinary shares without par value at a price of EUR 0.01 (EUR 0.1 after grouping them together) per share (so-called Increase 2);
    - Authority to the Board of Directors pursuant to Article 2443 sub section 2 of the Italian Civil Code, to increase the share capital in accordance with Article 2441 paragraph 1 of the Italian Civil Code, against payment, in one or more tranches, for a maximum period of three years as from authorization being resolved, up to a maximum amount of EUR 25 million, by means of the issue of ordinary shares without par value (so-called Increase 3).
3) At the same date, the Company communicated that it had obtained the approval of the European anti-trust authority for the sale of Tiscali UK to the Carphone Group.
4) On 1 July, the appointed professionals issued certification of the reasonableness of the restructuring plan for the exposure to the financial system pursuant to Article 67.3, letter d) of the Bankruptcy Law (D.R No. 267 of 16 March 1942).
5) On 2 July, the following agreements were signed:

- Group Facilities Agreement which contains a definition of the related commitments of the parties, terms, conditions and maturities of the Group's residual debt due to the Senior Lenders, after the partial repayment made with the proceeds of the sale of Tiscali UK, for a total of EUR 165 million divided up into Tranches A, B, C.
- Rights Issues Memorandum and Subscription Agreement which contain a definition of the subscription commitment of the Senior Financing Institutions, who confirmed the obligation vis-à-vis the Company to subscribe Increase 1 for the part which may remained unopted for a total maximum amount of EUR 147 million, by means of offsetting the amounts due deriving from the part of Tranche D1 which will not have been repaid with the proceeds from the cash subscriptions of Increase 1. The Senior Financing Institutions have also undertaken to write-off a portion of their amounts receivable relating to Tranche D2, for a total of EUR 0.3123 for each EUR of Cash Subscription, up to a maximum of EUR 46.5 million.
- Agreements with the shareholders (Andalas and VNIL) which contain a definition of a) the subscription commitments of the shareholder Renato Soru, by means of which the same renewed his obligation, vis-à-vis the company, to subscribe Increase 1, for the portion of the option rights due directly or indirectly to the same, up to a maximum amount of around EUR 32 million. This subscription commitment, formalized on 2 July 2009, will be met by means of offsetting the amounts receivable by Andalas Ltd, a company headed up by Renato Soru, from the Tiscali Group and b) the subscription commitments of the UK minority shareholders (VNIL), on the basis of which the same undertook the obligation to subscribe shares of the Company as part of Increase 1 by means of offsetting a portion of the amount receivable (amounting in total to around EUR 11 million after the agreed transactions) which has not been repaid or written off.

6) On 3 July, after having obtained the necessary regulatory approvals and the finalization of the Group's debt restructuring agreements, the sale of 100% of the shares of the UK subsidiary Tiscali UK Ltd to Carphone Warehouse Group Plc was concluded.
7) At the same date, the sales proceeds, net of costs relating to the transaction, were used for the partial repayment of the Senior Debt and the amount due to the minority shareholders of Tiscali UK for around EUR 200 million (including the payments of the Interest Rate Swaps) and EUR 8 million, respectively.
8) At the same date, moreover, Consob considered the Restructuring Plan to be suitable, with regard to its characteristics, for determining the application of the exemption pursuant to Article 49.1, letter b) of the Issuers' Regulations.

The completion of the Restructuring Plan involves the execution of the share capital increase transactions and the other agreements reached, which requires, in particular, the execution of the fulfilments and the attainment of the authorizations necessary on the basis of reference provisions, as well as the absence of cases which could cancel the commitments of the parties (the insolvency of Tiscali or another of the obligors; resolution for winding-up of one of the same; third party request for placement in liquidation or decree of an authority in this sense, provided that the request is not challenged in good faith, etc.) together with the effective achievement of the Business Plan.

On conclusion of Share Capital Increases 1 and 2 described above and, in general, the achievement of the various activities stated by the Restructuring Plan, the financial debt of the Tiscali Group owed to Senior Financing Institutions will therefore drop to around EUR 160 million for a total estimated debt of approximately EUR 240 million, an amount which has been considered, also by an independent expert, reasonable for Tiscali and the Group in relation to the expected cash flows of the Company and the cost and the repayment plan for the restructured debt and the further one already pertaining to said Company.

Other significant events during the period

Reduction of the equity investment by Management & Capitali

On 21 January 2009, M&C informed Consob that it had reduced its equity investment in Tiscali S.p.A.'s capital under the threshold of 2%.

Appointment by co-option of Renato Soru onto Tiscali SpA's Board of Directors

On 19 March 2009, Tiscali S.p.A.'s Board of Directors resolved the appointment by co-option of Renato Soru, Company founder and shareholder, subsequently also appointed by the shareholders' meeting held on 30 April 2009.

Appointment of the Board of Statutory Auditors and its Chairman

On 30 April 2009, Tiscali's ordinary shareholders' meeting appointed the new Board of Statutory Auditors, which will remain in office until approval of the financial statements at 31 December 2011, and approved the remuneration to be allocated to its members. On the basis of the two lists presented respectively by the shareholders Renato Soru (majority list) and, jointly, by Haselbeech Holdings NV and Mallowdale Corporation NV (minority list), the following Auditors were appointed: Aldo Pavan (chairman); Piero Maccioni (acting auditor); Andrea Zini (acting auditor); Rita Casu (alternate auditor); Giuseppe Biondo (alternate auditor). The curriculum vitae of the new members of the Board of Statutory Auditors are available on the Company website www.tiscali.com in the Investors section.

Approval of the 2008 financial statements and resolution pursuant to Article 2446 of the Italian Civil Code

As already mentioned, on 30 April 2009, the Board of Directors submitted a proposal to the shareholders' meeting, called to resolve on the approval of the financial statements at 31 December 2008, for the partial coverage of the losses accumulated at 31 December 2008 by the Parent Company Tiscali S.p.A. by means of full use of the share premium reserve, carrying forward the residual portion of the losses amounting to EUR 151.831 million. The Parent Company loss for 2008 was almost entirely attributable to writedowns of equity investments following annual impairment tests.

At that date, the Board of Directors did not consider it is appropriate to propose any change to the share capital, either an increase or decrease, specifying that the loss for the year had been significantly caused by writedowns of equity investments essentially attributable to the exceptional market situation, as more fully specified in the directors' report on operations accompanying the financial statements at 31 December 2008.

Appointment of Renato Soru as Chairman and Chief Executive Officer of Tiscali Italia SpA

On 13 May 2009, the Board of Directors of Tiscali Italia SpA, a subsidiary wholly-owned by Tiscali S.p.A., took due note of the resignation of Mario Rosso as Chairman and Chief Executive Officer and resolved, upon the proposal of said Mario Rosso, the co-opting of Renato Soru onto Tiscali Italia S.p.A.'s Board of Directors. Renato Soru was appointed Chairman and Chief Executive Officer during the following Board meeting of the Italian subsidiary.

4.4 Analysis of the Group economic, equity and financial position

Foreword

Founded in 1998, Tiscali is one of the leading alternative telecommunications operators in Italy. With 750 thousand customers, at 30 June 2009, it was one of the leading suppliers of broadband services with xDSL technology (over 550 thousand customers) and voice and narrowband services (around 200 thousand customers). Via a cutting edge network based on IP technology, Tiscali is able to provide its customers with a wide range of services, from Internet access, both via broadband and narrowband; its range also includes voice services (VoIP and CPS), portal and mobile telephone services, thanks to an agreement for the supply of services reached with Telecom Italia Mobile (MVNO).

Following a significant refocusing of the scope of consolidation, which culminated on 3 July with the disposal of the UK subsidiary to the Carphone Warehouse Group, the Group concentrated its activities in Italy offering its products to consumer and business customers, mainly by means of five business lines: (i) the "Access" line, via Broadband (LLU; Wholesale/bitstream) and Narrowband; (ii) the "Voice" line, inclusive of telephone traffic services, both traditional (CS and CPS) and VoIP; (iii) the "Mobile Telephone" line (so-called MVNO); (iv) the "Business Services" line (so-called B2B), which includes VPN and Hosting services, the concession of domains and Leased Lines, provided to companies and, in conclusion, (v) the "Media and value added services" line, which includes media, advertising and other services.

Tiscali Group results during the first half of 2009 include the UK subsidiary as a discontinued operation, therefore reflecting, at net result level, the results of the UK company in the period as well as the significant loss on disposal.

Tiscali Group revenues during the first half of 2009 amounted to EUR 151.6 million, down 7.9% with respect to the figure of EUR 164.5 million reported in the first half of 2008, that included EUR 15.9 million of other revenues.

In the first half of 2009, internet access and voice services – the Group's core business – represented around three quarters of turnover. Group profitability increased, with an adjusted Gross Operating Income (EBITDA) before provisions of EUR 48.5 million, up by 33.9% compared to the adjusted Gross Operating Income (EBITDA) of EUR 36.2 million recorded during the first half of 2008. Profitability as a percentage of revenues increased by around ten percentage points (32% in the first half of 2009 compared to 22% in the first half of 2008).

The Net operating result (EBIT) for the first half of 2009, net of provisions, writedowns and restructuring costs, presented a positive balance of EUR 10.9 million, compared with the comparable figure for 2008, essentially at break even.

The result from operating activities (continued operations), with a negative balance of EUR 40.2 million, reflects financial charges for EUR 39.7 million and income taxes for around EUR 11.4 million.

Faced with a positive net operating result, the net result for the period was negative for a total of EUR 402.9 million, mainly as a result of the impact of the result on the disposal of the UK subsidiary (for around EUR 365 million).

At the end of the first half of 2009, ADSL users in Italy amounted to around 550 thousand, of which more than 370 thousand direct customers (LLU). Customers who acquire voice services via VoIP and CPS came to around 72 thousand

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Economic position

EUR 000

CONSOLIDATED INCOME STATEMENT	1st half of 2009	1st half of 2008 recalculated	Change	% Change
Revenues	151,583	164,526	-12,943	-7.9%
Other income	1,823	1,458	364	25.0%
Purchase of materials and outsourced services	81,000	111,651	-30,651	-27.5%
Payroll and related costs	21,094	28,598	-7,505	-26.2%
Other operating costs	2,866	-10,443	-13,309	-127.4%
Adjusted Gross Operating Result (EBITDA)	**48,446**	**36,178**	**12,268**	33.9%
Writedowns of receivables from customers	10,236	8,013	2,223	27.8%
Stock option plan cost	274	2,586	-2,312	-89.4%
Gross Operating Result (EBITDA)	**37,935**	**25,579**	**12,356**	**48.3%**
Restructuring costs, provisions for risk reserves and writedowns	1,900	274	1,626	n.d.
Amortisation/depreciation	25,111	25,275	-164	-0.6%
Operating result (EBIT)	**10,924**	**31**	**10,893**	**n.d.**
Share of results of equity investments valued using the equity method	**-33**	**-305**	272	89.2%
Net financial income (charges)	-39,670	-31,234	-8,436	27.0%
Pre-tax result	**-28,779**	**-31,509**	**2,730**	**8.7%**
Income taxes	-11,392	-971	-10,421	n.d.
Net result from continuing operations	**-40,171**	**-32,480**	**-7,691**	**-23.7%**
Result from discontinued operation/assets held for sale	-364,870	-30,575	-334,295	n.d
Net result	**-405,040**	**-63,054**	**-341,986**	**n.d.**
Minority interests	**-2,186**	**-5,832**	**3,646**	**62.5%**
Group result	**-402,854**	**-57,223**	**-345,632**	**n.d.**

Operational income statement – Tiscali Italia

EUR mln	**30.06.2009**	**30.06.2008**
Revenues	**147.7**	**158.1**
of which: ADSL revenues	***61.7***	***59.1***
of which: voice revenues	***48.7***	***45.6***
Adjusted Gross Operating Result (EBITDA)	**45.4**	**24.0**
Operating result (EBIT)	**10.5**	**-9.2**

During the first half of 2009, Tiscali Italia SpA generated revenues for EUR 147.7 million, down by 6.5% with respect to the amount of EUR 158.1 million in the same period in 2008. Revenues pertaining to ADSL internet access services of the subsidiary amounted to EUR 61.7 million, up by 4.4% with respect to the EUR 59.1 million in the first half of 2008. It is appropriate to specify that, following the launch of the bundled voice and data proposals, ADSL revenues include all the "flat" components of the proposals (including therein access fees). The traffic generated, on the other hand, is included in the "Voice" revenue line.

Voice revenues amounted to EUR 48.7 million in the half year, an increase of 6.7% compared to the first half of 2008 (EUR 45.6 million).

The reduction in revenues period on period is essentially attributable to the inherent reduction in the narrowband/dial-up segment (EUR 10.3 million at 30 June 2009 compared with EUR 18.4 million at 30 June 2008, - 44%).

At 30 June 2009, direct ADSL customers of Tiscali Italia S.p.A. increased by around 11 thousand units, Dual Play customers (data and voice via internet) by around 30 thousand, taking the total of double play customers in Italy to approximately 263 thousand.

Total ADSL customers at period end amounted to around 549 thousand, of which more than 374 thousand linked under unbundling.

It should also be observed that the period result was influenced by the limitations imposed by the Group's particular financial situation, resulting in a standstill request and the subsequent Restructuring Plan (see Significant events during the first half of 2009). Following the disposal of the UK subsidiary, and the signing of outline agreements with senior financing institutions, the Italian subsidiary resumed the envisaged commercial activities aiming at full achievement of the objectives foreseen for the year.

The customer base using dial-up access (narrowband) and CPS voice services stood at around 205 thousand users. The reduction in the narrowband customer base follows the market trend which sees progressive replacement with broadband services in the proposals to customers.

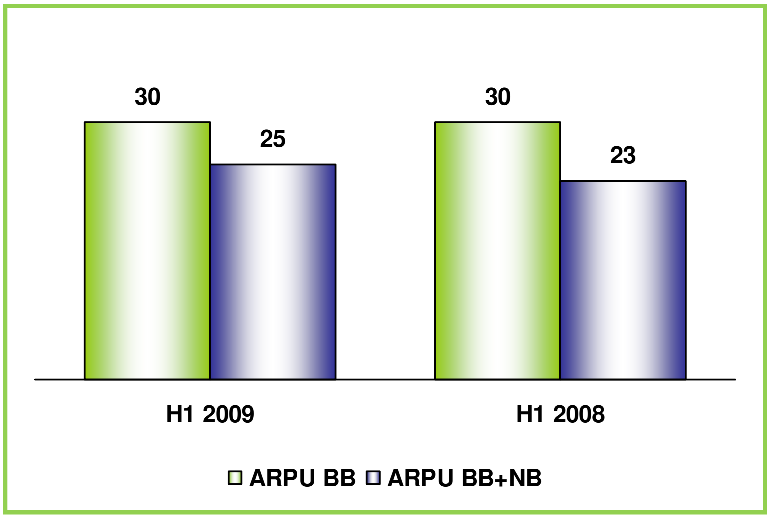
Evolution of the customer base - Italy

000	**30 June 2009**	**30 June 2008**
ADSL customers	549.2	574.5
of which: LLU	*374.3*	*363.4*
Narrowband and voice customers	205.0	355.7
Dual play customers	263.5	234.0

Unbundled network coverage in Italy at 30 June 2009 came to 486 sites.

The average ARPU for broadband services in Italy amounted to EUR 30 per month, stable when compared with the first half of 2008 and in line with targets for the period.

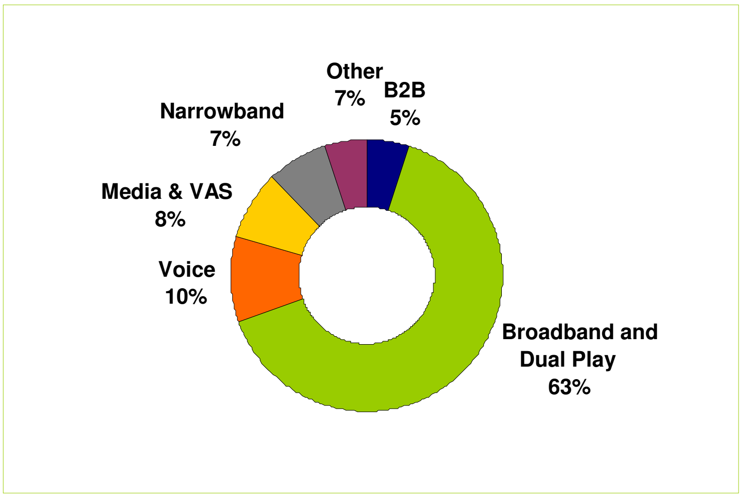
Fig. 4.4 – Evolution of the retail ARPU in the period (EUR)



Source: Tiscali:

Revenues by business segment

Fig. 4.5 - Breakdown of revenues by business line and access mode [3]



Source: Tiscali:

Internet access

This segment, which includes revenues from broadband (ADSL) and narrowband (dial-up) internet access services and the flat component of the bundled proposals, generated revenues during the first half of the year for EUR 151.6 million, down with respect to the figure in the same period in 2008 (EUR 164.5 million).

Voice

The voice segment includes both the traditional telephone service and a component of the variable traffic generated by voice services on IP offered in bundled mode with internet access. In terms of revenues, during the first half of 2009, these services generated around 6.8% more than in the first half of 2008. In absolute value, voice revenues during the first half of 2009 amounted to EUR 48.7 million, compared with EUR 45.6 million in the first half of 2008. Out of total voice revenues, EUR 32.9 million concerns the voice traffic components generated by VoIP services.

Business services

Revenues from business services (VPN, housing, hosting services, domains and leased lines), therefore excluding those from access and/or voice products for the same customer base which are included in their respective business segments, amounted in the first half of 2009 to EUR 7.6 million (a 7.3% decrease over the EUR 8.2 million in the first half of 2008).

[3] The graph shows a breakdown by business line which groups together the revenues from dual play with broadband.

Media and value added services

During the first half of 2009, the revenues of the media and value added services segment (deriving from direct and indirect advertising by means of commercial agreements with search engines) amounted to EUR 12.8 million, down with respect to the previous period (EUR 17.3 million) due to the reduction in the advertising market triggered by the crisis affecting global financial markets.

Operational Income Statement of the Group

EUR mln	**30 June 2009**	**30 June 2008**
Revenues	**151.6**	**164.5**
Internet access revenues	72.0	77.5
of which: ADSL	*61.7*	*59.1*
Voice revenues	48.7	45.6
of which: dual play (traffic component)	*32.9*	*24.0*
Revenues from business services	7.6	8.2
Media and value added services	12.8	17.3
Other revenues	10.5	15.9
Gross operating margin (Gross Margin)	**90.5**	**96.7**

Operational Income Statement - Group

EUR mln	**30 June 2009**	**30 June 2008**
Revenues	**151.6**	**164.5**
Gross operating margin (Gross Margin)	**90.5**	**96.7**
Indirect operating costs	**43.2**	**74.0**
Marketing and sales	9.1	29.3
Payroll and related costs	21.1	28.6
Other indirect costs	12.9	16.1
Other income/charges	-1.1	-13.5
Adjusted Gross Operating Result (EBITDA)	**48.4**	**36.2**
Writedown of receivables and other provisions	10.5	10.6
Gross Operating Result (EBITDA)	**37.9**	**25.6**
Amortisation/depreciation	25.1	25.3

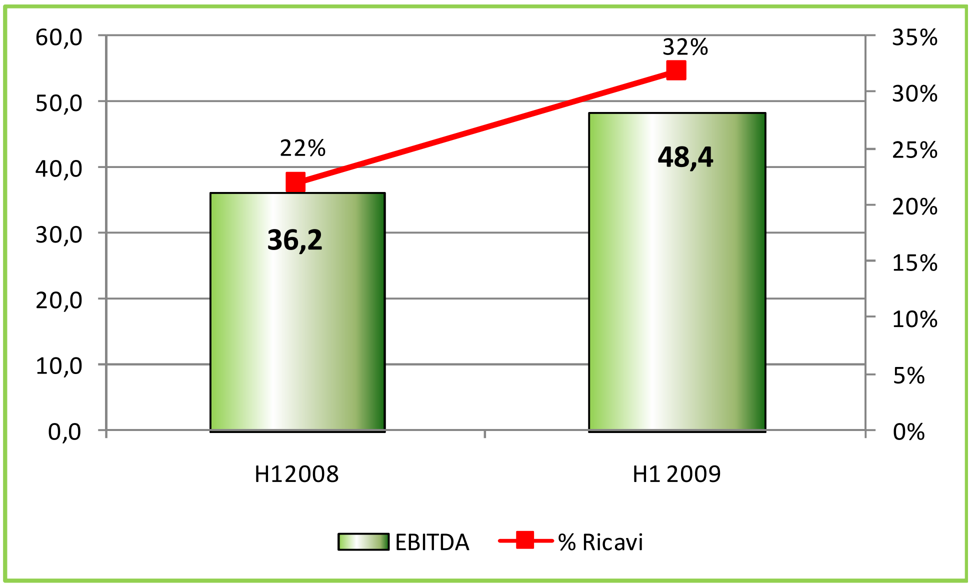
Gross result (EBIT) before restructuring costs and provision for risks	**12.8**	**0.3**
Operating result (EBIT)	**10.9**	**0.0**
Group Net Result	**-402.9**	**-57.2**

Gross Operating Result (EBITDA)

The **Adjusted Gross Operating Result (EBITDA)**, before provisions for risks, writedowns, depreciation and amortisation, was EUR 48.4 million, increased by 33.9% compared to the EUR 36.2 million in the first half of 2008.

The **Gross Operating Result** (EBITDA) net of writedowns of receivables and other provisions was EUR 37.9 million in the first half of 2009 (25.0% of revenues), increased by 48.3% on the figure for the first half of 2008 (EUR 25.6 million, 15.5% of revenues).

Fig. 4.6 - Evolution of the adjusted gross operating result (EBITDA) EUR Mln



Source: Tiscali:

During the first half of 2009, **indirect operating costs** stood at EUR 43.2 million (28.5% of revenues), a reduction in terms of proportion of revenues compared to the first half of last year (EUR 74.0 million, 45.0% of revenues).

Indirect operating costs include **payroll and related costs** for the first half of 2009 totalling EUR 21.1 million, down with respect to the first half of 2008 (EUR 28.6 million), but down 3.5 percentage points in terms of a proportion of revenues (13.9% in the first half of 2009, compared with 17.4% in the first half of 2008).

To illustrate the matter more clearly, here are the details of the operating costs/revenues making up the adjusted Gross Operating Result (EBITDA), as shown in the income statement table. In particular, the reconciliation between "purchase of materials and outsourced services" and "other operating costs" with the indirect operating costs described in this paragraph is pointed out.

EUR Mln	**30 June 2009**	**30 June 2008**
Revenues	**151.6**	**164.5**
Other revenues	**1.8**	**1.5**
Purchase of materials and services, of which:	**81.0**	**111.7**
- marketing	*9.1*	*29.3*
- indirect costs (*)	*10.8*	*14.5*
- other direct costs	*61.0*	*67.9*
Payroll and related costs	**21.1**	**28.6**
Other operating costs, of which:	**2.9**	**-10.4**
- other indirect costs (*)	2.1	1.6
- other operating costs	0.7	-12.1
Adjusted Gross Operating Result (EBITDA)	**48.4**	**36.2**
(*) Indirect cost total	**12.9**	**16.1**

Operating result (EBIT)

The operating result (EBIT) for the first half of 2009, net of provisions, writedowns and restructuring costs, came to EUR 10.9 million, down with respect to the comparable figure in 2008, equating to EUR 31 thousand.

Provisions for risks, writedown of receivables and other provisions in the first half of 2009 amounted in total to EUR 10.5 million (EUR 10.6 million in the same period in 2008). **Amortisation/depreciation** in the first half of 2009, amounted to EUR 25.1 million (EUR 25.3 million in the first half of 2008.

Result from continuing operations

The result from continuing operations, presenting a negative balance of EUR 40.2 million, reflects financial charges for EUR 39.7 million and income taxes amounting to around EUR 11.4 million mainly attributable to the reversal of deferred taxe assets recorded at 31 December 2008 on Tiscali International BV.

Group net result

In the face of a positive net operating result (EBIT), the Group's net result for the period presented a negative balance of EUR 402.9 million, mainly due to the impact of the result from the disposal of the UK subsidiary (for around EUR 365 million).

Results of the subsidiary Tiscali Italia S.p.A.

Operational Income Statement – Italy

EUR mln	30 June 2009	30 June 2008
Revenues	**147.7**	**158.1**
Gross Operating Margin (*Gross Margin*)	**85.5**	**89.7**
Indirect operating costs	**37.6**	**63.3**
Marketing & sales	9.1	29.0
Payroll and related costs	17.9	21.1
Other indirect operating costs	10.7	13.1
Adjusted gross operating result (EBITDA)	**45.4**	**24.0**
Operating result (EBIT)	**10.5**	**-9.2**

Tiscali Italia S.p.A. closed the first half of 2009 with an adjusted gross operating result (EBITDA) of EUR 45.4 million (30.8% of revenues), up with respect to the figure of EUR 24.0 million (15.2% of revenues) in the first half of 2008. The Gross operating margin (Gross Margin), decreased by 4.8% with respect to the first half of 2008, but recovered around one percentage point in terms of proportion of revenues. Operating costs decreased from EUR 63.3 million in the first half of 2008 to EUR 37.6 million in the first half of 2009, down 40.6%; in this aggregate, marketing costs dropped by around three times in absolute value on an annual basis (from EUR 29.0 million in the first half of 2008 to EUR 9.1 million in the first half of 2009).

In the first half of 2009, the operating result (EBIT) for Tiscali Italia S.p.A. was positive for EUR 10.5 million, compared to the loss of EUR 9.2 million in the first half of 2008.

During the first half of 2009, Tiscali Italia launched its mobile telephone service, Tiscali Mobile. The service is achieved thanks to a MVNO (Mobile Virtual Network Operator) agreement entered into December 2007 with Telecom Italia. Tiscali Mobile makes tariff transparency and savings its strong points: via these products, Tiscali significantly completes its range of communication products and enhances its position as integrated telecommunications operator. In fact, in the June 2009 advertising campaign, Tiscali's marketing proposition was centred on the supply of the classic service "Tutto Incluso" (ADSL + Voice) bundled with a Tiscali SIM. In the near future, Tiscali will launch fixed-mobile communication services with a greater level of commercial and technological integration, such that it will be possible to fully exploit all the potential of the IP network also on mobile services.

Equity and financial position

CONSOLIDATED BALANCE SHEET (condensed))	**30 June 2009**	**31 December 2008**
EUR mln		
Non-current assets	231.5	890.9
Current assets	183.6	258.1
Assets held for sale	498.8	56.8
Total Assets	**913.9**	**1,205.8**
Group shareholders' equity	(272.2)	10.8
Shareholders' equity pertaining to minority shareholders	-	-6.0
Total Shareholders' equity	**(272.2)**	**4.8**
Non-current liabilities	133.4	229.7
Current liabilities	793.2	949.1
Liabilities directly related to assets held for sale	259.6	22.3
Total Liabilities and Shareholders' equity	**913.9**	**1,205.8**

Assets

Non-current assets

Non-current assets at 30 June 2009, amounting to EUR 231.5 million, are lower with respect to the figure at 30 June 2008, equating to EUR 890.9 million.

This is mainly attributable to the change in the consolidation area (TiNet and UK) and the reversal of the amount of deferred tax assets on Tiscali International BV amounting to EUR 10.5 million. In particular, the goodwill of EUR 438.8 million in December 2008 was reclassified under the account Assets held for sale since it related to the UK subsidiaries.

Current assets

Current assets at 30 June 2009, amounted to EUR 183.6 million, essentially lower than at 31 December 2008 (EUR 258.1 million). Receivables due from customers, at 30 June 2009, came to EUR 126.0 million, compared with EUR 176.8 million at 31 December 2008. Other receivables and other current assets, amounting to EUR 23.9 million, in particular include accrued income on access services rendered, prepaid service costs, together with sundry receivables, including VAT credits.

Liabilities

Non-current liabilities

Non-current liabilities at 30 June 2009 amounted to EUR 133.4 million, compared with a figure of EUR 229.7 million at 31 December 2008. The figure includes both the items pertaining to the financial position, in relation to which see the following section, and the other non-current liabilities, the provision for risks and charges for EUR 13.0 million and payables to suppliers for the purchase of long-term usage rights on transmission capacity (IRU) for EUR 7.1 million.

Current liabilities

Current liabilities amounted to EUR 793.2 million at 30 June 2009 (compared with EUR 949.1 million at 31 December 2008). They mainly include the current portion of the financial payables, payables to suppliers, together with accrued expenses pertaining to the purchase of access services and line rentals, the provision for staff severance indemnities, the provision for risks and charges and the provision for taxation.

Financial position

At 30 June 2009, the Tiscali Group held cash and cash equivalents totalling EUR 36.0 million, against a net financial debt, at the same date, of EUR 607.9 million (EUR 601.1 million at 31 December 2008 referring solely to continuing operations).

EUR Mln	**30 June 2009**	**31 December 2008**
A. Cash	29.1	24.2
B. Other cash equivalents	6.9	12.7
C. Securities held for trading	0.0	0.0
D. Cash and cash equivalents (A) + (B) + (C)	***36.0***	***36.9***
E. Current financial receivables	***1.1***	***5.3***
F. Non-current financial receivables	6.3	1.4
F. Current bank payables	537.2	510.0
G. Current portion of non-current debt	0.0	0.0
H. Other current financial payables (*)	12.0	21.4
I. Current financial debt (F) + (G) + (H)	***549.2***	***531.4***
J. Net current financial debt *(I) – (E) – (D)*	**505.8**	**487.7**
K. Non-current bank payables	0.0	0.0
L. Bonds issued	0.0	0.0
M. Other non-current payables (**)	102.1	113.4
O. Non-current financial debt (K) + (L) + (M) + (N)	**102.1**	**113.4**
P. Net financial debt (J) + (O)	**607.9**	**601.1**

(*) includes leasing payables

(**) includes leasing payables and payables due to shareholders

In order to ensure consistency with the data provided in former reports, the above table includes VAT receivables under current financial receivables and guarantee deposits under other cash equivalents. The table below provides a reconciliation of the above financial position with the same statement prepared in accordance with Consob Resolution No. DEM6064293 of 28 July 2006.

EUR Mln	**30 June 2009**	**31 December 2008**
Consolidated net financial debt	**607.9**	**601.1**
Other cash, cash equivalents and current financial receivables	5.3	15.3
Consob consolidated net financial debt	**613.2**	**616.4**

The change in the net financial position with respect to December 2008 was mainly influenced by the change in the consolidation area (UK) and interest paid, capitalized and consolidated on the amounts due to Senior Lenders (EUR 32.3 million).

Net debt, therefore does not include the effects of the disposal of the UK subsidiary Tiscali UK nor the restructuring of the financial debt due to Senior Lenders signed on 2 July 2009.

Considering the net payments, amounting to around EUR 207 million, collected on the disposal of Tiscali UK (on 3 July, see *Events subsequent to end of the period*) and used for the partial repayment of the amount due to Senior Lenders, the adjusted net financial debt would amount to around EUR 400 million. The amount would drop even further after the execution of the share capital increase for a maximum of EUR 236.5 million resolved by Tiscali S.p.A.'s extraordinary shareholders' meeting on 30 June 2009.

For a description of the progress of the debt, reference should be made to the following section "*Events subsequent to the end of half year period*".

4.5 Events subsequent to the end of the half year period

Finalization of the disposal of the subsidiary Tiscali UK to the Carphone Warehouse Group and of all the contractual agreements relating to the debt restructuring process

On 6 July 2009, Tiscali announced the finalization of the transactions for disposal of 100% of the share capital of Tiscali UK to the Carphone Warehouse Group, involving an Enterprise Value of around GBP 255 million, GBP 236 million net of any financial debts. The transactions for the disposal of the UK subsidiary took place at the same time as the restructuring of the Tiscali Group's debt vis-à-vis senior financing institutions, the minority shareholders of Tiscali UK and the shareholder Renato Soru.

4.6 Analysis of the equity of the Restructuring Plan

As part of the activities for the preparation of this half-year report, the Board of Directors dealt with the subject relating to the effects of the Restructuring Plan.

As previously disclosed (see *Significant events during the first half of 2009*), this plan involves two fundamental transactions (disposal of the UK subsidiary and share capital increase guaranteed by Senior Lenders) which are linked and decided on in relation to each other. In detail, the hypothesis of the disposal of the operating companies in the UK has been considered subordinately to the finalization of agreements for restructuring the Group's overall debt (and with these the obligation to be guaranteed by the Senior Lenders on the share capital increases) and the approval of the shareholders' resolution for the share capital increase of the Company.

Both the transactions, then, were resolved prior to the period end date (resolution to dispose of Tiscali UK dated 8 May, shareholders' resolution relating to the share capital increases dated 30 June) since the envisaged execution of the resolutions was adopted after the period end date (closing UK on 3 July, commitments to subscribe by the Senior Lenders on 3 July and execution of the share capital increases foreseen by the end of the year).

In this context, the Board of Directors revealed that in the interpretation of the case in question, the international IAS/IFRS accounting standards would not seem to permit symmetric accounting of the two transactions.

As a point of fact, for one part of the transaction, the disposal of Tiscali UK, legislation states a clear and unambiguous interpretation. Specifically, IFRS 5 clearly indicates recording the asset held for sale at the lower of book value or fair value (sales price) less related costs for the sales transactions.

By contrast, with regard to the remaining part of the transaction the reference standard, IAS 32, does not lend itself to a likewise unambiguous interpretation of the case in question. This is principally as a result of the peculiar and exceptional nature of the case (asset disposal subject to share capital increase and vice versa, underwriting syndicate on share capital increase subordinate to the disposal, share capital increase resolutions prior to the end of the period, etc.).

In light of the above, considering the stipulation, during the period, of the commitment (carried out at the beginning of the subsequent half-year period) to dispose of Tiscali Ltd UK involves the registration of a loss on the equity investment in UK Holdings (loss pertaining to Tiscali International BV, but also an indirect loss pertaining to the indirect investing company Tiscali SpA), the question was posed on how to record, faced with this negative figure, the positive figure consistent with the commitment to subscribe the share capital increase by the Senior Lenders.

The Board of Directors in fact observed that if, supposing, the effects of the commitment to subscribe by the Senior Lenders are not recorded, Tiscali SpA would find itself – apparently, or at least "formally" – in the situation described by Article 2447, and the doubt would be raised whether the regulations consequent to the capital loss must be applied, and therefore a shareholders' meeting called whose measures were already resolved on 30 June last.

For the purpose of clarifying the question, the Board of Directors requested the opinion of Professor Giovanni E. Colombo, a lawyer in Milan considered to be one of the greatest Italian experts regarding corporate financial statement problems, posing two questions in particular: a) how to qualify and record the guarantee provided by the Senior Lenders and, b) the effects of a hypothetical non-registration of this guarantee as per Article 2447 of the Italian Civil Code.

Having analyzed the company documentation and reviewed the accounting standards, Professor Colombo expressed a clear opinion in which – regarding the first question – he qualified the guarantee provided by the Senior Lenders as a "*payment commitment towards share capital*", with consequent assertion of the possibility of recording this commitment (received) among the assets in the period, with a matching balance in a shareholders' equity item ("*the 2009 half-year report, if on the one hand will have to acknowledge the loss from valuation deriving from the 'impairment of the equity investment reclassified as "held for sale", on the other hand may take into account the right – genuine right of credit – vis-à-vis the banks that these subscribe the share capital increase which may remain unopted)*".

In this opinion, what is more, Professor Colombo, confirming the overall interpretation provided by the Board of Directors on the subject, indicated:

- The singularity of said phenomenon: "*That the fact that doctrine does not deal with this particular phenomenon (irrevocable future commitment to make future payments for capital) derives from the unusual nature of the phenomenon: the "payments" towards capital or future share capital increases are usually necessary for endowing a company with financial means (immediately necessary for the same for the performance of the activities) without awaiting for the timescales and subjecting oneself to the formalities of a share capital increase (as well as without subjecting the corresponding portion of the equity to the discipline of the capital); therefore, it is not usually sufficient, for the company, to receive from one or more shareholders the mere commitment, albeit irrevocable, of a future contribution toward the shareholders' equity. But in cases (typically, those of recovery with the intervention of banks willing to convert receivables into capital) where the immediate certainty of the reduction of the debt plays, in the entirety of the transaction, its own autonomous role, is not seen because it does not permit, in addition to (or in place of) the increase of the equity via "capital payments", also the increase in the equity consequent to "irrevocable commitments to make payments against the share capital". The irrevocable commitment gives rise, for the beneficiary company, to a right (to a receivable): the existence of this receivable cannot be omitted in the financial statements*"
- the paradoxical nature of a hypothetical interpretation of the accounting standards in a restrictive sense in the singular case considered: "*Already the putting forward of the hypothesis formulated above highlights the paradoxical nature of the effects which could be considered to derive from the complex restructuring plan. The stipulation, during the first half of 2009, of a commitment to dispose of an equity investment under conditions which lead to a loss would certainly represent, in essence, an integral part of a plan involving a future, but already binding, increase in the capital (and a reduction of the debt) capable of restoring the company's situation; nevertheless, as a consequence of accounting or legal technicalities (possibility of recording the "increased" capital only after subscription, in other words only in the second half of 2009) all this would seem to have as a consequence, meanwhile, the obligation to place the parent company in liquidation due to capital losses. Vice versa, if the commitment to dispose of that equity investment (at that price) had not been undertaken in the first half of the year but only in the second half, or if in any event the effects of the commitment should emerge as pertaining to the (second) half of the year in which the share capital increase intended to reduce the debt will be carried out, the capital loss would not emerge from the half year report at 30 June*"

With regard to the second question, Professor Colombo, examining (subordinately) the problem relating to the eventual recording of just the loss relating to the disposal of Tiscali UK (and not also to the positive effects of the commitment of the Senior Lenders), points out that:

"*If, therefore, it is believed that this decision to sell has produced the emergence in the accounts of a loss in the capital involving the recapitalization obligations pursuant to Article 2447, that which distinguishes our case from that described by Article 2447 is the fact that the decision to recapitalize has already been taken – and it has even already been ordained in a shareholders' resolution – well before recording of the capital loss to be covered. This originates – in my opinion – a first important argument against the hypothetical application of the regulations ("recapitalize or liquidate") which Article 2447 reconnects to the "capital loss" case: the measure directed towards recapitalization had already been made before the completion of the case in question.*"

The final conclusion of the opinion is that, subject to also analyzing all the topics relating to the necessary timescales so that any measures of the Board of Directors become operative, "*it would therefore be foolish to expect, in the presence of a restructuring plan, to apply the regulations of Article 2447 to the capital loss (hypothetically) emerging from the half-year report: regulations amounting to a* quid minus *of that pactional content in the debt restructuring agreements*".

On the other hand, the Independent Auditors, in the interpretation provided of the international accounting standards (which the Company is obliged to apply) expressed the firm conviction of the impossibility of registration, in the assets, of the commitment of the Senior Lenders to subscribe and pay in the share capital.

In light of the above, and in any event supported by the opinion of Professor Colombo, the Board of Directors resolved as a last resort not to record this asset item observing however that the negative consolidated shareholders' equity emerging from the half-year report amounting to EUR 272.2 million is merely an accounting position, while the economic substance of the Company's position is which that derives from taking into account both the writedown (at 30 June 2009) of the equity investment in Tiscali Ltd UK and the commitment of the banks to subscribe the share capital increase resolved on 30 June 2009 up to the amount of EUR 220.6 million (net of the related charges), so that the economic situation is that of a negative shareholders' equity amounting to EUR 51.6 million ".

Likewise, at Parent Company level the book value of the negative shareholders' equity amounting to EUR 78.7 million contrasts with a positive value of EUR 141.9 million corresponding to the economic substance of the Restructuring Plan.

So as to provide a clearer representation of the economic substance of the Company, the Board of Directors also resolved to accompany this half-year report with an additional section "*Operational forecast of the accounts*" which contains the main accounting statements inclusive of the accounting of the share capital increases for the sake of completeness.

4.7 Valuation of the business as a going-concern, business outlook and prospects

In the financial statements at 31 December 2008, approved by Tiscali S.p.A.'s extraordinary shareholders' meeting on 30 April 2009, Tiscali S.p.A., revealing, on the one hand, a number of uncertainties relating to the business continuity of the Company deriving from the equity, economic and financial situation of the Group and the deterioration of the competitive context in the sector and establishing, on the other hand, that it had launched a plan aimed at the restructuring of the debt and aimed at guaranteeing the financial equilibrium of the Group, believed that it had to draw up the financial statements at 31 December 2008 on the basis of the assumption of the business as a going-concern. With regard to these financial statements, the independent auditing firm Ernst & Young declared that it was unable to express an opinion due to the uncertainties expressed on the assumption of the business as a going-concern. This position was countered by the clear position of the Company's Board of Statutory Auditors in favour of the assumption of the business continuity.

In the following months, (also see "*Significant events during the first half of 2009"* and "*Events subsequent to the end of the half year period*") the Board of Directors, so as to re-establish the correct financial balance of the Group, continued along the route already adopted as of the date of approval of the financial statements at 31 December 2008 aiming at **overcoming the afore-mentioned uncertainties. The excellence of this approach was also mentioned** by the independent auditing firm Ernst & Young, at the time of publication of the prospectus for the sale of the UK subsidiary, where in the *Report on the pro-forma figures* it reveals that, the Board of Directors has launched " ***a series of action aimed at overcoming the afore-mentioned uncertainties. In detail, (i) the disposal of the investment Tiscali UK Ltd has been completed; (ii) the proceeds from the disposal were used primarily to repay a part of the the Group's financial indebtedness; (iii) the Tiscali S.p.A.'s shareholders' meeting held on 30 June approved an increase in share capital to be offered as options to the shareholders, and which wil be used to repay additional amounts of the financial indebtedness; (iv) agreements have been entered into the main financial institutions which, on the one hand, habe undertaken to guarantee the subscription of these increases, and on the other hand, agreed the renegotiate the contractual terms of the loans which will remain outstanding upon completion of the transactions described above.***"

Having taken due note of the essential progress and the important results obtained within the sphere of implementation of the Restructuring Plan, the Board of Directors have evaluated the deficit in net equity at 30 June 2009 and concluded, also with the support of the afore-mentioned opinion of Professor Colombo, that this situation does not require the the application of the requirements of Article 2447 of the Italian Civil Code in consideration of the resolutions to increase the share capital already made and the other agreements entered into.

So as to more fully protect the Company, the creditors and all the shareholders, the Board of Directors did not consider it necessary to proceed with the additional calling of a shareholders' meeting in pursuance of Article 2447 of the Italian Civil Code by virtue of the timescales and essence of the share capital increase transactions already resolved and the subscription commitments made by the Group's main creditors. The pro-forma statutory shareholders' equity, taking into account the share capital increases, was in fact positive, EUR 136.2 million.

Therefore, further to all the circumstances indicated above, the Board of Directors believed that it had very efficiently dealt with both the essential business matters (launch of the Restructuring Plan, disposal, share capital increase resolutions, etc.) and the formal ones concerning representation in this half-year report.

The Board of Directors consider that the execution of the resolutions to increase the share capital and the complete execution of the above-mentioned agreements, together with the effective implementation of the Business Plan, (whose possible risks may essentially originate from external factors such as the market trend, with particular reference to the continuation or deterioration of the international economic situation and in the specific telecommunications sector), represent the fundamental assumptions to overcome the above mentioned situation of uncertainty and provide the Group with a debt and equity structure consistent with the afore-mentioned Business Plan.

Therefore, also taking into consideration the resolutions to increase the share capital increase and the agreements entered into with the financial institutions and the other creditors, they have prepared the interim condensed consolidated financial statements on the basis of a going-concern.

Operational Forecast of the Accounts

5 Operational forecast of the accounts

5.1 Equity effects of the disposal of assets and the debt restructuring plan

In accordance with the matters indicated in the *Report on operations* in the section *Events subsequent to the end of the half year period*, the recording in the accounts of the balance sheet effects of the disposal of assets and the debt restructuring plan applying IFRS 5 for the disposal of the UK subsidiary Tiscali UK and the more restrictive version of IAS 32 for the debt restructuring and the share capital increases, leads at a negative Parent Company and consolidated shareholders' equity value amounting respectively to EUR (78.7) million and EUR (272.2) million.

However, the Board of Directors believes that Tiscali's shareholders' equity position thus emerging is a merely accounting representation, while the economic substance of the Company's position is that which derives from taking into account both the writedown of the equity investment in Tiscali UK at 30 June 2009, and the commitment of the banks and the shareholders to subscribe the share capital increases resolved on 30 June 2009 up to the amount of EUR 214.9 million (net of related charges) and that therefore the economic situation is that of a book equity of the Parent Company which is positive (EUR 136.2 million), while negative in the consolidated financial statements (EUR 57.4 million).

Therefore, for the purposes of providing a clearer representation of the economic substance of the Company, the Board of Directors also resolved to prepare this half-year report, presenting as follows the accounting statements which show the effects of the pro forma registration of Share Capital Increases 1 and 2.

5.2 Operational forecast of the consolidated balance sheet

CONSOLIDATED BALANCE SHEET (condensed)	30 June 2009	Change	30 June 2009 Pro-forma
(EUR mln)			
Non-current assets	231.5	-	231.5
Current assets	183.6	216.9	400.5
of which: capital payment commitment	-	*216.9*	*216.9*
Assets held for sale	498.8	-	498.8
Total Assets	**913.9**	**216.9**	**1,130.8**
Group shareholders' equity	(272.2)	214.9	(57.4)
of which: Reserve for capital payment commitment	-	*214.9*	*214.9*
Shareholders' equity pertaining to minority shareholders	-	-	-
Total Shareholders' equity	(272.2)	**214.9**	(57.4)
Non-current liabilities	133.4	-	133.4
Current liabilities	793.2	2.0	795.2
of which: Related charges for capital payment commitment	-		*2.0*
		2.0	
Liabilities directly related to assets held for sale	259.6		259.6
		-	
Total Liabilities and Shareholders' equity	**913.9**	**216.9**	**1,130.8**

5.3 Operational forecast of the Parent Company balance sheet

The balance sheet of the Parent Company at 30 June 2009 and the effects deriving from the afore-mentioned share capital increases are included for the sake of completeness.

CONSOLIDATED BALANCE SHEET (condensed) (EUR mln)	30 June 2009	Change	30 June 2009 Pro forma
Non-current assets	117.0	-	117.0
Current assets	21.6	216.9	238.5
of which: capital payment commitment	-	*216.9*	*216.9*
Total Assets	**138.6**	**216.9**	**355.5**
Shareholders' equity	(78.7)	214.9	136.2
of which: Reserve for capital payment commitment	-	*214.9*	*214.9*
Total Shareholders' equity	**(78.7)**	**214.9**	**136.2**
Non-current liabilities	199.2	-	199.2
Current liabilities	18.1	2.0	20.1
of which: Related charges for capital payment commitment	-		*2.0*
		2.0	
Total Liabilities and Shareholders' equity	**138.6**	**216.9**	**355.5**

Corporate governance Report

6 Corporate Governance Report

6.1 Summary

In pursuance of Article 124 *bis* of Italian Legislative Decree No. 58/1998, as implemented by Article 89 *bis* of the Issuers' Regulations, adopted by Consob under resolution No. 11971 of 14 May 1999, and the current Instructions to the Regulations for Markets organized and run by Borsa Italiana S.p.A., Section IA.2.6, listed companies are obliged to draw up an annual disclosure report on their Corporate Governance system and on compliance with the Code's recommendations (as defined below). This report must be made available to the shareholders at least 15 days before the shareholders' meeting for the approval of the annual financial statements and forwarded at the same time to Borsa Italiana S.p.A. who will make it available to the general public. The report is also published in the "*investor relations*" section on the Company website: www.tiscali.com.

Fulfilling the prescribed obligation and with the intention of providing extensive corporate disclosure to the shareholders and the investors, Tiscali S.p.A.'s ("**Tiscali**" or the "**Company**") Board of Directors has drawn up this report (the "**Report**"), in compliance with the guidelines published by Borsa Italiana S.p.A. and in light of the indications provided by Assonime in this connection.

Disclosure pursuant to Article 114 paragraph 5 of Italian Legislative Decree No. 58/98

7 Disclosure pursuant to Article 114 paragraph 5 of Italian Legislative Decree No. 58/98

In accordance with Consob's request pursuant to Article 114.5 of Italian Legislative Decree No. 58/98 forwarded to the Company on 14 July 2009, the following additional information on the Tiscali Group is provided to the market.

Preliminarily, it is hereby revealed that the Consob request refers to the statutory financial statements of Tiscali S.p.A. for the period ended at 31 December 2008 and approved by Tiscali S.p.A.'s extraordinary shareholders' meeting held on 30 April 2009, with regard to which the independent auditing firm Ernst & Young declared that it was unable to express an opinion due to the uncertainties expressed on the assumption of the business as a going-concern.

In this connection, it is considered important to underline that said independent auditing firm Ernst & Young, following the significant corporate events including therein the signing of the debt restructuring agreements on 3 July 2009, in the disclosure document relating to the disposal of Tiscali UK, indicated that the Tiscali Group "*had launched a series of action aimed at overcoming the afore-mentioned uncertainties. In detail, (i) the sale of the equity investment Tiscali UK Ltd was achieved; (ii) the financial proceeds deriving from the sale were mainly used to repay the Group's debt; (iii) Tiscali S.p.A.'s shareholders' meeting on 30 June resolved share capital increases to be offered under option to the shareholders, destined to repay an additional part of the financial debts; (iv) agreements were entered into with the main financial backers who, on the one hand, undertook to guarantee the subscription of these increases, and on the other hand, agreed the renegotiation of the contractual terms of the loans which will remain the responsibility of the Group on completion of the transactions described*".

7.1 Net financial position of the Tiscali Group and Tiscali S.p.A. at 31 July 2009, with indication of the short-term components separated from the medium/long-term ones

The financial position drawn up in light of Consob Communication No. DEM/6064293 dated 28 July 2006 is presented below.

(EUR 000)	Notes	GROUP 31 July 2009	of which: Tiscali S.p.A. 31 July 2009
A. Cash	(1)	27,488	5,161
B. Other cash equivalents		-	-
C. Securities held for trading		-	-
D. Cash and cash equivalents (A) + (B) + (C)		**27,488**	**5,161**
E. Current financial payables	**(2)**	**2,619**	**2,619**
F. Non-current financial payables	**(3)**	**6,308**	**473**
G. Current bank payables	(4)	186,096	665
H. Current portion of non-current debt		-	-
I. Other current financial payables	(5)	7,693	-
J. Current financial debt (G) + (H) + (I)		**193,789**	**665**
K. Net current financial debt *(J) – (E) – (D – (F))*		**157,374**	**(7,588)**
L. Non-current bank payables	(6)	150,166	-
M. Bonds issued		-	-
N. Other non-current payables to third parties	(6) (7)	89,854	30,975
O. Non-current financial debt (L) + (M) + (N)		**240,020**	**30,975**
P. Net financial debt (J) + (O)		**397,394**	**23,387**

Notes

(1) Includes income from sale of TiNet

(2) The entire amount relates to deposits recorded in relation to Tiscali S.p.A. which are expected to be freed up shortly

(3) The entire amount represents the amounts due from the purchaser of TiNet Group (Talia) for the deferred part of the price

(4) Residual debt due to the Senior Lenders amounting to EUR 175 million, plus bank debt of Tiscali Italia S.p.A. and Tiscali S.p.A. for EUR 11.1 million

(5) Short-term leasing - Italy

(6) Includes the amount of the new debt due to the Senior Lenders, restructured as from 3 July 2009

(7) Includes the "Sale and Lease Back Sa Illetta" debt for EUR 58.8 million, as well as the debt due to the shareholder Andalas for EUR 30.9 million

It is hereby stated that the net financial position indicated above refers to the Tiscali Group with the exclusion of the subsidiary Tiscali UK, sold to the Carphone Warehouse Group on 3 July 2009.

As described in the section *Events subsequent to the end of the half year period* in the half-year report, on 3 July the Company sold the assets in the UK, for a total of GBP 236 million. The proceeds from the sale were used for the partial repayment of the financial debt due to the Senior Lenders (approximately GBP 180 million), as well as the payment of the debts due to the management of Tiscali UK (around GBP 8 million) and debts due to the former minority shareholders of VNIL (around GBP 7 million).

Net of the partial repayment of the debt due to the Senior Lenders for EUR 207 million, the residual debt, amounting to EUR 332.8 million, was restructured for an amount equating to a nominal EUR 158.5 million, and the remaining part, EUR 174.3 million, will be offset or written off following share capital increases 1 and 2 (envisaged respectively by 31 December 2009 and 28 February 2010).

7.2 Past due debt positions of the Tiscali Group at 31 July 2009

At 31 July 2009, net of the payment plans agreed with the suppliers, net past due trade payables amounted to around EUR 62.9 million.

There are also past due tax payables for around EUR 6.4 million and past due current financial payables for EUR 0.8 million.

There are no past due payables due to social security or welfare institutions or the employees.

7.3 Consequent action taken by Group creditors at 31 July 2009

At 31 July 2009, there were no payment requests or injunctions, other than those falling under the ordinary administrative activities.

The main payment injunctions received by the Company which are still being negotiated or disputed, amount in total to EUR 1.66 million.

No suspension initiatives on supply relationships have been taken.

7.4 Relationships with related parties of Tiscali S.p.A. and the Tiscali Group

At 31 July 2009, the Tiscali Group had a number of dealings with related parties, under conditions considered normal on the respective reference markets, taking into account the characteristics of the goods and services provided

The table below summarises the balance sheet and income statement balances of the Tiscali Group at 31 July 2009 arising from transactions with related parties.

The most significant balances, at 31 July 2009, summarized by supplier of the services, are as follows:

INCOME STATEMENT VALUES			**Of which:**
EUR 000	**Notes**	**GROUP 31.July.2009**	**Tiscali S.p.A. 31 July 2009**
Interoute	1	(393)	-
Leadsatz GmbH	2	-	-
TOTAL SUPPLIERS OF MATERIALS AND SERVICES		**(393)**	**-**
Andalas SA	3	(1,097)	(113)
TOTAL		**(1,490)**	**(113)**

BALANCE SHEET VALUES			**Of which:**
EUR 000	**Notes**	**GROUP 31 July 2009**	**Tiscali S.p.A. 31 July .2009**
Interoute	1	(1,796)	-
Leadsatz GmbH	2	(30)	-
TOTAL SUPPLIERS OF MATERIALS AND SERVICES		**(1,826)**	**-**
Andalas SA	3	(30,975)	(30,975)
TOTAL		**(32,801)**	**(30,975)**

(1) Interoute is a group entirely owned by the Sandoz Family Foundation, a Tiscali shareholder. The costs incurred during the year refer to purchases made by Tiscali Italia S.p.A. in relation to dark fibre and related maintenance.

(2) Leadsatz GmbH: a company with whom an outsourcing agreement has been entered into for the Portal area of the German companies sold off. Mr. J. Maghin, director of Leadsatz GmbH was also, during 2007, a minority shareholder of Ishtari Gmbh (a company invested in by Tiscali Deutschland Gmbh).

(3) The shareholder *Andalas Limited* granted a loan in 2004 bearing interest at market rates. The loan agreement explicitly states subordination with respect to the other debts of the Tiscali Group.

7.5 Audit of the financial covenants, negative pledges and any other Group debt clause

On the basis of the agreements entered into between the Company and the Senior Lenders on 3 July 2009 (see *Significant events during the first half of 2009*), the restructuring of the Senior Debt envisages the application of a series of financial and operative covenants in accordance with the matters summarized in the following table:

Covenants	Definition	Date of first test
Financial		
Net debt to EBITDA	*Ratio between net financial position and EBITDA for the period*	30.06.2010
Cash Flow to Debt Service	*Ratio between the cash flow for the period and the sum of the principal and interest due in the period*	31.12.2010
Interest Cover	*Ratio between EBITDA for the period and financial expense for the period*	30.06.2010
Capex	*Total investments in tangible and intangible fixed assets for the period*	30.06.2010
Operative		
ARPU per customer	*Ratio between revenues for the period and average number of customers for the period*	30.06.2010
Average number of customers	*Average of the customers between two adjoining periods*	30.06.2010

The financial and operative covenants are subject to a suspension period (so-called covenants holiday) with a duration of twelve months as from the date of signing the agreements. Therefore, the first test date of the same will be at the time of the closure of the interim financial statements for 2010.

At present, the clauses of the negative pledges and the other clauses of the contracts entered into as part of the debt Restructuring Plan, have been observed.

7.6 Progress of the Tiscali Group's financial debt Restructuring Plan

According to the matters indicated in the section *Significant events during the first half of 2009,* all the agreements entered into with the Senior Lenders were subordinate to the occurrence of certain conditions, including:

- approval by the shareholders' meeting of the terms included in the Restructuring Agreement and in particular the adoption of the resolution for the afore-mentioned share capital increases.
- certification by Consob from exemption of the performance of a mandatory take-over bid (so-called "rescue" exemption) stated by Article 49.1, letters b) and d) of Consob Regulation No. 11971/99 (Issuers' Regulations) in relation to the restructuring of the debt and the execution of the above-mentioned share capital increases.
- certification of a restructuring plan by an independent expert as per Article 67.3, letter d) of the Bankruptcy Law (D.R. No. 267 of 16 March).

- finalization of the transaction for the disposal of Tiscali UK to the Carphone Warehouse Group, subject to receiving the related go-ahead from the European anti-trust authority.

As of the date of preparation of this half-year report, all the above conditions have occurred. In detail, the following action has been carried out:

1) On 26 May, Tiscali finalized the sale of the TiNet Group, supplier of IP transit services, to the private equity fund BS. The transaction valued Tinet at an Enterprise Value of around EUR 47 million, inclusive of a potential earn out of around EUR 7 million. The Equity Value, net of the debt, came to approximately EUR 35 million. On the basis of the agreements for restructuring the Group's debt, the net proceeds from the sale of Tinet were left at the Company's availability to serve the working capital requirements, also by means of the recapitalization of the Italian subsidiary Tiscali Italia S.p.A..
2) On 30 June, the extraordinary shareholders' meeting in third calling approved the following measures:
   - Elimination of the par value of the shares and grouping together of the same at a ratio of 1 share for every 10 existing shares, to be carried out subject to resolution by the Company's Board of Directors.
   - Reduction in the share capital for losses, pursuant to Article 2446 of the Italian Civil Code. Further to this resolution, the share capital decreased to around EUR 156.1 million.
   - Share capital increase against payment pursuant to Article 2441.1 of the Italian Civil Code up to a maximum of EUR 190 million, by means of the issue of ordinary shares without par value, with accompanying bonus warrants, at a price of EUR 0.01 (EUR 0.1 after grouping them together) per share (so-called Increase 1).
   - Share capital increase against payment pursuant to Article 2441.1 of the Italian Civil Code, against payment, up to a maximum of EUR 46.5 million, by means of the issue of ordinary shares without par value at a price of EUR 0.01 (EUR 0.1 after grouping them together) per share (so-called Increase 2).
   - Authority to the Board of Directors pursuant to Article 2443 paragraph 2 of the Italian Civil Code, to increase the share capital in accordance with Article 2441 paragraph 1 of the Italian Civil Code, against payment, in one or more tranches, for a maximum period of three years as from authorization being resolved, up to a maximum amount of EUR 25 million, by means of the issue of ordinary shares without par value (so-called Increase 3).
3) At the same date, the Company communicated that it had obtained the approval of the European anti-trust authority for the sale of Tiscali UK to the Carphone Group.
4) On 1 July, the appointed professionals issued certification of the reasonableness of the restructuring plan for the exposure to the financial system pursuant to Article 67.3, letter d) of the Bankruptcy Law (D.R No. 267 of 16 March 1942).
5) On 2 July, the following agreements were signed:
   - Group Facilities Agreement which contains a definition of the related commitments of the parties, terms, conditions and maturities of the Group's residual debt due to the Senior Lenders, after the partial repayment made with the proceeds of the sale of Tiscali UK, for a total of EUR 165 million divided up into Tranches A, B, C. and D.
   - Rights Issues Memorandum and Subscription Agreement which contain a definition of the subscription commitment of the Senior Financing Institutions, who confirmed the obligation vis-à-vis the Company to subscribe Increase 1 for the part which may remained unopted for a total maximum amount of EUR 147 million, by means of offsetting the amounts due deriving from the part of Tranche D1 which will not have been repaid with the proceeds from the cash subscriptions and therefore excluding Andalas and VNIL, of Increase 1. The Senior Financing Institutions have

also undertaken to write-off a portion of the amounts receivable relating to Tranche D2, for a total of EUR 0.3123 for each EUR of Cash Subscription, up to a maximum of EUR 46.5 million.

- Agreements with the shareholders (Andalas and VNIL) which contain a definition of a) the subscription commitments of the shareholder Renato Soru, by means of which the same renewed his obligation, vis-à-vis the company, to subscribe Increase 1, for the portion of the option rights due directly or indirectly to the same, up to a maximum amount of around EUR 32 million. This subscription commitment, formalized on 2 July 2009, will be met by means of offsetting the amounts receivable by Andalas Ltd, a company headed up by Renato Soru, from the Tiscali Group and b) the subscription commitments of the UK minority shareholders (VNIL), on the basis of which the same undertook the obligation to subscribe shares of the Company as part of Increase 1 by means of offsetting a portion of the amount receivable (amounting in total to around EUR 11 million after the agreed transactions) which has not been repaid or written off.

6) On 3 July, after having obtained the necessary regulatory approvals and the finalization of the Group's debt restructuring agreements, the sale of 100% of the shares of the UK subsidiary Tiscali UK Ltd to Carphone Warehouse Group Plc was concluded.

7) At the same date, the sales proceeds, net of costs relating to the transaction, were used for the partial repayment of the Senior Debt and the amount due to the minority shareholders of Tiscali UK for around EUR 200 million (including the payments of the Interest Rate Swaps) and EUR 8 million, respectively.

8) At the same date, moreover, Consob considered the Restructuring Plan to be suitable, with regard to its characteristics, for determining the application of the exemption pursuant to Article 49.1, letter b) of the Issuers' Regulations.

7.7 Stage of completion of the Tiscali Group's business plan

During the first half of the year, as part of the business reorganisation process, the Company put together a business plan certified by a professional enrolled in the register of chartered accountants with the requisites described by Article 28, letters a) and b) pursuant to Article 2501 *bis*, section four, of the Italian Civil Code pursuant to Article 67.3, letter d) of the bankruptcy law (also see *Significant events during the first half of 2009*).

The plan thus prepared represents the analytical basis of the debt Restructuring Plan with the banks, signed on 3 July 2009.

The Business Plan will be disclosed to the Market before Share Capital Increase 1 is carried out, envisaged for the fourth quarter of 2009.

DECLARATION OF THE EXECUTIVE APPOINTED TO DRAW UP THE CORPORATE ACCOUNTING DOCUMENTS

The undersigned, Romano Fischetti, Executive appointed to draw up the corporate accounting documents of Tiscali S.p.A., hereby certifies, in pursuance of Article 154 *bis*, section 2, of Italian Legislative Decree No. 58/98, as amended, that the accounting information contained in this press release is consistent with the underlying documental records, accounting ledgers and entries.

Romano Fischetti

Executive appointed to draw up the corporate accounting documents

Condensed consolidated half-year financial statements

8 Consolidated financial statements and explanatory notes

8.1 Income statement

	Notes	First half of 2009	First half of 2008 recalculated
(EUR 000)			
Revenues	*1*	151,583	164,526
Other income	*2*	1,823	1,458
Purchase of materials and outsourced services	*3*	81,000	111,651
Payroll and related costs	*4*	21,094	28,598
Stock option plan cost	*5*	274	2,586
Other operating charges (income)	*6*	2,866	(10,443)
Writedowns of receivables from customers	*7*	10,236	8,013
Restructuring costs and other writedowns	*8*	1,900	274
Amortisation/depreciation		25,111	25,275
Operating result		**10,924**	**31**
Share of results of equity investments valued using the equity method		**(33)**	**(305)**
Net financial income (charges)	***9***	**(39,670)**	**(31,234)**
Pre-tax result		**(28,779)**	**(31,509)**
Income taxes	*10*	(11,392)	(971)
Net result from continuing operations		**(40,171)**	**(32,480)**
Result from discontinued /assets held for sale	*11*	(364,870)	(30,575)
Net result for the period	***12***	**(405,040)**	**(63,054)**
Attributable to:			
- Equity holders of the parent		**(402,854)**	**(57,223)**
- Minority interests		(2,186)	(5,832)
Earnings (Loss) per share			
Earnings per share from discontinued operations:			
- Basic		-0.65	-0.11
- Diluted		-0.65	-0.11
Earnings per share from continuing operations			
- Basic		**-0.06**	**-0.05**
- Diluted		**-0.06**	**-0.05**

8.2 Comprehensive income statement

(EUR 000)	Notes	First half of 2009	First half of 2008
Period result		**(405,040)**	**(63,054)**
Differences on translating the financial statements of foreign companies		-	(31,904)
Fair value equity bond delta		-	(8,086)
Total result of the overall income statement net of taxation		-	(39,990)
Total overall result net of taxation		**(405,040)**	(103,044)
Attributable to:			
Parent Company shareholders		**(402,854)**	**(97,212)**
Minority shareholders		(2,186)	(5,832)
		(405,040)	(103,044)

8.3 Consolidated statement of financial and equity position

	Notes	30 June 2009	31 December 2008
(EUR 000)			
Non-current assets			
Goodwill	*13*	-	438,824
Intangible assets	*14*	74,915	191,931
Properties, plant and equipment	*15*	140,152	232,288
Equity investments	*16*	-	33
Other financial assets	*17*	16,457	17,313
Deferred tax assets	*18*	-	10,507
		231,524	**890,896**
Current assets			
Inventories	*29*	1,897	6,880
Receivables from customers	*20*	126,005	176,819
Other receivables and other current assets	*21*	23,868	46,794
Other current financial assets	*22*	2,696	3,430
Cash and cash equivalents	*23*	29,127	24,202

		183,594	**258,125**
Assets held for sale		**498,815**	**56,795**
Total Assets		**913,934**	**1,205,817**
Share Capital and reserves			
Share Capital		156,071	308,273
Share premium reserve		-	990,857
Stock option reserve		**4,124**	3,840
Translation reserve		-	(157,190)
Cumulative losses and Other reserves		(29,588)	(892,234)
Period result		**(402,854)**	**(242,724)**
Group shareholders' equity	*24*	**(272,247)**	**10,823**
Minority interests		**-**	(6,046)
Shareholders' equity pertaining to minority shareholders	*25*	**-**	**(6,046)**
Total Shareholders' equity		**(272,247)**	**4,777**
Non-current liabilities	*26*		
Payables to banks and to other lenders	*27*	30,847	30,743
Payables for financial leases	*28*	56,794	73,118
Other non-current liabilities	*29*	28,313	95,444
Liabilities for pension obligations and staff severance indemnities	*30*	4,399	5,001
Provisions for risks and charges	*31*	13,005	25,384
		133,358	**229,690**
Current liabilities	*32*		
Payables to banks and other lenders	*33*	537,171	510,012
Payables for financial leases	*34*	12,020	21,399
Payables to suppliers	*35*	169,024	268,899
Other current liabilities	*36*	75,030	148,765
		793,245	**949,076**
Liabilities directly related to assets held for sale		**259,578**	**22,274**
Total Liabilities and Shareholders' equity		**913,934**	**1,205,817**

8.4 Cash flow statement

	1st half of 2009	1st half of 2008
(EUR 000)		
OPERATIONS		
Result from operating activities	**(40,171)**	**(32,480)**
Adjustments for:		
Share of results of equity investments valued using the equity method	**33**	**305**

Depreciation of tangible assets	12,738	13,759
Amortisation of intangible assets	12,373	11,515
Capital gains (Losses) on disposal of non-current assets – tangible	(1,054)	(1,054)
Capital gains (Losses) on disposal of non-current assets – intangible	(5)	-
Increases in provisions for risks and restructuring charges	1,900	673
Increases in provisions for writedown of receivables	10,236	8,013
Fair value of financial instruments	4,949	(6,743)
Staff costs relating to stock options	274	2,586
Current income taxes	882	971
Deferred income taxes	10,507	-
Provision for staff severance indemnity and pension benefits	1,076	1,102
Financial income	(4,107)	(11,812)
Financial charges	38,827	43,046
Cash flow from operations before changes in working capital	48,458	29,881
(Increase)/Decrease in trading activities and other	(4,396)	(76,327)
(Increase)/Decrease in inventories	111	(179)
Increase/(Decrease) in trading liabilities and other	(22,135)	43,888
Cash flow from operations	22,038	(2,737)
Interest paid	-	(30,846)
Net change in risk reserve	-	(1)
Payments for risk reserves and other reserves	(5,191)	(7,362)
Net change in staff severance indemnity provision	-	-
Payment of staff severance indemnity	(1,467)	(1,237)
Use of provision for writedown of receivables	(1,199)	(441)
Net change in tax assets	-	19
CASH FLOW GENERATED / USED BY OPERATIONS	14.181	(42,605)
INVESTMENT ACTIVITIES		
Interest received	-	(1,959)
Acquisition of properties, plant and equipment	(3,019)	(52,772)
Net increases in other intangible fixed assets	(5,631)	(55,347)
Change in goodwill	-	-
Change in tangible fixed assets	406	38,240
Change in intangible fixed assets	(402)	44,297
Change in financial assets and equity investments carried at equity	1,128	63
Payments deriving from the disposal of subsidiaries	24,689	-
CASH FLOW GENERATED / USED BY INVESTMENT ACTIVITIES	17,171	(27,478)

FINANCIAL ACTIVITIES		
Repayments of loans	-	(150,000)
New loans raised	-	-
Interest paid (including upfront fees)	103	-
Interest received	-	-
Increase (decrease) in bank overdrafts (short-term banks)	(3,808)	9,076
Change in short-term financial liabilities (leasing)	(5,174)	2,148
Change in medium/long-term financial liabilities (leasing)	-	(18)
Change in medium/long-term financial liabilities	104	(7,571)
Capital increases and share premium reserve	-	145,314
Purchase of own shares	-	(6,187)
Minority	-	(2,098)
CASH FLOW USED IN FINANCIAL ACTIVITIES	(8,775)	(9,336)

NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**22,577**	**(79,419)**
Cash and cash equivalents of the assets operating at the beginning of the financial year	**6,236**	**92.719**
Cash and cash equivalents of the assets disposed of and destined to be sold at the beginning of the financial year	**19,400**	**41.513**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE FINANCIAL YEAR	**25,636**	**134,232**
Effect of changes in the exchange rates of foreign currencies	**313**	**(1.371)**
Net cash flow from assets disposed of and/or destined for disposal	***(16,556)***	***(10.171)***
Cash and cash equivalents of the assets operating at the end of the period	**29,126**	**11.929**
Cash and cash equivalents of the assets disposed of and destined to be sold at the end of the period	**2,844**	**31.342**
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**31,970**	**43,271**

8.5 Consolidated statement of changes in equity

(EUR 000)	Share Capital	Share premium reserve	Stock option reserve	Cumulative losses and Other reserves	Group shareholders' equity	Minority interests	Total
Balance at 1 JAN. 2009	**308,273**	**990,857**	**3,840**	**(1,292,148)**	**10,823**	**(6,046)**	**4,777**
Share capital increase	-	-	-	-	**-**	-	**-**
Increases/(Decreases)	-	-	284	-	**284**	-	**284**
Purchase of own shares		-	-	-	**-**	-	**-**
Transfers covering losses	- (152,202)	(990,857)	-	1,143,059	**-**	-	**-**
Exchange differences arising on the translation of the financial statements of foreign companies	-	-	-	120,356	**120,356**	-	**120,356**
Changes in the consolidation area	-	-	-	(855)	**(855)**	8,231	**7,376**
Result for the period	-	-	-	*(402,854)*	***(402,854)***	*(2,186)*	***(405,040)***
Other overall gains (losses)	-	-	-	-	**-**	-	**-**
Overall result for the period	**-**	**-**	**-**	**(402,854)**	***(402,854)***	**(2,186)**	**(405,040)**
Balance at 30 JUNE 2009	**156,071**	**-**	**4,124**	**(432,442)**	**(272,247)**	**-**	**(272,247)**

(EUR 000)	Share Capital	Share premium reserve	Stock option reserve	Equity bond reserve	Cumulative losses and Other reserves	Group shareholders' equity	Minority interests	Total

Balance at 1 JAN. 2008	**212,207**	**902,492**	**9,969**	**22,053**	**(977,074)**	**169,647**	**37,322**	**206,969**
Share capital increase	74,896	70,418	-	-	-	**145,314**	-	**145,314**
Increases/(Decreases)	-	-	3,999	-	-	**3,999**	(27,078)	**(23,079)**
Purchase of own shares	-	-	-	-	(6,187)	**(6,187)**	-	**(6,187)**
Transfers covering losses	-	(23,842)	-	-	23,842	**-**	-	**-**
Exchange differences arising on the translation of the financial statements of foreign companies	-	-	-	-	-	**-**	(2,098)	**(2,098)**
Changes in the consolidation area	-	-	-	-	-	**-**	-	**-**
Result for the period	-	-	-		*(57,223)*	***(57,223)***	*(5,832)*	***(63,055)***
Other overall gains (losses)	-	-	-	*(8,086)*	*(31,904)*	***(39,990)***	-	***(39,990)***
Overall result for the period	**-**	**-**	**-**	**(8,086)**	**(89,127)**	**(97,213)**	**(5,832)**	**(103,045)**
Balance at 30 JUNE 2008	**287,103**	**949,068**	**13,968**	**13,967**	**(1,048,546)**	**215,56**	**2,314**	**217,874**

8.6 Income statement pursuant to Consob Resolution No.15519 dated 27 July 2006

	First half of 2009	*Of which: related parties*	First half of 2008 recalculated	*Of which: related parties*
(EUR 000)				
Revenues	151,583	299	164,526	17
Other income	1,823	-	1,458	-
Purchase of materials and outsourced services	81,000	582	111,651	599
Payroll and related costs	21,094	-	28,598	-
Stock option plan cost	274	-	2,586	-
Other net operating income (charges)	2,866	-	(10,443)	-
Write-downs of receivables from customers	10,236	-	8,013	-
Restructuring costs and other write-downs	1,900	-	274	-
Amortisation/depreciation	25,111	-	25,275	-
Operating result	**10,924**	**(283)**	**31**	**(582)**
Share of results of equity investments valued using the equity method	**(33)**	**-**	**(305)**	**-**
Net financial income (charges)	**(39,670)**	**(969)**	**(31,234)**	**(1,343)**
Pre-tax result	**(28,779)**	**(1,252)**	**(31,509)**	**(1,925)**
Income taxes	(11,392)	-	(971)	-

Net result from operating activities (on-going)	**(40,171)**	**(1,252)**	**(32,480)**	**(1,925)**
Result from assets disposed of and/or destined for disposal	(364,870)	-	(30,575)	-
Net result	**(405,040)**	**(1,252)**	**(63,054)**	**(1,925)**
Attributable to:				
- Result pertaining to the parent company	**(402,854)**		**(57,223)**	
- Minority interests	(2,186)		(5,832)	
Earnings (Losses) per share				
Earnings per share from operating activities disposed of:				
- Basic	-0.65		-0.11	
- Diluted	-0.65		-0.11	
Earnings per share from operating activities:				
- Basic	**-0.06**		**-0.05**	
- Diluted	**-0.06**		**-0.05**	

8.7 Balance sheet pursuant to Consob Resolution No. 15519 dated 27 July 2006

(EUR 000)	30 June 2009	*Of which: related parties*	31 Dec 2008	*Of which: related parties*
Non-current assets				
Goodwill	-	-	438,824	-
Intangible assets	74,915	-	191,931	-
Properties, plant and equipment	140,152	-	232,288	-
Equity investments	-	-	33	-
Other financial assets	16,457	-	17,313	-
Deferred tax assets	-	-	10,507	-
	231,524	**-**	**890,896**	**-**
Current assets				
Inventories	1,897	-	6,880	-
Receivables from customers	126,005	499	176,819	559
Other receivables and other current assets	23,868	-	46,794	-
Other current financial assets	2,696	-	3,430	-
Cash and cash equivalents	**29,127**	-	24,202	-
	183,594	499	**258,125**	559
Assets held for sale	**498,815**	**-**	**56,795**	**-**
Total Assets	**913,934**	499	**1,205,817**	559
Share Capital and reserves				
Share Capital	156,071	**-**	308,273	**-**
Share premium reserve	-	**-**	990,857	**-**
Stock option reserve	**4,124**	**-**	3,840	**-**
Translation reserve	-		(157,190)	
Cumulative losses and Other reserves	(29,588)	**-**	(892,234)	**-**

Losses for the period	**(402,854)**	**-**	**(242,724)**	**-**
Group shareholders' equity	**(272,247)**	**-**	**10,823**	**-**
Minority interests	-	-	(6,046)	-
Shareholders' equity pertaining to minority shareholders	**-**	**-**	**(6,046)**	**-**
Total Shareholders' equity	**(272,247)**	**-**	**4,777**	**-**
Non-current liabilities				
Payables to banks and to other lenders	30,847	30,877	30,743	30,288
Payables for financial leases	56,794	-	73,118	-
Other non-current liabilities	28,313	-	95,444	-
Liabilities for pension obligations and staff severance indemnities	4,399	-	5,001	-
Provisions for risks and charges	13,005	-	25,384	-
	133,358	**30,877**	**229,690**	**30,288**
Current liabilities				
Payables to banks and other lenders	537,171	-	510,012	-
Payables for financial leases	12,020	-	21,399	-
Payables to suppliers	169,024	1,355	268,899	1,241
Other current liabilities	75,030	-	148,765	-
	793,245	**1,355**	**949,076**	**1,241**
Liabilities directly related to assets held for sale	**259,578**	**-**	**22,274**	**-**
Total Liabilities and Shareholders' equity	**913,934**	**32,232**	**1,205,817**	**31,529**

8.8 Notes to the half year condensed consolidated financial statements

Tiscali S.p.A. is a limited company incorporated under the laws of the Republic of Italy at the Cagliari Companies' Register.

The Tiscali Group provides its customers, private individuals and businesses, with a vast range of services, from Internet access, dial-up and ADSL, to more specific and technologically advanced products for satisfying market requirements.

This range, which also includes voice services (including mobile telephone) and portal services, permits Tiscali to compete efficiently with other market operators.

Thanks to its unbundling (LLU) network, its range of innovative services and its established brand, Tiscali has a strategic position in the telecommunications markets.

The financial statements are presented in Euro (EUR) which is the currency used to conduct most of the Group's operations. Foreign activities have been included in the consolidated financial statements according to the principles detailed below.

When preparing these financial statements, the directors worked on the assumption of the business as a going concern and therefore drew up the financial statements using the principles and standards applicable to operating companies.

This half-year report was approved by the Board of Directors on 27 August 2009, which authorized its publication in accordance with the law.

Valuation of the business as a going-concern and operating performance

The first half of 2009 was mainly characterized by the activities launched by Company Management, aimed at restructuring the Group's debt and guaranteeing long-term financial equilibrium. These activities, which overall can be categorised within the sphere of the so-called Restructuring Plan as launched by means of the standstill request on 6 March, resulted in a series of agreements with Senior Financing Institutions (Outline Agreement) and culminated in the transfer of the subsidiary TiNet on 26 May, the shareholders' resolutions dated 30 June and the disposal of the assets in the UK, at the same time as the signing of a debt restructuring agreement with the Company's main creditors on 3 July. In conclusion the Restructuring Plan will be completed with the execution of the share capital increases approved on 30 June.

Situation as of the date of approval of the financial statements for the year ended at 31 December 2008

At the time of drawing up the financial statements at 31 December 2008, having taken due note of the Group's equity, economic and financial situation, as well as in light of the deterioration of the macro-economic conditions and the worsening of the competitive context in the sector, already indicated in the results for the year and the business outlook and prospects on the basis of the trends underway during the first few months of 2009, the Board of Directors had assessed the need to prepare a new Business Plan and an associated Financial Plan which will permit the Tiscali Group to launch a process aimed at restructuring the debt and guaranteeing financial balance over the long-term.

As of this date, the Board of Directors, despite highlighting uncertainties existing with regard to the Company as a going concern, considered it appropriate to draw up the financial statements at 31 December 2008 on the basis of the assumption of the Company as a going concern, in particular deeming that there was a reasonable probability of achieving the restructuring of the Tiscali Group's financial debt on a consistent basis with the cash flows, suitable for supporting the new Business Plan. With regard to these financial statements, the independent auditing firm Ernst & Young declared that it was impossible to express an opinion due to the uncertainties expressed with regard to the assumption of the Company as a going concern. This position was however countered by the clear position of the Company's Board of Statutory Auditors in favour of the assumption of the business continuity.

The shareholders' meeting, held on 30 April 2009, resolved the approval of the 2008 financial statements and the partial coverage of the losses accumulated by the Parent Company, by means of the full use of the share premium reserve, carrying forward the residual portion of EUR 151.8 million.

Signing of the Outline Agreement and action implemented as of the date of preparation of the half-year report

On 8 May 2009, the Board of Directors approved the guidelines of the plan for restructuring the Group's debt, on a consistent basis with the financial and equity requirements of Tiscali Italia's business plan, which the banks declared they were willing to back.

In particular, the following primary objectives were outlined:

- the reduction, reorganisation of the maturities and review of the debt conditions, also by means of use of proceeds from the disposal of assets (the UK subsidiary);
- the enhancement of the Group's asset endowment, to be achieved by means of one or more share capital increases, also under option, for a total amount of up to a maximum of EUR 236.5 million with the guarantee by Senior Lenders and a number of shareholders to subscribe the portion of shares which may remain unopted, by means of the waiver of receivables due from the Group.

It is appropriate to emphasise the connection existing, from the moment of definition by the Board of Directors of the above objectives, between the decision to dispose of the assets – which under current market conditions would have likewise determined a loss on transfer – and the decision to carry out the share capital increases already fully guaranteed by the Senior Lenders.

In fact, as of the same date, the Board of Directors also approved the disposal of the UK operating company Tiscali UK Ltd to Carphone Warehouse Group Plc (by means of the transfer of 100% of the share capital of Tiscali Ltd UK and related subsidiaries, by the Parent Company Tiscali UK Holdings Plc, in turn owned, via two Dutch subsidiaries, by Tiscali SpA), for a total of GBP 236 million (net of around GBP 20 million represented by the undertaking of an number of financial debts by the Purchaser), of which approximately GBP 36 million restricted to guarantee certain contractual commitments (“Escrow”).

The resolution – subject among other things to a settlement agreement with the minority shareholder and creditor of Tiscali UK Ltd (“VNIL”) for the re-purchase of the minority holding and the partial write-off of the debt of the UK subsidiary vis-à-vis said VNIL – was subordinate to the usual regulatory approvals and finalization of the agreements for the restructuring of the Group’s total debt.

For the intents of the Board of Directors, these are in fact related transactions, resolved in relation to each other. In particular, the hypothesis of disposal of the UK operating companies was considered subordinately to the finalization of the agreements for the restructuring of the Group’s total debt (and with these the obligation of the Senior Lenders to guarantee the share capital increases) and the approval of the shareholders’ resolution for the Company’s share capital increase (on 30 June 2009), the latter in turn necessary for the issue of certification of the reasonableness of the restructuring plan pursuant to Article 67.3, letter d) of the Bankruptcy Law (D.R. No. 267 of 16 March 1942).

On 28 May 2009, Tiscali S.p.A.’s Board of Directors therefore approved the so-called Outline Agreement aimed at restructuring the Group’s debt, with particular regard to:

- around EUR 500 million in Senior debt, plus the related interest, subject to a standstill agreement;
- around EUR 100 million of debt due to the minority shareholders of Tiscali UK (VNIL);
- around EUR 30 million of debt due to Andalas, a company owned by the shareholder Renato Soru.

This agreement, subsequently resulting in the Restructuring Agreement and signed by Senior Financing Institutions and the Company (Tiscali Spa and Tiscali UK Holding) on 3 June, state:

1) the disposal of Tiscali UK Ltd and use of the proceeds to repay the portion of the Senior debt and the amount due to the minority shareholders of Tiscali UK for around EUR 200 million and EUR 8 million, respectively;

2) the restructuring of the Group’s residual debt due to Senior Lenders, after the partial repayment made with the proceeds from the disposal of Tiscali UK as follows:

a. with regard to a total of EUR 165 million (which subsequent to closing became around EUR160 million), according to the new terms, conditions and maturities, in three tranches:

- **tranche A**: for a maximum amount equating to EUR 100 million and with a duration of 5 years;
- **tranche B**: for a maximum amount equating to EUR 45 million and with a duration of 6 years;
- **tranche C**: for a maximum amount equating to EUR 20 million, with a duration of 7 years, to be repaid by means of funds deriving from the release of the restricted account relating to

the disposal of Tiscali UK, or also by means of the share capital increase described further on (see below Third share capital increase);

b. with regard to a total of EUR 193.5 million – inclusive of the related interest and costs for closing the hedging agreements, including around EUR 147 million relating to the so-called **tranche D1** and a maximum of around EUR 46.5 million relating to the so-called **tranche D2** by means of share capital increases under the terms described in point 3) below.

3) The execution of share capital increases, to be offered under option to the shareholders, intended to repay the residual amount of the Senior debt and the amounts due to Andalas, a company owned by the shareholder Renato Soru, and to the minority shareholders of Tiscali UK, respectively for EUR 31 million and EUR 11 million, approximately. The Outline Agreement includes the guarantee of subscription of these share capital increases by the afore-mentioned creditors by means of offsetting, fully or partly, of the amounts due to the Company, as follows:

c. **Increase 1**: share capital increase for an amount up to a maximum of EUR 190 million, with bonus warrants assigned. The subscription of this increase, whose execution is envisaged by 31 December 2009, has been guaranteed:

   (i) for EUR 32 million by Andalas, a company owned by the shareholder Renato Soru;

   (ii) for EUR 11 million by the minority shareholders of Tiscali UK whose residual debt, net of the amount already repaid with the disposal of the UK subsidiary, would therefore be cancelled;

   (iii) for the remaining balance, up to a maximum of around EUR 147 million, by the Senior Lenders.

   At the same time, a share capital increase is envisaged serving the afore-mentioned warrants up to a maximum of 5% of the share capital after the increase;

d. **Increase 2**: share capital increase for an amount up to a maximum of EUR 46.5 million, following the completion of Increase 1 and whose amount will be determined in relation to the related level of subscription. In particular, for each Euro of cash subscribed by the market in relation to Increase 1, the Senior Lenders would write-off around 32 EUR cents of Senior debt, up to a maximum of EUR 46.5 million. In essence, if the market should subscribe EUR 147 million, the Senior debt would be written off for EUR 46.5 million and the share capital increase envisaged by Increase 2 would not be launched. To the contrary, if the market should not subscribe the share capital increase of Increase 1 in full, Increase 2 would be launched in full and offered under option to the market with subscription guaranteed by the Senior Lenders. The eventual execution of the share capital increase is foreseen by 28 February 2010;

e. **Increase 3**: share capital increase for an amount up to a maximum of EUR 25 million, delegated to the Board of Directors, whose subscription would also be guaranteed by the Senior Lenders, to be carried out within three years of resolution, in one or more tranches, for the purpose of the possible repayment of an additional portion of the Senior debt, on occurrence of specific conditions.

2) In conclusion, the contractual terms relating to the so-called Sale and Lease Back of the property where the headquarters are based in Cagliari have been renegotiated.

The Outline Agreement approved by the Board of Directors was subordinate to the occurrence of certain conditions, including:

- the resolution by the shareholders' meeting of the above share capital increases together with the subscription agreements with the Senior Lenders;
- certification by Consob from exemption of the performance of a mandatory take-over bid (so-called "rescue" exemption) stated by Article 49.1, letters b) and d) of Consob Regulation No.

11971/99 (Issuers' Regulations) in relation to the restructuring of the debt and the execution of the above-mentioned share capital increases;

- certification of a restructuring plan by an independent expert as per Article 67.3, letter d) of the Bankruptcy Law (D.R. No. 267 of 16 March);
- finalization of the transaction for the disposal of Tiscali UK to the Carphone Warehouse Group, subject to receiving the related go-ahead from the European anti-trust authority.

<u>Action carried out as of the date of preparation of this half-year report, as part of implementation of the Restructuring Plan and Outline Agreement</u>

1) On 26 May, Tiscali finalized the sale of the TiNet Group, supplier of IP transit services, to the private equity fund BS. The transaction valued Tinet at an Enterprise Value of around EUR 47 million, inclusive of a potential earn out of around EUR 7 million. The Equity Value, net of the debt, came to approximately EUR 35 million. On the basis of the agreements for restructuring the Group's debt, the net proceeds from the sale of Tinet were left at the Company's availability to serve the working capital requirements, also by means of the recapitalization of the Italian subsidiary.
2) On 30 June, the extraordinary shareholders' meeting in third calling approved the following measures:
   - Elimination of the par value of the shares and grouping together of the same at a ratio of 1 share for every 10 existing shares, to be carried out subject to resolution by the Company's Board of Directors;
   - Reduction in the share capital for losses, pursuant to Article 2446 of the Italian Civil Code. Further to this resolution, the share capital decreased to around EUR 156.1 million;
   - Share capital increase against payment pursuant to Article 2441 sub section 1 of the Italian Civil Code up to a maximum of EUR 190 million, by means of the issue of ordinary shares without par value, with accompanying bonus warrants, at a price of EUR 0.01 (EUR 0.1 after grouping them together) per share (so-called Increase 1);
   - Share capital increase against payment pursuant to Article 2441 sub section 1 of the Italian Civil Code, against payment, up to a maximum of EUR 46.5 million, by means of the issue of ordinary shares without par value at a price of EUR 0.01 (EUR 0.1 after grouping them together) per share (so-called Increase 2);
   - Authority to the Board of Directors pursuant to Article 2443 sub section 2 of the Italian Civil Code, to increase the share capital in accordance with Article 2441 paragraph 1 of the Italian Civil Code, against payment, in one or more tranches, for a maximum period of three years as from authorization being resolved, up to a maximum amount of EUR 25 million, by means of the issue of ordinary shares without par value (so-called Increase 3).
3) At the same date, the Company communicated that it had obtained the approval of the European anti-trust authority for the sale of Tiscali UK to the Carphone Group.
4) On 1 July, the appointed professionals issued certification of the reasonableness of the restructuring plan for the exposure to the financial system pursuant to Article 67.3, letter d) of the Bankruptcy Law (D.R No. 267 of 16 March 1942).
5) On 2 July, the following agreements were signed:
   - Group Facilities Agreement which contains a definition of the related commitments of the parties, terms, conditions and maturities of the Group's residual debt due to the Senior Lenders, after the partial repayment made with the proceeds of the sale of Tiscali UK, for a total of EUR 165 million divided up into Tranches A, B, C.

- Rights Issues Memorandum and Subscription Agreement which contain a definition of the subscription commitment of the Senior Financing Institutions, who confirmed the obligation vis-à-vis the Company to subscribe Increase 1 for the part which may remained unopted for a total maximum amount of EUR 147 million, by means of offsetting the amounts due deriving from the part of Tranche D1 which will not have been repaid with the proceeds from the cash subscriptions of Increase 1. The Senior Financing Institutions have also undertaken to write-off a portion of their amounts receivable relating to Tranche D2, for a total of EUR 0.3123 for each EUR of Cash Subscription, up to a maximum of EUR 46.5 million.
- Agreements with the shareholders (Andalas and VNIL) which contain a definition of a) the subscription commitments of the shareholder Renato Soru, by means of which the same renewed his obligation, vis-à-vis the company, to subscribe Increase 1, for the portion of the option rights due directly or indirectly to the same, up to a maximum amount of around EUR 32 million. This subscription commitment, formalized on 2 July 2009, will be met by means of offsetting the amounts receivable by Andalas Ltd, a company headed up by Renato Soru, from the Tiscali Group and b) the subscription commitments of the UK minority shareholders (VNIL), on the basis of which the same undertook the obligation to subscribe shares of the Company as part of Increase 1 by means of offsetting a portion of its amount receivable (amounting in total to around EUR 11 million after the agreed transactions) which has not been repaid or written off.

6) On 3 July, after having obtained the necessary regulatory approvals and the finalization of the Group's debt restructuring agreements, the sale of 100% of the shares of the UK subsidiary Tiscali UK Ltd to Carphone Warehouse Group Plc was concluded.

7) At the same date, the sales proceeds, net of costs relating to the transaction, were used for the partial repayment of the Senior Debt and the amount due to the minority shareholders of Tiscali UK for around EUR 200 million (including the payments of the Interest Rate Swaps) and EUR 8 million, respectively.

8) At the same date, moreover, Consob considered the Restructuring Plan to be suitable, with regard to its characteristics, for determining the application of the exemption pursuant to Article 49.1, letter b) of the Issuers' Regulations.

The completion of the Restructuring Plan involves the execution of the share capital increase transactions and the other agreements reached, which requires, in particular, the execution of the fulfilments and the attainment of the authorizations necessary on the basis of reference provisions, as well as the absence of cases which could cancel the commitments of the parties (the insolvency of Tiscali or another of the obligors; resolution for winding-up of one of the same; third party request for placement in liquidation or decree of an authority in this sense, provided that the request is not challenged in good faith, etc.) together with the effective achievement of the Business Plan.

Having taken due note of the essential progress and the important results obtained within the sphere of implementation of the Restructuring Plan, the Board of Directors have evaluated the deficit in net equity at 30 June 2009 and concluded, also with the support of the afore-mentioned opinion of Professor Colombo, that this situation does not require the the application of the requirements of Article 2447 of the Italian Civil Code in consideration of the resolutions to increase the share capital already made and the other agreements entered into.

So as to more fully protect the Company, the creditors and all the shareholders, the Board of Directors did not consider it necessary to proceed with the additional calling of a shareholders' meeting in pursuance of Article 2447 of the Italian Civil Code by virtue of the timescales and essence of the share capital increase transactions already resolved and the subscription commitments made by the Group's main creditors. The pro-forma statutory shareholders' equity, taking into account the share capital increases, was in fact positive, EUR 136.2 million.

Therefore, further to all the circumstances indicated above, the Board of Directors believed that it had very efficiently dealt with both the essential business matters (launch of the Restructuring Plan, disposal, share capital increase resolutions, etc.) and the formal ones concerning representation in this half-year report.

The Board of Directors consider that the execution of the resolutions to increase the share capital and the complete execution of the above-mentioned agreements, together with the effective implementation of the Business Plan, (whose possible risks may essentially originate from external factors such as the market trend, with particular reference to the continuation or deterioration of the international economic situation and in the specific telecommunications sector), represent the fundamental assumptions to overcome the above mentioned situation of uncertainty and provide the Group with a debt and equity structure consistent with the afore-mentioned Business Plan.

Therefore, also taking into consideration the resolutions to increase the share capital increase and the agreements entered into with the financial institutions and the other creditors, they have prepared the interim condensed consolidated financial statements on the basis of a going-concern.

Format and content of accounting statements

Basis of presentation and consolidation principles

The condensed half-year consolidated financial statements were drawn up by following the International Accounting Standards ("IFRS") issued by the Accounting Standards Board ("IASB") as ratified by the European Union. The IFRS also include all the reviewed international accounting standards ("IAS") and all the interpretations by the International Financial Reporting Interpretations Committee ("IFRIC") previously called the Standing Interpretations Committee ("SIC").

The form and content of this condensed consolidated half-year financial statements have been prepared in accordance the International Accounting Standard No. 34 *Interim financial statements* (IAS 34).

The structure of the notes to the condensed consolidated half-year financial statements does not therefore include all the information required by the year end consolidated financial statements, since the following interim financial statements in the logic of IAS 34 have the aim of providing an up-date of the equity-financial and economic situation when compared with that provided by the consolidated financial statements at 31 December 2008.

The notes have been drawn up in a condensed form, applying the faculty described by IAS 34 and therefore they do not include all the information required for the annual financial statements drawn up in accordance with the IFRS.

The condensed consolidated half-year financial statements, as required by reference legislation, have been drawn up on a consolidated basis, and have been subject to a limited audit by Reconta Ernst & Young S.p.A..

The consolidation principles, accounting standards and calculation methods used for the preparation of the half-year report were applied consistently also for the preparation of the half year report at 30 June 2009 and the consolidated financial statements at 31 December 2008, presented for comparative purposes.

Preparation of the half-year report and related notes in accordance with the IFRS requires management to make accounting estimates and in certain cases assumptions in the application of accounting standards. The areas where assumptions and estimates are significant to the financial statements are disclosed in note 3 of this section. As part of the preparation of the half-year report, significant valuations made by company management regarding the application of the accounting standards and the main sources of uncertainty of the estimates correspond to those applied for the preparation of the consolidated financial statements at 31 December 2008.

Financial statement formats

The methods for presenting the financial statements in the half-year report at 30 June 2009 have been adapted following the enforcement of IAS 1 – "Presentation of financial statements" revised in 2007.

This standard inludes new names for the various financial statement formats, and specifically:

- Statement of the financial-equity situation: according to the IFRS, the assets and liabilities must be classified as current or non-current or, alternatively, according to the order of their liquidity. The Group has chosen the current/non-current classification approach, with indication, in two separate items, of the "Assets disposed of/destined to be disposed of" and "Liabilities relating to assets disposed of/destined to be disposed of";

- Overall income statement: the IFRS require that this statement include all the economic effects pertaining to the period, irrespective of the fact that they are recorded in the income statement or under shareholders' equity, and a classification of the items based on nature or intended use of the same, besides separating the economic results of the operating activities from the net result of "Assets disposed of/destined to be disposed of". The Group has decided to use two formats:

  - Income statement which includes just the revenues and costs classified by nature;
  - Overall income statement which includes the charges and income charged directly to shareholders' equity net of the tax effects.

- Cash flow statement: IAS 7 lays down that the cash flow statement should indicate the cash flows for the period classified among operating, investment and financial activities and separately indicating the total of the cash flows deriving from the "Assets disposed of/destined to be disposed of". The cash flows deriving from operations can alternatively be represented according to the direct method of using the indirect method. The Group has decided to adopt the indirect method.

In line with the matters required by IFRS 5, the income values of TiNet and Tiscali UK, disposed of during 2009, are shown in the income statement relating to the first half of 2008 as "Results of assets disposed of or destined to be disposed of".

Consolidation area

The companies consolidated line-by-line are indicated in the section *List of subsidiary companies included in the consolidation area*.

Changes in the consolidation area during the first half of 2009, when compared with the consolidated financial statements at 31 December 2008, are illustrated as follows.

On 26 May 2009,Tiscali announced the finalization of the disposal of the TiNet Group, an important supplier of IP transit services, to the private equity fund BS.

On 8 May 2009, Tiscali's Board of Directors approved the cash sale of 100% of the shares of Tiscali UK Ltd to Carphone Warehouse Group plc.

Segment reporting

Under EU Regulation No. 1358/2007 dated 21 November 2007, the Commission of the European Communities approved the introduction, in replacement of IAS 14 "Segment reporting", with IFRS 8 "Business segments", concerning the information to be provided in the financial statements in relation to the business segments in which those preparing the financial statements are active.

A business segment is understood to be the component of an entity:

- which undertakes business activities that generate revenues and costs (including the revenues and costs concerning transactions with other components of the same entity);
- whose operating results are periodically reviewed at the highest operating decision-making level for the purpose of the adoption of decisions regarding the resources to allocate to the segment and the valuation of the results;
- in relation to which separate financial statement information is available.

In contrast to the matters envisaged by IAS 14, this standard essentially requires that the results of the business segments be identified and represented according to the "management approach", or rather following the methods used by management during internal reporting activities for the purpose of assessing the performance and allocating the resources between said segments.

The application of this standard has not had any impact on the segment information provided, since the business segments into which the Group's activities are divided are the same which emerged from the application of IAS 14 "Segment reporting".

The activities of the Tiscali Group and the related strategies, as well as the underlying activities linked to management control, are structured and defined by geographic area, which therefore represents the primary segment for the purposes of information by business segment. The geographic areas are represented by:

- Italy

- Corporate and other business: minor Italian companies and corporate activities.

The activities of TiNet and Tiscali UK, disposed of during the first half of 2009, shown in the section "Operating assets disposed of and/or assets held for sale", are no longer represented as geographic areas in the segment reporting.

Lines of business (Access, Voice, Business services / Business, Media) represent the secondary reporting segment, at sector information level.

<u>Non-current assets destined to be disposed of/Assets disposed of</u>

Non-current assets and/or groups of assets undergoing disposal ('Assets Held for Sale and Discontinued Operations)', as required by IFRS 5, were classified under a specific item in the balance sheet and are assessed at the lower of the asset's previous book value and market value, net of any sales costs, until the disposal of the assets themselves.

The assets are thus classified if it is estimated that their book value will be recovered by disposal rather than by the performance of the Company's normal activities. This condition is observed only when the sale is highly probable, the asset is available for immediate sale in its present condition and the Board of Directors of the Parent Company is committed to the sale, completion of which should be expected within one year from the date of classification.

After the sale, the remaining values were reclassified in the different balance sheet items.

Revenues and costs relating to assets held for sale and/or assets disposed of are stated under the item 'Results from assets disposed of and/or destined to be disposed of (discontinued operations) if the conditions listed below and established by IFRS 5 apply to such assets:

a) they represent an important independent line of business or geographic business area;

b) they are part of a single co-ordinated plan to dispose of an independent major line of business or geographic business area;

c) they involve subsidiaries acquired exclusively with a view to resale.

The income statement item entitled 'Results from assets disposed of and/or destined to be disposed of' contains the following, in a single item and net of the related tax effects:

- the period results achieved by subsidiaries held for sale, including any adjustment of net assets to fair value;
- the result of the 'discontinued' operations, including the period result achieved by subsidiaries up to the date of transfer of control to third parties, together with gains and/or losses deriving from disposal.

Analysis of the composition of the overall results for the assets concerned is indicated in the explanatory notes.

In conformity with IFRS 5, and with the necessary requirements, the income statements of the UK assets destined to be sold, were recorded under the item of the consolidated income statement "results of assets disposed of and/or destined to be disposed of", in relation to both the first half of 2009 and 2008, attached to these financial statements for comparative purpose. Therefore, the income statement for the first half of 2008 has consequently been reclassified to permit comparability with that for 2009.

Additionally, as envisaged by IFRS 5, at 30 June 2009, the balance sheet accounts of the assets destined to be sold of the UK activities were recorded in the consolidated balance sheet item "assets held for sale" and "liabilities directly linked to assets held for sale", while at 31 December 2008 the balance sheet accounts of the assets destined to be disposed of fell line by line in the items of the consolidated balance sheet.

With regard to the TiNet Group, steps had already been taken at 31 December 2008 to reclassify the asset and liability balances under "assets held for sale" and "liabilities directly linked to assets held for sale".

As of the date of disposal, 26 May 2009, the companies in the TiNet Group were deconsolidated, with the exclusion of the residual equity balances (post disposal) of Tiscali International Network BV which were reclassified under on-going activities at 30 June 2009.

The equity and economic effects of the afore-mentioned disposals are represented in the section *Operating assets disposed of and/or assets held for sale.*

<u>Seasonal nature of the revenues</u>

During the first half of the year, Tiscali activities were not significantly affected by phenomena linked to the seasonal nature of the business. Such phenomena, essentially linked to the trend in revenues, mainly occur in the third quarter of the year, in concurrence with the Summer holiday period.

<u>Changes in accounting standards</u>

As from 1 January 2009, a number of amendments were applied to the international accounting standards and to the interpretations that are listed below:

- IFRS 8 (Operating segments). On 21 November 2007, Commision Regulation (EC) 1358-2007 was published, assimilating IFRS 8 (*Operating segments*) at EU level. This standard requires that an entity prepare the information (quantitative and qualitative) regarding the related segments subject to reporting (reportable segments). The reportable segments are components of an entity (business segments or combinations of business segments) for which distinct financial information is available subject to periodic evaluation by the so-called Chief Operating Decision Maker (CODM) so as to allocate resources to the segment and assess the results. The financial information must be represented by means of the same methods and the same criteria used for internal reporting made to the CODM. The application of this standard has not had any impact on the segment information provided, since the business segments into which the Group's activities are divided are the same which emerged from the application of IAS 14 "Segment reporting".

- Amendments to IAS 23 (Borrowing costs) On 10 December 2008, Commisison Regulation (EC). 1260-2008 was published, assimilating the amendments made to IAS 23 (Borrowing costs) at EU level. The main change made to IAS 23 concerns the elimination of the option present in the previous version of the standard which stated, for borrowing cost, the possibility of recording in the income statement in the period in which they were incurred as an alternative to their capitalization (permitted approach). Therefore, in the revised version of IAS 23, the borrowing costs which are directly attributable to the acquisition, construction or production of an asset which requires a significant period of time before being ready for the envisaged use or sale (so-called qualifying assets), must be capitalized as part of the cost of said asset. This standard is applicable on a forecast basis to borrowing costs relating to assets capitalized as from 1 January 2009. The application of this standard did not have any effect on the consolidated financial statements at 30 June 2009.
- IFRIC 13 (Customer loyalty programmes). On 16 December 2008, Commission Regulation (EC). 1262-2008 was published, assimilating the interpretative document IFRIC 13 (Customer loyalty programmes) at EU level and providing general guidelines for the accounting of customer loyalty programmes. The adoption of the standard is not applicable to the Tiscali Group since no customer loyalty programmes are implemented.
- Amendments to IAS 1 (Financial statement presentation). On 17 December 2008, Commission Regulation (EC). 1274-2008 was published, assimilating the amendments made to IAS 1 (*Financial statement presentation*) at EU level. The main amendments introduced provide for: the presentation in the statement of changes in shareholders' equity of all the changes deriving from transactions with the shareholders; and the statement of the other changes in shareholders' equity (other than those with the shareholders) as follows:

1. in one statement of "comprehensive income", which states the revenues and income, costs and charges recorded directly in the income statement, the profit (loss) for the year, as well as the breakdown of the income and costs recorded directly under shareholders' equity (Other comprehensive income); or
2. in two statements: a statement which shows the components of the profit (loss) for the year (Separate income statement) and a second one which starts with the profit (loss) for the year and showing the components of other comprehensive income (Comprehensive income statement).

The Tiscali Group applied the revised version of the standard as from 1° January 2009 retrospectively, choosing to highlight in the Comprehensive income statement the changes generated by transactions with non-shareholders in addition to the separate income statement. Consequently, the presentation of the statement of changes in shareholders' equity changed.

- Amendments to IFRS 2 *(Share-based payment*). On 16 December 2008, Commission Regulation (EC) 1261-2008 was published, assimilating the amendments made to IFRS 2 (*Share-based payment*) at EU level, applicable as from 1° January 2009. The standard clarifies the definition of "vesting conditions" and specifies the cases where the failure to achieve a condition leads to the recognition of the cancellation of the assigned right. Application of these provisions does not have any effect on the Group's consolidated financial statements.
- Amendments to IAS 32 (Financial instruments: presentation) and to IAS 1 (Financial statement presentation). On 21 January 2009, Commissio Regulation (EC) 53-2009 was published, assimilating a number of amendments made to standards IAS 32 (*Financial instruments: presentation*) and IAS 1 (*Financial statement presentation*) at EU level; these require the reclassification of puttable financial instruments (i.e. those with sell options) and financial

instruments which oblige the entity to deliver a portion of the investments in the assets of said entity to a third party in the event of winding up such as shareholders' equity instruments. These changes are not applicable to the Group.

- IFRIC 9 (Reassessment of embebbed derivatives) and IAS 39 (Financial instruments: recognition and measurement). The amendments to IFRIC 9 require that the entity estimate whether an embedded derivative must be separated from the host contract or not when the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. This measurement must be carried out on the basis of pre-existing circumstances, choosing the most recent between the date when the entity become party to the contract and the date of any contractual change which significantly changed the cash flows of the contract. IAS 39 now establishes that if an embebbed derivative cannot be gauged reliably, the entire hybrid instrument must remain classified at fair value as profit or loss. The application of this standard has not had any effect on the consolidated financial statements at 30 June 2009.
- IFRIC 16 (*Hedges of an net investment in a foreign operation*). On 4 June 2009, under regulation No. 460/2009, the European Commission introduced the interpretation IFRIC 16 which clarifies the methods of application of the requisites of standards IAS 21 and IAS 39 in cases when an entity hedges the exchange risk deriving from its net investments in foreign concerns. Application of this standard has not had any effect on the consolidated financial statements at 30 June 2009.
- Amendments to IFRS 1 (*First Time adoption of International Reporting Standards*) and to IAS 27 (*Consolidated and separate financial statements: cost of equity investments in subsidiaries, jointly-controlled entities and associated companies*). On 23 January 2009, under regulation No. 69/2009, the European Commission amended IFRS 1 and IAS 27 establishing in particular that the investors are obliged to reveal earnings in the income statement of the separate financial statements being all the dividends of a subsidiary, a jointly-controlled entity or an associated company, even if the dividends are paid by way of reserves prior to acquisition. This amendment has not had an impact on the Group's financial statements.

Improvements to the IFRS

On 23 January 2009, Commission Regulation (EC) 70-2009 was published, assimilating a number of amendments made to the International Financial Reporting Standards (IFRS) at EU level. The amendments to the standards which came into force as from 1° January 2009, are indicated below:

- IFRS 2 (*Vesting condition and cancellation*) on the basis of which, for the purpose of measuring payment instruments based on shares, only the service conditions and the performance conditions can be considered as vestingl conditions of the plans. The amendment also clarifies that, in the event of cancellation of the plan, it is necessary to apply the same accounting approach whether they derive from the company or they derive from the counterpart;
- IFRS 7 (*Financial instruments: disclosure*) which makes it possible, under certain circumstances, to reclassify some financial assets other than derivatives from the accounting category "valued at fair value through the income statement". The amendment also makes it possible to transfer loans and receivables from the accounting category "available for sale" to the accounting category "held to maturity" if the company has the intention and ability to hold these instruments for a specific future period;
- IAS 1 (*Financial statement presentation*)*:* the assets and liabilities relating to derivative financial instruments not held for trading purposes and which do not represent financial guarantee contracts or hedging instruments, must be classified in the financial statements, distinguishing between current and non-current assets and liabilities in relation to their maturity;
- IAS 8 (Profit/loss for the year, decisive errors and changes in the accounting standards);

- IAS 16 (*Property, plant and equipment*): the amendment provides a number of specifications on the classification and accounting treatment to be adopted by an entity which during its ordinary business activities normally sells elements of property, plant and equipment held for lease to others;
- IAS 19 *(Employee benefits)*: the amendment introduced, to be applied in perspective, clarifies the conduct to be adopted in the event of changes in employee benefits, it defines the methods for the recognition of cost/income relating to past employment services and clarifies the definition of short-term benefits and long-term benefits;
- IAS 20 (*Accounting for government grants and disclosure of government assistance*): the amendment, to be applied in perspective as from 1° January 2009, establishes that the benefit of a public loan at an interest rate lower than the market one should be treated as a governament grant;
- IAS 23 (*Borrowing costs*): the amendment reviews the definition of borrowing costs;
- IAS 27 (*Consolidated and separate financial statements*): the amendment, which must be applied in perspective as from 1° January 2009, states that also equity investments evavaluated in accordance with IAS 39 in the separate financial statements fall within the sphere of application of IFRS 5 – Non-current assets held for sale and discontinued operations;
- IAS 28 (*Investments in associates)*: the amendment establishes that, in the case of equity investments carried at equity, any impairment loss must not be allocated to the individual assets (and in particular to any goodwill) which make up the book value of the equity investment, but to the value of the investee company in its entirety. Therefore, in the presence of conditions for a subsequent reversal, such impairment reversal must be fully recognised;
- IAS 29 (*Accounts reporting in hyperinflationary economies*): these are amendments to a standard not applicable to the Group at present;
- IAS 31 (*Interests in Joint ventures*) amendments linked to that of IAS 28 (*Investments in associates)*. These amendments state that additional information be provided also for equity investments in associated companies and joint ventures valued at fair value according to IAS 39. On a consistent basis, IFRS 7 (*Financial instruments disclosure*) and IAS 32 (*Financial instruments: presentation*) have been amended;
- IAS 36 (*Impairment of assets*)*:* the amendment, which must be applied as from 1° January 2009, states that additional information be provided in the event that the Group determines the recoverable value of the cash generating units using discounting cash flow method;
- IAS 38 (*Intangible assets*)*:* the amendment, which must be applied as from 1° January 2009, states the recognition in the income statement of promotional and advertising costs. It establishes that in the event a company incurs charges with future economic benefits without the recording of intangible assets, these must be charged to the income statement at the time the company has the right to access the asset, if it involves the purchase of assets, or when the service is rendered, if it involves the purchase of services. Furthermore, the standard was amended so as to clarify in which cases it is possible to adopt the "methods of the units produced" for the amortization of the intangible assets with a defined useful life;
- IAS 39 (*Financial instruments: recognition and measurement*): the amendment clarifies how the new rate of effective return of a financial instrument must be calculated on conclusion of a "fair value hedge" relationship; it also specifies the cases when it is possible to reclassify a derivative instrument in or outside the category of "fair value through the income statement";
- IAS 40 (*Property investments*): these are amendments to a standard not applicable to the Group at present.

Furthermore, IFRS 5 (*Non-current assets held for sale and discontinued operation*) was amended: the amendment states that if an entity undertakes a sales programme which involves the loss of control over a subsidiary, all the assets and liabilities of said subsidiary must be classified as held for sale, irrespective of the fact that, after the sale, it maintains a minority holding in the former subsidiary. The new version of IFRS 5 will come into force as from 1° January 2010.

The application of the "improvements to the IFRS" indicated above will not have any significant effects on the Group's consolidated financial statements.

Revenues (note 1)

The decrease in revenues was essentially the result of the reduction in services in the broadband internet access segment and the voice, media and value-added revenues.

Other income (note 2)

EUR 000	First half of 2009	First half of 2008
Other income	1,823	1,458
Total	**1,823**	**1,458**

Other income totalling EUR 1.8 million, includes the release of the pertinent portion of the capital gain on the sale of the headquarters at Sa Illetta for around EUR 1 million, recorded on Tiscali Italia S.p.A., plus other income.

Purchase of materials and outsourced services (note 3)

EUR 000	First half of 2009	First half of 2008
Purchase of raw materials and goods for resale	295	-
Line/traffic rental and interconnection costs	45,325	49,662
Costs for use of third party assets	2,376	2,407
Portal services	7,075	9,526
Marketing costs	9,130	29,325
Other services	16,799	20,731
Total	**81,000**	**111,651**

Payroll and related costs (note 4)

EUR 000	First half of 2009	First half of 2008
Wages and salaries	14,768	16,433
Other personnel costs	6,326	12,165
Total	**21,094**	**28,598**

At 30 June 2009, Tiscali S.p.A. had 712 employees. The breakdown by category and the corresponding fugure at 30 June 2008 are presented below.

Number of employees

	First half of 2009	First half of 2008
Senior managers	27	39
Middle managers	61	81
Office staff	624	742
Total	**712**	**862**

Stock option plan cost (note 5)

EUR 000	First half of 2009	First half of 2008
Stock option plan cost	274	2,586
Total	**274**	**2,586**

The amount reflects the provision for charges relating to the stock option plan for the Italian companies, Tiscali S.p.A. and Tiscali Italia S.p.A..

Other operating charges (income) (note 6)

The table below shows a breakdown of these costs:

EUR 000	30.06.2009	30.06.2008
Other operating expenses	2,122	1,610
Contingencies, capital losses and other non recurrent costs	744	(12,053)

Total	**2,866**	**(10,443)**

The item “Contingencies, capital losses and other non recurrent costs” during the first half of 2008 essentially included the release of the risk provision provided for the German subsidiaries at 31 December 2007, partially in excess with respect to the estimates made at the time of recognition.

Writedown of receivables from customers (note 7)

EUR 000	First half of 2009	First half of 2008
Writedowns of receivables from customers	10,236	8,013
Total	**10,236**	**8,013**

The writedown of receivables from customers represents around 6.7% of revenues, up slightly with respect to the percentage in the same period of 2008 (4.9%).

Restructuring costs and other writedowns (note 8)

EUR 000	First half of 2009	First half of 2008
Restructuring costs and other writedowns	1,900	274
Total	**1,900**	**274**

Restructuring costs and other writedowns, amounting to EUR 1.9 million, include EUR 1.8 million attributable to the provision made on the German subsidiary Tiscali Business GmbH against arbitration proceedings with the purchaser of the business division of the company (Ecotel).

Financial Income (Charges) (note 9)

Net financial income (charges)

A breakdown of net financial income (charges) for the period, presenting a negative balance of EUR 39.7 million, is provided below.

EUR 000	First half of 2009	First half of 2008

Financial income		
Interest on bank deposits	88	1,916
Interest earned	1,197	224
Other financial income	2,821	9,672
Total	**4,107**	**11,812**
Financial charges		
Interest on bonds	-	-
Interest and other charges due to banks	33,782	30,492
Other financial charges	**9,995**	**12,554**
Total	**43,777**	**43,046**
Net financial income (charges)	**(39,670)**	**(31,234)**

The balance of net financial income (charges) essentially includes bank interest on the Banca Intesa San Paolo & JP Morgan loan for EUR 32.3 million, financial charges relating to the valuation at fair value of the IRS on financial debt for EUR 4.9 million and interest expense on the shareholders' loan (Andalas) for around EUR 1 million.

Income taxes (note 10)

EUR 000	**First half of 2009**	**First half of 2008**
Current taxes	885	971
Deferred taxes	10,507	-
Net taxes for the year	**(11,392)**	**(971)**

Current taxes are mainly represented by IRAP (regional business tax) payable by the Italian companies, while the tax liability relating to deferred taxes represents the reverse of the portion of the same not considered recoverable on the basis of up-dated forecasts.

The item Deferred tax includes the reversal of the deferred taxes recorded at 31 December 2008 for Tiscali International BV.

Operating assets disposed of and/or assets held for sale (note 11)

The financial statements provide a representation of the disposal of TiNet Group on 26 May 2009 and the disposal of the UK activities on 3 July 2009.

An analysis of the result from assets discontinued and/or held for sale is presented in the following table:

(EUR 000)	**First half of 2009**	**First half of 2008**
Loss deriving from discontinued operations and/or asset held for sale	**(343,481)**	**-**
Period result of subsidiaries disposed of and/or destined to be disposed of	**(21,389)**	**(30,575)**
Result from discontinued operations and/or asset held for sale	**(364,870)**	**(30,575)**
Earnings per share from assets disposed of:		
- Basic	**(0.59)**	**(0.06)**
- Diluted	**(0.59)**	**(0.06)**

The gains/losses deriving from the disposal of subsidiaries refer to the loss deriving from the UK disposal, amounting to EUR 345 million, and the gain deriving from the disposal of the TiNet Group for EUR 1.5 million, as represented in the following table:

(EUR 000)	**TiNet Group**	**UK**	**Total**
Net disposal price	**30,977**	**254,800**	**285,777**
Shareholders' equity at disposal date including consolidated goodwill/Net assets discontinued	**32,668**	**90,668**	**123,336**
Waiver of Group IC receivables due vis-à-vis companies discontinued	**-**	**390,862**	**390,862**
Shareholders' equity at disposal date including consolidated goodwill net of waiver of IC receivables	**32,668**	**481,530**	**514,198**
Theoretical consolidated capital loss	**-1,691**	**-226,730**	**-228,420**
Residual debt vs. VNIL undertaken by Group	**-**	**-11,740**	**-11,740**

Transaction related charges	**-457**	**-3,804**	**-4,261**
Reversal of translation reserve	**-**	**-102,750**	**-102,750**
Reverse of thel loss recorded at 31.12.2008 (TiNet Group)	**3,691**	**-**	**3,691**
Total consolidated capital gain/loss			**-343,481**
	1,543	**-345,024**	
Disposal price thus paid:			
Cash on closing	**24,669**	**213,903**	**238,572**
Escrow	**-**	**40,896**	**40,896**
Deferred payment	**6,308**	**-**	**6,308**
Total disposal price	**30,977**	**254,800**	**285,776**
Net cash flow deriving from discontined operations:			
Net cash	**24,669**	**213,903**	**238,572**
Escrow	**-**	**40,896**	**40,896**
Cash pertaining to discontinued operations	**368**	**2,819**	**3,187**
Net cash flow deriving from discontinued operationsl	**24,301**	**251,980**	**276,281**

The result for the period of the UK and TiNet consolidated at 30 June 2009 is shown in the table below:

(EUR 000)	TiNet Group	UK	Other	Total
Revenues	**13,990**	**254,079**	**-**	**268,069**
Gross operating result (EBITDA)	**413**	**39,163**	**-100**	**39,476**
Operating result	**-1,928**	**-22,724**	**-100**	**-24,752**
Pre-tax result	**-2,423**	**-18,670**	**-100**	**-21,193**
Net result	**-2,550**	**-18,739**	**-100**	**-21,389**

The following table shows the receivable and payable balances reclassified under Assets/Liabilities held for sale. The table does not include the assets/liabilities of the TiNet Group companies since they were deconsolidated at 30 June, with the exception of TiNet BV whose residual balance sheet post-disposal were reclassified under Operating assets (on-going).

(EUR 000)	TiNet Group	UK	Other	Total
Non-current assets	-	413,790	22	413,812
Current assets	-	84,950	53	85,004
Total Assets	-	498,740	75	498,815
Non-current liabilities	-	96,744	92	96,836
Current liabilities	-	162,740	1	162,741
Total liabilities	-	259,484	93	259,577
Net assets disposed of	-	239,256	-	239,256
Capital loss on disposal	-	242,274	-	242,274
Total shareholders' equity disposed of	-	481,530	-	481,530

In relation to the disposal of the assets of the TiNet Group on 26 May to the private equity fund BS, the transaction valued Tinet at an Enterprise Value of around EUR 47 million, inclusive of a potential earn out of around EUR 7 million. The Equity Value, net of the debt, came to approximately EUR 35 million.

With regard to the disposal of the assets in the UK, which took place on 3 July 2009, this involved the disposal for cash of 100% of Tiscali UK's shares to CPW for a price of GBP 236 million by the sub-holding company Tiscali UK Plc. The disposal of the equity investment involved the transfer to CPW of the financial leasing payables owed by Tiscali UK. As part of the transaction, CPW and Tiscali UK reached a settlement agreement with the former minority shareholders of Tiscali UK (VNIL), holders of around 13% of Tiscali UK. This agreement stated both the transfer of the minority holding in Tiscali UK and the waiver of around GBP 72 million in receivables due in relation to the UK subsidiary. The remaining amount receivable, equating to around GBP 17 million, was repaid in cash for GBP 7 million with the proceeds of the sale to CPW. With regard to the residual debt, the former minority shareholders undertook a commitment to subscribe the share capital increase as part of the Group restructuring plan.

The contract states the following payment terms at the closing date on 3 July 2009:

- the immediate collection by Tiscali of around GBP 200 million, used for the partial repayment of the financial debt due to the Senior Lenders (around GBP 180 million), the amounts due to the management of Tiscali UK (around GBP 8 million) and the amounts due to the former minority shareholders of VNIL (around GBP 7 million);

- the posting of an Escrow account for around GBP 35 million, corresponding to 15% of the disposal price for the first 12 months, reducible to 10% for the following 6 months, guaranteeing any price adjustments agreed on the basis of operative and financial parameters or certain declarations and guarantees which could determine indemnities of various kinds also in relation to the provision of services.

The composition of the disposal price for the UK assets is described in the following table:

(balances 000)	**GBP amount**	**Euro amount[4]**
Disposal price	236,000	-
of which:		
Paid to UK Management for stock option	(8,445)	-
Paid to VNIL	(7,000)	-
Amounts net of that paid to UK Management and VNIL	220,555	254,800

Earnings (Losses) per share (note 12)

The earnings per share and the diluted earnings per share from continuing operations and those discontinued amounted to EUR (0.65).

Goodwill (note 13)

The disposal of the UK subsidiaries led to the reclassification under assets held for sale of the balance at 31 December 2008 of the goodwill relating to said subsidiaries.

Intangible assets (note 14)

At 30 June 2009, intangible assets amounted in total to EUR 74.9 million.

NET VALUE *EUR 000*	**Computers, software and development costs**	**Concessions and similar rights**	**Broadband service activation costs**	**Other**	**Total**
31.12.2008	**2,366**	**84,859**	**33,737**	**70,969**	**191,931**
30.06.2009	**1,347**	**53,113**	**3,256**	**17,199**	**74,915**

The change in intangible assets with respect to the balance at 31 December 2008 amounts to EUR 117 million, of which EUR 110.7 million due to the reclassification of the opening balances of the UK companies under assets held for sale.

Net changes during the half year period in the net book value of the various categories are described below.

[4] *GBP/Euro exchange rate 0.8656.*

Investments for the period ended at 30 June 2009 for intangible fixed assets, amounted in total to EUR 5.6 million.

The item "Computers, software and development costs", whose balance amounts to EUR 1.3 million, includes the capitalization of development costs of applicative software personalized for the exclusive use of the company.

The balance of "Concessions and similar rights", amounting to EUR 53.1 million, includes EUR 44.8 million relating to rights and costs connected with the acquiring of conveying ability, on a long-term basis, in the shape of concession contracts for the use of the same (IRU/Indefeasible Rights of Use) and around EUR 5.6 million relating the licences and software. The remaining balance includes EUR 2.6 million for patent rights and other intangible fixed assets. Investments during the period in this category amount to EUR 1.7 million and mainly concern licences and software purchased and the creation of new IRU contracts.

The item "Broadband service activation costs", equalling EUR 3.3 million, relates to the capitalization of the activation costs concerning the ADSL service. Such costs are amortised in relation to the minimum duration of the contracts with customers, currently amounting to twelve months. Investments during the period, amounting to EUR 2.7 million made by Tiscali Italia S.p.A., concern costs for line activation and equipment.

The item "Other intangible assets" amounting to EUR 17.2 million, includes EUR 16.7 million for the intangible assets of the Italian subsidiary, characterised by costs for developing the UNIT2 platform for EUR 13.6 million. Increases in this item, for EUR 1.1 million, include improvements in the management of the customer database (UNIT2) and technical equipment for the expansion of the internal networks. The item other fixed assets also includes EUR 0.4 million in assets in process of formation and advance payments pertaining to the Italian subsidiary Tiscali Italia S.p.A. essentially represented by site extension installation costs.

Decreases during the period in the various categories of fixed assets reflect the normal process of amortisation and disposal of fixed assets.

Properties, plant and equipment (note 15)

At 30 June 2009, tangible assets amounted in total to EUR 140.2 million.

NET VALUE ***EUR 000***	**Properties**	**Plant and equipment**	**Other assets**	**Total**
31.12.2008	**57,993**	**161,532**	**12,763**	**232,288**
30.06.2009	**57,051**	**72,874**	**10,227**	**140,152**

Changes in tangible assets with respect to the balance at 31 December 2008 amount to EUR 92.1 million. Of which EUR 82 million due to the reclassification of the opening balances of the tangible assets of the UK companies under assets destined to be sold.

Net changes during the period in the net book value of the various categories of fixed assets are described below.

Investments for the period ended at 30 June 2009 for tangible fixed assets, amount in total to EUR 3.0 million.

The item "Properties", EUR 57 million, essentially refers to the head offices of the Italian subsidiary in Sa Illetta, Cagliari, subject in 2007 to a sale & lease back financial transaction.

The net book value of "Plant and Equipment" (EUR 72.9 million) includes, in particular, specific and network apparatuses such as routers, servers, optical devices and telephone exchanges functional for the core business activities. The EUR 2.9 million increase reflects the significant investments concerning the development of the infrastructure necessary for supporting the ADSL service supply in the unbundling mode.

The "Other assets", whose balance amounts to EUR 10.2 million, include furniture and furnishings, electronic and electromechanical office equipment as well as motor vehicles. In detail, this item comprises EUR 8.1 million essentially relating to construction in progress and advance payments pertaining to the Italian subsidiary Tiscali Italia S.p.A., essentially attributable to transmission equipment acquired but not yet in use related to the development of the LLU network, and to modems in stock intended to be loaned to customers for connecting ADSL lines.

Decreases during the period in the various categories of fixed assets reflect the normal process of depreciation and disposal of fixed assets.

Assets destined to be sold include the tangible assets of the UK subsidiaries being disposed of at 30 June 2009.

Equity investments (note 16)

At 30 June 2009, the value of equity investments carried at equity was zero.

Other non-current financial assets (note 17)

(EUR 000)	30 June 2009	31 December 2008
Guarantee deposits	6,863	12,725
Other receivables	7,262	2,256
Equity investments in other companies	2,332	2,332
Total	**16,457**	**17,313**

Guarantee deposits amounting to EUR 6.9 million, include EUR 6.2 million in deposits relating to the Italian subsidiary with regard to the sale & lease back transaction on the Sa Illetta property and EUR 0.3 million in deposits relating to the German subsidiaries.

Other receivables mainly include other financial fixed assets deriving from the sale of the TiNet Group.

The item "equity investments in other companies" exclusively comprises the equity investment held by Tiscali Italia S.p.A. in Janna.

Deferred tax assets (note 18)

At 30 June 2009, there were no tax assets due to prepaid taxes recorded in the financial statements (EUR 10.5 million at 31 December 2008).

(EUR 000)	30 June 2009	31 December 2008
Deferred tax assets	-	10,507
Total	**-**	**10,507**

Deferred tax assets recorded in the financial statements at 31 December 2008 concerned prior tax losses carried forward by the Tiscali Group companies, relating to the subsidiary Tiscali International BV Group parent of the Dutch tax consolidation system.

Deferred tax assets are posted on the basis for forecasts of the taxable income which can be generated with reasonable certainty in light of the business plans, accompanied by the related tax plans, and the current performance of the Group companies to whom the tax losses refer.

At 30 June 2009, no deferred tax assets were recorded in the financial statements.

Inventories (note 19)

At 30 June 2009, inventories totalled EUR 1.9 million and mainly relate to network equipment, consumables, telephone cards, goods for resale for merchandising activities and modems.

Receivables from customer (note 20)

(EUR 000)	30 June 2009	31 December 2008
Receivables from customers	185,166	259,395
Writedown provision	(59,161)	(82,576)
Total	**126,005**	**176,819**

At 30 June 2009, receivables from customers totalled EUR 126.0 million, after writedowns of EUR 59.2 million. These receivables have been generated from the sale of internet services, billing of network access services, inverse interconnection traffic, advertising revenues and business and telephone services provided by the Group. The book value of trade receivables, in view of the underlying maturities and of conditions regulating the supply of services by the Group, is approximate to their ‘fair value’.

With the aim of appraising potential customers, of defining credit limits, of checking the risky level of customers, outsourced specialized companies are used.

As the Group’s credit exposure is spread over a very large customer base, there is no particular credit concentration risk.

Other Receivables and other Current Assets (note 21)

(EUR 000)	30 June 2009	31 December 2008
Other receivables	9,754	15,690
Accrued income	821	15,343
Prepaid expense	13,293	15,761
Total	**23,868**	**46,794**

Other receivables, amounting to EUR 9.8 million, mainly comprise VAT credits for EUR 4.4 million, advances to suppliers for around EUR 4 million and other amounts due to the tax authorities for EUR 1 million and other sundry receivables totalling EUR 0.4 million.

Accrued income (EUR 821 thousand) mainly relates to revenues accrued in the period from services in the access segment. These are mainly accruals on marketing campaigns and leasing costs.

Prepaid expenses of EUR 13.3 million relate to costs associated with multi-year rental of lines, international circuit agreements as well as hardware and software maintenance costs.

Other current financial assets (note 22)

(EUR 000)	30 June 2009	31 December 2008
Guarantee deposits	2,616	2,709
Other receivables	80	721
Total	**2,696**	**3,430**

Other current financial assets mainly include deposits relating to Tiscali S.p.A. for EUR 2.6 million, which refer to the sums restricted to back guarantees issued as part of the disposal of the Group's German activities in 2007.

Cash and cash equivalents (note 23)

Cash and cash equivalents at 30 June 2009 amounted to EUR 29.1 million and include the Group's cash, essentially held in bank current accounts.

For the comments relating to changes in cash and cash equivalents, reference should be made to the consolidated cash flow statement.

Shareholders' equity (note 24)

(EUR 000)	30 June 2009	31 December 2008
Share capital	156,071	308,273
Share premium reserve	-	990,857
Stock Options reserve	4,124	3,840
Cumulative losses and other reserves	(29,588)	(1,049,423)
Result for the period	(402,854)	(272,724)
Minority interests	-	(6,046)
Total	**(272,247)**	**4,777**

Changes in shareholders' equity items are detailed in the relevant table.

At 30 June 2009, the share capital amounted to EUR 156.1 million corresponding to 616,545,485 ordinary shares

The share premium reserve amounted to EUR 990.9 million in December 2008 and zero in the first half of 2009; it was used in full to cover the cumulative losses at 31 December 2008.

On 30 June 2009, the extraordinary shareholders' meeting resolved - in the absence of other available reserves and the legal reserve – a reduction in the share capital to EUR 156.1 million (EUR 308.2 million at 31 December 2008), so as to cover the residual losses carried forward from the previous year, amounting to EUR 151.8 million and the additional loss of EUR 0.3 million recognised at 31 March 2009.

The disposal of Tiscali UK and its subsidiaries led to the reversal of the conversion reserve relating to the UK subsidiaries from the shareholders' equity to the income statement, for an amount of EUR 103 million.

Shareholders' equity pertaining to minority shareholders (note 25)

The shareholders' equity pertaining to minority shareholders, zero, was written off due to the allocation of the result for the period to minority shareholders.

Non-current financial liabilities (note 26)

EUR 000	30 June 2009	31 December 2008
Payables to banks and other lenders		
Payables to other lenders	30,847	30,743
	30,847	**30,743**
Payables for finance leases (m/l term)	**56,794**	**73,118**
Total	**87,641**	**103,861**

The financial position is shown in the table below:

EUR 000	30 June 2009	31 December 2008
A. Cash	29,127	24,202
B. Other cash equivalents	-	-
C. Securities held for trading	-	-
D. Cash and cash equivalents (A) + (B) + (C)	29,127	***24,202***
E. Current financial payables	***2,616***	***2,709***
F. Non-current financial receivables	6,308	1,436
G. Current bank payables	537,171	510,012
H. Current portion of non-current debt	-	-
I. Other current financial payables (*)	12,020	21,399
J. Current financial debt (G) + (H) + (I)	***549,191***	***531,411***
K. Net current financial debt ***(J) – (E) –(F) - (D)***	**511,140**	**503,065**
L. Non-current bank payables	-	-
M. Bonds issued	-	-
N. Other non-current payables (**)	102,117	113,387
O. Non-current financial debt (L) + (M) + (N)	102,117	**113,387**
P. Net financial debt (K) + (O)	**613,256**	**616,452**

(*) includes leasing payables

(**) includes leasing payables and payables due to shareholders

The above table has been prepared in light of the Consob Communication No. DEM;/6064293 dated 28 July 2006.

The debt ratio at the end of the first half of 2009 was as follows:

EUR 000	30 June 2009	31 December 2008
Net debt (*)	**(613,256)**	(616,452)
Shareholders' equity (**)	(272,247)	4,777

Debt ratio	**-2.3**	**-129.0**

(*) the debt includes short and medium/long-term borrowing

(**) shareholders' equity includes all the Group's capital and reserves

Payables to banks and other lenders (note 27)

Payables to other lenders (EUR 30.8 millions) refer to the loan bearing interest at market rates granted in 2004 by the shareholder Andalas Limited for EUR 30.8 million. The loan was raised to support the investments necessary for supporting growth and in particular the implementation of an unbundling network infrastructure.

Payables for finance leases (m/l term) (note 28)

The item Payables for finance leases (EUR 56.8 million) includes payables to leasing companies based on finance lease agreements.

Other non-current liabilities (note 29)

EUR 000	**30 June 2009**	**31 December 2008**
Payables to suppliers	12,112	13,011
Other payables	16,201	82,434
Total	**28,313**	**95,444**

Payables to suppliers represent medium/long-term trade payables for the purchase of plant and are linked to the stipulation of IRU contracts (indefeasible right of use) deriving from investments relating to the LLU project

Other payables mainly include the valorisation at fair value of the swap (IRS) recorded by Tiscali UK Holding for EUR 14.5 million and other residual financial payables.

Liabilities for pension obligations and staff severance indemnities (note 30)

The staff severance provision, which comprises the indemnities accrued mainly in favour of employees, refers to the Parent Company and the subsidiaries operating in Italy, and amounted to EUR 4.4 million at 30 June 2009.

Provisions for risks and charges (note 31)

A breakdown of the provision covering risks and charges is as follows:

(EUR 000)	31 Dec 2008	HFS/Discontinued	Provisions	Utilisation	30 June 2009
Provisions for risks and charges	25,384	(9,088)	1,900	(5,191)	13,005
Total	**25,384**	(9,088)	1,900	(5,191)	**13,005**

The provision amounts in total to EUR 1.9 million, essentially relating to the legal issue on the German subsidiaries.

Use during the period was mainly attributable to the coverage of the restructuring charges for EUR 4.5 million.

Current financial liabilities (note 32)

(EUR 000)	30 June 2009	31 December 2008
Payables to banks and other lenders:		
Payables to banks	537,171	510,012
Payables for finance leases (short-term)	12,020	**21,399**
	549,191	**531,411**

Payables to banks and other lenders (note 33)

Payables to banks and other lenders include EUR 523.1 million relating to the loans from the Senior Lenders (recorded on the basis of the IAS amortized costs standard), in addition to EUR 13.5 million in bank payables pertaining to the Italian subsidiary (inclusive of EUR 2.9 million in financial payables due to factoring companies for assignment, by a number of suppliers of receivables due from Tiscali) and EUR 0.6 million of bank payables pertaining to the holding company Tiscali S.p.A..

Following the disposal transactions for the assets of the UK subsidiary and the restructuring of the Group's residual debt, the exposure to the Senior Lenders, after the partial repayment made with the proceeds of the disposal of Tiscali UK is as follows (stated at nominal) value:

a. EUR 160 million medium/long-term in three tranches:
   - **tranche A**: for a maximum amount equating to EUR 100 million and with a duration of 5 years;
   - **tranche B**: for a maximum amount equating to EUR 45 million and with a duration of 6 years;

- **tranche C**: for a maximum amount equating to EUR 20 million, with a duration of 7 years, to be repaid by means of funds deriving from the release of the restricted account relating to the disposal of Tiscali UK, or also by means of the share capital increase described further on (see below Third share capital increase);

b. EUR 193.5 million – inclusive of the related interest and costs for closing the hedging agreements, including around EUR 147 million relating to the so-called **tranche D1** and a maximum of around EUR 46.5 million relating to the so-called **tranche D2** by means of share capital increases approved.

The following table summarizes the main elements of the loan with the Senior Lenders as from 3 July 2009.

Loan	Amount	Duration	Financial backer	Borrower	Obligatory early repayment	Financial and non-financial covenants	Guarantees
Facility A **Facility B** **Facility C**	EUR 100 million EUR 38.5 million EUR 20 million	5 years (2014) 6 years (2015) 7 years (2016)	JP Morgan Chase Bank N.A. Intesa Sanpaolo S.p.A. Rabobank Goldman Sachs Boussard Gavaudan TBC	Tiscali Holdings UK Ltd	In the event of change of control In the event of extraordinary or compensation transactions or the issue of guarantee deposits. In the event of notification of unlawfulness of contractual obligations In the event of "Excess Cash Flow" with respect to the plan cash flow (subject to tolerance thresholds)	These include limitations such as the payments, asset disposals, intercompany payables, the payment of dividends, on the transfer of assets (also infraGroup) to the payment of other payables. Financial covenants (Debt Service Cover Ratio, Net debt/adjusted EBITDA, adjusted EBITDA/Net interest, Capex, Operational Covenants)	On the assets and on the shares of the Group companies which are also guarantors of the loan

The following table summarizes the main elements of the loans with the Senior Lenders outstanding at 30 June 2009, which has been completely restructured as from July 20093

Loan	Amount and use	Duration	Financial backer	Borrower	Obligatory early repayment	Financial and non-financial covenants	Guarantees
Senior Secured Bridge Facility Agreement	EUR 400 million to be used for financing the	3 July 2009	JP Morgan Chase Bank N.A.	Tiscali UK Holdings Ltd, wholly-	In the event of change of control	These include limitations such as the payments,	On the assets and on the shares of the

Loan	Amount and use	Duration	Financial backer	Borrower	Obligatory early repayment	Financial and non-financial covenants	Guarantees
	acquisition of Pipex, the associated costs and for the repayment of Tiscali's debt and that of certain of its subsidiaries		Intesa Sanpaolo S.p.A. – London Branch	owned subsidiary of Tiscali SpA	In the event of extraordinary or compensation transactions In the event of notification of unlawfulness of contractual obligations	asset disposals, intercompany payables, the payment of dividends, on the transfer of assets (also infraGroup) to the payment of other payables in	Group companies which are also guarantors of the loan
Credit Facility	EUR 50 million	3 July 2009	Intesa Sanpaolo S.p.A. – London Branch	Tiscali UK Holdings Ltd, wholly-owned subsidiary of Tiscali SpA	In the event of change of control In the event of extraordinary or compensation transactions In the event of notification of unlawfulness of contractual obligations	These include limitations such as the payments, asset disposals, intercompany payables, the payment of dividends, on the transfer of assets (also infraGroup) to the payment of other payables in Financial covenants (Debt Service Cover Ratio, Net debt/adjusted EBITDA and adjusted EBITDA/Net interest	On the assets and on the shares of the Group companies which are also guarantors of the loan
Revolving Credit Facility	EUR 50 million to be used for financing the working capital in Italy / UK	3 July 2009	JP Morgan Chase Bank N.A. Intesa Sanpaolo S.p.A. – London Branch	Tiscali UK Holdings Ltd, wholly-owned subsidiary of Tiscali SpA	In the event of change of control In the event of extraordinary or compensatio	These include limitations such as the payments, asset disposals, intercompany payables, the payment of dividends, on the transfer of assets (also infraGroup) to the payment of	On the assets and on the shares of the Group companies which are also guarantors of the loan

Loan	Amount and use	Duration	Financial backer	Borrower	Obligatory early repayment	Financial and non-financial covenants	Guarantees
					n transactions	other payables in	
					In the event of notification of unlawfulness of contractual obligations	Financial covenants (Debt Service Cover Ratio, Net debt/ adjusted EBITDA and adjusted EBITDA/Net interest	

Payables for finance leases (note 34)

Payables for finance leases, totalling EUR 12.0 million, refer to the short-term portion of payables due to leasing companies for finance lease agreements.

Payables to suppliers (note 35)

(EUR 000)	30 June 2009	31 Decembre 2008
Payables to suppliers	**169,024**	**268,899**
Total	**169,024**	**268,899**

Payables to suppliers refer to trade payables for the supply of services such as content, telephone traffic and data traffic.

The balance also includes EUR 8.4 million for the purchase of IRU (*Indefeasible Right of Use*) concerning investments for the unbundling project.

Other current liabilities (note 36)

(EUR 000)	30 June 2009	31 December 2008
Accrued expenses	3,489	45,984
Deferred income	53,253	61,215
Other payables	18,288	41,567
Total	**75,030**	**148,765**

Accrued expenses include EUR 973 thousand relating to operating expenses, such as costs for contents, costs for network access, costs for professional consulting and costs for line rentals.

Deferred income mainly refers to the deferral of the gain on disposal relating to the sale & lease back transaction on the Sa Illetta property, amounting to around EUR 26.5 million (which will be released in portions over 15 years corresponding to the duration of the lease agreement), deferrals on IRU sales contracts for around EUR 17.3 million and other deferrals on portions of revenues, not pertaining to the period, for the activation of ADSL services (deferred over a time span of 12 months) mainly relating to the Italian subsidiary.

The item Other payables, amounting to EUR 18.3 million, essentially comprises payables to the tax authorities (mainly VAT) and social security and welfare institutions for a total of EUR 8.5 million, together with payables to suppliers for EUR 8.5 million and other payables for the remainder.

Derivative instruments

For the purpose of hedging the interest rate risk on the Banca Intesa Sanpaolo and JPMorgan loan, Tiscali has activated a series of hedges (Interest Rate Swap or 'IRS')

At 30 June 2009, the net value of the IRS presented a negative balance of EUR 14.5 million. The change in this financial instrument was recorded in the income statement under financial income and charges. In accordance with the accounting nature of trading instruments pertaining to the IRS, lacking the preparation of the formal documentation as described by IAS 39 for its accounting classification as a hedging instrument

Stock Options

Upon the proposal of the Board of Directors, on 3 May 2007 the shareholders' meeting approved a stock option plan in favour of the Chief Executive Officer and key employees of the Company and its Italian subsidiaries, with the aim of aligning management's interests with the creation of value for the Tiscali Group and its shareholders, encouraging the achievement of the strategic objectives. With regards to the Chief Executive Officer, the implementation of the plan, besides representing a valid incentive tool in line with market practices, represents the execution of a precise contractual obligation undertaken by the Company at the time of the formation of the management relationship.

The plan establishes the allocation:

- to the former Chief Executive Officer, Tommaso Pompei, of 3,593,143 options for the purchase of the same amount of ordinary shares in the Company, deriving from purchases of own shares which the Company will carry out on the market in compliance with Article 2357 of the Italian Civil Code and on the basis of the authorization of the shareholders' meeting. The exercise of these options is dependent on the achievement of the performance objectives linked to the budgets established by the Board of Directors, involving 40% with reference to the objectives established for 2006, which are understood to have been achieved, and the remaining 60% with reference to the objectives established for 2007**.**
- to the employees, of up to a maximum of 4,244,131 options for the subscription of the same amount of newly-issued ordinary shares in the Company, deriving from a share capital increase reserved in accordance with Article 2441 paragraph 8 of the Italian Civil Code resolved by the shareholders' meeting.

By way of implementing the afore-mentioned plan, the Board of Directors:

- on 10 May 2007, assigned Tommaso Pompei all the options due him in a single tranche; it will be possible to exercise the options in several tranches as well, between 4 May 2010 and 3 November 2010, at a price of EUR 2.763, adjusted to EUR 2.477 following the capital increase;

- on 28 June 2007, assigned 23 managers a total of 3,330,000 options; it will be possible to exercise the options, in several tranches as well, between 29 June 2010 and 28 December 2010, at an exercise price of EUR 2.378, adjusted to EUR 2.132 following the capital increase.

The beneficiaries of the options are obliged not to sell, for a period of at least five years as from the exercise date, a quantity of shares whose total value is no lower than the difference between the normal value of the shares as of the exercise date and the amount paid by the beneficiaries, in compliance with applicable tax legislation.

For further information, with particular reference to the effects - on the rights assigned - of the possible termination of the employment relationship of the beneficiaries or a change in the management of the Company, please refer to the disclosure document drawn up in accordance with Article 84 *bis* of Regulation No. 11971 approved by Consob under resolution dated 14 May 1999, available on the Company's website (www.tiscali.com).

The fair value of the options during the period ended at 30 June 2009 was estimated as of the grant date, using the following bases:

- For the Chief Executive Officer's plan:

Dividend-price ratio (%)	**-**
Estimated volatility (%)	**30**
Risk-free interest rate (%)	**4.2**
Annual duration	**3**
Weighted average price per share (€)	**2.665**

- For the employees' plan:

Dividend-price ratio (%)	**-**
Estimated volatility (%)	**30**
Risk-free interest rate (%)	**4.5**
Annual duration	**4**
Weighted average price per share (€)	**2.228**

Ongoing disputes, contingent liabilities and commitments

During the normal course of its business, the Tiscali Group is involved in a number of legal and arbitration proceedings, as well as being subject to tax assessments.

A summary of the main proceedings to which the Group is a party, is presented below.

On-going disputes

Vereniging van Effectenbezitters/ Stichting Van der Goen WOL Claims dispute

In July 2001, the Dutch association Vereniging van Effectenbezitters and the Stichting VEB-Actie WOL foundation, which represent a group of around 10,000 former minority shareholders of World Online International N.V, summonsed World Online International NV (currently 99.5% owned by Tiscali) and the financial institutions tasked with the stock market listing of the Dutch subsidiary, disputing, in particular, the incomplete and incorrect nature, as per Dutch law, of certain information contained in the listing prospectus and of certain public statements made, immediately prior to and after the listing (on 17 March 2000), by the company and by its chairman.

By means of provision dated 17 December 2003, the first level Dutch court deemed that in certain press releases issued by World Online International NV prior to 3 April 2000, sufficient clarity was not provided regarding the declarations made public by its former chairman at the time of listing relating to his shareholding. Consequently, World Online International N.V was held responsible vis-à-vis the parties who had subscribed the shares of the company at the time of the IPO on 17 March 2000 (start date of trading) and who acquired shares on the secondary market up to 3 April 2000 (date on which the press release was issued, specifying the effective shareholding held by the former chairman of World Online International NV). World Online International BV appealed against this decision, deeming that it was not necessary to provide further clarification, citing the correctness of the information prospectus.

On 3 May 2007, the Amsterdam Court of Appeal partially amended the decision of the first level court, deeming that the prospectus used at the time of listing was incomplete in some of its parts and that World Online International BV should have corrected certain information relating to the shareholding held by its former chairman, reported by the media before said listing; furthermore, it was deemed that the company had created optimist expectations regarding the activities of World Online International NV. The sentence restricts itself to ascertaining the company's responsibility and that of the financial institutions tasked with the stock market listing, but does not pass judgement with regards to the amount of any damage, which will have to form the subject matter of new and separate proceedings, as yet not started up. On the basis of this verdict, the investors who became shareholders of World Online International NV between 17 March 2000 and 3 April 2000, could undertake action for the compensation of the related damages before the competent Court.

On 24 July 2007, the Dutch association and the foundation mentioned above proposed an appeal before the Dutch Supreme Court against the sentence of the Court of Appeal. On 2 November 2007, World Online International NV and the financial institutions tasked with the stock market listing filed their counter-appeal. On 6 February 2009, the Director of Public Prosecution expressed his opinion in an advisory role complying, in part, with the appeal petitions. The Court sentence is expected to be pronounced in September 2009.

A dispute of a similar nature to that described above was forwarded by another Dutch foundation, Stichting Van der Goen WOL Claims, in August 2001, and letters were subsequently received from other parties, in which the hypothesis of being able to proceed with similar action is advanced, if the conditions should apply.

With regard to these disputes, which are potentially significant, at present there are not enough sufficiently defined elements for quantifying the potential liability. Therefore, no provision was made in the financial statements.

Mobistar dispute

The indirect subsidiary, Tiscali International BV, is involved in a dispute furthered by the company Mobistar NV (a Wanadoo Group company) in June 2006. The dispute concerns the termination by Wanadoo Belgium of a dial-in traffic termination agreement with Mobistar NV, following the acquisition in Spring 2003 by Tiscali Belgium of 100% of Wanadoo Belgium's shares. The contract for the sale of the Wanadoo Belgium shares between Wanadoo SA and Tiscali Belgium envisaged the possibility of early termination of the Contract, a circumstance also confirmed by Tiscali's legal advisors.

Mobistar however opposed this early termination.

Subsequently, Tiscali Belgium sold Wanadoo Belgium to Scarlet. On the basis of the contract for the sale of the Wanadoo Belgium shares by Tiscali Belgium to Scarlet, Tiscali is responsible vis-à-vis Scarlet for Mobistar claims with reference to the termination of the Contract.

Tiscali has brought before the courts (i) Wanadoo SA – responsible in accordance with the contract for the sale of the Wanadoo Belgium shares to Tiscali Belgium, (ii) the legal advisors for the purchase transaction – who issued an erroneous opinion on the possibility of terminating the Contract - and (iii) the respective insurance company.

The *petitum* amounts to € 4 million, nevertheless the Tiscali believes that the same should be reduced (i) by around € 1 million on the basis of the correct interpretation of the Contract, (ii) by a further amount, since the summons before the court of Wanadoo and the legal advisors by Tiscali should at least minimize the profile of responsibility of the latter. During this initial stage of the proceedings, Tiscali believes that it is in no way responsible; however, given the complexity of the dispute and the number of parties involved, a forecast with regards to the possible outcome emerges as complex. Despite the fact that the possibility of reaching an agreement on the dispute has been outlined, involving the payment of approximately EUR 400.000, Tiscali intends to hold out in the court case, unless the negotiations currently underway conclude favourably. In the financial statements at 30 June 2009, Tiscali International BV had not set aside provisions.

Ecotel Communication AG/Tiscali

On 19 October 2007, Ecotel Communication AG - the company to which the Tiscali Group during the first half of 2007 transferred its German B2B activities for around EUR 18.5 million, sent Tiscali a letter by means of which – in relation to the purchase/sale contracts stipulated with Tiscali Business GmbH on 3 February 2007 and signed by Tiscali in its capacity as guarantor – it challenged the company that certain income values pertaining to the activities acquired were not correctly represented during the negotiations and in the related purchase agreement and requested the Company to launch an independent appraisal into these values. Therefore, as a consequence of the alleged deviation from the real values, Ecotel Communication AG assumes that it has suffered a loss during its activities, whose effective total it estimates as coming to at least EUR 15 million. The Company has fully disputed the contents of the letters.

In agreement with the arbitration clause present in the contract for the sale of the German activities, on 21 April 2008 Ecotel launched arbitration proceedings, summoning Tiscali Business Gmbh and Tiscali as jointly and severally bound. Ecotel requests compensation for the damages suffered estimated as totalling EUR 15.2 million plus any additional damages and other related charges. Tiscali and Tiscali Business Gmbh have made their statement of action, disputing the charges. The arbitration proceedings will take place in Frankfurt (Germany) and are estimated to last around 24-36 months.

Tiscali Business GmbH has set aside EUR 1.8 million against this dispute.

Tax assessments

The Dutch tax authorities forwarded World On Line International NV (and the direct subsidiary Tiscali International BV) a number of notices of assessment concerning the alleged non-payment of withholdings on remuneration and stock options acknowledged in previous years to Group executives. The total amount of these disputes is EUR 2 million, against which Tiscali International BV has made payments totalling around EUR 0.3 million. The residual amount mainly refers to stock options which are alleged to have been granted to Mr. Landefeld (a party what is more resident for tax purposes in Germany) and, in the opinion of Tiscali's tax advisors, not subject to taxation on the Netherlands. Given this circumstance and considering that this dispute is in the initial stages, it was decided that the liability cannot be considered likely and therefore no related provision was made.

Segment reporting

Under EU Regulation No. 1358/2007 dated 21 November 2007, the Commission of the European Communities approved the introduction, in replacement of IAS 14 "Segment reporting", of IFRS 8 "Business segments", concerning the information to be provided in the financial statements in relation to the business segments in which those preparing the financial statements are active.

A business segment is understood to be the component of an entity:

- which undertakes business activities that generate revenues and costs (including the revenues and costs concerning transactions with other components of the same entity);
- whose operating results are periodically reviewed at the highest operating decision-making level for the purpose of the adoption of decisions regarding the resources to allocate to the segment and the valuation of the results;
- in relation to which separate financial statement information is available.

In contrast to the matters described by IAS 14, this standard essentially requires that the results of the business segments be identified and represented according to the "management approach", or rather following the methods used by management during internal reporting activities for the purpose of assessing the performance and allocating the resources between said segments.

The application of this standard has not had any impact on the segment information provided, since the business segments into which the Group's activities are divided are the same which emerged from the application of IAS 14 "Segment reporting".

The activities of the Tiscali Group and the related strategies, as well as the underlying activities linked to management control, are structured and defined by geographic area, which therefore represents the primary segment for the purposes of information by business segment. The geographic areas are represented by:

- Italy

- Corporate and other business: minor Italian companies and corporate activities.

The activities of TiNet and Tiscali UK, disposed of during the first half of 2009, shown in the section "Discontinued Operation an/or assets held for sale", are no longer represented as geographic areas in the segment reporting.

Lines of business (Access, Voice, Business services / Business, Media) represent the secondary reporting segment, at sector information level.

Income statement

30 June 2009 *EUR 000*	Italy	Other	Corporate	HFS/Discontinued	Cancellation adjustment	Total
Revenues						
From third parties	146,538	215	4,830	268,069	(268,069)	151,583
Intra-group	1,210	-	7,019	8,416	(16,645)	-
Total revenues	**147,748**	**215**	**11,849**	**276,484**	**(284,713)**	**151,583**
Operating result	**10,536**	**(2,044)**	**311**	**(29,012)**	**31,134**	**10,924**
Portion of results of equity investments carried at equity						**(33)**
Financial income						4,107
Financial charges						(43,777)
Net financial income (charges)						(39,670)
Pre-tax result						(28,779)
Income taxes						(11,392)
Net result from operating activities (on-going)						(40,171)
Result from assets disposed of and/or destined for disposal						(364,870)
Net result						**(405,040)**

30 June 2008 *EUR 000*	Italy	Other	Corporate	HFS/Discontinued	Cancellation adjustment	Total
Revenues						
From third parties	155,972	1,364	7,190	377,111	(377,111)	164,526
Intra-group	2,102	-	8,224	11,116	(21,443)	-
Total revenues	**158,074**	**1,364**	**15,414**	**388,228**	**(398,554)**	**164,526**
Operating result	**(9,179)**	**10,148**	**(3,910)**	**(36,092)**	**39,064**	**31**
Portion of results of equity investments carried at equity						**(305)**
Financial income						11,812
Financial charges						(43,046)
Net financial income (charges)						(31,234)
Pre-tax result						(31,509)
Income taxes						(971)
Net result from operating activities (on-going)						(32,480)
Result from assets disposed of and/or destined for disposal						(30,575)
Net result						**(63,054)**

Balance Sheet

30 June 2009 *EUR 000*	Italy	Other	Corporate	HFS/Discontinued	Cancellation adjustme	Total
Activities						
Segment assets	367,246	12,207	33,334	498,815	-	911,602
Equity investments carried at equity	-	-	-	-	-	-
Equity investments in other companies	2,332	-	-	-	-	2,332
Goodwill	**-**	-	-	-	-	-
Total consolidated assets	**369,578**	**12,207**	**33,334**	**498,815**	**-**	**913,934**

31 December 2008 *EUR 000*	Italy	United Kingdom	Other	Corporate	HFS/Discontinued	Cancellation adjustme	Total
Activities							
Segment assets	384,098	293,839	5,781	24,115	56,795	-	764,628
Equity investments carried at equity	33	-	-	-	-	-	33
Equity investments in other companies	2,332	-	-	-	-	-	2,332
Goodwill	**-**	438,824	-	-	-	-	438,824
Total consolidated assets	**386,463**	**732,663**	**5,781**	**24,115**	**56,795**	**-**	**1,205,817**

Transactions with related parties

Dealings with non-consolidated Group companies

The Group has no significant dealings with non-consolidated companies.

Dealings with other related parties

During the period, the Tiscali Group had a number of dealings with related parties, under conditions considered normal on the respective reference markets, taking into account the characteristics of the goods and services provided

The table below summarises the balance sheet and income statement values recorded in the Tiscali Group's consolidated financial statements at 30 June 2009 arising from transactions with related parties.

The most significant balances, at 30 June 2009, summarized by supplier of the services, are as follows:

INCOME STATEMENT VALUES *EUR 000*	Notes	First half of 2009 (Group)	First half of 2008 (Group)
Shardna	1	-	-
Interoute	2	(283)	(463)
Leadsatz GmbH	3	-	(47)
Bizzarri Francesco	4	-	(37)
Studio Racugno	5	-	(35)
TOTAL SUPPLIERS OF MATERIALS AND SERVICES		**(283)**	**(582)**
Andalas SA	6	(969)	(1,343)
TOTAL		**(1,252)**	**(1,925)**

BALANCE SHEET VALUES *EUR 000*	Notes	30 June 2009 (Group)	31 December 2008 (Group)
Shardna	1	331	331
Interoute	2	(1,186)	(948)
Leadsatz GmbH	3	(30)	(60)
Bizzarri Francesco	4	-	(37)
Studio Racugno	5	-	(27)
TOTAL SUPPLIERS OF MATERIALS AND SERVICES		**(885)**	**(741)**
Andalas SA	6	(30,847)	(30,228)
TOTAL		**(31,733)**	**(30,970)**

(1) *Shardna S.p.A.* is a company invested in by the majority shareholder Renato Soru. The dealings, maintained by the Parent Company, relate to the sub-letting of the Tiscali offices in the suburbs of Cagliari.

(2) *Interoute* is a group entirely owned by the Sandoz Family Foundation, a Tiscali shareholder. The costs incurred during the year refer to purchases made by Tiscali Italia S.p.A. in relation to dark fibre and related maintenance.

(3) Leadsatz GmbH: a company with whom an outsourcing agreement has been entered into for the Portal area of the German companies sold off. Mr. J. Maghin, director of Leadsatz GmbH was also, during 2007, a minority shareholder of Ishtari Gmbh (a company invested in by Tiscali Deutschland Gmbh).

(4) Mr. F. Bizzarri, member of Tiscali Spa's Board of Directors, has stipulated an IPTV consultancy contract with the Parent Company and with the subsidiary Tiscali Italia S.p.A..

(5) *Studio Racugno*: the director Gabriele Racugno, member of Tiscali S.p.A.'s Board of Directors until 29 February 2008, provides Tiscali Italia S.p.A. and Tiscali Service S.p.A. with legal and out-of-court assistance mainly concerning financial and intellectual property contractual matters.

(6) The shareholder *Andalas Limited* granted a loan in 2004 bearing interest at market rates. The loan agreement explicitly envisages subordination with respect to the other debts of the Tiscali Group.

List of subsidiaries included in the consolidation area

A list of the subsidiary companies included within the consolidation area is presented below

Company name			Country	% investment
Tiscali S.p.A.			Italy	
Tiscali Italia S.p.A.			Italy	100.0%
	Tiscali Motoring S.r.l		Italy	100.0%
Energy Byte Srl in liquidation			Italy	100.0%
Tiscali Motoring S.r.l. *in liquidation*			Italy	60.0%
Tiscali Finance Sa			Luxemburg	100.0%
Tiscali Financial Services Sa			Luxemburg	100.0%
Tiscali Deutschland Gmbh			Germany	100.0%
	Tiscali GmbH		Germany	100.0%
	Tiscali Verwaltungs Gmbh		Germany	100.0%
World Online International Nv			The	99.5%
	Tiscali International Bv		The	99.5%
		Tiscali B.V.	The	99.5%
		Wolstar B.V. in liq.	The	49.7%
		Tiscali Finance BV	The	99.5%
		Tiscali International Network B.V.	The	99.5%
		Tiscali International Network SA (in liquidation)	France	99.5%
		Tiscali Holdings UK Ltd	UK	99.5%
		Tiscali Business UK Ltd	UK	99.5%
		Tiscali Business GmbH	Germany	99.5%
		Tiscali Espana SA (in liquidation)	Spain	99.5%

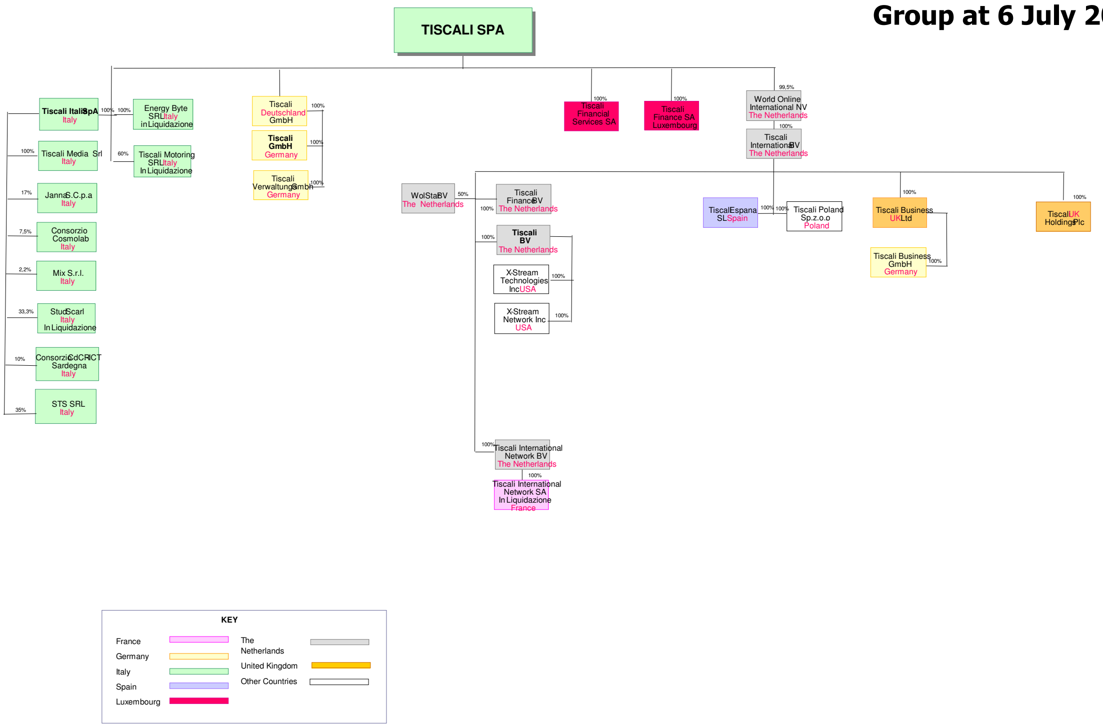
List of equity investments carried at equity

Company name	Country	% investment
STS S.r.l.	Italy	35%
STUD Soc. Consortile a.r.l.	Italy	33.33%

List of equity investments in other companies carried at cost

Mix S.r.l.	Italy
Janna S.c.p.a.	Italy
CdCR-ICT Consortium	Italy
Cosmolab Consortium	Italy
X-Stream Netwok Inc	USA
X-Stream Netwok Tecnologies Inc	USA
Tiscali Poland Sp Z.O.O.	**Poland**

Group at 6 July 2009



Non-recurrent significant events and transactions

There were no non-recurrent significant events or transactions during the first half of 2009, except for those relating to the agreements entered into as part of the Recovery Plan and the disposal of the TiNet Group and the activities in the UK.

Positions and transactions deriving from atypical and/or unusual operations

There were no positions or transactions deriving from atypical and/or unusual operations during the first half of 2009.

On behalf of the Board of Directors

The Chairman

Mario Rosso

8.9 Certification of the condensed consolidated financial statements at 30 June 2009 pursuant to Article 154 *bis* of Italian Legislative Decree No. 58/98

The undersigned, Mario Rosso in his capacity as Chief Executive Officer, and Romano Fischetti, in his capacity as Executive appointed to draw up the corporate accounting documents of Tiscali S.p.A., hereby certify, also taking into account the matters envisaged by Article 154 *bis*, sections 3 and 4, of Italian Legislative Decree No. 58 dated 24 February 1998:

- the adequacy in relation to the Company's characteristics;
- the effective application of the administrative and accounting procedures for the formation of the abridged consolidated half-year report for the period ended at 30 June 2009.

Tiscali S.p.A. has adopted the following as a reference framework for the definition and appraisal of its internal audit system, with particular reference to internal checks for the formation of the financial statements: the Internal Control - Integrated Framework model issued by the Committee of Sponsoring Organizations of the Treadway Commission which represents a body of the general reference principles for the internal audit system generally accepted at international level.

It is also hereby certified that the abridged consolidated half-year report for the period ended at 30 June 2009:

- is consistent with the results of the books and the accounting entries;
- has been drawn up in compliance with the International Financial Reporting Standards adopted by the European Union as well as the legislative and regulatory provisions in force in Italy;
- as far as is known, it is suitable for providing a true and fair view of the equity, economic and financial situation of the issuer.

In conclusion, it is hereby certified that the interim report on operations includes a reliable analysis of the reference to important events which have occurred in the first six months of the year and their effect on the abridged consolidated half-year report, together with a description of the main risks and uncertainties for the remaining six months of the year. The interim report on operations also includes a reliable analysis of the information on significant transactions with related parties.

Milan, Italy, 28 August 2009

The Chief Executive Officer

Mario Rosso

The Executive appointed to draw up the corporate accounting documents

Romano Fischetti

9 Auditors' review report

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Auditors' review report on the interim condensed consolidated financial statements
(Translation from the original Italian text)

To the Shareholders of
Tiscali S.p.A.

1. We have reviewed the interim condensed consolidated financial statements comprising, the statement of income, the statement of comprehensive income, the statement of financial position, the statements of changes in equity and cash flows and the related explanatory notes, of Tiscali S.p.A. and its subsidiaries (the "Tiscali Group") as of June 30, 2009. Management of Tiscali S.p.A. is responsible for the preparation of the interim condensed consolidated financial statements in conformity with the International Financial Reporting Standards applicable to interim financial reporting (IAS 34) as adopted by the European Union. Our responsibility is to issue this review report based on our review.

2. We conducted our review in accordance with review standards recommended by Consob (the Italian Stock Exchange Regulatory Agency) in its Resolution no. 10867 of July 31, 1997. Our review consisted mainly of obtaining information on the accounts included in the interim condensed consolidated financial statements and the consistency of the accounting principles applied, through discussions with management, and of applying analytical procedures to the financial data presented in these consolidated financial statements. Our review did not include the application of audit procedures such as tests of compliance and substantive procedures on assets and liabilities and was substantially less in scope than an audit conducted in accordance with generally accepted auditing standards. Accordingly, we do not express an audit opinion on the interim condensed consolidated financial statements as we expressed on the annual consolidated financial statements.

   With respect to the consolidated financial statements of the prior year and the interim condensed consolidated financial statements of the corresponding period of the prior year, presented for comparative purposes, which have been restated in accordance with IAS 1 (2007), reference should be made to our reports issued on April 14, 2009 and on August 29, 2008, respectively. The basis of reclassification and information included in the explanatory notes were reviewed by the purposes of issuing this report.

3. Based on our review, nothing has come to our attention that causes us to believe that the interim condensed consolidated financial statements of the Tiscali Group as of June 30, 2009 are not prepared, in all material respects, in conformity with the International Financial Reporting Standards applicable to interim financial reporting (IAS 34) as adopted by the European Union.

For a better understanding of the interim condensed consolidated financial statements we draw your attention to the following matters, which are illustrated in the explanatory notes:

a) At 30 June 2009, the Tiscali Group, partly due to the deterioration in the macro-economic circumstances and the increased competition within the industry, has reported a deficit in shareholders' equity of approximately EUR 272.2 million, and is in a critical financial situation; during the period, the Group also suspended payments falling due under loan agreements; such events indicate the existence of major uncertainties which may give rise to significant doubts regarding the business as a

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going-concern. The directors, in the paragraph in the explanatory notes "Assessment of the business as a going-concern and review of operations", have described the actions undertaken to face this situation, the agreements reached and the conditions for their effective execution, in particular reporting that (i) the disposal of the investment in Tiscali UK Ltd has been completed, (ii) the proceeds from the disposal were used primarily to repay a part of the Group's financial indebtedness, (iii) the Tiscali S.p.A. shareholders' meeting held on 30 June approved an increase in share capital to be offered as options to the shareholders and which will be used to repay additional amounts of the financial indebtedness, (iv) agreements have been entered into with the main financial institutions which, on the one hand, have undertaken to guarantee the subscription of these increases, and on the other hand, agreed to renegotiate the contractual terms of the loans which will remain outstanding upon completion of the operations described above. The Directors also highlight that they have evaluated the deficit in net equity at 30 June 2009 and concluded, also with the support of the opinion of a legal advisor, that this situation does not require the application of the requirements of Article 2447 of the Italian Civil Code in consideration of the resolutions to increase the share capital already made and the other agreements entered into.

The Directors consider that the execution of the resolutions to increase the share capital and the complete execution of the above-mentioned agreements, together with the effective implementation of the 2009-2013 Business Plan, represent the fundamental assumption to overcome the above-mentioned situation of uncertainty, and provide the Group a debt and equity structure consistent with the above-mentioned Business Plan and, therefore, also taking into consideration the resolutions to increase the share capital and the agreements entered into with the financial institutions and the other creditors, they have prepared the interim condensed consolidated financial statements on the basis of a going-concern.

b) The Directors also highlight the existence of certain potentially significant law suits brought by third parties against the Dutch subsidiary World Online International NV. In May 2007, the Amsterdam Court of Appeal delivered its verdicts finding World Online International NV responsible on certain counts but without pronouncing as to any possible damages, which will be be the object of a new, separate legal proceeding by the third parties that incurred the damages, but which has not yet begun. At the present moment in time, the appeal and the counter appeal against this verdict are pending at the Dutch Supreme Court. With respect to these law suits, the Directors do not consider that sufficient elements exist to quantify any potential liability and have, therefore, made no provision for this in the financial statements. The Directors also highlight the existence of other at risk situations with respect to existing or threatened law suits, for which they consider that no significant liability will result.

Milan, August 29, 2009

Reconta Ernst & Young S.p.A.
Signed by: **Lapo Ercoli**, Partner

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

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10 Attachment - Glossary

Shared access unbundled access to the local network where the former monopolist operator rents part of the duplex cable spectrum to other operators: in this portion of spectrum, the operator can provide Broadband services, while the former monopolist operator continues to provide telephone services on the spectrum portion not rented out.

ADSL acronym for Asymmetric Digital Subscriber Line, an asymmetric DSL technology (the band available for receiving is greater than that available for transmission) which permits high-speed internet access.

ADSL2+ ADSL technology which extends the basic ADSL capacity, doubling the bit download flow. The band width can reach 24 Mbps in download and 1.5 Mbps in upload and depends on the distance between the DSLAM and the customer's home.

Uncovered areas also known as "indirect access areas", they identify the geographic areas which are not served directly by Tiscali's network (also see Bitstream and Wholesale)

ARPU average revenue from land-line and mobile telephone services per user calculated over a specific period for the average number of Tiscali Group customers or active customers (for the other operators) in the same period.

Bitstream Bitstream (or numeric flow) service: service comprising the supply by the operator for access to the land-line based public telephone network of transmission capacity between the position of the end user and the point of presence of an operator or ISP which wishes to offer the broadband service to an end user.

Broadband data transmission system where several data is sent simultaneously to increase the effective transmission speed with a data flow equal to or greater than 1.5 Mbps.

Broadcast simultaneous transmission of information to all the nodes of a network.

Access fee this is the amount charged by the national operators for every minute of use of their network by the operators of other networks. It is also known as the 'interconnection fee'..

Capex acronym for Capital Expenditure. It identifies the outgoing cash flows generated by investments in the operating structure.

Carrier — company which physically makes the telecommunications network available.

Co-location — areas dedicated to the exchanges of the incumbent operator for the installation by Tiscali of its network equipment.

CPS — acronym for Carrier Pre Selection, the operator pre-selection system: it permits the operator/supplier of local services to automatically route the calls on the carrier network chosen by the customer who no longer has to dial special selection codes.

CS — acronym for Carrier Selection, operator selection system: it permits the customer to select, by dialling a specific code, a national and international long-distance operator, other than the one with whom they have entered into a contract with to access the network.

Business customers — the SoHo, small, medium and large companies.

Consumer customers — customers who subscribe to the range intended for households.

Dial Up — narrowband internet connection via a normal telephone call, normally subject to time-based tariffs.

Digital — this is the way of representing a physical variable by means of a language which only uses the figures 0 and 1. The figures are transmitted in binary form as a series of impulses. The digital networks, which are rapidly replacing the old analogue networks, permit greater capacity and increased flexibility by means of the use of computerized technology for the transmission and manipulation of the calls. Digital systems offer minor interference with regard to noise and may comprise cryptography as protection from outside interference.

Double Play — combined internet access and land-line telephone product.

DSL Network — acronym for Digital Subscriber Line Network: this is a network created starting off from the existing telephone lines using DSL technology instruments which, adopting sophisticated modulation mechanisms, makes it possible to package data on copper cables and thus connect a telephone switching station to a home or office.

DSLAM — acronym for Digital Subscriber Line Access Multiplexer, the multiplexing equipment, used in DSL technologies, which provides high capacity data transmission on the telephone duplex, where multiplexing equipment is understood to be a device which permits the transmission of information (voice, data, video) in flows via direct and on-going connections between two different points of a network.

Fibre Optics	thin fibres of glass, silicon or plastic which make up the base for an infrastructure for data transmission. A fibre cable contains various individual fibres, each capable of conveying the signal (light impulses) to a practically unlimited length of band. They are usually used for long-distance transmission, for the transfer of 'heavy' data so that the signal arrives protected from disturbance which it may meet along its route. The transport capacity of the fibre optic cable is considerably greater than traditional cables and the copper duplex cable.
GigaEthernet	term used to describe the various technologies which implement the nominal speed of an Ethernet network (the standard protocol of boards and cables for speedy connection between computers on a local network) up to 1 gigabit per second.
Home Network	local network comprising various types of terminals, apparatus, systems and user network, with related applications and services, including therein all the equipment installed at the user's.
Hosting	service which involves allocating the pages of a website site on a web server, thereby making it accessible to the internet.
Incumbent	former monopolist operator active in the telecommunications sector.
IP	acronym for Internet Protocol, Inter-Networking Protocol, created to interconnect mixed networks with regard to technology, services, ,handling.
IPTV	acronym for Internet Protocol Television, technology suitable for using the IP transport infrastructure so as to convey TV contents in digital format, using an internet connection.
IRU	acronym for Indefeasible Right of Use, long-term agreements which ensure the beneficiary the possibility of use of the fibre optic network of the grantor for a long period.
ISDN	acronym for Integrated Service Digital Network, Narrowband telecommunication protocol cable for transporting various types of information in an integrated manner (voice, data, text, images), coded in digital form, on the same transmission line.
Internet Service Provider or ISP	a company which provides access to the Internet to individual issuers or organizations.
Leased lines	lines of transmission capacity available under transmission capacity lease agreement.

MAN	acronym for Metropolitan Area Network, the fibre optic network which extends within metropolitan areas and links the Core Network to the Access network.
Mbps	acronym for megabit per second, unit of measurement which indicates the capacity (therefore the speed) of transmission of the data on the IT network.
Modem	modulator/demodulator. It is a device which modulates the digital data so as to permit its transmission on analogue channels, generally comprising telephone lines.
MNO	acronym for Mobile Network Operator, the telecommunications operator who owns the mobile network which offers its services wholesale to the MVNO (Mobile Virtual Network Operator).
MPF	acronym for Metallic Path Facility, the pair of copper cables (unshielded helicoidal pair) which starts off from the permutator (MDF -Main Distribution Frame) present in the telephone exchange of the operator and arrives at the premises of the user (private individual or business). The connections can be Full or Shared. A “Full” type connection enables both the fruition of the data service (wideband) and the voice service). A “Shared” type connection only enables the fruition of the data services (broadband). In the service under “shared access”, the LLU operator (under unbundled access) provides the ADSL service to the end user, while the incumbent operator provides the analogue telephone service using the same access line.
MSAN	acronym for Multi-Service Access Node, a platform capable of transporting a combination of traditional services on an IP network and which supports a variety of access technologies such as for example the traditional telephone lines (POTS), the ADSL2+ line, the SHDSL symmetrical lines, the VDSL and the VDSL2, both via copper and fibre networks.
MVNO	acronym for Mobile Virtual Network Operators: a party who offers mobile telecommunications services to the general public, using its mobile network switching structures, its own HLR, its own mobile network code (MNC, Mobile Network Code), its own activities for customer handling (marketing, invoicing, service) and issuing its own SIM card, but which does not have assigned frequential resources and avails itself, for access purposes, of agreements on a contractual or regulatory basis with one or more licensee mobile network operators.

Narrowband	method of connection to data networks, for example Internet, established by means of a telephone call. In this type of connection, all the band width of the transmission medium is used as a single channel: a sole signal occupies all the available band. The band width of a communication channel identifies the maximum quantity of data which can be transported by the transmission medium in a unit of time. The capacity of a communication channel is limited by both the interval of the frequencies which the medium can sustain and by the distance to be travelled. A Narrowband connection example is the common Narrowband connection via modem at 56 Kbps.
OLO	acronym for Other Licensed Operators, operators other than the dominant one who operates on the national market of telecommunications services.
Opex	acronym for Operating Expenses (operating costs), these are direct and indirect costs which are recorded in the income statement.
Pay-Per-View	system via which the viewer pays to see a single programme (such as a sporting event, film or concert) at the time it is transmitted or broadcast.
Pay TV	Pay television channels. In order to receive Pay TV or Pay-Per-View channels, it is necessary to link up the television to a decoder and have a qualified access system
Platform	all the input, including the hardware, software, running equipment and procedures, in order to produce (production platform) or manage (management platform) a specific service (service platform)
POP	acronym for Point of Presence, location where the telecommunications equipment is installed and which represents a network node.
Portal	website which represents the point of departure or rather an entry port for a substantial group of Internet resources or an Intranet.
Router	hardware instrument or in some cases software, which identifies the subsequent point of the network to which the bundle of data received is to be sent, routing this data bundle to its final destination.
Service Provider	party which provides the end users and the content providers with a range of services, including an owned service centre, exclusive or third party.

Server	IT component which provides services to other components (typically customer calls) via a network.
Set-top-box or STB	equipment capable of handling and conveying the data, voice and television connection, installed at the end customer's.
Syndication	the re-sale of radio and TV transmission to the wholesale trade by a media company who owns the rights and usually also the delivery platform.
SoHo	acronym for Small office Home office, small offices, mainly professional studios and small businesses.
SHDSL	acronym for Single-pair High-speed Digital Subscriber Line. The SHDSL is a technology for xDSL family telecommunications and is achieved by means of direct interconnection under LLU and permits a high-speed balanced data connection in both directions (transmission and receipt).
Single Play	service comprising just broadband data access, not in combination with other multi-play components like the voice service and IPTV. Broadband access can be provided by means of LLU, Wholesale or Bitstream platforms.
Single Play voice	comprises solely access to the voice service, not in combination with other multi-play components like broadband access and IPTV. The voice service can be provided by VoIP and CPS modes.
SMPF	acronym for Shared Metallic Path Facilities, synonym of Shared Access (unbundled access).
Triple Play	combined range of land-line and/or mobile telephone, Internet and/or TV services by a single operator.
Local loop unbundling or LLU	unbundled access to the local network, or rather the possibility that the telephone operators have, since the telecommunications market was deregulated, of using the existing physical infrastructures created by another operator, so as to offer customers their own services, paying a fee to the operator who actually owns the infrastructures.

VAS acronym for Value-Added Services, the value added services provide a greater level of functioning with respect to basic transmission services offered by a telecommunications network for the transfer of information between its terminals. They include the analogue voice communications switched via cable or wireless; direct point-to-point digital service “without restrictions” at 9,600 bit/s; package switching (virtual call); analogue and direct broadband transmission of TV signals and additional services, such as closed group of users; calls on hold; reverse charge calls; call forwarding and caller identification. The value added services provided by the network, terminals or specialized centres include the message switching services (MHS) (which can be used, among other things, for commercial documents according to a pre-determinate set of forms); electronic lists of users, network addresses and terminals; e-mail; fax; teletext; videotext and video-telephone. The value added services may also include voice telephone value added services such as free-phone numbers or pay telephone services.

VISP acronym for Virtual Internet Service provision (sometimes also called Wholesale ISP. This is the re-sale of internet services acquired wholesale from an Internet Service Provider (ISP) which possesses a network infrastructure.

VoD acronym for Video On Demand, this is the supply of television programmes on request to the user against payment of a subscription fee or an amount for each programme (a film, a football game) purchased. Broadcast in a special manner for satellite TV and cable TV.

VoIP acronym for Voice over internet Protocol, digital technology which permits the transmission of voice packets via Internet, Intranet, Extranet and VPN networks. The packets are transported according to H.323 specifications, or the ITU standard (International Telecommunications Union) which represents the basis for the data, audio, video and communications services on IP-type networks.

VPN acronym for Virtual Private Network, created on the Internet or Intranet. The data between workstation and server of the private network is forwarded via a common public Internet network, but using technologies for protection from any interception from unauthorized parties.

Virtual local loop unbundling or VLLU method for accessing the local analogue network for which, despite the absence of physical infrastructures, the conditions and terms of access under LLU mode are re-produced. This is a temporary access method which, as a rule, is replaced by the LLU method.

xDSL acronym of Digital Subscribers Lines, a technology which, via a modem, uses the normal telephone duplex cable and transforms the traditional telephone line into a high-speed digital connection line for the transfer of data. The various ADSL, ADSL 2, SHDSL etc., belong to this family of technologies

WI-FI Service for connecting to Internet under high-speed wireless mode.

Wi-Max acronym for Worldwide Interoperability for Microwave Access: it is a technology which permits access without wires to broadband telecommunications networks. It was established by the WiMAX Forum, a global forum, made up of the most important companies in the field of land-based and mobile telecommunications which has the purpose of developing, promoting and testing the interoperability of systems based on the IEEE 802.16-2004 standard for land-line access and the IEEE.802.16e-2005 standard for land-line and mobile access

Wholesale services which involve the re-sale to third parties of access services.

WLR acronym for Wholesale Line Rental, the re-sale by a telecommunications operator of the service for the rental of lines from the Incumbent.