tiscali:

Consolidated financial report as at 30 June 2010

Contents

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TISCALI S.P.A.

Registered office: SS195 Km 2.3, Sa Illetta, Cagliari

Share Capital EUR 92,016,892.87

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

1 Financial highlights

Income statement (EUR mln)	30.06.10	30.06.09	Change (%)
Revenues	140.6	151.6	-7.3%
Adjusted Gross Operating Result (EBITDA)	36.3	48.4	-25.1%
Gross Operating Result (EBITDA)	26.2	37.9	-30.9%
Operating result	4.2	10.9	-61.3%
Result from operating activities	(4.4)	(40.2)	89.1%
Net result	(12.6)	(405.0)	96.9%

Balance sheet (EUR mln)	30.06.10	31.12.09	Change (%)
Total Assets	406.7	428.6	-5.1%
Net Financial Debt	193.1	211.1	8.5%
Net financial debt based on Consob communication DEM/6064293 of 28 July 2006	206.3	224.4	7.9%
Shareholders' equity	(80.3)	(67.0)	-19.8%
Investments	14.9	40.8	-63.5%

Operating figures (000)	30.06.10	30.06.09	Change (%)
Internet Access and Voice users	615.7	621.1	-0.9%
ADSL users (broadband)	582.1	549.2	6.0%
of which: Direct ADSL users (LLU)	395.3	374.3	5.6%

2 Alternative performance indicators

In this report on operations, in addition to the conventional indicators envisaged by the 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, given they have not been identified as an accounting measure within the sphere of the IFRS, must not be considered as alternative measures for the assessment of the performance of the Tiscali Group's results. Since the composition of EBITDA and Adjusted EBITDA is not regulated by the reference accounting standards, the calculation criteria applied by the Tiscali Group may 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 write-down 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 derived from assets destined to be disposed of

+ 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 receivables from customers

+ Stock option plan costs

Gross Operating Result (Adjusted EBITDA)

3 Directors and Auditors

Board of Directors

Chairman and CEO

Renato Soru

Directors

Franco Grimaldi

Gabriele Racugno

Luca Scano

Victor Uckmar

Board of Statutory Auditors

Chairman

Paolo Tamponi

Statutory Auditors

Piero Maccioni

Andrea Zini

Deputy Auditors

Rita Casu

Giuseppe Biondo

Executive in charge of drawing up the company's accounting documents

Luca Scano

Independent Auditing Firm

Reconta Ernst & Young S.p.A.

Interim report on operations

4 Interim report on operations

4.1 Tiscali's position in the market context

Tiscali provides its private and business customers with a wide range of services: internet access through dial-up and ADSL, as well as voice, VoIP, media, and added-value services and other technologically advanced products.

Tiscali is one of the leading alternative communications companies in Italy and offers its private and business customers a broad range of services: internet access through dial-up and ADSL, as well as voice, VoIP, media, and added-value services and other technologically advanced products. Tiscali is positioned in the IP Technology services segment, services that use a unified technology platform for the provision of the entire offer.

The Tiscali brand is synonymous with innovation in terms of price and packaging, but at the same time offers high value for money.

The broadband market in Europe

Despite the Italian telecommunications market being one of the most dynamic in Europe, as regards Fixed Broadband it still shows a low level of national penetration compared to the Western Europe average.

In recent years, the Italian telecommunications market has decreased due to the global economic/financial crisis. This recent process of sector slowdown has been characterised by the following factors:

- fall in the overall spending of households and companies;
- contraction in infrastructural investments, both in the fixed and mobile networks;
- expansion of the portfolio of services offered to customers by different operators;
- a slow decline of traditional services such as narrowband, replaced by broadband;
- strong price competition.

Revenues from traditional mode (analogue) fixed voice services will undergo a decrease in future years due essentially to customers' gradual propensity to use the voice service in VOIP mode. The latter, bundled with the broadband access service, will represent one of the preferred and most purchased service packages on the market.

Therefore, the Italian market, though having reached a phase of maturity, is experiencing a phase of further expansion, which is destined to continue in future years and is linked to a differentiation of customer demand profiles. The result is that, in future years, we can expect to see a greater articulation of products and services that depend, for example, on the geographical context and the transmission technology used by the operators to offer said services (xDSL, cable, fibre optic or another technology).

The technological development and ever increasing availability of bundled multimedia services (thanks to the technological IP platforms) has seen a consolidation of Italian users' orientation toward the choice of voice and data connections (dual play) in recent months, already evident in previous years. Contrary to initial expectations, triple play offers (voice, data and video) still show low levels of demand.

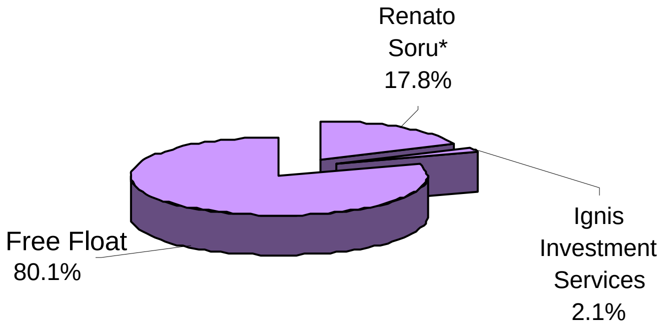
4.2 Tiscali shares

Tiscali shares have been listed on the Italian Stock Exchange (Milan: TIS) from October 1999. As at 30 June 2010, the market capitalisation stood at roughly EUR 214.1 million, calculated on a value of EUR 0.115 per share as of that date.

As at 30 June 2010 the number of shares making up the Group's share capital stood at 1,861,491,422. Tiscali's shareholder base at 30.06.10 is illustrated below.

Fig. 4.1 – Tiscali Shares

Shareholder structure



** Roughly 15% directly and indirectly through investee companies Monteverdi Srl (1.8%), Cuccureddus Srl (0.9%) and Andalas Ltd (0.1%)*

Source: Tiscali

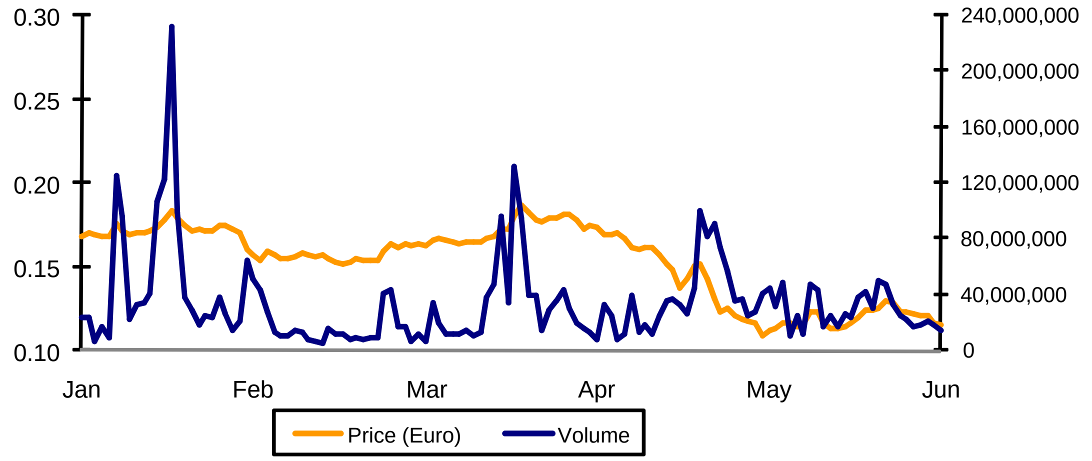
Share capital structure as at 30 June 2010

SHARE CAPITAL STRUCTURE		
	No. shares	**% with respect to share capital**
Ordinary shares	1,861,491,422	100%
OTHER FINANCIAL INSTRUMENTS		
	No. warrants in circulation	**Listed on**
Warrant 2009-2014*	1,799,469311	Borsa Italiana (Italian Stock Exchange)

* The warrants, bundled free of charge with newly issued shares in relation to the share capital increase launched in October 2009 – assign the right to subscribe the company's ordinary shares at the ratio of 1 share stemming from the capital increase for every 20 warrants exercised.

The graph below illustrates the Tiscali stock trend during the first half of 2010, characterised by sustained trading volumes, particularly in the April-May period.

Fig 4.2 – Tiscali share performance in the first half of 2010



Source: Bloomberg data processing

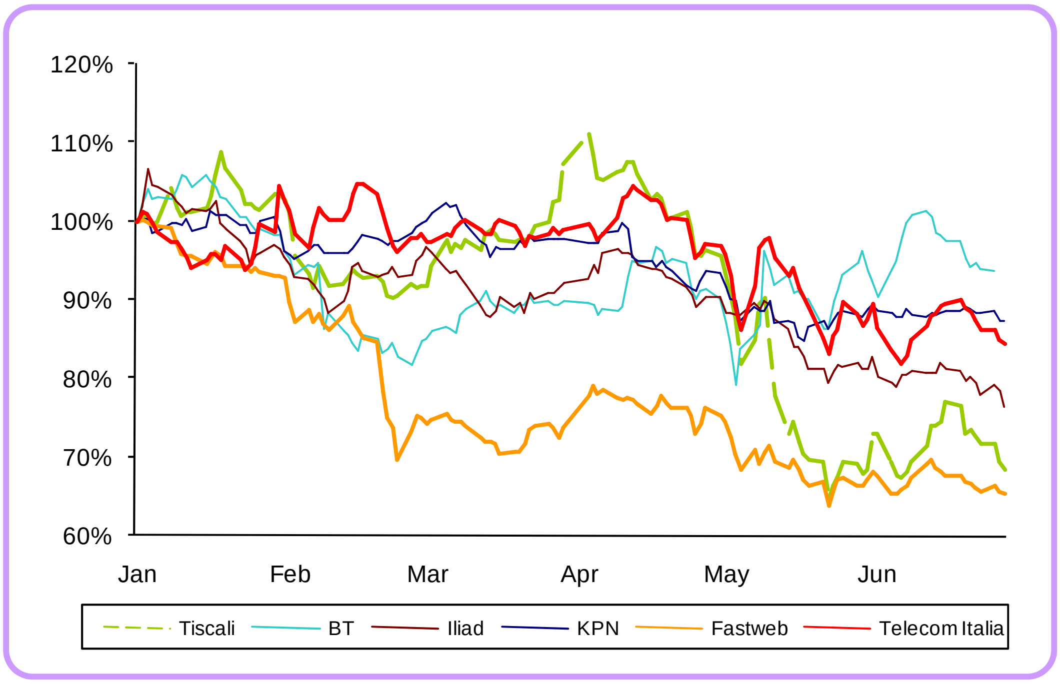
The average monthly price during the half was EUR 0.153. The high of EUR 0.187 for the period was recorded on 6 April 2010, and the low of EUR 0.109 on 25 May 2010.

Trading volumes stood at a daily average of about 34 million items, with a daily average trade value of EUR 5.2 million.

Average exchanges of the Tiscali share on the Italian Stock Exchange in the first half of 2010

	Price (EUR)	**Number of shares**
January	0.172	56,251,118
February	0.159	20,741,320
March	0.163	22,776,189
April	0.174	33,105,453
May	0.132	43,728,748
June	0.120	27,984,848
Average	**0.153**	**34,097,946**

Fig. 4.3 – Share performance of the main TLC operators in Europe in the first half of 2010



Source: Bloomberg data processing

4.3 Significant events during the first half of 2010

Tiscali Italia S.p.A.: new organisation for customer support activities

On 7 January 2010, Tiscali announced that, as part of its Italian market relaunch programme, also through an improvement of the quality of customer technical and administrative support services and an optimisation of the use of internal resources, it had decided to proceed with the in-sourcing of said activities. The in-sourcing of pre- and post-sales support represents one of the critical success factors in the telecommunications sector. This choice involves an increase in personnel costs but will have a positive impact on cost control and rationalisation; the controllability of the process will instead guarantee greater efficiency and quality of the service to the end customer.

Tiscali signs up to the project "2010: Fibra per l'Italia" (fibre optics for Italy)

On 4 June 2010, Tiscali signed up to the project "2010: Fibra per l'Italia" (fibre optics for Italy), presented by Fastweb, Vodafone and Wind, with the objective of equipping Italy with a unique, new generation fibre optic network infrastructure.

Other significant events in the half

The Board of Directors approves the 2009 Financial Statements

On 26 March 2010, Tiscali S.p.A.'s Board of Directors approved the Financial Statements for 2009 which closed with growth in Ebitda and Ebit. The results confirm the validity of the restructuring process and commercial relaunch.

Shareholders' meeting approves the 2009 financial statements

On 28 April 2010, Tiscali S.p.A.'s ordinary shareholders' meeting (second call), held in Cagliari, approved the 2009 financial statements. The financial statement figures were confirmed, approved by the Board of Directors on 26 March 2010.

The Board of Directors approves the results as at 31 March 2010

On 11 May 2010, Tiscali S.p.A.'s Board of Directors approved the quarterly report as at 31 March 2010.

Business outlook and prospects

The company will focus its operating efforts in expanding the user base, with particular emphasis on broadening the dual play customer base. In addition, the strengthening of the business commercial structure and advertising sales is expected to lead to an expansion of the revenue base of the respective areas, in order to fully exploit the network infrastructure and positioning of the Tiscali brand on the web. In addition, special focus will be placed on improving the large customer collection cycle and on an enhancement of the ADSL customer activation procedures, with a subsequent decrease in average activation times and an increase in redemption.

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 681 thousand customers as of 30 June 2010, Tiscali is among the leading suppliers of Broadband services with xDSL technology (around 582 thousand customers) and voice and Narrowband services (roughly 99 thousand customers). By means of 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, together with more specific and hi-tech products to meet the needs of the market. This range also includes voice services (VoIP and CPS), portal services and mobile telephony, thanks to the agreement reached with Telecom Italia Mobile (MVNO) for the supply of services.

Following a major refocus of the scope of consolidation, the Group concentrated its activities in Italy, by offering its products to customer and business customers, mainly by means of five business lines: (i) the "Access" line, via Broadband (ULL; Wholesale/bitstream) and Narrowband; (ii) the "Voice" line, inclusive of telephone traffic services, both traditional (CS and CPS) and VoIP; (iii) the "Mobile Telephony" line (also known as MVNO); (iv) the "Business Services" line (also known as B2B), which includes, among others, VPN and hosting services, concession of domains and Leased Lines, provided to companies and, finally, (v) the "Media and value added services" line, which includes media, advertising and other services.

Main risks and uncertainties of the Group

Risks relating to the general economic situation

The Group's economic, equity and financial position is affected by several factors which constitute the macro-economic scenario – such as, for example, variations in GDP, investor confidence in the economic system and interest rate trends. A gradual weakening of the economic system, together with a reduction in household disposable income, has cut the general level of consumption, with a depressive impact on the capacity for a quick recovery in 2010.

Should said period of economic uncertainty be drawn out, the activities, strategies and prospects of the Tiscali Group could be adversely impacted and as a result, this could also affect the company's economic, equity and financial position.

Risks connected with the performance of the telecommunications market

The telecommunications market the Tiscali Group operates in is extremely competitive in terms of innovation, price, efficiency and user support. Tiscali competes with other groups at international level and with various local operators.

The success of the Group's activities depends on the capacity to maintain and increase shares of the market in which it currently operates through high quality, innovative services that guarantee adequate levels of profitability. If the Group is unable to maintain its competitive position with respect to the main competitors in terms of price and quality and other elements, the Tiscali Group's market shares could fall, with a negative impact on the economic and financial results of the Group.

Risks connected with the dependence on technology of the telecommunications sector

The Group, which operates in a highly complex market from a technological point of view, is exposed to a high risk regarding IT and ICT systems. As regards the management of the risks connected with the damage to and malfunctioning of said systems, on which the business management is based, the Group invests adequate resources aimed at protecting all IT tools and processes. The core business systems are all highly reliable; the data centre in the Cagliari headquarters is equipped with safety systems such as the fire prevention and anti-flood systems, while the copies of data back-ups made by operational personnel are kept in a different location from the CED (data processing centre), guaranteeing a high level of reliability.

The programmatic document on safety is drawn up on an annual basis which defines the safety measures (technical, IT, organisational, logistical and procedural tools) aimed at reducing the risks of destruction or loss, even accidental, of this data, and of unauthorised access or treatment.

Risks associated with financial requirements

The evolution of the Group's financial situation depends on different factors, in particular, for example, the achievement of the forecast objectives, the trend in the general conditions of the economy, the financial markets and the sector in which the Group operates.

During 2009, Tiscali implemented a restructuring plan aimed at ensuring the long-term economic and financial equilibrium in respect of the financial covenants applicable to the loans. The continuous obtainment of adequate financing depends largely on the general conditions of the credit market and the Group's capacity to correctly implement the economic and financial plan aimed at creating a stable economic and financial balance.

Risks associated with fluctuations in interest and exchange rates

The Tiscali Group operates exclusively in Italy. However, some supplies, even though for insignificant amounts, are denominated in foreign currency.

Fluctuations in interest rates affect the market value of the Group's financial assets and liabilities and the level of net financial charges. Sudden fluctuations in interest and exchange rates could have a negative impact on the Group's economic and financial results.

Risks associated with dealings with employees and suppliers

Group employees are protected by various laws and/or collective labour contracts which ensure they have, via local and national delegations, the right to be consulted with regard to specific matters, including therein downsizing or the closure of departments and the reduction of the workforce. These laws and/or collective labour contracts applicable to the Group and its suppliers could influence its flexibility when strategically redefining and/or repositioning its activities. Tiscali's ability and that of its suppliers to make staff cuts or take other measures, even temporary, to end the employment relationship is subject to government authorisations and the consent of trade unions. Trade union protests by workers could negatively affect the company's activities.

Risks associated with the turnover of management and other human resources with key roles

The company's future depends greatly on the ability of its executives to handle it effectively. The loss of the services of an executive director, a first level manager and other key resources without adequate replacement, as well as the inability to attract and retain new and qualified personnel, could therefore have a negative impact on the Group's prospects, activities and economic and financial results.

Risks associated with business continuity

For further information please refer to para. 4.6 "*Assessment of the business as a going-concern and business outlook*".

Risks associated with disputes and contingent liabilities

For further information please refer to the paragraph "*Ongoing disputes, contingent liabilities and commitments*".

Consolidated income statement

EUR 000

CONSOLIDATED INCOME STATEMENT	First half 2010	First half 2009	Change	% Change
Revenues	140,559	151,583	-11,024	-7.3%
Other income	1,188	1,823	-635	-34.8%
Purchase of materials and outsourced services	82,425	81,000	1,424	1.8%
Payroll and related costs	23,495	21,094	2,401	11.4%
Other operating costs/(income)	-457	2,866	-3,323	-115.9%
Adjusted Gross Operating Result (EBITDA)	36,284	48,446	-12,162	-25.1%
Write-downs of receivables from customers	10,027	10,236	-210	-2.0%
Stock option plan cost	54	274	-220	-80.2%
Gross Operating Result (EBITDA)	**26,203**	**37,935**	**-11,732**	**-30.9%**
Restructuring costs, provisions for risk reserves and write-downs	376	1,900	-1,524	-80.2%
Amortisation/depreciation	21,599	25,111	-3,512	-14.0%
Operating result (EBIT)	**4,228**	**10,924**	**-6,697**	**-61.3%**
Share of results of equity investments carried at equity	**-**	**-33**	33	n.a.
Net financial income (charges)	-8,307	-39,670	31,363	79.1%
Pre-tax result	**-4,079**	**-28,779**	**24,699**	**85.8%**
Income taxes	-307	-11,392	11,085	97.3%
Net result from operating activities (ongoing)	**-4,386**	**-40,171**	**35,784**	**89.1%**
Result from assets disposed of and/or destined for disposal	-8,225	-364,870	356,645	97.7%
Net result	**-12,611**	**-405,040**	**392,429**	**96.9%**
Minority interests	**-**	**-2,186**	**-2,186**	**n.a.**
Group result	**-12,611**	**-402,854**	**390,243**	**96.9%**

In the first half of 2010, the Tiscali Group generated revenues of EUR 140.6 million, down by 7.3% compared with EUR 151.6 million in the first half of 2009. The fall in revenues is due mainly to the following factors.

- natural reduction of the narrowband/dial-up segment, equal to EUR 5.6 million;
- cessation of Tiscali S.p.A. revenues in relation to the partnership with search engine Google after the disposal of the assets of the UK subsidiaries totalling EUR 4.6 million;
- reduction of revenues from analogue voice services of around EUR 2 million due to the natural reduction of the number of customers; increase in revenues from the VOIP component, of roughly EUR 3.6 million, due to the significant increase in the number of customers.

In the first half of 2010 Internet access and voice services – the Group's core business – represented around 83% of turnover.

In terms of the costs for the purchase of materials and outsourced services, the increase in industrial costs (fixed and variable) of EUR 8.5 million compared to the first half of 2009 (mainly attributable to the rise in costs relating to VOIP services in Bitstream mode, due to the significant increase in the number of customers and the rise in fixed costs in relation to the increase in the number of sites) is partially offset by the reduction in indirect costs, equal to roughly EUR 5.3 million (due mainly to the reduction in marketing and other indirect costs).

The Group's profitability fell, with the adjusted Gross operating result (EBITDA) before provisions of EUR 36.3 million, down by 25.1% compared to the adjusted Gross operating result (EBITDA) of EUR 48.4 million recorded in the first half of 2009. The fall in the Gross operating result compared to the first half of 2009 is due mainly to the reduction in revenues (as described previously).

The net operating result (EBIT) in the first half of 2010, net of provisions, write-downs and restructuring costs was a positive EUR 4.2 million, down by 61.3% compared to the 2009 figure (EUR 10.9 million).

The result from operating activities (ongoing), was a negative EUR 4.4 million, marking a net improvement compared to the figure in the first half of 2009, thanks to the huge decrease in financial charges, from EUR 39.7 million in the first half of 2009 to EUR 8.3 million in the first half of 2010. This result was positively impacted by the fall in income taxes, from EUR 11.4 million in the first half of 2009 to EUR 0.3 million in the first half of 2010.

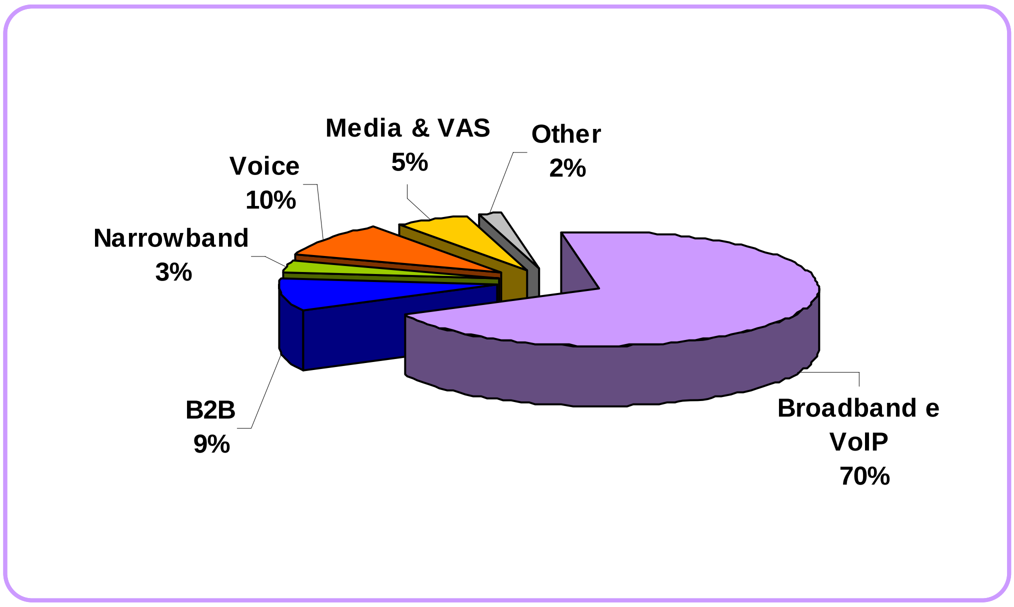
Compared with a positive net operating result, the net result for the period was a negative EUR 12.6 million, marking a net improvement compared to the figure in the first half of 2009, a negative EUR 405.0 million, due to the negative impact of the sale of Tiscali UK and TiNet for EUR 364.8 million.

Group Operational Income Statement

(EUR mln)	**30.06.10**	**30.06.09**
Revenues	**140.6**	**151.6**
Internet access revenues	66.9	72.0
of which ADSL	*62.1*	*61.7*
Voice revenues	50.3	48.7
of which Dual Play (traffic component)	*36.6*	*32.9*
Business service revenues	12.8	7.6
Media and value added service revenues	7.5	12.8
Other revenues	3.1	10.5
Gross operating margin	**71.0**	**90.5**
Indirect operating costs	**37.8**	**43.2**
Marketing and sales	5.7	9.1
Payroll and related costs	23.5	21.1
Other indirect costs	8.6	12.9
Other income/charges	-3.1	-1.1
Adjusted Gross Operating Result (EBITDA)	**36.3**	**48.4**
Write-down of receivables and other provisions	10.1	10.5
Gross Operating Result (EBITDA)	**26.2**	**37.9**
Amortisation/depreciation	21.6	25.1
Gross result (EBIT) before restructuring costs and provision for risk reserves	**4.6**	**12.8**
Operating result (EBIT)	**4.2**	**10.9**
Group Net Result	**-12.6**	**-402.9**

Revenues by business segment

***Fig. 4.5 - Break-down of revenues by business line and access mode*[1]**



Source: Tiscali

<u>Internet access</u>

This segment, which includes revenues from broadband (ADSL) and narrowband (dial-up) Internet access services and the flat component of bundled offers (internet access fees), generated revenues during the first half of EUR 66.9 million, down by 7.1% compared to the figure in the first half of 2009 (EUR 72.0 million). The reduction in revenues in the first half of 2010 over the first half of 2009 is prevalently down to the physiological reduction in the narrowband/dial-up segment (EUR 4.7 million as at 30 June 2010 compared to EUR 10.3 million at 30 June 2009, down by 53.9%). By contrast, revenues from ADSL Internet access services totalled EUR 62.1 million, in line with the figure for the same period in the previous year (EUR 61.7 million).

At 30 June 2010, direct ADSL customers increased by roughly 21 thousand compared to the first half of 2009, Dual Play customers (data and voice via internet) by roughly 98 thousand, bringing total double play customers to around 362 thousand. Also note that during the first half the Group recorded an increase of roughly 60 thousand in dual play customers compared to the end of 2009.

Total ADSL customers came to around 582 thousand at the end of the half, of which more than 395 thousand connected via unbundling.

The customer base using dial-up access (narrowband) and voice services stood at around 99 thousand users. The reduction in the narrowband customer base follows the market trend which is seeing customer offers gradually being replaced with broadband services.

[1] The graph shows the breakdown by business line which combines revenues from dual play and broadband.

Evolution of the customer base

(000)	**30.06.10**	**30.06.09**
ADSL customers	582.1	549.2
of which LLU	*395.3*	*374.3*
Narrowband and voice customers	98.8	205.0
Dual play customers	361.8	263.5

Unbundled network coverage at 30 June 2010 covered 672 sites. Voip technology over Bitstream was implemented at the start of the second half of 2009, which has made it possible to significantly increase the coverage of the dual play service in the areas not covered by the unbundled network, greatly boosting profitability thanks to the remuneration from incoming traffic.

Voice

The voice segment includes both the traditional telephone service and a component of the variable traffic generated by voice services over IP offered in bundled mode with the Internet access. In terms of revenues, during the first half of 2010, these services generated revenues roughly 3.3% higher than those in the first half of 2009. In absolute terms, voice revenues in the first half of 2010 totalled EUR 50.3 million, compared to EUR 48.7 million in the first half of 2009. As regards total voice revenues in the first half of 2010, EUR 36.6 million relate to the voice traffic components generated by the VoIP services.

Business services

Revenues from business services (VPN, housing, hosting services, domains and leased lines), excluding those from Internet access and/or voice products for the same customer base which are already included in their respective business lines, amounted to EUR 12.8 million in the first half of 2010, up by 69.8% over the EUR 7.6 million recorded in the first half of 2009. This was largely due to the repositioning of activities in the business segment, launched in the second half of 2009.

Media

In the first half of 2010 revenues recorded by the media and value added services segment (mainly relating to the sale of advertising spaces) amounted to roughly EUR 7.5 million, marking a decrease compared to the same period in the previous year (EUR 12.8 million). The first half of 2009 included the revenues of Tiscali S.p.A. amounting to EUR 4.6 million deriving from agreements with the search engine Google relating to the activities of the UK subsidiaries, which fell as a result of the sale of the same in July 2009. Despite the reduction in these revenues compared to the first half of 2009, in the first half of 2010, the Tiscali Group recorded a reversal in the trend in Media revenues which more than doubled in the second quarter of 2010 compared to the fourth quarter of 2009 (up from EUR 2.1 million to EUR 4.4 million).

Indirect operating costs stood at EUR 37.8 million (26.9% of revenues) in the first half of 2010, a reduction in terms of proportion of revenues compared to the first half of 2009 (EUR 43.2 million, 28.5% of revenues). Indirect operating costs included **payroll and related costs**, amounting to EUR 23.5 million in the first half of 2010 (16.7% of revenues), an increase over the first half of 2009 (EUR 21.1 million, 13.9% of revenues). The rise in payroll and related costs, due mainly to the considerable increase in the number of Group staff during the first half of 2010, following the creation, in January 2010, of the subsidiary Tiscali Contact, a company that manages call centre services, previously acquired from third party suppliers.

The **adjusted Gross Operating Result (EBITDA)** before provisions for risks, write-downs, depreciation and amortisation, totalled EUR 36.3 million (25.8% of revenues), down by 25.1% compared to the EUR 48.4 million in the first half of 2009 (32% of revenues).

In the first half of 2010, the **Gross operating result (EBITDA)** net of write-downs of receivables and other provisions was EUR 26.2 million (18.6% of revenues), a decrease of 30.9% on the figure for the first half of 2009 (EUR 37.9 million, 25% of revenues).

Provisions for risks, write-downs of receivables and other provisions amounted to EUR 10.1 million in the first half of 2010 (EUR 10.5 million in the corresponding period in 2009). **Amortisation/depreciation** amounted to EUR 21.6 million in the first half of 2010 (EUR 25.1 million in the first half of 2009).

The **Operating result (EBIT)** in the first half of 2010, net of provisions, write-downs and restructuring costs was EUR 4.2 million (3% of revenues), compared to the 2009 figure of EUR 10.9 million (7.2% of revenues).

The **Net result from operating activities (ongoing)** was a negative EUR 4.4 million, a net improvement compared to the corresponding figure in the previous year, a negative EUR 40.2 million. The improvement is mainly due to the decrease in financial charges in the period, from EUR 39.7 million in the first half of 2009 to EUR 8.3 million at 30 June 2010, as a result of the restructuring and a significant reduction in debts to Lenders (down from EUR 523.0 million at 30 June 2009 to EUR 163.4 million at 30 June 2010) which occurred on 2 July 2009. In particular, the reduction in financial charges on one hand takes into account lower interest on the aforementioned debt totalling roughly EUR 27.0 million and, on the other, a reduction of the negative impact of the evaluation of Interest Rate Swaps amounting to around EUR 4.9 million.

The **Group Net Result** was a negative EUR 12.6 million, compared with a negative result in the first half of 2009 of EUR 402.9 million.

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Equity and financial position

CONSOLIDATED BALANCE SHEET (in condensed form) *(EUR mln)*	30.06.10	31.12.09
Non-current assets	232.4	239.6
Current assets	174.4	188.9
Assets held for sale	-	-
Total Assets	**406.7**	**428.6**
Group shareholders' equity	(80.3)	(67.0)
Shareholders' equity pertaining to minority shareholders	-	-
Total Shareholders' equity	**(80.3)**	**(67.0)**
Non-current liabilities	222.2	239.3
Current liabilities	264.0	255.4
Liabilities directly related to assets sold	0.9	0.9
Total Liabilities and Shareholders' equity	**406.7**	**428.6**

Assets

Non-current assets

Non-current assets totalled EUR 232.4 million at 30 June 2010, less than the EUR 239.6 million at 31 December 2009. The net change is mainly due to the share of amortisation/depreciation of tangible and intangible fixed assets in the first half of 2010.

Current assets

Current assets totalled EUR 174.4 million at 30 June 2010, lower than the EUR 188.9 million at 31 December 2009. Customer receivables stood at EUR 113.4 million at 30 June 2010, compared to EUR 112.2 million at 31 December 2009. Other receivables and sundry current assets, at EUR 28.0 million, include in particular accrued income on Internet access services provided, prepaid expenses for service costs, together with sundry receivables including VAT credits.

Liabilities

Non-current liabilities

Non-current liabilities amounted to EUR 222.2 million at 31 June 2010 compared to EUR 239.3 million at 31 December 2009. The figure also includes not only items concerning the financial position, for which reference should be made to the following section, but other non-current liabilities, the provision for risks and charges for EUR 6.8 million, payables to suppliers for the purchase of long-term usage rights on transmission capacity (IRU) for EUR 6.4 million and the provision for taxes and employee severance indemnity.

Current liabilities

Current liabilities amounted to EUR 264.0 million at 30 June 2009 (compared with EUR 255.4 million at 31 December 2009). They mainly include the current portion of financial payables, payables to suppliers, together with accrued expenses pertaining to the purchase of access services and line rentals.

Financial position

At 30 June 2010, the Tiscali Group held cash and bank deposits totalling EUR 7.1 million, compared to a negative net financial position at the same date of EUR 193.1 million (EUR 211.1 million at 31 December 2009 relating solely to operating activities.

(EUR mln)	**30.06.10**	**31.12.09**
A. Cash and bank deposits	7.1	16.2
B. Other cash equivalents	0.6	0.6
C. Securities held for trading	-	-
D. Cash and cash equivalents (A) + (B) + (C)	***7.7***	***16.8***
E. Current financial payables	***21.9***	***-***
F. Non-current financial receivables	12.6	12.7
G. Current bank payables	10.9	13.6
H. Current portion of non-current debt	27.8	10.9
I. Other current financial payables (*)	2.7	4.3
J. Current financial debt (G) + (H) + (I)	***41.4***	***28.8***
K. Net current financial debt *(J) – (E) - (D) – (F)*	**(0.8)**	**(0.8)**
L. Non-current bank payables	135.7	152.9
M. Bonds issued	-	-
N. Other non-current payables (**)	58.2	59.0
O. Non-current financial debt *(N) + (L) + (M)*	**193.9**	**211.8**
P. Net financial debt (K) + (O)	**193.1**	**211.1**

(*) includes leasing payables

(**) includes leasing payables

It should be noted that the net financial position prepared by the company in accordance with the specific Consob communication, shown in Note 24 of the condensed consolidated half-yearly financial statements, amounts to EUR 206.3 million.

The table below shows the reconciliation between the two net financial positions:

(EUR mln)	**30.06.10**	**31.12.10**
Consolidated net financial debt	**193.1**	**211.1**
Other cash, cash equivalents and non-current financial receivables	13.2	13.3
Consolidated net financial debt based on Consob communication no. DEM/6064293 of 28 July 2006	**206.3**	**224.4**

4.5 Related Parties

It is Company practice to keep transactions with related parties (i.e. operations considered such pursuant to the relative Consob Communication) to a minimum. Any transactions of this nature are in any event conducted in such a way as to ensure compliance with legal and procedural standards pursuant to Article 9 of the Code.

On approval of transactions with related parties in which Directors may have a direct or indirect interest, the latter must inform the Board of Directors of their interest and leave the board room during the vote.

Lastly, pursuant to Article 14 (Powers of the Board of Directors) of the Articles of Association, the Board of Directors must inform the Board of Statutory Auditors in writing, by post or via e-mail, of any transactions involving a potential conflict of interest.

In the meeting of the Board of Directors held on the 26 March 2010 the overall Regulations on Related Parties were approved, and published in the section for “investor relations” on the Company website at *www.tiscali.it.*

4.6 Significant events after the half year end

On 2 August 2010, the evaluation process relating to the Escrow Account set up upon completion of the sale of Tiscali Uk Ltd to the Talk Talk Ltd Group on 3 July 2009 was completed.

Said deposit was constituted upon the sale of UK assets in 2009 to guarantee any agreed price adjustments on the basis of a set of operating and financial parameters, or certain guarantees relating to the performance of services. The Escrow, originally amounting to GBP 35.4 million, was written down by GBP 7.5 million at 31 December 2009.

Tiscali and Talk Talk Group Ltd defined the release of roughly EUR 24.9 million to Tiscali, of which EUR 21.9 million released in August 2010, while the remaining EUR 3.0 million will be released in two tranches of an equal amount by 31 October 2010 and 31 December 2010 upon the satisfaction of a series of commercial contractual conditions.

The deposit, which was tied to the verification of certain operating and financial parameters, was recorded in the financial statements at 31 December 2009, amounting to EUR 31.4 million.

The release of these tied sums contributes to the process of reducing net financial debt as part of the restructuring plan launched by the Tiscali Group in 2009.

4.7 Assessment of the business as a going-concern and business outlook

Events and uncertainties regarding the business continuity

The Tiscali Group closed the first half of 2010 with a consolidated loss of EUR 12.6 million, of which EUR 8.2 million determined by the result from the assets sold, and with a total consolidated shareholders' equity of a negative EUR 80.3 million. In addition, as at 30 June 2010 the Group recorded gross financial debt of EUR 235.2 million and current liabilities above current assets (non-financial) for EUR 80.2 million.

As at 31 December 2009, the loss stood at EUR 387.1 million (of which EUR 372.3 million determined by the result of the assets sold), total shareholders' equity amounted to a negative EUR 67.0 million, and gross financial debt totalled EUR 240.6 million. At the same date, the difference between current assets and liabilities (non-financial) was a negative EUR 85.3 million.

1. During 2009 the Group carried out some activities aimed at achieving long-term financial and equity equilibrium for the Group (generally known as the 'Restructuring Plan') and launching a phase of recovery of business activities. In particular, the 2009 – 2013 Business Plan and related Financial Plan were prepared and the sales of TiNet and the UK subsidiaries were completed, with the revenue from the sale being allocated mainly to the repayment of a portion of the Group's debt. In addition, the terms of the residual senior debt and Sale & lease-back debt were renegotiated, and an increase in Tiscali S.p.A. share capital was carried out, used to repay another portion of the financial debts. The restructuring of the Group's debt finally envisaged the write-off, by lenders, of a portion of residual debt.

The following activities were undertaken during the first half of 2010:

1) negotiation of an agreement with Talk Talk Ltd (purchaser of the UK assets) for the definition of the times and methods of release of part of the amount due for the sale deposited as guarantee which was concluded with the stipulation of the final agreement on 2 August 2010, on the basis of which, the amount collectable by Tiscali, was set at GBP 20.4 million (equal to EUR 24.9 million), collectable in three tranches. The first tranche, amounting to GBP 17.9 million was released in August 2010; the second tranche of GBP 1.25 million will be collected by 31 October 2010 and the third tranche, totalling GBP 1.25 million, by 31 December 2010.

   Therefore, the Escrow totalled roughly EUR 24.9 million at 30 June 2010, with a negative impact on the income statement of EUR 6.5 million.

   The first tranche, amounting to GBP 17.8 million (EUR 21.9 million), was shown in current financial receivables and was included in the Group's net financial position at 30 June 2010, which shows a significant improvement compared to the net financial position at 31 December 2009, which did not include the Escrow amount.

2) from an operational point of view, actions aimed at improving efficiency continued, in particular through the rationalisation of operating and commercial costs, the optimisation of credit recovery policies and the rationalisation of the corporate structure and costs.

   2. In addition, in the first half of 2010, significant business results were achieved, including:
   - a 68% increase in the number of registrations of ADSL customers compared to the first half of 2009 (an increase which rises to 100% if VOIP lines are also considered);
   - an increase of 60 thousand in the number of dual play customers in the first half of 2010 compared to the end of 2009;
   - a reversal of the trend in Media revenues compared to 2009 which more than doubled in the second quarter of 2010 over the fourth quarter of 2009 (from EUR 2.1 million to EUR 4.4 million);
   - a huge increase in Business revenues compared to the first half of 2009 (from EUR 7.6 million to EUR 12.8 million).

3) as envisaged by the Group Facility Agreement and agreements subsequently entered into with lenders, the 2009-2013 business plan is currently being updated, being extended to 31 December 2017 to cover the period of debt repayment. Said updated plan will be subject to asseveration in the second half of 2010 pursuant to art. 67 of Royal Decree 267/1942. Updating of the business plan until 2017, although incorporating the changed market and operational conditions of the Group, does not move away from the essential strategic guidelines of the 2009-2013 plan. The update to the plan, in 2014, assumes the refinancing of a part of the debt as regards the portion exceeding the net cash flows generated in the plan period.

On account of the foregoing, the Directors, in assessing the existence of the condition of the business continuity of the Tiscali Group in the current macro-economic context, has identified some factors that indicate the persistence of a few uncertainties:

i. the Group is still in an unbalanced equity, financial and economic situation, as shown by the negative consolidated shareholders' equity of EUR 80.3 million, due to the historically negative economic performance and weight of the Group's considerable debt.
3. However, in the first half of 2010, the result from operating activities, a negative EUR 4.4 million, showed huge improvement over the first half of 2009 (a negative EUR 40.2 million), thanks in particular to the decrease in financial charges resulting from the restructuring of the senior debt in 2009. It should also be noted that the Group's operating result was a positive EUR 4.2 million.

ii. the presence of a gross financial debt which is still significant and subject to covenants and other contractual obligations (so-called "events of default") whose breach, as is standard practice for this type of contract, could lead to the invoking of the acceleration clause (see section 24);

iii. the establishing of a balanced equity, financial and economic situation for the Group in the long-term depends, in the context of uncertainty of the current economic scenario, on the achievement of the results set out in the Business Plan, and therefore on the realisation of forecasts and assumptions contained therein, and in particular, those relating to the evolution of the telecommunications market and reaching of the growth objectives set out in a market context characterised by heavy competitive pressure.

Therefore, the following depend on the potential and capacity for fulfilling the plan: a) the ability to rebuild an adequate supply of equity, b) the recoverability of asset items, c) the capacity to comply with covenants and other contractual obligations and therefore to maintain the availability of financing granted to meet other Group obligations, d) achievement of a balanced long-term equity, economic and financial situation for the Group.

Finally, these factors are coupled with ongoing disputes, whose outcomes, although neither currently foreseeable or reasonably expected in the twelve months following the date of the financial statements, have been assessed as potentially significant (see paragraph "Disputes, contingent liabilities and commitments").

Final assessment of the Board of Directors

The Board of Directors, in assessing the above elements, has considered that, the Group:

a) completed, in the second half of 2009, all the actions set out in the Restructuring Plan, including repayment of a significant portion of the financial debt and restructuring (with more favourable terms) of the residual debt, as well as the completion of the share capital increase, proof of the confidence of the market and of the financial institutions in the Group's business model;

b) conducted the evaluation process relating to the Escrow Account set up upon completion of the sale of Tiscali Uk Ltd to the Talk Talk Ltd Group on 3 July 2009. Said process, completed on 2 August 2010, allowed the release of EUR 21.9 million that was tied up, contributing to the process of reducing the net financial debt undertaken as part of the restructuring plan launched by the Tiscali Group in 2009;

c) continued the implementation of the business plan, confirming, also in the first half of 2010, the positive trend in acquiring ADSL customers already observed in the second half of 2009;

d) verified consistency between the Business Plan and the financial requirements determined by the debt structure, and appropriateness of the Plan in complying with covenants and other contractual obligations.

These elements mean the Group is reasonably capable of implementing the Business Plan and this allows the Group to reach a balanced equity, financial and economic position in the long-term.

In conclusion, the Directors, in analysing the steps already taken on a path aimed at allowing the Group to reach a balanced equity, financial and economic position in the long-term, recognise that, as already shown in the 2009 financial statements, as of today's date, uncertainties persist, relating to events and circumstances that could raise significant doubts over the ability of the Group to continue to operate on the basis of the assumption of the business as a going-concern. But, after performing the necessary checks and assessing the uncertainties identified in light of the elements described, there is a reasonable expectation that the Group possesses adequate resources to be able to continue operations in the foreseeable future and have therefore adopted the assumption of the business as a going-concern in preparing the financial statements.

Condensed consolidated half-yearly financial statements as at 30 June 2010

5 Consolidated financial statements and explanatory notes

5.1 Income statement

(EUR 000)	Notes	First half 2010	First half 2009
Revenues	*1*	140,559	151,583
Other income	*2*	1,188	1,823
Purchase of materials and outsourced services	*3*	82,425	81,000
Payroll and related costs	*4*	23,495	21,094
Stock option plan cost	*5*	54	274
Other operating costs/(income)	*6*	(457)	2,866
Write-downs of receivables from customers	*7*	10,027	10,236
Restructuring costs and other write-downs	*8*	376	1,900
Amortisation/depreciation		21,599	25,111
Operating result		**4,228**	**10,924**
Share of results of equity investments valued using the equity method		-	(33)
Net financial income (charges)	*9*	(8,307)	(39,670)
Pre-tax result		**(4,079)**	**(28,779)**
Income taxes	*10*	(307)	(11,392)
Net result from operating activities (ongoing)		**(4,386)**	**(40,171)**
Result from assets disposed of and/or destined for disposal	*11*	(8,225)	(364,870)
Net result for the period	*12*	**(12,611)**	**(405,040)**
Attributable to:			
- Result pertaining to the Parent Company		**(12,611)**	**(402,854)**
- Minority interests		-	(2,186)
Earnings (Losses) per share			
Earnings per share from operating assets and those disposed of:		-0.01	-0.65
- Basic		-0.01	-0.65
- Diluted			
Earnings per share from operating assets:			
- Basic		-0.00	-0.06
- Diluted		-0.00	-0.06

5.2 Comprehensive income statement

(EUR 000)	Notes	First half 2010	First half 2009
Result for the period		**(12,611)**	**(405,040)**
Differences arising from conversion of foreign financial statements		-	-
Total Comprehensive income statement result net of taxes		**(12,611)**	**(405,040)**
Total Comprehensive result net of taxes			
Attributable to:			
Parent Company shareholders		**(12,611)**	**(402,854)**
Minority shareholders		-	**(2,186)**
		(12,611)	**(405,040)**

5.3 Balance sheet

(EUR 000)	Notes	30.06.10	31.12.09
Non-current assets			
Intangible assets	*14*	83,057	85,187
Properties, plant and machinery	*15*	132,576	137,737
Other financial assets	*16*	16,727	16,723
		232,360	**239,647**
Current assets			
Inventories	*17*	927	1,892
Receivables from customers	*18*	113,389	112,246
Other receivables and other current assets	*19*	28,024	27,087
Other current financial assets	*20*	24,973	31,484
Cash and cash equivalents	*21*	7,061	16,220
		174,374	**188,928**
Assets held for sale		-	**31**
Total Assets		**406,735**	**428,606**
Share Capital and reserves			
Share Capital		92,017	92,003
Stock option reserve		4,369	4,315

Profits from previous periods and Other Reserves		(164,085)	221,528
Group net result		(12,611)	(384,826)
Group shareholders' equity	*22*	**(80,310)**	**(66,980)**
Minority interests		-	-
Shareholders' equity pertaining to minority shareholders	*23*	**-**	**-**
Total Shareholders' equity		**(80,310)**	**(66,980)**
Non-current liabilities			
Payables to banks and to other lenders	*24*	135,708	152,875
Payables for financial leases	*25*	58,167	58,952
Other non-current liabilities	*26*	17,218	14,234
Liabilities for pension obligations and staff severance	*27*	4,252	4,218
Provisions for risks and charges	*28*	6,809	9,002
		222,154	**239,281**
Current liabilities			
Payables to banks and other lenders	*24*	38,678	24,453
Payables for financial leases	*29*	2,705	4,349
Payables to suppliers	*30*	150,665	150,894
Other current liabilities	*31*	71,962	75,678
		264,010	**255,374**
Liabilities directly related to assets sold		881	930
Total Liabilities and Shareholders' equity		**406,735**	**428,606**

Cash flow statement

	1° half 2010	**1° half 2009**
(EUR 000)		
OPERATIONS		
Result from operating activities	**(4,387)**	**(40,171)**
Adjustments for:		
Share of results of equity investments valued using the equity method	-	33
Depreciation of tangible assets	9,826	12,738
Amortisation of intangible assets	11,773	12,373
Capital gains (losses) from disposal of non-current assets - tangible	(1,054)	(1,054)
Capital gains (losses) from disposal of non-current assets - intangible	-	(5)
Provision for risks	416	1,900
Release of provision for risks	(1,497)	
Increases in provisions for the write-down of receivables	10,027	9,037
Fair value of financial instruments	-	4,949
Staff costs relating to stock options	54	274
Income taxes	328	882
Deferred Income taxes	(21)	10,507
Provision to staff severance indemnity and pension obligations	1,148	1,076
Financial income	(296)	(4,107)
Financial charges	8,603	38,827
Other non-monetary costs/(income)	(904)	-
	34,015	**47,261**
Cash flow from operations before capital changes		

(Increase)/Decrease in trading activities and other	(11,170)	(4,396)
(Increase)/Decrease in inventories	551	111
(Increase/Decrease) in trading liabilities and other	(453)	(22,135)
Payments to provisions for risk and other funds	(390)	(5,191)
Employee severance indemnity payment	(1,114)	(1,467)
Changes in other liabilities	(3,464)	-
Changes in other assets	(963)	-
Change in working capital	**(17,002)**	**(33,078)**
CASH FLOWS GENERATED / USED BY OPERATIONS	**17,012**	**(14,183)**
INVESTMENT ACTIVITIES		
Acquisition of properties, plant and machinery	(3,927)	(3,019)
Net increases in other intangible fixed assets	(10,961)	(5,631)
Change in tangible fixed assets	-	406
Change in intangible fixed assets	-	(402)
Change in financial assets and equity investments according to equity method	(26)	1,128
Countervalue from the disposals of subsidiaries	-	24,689
CASH FLOWS GENERATED / USED BY INVESTING ACTIVITIES	**(14,914)**	**17,171**

FINANCIAL ACTIVITIES		
Repayment of loans	(5,318)	-
Interest paid	(35)	103
Increase (decrease) in bank overdrafts	(4,103)	(3,808)
Change in financial liabilities (leasing)	(3,748)	(5,174)
Change in medium/long-term financial liabilities	2,721	104
Increases of capital/ exercise of warrants net of additional charges	(774)	-
CASH FLOWS USED IN FINANCING ACTIVITIES	**(11,256)**	**(8,775)**
NET INCREASE/(DECREASE) IN NET CASH AND CASH EQUIVALENTS	**(9,158)**	**22,579**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE FINANCIAL YEAR	**16,220**	**25,636**
Net cash flows from assets sold		***(16,243)***
CASH AND CASH EQUIVALENTS AT THE END OF THE HALF	**7,061**	**31,972**

5.4 Statement of changes in shareholders' equity

(EUR 000)	Share Capital	Share premium reserve	Stock option reserve	Accumulated Losses and Other reserves	Group shareholders' equity	Minority interests	Total
Balance at 01.01.10	**92,003**	**-**	**4,315**	**(163,297)**	**(66,980)**	**-**	**(66,980)**
Increase in share capital	14	-	-	*(788)*	**(774)**	-	**(774)**
Increases/(decreases)	-	-	54	-	**54**	-	**54**
Result for the period	-	-	-	*(12,611)*	***(12,611)***	-	***(12,611)***
Balance at 30.06.10	**92,017**	**-**	**4,369**	**(176,696)**	**(80,310)**	**-**	**(80,310)**

(EUR 000)	Share Capital	Share premium reserve	Stock option reserve	Accumulated Losses and Other reserves	Group shareholders' equity	Minority interests	Total
Balance at 01.01.09	**308,273**	**990,857**	**3,840**	**(1,292,148)**	**10,823**	**(6,046)**	**4,777**
Increases/(decreases)	-	-	284	-	**284**	-	**284**
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)***
Balance at 30.06.09	**156,071**	**-**	**4,124**	**(432,442)**	**(272,247)**	**-**	**(272,247)**

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5.5 Income statement pursuant to Consob Resolution no. 15519 of 27 July 2006

(EUR 000)	First half 2010	*Of which related parties*	First half 2009	*Of which related parties*
Revenues	140,559	114	151,583	299
Other income	1,188	-	1,823	-
Purchase of materials and outsourced services	82,425	164	81,000	582
Payroll and related costs	23,495	-	21,094	-
Stock option plan cost	54	-	274	-
Other operating costs/(income)	(457)	-	2,866	-
Write-downs of receivables from customers	10,027	-	10,236	-
Restructuring costs and other write-downs	376	-	1,900	-
Amortisation/depreciation	21,599	-	25,111	-
Operating result	**4,228**	**(50)**	**10,924**	**(283)**
Share of results of equity investments valued using the equity method	-	-	(33)	-
Net financial income (charges)	(8,307)	-	(39,670)	(969)
Pre-tax result	**(4,079)**	**(50)**	**(28,779)**	**(1,252)**
Income taxes	(307)	-	(11,392)	-
Net result from operating activities (ongoing)	**(4,386)**	**(50)**	**(40,171)**	**(1,252)**
Result from assets disposed of and/or destined for disposal	(8,225)	-	(364,870)	-
Net result	**(12,611)**	**(50)**	**(405,040)**	**(1,252)**
Attributable to:				
- Result pertaining to the Parent Company	**(12,611)**		**(402,854)**	
- Minority interests	-		(2,186)	
Earnings (Losses) per share				
Earnings per share from operating assets and those disposed of				
- Basic	-0.01		-0.65	
- Diluted	-0.01		-0.65	
Earnings per share from operating assets:				
- Basic	-0.00		-0.06	
- Diluted	-0.00		-0.06	

tiscali:

5.6 Balance Sheet pursuant to Consob Resolution no. 15519 of 27 July 2006

(EUR 000)	30.06.10	*Of which related parties*	31.12.09	*Of which related parties*
Non-current assets				
Intangible assets	83,057		85,187	
Properties, plant and machinery	132,576		137,737	
Other financial assets	16,727		16,723	
	232,360		**239,647**	
Current assets				
Inventories	927		1,892	
Receivables from customers	113,389	466	112,246	516
Other receivables and other current assets	28,024		27,087	
Other current financial assets	24,973		31,484	
Cash and cash equivalents	7,061		16,220	
	174,374		**188,928**	
Assets held for sale	-		31	
Total Assets	**406,735**	**466**	**428,606**	**516**
Share Capital and reserves				
Share Capital	92,017		92,003	
Stock option reserve	4,369		4,315	
Profits from previous periods and Other Reserves	(164,085)		221,528	
Result for the period	(12,611)		(384,826)	
Group shareholders' equity	**(80,310)**		**(66,980)**	
Minority interests	-		-	
Shareholders' equity pertaining to minority shareholders	**-**		**-**	
Total Shareholders' equity	**(80,310)**		**(66,980)**	
Non-current liabilities				
Payables to banks and to other lenders	135,708		152,875	-
Payables for financial leases	58,167		58,952	
Other non-current liabilities	17,218		14,234	
Liabilities for pension obligations and staff severance	4,252		4,218	
Provisions for risks and charges	6,809		9,002	
	222,154		**239,281**	**-**
Current liabilities				
Payables to banks and other lenders	38,678		24,453	
Payables for financial leases	2,705		4,349	
Payables to suppliers	150,665	357	150,894	1,355
Other current liabilities	71,962		75,678	
	264,010		**255,374**	
Liabilities directly related to assets held for sale	881		930	
Total Liabilities and Shareholders' equity	**406,735**	**357**	**428,606**	**1,355**

5.7 Explanatory Notes

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 a wide range of services to its customers, both private individuals and companies, from dial-up and ADSL Internet access to more specific and hi-tech products to satisfy the needs of the market.

This offer, which also includes voice services (such as mobile telephony) and portal services, enables Tiscali to compete effectively with the other market operators.

Thanks to its unbundling network (ULL), its innovative services and its strong brand, Tiscali has achieved a strategic position in the telecommunications market.

These condensed consolidated half-yearly financial statements are presented in thousands of Euros (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.

In preparing these financial statements the directors have taken the going-concern assumption and therefore have drafted the financial statements using the standards and policies that are applied to operating companies.

This half-yearly financial report was approved by the Board of Directors on 27 August 2010, that authorised its publication in accordance with legal terms and methods.

Assessment of the business as a going-concern and business outlook

Events and uncertainties regarding the business continuity

The Tiscali Group closed the first half of 2010 with a consolidated loss of EUR 12.6 million, of which EUR 8.2 million determined by the result from the assets sold, and with a total consolidated shareholders' equity of a negative EUR 80.3 million. In addition, as at 30 June 2010 the Group recorded gross financial debt of EUR 235.2 million and current liabilities above current assets (non-financial) for EUR 80.2 million.

As at 31 December 2009, the loss stood at EUR 387.1 million (of which EUR 372.3 million determined by the result of the assets sold), total shareholders' equity amounted to a negative EUR 67.0 million, and gross financial debt totalled EUR 240.6 million. At the same date, the difference between current assets and liabilities (non-financial) was a negative EUR 85.3 million.

4. During 2009 the Group carried out some activities aimed at achieving long-term financial and economic equilibrium for the Group (generally known as the 'Restructuring Plan') and launching a phase of recovery of business activities. In particular, the 2009 – 2013 Business Plan and related Financial Plan were prepared and the sales of TiNet and the UK subsidiaries were completed, with the revenue from the sale being allocated mainly to the repayment of a portion of the Group's debt. In addition, the terms of the residual senior debt and Sale & lease-back debt were renegotiated, and an increase in Tiscali S.p.A. share capital was carried out, used to repay another portion of the financial debts. The restructuring of the Group's debt finally envisaged the write-off, by lenders, of a portion of residual debt.

The following activities were undertaken during the first half of 2010:

1) negotiation of an agreement with Talk Talk Ltd (purchaser of the UK assets) for the definition of the times and methods of release of part of amount due for the sale deposited as guarantee which was concluded with the stipulation of the final agreement on 2 August 2010, on the basis of which, the amount collectable by Tiscali, was defined at GBP 20.4 million (equal to EUR 24.9 million), cashable in three tranches. The first tranche, amounting to GBP 17.9 million was released in August 2010; the second tranche of GBP 1.25 million will be cashed by 31 October 2010 and the third tranche, totalling GBP 1.25 million, by 31 December 2010.

   Therefore, the Escrow totalled roughly EUR 24.9 million at 30 June 2010, with a negative impact on the income statement of EUR 6.5 million.

The first tranche, amounting to GBP 17.8 million (EUR 21.9 million), was shown in current financial receivables and was included in the Group's net financial position at 30 June 2010, which shows a significant improvement compared to the net financial position at 31 December 2009, which did not include the Escrow amount.

2) from an operational point of view, actions aimed at improving efficiency continued, in particular through the rationalisation of operating and commercial costs, the optimisation of credit recovery policies and the rationalisation of the corporate structure and costs.

5. In addition, in the first half of 2010, significant business results were achieved, including:

- a 68% increase in the number of registrations of ADSL customers compared to the first half of 2009 (an increase which rises to 100% if VOIP lines are also considered);
- an increase of 60 thousand in the number of dual play customers in the first half of 2010 compared to the end of 2009;
- a reversal of the trend in Media revenues compared to 2009 which more than doubled in the second quarter of 2010 over the fourth quarter of 2009 (from EUR 2.1 million to EUR 4.4 million);
- a huge increase in Business revenues compared to the first half of 2009 (from EUR 7.6 million to EUR 12.8 million).

3) as envisaged by the Group Facility Agreement and agreements subsequently entered into with lenders, the 2009-2013 business plan is currently being updated, being extended to 31 December 2017 to cover the period of debt repayment. Said updated plan will be subject to asseveration in the second half of 2010 pursuant to art. 67 of Royal Decree 267/1942. Updating of the business plan until 2017, although incorporating the changed market and operational conditions of the Group, does not move away from the essential strategic guidelines of the 2009-2013 plan. The update to the plan, in 2014, assumes the refinancing of a part of the debt as regards the portion exceeding the net cash flows generated in the plan period.

On account of the foregoing, the Directors, in assessing the existence of the condition of the business continuity of the Tiscali Group in the current macro-economic context, has identified some factors that indicate the persistence of a few uncertainties:

i. the Group is still in an unbalanced equity, financial and economic situation, as shown by the negative consolidated shareholders' equity of EUR 80.3 million, due to the historically negative economic performance and weight of the Group's considerable debt.

6. However, in the first half of 2010, the result from operating activities, a negative EUR 4.4 million, showed huge improvement over the first half of 2009 (a negative EUR 40.2 million), thanks in particular to the decrease in financial charges resulting from the restructuring of the senior debt in 2009. It should also be noted that the Group's operating result was a positive EUR 4.2 million.

ii. the presence of a gross financial debt which is still significant and subject to covenants and other contractual obligations (so-called "events of default") whose breach, as is standard practice for this type of contract, could lead to the invoking of the acceleration clause (see section 24);

iii. the establishing of a balanced equity, financial and economic situation for the Group in the long-term depends, in the context of uncertainty of the current economic scenario, on the achievement of the results set out in the Business Plan, and therefore on the realisation of forecasts and assumptions contained therein, and in particular, those relating to the evolution of the telecommunications market and reaching of the growth objectives set out in a market context characterised by heavy competitive pressure.

Therefore, the following depend on the potential and capacity for fulfilling the plan: a) the ability to rebuild an adequate supply of equity, b) the recoverability of asset items, c) the capacity to comply with covenants and other contractual obligations and therefore to maintain the availability of financing granted to meet other Group obligations, d) achievement of a balanced long-term equity, economic and financial situation for the Group.

Finally, these factors are coupled with ongoing disputes, whose outcomes, although neither currently foreseeable or reasonably expected in the twelve months following the date of the financial statements, have been assessed as potentially significant (see paragraph "Disputes, contingent liabilities and commitments").

Final assessment of the Board of Directors

The Board of Directors, in assessing the above elements, has considered that, the Group:

a) completed, in the second half of 2009, all the actions set out in the Restructuring Plan, including repayment of a significant portion of the financial debt and restructuring (with more favourable terms) of the residual debt, as well as the completion of the share capital increase, proof of the confidence of the market and of the financial institutions in the Group's business model;

b) conducted the evaluation process relating to the Escrow Account set up upon completion of the sale of Tiscali Uk Ltd to the Talk Talk Ltd Group on 3 July 2009. Said process, completed on 2 August 2010, allowed the release of EUR 21.9 million that was tied up, contributing to the process of reducing the net financial debt undertaken as part of the restructuring plan launched by the Tiscali Group in 2009;

c) continued the implementation of the business plan, confirming, also in the first half of 2010, the positive trend in acquiring ADSL customers already observed in the second half of 2009;

d) verified consistency between the Business Plan and the financial requirements determined by the debt structure, and appropriateness of the Plan in complying with covenants and other contractual obligations.

These elements mean the Group is reasonably capable of implementing the Business Plan and this allows the Group to reach a balanced equity, financial and economic position in the long-term.

In conclusion, the Directors, in analysing the steps already taken on a path aimed at allowing the Group to reach a balanced equity, financial and economic position in the long-term, recognise that, as shown in the 2009 financial statements, as of today's date, uncertainties persist, relating to events and circumstances that could raise significant doubts over the ability of the Group to continue to operate on the basis of the assumption of the business as a going-concern. But, after performing the necessary checks and assessing the uncertainties identified in light of the elements described, there is a reasonable expectation that the Group possesses adequate resources to be able to continue operations in the foreseeable future and has therefore adopted the assumption of the business as a going-concern in preparing the financial statements.

Format and content of accounting statements

Basis of preparation and consolidation

These condensed consolidated half-yearly financial statements have been drafted in compliance with the International Accounting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and approved by the European Union. The IFRS are understood to include all the reviewed international accounting standards ("IAS") and all the interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), previously known as the Standing Interpretations Committee ("SIC").

The form and contents of these condensed consolidated half-yearly financial statements conform with those set out in IAS 34 (Interim Financial Reporting).

The notes have been drawn up in condensed form, applying the right envisaged by IAS 34 and so do not include all the information required for annual financial statements drafted in accordance with IFRS.

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

The consolidation standards, accounting standards and calculation methods used to prepare the half-yearly position are the same as those used to prepare the half-yearly position as at 30 June 2009 and the consolidated financial statements as at 31 December 2009, presented for comparative purposes.

Preparation of the half-yearly financial statements and the relative notes requires management to make accounting estimates and in certain cases assumptions in the application of IFRS. As regards the preparation of the half-yearly financial statements, the significant evaluations of company management regarding the application of accounting standards and the main sources of uncertainty of the estimates correspond to those applied to the preparation of the consolidated financial statements as at 31 December 2009.

Consolidation area

The consolidation area of the Group includes the financial statements of Tiscali S.p.A. (Parent Company) and the companies the latter directly or indirectly controls starting from the date on which it was acquired and until the date on which control ceases.

These subsidiaries are listed fully in the note *List of subsidiaries included in the consolidation area.*

Changes in the consolidation area during the first half of 2010 are illustrated as follows:

Companies removed from the consolidation area:

- Energy Byte S.r.l.: on 18 March 2010 liquidation proceedings were concluded and the company was wound up;
- Tiscali Finance SA: on 7 January 2010 liquidation proceedings were concluded and the company was wound up.

Changes to Accounting Standards

Effective from 1 January 2010, certain amendments were also applied to the international accounting standards and interpretations listed below:

- Amendments to IFRS 3 (*Business Combinations*). On 3 June 2009, with Regulation no. 495/2009 the European Commission approved an updated version of IFRS 3. The main changes concern the elimination of the obligation to value each asset and liability of subsidiaries at fair value for every subsequent acquisition in the event of subsidiary acquisition in phases. Goodwill is determined only in the final acquisition phase and equal to the difference between the value of any equity investments immediately prior to acquisition, payment for the transaction and the fair value of net assets acquired. Moreover, if the Group does not acquire 100% of the company, the shareholdings of minority interests can be valued at fair value or by using the method already provided by IFRS 3. The revised version of the standard also provides that all costs related to the business combination are charged to the income statement and liabilities for payments subject to conditions at the date of the acquisition are to be reported. The new rules shall be applied starting from 1 January 2010. The application of said provisions did not impact the consolidated financial statements as at 30 June 2010.
- Amendments to IAS 27 (*Consolidated and Separate Financial Statements*). With Regulation no. 494/2009 of 3 June 2009 the European Commission amended IAS 27 and established that changes in shareholdings that do not constitute a loss of control shall be treated as equity transactions and so offset with shareholders' equity, excluding the previously accepted practice of reporting any goodwill or capital gain as the difference between the amount paid/received and the pro-rata value of the net assets acquired/sold. Moreover, it was established that when a Parent Company loses control of its subsidiary, but continues to hold interests in the company, it values the investment maintained in the financial statements at fair value and charges any profit or loss deriving from the loss of control to the income statement. Lastly, the amendment to IAS 27 requires that all losses attributed to minority shareholders should be allocated to the minority share, even when they exceed their share in the equity of the company. The new rules shall be applied starting from 1 January 2010. Amendments to IFRS 5 (*Non-current assets held for sale and discontinued operations*). This standard prescribes that if an entity undertakes a sale which involves the loss of control over a subsidiary, it must reclassify all the assets and liabilities of the subsidiary as held for sale, even when after the sale it maintains a minority interest in the former subsidiary. The new rules shall be applied starting from 1 January 2010. The application of said provisions did not impact the consolidated financial statements as at 30 June 2010.
- Amendments to IAS 36 (*Impairment of Assets*). The amendment of this standard provides that additional information be provided if the Group determines the recoverable value of cash generating units using the discounted cash flow method. The application of said provisions did not impact the consolidated financial statements as at 30 June 2010.

- Amendments to IAS 24 (*Related Party Disclosures*). On 4 November 2009, IASB issued a new version of IAS 24 Disclosure of Related Party Transactions, which simplifies the disclosure requirements concerning related parties involving public entities and clarifies the definition of "related party". To date, the competent bodies of the European Union had not yet concluded the approval process necessary for the application of this standard. The application of said provisions did not impact the consolidated financial statements as at 30 June 2010.

Revenues (note 1)

The reduction in revenues is mainly due to the contraction in the internet access segment, in particular the fall in the sale of narrowband internet access services. For more details refer to the interim report on operations.

Other income (note 2)

EUR 000	First half 2010	First half 2009
Other income	1,188	1,823
Total	**1,188**	**1,823**

Other income amounted to EUR 1.2 million and mainly includes the release of the share of the capital gains from the disposal of SA Illetta for roughly EUR 1.0 million accounted in respect of Tiscali Italia S.p.A..

Purchase of materials and outsourced services (note 3)

EUR 000	First half 2010	First half 2009
Purchase of raw materials and goods for resale	14	295
Costs of line rental/traffic and interconnection	53,334	45,325
Costs for use of third party assets	2,361	2,376
Portal services	4,424	7,075
Marketing costs	5,692	9,130
Other services	16,601	16,799
Total	**82,425**	**81,000**

The increase in the costs of line rental/traffic and interconnection with respect to the same period last year largely reflects the increase in the number of customers, especially in Bitstream mode, and the rise in the number of dual play customers.

Payroll and related costs (note 4)

EUR 000	First half 2010	First half 2009
Wages and salaries	16,224	14,768
Other personnel costs	7,271	6,326
Total	**23,495**	**21,094**

The increase in payroll and related costs compared to the first half of 2009 is essentially due to the in-sourcing of call centre services, which involved the hiring of 234 staff by Tiscali Contact S.r.l., and the increase in the sales force regarding business and media services.

The breakdown by category and the corresponding balance at 30 June 2009 are presented below.

Number of employees

	First half 2010	First half 2009
Executives	22	27
Middle managers	96	61
Office staff	905	624
Blue-collar workers	1	-
Total	**1,024**	**712**

Stock option plan cost (note 5)

EUR 000	First half 2010	First half 2009
Stock option plan cost	54	274
Total	**54**	**274**

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

Other operating (income)/charges (note 6)

The breakdown is as follows:

EUR 000	First half 2010	First half 2009
Other operating expenses	1,450	2,122
Contingencies, capital losses and other non-recurrent costs	(1,907)	744
Total	**(457)**	**2,866**

The item ‘Contingencies, capital losses and other non-recurrent costs’ mainly included the following elements in the first half of 2010:

- release of provisions for risks and charges totalling EUR 1.0 million following the redefinition of the probable Group expenses;

- write-off of lapsed debts to suppliers of a total of EUR 680 thousand.

Write-down of receivables from customers (note 7)

EUR 000	First half 2010	First half 2009
Write-downs of receivables from customers	10,027	10,236
Total	**10,027**	**10,236**

The write-down of receivables from customers represents around 7.1% of revenues, up with respect to the percentage in the same period of 2009 (6.7%). For more information see the note "Receivables from customers" (Note 18).

Restructuring costs and other write-downs (note 8)

EUR 000	First half 2010	First half 2009
Restructuring costs and other write-downs	376	1,900
Total	**376**	**1,900**

Restructuring costs and other write-downs, amounting to EUR 376 thousand include a provision made by Tiscali S.p.A. in respect of the VAT assessment notice relating to 2005, notified by the Tax Authorities, amounting to EUR 0.3 million, plus consultancy charges relating to the update of the Business Plan.

Financial income (charges) (note 9)

<u>Net financial income (charges)</u>

A breakdown of net financial income (charges) for the year, presenting a negative balance of EUR 8.3 million, is provided below.

EUR 000	First half 2010	First half 2009
Financial income		
Interest on bank deposits	30	88
Interest earned	107	1,197
Other financial income	159	2,821
Total	**296**	**4,107**
Financial charges		
Interest and other charges due to banks	5,551	33,782
Other financial charges	3,052	9,995
Total	**8,603**	**43,777**
Net financial income (charges)	**(8,307)**	**(39,670)**

Net financial charges (income) mainly include bank interest on the restructured Senior Loan of EUR 5.1 million, leasing interest of subsidiary Tiscali Italia S.p.A. of EUR 1.3 million, current account interest of Tiscali

Italia S.p.A. amounting to EUR 0.4 million, figurative interest on Indefeasible Rights of Use contracts of EUR 0.2 million, arrears interest debited from suppliers of EUR 0.2 million, plus Group bank fees of EUR 1.1 million.

Income taxes (note 10)

EUR 000	First half 2010	First half 2009
Current taxes	328	885
Deferred taxes	(21)	10,507
Net taxes for the year	**(307)**	**(11,392)**

Current taxes are mainly represented by IRAP (regional business tax) payable by Italian companies.

The item Deferred taxes, amounting to EUR 10.5 million at 31 December 2009, represents the reversal of prepaid taxes recorded at 31 December 2008 in the financial statements of the subsidiary Tiscali International BV.

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

The Result from Operating assets disposed of and/or assets held for sale, a negative EUR 8.2 million, includes the following elements:

- write-down of the Escrow relating to the sale of UK subsidiaries on 3 July 2009, for a total of EUR 6.5 million. Said Escrow was set up to guarantee any agreed price adjustments on the basis of set operating and financial parameters, or certain guarantees relating to the performance of services. The Escrow, originally amounting to GBP 35.4 million, was written down by GBP 7.5 million at 31 December 2009. The book value at 31 December 2009, net of the exchange effect, stood at EUR 31.4 million.

Following disputes raised by both parties (Tiscali and the purchaser Talk Talk), establishment of the methods of defining the value of the Escrow was entrusted to an independent expert. The dispute was resolved with an agreement signed on 2 August 2010, which defines the final value of the Escrow and settlement times.

Based on said agreement, the amount collectable by Tiscali was set at GBP 20.4 million (equal to EUR 24.9 million), collectable in three tranches. The first tranche, amounting to GBP 17.9 million, was collected in August 2010. The second, at GBP 1.25 million, will be collected by 31 October 2010, and the third, amounting to GBP 1.25 million, will be collected by 31 December 2010. Based on the debt restructuring agreements with lenders signed in July 2009 said sums will used for a partial repayment of the debt.

The final amount of the Escrow was EUR 24.9 million at 30 June 2010.

- other charges (consultancy and legal fees) relating to the sale of the UK subsidiaries amounting to EUR 0.6 million,
- write-down of tax receivables for roughly EUR 1.1 million relating to a German subsidiary that is no longer operating.

Earnings (Losses) per share (note 12)

The earnings per share and diluted earnings per share from operating activities and those disposed of amounted to a negative value of EUR 0.01.

Impairment test of assets (note 13)

At 30 June 2010 an impairment test was performed on assets, in accordance with IAS 36 and prescribed in the joint document Banca d'Italia / Consob / ISVAP no. 4 of March 2010.

The impairment test on assets was performed by comparing the book value of assets reported at 30 June 2010 and their utilisation value, determined based on the following essential elements.

(i) Definition of Cash Generating Units

The Group identified the Cash Generating Units with the segments set forth in the segment reporting (see section “Segment reporting (by geographic area and business segment”) defined and structured by geographic area. The impairment test on assets was performed with respect to the Group Cash Generating Units.

(ii) Criteria for estimating recoverable amount

The utilisation value of the Cash Generating Units (CGU) was determined by discounting the cash flows deriving from the Group Business Plan.

With regard to the economic/financial objectives, the main assumptions concern:

- Explicit forecast period equating to the remaining plan duration,
- EBITDA emerging from market and business development;
- Investments to maintain expected development of the business and the pre-established level of profitability;
- Determination of the terminal value calculated as perpetuity based on the projection of the last year of the plan;
- The WACC rate determined based on market valuations of the cost of money and specific risks related to the company’s core business;
- Terminal growth rate (Long-Term Growth – LTG) amounting to 2%, in line with analysts’ forecasts.

The cost of the capital was estimated considering the calculation criteria provided by the CAPM (Capital Asset Pricing Model). In particular in the determination of the WACC:

a) the beta coefficient was valued considering both the value of Tiscali over various timescales for a period of more than twelve months, and a panel of various telecommunications operators in Europe adjusted to take into account Tiscali’s financial structure;

b) the spread of the credit on the risk free element was valued in line with the conditions of current debt;

c) the risk premium was valued within a prudent range with respect to the current conditions of financial markets.

Based on these parameters the WACC used for the impairment tests was estimated at 8.47% both for the CGU Italy and for the valuation of the entire Group.

The result of the impairment test shows a considerably positive difference between the recoverable value and book value, thus the company feels that it is not necessary to write down any of its assets.

(iii) Sensitivity analysis of the impairment test result

In consideration of the current scenario and the results of the impairment tests performed in 2009, a sensitivity analysis was carried out on the recoverable value estimated by using the discounted cash flow method. The discount rate is considered a key parameter in the estimate of recoverable value. An increase of 1% would lower the positive difference between estimated recoverable value and book value. This difference would continue to be considerably positive.

(iv) Considerations on the presence of external impairment indicators

Considering the current market situation, certain considerations on the presence of external impairment indicators were made especially with regard to evidence from the financial market. For that purpose, market capitalisation of Tiscali Group does not give rise to elements departing from the results of the impairment tests.

Intangible assets (note 14)

Intangible assets amounted to EUR 83.1 million at 30 June 2010.

NET VALUE ***EUR 000***	**Computers, software and development costs**	**Concessions and similar rights**	**Broadband service activation costs**	**Other intangible assets**	**Intangible assets in the course of acquisition and prepayments**	**Total**
31.12.09	**888**	**53,804**	**9,285**	**14,328**	**6,882**	**85,187**
30.06.10	**619**	**55,680**	**13,341**	**12,244**	**1,172**	**83,057**

Investments in the period ended at 30 June 2010 amounted to roughly EUR 11.0 million.

The item “Computers, software and development costs”, whose balance amounts to EUR 619 thousand, includes the capitalisation of development costs of applicative software customised for the exclusive use of the company.

The balance of “Concessions and similar rights”, amounting to EUR 55.7 million, includes EUR 47.4 million relating to rights and costs connected with the acquiring of transmission capacity, on a several-year basis, in the shape of concession contracts for the use of the same (IRU/Indefeasible Rights of Use) and EUR 5.0 million relating to licences and software. The remaining amount is EUR 3.3 million for patent rights and other intangible assets. Investments during the half in the category amounted to roughly EUR 2.1 million, mainly for licenses and software acquired and the creation of new IRU contracts.

The item “Broadband service activation costs”, equalling EUR 13.3 million, relates to the capitalisation of the activation costs concerning the ADSL service. Said costs are amortised in relation to the minimum duration of the customer contract. Investments during the half amounted to EUR 8.3 million made by Tiscali Italia S.p.A., mainly for licenses and software acquired and the creation of new IRU contracts.

The other intangible assets, amounting to EUR 12.2 million, mainly consist of development costs for the new UNIT2 platform for EUR 10.1 million, and about EUR 2.1 million for costs relating to the mobile project (MVNO). The increases in this item, for EUR 0.4 million, include costs incurred for improving the management of the UNIT2 platform used for managing the customer base.

The item Intangible assets in course of acquisition and prepayments, amounting to EUR 1.2 million, held by the Italian subsidiary Tiscali Italia S.p.A., refers to costs for fibre activation together with activities for site placement and installation.

Properties, plant and machinery (note 15)

Intangible assets amounted to EUR 132.7 million at 30 June 2010.

NET VALUE *EUR 000*	Properties	Plant and machinery	Other tangible assets	Tangible assets in the course of construction	Total
31.12.09	**56,134**	**70,229**	**2,497**	**8,877**	**137,737**
30.06.10	**55,200**	**70,053**	**2,360**	**4,963**	**132,576**

The item "Properties", amounting to EUR 56.2 million, mainly relates to the SA Llletta office, the headquarters of the Italian subsidiary in Cagliari, which was the object of the Sale & Lease back financial transaction in 2007.

The net book value of "Plant and Machinery" (EUR 70 million) includes, in particular, costs to install and extend ULL sites, specific and network devices such as routers, DSLAM, servers and transmission devices.

The EUR 3.3 million increase reflects the huge investments concerning the development of the infrastructure that is necessary to support the ADSL service supply in unbundling mode.

The "Other assets", whose balance amounts to EUR 2.4 million, include furniture and furnishings, electronic and electromechanical office equipment as well as motor vehicles.

In addition, the item "Tangible assets in the course of construction and prepayments", held by the Italian subsidiary Tiscali Italia S.p.A., amounting to roughly EUR 5 million, includes transmission devices and DSLAM, for around EUR 3.3 million, and modems in inventories destined to be loaned to customers for the connection of ADSL lines (EUR 1.7 million).

Other non-current financial assets (note 16)

(EUR 000)	30.06.10	31.12.09
Guarantee deposits	6,936	6,877
Other receivables	7,459	7,514
Equity investments in other companies	2,332	2,332
Total	**16,727**	**16,723**

Guarantee deposits amounting to EUR 6.9 million, include EUR roughly 6.3 million in deposits reported by the Italian subsidiary relating to the sale and lease back transaction on the SA Illetta headquarters of the Tiscali Group in Cagliari, and EUR 0.2 million in deposits relating to the German subsidiaries.

Other receivables mainly include other financial assets represented by the amount owed to Tiscali Group by the buyer of TiNet Group (Talia), the sale of which was completed in May 2009, for the deferred amount of the price equal to EUR 6.3 million.

The item Equity investments in other companies is mainly for the shareholdings held by Tiscali Italia S.p.A. in Janna S.c.p.a. for EUR 2.3 million, a consortium company whose company object is the operation of an underwater fibre optic cable between Sardinia and the Italian mainland and between Sardinia and Sicily, of which Tiscali Italia S.p.A. avails, through their partner, of the use of 4 fibre optic pairs over 2 lines.

Inventories (note 17)

At 30 June 2010, inventories totalled EUR 927 thousand and relate to “work in progress to order” contracted by third parties for IT projects carried out by the subsidiary Tiscali Italia S.p.A..

Receivables from customers (note 18)

(EUR 000)	30.06.10	31.12.09
Receivables from customers	182,782	173,683
Write-down provision	(69,392)	(61,437)
Total	**113,389**	**112,246**

At 30.06.10, receivables from customers totalled EUR 113.4 million, after write-downs of EUR 69.4 million. These receivables accrued 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 analysis of receivables is performed periodically, by adopting a specific policy for calculating the receivable write-down provision, with reference to experience and historical trends. The change in the receivable write-down fund compared to 31 December 2009 came to roughly EUR 8.0 million and takes into account, on one hand, the provisions during the half of EUR 10 million and, on the other, utilisation due to the write-off of amounts no longer recoverable.

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

Other receivables and current assets (note 19)

(EUR 000)	30.06.10	31.12.09
Other receivables	7,813	13,996
Accrued income	4,675	2,276
Prepaid expense	15,536	10,815
Total	**28,024**	**27,087**

Other receivables, equal to around EUR 7.8 million, include VAT credits of roughly EUR 3.6 million (mainly relating to the German subsidiaries), advances to suppliers of approximately EUR 4.1 million and other amounts due from the Tax Authorities of around EUR 0.1 million.

Accrued income (EUR 4.7 million) relates mainly to revenues from the sale of ADSL services in the period but still not billed.

Prepaid expenses, at EUR 15.5 million, includes costs already incurred and deferred to the next period, relating mainly to multi-year line rental agreements, hardware and software maintenance costs, insurance and advertising.

Other current financial assets (note 20)

(EUR 000)	30.06.10	31.12.09
Guarantee deposits	24,921	31,454
Other receivables	51	30
Total	**24,973**	**31,484**

The other current financial assets include the deposit ("Escrow") relating to the sale of the UK subsidiaries which will be released in the second half of 2010 as described in note 11.

Cash and Cash Equivalents (note 21)

Cash and cash equivalents at 30.06.10 amounted to EUR 7.1 million and include the Group's cash, essentially held in bank current accounts.

For the comments relating to the change in cash and cash equivalents, please refer to the Consolidated Cash Flow Statement.

Shareholders' equity (note 22)

(EUR 000)	30.06.10	31.12.09
Share capital	92,017	92,003
Stock Options reserve	4,369	4,315
Accumulated losses and other reserves	(164,085)	221,528
Result for the period	(12,611)	(384,826)
Total	**(80,310)**	**(66,980)**

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

During the first half of 2010, 17,503 shares were issued through the conversion of the relative warrants.

Share capital increased by EUR 14,001.40 from EUR 92,002,890.47 at 31 December 2009 to EUR 92,016,892.87 at 30 June 2010 (corresponding to 1,861,491,422 ordinary shares).

The item accumulated losses and other reserves includes EUR 2.5 million in other reserves and EUR 166.5 million in accumulated losses from previous periods.

During the year, charges incurred for the share capital increase and the issue of warrants totalling EUR 0.8 million were recorded in the item "other reserves".

Shareholders' equity pertaining to minority shareholders (note 23)

The shareholders' equity pertaining to minority shareholders was zero, given there are no minority interests.

Current and non-current financial liabilities (note 24)

The financial position is summarised in the following table, drawn up in light of Consob communication no. DEM/6064293 dated 28 July 2006:

EUR 000	30.06.10	31.12.09
A. Cash and bank deposits	7,061	16,220
B. Other cash equivalents	-	-
C. Securities held for trading		
D. Cash and cash equivalents (A) + (B) + (C)	***7,061***	***16,220***
E. Current financial receivables	***21,863***	***-***
F. Non-current financial receivables	-	-
G. Current bank payables	10,913	13,573
H. Current portion of non-current debt	27,765	10,880
I. Other current financial payables (*)	2,705	4,349
J. Current financial debt (G) + (H) + (I)	***41,383***	***28,802***
K. Net current financial debt *(J) – (E) - (D) – (F)*	**12,459**	**12,582**
L. Non-current bank payables	135,708	152,875
M. Bonds issued	-	-
N. Other non-current payables (**)	58,167	58,952
O. Non-current financial debt *(N) + (L) + (M)*	**193,875**	**211,827**
P. Net financial debt (K) + (O)	**206,334**	**224,410**

(*) includes leasing payables

(**) includes leasing payables

The Group's Net Financial Position at 30 June 2010 includes, among current financial receivables, the first tranche of the tied deposit relating to the sale of the UK subsidiaries ("Escrow") amounting to EUR 21.9 million which, based on the agreements signed with the counterparty in the sale (Talk Talk), were collected in August 2010. The inclusion of said receivable determines a significant improvement compared to the Net Financial Position at 31 December 2009, which did not include the Escrow amount.

Financial indebtedness is mainly composed of:

- amounts owed to banks in relation to the loan agreement signed on 2 July 2009 following Group debt restructuring ("*Group Facilities Agreement* " *- or GFA*);
- amounts for financial leasing contracts mainly in relation to the sale and lease back agreement stipulated for the Cagliari office (Sa Illetta).

It should be noted that the financial position prepared by the company according to the management criteria, and shown in the "Financial position" paragraph in the Interim Report on Operations, amounts to EUR 193.1 million.

The table below shows the reconciliation between the two net financial positions:

EUR 000	**30.06.10**	**31.12.10**
Consolidated net financial debt	**193,095**	**211,064**
Other cash, cash equivalents and non-current financial receivables	13,281	13,346
Consolidated net financial debt based on Consob communication no. DEM/6064293 of 28 July 2006	**206,334**	**224,410**

Payables to banks

Amounts owed to banks, totalling EUR 174.4 million, mainly refer to:

- *Group Facility Agreement (GFA)* stipulated on 2 July 2009 with financial institutions ("*Senior Lenders"*) for an original amount of a nominal EUR 158.5 million. The GFA loan was stipulated under the process of Group debt restructuring, which included a share capital increase and write-off of a portion of the debt, in addition to the disposal of UK subsidiaries. On 16 March 2010, Tranche C of the loan was partially repaid, amounting to EUR 5.3 million. The nominal value of the loan at 30 June 2010 came to EUR 153.2 million.
- Current bank payables for account overdrafts amounted to EUR 10.3 million, involving the Italian subsidiary, including EUR 1.3 million in financial payables due to the factoring company for the disposal, by some suppliers, of amounts owed to Tiscali;
- In addition to EUR 0.6 million for the bank payables of holding Tiscali S.p.A. and other minor companies.

The Senior debt to banks at 30 June 2010 is broken down into three tranches:

- **Facility A**: EUR 100 million in 5 years;
- **Facility B**: EUR 38.5 million in 6 years;
- **Facility C**: EUR 14.7 million (net of EUR 5.3 million repaid on 16 March 2010) in 7 years.

The following table summarises the main elements of the loan. This is only a summary of primary data and not a complete list.

Loan	Amount	Duration	Financial Institution	Borrower	Guarantor
Facility A **Facility B** **Facility C**	EUR 100 mln EUR 38.5 mln EUR 14.7 mln	5 years (2014) 6 years (2015) 7 years (2016)	JP Morgan Chase Bank N.A. Intesa Sanpaolo S.p.A. Rabobank Goldman Sachs Sark Master Fund Limited Silverpoint Capital Sothic	Tiscali UK Holdings Ltd	Tiscali S.p.A, Tiscali Italia S.p.A. Tiscali International BV Tiscali Financial Services SA

The loan agreement also provides for:

- Informational covenants that include periodic disclosure to lenders with regard to accounting data and forecasts reported quarterly and yearly, together with explanatory notes from management.
- Financial covenants, that provide for compliance with set financial indicators, that will be monitored on maturity starting from 30 June 2010. These covenants provide, among other things, for achieving certain EBITDA levels with regard to indebtedness and the result of financial operations as well as specific cash flow levels which will enable the Group to honour loan payments laid down in the payment plan.
- Operational covenants that provide for achieving, among other things, specific ARPU levels and a specific number of customers and investments ("capital expenditure").

Several general covenants where also defined to limit certain extraordinary transactions such as the disposal of important assets, transfer of property, intercompany payments over a certain threshold, payment of dividends.

The loan agreement provides for events of default, which is common practice for this type of agreement, where the senior financial institutions can apply an acceleration clause for full or partial repayment of the loan. Among these is default on certain contract obligations, namely the financial and operational covenants and payment of full amounts according to the payment schedule. In addition, the Group Facility Agreement provides as an event of default any litigation whose negative outcome might have a significant impact on the Group to such a degree that it would place doubts on its ability to survive or fulfil its payment obligations as laid down in the loan agreement ("Material Adverse Effect").

As at today's date, also with regard to the factors described in the section "*Disputes, contingent liabilities and commitments*", which should be referred to for details and assessment of the possible impact of disputes and contingent liabilities on the Group, there have been no events or circumstances that would be considered an "event of default" as defined in the Group Facility Agreement.

At the date of this document, the aforementioned covenants were all respected. In addition, there have been no events or circumstances that would be considered an "event of default" as defined in the Group Facility Agreement.

According to the Group Facility Agreement and agreements reached with the financial institutions, Tiscali has also undertaken to present an extension to the 2009-2013 plan until 2017, certified pursuant to art. 67 of Royal Decree 267/1942.

The 2009-2013 Business Plan provides, throughout its entire duration, for compliance with the covenants and other contractual obligations as set out in the Group Facility Agreement, whose limits could be exceeded upon updating of the Plan.

With regard to the guarantees, the parent company Tiscali S.p.A. and subsidiaries Tiscali Italia S.p.A., Tiscali International BV and Tiscali Financial Services SA are the entities that provided them under the loan agreement. It should also be mentioned that the guarantee given by the subsidiary Tiscali Italia S.p.A. is limited to EUR 110 million.

The amortisation plan provided by the GFA provides for payment of Facility A, B and C for 85% directly on expiry.

The interest rate set by the agreement is at a fixed rate and goes up in phases until maturity. A portion of the interest is to be paid in cash according to preset deadlines while the remaining portion is capitalised on the loan and paid off on expiry of each tranche ("PIK" interest).

Current and non-current financial liabilities at 30 June 2010 are shown in the following table:

(EUR 000)	**30.06.10**	**31.12.09**
Non-current financial liabilities		
Payables to banks and other lenders:		
Payables to banks	135,708	152,875
Payables for financial leases (long-term)	58,167	58,952
	193,875	**211,827**
Current financial liabilities		
Payables to banks and other lenders:		
Payables to banks	38,678	24,453
Payables for financial leases (short-term)	2,705	4,349
	41,383	**28,802**

Breakdown of current and non-current debt

The current and non-current debt at 30 June 2010 is shown in the table below:

	Debt at 30.06.10	**Current Debt**	**Non-current Debt**
Amounts owed to banks for loans (*)			
Facility A	106,548	4,897	101,651
Facility B	41,050	6,993	34,057
Facility C	15,874	15,874	-
Total amounts owed to banks for loans	**163,473**	**27,765**	**135,708**
Total current bank payables (**)	**10,913**	**10,913**	**0**
Total amounts owed to banks	**174,386**	**38,678**	**135,708**
Amounts owed to leasing firms			
Sale and lease back – Sa Illetta	***56,506***	*0*	*56,506*
Other financial leases	***4,366***	*2,705*	*1,661*
Total amounts owed to leasing firms	**60,872**	**2,705**	**58,167**
Total indebtedness	**235,258**	**41,383**	**193,875**

(*) The amount is for the GFA loan amounting to a nominal EUR 153.2 million in addition to payable interest accrued at 30 June 2010

(**) Amounts owed for bank overdrafts

Note that the current portion of amounts owed to banks for loans, EUR 27.7 million, includes the following elements:

- portion of principal, expiring on 5 July 2010 referring to Facility A amounting to EUR 2.5 million;
- portion of principal (and interest) of Facilities B and C due within 12 months with income from the Escrow of roughly EUR 22 million
- the remainder in the form of the portion of interest accrued referring to the cash amount to be repaid within the year.

Payables for financial leases (m/l term) (note 25)

The item Payables for financial leases (EUR 58.2 million) includes financial leasing involving the Group and relates to the contracts stipulated by the subsidiary Tiscali Italia S.p.A. relating to the “Sales & Lease Back” on the Sa Illetta property, the company’s headquarters.

Other non-current financial liabilities (note 26)

EUR 000	30.06.10	31.12.09
Payables to suppliers	15,631	12,651
Other payables	1,587	1,583
Total	**17,218**	**14,234**

Payables to suppliers refer to medium/long-term trade payables for the acquisition of plant and connected with the stipulation of IRU contracts originating from investments relating to the ULL project, which provide for deferred payment.

Liabilities for pension obligations and staff severance (note 27)

The staff severance provision, which comprises the indemnities accrued in favour of employees, amounts to EUR 4.2 million at 30 June 2010 and refers to the Parent Company and the subsidiaries operating in Italy.

Provisions for risks and charges (note 28)

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

(EUR 000)	31.12.09	Provisions	Utilisation/Release	30.06.10
Provisions for risks and charges	9,002	416	(2,609)	6,809
Total	9,002	416	(2,609)	6,809

A breakdown of the provision covering risks and charges at 30 June 2010 is as follows:

- EUR 2.6 million related to the dispute underway concerning the disposal of property by the German subsidiaries;
- EUR 2.8 million related to allocations for employee disputes;
- EUR 0.5 million related to charges for the liquidation of former World Online subsidiaries;
- EUR 0.3 million for charges relating to the VAT assessment notice communicated to Tiscali S.p.A;
- EUR 0.6 million for other charges.

The provision as at 30 June 2010 came to EUR 416 thousand and relates to charges of ex World Online subsidiaries for EUR 110 thousand and the allocation for the VAT assessment notice sent to Tiscali S.p.A. amounting to EUR 306 thousand.

The item Utilisation/Release in the period includes EUR 0.4 million for monetary utilisation relating to Tiscali S.p.A. employee disputes. In addition, this item includes the release of amounts to the income statement due to over-allocation of the restructuring fund recorded in 2009 for EUR 0.4 million, partial release amounting to EUR 1 million of a risk provision and the reclassifications to trade payables and credit notes to be issued for EUR 0.8 million.

Payables for financial leases (note 29)

Payables for financial leases, amounting to EUR 2.7 million, refers to the short-term portion of payables due to leasing companies for financial lease agreements stipulated by subsidiary Tiscali Italia S.p.A..

Payables to suppliers (note 30)

(EUR 000)	30.06.10	31.12.09
Payables to suppliers	150,665	150,894
Total	**150,665**	**150,894**

Payables to suppliers refer mainly to trade relations relating to the supply of telephone traffic and data traffic services.

Other current liabilities (note 31)

(EUR 000)	30.06.10	31.12.09
Accrued expenses	2,856	6,541
Deferred income	49,180	50,118
Other payables	19,925	19,020
Total	**71,962**	**75,678**

Accrued expenses include EUR 2.8 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 capital gain on disposal relating to the Sale & lease back transaction on the Sa Illetta property, amounting to around EUR 24.5 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 15.7 million and other deferrals on portions of revenues, not pertaining to the period, for the activation of ADSL services mainly relating to the Italian subsidiary.

The item Other payables, totalling EUR 19.9 million, mainly includes payables due to the tax authorities (VAT in the first instance) and due to welfare institutions for a total of roughly EUR 9 million, together with payables due to employees totalling around EUR 7.7 million and other payables for the remaining balance.

Payables to employees for EUR 7.7 million include EUR 2.6 million for contributions, amounts owed for holiday entitlement and leaves of absence accrued, and about EUR 5.1 million for bonuses.

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.

The plan envisages the allocation:

- to the Chief Executive Officer, 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 has carried out on the market in compliance with Article 2357 of the Italian Civil Code and on the basis of the authorisation of the shareholders' meeting. On 10 May 2007, the Board of Directors attributed all such stock options in a single tranche to the Chief Executive Officer. Subsequently, after the resignation of the Chief Executive Officer, Tommaso Pompei, on 28 February 2008, these options were considered entirely exercisable according to the terms provided in the regulations. Pursuant to IFRS 2(28) this transaction was considered as advance maturity. On 1 October 2009, Tommaso Pompei waived all his rights to the options. Thus, the company sold 260,000 treasury shares in several tranches, which had previously been bought and restricted to the incentive plan;
- 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 2441.8 of the Italian Civil Code resolved by the shareholders' meeting.

Therefore, the Board of Directors:

- on 28 June 2007 and 12 May 2008 attributed a total of 3,760,000 options to 26 managers (376,000 following the reverse split of shares). After the expiry of term of the options of some of the beneficiaries, there are currently 216,000 options (after reverse split) which can be exercised by managers, also in several tranches, from 29 June 2010 to 28 December 2010 for the options assigned on 28 June 2007 and from 13 May 2011 to 12 November 2011 for the options assigned on 12 May 2008 at an exercise price of EUR 0.729 EUR for 173,000 options and EUR 0.827 for 43,000 options. The exercise price was adjusted following the share capital increase of February 2008 and November 2009 and the reverse split of September 2009;
- On 7 August 2008, the regulations of the Stock Option Plan were changed in order to confirm that Mr. Cristofori would have the exercise rights to the options despite the fact he is no longer employed by the company.

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 was appraised at the date of allocation using the following assumptions:

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

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.

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, hereinafter WoL) 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 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 WoL 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, WoL 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 WoL). WoL appealed against this decision, 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 WoL 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 optimistic expectations regarding the activities of WoL.

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, WoL and the financial institutions tasked with the stock market listing filed their counter-appeal. In November 2009 the Dutch Supreme Court pronounced its final sentence confirming the ruling of the Court of Appeal and ruled that the IPO prospectus was not complete under certain aspects and that WoL management should have provided additional information during listing. It should be mentioned that the ruling is limited to ascertaining certain aspects of WoL responsibility and the financial institutions handling the listing with regard to the obligations on complete and correct disclosure during an IPO and defines certain principles that might be considered applicable to future court decisions (e.g. on the proof of cause), while it did not rule on the actual damages, which should be the object of new, separate and independent proceedings at the competent court petitioned by investors. At present no such petition has been initiated. 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, which contain the hypothesis of being able to proceed with similar action, if the conditions should apply.

These disputes are potentially significant; however, at present there are not enough sufficiently defined elements for quantifying potential liability. Therefore, no provision was made in the financial statements.

Mobistar dispute

The indirect subsidiary, Tiscali International BV, is involved in a dispute brought by the company Mobistar NV (a Wanadoo Group company) in June 2006. The dispute concerns the termination by Wanadoo Belgium, a company acquired by Tiscali Belgium in Spring 2003, of a dial-in traffic termination agreement with Mobistar NV (hereinafter the Contract). Even if the contract for the sale of the Wanadoo Belgium shares from Wanadoo SA to Tiscali Belgium provided the possibility of early termination of the Contract, a circumstance also confirmed by Tiscali's legal advisors, Mobistar however opposed this early termination and filed this suit. Subsequently, Tiscali Belgium sold Wanadoo Belgium to Scarlet but remained liable for Mobistar demands.

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 EUR 4.0 million, nevertheless Tiscali believes that the same should be reduced (i) by around EUR 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* for Tiscali should at least minimise the profile of responsibility of the latter. Tiscali believes that it is in no way liable; however, given the complexity of the dispute and the number of parties involved, a forecast on the possible outcome is complex and therefore there are negotiations underway to reach a settlement involving payment of approximately EUR 270,000 from Tiscali. Tiscali International BV and Tiscali S.p.A. report liabilities equal to the amount of the possible settlement. No additional allocation was made in the half.

Talk Talk Group Limited /Tiscali

Following the conclusion of the procedure to resolve the disputes regarding the sum held as guarantee deriving from the sale of Tiscali UK, on 2 August 2010, the Parties reached an agreement which definitively disciplined the release of the amount in Escrow with the exceeding of the facility originally provided for in the sale contract. Of the total amount of GBP 35.4 million held as guarantee, roughly GBP 17.9 million was released to Tiscali in August 2010 while around GBP 2.5 million will remain as guarantee and will be released in two tranches of an equal amount before 31 October 2010 and 31 December 2010, subject to the satisfaction of certain contractual conditions. The residual amount of GBP 15.0 million will be released to Talk Talk.

Tax Audits

The Dutch tax authorities sent a number of audit notices to World On Line International NV and the direct subsidiary Tiscali International BV 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 2.0 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 (who is, moreover, a 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.

Tiscali S.p.A. and the Italian subsidiary Tiscali Italia S.p.A. received assessment notices for IRES, VAT and IRAP for the year 2005. The adjustment notice sent to Tiscali Italia S.p.A. relating mainly to IRAP, contains irregularities for a total charge of roughly EUR 500 thousand, in respect of which, in accordance with the loss estimate made by the company, a provision of around EUR 150 thousand was already made in the 2009 financial statements.
The IRES adjustment notice sent to Tiscali Italia S.p.A. instead contains an adjustment to the previous tax losses deriving from the non-recognition of goodwill originating from the separation of the business unit by Tiscali S.p.A. on 1 January 2005. The authorities essentially disputed the tax validity of the separation of the business unit in relation to the Italian activities of Tiscali Italia S.p.A.. With regard to said dispute, the company is exploring the possibility of reaching an agreement with the Tax Authorities through a phase of joint evaluation of the transactions under review and of the subsequent tax implications. The company, reasonably certain of being able to show its reasons to be valid, has not made any additional provisions in the financial statements.
The VAT assessment notice sent to Tiscali S.p.A. amounts to EUR 305 thousand. The company made an allocation to the provision for risks to cover said amount (as described in note 8 of the financial statements).

Information per business segment

The application of IFRS 8 “Operating Segments” did not have an impact on the segment report since the operating segments into which Group activities were segmented are the same as when IAS 14 "Segment Reporting” was applied. In particular, the activities of the Tiscali Group and the related strategies, as well as the underlying activities linked to head office control, are structured and defined by geographic area, which therefore represents the primary segment for the purposes of segment reporting.

Income statement

30.06.10 *EUR 000*	Italy	Other	Corporate	HFS/Discontinued	Cancellation adjustments	Total
Revenues						
From third parties	140,344	-	215	-	-	140,559
Intra-group	650	2,585	3,746	-	(6,981)	-
Total revenues	**140,994**	**2,585**	**3,960**	**-**	**(6,981)**	**140,559**
Operating result	**429**	**(199)**	**3,999**		**(2)**	**4,228**
Portion of results of equity investments carried at equity						**-**
Financial income						296
Financial charges						8,603
Net financial income (charges)						(8,307)
Pre-tax result						(4,079)
Income taxes						(307)
Net result from operating activities (ongoing)						(4,386)
Result from assets disposed of and/or destined for disposal						(8,225)
Net result						**(12,611)**

30.06.09 *EUR 000*	Italy	Other	Corporate	HFS/Discontinued	Cancellation adjustme	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 (ongoing)						(40,171)
Result from assets disposed of and/or destined for disposal						(364,870)
Net result						**(405,040)**

Balance Sheet

30.06.10 *(EUR 000)*	Italy	Other	Corporate	HFS/ Discontinued	Total
Assets					
Segment assets	362,838	10,091	31,474	-	404,403
Equity investments valued using the equity method	-	-	-	-	-
Equity investments in other companies	2,332	-	-	-	2,332
Goodwill	**-**	-	-	-	-
Total consolidated assets	**365,170**	**10,091**	**31,474**	**-**	**406,735**

31.12.09 *(EUR 000)*	Italy	Other	Corporate	HFS/ Discontinued	Total
Assets					
Segment assets	361,858	12,130	52,255	31	426,274
Equity investments valued using the equity method	-	-	-	-	-
Equity investments in other companies	2,332	-	-	-	2,332
Goodwill	**-**	-	-	-	-
Total consolidated assets	**364,190**	**12,130**	**52,255**	**31**	**428,606**

Transactions with related parties

Dealings with non-consolidated Group companies

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

Transactions with other related parties

During the first half of 2010, 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 30.06.10 arising from transactions with related parties.

The most significant balances, at 30.06.10, summarised by supplier of the services, are as follows:

INCOME STATEMENT VALUES			
EUR 000	Notes	**30.06.10 (Group)**	**30.06.09 (Group)**
Shardna	1	-	-
Interoute	2	-	(283)
Bizzarri Francesco	3	-	-
Studio Racugno	4	(35)	-
Nuove Iniziative Editoriali S.p.A	5	(16)	-
TOTAL SUPPLIERS OF MATERIALS AND SERVICES		**(51)**	**(283)**
Andalas SA	6	-	(969)
TOTAL		**(51)**	**(1,252)**

BALANCE SHEET VALUES			
EUR 000	Notes	**30.06.10 (Group)**	**31.12.09 (Group)**
Shardna	1	311	331
Interoute	2	(278)	(1,125)
Bizzarri Francesco	3	(22)	(37)
Studio Racugno	4	(35)	(2)
Nuove Iniziative Editoriali S.p.A	5	132	(5)
TOTAL SUPPLIERS OF MATERIALS AND SERVICES		**108**	**(838)**
Andalas SA	6	-	-
TOTAL		**108**	**(31,733)**

(1) Shardna S.p.A.: the majority shareholder Renato Soru held shares in the company until 30 November 2009, when he sold his shareholdings. The dealings, maintained by the Parent Company, relate to the sub-letting of the Tiscali offices in the suburbs of Cagliari.

(2) Interoute: Group entirely owned by the Sandoz Family Foundation, a Tiscali shareholder. The Sandoz Family Foundation, the Parent Company of Interoute, reduced its shareholding in the company below any significant level and reported a holding of around 0.21% on 16 November 2009.

(3) Mr. F. Bizzarri: member of Tiscali S.p.A's Board of Directors until 21 December 2009, stipulated an IPTV consultancy contract with the Parent Company and with the subsidiary Tiscali Italia S.p.A., which expired in June 2008.

(4) Racugno Law Firm: Gabriele Racugno, member of Tiscali S.p.A.'s Board of Directors since 21 December 2009, provides Tiscali Italia S.p.A. with legal assistance.

(5) *Nuove Iniziative Editoriali S.p.A.: the majority shareholder, Renato Soru, holds shares in this company and the transactions refer to an advertising contract and the provision of telecommunications services.*

(6) in 2004, the shareholder Andalas Limited (shares of the latter held by Renato Soru) granted a loan bearing interest at market rates. On 30 October 2009, Renato Soru compensated for the amount (including interest accrued at said date) by subscribing an equivalent amount in Tiscali S.p.A. shares when the latter increased its share capital. The related party dealings were concluded in 2009.

List of subsidiaries included in the consolidation area

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

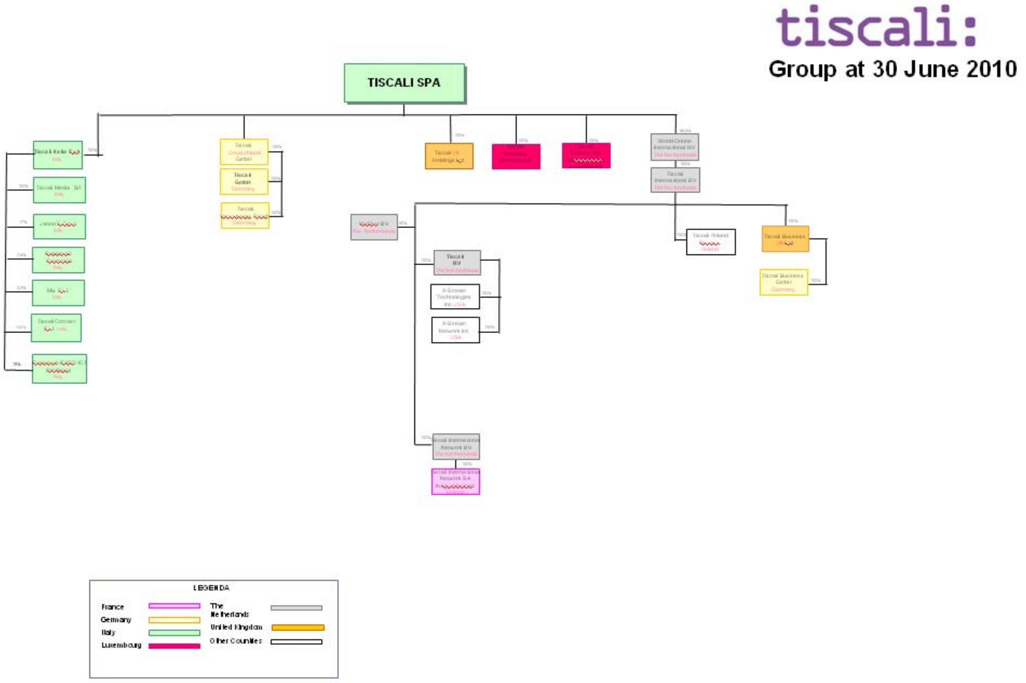
Company name			Country	% investment
Tiscali S.p.A.			Italy	
Tiscali Italia S.p.A.			Italy	100.0%
	Tiscali Media S.r.l.		Italy	100.0%
	Tiscali Contact S.r.l.		Italy	100.0%
Energy Byte S.r.l. (wound up on 18 March 2010)			Italia	100.0%
Tiscali Finance SA (wound up on 7 January 2010)			Luxembourg	100.0%
Tiscali Financial Services SA			Luxembourg	100.0%
Tiscali Deutschland GmbH			Germany	100.0%
	Tiscali GmbH		Germany	100.0%
	Tiscali Verwaltungs Gmbh		Germany	100.0%
World Online International Nv			The Netherlands	99.5%
	Tiscali International Bv		The Netherlands	99.5%
		Tiscali B.V.	The Netherlands	99.5%
		Wolstar B.V. (in liquidation)	The Netherlands	49.7%
		Tiscali Finance BV (wound up on 7 January 2010)	The Netherlands	99.5%
		Tiscali International Network B.V.	The Netherlands	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%

List of equity investments carried at equity

Company name	Country	% investment
STS S.r.l.	Italy	35%
STUD Soc. Consortile a.r.l.(wound up on 15 February 2010)	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 Network Inc.	USA
X-Stream Network Technologies Inc.	USA
Tiscali Poland Sp Z.O.O.	Poland



Significant non-recurring events and transactions

Pursuant to Consob Resolution no. 15519 of 27 July 2006, see note 6 for information on charges and income on non-recurring transactions involving operating activities.

Positions and transactions deriving from atypical and/or unusual operations

There were no positions or transactions deriving from atypical and/or unusual operations in the first half of 2010.

On behalf of the Board of Directors

Chairman and CEO

Renato Soru

5.8 Certification of the consolidated financial report as at 30 June 2010 pursuant to Article 154-bis of Legislative Decree 58/98

The undersigned, Renato Soru in his capacity as Chief Executive Officer, and Luca Scano, 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 provisions of Article 154-*bis* (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 consolidated condensed half-yearly financial statements for the half closed at 30 June 2010.

It is also certified that the consolidated condensed half-yearly financial statements for the half closed at 30 June 2010:

- have 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;
- are consistent with the results of accounting books and entries;
- are suitable for providing a true and fair view of the equity, economic and financial situation of the issuer and the group of consolidated companies.

Finally, it is certified that the interim report on operations includes a reliable analysis of the references to the significant events which occurred in the first six months of the year and their impact on the consolidated condensed half-yearly financial statements, 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.

Cagliari, 27 August 2010

Chairman and CEO

Renato Soru

Executive appointed to draw up the corporate accounting documents

Luca Scano

6 Appendix - Glossary

Shared access	Technique for shared access to a local network in which a former monopoly operator rents part of the capacity to other operators: in that portion of the bandwidth the operator can provide Broadband services, whilst the former monopoly operator on the portion of the bandwidth not hired out, continues to provide telephony services.
ADSL	Acronym for Asymmetric Digital Subscriber Line, (the available bandwidth in reception is greater than that available for transmission) to enable internet access at high speed.
ADSL2+	An ADSL technology that extends the ADSL base capacity by doubling the download bit flow. The bandwidth can reach 24Mbps in download and 1.5 Mbps in upload and depends on the distance between the DSLAM and the customer's location.
Uncovered Areas	Also called "indirect access areas" to identify the geographic areas which are not directly served by the network owned by Tiscali (see also Bitstream and Wholesale)
ARPU	Average returns for fixed and mobile telephony for the user calculated in the course of a given period for an average number of active (for other operators) or Tiscali Group customers in the same period.
Bitstream	Bitstream (or digital flow) services: service consisting of the supply on the part of an operator of access to the fixed public telephone network of the transmission capacity between an end user workstation and the point of presence of an operator or an ISP that wants to provide broadband services to the end user.
Broadband	Data transmission system in which several data packets are sent simultaneously to increase the actual speed of transmission with a data flow equal to or greater than 1.5 Mbps.
Broadcast	Simultaneous transmission of information to all nodes on a network.
Access fee	Is the amount debited by national operators for each minute of use of their network by the managers of other networks. This is also called "interconnection fee".
Capex	Acronym for Capital Expenditure. Identifies the outgoing cash flows generated by the investments in an operating structure.
Carrier	Company that physically makes a telecommunications network available.
Co-location	Dedicated spaces in the machine rooms of an incumbent operator for the installation by Tiscali of its own network devices.

CPS	Acronym for Carrier Pre Selection, a system for preselecting an operator: this enables an operator/supplier of local services to automatically route calls on the network of the carrier selected by a client who no longer has to enter special selection codes.
CS	Acronym for Carrier Selection, a system for selecting an operator: enables a client to select, by entering a special code, a long distance national or international operator other than that with whom he/she has a network access subscription.
Business clients	SoHos, small medium and large businesses.
Consumer customers	Customers who subscribe to an offer intended for families.
Dial Up	Narrowband internet connection by means of a normal telephone call, usually charged by time.
Digital	This is the way of representing a physical variable in a language that uses only the figures 0 and 1, and the figures are transmitted in binary code as a series of impulses. Digital networks, which are rapidly replacing the old analogue networks, allow greater capacities and greater flexibility by using computerised technologies for the transmission and handling of calls. Digital systems offer less noise interference and can include encryption as protection from outside interference.
Double Play	Combined offering of access to the Internet and fixed telephony.
DSL Network	Acronym for Digital Subscriber Line Network, which is a network built from existing telephone lines using DSL technology instruments that, by using sophisticated modulation mechanisms, enable data packets to be sent along copper wires and thus the linking of a telephone handset to a modem at a home or in an office.
DSLAM	Acronym for Digital Subscriber Line Access Multiplexer, a device used in DLS technologies, to multiply the transmission of data at high capacities on telephone wires, where a multiplexer means a device that enables the transmission of information (voice, data, videos) in flows by means of direct and continuous connections between two different points on a network.
Fibre Optic	Thin fibres of glass, silicon or plastic that form the basis of a data transmission infrastructure. A fibre optic cable contains various individual fibres, each capable of carrying a signal (light impulses) over a virtually limitless band length. They are usually used for long distance transmissions, for the transmission of "heavy data" so that the signal arrives protected from interference which it might encounter along its own path. A fibre optic cable's carrying capacity is considerably greater than that of traditional cables and copper wire twisted pairs.

GigaEthernet	Term uses to describe the various technologies that implement the nominal speed of an Ethernet network (the standard protocol for cards and cables for high speed connections between a computer and a local network) of up to 1 gigabit per second.
Home Network	Local network made up from various kinds of terminals, devices, systems and user networks, with related applications and services including all the apparatus installed at user premises.
Hosting	Service that consists of allocating on a web server the pages of a website, thus making it accessible from the internet network.
Incumbent	Former monopoly operator active in the telecommunications field.
IP	Acronym for Internet Protocol, a protocol for interconnecting networks (Inter-Networking Protocol) designed for interconnecting disparate networks for technology, services and management.
IPTV	Acronym for Internet Protocol Television, a technology suited for using the IP transport technology to carry television content in digital form, using internet connections.
IRU	Acronym for Indefeasible Right of Use, long term agreements that guarantee the beneficiary the option of using the grantor's fibre optic network for a long period.
ISDN	Acronym for Integrated Service Digital Network, a telecommunications protocol in Narrowband able to carry in an integrated from various kinds of information (voice, data, texts, and images) coded in digital form on the same transmission line.
Internet Service Provider or ISP	Company that provides Internet access to single users or organisations.
Leased lines	Lines whose transmission capacity is made available through leasing contracts for the transmission capacity.
MAN	Acronym for Metropolitan Area Network, a fibre optic network that extends across a metropolitan area and links a Core Network to an Access Network.
Mbps	Acronym for megabit per second, a unit of measurement that states the capacity (and thus the speed) of data transmission along a computer network.
Modem	Modulator/demodulator. It is a device that modulates digital data in order to permit its transmission along analogue circuits, usually made from telephone lines.
MNO	Acronym for Mobile Network Operator, an operator of proprietary telecommunications on a mobile network that offers its own wholesale services to all MVNOs (Mobile Virtual Network Operator).

MPF Acronym for Metallic Path Facility, the pair of copper wires (unscreened twisted pair) that comes from an exchange (MDF -Main Distribution Frame) in an operators telephone room and arrives at the users premises (individual or corporate). Connections can be Full or Shared. A Full type connection enables the use of the data service (broadband) in addition to voice traffic. A Shared kind of connection only enables the use of the data service (broadband). In a "shared access" service, the LLU operator (in disparate access) provides the ADSL services to the end user, whilst the incumbent operator provides the analogue telephony service using the same access line.

MSAN Acronym for Multi-Service Access Node, a platform able to carry a combination of traditional services over an IP network and that supports a variety of access technologies such as, for example, a traditional telephone line (POTS), and ADSL2+ line, a symmetric SHDSL line, VDSL and VDSL2 over a copper or fibre-optic network.

MVNO Acronym for Mobile Virtual Network Operators: a party that offers mobile telecommunications services to the public, using its own mobile network interconnection structures, its own HLR, its own mobile phone network code MNC, (Mobile Network Code), its own customer management (marketing, invoicing and support) and issuing its own SIM cards, but does not have assigned frequencies and takes advantage, for access, of agreements negotiated or regulated via one or more licensed mobile network operators.

Narrowband System for connecting to data networks, for example the Internet, by means of a telephone call. In this kind of connection all the bandwidth used for the means of transmission is used as a single channel: one single signal occupies all the available bandwidth. The bandwidth of a communications channel identifies the maximum quantity of data that can be carried by means of transmission of the unit over time. The capacity of a communication channel is limited by the frequency interval that the equipment can sustain and by the distance to be travelled. An example of a Narrowband connection is the common modem narrowband connection at 56 kbps.

OLO Acronym for Other Licensed Operators, operators other than the dominant one that operate in a national telecommunications services market.

Opex Acronym for Operating Expenses which are direct and indirect costs that are recorded in the income statement.

Pay-Per-View System by which a spectator pays to view a single programme (such as a sporting event or a film or concert) at the time it is transmitted or broadcast.

Pay TV TV channels on payment. To receive Pay TV or Pay-Per-view, you have to connect a decoder and have an access system subject to conditions.

Platform	It is the total of the inputs, including hardware, software and equipment for running and the procedures for production (production platform) or for the management (management platform) or for a special service (service platform).
POP	Acronym for Point of Presence, a site at which telecommunications apparatus is installed and that forms a node on the network.
Portal	Website that forms a point of departure or an entry point for a major group of Internet resources or to an Intranet.
Router	Hardware or in some cases software instrument that identifies the next point on the network to which a data packet is to be sent, and routes that data packet towards the end destination.
Service Provider	Party that provides end users and content providers with a range of services, including that of an owned, leased or third party service centre.
Server	Computer component that provides services to other components (typically called clients) across a network.
Set-top-box or STB	Device able to handle and route data, voice and television connections, installed at the end user's premises.
Syndication	The sale of radio and TV transmissions by a media company that owns the rights and usually the delivery platform too.
SoHo	Acronym for Small office Home office, for small offices, mostly professional offices or small firms.
SHDSL	Acronym for Single-pair High-speed Digital Subscriber Line. SHDSL is a technology for telecommunications of the XDSL family and is made by using direct ULL interconnections and enables high speed connections to be made in a balanced way in both directions (transmission and reception).
Single Play	Service including only broadband data access, not combined with other multiplay components such as voice and IPTV services. Broadband access may be provided through LLU platforms, Wholesale or Bitstream.
Single Play voice	Service including only voice access, not combined with other multiplay components such as broadband and IPTV access. Party that provides end users and content providers with a range of services, including that of an owned, leased or third party service centre.
SMPF	Acronym for Shared Metallic Path Facilities which is synonymous with Shared Access (ungrouped access).
Triple Play	A combined offering of fixed and/or mobile telephony, Internet and/or TV made by a single operator.

Unbundling of the local loop or ULL	Unbundled access to a local network, i.e., the possibility that telephone operators have had, since the telecommunications market was liberalised, to use existing physical infrastructures built by another operator to offer its own services to customers, paying a rental to the operator that is the actual owner of the infrastructure.
VAS	Acronym for Value-Added Services; services with added value provide a greater level of function compared with the basic transmission services offered on a telecommunications network for the transfer of information between terminals. These include switched analogue voice communications via cable or wireless, a direct digital point to point network “unrestricted” at 9600 bits/s; packet switching (called virtual); analogue and direct broadband transmission of TV signals and extra services, such as closed user groups; call waiting; reverse charging; call announcement and identification of the number called. The value added services provided over a network, from terminals or specialist centres include exchange services, messaging (MHS) (which can also be used for commercial documents in accordance with a predetermined format); electronic user directories, network and terminal addresses; e-mail; fax, teletext, videotext and videophone. Value added services may also include voice telephony value added services such as free numbers or paid telephone services.
VISP	Acronym for Virtual Internet Service provision (sometimes also called Wholesale ISP). This is selling on Internet services purchased wholesale from an Internet Service Provider (ISP) that has network infrastructure.
VoD	Acronym for Video On Demand. It is the supply of television programs on request by a user for payment of a subscription or of a sum for each programme (a film, or a football match) purchased. Broadcast in a special way by satellite TV and for cable TV.
VoIP	Acronym for Voice over internet Protocol, a digital technology that enables the transmission of voice packets through Internet, Intranet, Extranet and VPN networks. The packets are carried according to H.323 specifications, which are the ITU (International Telecommunications Union) standard that forms the basis for data, audio, video and communications on IP networks.
VPN	Acronym for Virtual Private Network, which can be realised on Internet or Intranet. Data between workstations and the server of the private network is sent along common public Internet networks, but using protection technologies against any interception by unauthorised persons.
Virtual Unbundling of the local loop or VULL	Procedure for accessing a local analogue network by which, even in the absence of physical infrastructures, the conditions and terms of access under ULL terms are replicated. This is a temporary access system that is usually replaced by ULL.

Xdsl	Acronym for Digital Subscriber Lines, a technology that, by means of a modem, uses the normal telephone twisted pair and transforms the traditional telephone line into a high speed digital connection for the transfer of data. ADSL, ADSL 2, and SHDSL etc belong to this family of technologies.
WI-FI	Service for connection to the internet at high speed wirelessly.
Wi-Max	Acronym for Worldwide Interoperability for Microwave Access: it is a technology that enables wireless access to broadband telecommunications. It has been defined by the WiMAX forum, a world-wide consortium made up of the largest companies in the fixed and mobile telecommunications field that has the purpose of developing, promoting and testing the interoperability of systems based on IEEE standard 802.16-2004 for fixed access and IEEE.802.16e-2005 for fixed and mobile access.
Wholesale	Services that consist of the sale of access services to third parties.
WLR	Acronym for Wholesale Line Rental, selling on by a telecommunications service operator of lines hired by the Incumbent.

7 Independent auditors' 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 statements of income, comprehensive income, financial position, cash flows and the statement of changes in shareholders' equity, together with the related explanatory notes, of Tiscali S.p.A. and subsidiaries (The Tiscali Group) as of June 30, 2010. 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. A review consists 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 by applying analytical procedures to the financial data presented in these consolidated financial statements. A review does not include the performance of audit procedures such as tests of compliance and substantive procedures on assets and liabilities and is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards. Accordingly, unlike for the annual consolidated financial statements, we do not express an audit opinion on the interim condensed 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, reference should be made to our reports issued on April 12, 2010 and on August 27, 2010, respectively.

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, 2010 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.

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

   a) as reported in the Note "Evaluation of the company as a going concern and future outlook", the Tiscali Group incurred a consolidated loss for the half-year of EUR 12.5 millions, of which EUR 8.2 millions was related to disposals, and reported a deficit in consolidated net shareholders' equity of EUR 80.3 millions. In addition, as at June 30 2010, the Group reports gross financial indebtedness of EUR 235.2 millions and current liabilities exceed current (non-financial) assets by EUR 80.2 millions.

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The Directors have described the factors resulting in continuing uncertainties linked to the situation of financial and economic disequilibrium, in the presence of significant gross financial indebtedness which is subject to covenants and other contractual obligations. The Directors believe that the achievement of long-term financial and economic equilibrium of the Group is subject, considering the uncertainty of the present economic climate, to the achievement of the results forecast in the Business Plan for the Tiscali Group and therefore connected to the achievement of the forecasts and assumptions contained in the Plan (in particular for those concerning the evolution of the telecommunications market) as well as the achievement of the growth objectives which have been set in a market characterized by strong competitive pressures. To these matters are added the presence of litigation as described in paragraph b), the outcome of which, although not reasonably predictable at the moment nor in the 12 months subsequent to the balance sheet date, have been evaluated by the Directors as being potentially significant.

In evaluating the above matters, the Directors have described the actions put in place and, based on which, they believe the Group will be reasonably able to continue with the implementation of the business plan and that this will allow the achievement in the long-term of a situation of financial and economic equilibrium. In conclusion, the Directors recognize that at this time uncertainties remain which could raise significant doubt about the ability of the Group to continue to operate on the assumption of a going concern, but after making the necessary checks and having evaluated the uncertainties identified in the light of the elements described above, they have the reasonable expectation that the Group has adequate resources to continue to operate for the foreseeable future and therefore they have adopted the going concern assumption in preparing the financial statements.

b) The Directors also highlight the existence of certain potentially significant litigation by third parties against the Dutch subsidiary, World Online International NV. The Dutch Supreme Court, in a final ruling in November 2009, confirmed certain aspects of liability of World Online International NV, but without ruling on the matter of potential damages, which should be the subject of a new, separate proceeding on the part of the injured third parties. To date no such proceeding appears to have been initiated. With respect of this litigation, the Directors believe that there are not sufficient elements present to quantify the potential liability and therefore they have not made any provision for this in the financial statements. The Directors also highlight the existence of other at risk situations with respect to existing or threatened litigation, for which they consider that no significant liability will result.

Milano, August 27, 2010

Reconta Ernst & Young S.p.A.
Signed by: Luca Pellizzoni, Partner

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