QUARTERLY REPORT AS AT 30 SEPTEMBER 2007
THIRD QUARTER 2007

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Tiscali S.p.A.
Registered Offices in Sa Illetta District, SS195 Km 2.3 Cagliari, Sardinia, Italy
Share Capital € 212,206,580.98
Cagliari Companies' Register and VAT No. 02375280928 –Administrative and Economic Roster No. 191784

DIRECTORS AND AUDITORS

- **Composition of the corporate bodies**
- **Board of Directors**

Chairman

Vittorio Serafino

Chief Executive Officer (CEO)

Tommaso Pompei

Financial Director

Massimo Cristofori

Directors

Arnaldo Borghesi

Francesco Bizzarri

Gabriele Racugno

Mario Rosso

Rocco Sabelli

- **Board of Statutory Auditors**

Chairman

Aldo Pavan

Statutory Auditors

Piero Maccioni

Massimo Giaconia

Deputy Auditors

Andrea Zini

Rita Casu

- **Independent Auditing Firm**

Deloitte & Touche S.p.A.

KEY FIGURES

Income statement (in millions of €)	*30 September 2007 Nine months*	*30 September 2006 Nine months*	*% change*
• Revenues	614.3	487.0	26%
• Gross operating result	103.5	67.6	53%
• Operating result	(36.3)	(11.9)	

Income statement (in millions of €)	*30 September 2007 Three months*	*30 September 2006 Three months*	*% change*
• Revenues	221.2	168.9	31%
• Gross operating result (EBITDA)	41.6	28.5	46%
• Operating result	(7.8)	17.9	

Balance sheet (in millions of €)	*30 September 2007*	*31 December 2006*
• Total assets	1,555.1	1,230.7
• Net financial debt	596.7	397.2
• Shareholders' equity	249.5	269.6
• Investments	140.9	179

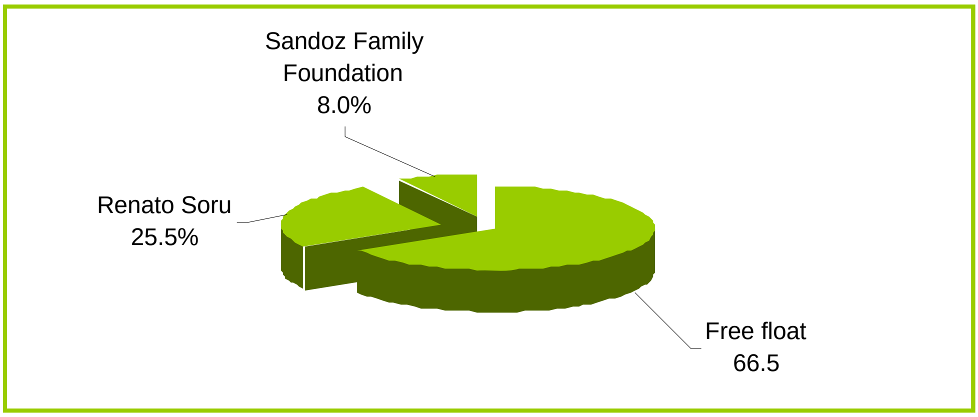
Operating figures (in thousands)	*30 September 2007*	*31 December 2006*
Access users	4,171	3,451
ADSL (broadband) users	2,580	1,856
of which: ADSL unbundling users	1,016	583

TISCALI SHARES

Tiscali shares are listed in the Blue Chip segment of the Italian Stock Exchange (TIS). As at 30 September 2007, Tiscali market capitalization came to around € 835 million, calculated on the value of € 1.967 per share as at 28 September 2007.

The number of shares representative of the Group's share capital as at 30 September 2007 came to 424,413,163.

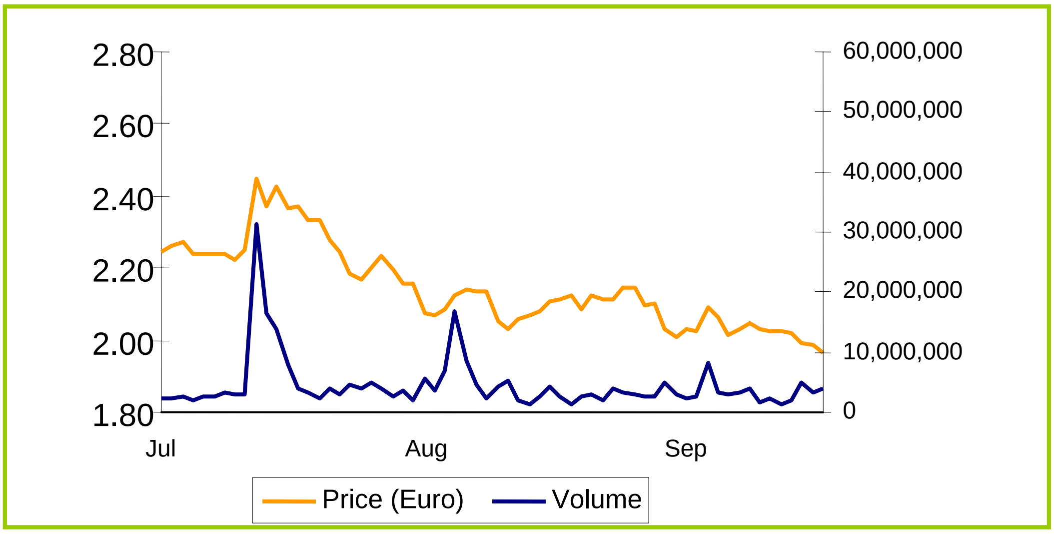
Tiscali's shareholder base as at 30 September 2007 is illustrated below:



Source: Tiscali

At stock market level, we can identify three main phases in Tiscali share performance during the quarter ended as at 30 September 2007. In July, the stock increased up to a maximum peak as at 13 July, achieving a daily average of € 2.28. In the following 2 months, the daily average came to € 2.106 in August and € 2.044 in September.

The graph below shows Tiscali stock performance and the volumes traded during the third quarter of 2007:

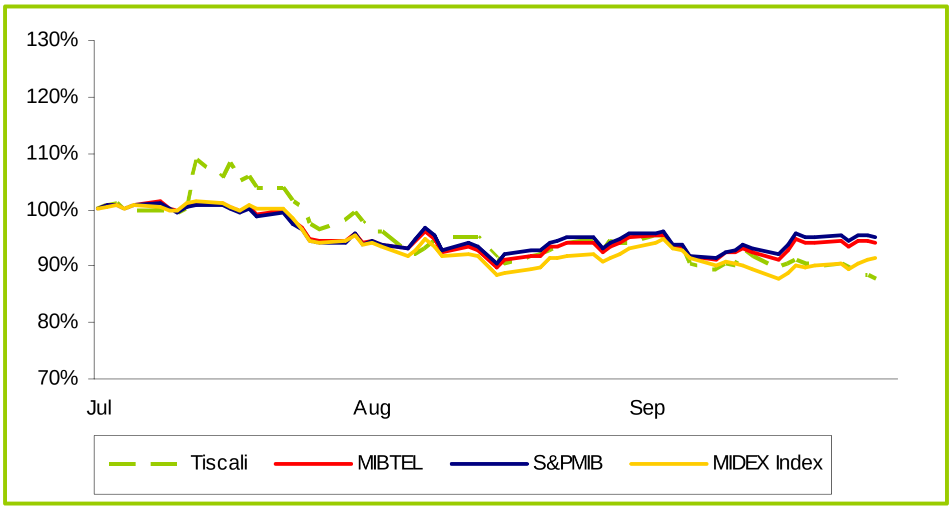


Source: Bloomberg

The average price per share reported during the quarter came to € 2.15, with elevated trading volumes especially in July. The maximum price for the period of € 2.447 was recorded on 13 July 2007, while the minimum price of € 1.967 was struck on 28 September 2007.

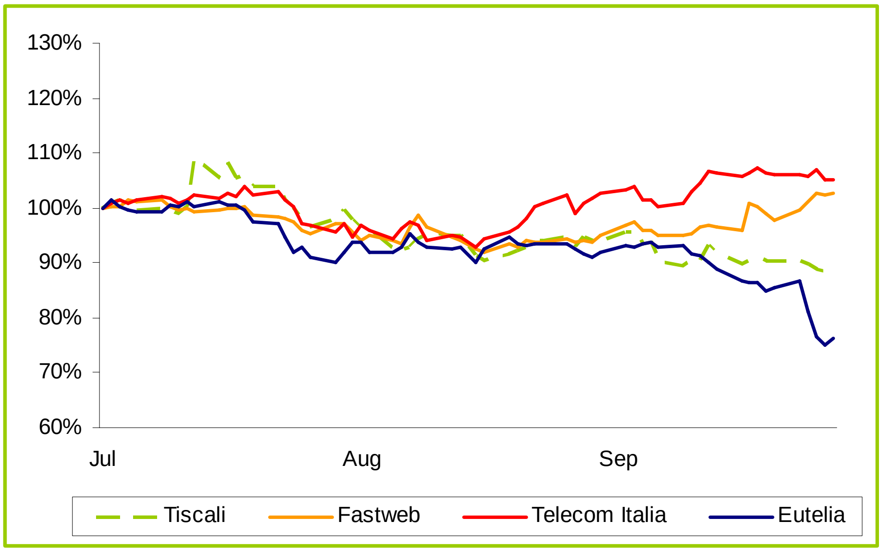
With respect to the market indexes, in July Tiscali stock performance was higher than the MIBTEL, MIDEX, Index and S&P Mib indexes, only to then align itself in the following two months.

The graph below shows Tiscali stock performance in the third quarter of 2007, compared with the market indexes:



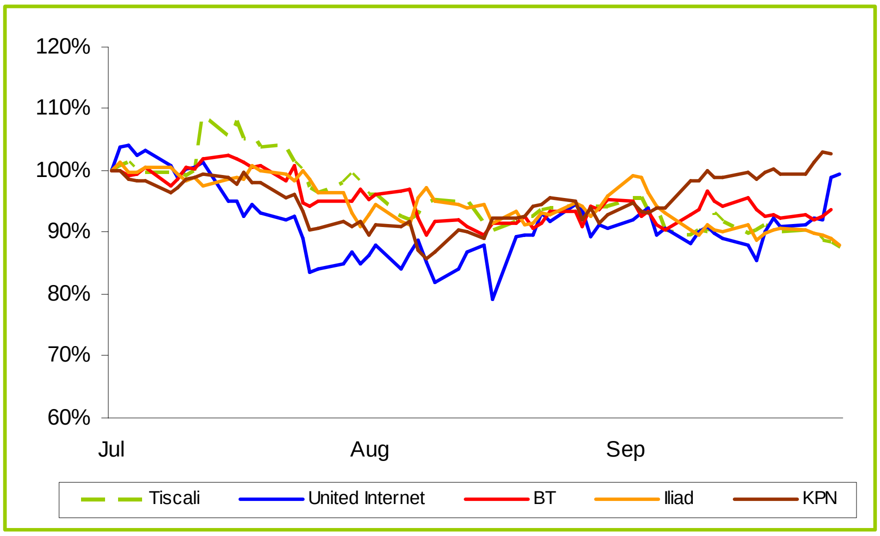
Source: Bloomberg

The graph below shows Tiscali stock performance in the third quarter of 2007, compared with its Italian competitors:



Source: Bloomberg

The graph below shows Tiscali stock performance in the third quarter of 2007, compared with the stock of the leading European telephone operators.



Source: Bloomberg

During the quarter, trading achieved a daily average of around 4.4 million shares, equating to a daily average value of € 9.5 million.

Average daily trading of Tiscali shares on the Italian Stock Exchange during the third quarter of 2007

	Price (€)	Number of shares
July	2.280	5,820,298
August	2.106	4,158,142
September	2.044	3,281,917
Average	**2.145**	**4,420,119**

INFORMATION ON OPERATIONAL PERFORMANCE

ANALYSIS OF THE GROUP'S ECONOMIC, EQUITY AND FINANCIAL POSITION

CONSOLIDATED INCOME STATEMENT	30 September 2007 Nine months	30 September 2006 Nine months	% change
(in thousands of €)			
Revenues	614,332	487,010	26%
Other income	5,092	1,573	224%
Purchases of external materials and services	441,674	361,073	22%
Payroll and related costs	72,515	56,018	29%
Other operating costs	1,722	3,914	56%
Gross operating result	**103,512**	**67,579**	**53%**
Reorganization costs, provisions to risk reserves and writedowns	27,719	52,599	48%
Amortization/depreciation	112,111	91,314	23%
Other atypical (income) charges	-	(64,352)	-
Operating result	**(36,318)**	**(11,983)**	**-203%**
Portion of results of equity investments carried at equity	(342)	(355)	
Net financial income (charges)	(43,676)	(23,601)	-85%
Other net financial income (charges)	(17,881)	0	-
Pre-tax result	**(98,218)**	**(35,938)**	**-173%**
Income taxes	2,112	931	127%
Net result of operating activities (on-going)	**(100,330)**	**(36,869)**	**-172%**
Result of assets disposed of and/or destined to be disposed of	91,488	(30,327)	402%
Net result	**(8,842)**	**(67,196)**	**87%**

CONSOLIDATED INCOME STATEMENT	30 September 2007 Three months	30 September 2006 Three months	% change
(in thousands of €)			
Revenues	221,279	168,915	31%
Other income	889	(802)	211%
Purchases of external materials and services	158,919	124,537	28%
Payroll and related costs	22,311	16,732	33%
Other operating costs	(632)	(1,658)	-38%
Gross operating result	**41,569**	**28,502**	**46%**
Reorganization costs, provisions to risk reserves and writedowns	9,262	41,352	-78%
Amortization/depreciation	40,129	33,525	20%
Other atypical (income) charges	**-**	**(64,352)**	**-**
Operating result	**(7,822)**	**17,977**	**-144%**
Portion of results of equity investments carried at equity	80	(131)	
Net financial income (charges)	(16,904)	(12,936)	31%
Other net financial income (charges)	-	-	-
Pre-tax result	**(24,646)**	**4,910**	**-602%**
Income taxes	30	114	74%
Net result of operating activities (on-going)	**(24,676)**	**4,795**	**-615%**
Result of assets disposed of and/or destined to be disposed of	(4,310)	2,149	-301%
Net result	**(28,986)**	**6,945**	**-517%**

Main events during the first nine months of 2007

During the first nine months of 2007, the Tiscali Group saw the occurrence of important industrial and financial events and the achievement of the objectives announced to the market in the 2007-2010 strategic plan.

On an industrial front, Tiscali finalized the disposals in the Netherlands, Germany and the Czech Republic on a consistent basis with the plan objective of concentration in Italy and the UK.

In the UK, having successfully achieved the merger with Video Networks and launched the IPTV range to its customers in February 2007, during September 2007 Tiscali concluded the acquisition of an important telephone operator, specifically the broadband and voice division of the Pipex Communications plc. Group ("Pipex"), which is consolidated in the results analyzed by this report for 18 days as from 13 September 2007.

The acquisitions of Video Networks and Pipex has reinforced Tiscali's position in the UK, which today, with around 2 million broadband customers, is one of the main integrated telephone operators capable of offering its customers internet access, voice and multi-media services (telephone via internet).

In Italy, Tiscali has achieved important rates of growth and the migration of a significant portion of its user base to the infrastructure network it avails of, involving a consequent improvement in the margins (gross operating income) as a percentage of revenues, which rose from 19% of revenues as at 30 September 2006 to 24% of revenues as at 30 September 2007 (quarterly period).

In July 2007, Tiscali also entered into a preliminary agreement with Telecom Italia in order to become a mobile virtual network operator. Thanks to this agreement, Tiscali will be able to propose competitive offers to the market on the entire range of mobile services and develop integrated fixed-mobile ranges, both for voice and data services. By means of this agreement, Tiscali proposes to complete its offer of telecommunications services with regard to quadruple play, with the aim of integrating its fixed network data services (mail, portal, contents and added value services) with a mobile telephone range.

From a financial standpoint, Tiscali has radically changed its equity and financial structure. In September 2007, coinciding with the acquisition of Pipex, the Tiscali Group in fact raised a bank loan disbursed by Intesa San Paolo and JP Morgan for € 650 million. As at 30 September, € 600 million of the loan had been used; of this balance, around € 279 million has been dedicated to financing the acquisition of Pipex and the associated costs, while approximately € 200 million has been used in order to re-finance the outstanding bank loans. The € 50 million not yet used as of the current date is available for the additional financial and operating requirements of the Group.

Furthermore, in August, Tiscali's shareholders' meeting approved a share capital increase under option to Tiscali's shareholders for a maximum of € 220 million, at least € 150 million of which is expected to be carried out within the first few months of 2008, so as to refinance the existing bank debt.

Again in August 2007, the company Management & Capitali approved an investment project for supporting the Tiscali Group's growth plans for a sum ranging between € 50 million and € 165 million, to be defined also in light of the Group's growth opportunities. It is envisaged that the agreement, at an advanced stage of negotiation, will be concluded by the end of the current year.

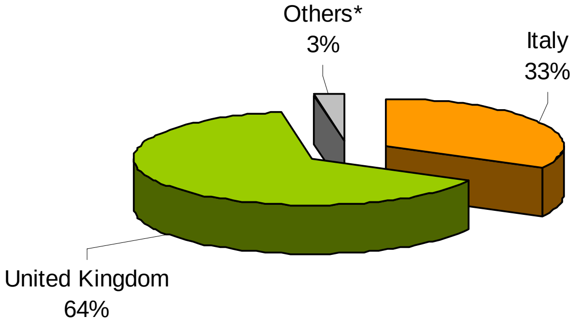
Tiscali Group revenues during the first nine months of 2007, inclusive of Pipex for a fraction of September, amounted to € 614.3 million, up by 26% compared with the figure reported during the first nine months of 2006 (€ 487 million) and 31% on an annual basis (quarter on quarter). This rise is attributable to the increase in revenues deriving from direct broadband access services and from the joint voice and data service offers as well as the acquisition of Pipex, recorded in the accounts for 18 days in September. On a consistent basis, or rather without considering the effect of Pipex, growth on an annual basis in revenues for the nine-month period and for the quarter came to 22% and 20%, respectively.

The gross operating result, amounting to € 103.5 million, saw an increase on an annual basis both in absolute terms (+ 53%) and in percentage terms on Group revenues, passing from 14% in the first nine months of 2006 to 17% in the first nine months of 2007. If we do not consider the effects of acquiring Pipex, the gross operating result would stand at € 99.2 million for the nine months and € 37.3 million for the quarter, in any event up on an annual basis by 47% and 31%, respectively.

The subsequent sections contain an analysis of the operational performance by geographic area and business line.

Operational performance by geographic area

Geographical breakdown of revenues



***** *The item other includes the revenues deriving from Tinet subsidiaries and others.*

<u>Italy: migration to proprietary network and acceleration of the growth in 'double play' customers makes it possible to achieve the operating profit (EBIT) in the quarter</u>

During the first nine months of 2007, Tiscali Italia reported net ADSL customer activations equating to over 86 thousand, taking the total number of ADSL subscribers at the end of September 2007 to around 520 thousand, corresponding to growth of around 20% with respect to the figure at the end of 2006 (approximately 432 thousand ADSL subscribers).
A pick up in the users who purchase 'double play' services (ADSL internet access and VoIP voice services) was also witnessed, passing from around 81 thousand as at 31 December 2006 to around 134 thousand as at 30 September 2007 (+ 65%).

Users linked-up via the Tiscali network infrastructure (unbundling) came to more than 310 thousand, up by 33% when compared with the figure as at 31 December 2006 (235 thousand), thanks to the success of the migration to the proprietary network infrastructure (ULL) which had 486 unbundling sites as at 30 September 2007, which permit Tiscali Italia to reach 38% of households.

Dial-up and voice users (CS and CPS) number more than 600 thousand, taking the total of customers in Italy to more than 1.1 million.

Group revenues in Italy, for the nine months as at 30 September 2007, amounted to € 201.9 million, up by 28% when compared with the same period in the previous year (€ 157.3 million). Sales revenues generated by the Italian subsidiary represented 33% of total Tiscali Group sales revenues. The revenues deriving from ADSL access services equating to € 74 million in the nine-month period, rose by 44% (€ 51.5 million in the first nine months of 2006). The percentage of ADSL revenues out of total access revenues rose by 50% in the first nine months of 2006 to 66% in the first nine months of the current year. Revenues generated by voice services amounted to € 50.8 million, of which those relating to VoIP services totalled € 21.5 million, 3.4 times greater than in the first nine months of the previous year.

Group revenues in Italy, during the third quarter of 2007 amounted to € 71.8 million, up by 37% when compared with the same period in the previous year (€ 52.6 million). Revenues deriving from ADSL access services, € 26 million, rose by 44% when compared with the € 18.1 million during the third quarter of 2006.

The percentage of ADSL revenues out of total internet access revenues rose from the 54% in the third quarter of 2006 to 70% in the third quarter of the current year. Revenues generated by voice services came to € 19.4 million, of which those relating to VoIP services totalled € 8.2 million, up by 164% with respect to the third quarter of 2006.

The rise in users during the first nine months of the year was made possible by the quality of the products and the Tiscali commercial ranges. Within this sphere, mention is made of the success of the Tandem Flat product, at € 35.95 a month, inclusive - for Tiscali customers under unbundling coverage - of telephone calls, fixed subscription fee and unlimited ADSL access at 10 Mb/s, which had a virtuous effect on the average proceeds per user of the Italian subsidiary (ARPU).

Tiscali Italia's gross operating result came to € 38.7 million (19% of revenues) in the first nine months of 2007, up by 86% when compared with the figure of € 20.8 million in the first nine months of 2006 (13% of revenues). During the quarter, the result came to € 17.4 million (24% of revenues), featuring even more prominent growth both in absolute value (+ 135%) and in terms of percentage of revenues, rising from 19% during the third quarter of 2006 to 24% in the third quarter of 2007.

The significant increase in the profitability of the Italian subsidiary is linked to the development of the unbundling network and the acceleration of the process for the migration of its customer base to the proprietary network; these customers will be offered bundled products which lead to an immediate increase in the marginal aspect.

The operating result, net of amortization, depreciation and writedowns, presented a positive balance for the third quarter of 2007 (€ 3.8 million), and essentially balanced (- € 1.3 million) for the first nine months of 2007. The figure, which is compared with the operating loss of around € 1 million in the third quarter of 2006 and the loss of € 9.2 million in the first nine months of the previous year, was positively affected by the reduction in amortization/depreciation linked to the timing of the investments in the unbundling network.

UK: integration of Video Networks and external growth via the acquisition of Pipex

During the first nine months of 2007, the UK saw the completion of the process for the integration of Video Networks International Ltd, a company acquired in August 2006 and the acquisition of Pipex's broadband and voice division.

The revenues generated by the UK subsidiary in the first nine months of the year came to € 394.6 million, up by 24% compared with the € 319.1 million in the first nine months of 2006. Pipex's revenues for the third quarter of 2007 amounted to around € 18.6 million. If the consolidation of Pipex is not taken into consideration, the revenues of the UK subsidiary for the first nine months of the year would therefore total around € 376 million, up by 18% with respect to the same period in 2006.
Revenues generated by ADSL access services amount to € 245.8 million (92% of the revenues of the internet access segment), including around € 12 million attributable to Pipex, involving an increase in percentage terms of 22% when compared with the figure for the first nine months of 2006 (€ 201.8 million which represents 85% of total internet access revenues).

Revenues during the third quarter of 2007 amounted to € 141.4 million, of which € 18.6 million attributable to the consolidation of Pipex, up by 25% when compared with the third quarter of 2006.

The new customers who have accessed ADSL services, inclusive of Pipex customers, amounted to over 638 thousand since 31 December 2006, thereby permitting the achievement, as at 30 September 2007, of an ADSL user base of more than 2 million. After the launch of the IPTV service on a national basis in September, Tiscali UK's IPTV customers numbered around 36 thousand. In fact, the subsidiary in the UK completed the migration of the customers acquired from Video Networks – fully based on the third party network - to its own unbundling network, thus improving the quality of the service provided to the customers as well as the average margin per customer.

The unbundling sites activated in September 2007 came to approximately 800, involving a coverage of 55% of households. Total customers as at 30 September 2007, inclusive of broadband, voice (CS and CPS), dial-up customers and Pipex customers, came to more than 3 million.

The gross operating result generated by Tiscali UK during the first nine months of 2007 amounted to € 58.5 million (14.8% of revenues), compared with a figure of € 47.9 million (15% of revenues in the first nine months of 2006). The gross operating result during the third quarter of 2007 came to € 22.5 million (16% of revenues), up by 26% compared with the third quarter of 2006.
The figures in 2007 included € 4.2 million for the gross operating result of Pipex.
The gross operating result in the third quarter of 2007 net of Pipex, equating to € 18.3 million, rose by 3% when compared with the third quarter of 2006.

The operating result, net of amortization/depreciation and writedowns for the first nine months of 2006 presented a negative balance of € 24.9 million (a negative balance of € 41.7 million in the same period in the previous year). The figure should be interpreted in light of the additional amortization/depreciation pertaining to investments for the development of the company's network infrastructure which rose from € 49.8 million in the first nine months of 2006 to € 66.0 million in the first nine months of the year under review. Furthermore, the figure for the nine months ended 30 September 2006 was influenced by reorganization costs, relating to the acquisition of Video Networks equating to € 32.7 million, while reorganization costs for the first nine months of 2007 amounted to € 3.2 million.
The operating result during the third quarter of 2007 presented a negative balance of € 12.2 million, an improvement with respect to the loss of € 35.1 million during the third quarter of

2006. The performance of the result was affected, as in the nine-month period, by the additional amortization/depreciation in the third quarter of 2007 and by the reorganization costs in the third quarter of 2006.

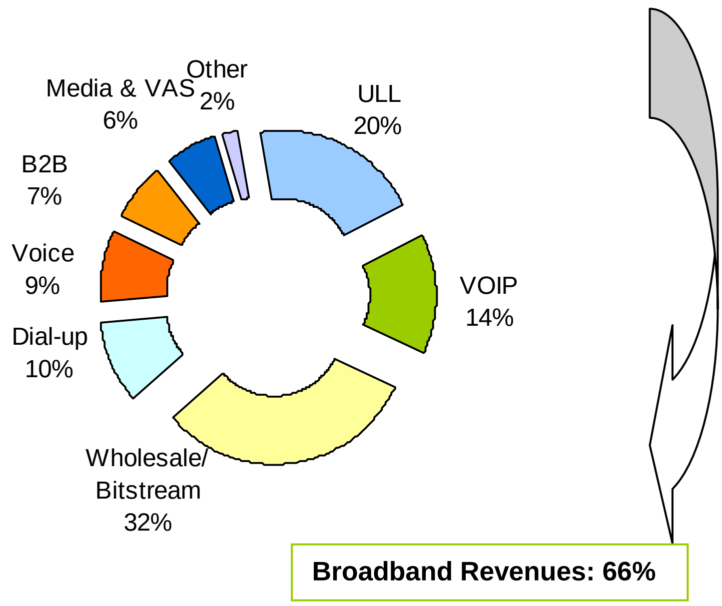
The figure relating to Pipex's operating result during the period presented a positive balance of around € 790 thousand.

For the purposes of greater clarity, the table below discloses Pipex's results for the 18 days included in the period results.

INCOME STATEMENT - PIPEX BROADBAND AND VOICE DIVISION (18 DAYS AS FROM 13 SEPTEMBER 2007) *(in thousands of €)*	**30 September 2007**
Revenues	18,618
of which: access	*12,184*
of which: voice	*6,452*
Gross operating result	**4,237**
Reorganization costs, provisions to risk reserves and writedowns	2,611
Amortization/depreciation	835
Operating result	**790**
Net result	**732**

Revenues by business area

Breakdown of revenues by business area in the first nine months of 2007 *

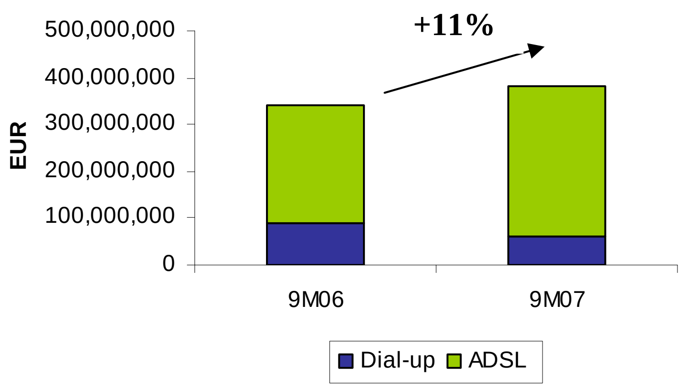


* *Inclusive of Pipex*

Access: ADSL revenues from direct access tripled

During the first nine months of 2007, Group internet access revenues represented 62% of total Group revenues and amounted to € 381.3 million, involving an increase of 11% when compared with the same period in 2006 (€ 342.3 million, 70% of Group revenues).

Breakdown of internet access sales revenues (9M-06/9M-07)



** Inclusive of Pipex*

The contribution of the ADSL segment was predominant within the internet access business segment. During the first nine months of 2007, revenues originating from broadband access amounted in fact to € 319.8 million (84% of internet access revenues), up by 26% when compared with the same period in the previous year (€ 253.3 million, 74% of internet access revenues). The rise, neutralizing the Pipex effect, came to 22% on an annual basis.

During the third quarter of 2007, internet access revenues amounted to € 129.5 million, up by 9% when compared with the third quarter of 2006. The rise in broadband revenues (€ 112.3 million during the third quarter of 2007 and € 92,3 million in the third quarter of 2006) was higher and equal to 22%, while revenues from direct internet access in the quarter more than doubled on an annual basis (€ 20.2 million in the third quarter of 2006 compared with € 50.7 million in the third quarter of 2007). The 2007 figures include € 9.3 million in internet access revenues deriving from the acquisition of Pipex.

Net activations of ADSL customers reported during the first nine months of 2007 came to approximately 210 thousand, net of Pipex.
Including the acquisition of Pipex, the increase came to more than 720 thousand and the total of ADSL subscribers came to around 2.6 million, including about 1 million via direct access, up by 74% when compared with the 584 thousand as at 31 December 2006.

The process of converting narrowband customers to the ADSL product has led to the inherent decrease in the users and the dial-up revenues. In fact, during the first nine months of the year, the revenues of this segment, which amount to € 61.4 million, decreased with respect to the € 88.9 million reported in the first nine months of 2006. As at 30 September 2007, the voice and dial–up users numbered approximately 1.2 million (net of Pipex) compared with a figure of around 1.6 million users as at 31 December 2006.
Pipex did not contribute any dial-up revenue.

Voice services: up thanks to the double play products

Voice revenues as at 30 September 2007 (nine months) amounted to € 141.0 million, up by 80% when compared with the figure in the same period last year (€ 78.4 million) and represent 23% of total Group revenues.
Voice revenues during the third quarter of 2007 came to € 56.7 million, up by 100% with respect to the third quarter of the previous year.

Neutralizing the Pipex contribution to voice revenues - around € 6.4 million during the period – growth on an annual basis for the nine months and for the quarter would have amounted to 72% and 77%, respectively.

The growth is attributable to the success of the double play products, which disclosed revenues in the nine months of € 88.1 million, 5.5 times higher with respect to the nine months of the previous year.

As at 30 September 2007, double play products reached around 134 thousand users, up by 65% when compared with 31 December 2006, proof of the success of Tiscali's strategy of selling integrated internet access and telephone services to its customers.

Business services

The Business Services segment which includes VPN services, housing, hosting, domains and leased lines, reported revenues during the first nine months of 2007 for around € 42.7 million, up by 34% when compared with the first nine months of 2006 (€ 31.9 million). As a percentage of total revenues as at 30 September 2007, the figure came to 7%.

During the third quarter of 2007, revenues amounted to € 15.8 million, up by 45% when compared with the third quarter of 2006.

Pipex sales revenues deriving from B2B services amounted to around € 52 thousand. It is envisaged that the acquisition of Pipex, which has a customer portfolio of small and medium-sized businesses, may provide a further boost to the Group's activities in this business segment.

Media and added value services: growth of 23% on an annual basis

During the first nine months of 2007, revenues from media and added value services amounted to € 36.5 million (6% of total revenues), up by 23% when compared with the € 29.7 million (6% of total revenues) reported during the first nine months of the previous year.
During the third quarter of 2007, revenues deriving from this business line amounted to € 11.9 million, up by 20% when compared with the third quarter of 2006.

The performance of the media and added value services benefited from the contribution from the various partnerships (Google in the first instance) and the resumption of on-line advertising which the Tiscali portals, in Italy and the UK, manage to attract thanks to the page views generated and the numerous contacts.

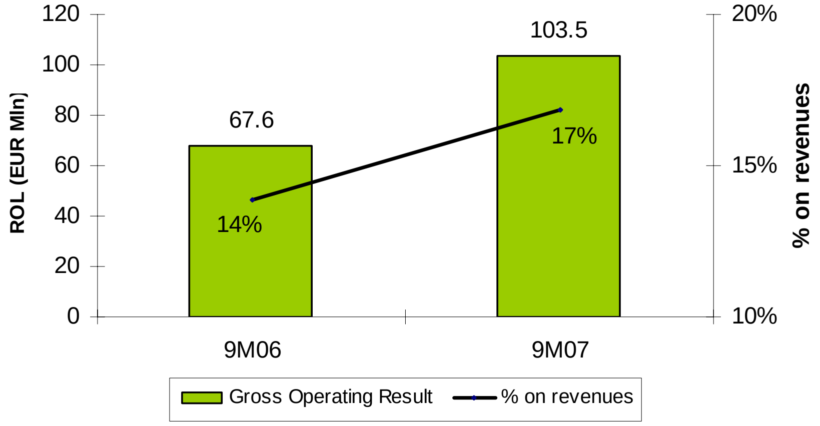
Gross operating result: increase in profitability

As at 30 September 2007, the gross operating result, before provisions for risks, writedowns and amortization/depreciation, amounted to € 103.5 million, disclosing a significant improvement (+ 53%) with respect to the € 67.6 million generated in the first nine months of 2006. In terms of percentage of revenues, the gross operating result rose from 14% to 17%.

The quarterly figure as at 30 September 2007 came to € 41.5 million, up by 46% on an annual basis, and as a percentage of revenues rose from 17% to 19%.

Pipex's contribution to the period's gross operating result came to € 4.2 million. The rise in the absolute annual value of the gross operating result, not taking into account Pipex's contribution, came to 47% for the nine months and 31% for the three months.

Gross operating result*



** Inclusive of Pipex*

Indirect operating costs for the first nine months of 2007 amounted to € 182.7 million, involving a percentage of 30% of revenues. The figure compares with the € 151.3 million in the first nine months of 2006, which represented 31% of revenues. In detail:

Marketing costs, which also comprise sales and distribution expenses, during the first nine months of 2007 amounted to € 65.6 million (11% of revenues), compared with € 59 million (12% of revenues) in the first nine months of 2006. The trend reflects the timescales of the marketing campaigns planned during the year. During the third quarter of 2007, marketing costs amounted to € 23.1 million, up by 34 % when compared with the third quarter of 2006. Pipex recorded around € 0.7 million in marketing costs during the period.

Payroll and related costs during the first nine months of 2007 came to € 72.5 million, up with respect to the € 56.0 million as at 30 September 2006, essentially justified by the rise in the volume of activities in the UK, where the average cost of the employees is higher than the Group average, and by the need to recruit specialized staff. The incidence of this cost item on revenues, during the nine-month period, rose from 11% to 12%. During the third quarter of 2007, payroll and related costs amounted to € 22.3 million, up by 34% when compared with the third quarter of 2006. Pipex recorded around € 0.5 million in payroll and related costs in the period.

Other indirect costs during the first nine months of 2007 amounted to € 44.5 million, with an incidence on revenues which dropped from 7.45% in the first nine months of 2006 (€ 36.3 million) to 7.24% in the first nine months of the current year, growth attributable to the rise in activity volumes and the two corporate acquisitions in the UK.

During the third quarter of 2007, indirect costs amounted to € 15.7 million, up by 78% with respect to the third quarter of 2006. Pipex recorded approximately € 1 million in indirect costs during the period.

For the purposes of greater statement clarity, an analysis of the operating revenues/costs making up the Gross operating result is provided, as stated in the income statement, highlighting in particular the reconciliation between "*purchases of external materials and services"* and "*other operating costs*" with the **indirect operating costs** described in the previous paragraph

INCOME STATEMENT *(in thousands of €)*	**30 September 2007 Nine months**	**30 September 2006 Nine months**
Revenues	614,332	487,010
Other income	5,092	1,573
Purchases of external materials and services, of which:	441,674	361,073
- marketing	*65,627*	*58,987*
- indirect costs (*)	*44,550*	*33,306*
- other direct costs	*331,497*	*268,780*
Payroll and related costs	72,515	56,018
Other operating costs, of which	1,722	3,914
- other indirect costs (*)	*(700)*	*3,033*
- other operating costs	*2,422*	*881*
Gross operating result	**103,512**	**67,579**

(*) Total indirect costs

Operating result

The operating result during the first nine months of 2007 (a loss of € 36.3 million) compares with an operating loss of € 11.9 million during the first nine months of 2006. The figure is not comparable however, since the first nine months of 2006 reported a positive income component equating to € 64.3 million and reorganization costs totalling € 35.8 million, both linked to the acquisition of Video Network Ltd. Considering the figure net of the afore-mentioned affects, with a contrasting sign, the operating result as at 30 September 2006 (nine months) would be negative for € 40.4 million, therefore an improvement would be disclosed in the gross operating result during the first nine months of 2007.

INCOME STATEMENT *(in thousands of €)*	**30 September 2007**	**30 September 2006**
Operating result	**(36,318)**	**(11,983)**
Reorganization costs from VNL acquisition	-	35,847
Other atypical income (effect of VNL dilution)	-	(64,352)
Adjusted gross operating result	**(36,318)**	**(40,488)**

The operating result for the third quarter of 2007 presented a negative balance of € 7.8 million, compared with a positive operating result of € 17.9 million in the third quarter of 2006.

Deducting the atypical income relating to the acquisition of Video Networks amounting to € 64.3 million and the related reorganization costs (amounting to € 35.8 million) from this figure, the operating result for the third quarter of 2006 would have disclosed a loss of € 10.6 million. Quarter on quarter, a improvement was therefore seen.

As at 30 September 2007, amortization and depreciation of intangible and tangible fixed assets came to € 112.1 million, compared with € 91.3 million in the first nine months of 2006. The figure is attributable to the significant investments made during the period for the development of the unbundling network and the range of ADSL services (modem costs and activation costs) in the UK and in Italy

Provisions for risks and writedowns, together with reorganization costs, amounted in total to € 11.7 million, compared with the figure of € 42.3 million reported in the first nine months of 2006. Writedowns of receivables amounted to € 16.0 million as at 30 September 2007, compared with € 10.3 million in the first nine months of the previous year. As a percentage of revenues, the figure remained more or less stable above 3%..

Result of on-going operating activities

The result of on-going operating activities (continuing operations) during the first nine months of 2007, presented a negative balance of € 100.3 million, compared with a loss of € 36.9 million during the first nine months of 2006. This result in 2007 included net interest expense totalling € 61.6 million, of which around € 18 million concerns charges for the early repayment of the Silverpoint loan

In addition to the charges for the early Silverpoint repayment, the result of on-going operating activities was influenced by an increase in interest expense totalling around € 20 million when compared with the first nine months of 2006, determined by the differing composition and related cost of borrowing.

In fact, during 2006, the debt was mainly represented by an equity linked bond, while in 2007 the debt entirely comprised bank loan finance involving higher lending spreads, considering a general scenario of market rate rises.

Result of assets destined to be disposed of

During the first nine months of 2007, the net result of assets disposed of presented a positive balance of € 91.5 million, compared with a loss of € 30.3 million in the corresponding period of 2006. The period result included the related net capital gain on disposals amounting to around € 95.8 million, concerning the disposal of the Dutch subsidiary to KPN and the disposal of the activities in Germany, Spain and the Czech Republic.

The activities relating to residential and business customers in Tiscali Germany were sold off during January/February, with a residual portion sold in the third quarter of 2007; the Spanish activities were sold off in March, the activities in the Netherlands were sold off in June and the activities in the Czech Republic were sold off in July 2007.

Net result

The nine months as at 30 September 2007 closed with a net loss of € 3.8 million, which reflects the net capital gains amounting to approximately € 95.8 million, which compares with a net loss of € 67.4 million during the first nine months of 2006.

The net capital gain of € 95.8 million includes a gross capital gain on disposal amounting to € 199.2 million, the cancellation of goodwill on consolidation and writedowns of assets for €

95.4 million and other disposal charges totalling € 8 million. For further details on the disposals, please see Section 11.1 in the explanatory notes.

The result for the period under review was also affected by interest expense for € 61.5 million, of which around € 18 million relating to charges for the early repayment of the Silver Point loan. In addition to the charges for the early Silverpoint repayment, the net result was influenced by an increase in interest expense totalling around € 20 million when compared with the first nine months of 2006, determined by the differing composition and related cost of borrowing.

As at 30 September 2007, as is usual practice for the Company, no provisions were made for deferred tax assets. Any additional provisions and/or uses will be assessed at the time of drawing up the statutory financial statements also in light of the definition and the initial action for the integration of the new activities recently acquired in the UK and taking into account the review of the Business Plan currently underway.
By contrast, steps were taken to partly use the tax assets recorded by Tiscali International BV, for a total of € 51 million, for the coverage of taxes deriving from the statement of capital gains on the disposal of the Dutch activities.

BALANCE SHEET AND FINANCIAL POSITION

BALANCE SHEET

CONSOLIDATED BALANCE SHEET (in thousands of €)	30 September 2007	31 December 2006
Non-current assets	1,185,890	876,465
Current assets	369,240	195,641
Assets held for sale	-	158,642
Total assets	**1,555,130**	**1,230,748**
Group shareholders' equity	209,866	242,829
Shareholders' equity pertaining to minority shareholders	39,727	26,733
Total shareholders' equity	**249,593**	**269,561**
Non-current liabilities	847,935	222,299
Current liabilities	457,601	673,957
Liabilities directly linked to assets held for sale	-	64,932
Total liabilities and shareholders' equity	**1,555,129**	**1,230,748**

ASSETS

Non-current assets

Non-current assets amounting to € 1,186 million mainly comprise goodwill, for a value of € 597.5 million, of which € 285.3 million originating from the acquisition of Pipex.
Tangible assets (properties, plant and machinery) and other intangible assets, amounted respectively to € 287.5 million and to € 185.2 million.

Investments

During the first nine months of 2007, the Tiscali Group invested around € 140.9 million for the extension of the unbundling network and for the operating investments relating to the connection and activation of new customers in the various countries; this balance includes approximately € 61.1 million attributable to investments in intangible assets and around € 79.8 million in investments in tangible fixed assets.

The investments in intangible assets mainly relate to the costs associated with the activation of the ADSL customers, as well as the creation of IRU (Indefeasible rights of use) contracts, concerning the acquisition of rights for the use of networks and capacity, while those relating to tangible assets refer essentially to the development of the unbundling network, inclusive of the related equipment. These investments have made it possible to achieve and activate, in September 2007, in Italy and the UK, 486 and 800 unbundling sites respectively.

Current assets

Current assets, amounting to € 369.2 million, include amounts due from customers totalling € 171.8 million, cash and cash equivalents amounting to € 104.5 million in addition to other receivables and sundry current assets including accrued income on access services rendered, prepaid costs for services, as well as sundry receivables for € 65.8 million, short-term financial assets for € 18.3 million and inventories for € 8.7 million.

LIABILITIES

Non-current liabilities

Non-current liabilities as at 30 September 2007 amounted to € 848 million. Together with the items pertaining to the financial position (see subsequent section), these liabilities specifically include medium/long-term amounts due to suppliers for the purchase of long-term usage rights on transmission capacity (IRU).

Current liabilities

Current liabilities as at 30 September 2007 amounted to € 457.6 million. The current liabilities not relating to the financial position mainly include amounts due to suppliers, as well as, in the item Other current liabilities, accrued expenses pertaining to the purchase of internet access services and line rentals.

FINANCIAL POSITION

As at 30 September 2007, the Tiscali Group was able to count on cash and cash equivalents for a total of € 104.5 million, vis-à-vis a net financial position as of the same date, referring to on-going activities, which presented a negative balance of € 596.7 million (€ 397.2 million as at 31 December 2006).

The financial position referring to just the operating activities, is summarized in the following table:

in thousands of €	*30 September 2007*	*31 December 2006*
A. Cash	104,544	3,824
B. Other cash equivalents	18,952	11,494
C. Securities held for trading	-	-
D. Liquidity (A) + (B) + (C)	***123,496***	***15,318***
E. Current financial receivables	***21,078***	***21,257***
F. Current bank payables	26,199	374,787
G. Current portion of non-current debt	-	-
H. Other current financial payables (*)	17,897	12,302
I. Current financial debt (F) + (G) + (H)	***44,097***	***387,090***
J. Net current financial debt *(I) – (E) – (D)*	**(100,476)**	**350,514**
K. Non-current bank payables	589,909	-
L. Bonds issued	-	-
M. Other non-current debt (**)	107,296	46,648
N. Non-current financial debt *(K) + (L) + (M)*	**697,205**	**46,648**
O. Net financial debt *(J) + (N)*	**596,729**	**397,163**

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

So as to maintain continuity with the disclosure provided in previous reports, the above statement includes VAT receivables among current financial receivables and guarantee deposits among other cash equivalents.

In order to provide a complete picture, the reconciliation of the above financial position with the financial position draw up in light of the Consob Communication dated 28 July 2006, is presented in the following table.

in thousands of €	*30 September 2007*	*31 December 2006*
Consolidated net financial debt	**(596,729)**	**(397,163)**
Other cash equivalents and current financial receivables	(22,278)	(25,114)
Consob consolidated net financial debt	**(619,007)**	**(422,277)**

The greatest impacts on the net financial position, with respect to December 2006, were determined by the following factors:

- repayment of the Silverpoint loan, which took place in February 2007 for a nominal € 250 million;
- repayment of the EDC loan (€ 13.3 million);
- repayment of the mortgage loan (€ 29.1 million), against a sale and lease back transaction relating to the Cagliari headquarters for a total of € 59.7 million (of which € 2.3 million included under financial payables and € 57.4 million included under other non-current payables);
- raising of loan granted by Banca Intesa SanPaolo for € 280 million, of which € 130 million repaid by means of the amount received from the disposal of the Dutch activities. The residual balance of € 150 million was repaid by means of the raising of a new loan granted by Banca Intesa SanPaolo and JP Morgan for a nominal amount of € 650 million on 13 September
- repayment of the Barclays loan for € 52.6 million;

These transactions influenced the change in cash and cash equivalents during the first nine months of 2007 which, inclusive of financial charges, presented a positive balance of around € 100.7 million. The results under review were also essentially influenced by the significant investments made (€ 140.9 million) for the development of the customer base and the unbundling network infrastructure, as well as the Silver Point repayment costs and the charges for raising the new Banca Intesa SanPaolo and JP Morgan loan (€ 33.9 million). The amounts received deriving from the main disposals, including the Spanish activities and those in the Czech Republic, came to around € 282 million, and the acquisition of the Pipex broadband and voice division generated an outlay of around € 274 million.

SIGNIFICANT EVENTS DURING THE FIRST NINE MONTHS OF THE ACCOUNTING PERIOD

Disposals

- On 31 January 2007, Tiscali finalized an agreement with Freenet AG on the basis of which the latter acquired Tiscali's consumer narrowband and broadband customers in Germany. As at 31 December 2006, Tiscali had around 380,000 customers active in Germany, of which around a third linked up under indirect broadband facilities.

- On 5 February 2007, Tiscali reached an agreement with Ecotel Communication AG on the basis of which the latter acquired Tiscali's B2B activities in Germany. The equivalent value received in cash deriving from the disposal of the B2C and B2B activities in Germany amounted to around € 45.5 million.

- On 19 June 2007, further to the approval of the Dutch antitrust authority, Tiscali completed the sale of its activities in the Netherlands to KPN B.V.. The total value came to € 248.5 million. Net of the repayment of intercompany payables for around € 12.5 million, the final payment for the disposal came to € 236 million. As envisaged, € 130 million was allocated to the partial repayment of the loan granted by Banca Intesa SanPaolo (equating to a total of € 280 million), involving a further reduction of the debt and the enhancement of the Group's equity and financial structure.

- On 17 July 2007, the disposal in the Czech Republic was finalized for a total payment of € 100 thousand.

Tiscali launches the Tiscali TV service in the UK

On 5 February 2007, the Group's UK subsidiary (Tiscali UK) informed the market of the commercial television via internet product (IPTV) in the UK. The product, active as from the 1st of March, will reach the entire ULL network of Tiscali UK by the end of 2008 – at £ 19.99 a month for the triple play product – and reflects Tiscali's philosophy which see the television product as complementary to the range of broadband access and voice services, with the possibility for the users to choose premium contents in addition to the basic package.

Stock option plan for management

On 10 May 2007, accomplishing the incentive plan for the Chief Executive Officer, Tiscali S.p.A.'s Board of Directors allocated the same 3,593,143 options in a single tranche for the purchase of the same amount of ordinary shares in the Company. It will be possible to exercise these options, subject to the achievement of the performance targets, also in several tranches as from 4 May 2010 and by 3 November 2010, at a price of € 2.763;

On 28 June, accomplishing the incentive plan for Tiscali S.p.A. employees and those of its Italian subsidiaries, approved by the shareholders' meeting held on 3 May 2007, the Board of Directors assigned 23 managers a total of 3,330,000 options for the subscription of the same amount of ordinary Tiscali S.p.A. shares. It will be possible to exercise the options between 29 June 2010 and 28 December 2010, at an exercise price of € 2.378 per option, equating to the arithmetic average of the Official Stock Exchange Prices of the Company's shares in the month prior to the resolution of the Board of Directors, in compliance with applicable tax legislation. The plan has the aim of aligning the interests of management with the creation of value for the Tiscali Group and its shareholders, thereby encouraging the achievement of the strategic objectives.

Acquisition of the Pipex broadband and voice division and raising of a new loan

On 13 July 2007, Tiscali and Pipex Communications Plc ("Pipex") entered into an agreement for the acquisition by Tiscali UK Holdings Limited of Pipex's broadband and voice division. The Enterprise Value agreed for the acquisition came to GBP 210 million (approximately € 310 million). The acquisition was approved by Pipex's shareholders' meeting and by the UK Office of Fair Trading on 17 August and was formalized on 13 September 2007. The final price was established as GBP 187 million (around € 273 million).

The acquisition of Pipex's broadband and voice division further enhances Tiscali's position among the leading market operators for the integrated supply of telecommunications and media services. Thanks to this acquisition, important synergies and efficiencies may be achieved, in particular on the integration of the network, the migration of the customers and the reduction of the indirect costs. The acquisition was financed by means of a credit facility of € 650 million granted by IntesaSanPaolo and JP Morgan.

The credit facility of € 650 million comprises the following elements: a bridging loan pertaining to a market debt transaction for € 400 million, a bridging loan for a share capital increase of € 150 million, a credit facility of Banca IntesaSanPaolo for € 50 million and a line of liquidity, unused at present, for € 50 million.

The credit facility and the line of liquidity with Intesa SanPaolo contain financial commitments (*financial covenants*) essentially linked to the observance of the following financial indicators to be checked, at consolidated level, on a quarterly basis: the ratio between the debt and the EBITDA; the ratio between the EBITDA and payments by way of principal and interest servicing the debt (Debt Service Cover Ratio); ratio between the EBITDA and net cost for interest (Interest Cover Ratio).

The loan also envisages positive and negative type commitments (so-called general covenants), usual in this type of funding, including the following which are of significance: the limits placed on the further financial indebtedness of the Tiscali Group, the disbursement of dividends, the concession of secured guarantees and the extraordinary activities, such as acquisitions and disposals. The afore-mentioned limits are such that they do not involve significant restrictions to the Group's ordinary operations. In conclusion, the loan agreement is assisted by a pledge on the shares of the operating subsidiary companies of the Tiscali Group, as well as on the Tiscali trademark.

The failure to observe the afore-mentioned covenants will lead, from an essential standpoint, to the creditor's faculty to request the early repayment of the loan. It is also hereby stated that, at present, no problems in this connection exist.

The two bridging loans by contrast do not contain financial covenants but only general covenants, therefore the same considerations indicated above for the bank loans with IntesaSanPaolo and the line of liquidity apply.

The credit facility of € 650 million (of which € 600 million disbursed as of the date of this report) essentially replaced the previous loan with Banca Intesa SanPaolo (for € 150 million) and with Barclays (for around € 53 million). This total amount will be reduced, by € 150 million, by means of recourse to a share capital increase of at least € 150 million already approved, to a higher extent, by Tiscali's shareholders' meeting on 31 August to be carried out compatibly with the market conditions, within the first few months of 2008; it will also be reduced by means of recourse to market debt instruments totalling around € 400 million. If the share capital increase transaction does not take place by February 2008 and the market debt transaction does not take place by September 2008, the bridging loans will transform into long-term payables falling due on 13 September 2016 and 13 September 2014, respectively. The credit facility of € 50 million already disbursed, and that made available, both fall due on September 2011.

Management & Capital investments supporting Tiscali plans

In August 2007, the company Management & Capitali approved an investment project for supporting the Tiscali Group's growth plans for a total of between € 50 million and € 165 million, to be defined also in light of the Group's growth opportunities. It is envisaged that the agreement, at an advanced stage of negotiation, will be concluded by the end of the current year.

Agreement with Telecom Italia for the supply of mobile telephone services

On 27 July 2007, Tiscali and Telecom Italia entered into a preliminary agreement which will permit Tiscali to become a mobile virtual network operator (MVNO). For the first time in Italy, an alternative fixed network operator may offer mobile and integrated services throughout the whole of Italy to residential customers as well. Thanks to this agreement, Tiscali will be able to propose competitive products to the market on the entire range of mobile services, both via prepaid cards and subscription, operating under its own brand and availing of dedicated numbering. The service will be available both in Italy and abroad thanks to coverage under international roaming agreements guaranteed by the Telecom Italia network. Tiscali will define its tariff policy and the prices of its commercial offer under complete autonomy, acquiring and handling customers directly, who will be followed by a specific customer assistance service.
The offer of mobile services will permit Tiscali to develop integrated fixed-mobile ranges, both for voice services and for data services. By means of this agreement, Tiscali proposes to complete its proposal of telecommunications services with a view to quadruple play with the aim of integrating its fixed network data services (mail, portal, added value contents and

services) with a mobile range. Thanks to the experience gained as Internet Service Provider, Tiscali aims to position itself among the leading alternative fixed network operators committed to providing access and developing Internet under mobile conditions. Furthermore, the conditions envisaged by the agreement will permit Tiscali to formulate fixed-mobile on-net ranges for its residential and business customers in competition with those proposed by Telecom Italia and by all the other mobile operators.

- **Tiscali SpA share capital increase authorization**

On 31 August 2007, Tiscali S.p.A.'s shareholders' meeting granted the Board of Directors the faculty to increase the share capital up to a maximum amount, inclusive of the share premium, of € 220 million by 31 December 2008.

BUSINESS OUTLOOK

On a consistent basis with the 2007-2010 business plan, the Tiscali Group intends to consolidate and enhance its position as infrastructured supplier of services on the IP protocol, by means of the changeover from a pure ISP model to a sole supply model for the end customer of integrated telecommunications and media services (with related expansion on the physical access markets, concerning voice and IPTV), by means of a network model based entirely on IP protocol and a product proposition which, via the integral transfer of the traditional and innovative services onto the new networks, will combine commercial aggressiveness with innovation.

Following the disposal of the activities in Germany and the Netherlands, by means of which the Tiscali Group achieved the concentration of the core business in Italy and the UK, the acquisition of the Video Networks and Pipex activities by Tiscali UK denotes the start of the Group's external growth phase. By means of the afore-mentioned acquisitions, Tiscali consolidates a position of leadership in the specific segment placing itself among the four leading operators in the UK. The agreement signed with Telecom Italia will permit Tiscali to become a mobile virtual network operator offering mobile and integrated services to its customers.

The loan with Banca Intesa Sanpaolo and JP Morgan and the interest and the willingness to invest shown by Management & Capitali, as well as the authorization to increase the share capital up to € 220 million, offer the Tiscali Group financial flexibility for the achievement of the growth objectives and expansion of the company which the Board of Directors foresees as an opportunity to pursue, consistent with the heralded growth strategy aimed at accelerating the achievement of the 2007-2010 business plan objectives, approved by the company in October 2006, with a view to the generation of value. This business plan is currently being reviewed and it is expected to be announced to the market by the end of the current year.

The prospects for the sector in which the Tiscali Group operates and its competitive position are judged as consistent with the achievement of the objectives for an additional improvement in the economic and financial performance of Tiscali, envisaged by the business plan. In this context, the ability of the Group to generate positive cash flows remains of primary importance, a condition which significantly influences the evolution of Tiscali's financial position and, therefore, its financial, equity and economic balance.

CORPORATE GOVERNANCE

In relation to the system of management and control, the Company has adopted the traditional model, which envisages the presence of the Board of Directors and the Board of Statutory Auditors. Despite the fact that the reform of company law has made it possible for joint-stock companies to adopt models with a structure other than the traditional one, the Company at present has decided to maintain its management and control system unchanged, so as to guarantee continuity and coherence with the consolidated structure, permitting a clear division of the roles and the responsibilities entrusted to the corporate bodies, also in consideration of the matters laid down by the Code.

The corporate bodies are the Board of Directors, the Board of Statutory Auditors and the shareholders' meeting.

The Board of Directors has set up the following committees internally:

- the Internal Audit Committee, made up of Vittorio Serafino and Gabriele Racugno.
- the Remuneration Committee, made up of Mario Rosso and Francesco Bizzarri

The Board of Directors carries out a prominent role with regard to the Company's existence, since it is the body which is entrusted with the management of the business, as well as the task of strategic and organizational policy and as such is preordained to identify the corporate objectives and check the achievement of the same.

In accordance with Article 14 (Powers of the management body) of the current Articles of Association, this body is due all the powers of ordinary and extraordinary business.

The Board of Directors examines and approves the strategic, industrial and financial plans of the Company and the Group which heads it up; it reports quarterly to the Board of Statutory Auditors on the activities carried out and on the transactions of greatest economic, financial and equity importance carried out by the Company or by its subsidiaries.

During the first nine months of 2007, the Board of Directors met 6 times on the following dates: 18 January, 20 March, 10 May, 28 June, 6 and 12 September.

For further information and details on the Group's Corporate Governance, reference should be made to both the 2006 annual financial statements and the matters contained in the "Annual disclosure report on Corporate Governance and compliance with the recommendations contained in the Code of Best Practice for listed companies" published on the website: http://investors.tiscali.com/tiscali/Documents

TISCALI GROUP - CONSOLIDATED FINANCIAL STATEMENTS AND EXPLANATORY NOTES AS AT 30 SEPTEMBER 2007

INCOME STATEMENT	Note	30 September 2007	30 September 2006
(in thousands of €)			
Revenues	*2*	614,332	487,010
Other income	*4*	5,092	1,573
Purchases of external materials and services	*5*	441,674	361,073
Payroll and related costs	*6*	72,515	56,018
Other operating costs	*7*	1,722	3,914
Gross operating result		**103,512**	**67,579**
Restructuring costs, provisions to risk reserves and writedowns	*8*	27,719	52,599
Depreciation and amortisation		112,111	91,314
Other atypical income/charges		-	(64,352)
Operating result		**(36,318)**	**(11,983)**
Share of profit or losses of associates with equity method		(342)	(355)
Net financial income (charges)	*9.1*	(43,676)	(23,601)
Other net financial income (charges)	*9.2*	(17,881)	-
Profit (loss) before tax		**(98,218)**	**(35,938)**
Income taxes	*10*	2,112	931
Profit (Loss) from continuing operations		**(100,330)**	**(36,869)**
Profit (Loss) from discontinued and/or discontinuing operations	*11*	91,488	(30,327)
Net result		**(8,842)**	**(67,196)**
Attributable to:			
- Result pertaining to Parent Company		**(3,884)**	**(67,403)**
- Minority interests		(4,958)	208
Earnings (loss) per share			
From continuing and discontinued operations::			
- Basic		**-0.01**	**-0.17**
- Diluted		**-0.01**	**-0.14**
From continuing operations:			
- Basic		**-0.22**	**-0.09**
- Diluted		**-0.22**	**-0.07**

BALANCE SHEET	Note	30 September 2007	31 December 2006
(in thousands of €)			
Non-current assets			
Goodwill	*13*	597,554	316,646
Intangible assets	*14*	185,224	218,371
Properties, plant and machinery	*15*	287,518	181,173
Equity investments	*16*	2,133	2,474
Other financial assets	*17*	22,515	13,095
Deferred tax assets	*18*	90,945	144,706
		1,185,890	**876,465**
Current assets			
Inventories	*19*	8,710	4,084
Receivables from customers	*20*	171,792	135,737
Other receivables and other current assets	*21*	65,866	44,135
Other current financial assets	*22*	18,329	7,862
Cash and cash equivalents	*23*	104,544	3,824
		369,240	**195,641**
Assets held for sale		-	158,642
Total assets		**1,555,130**	**1,230,748**
Capital and reserves			
Share capital		212,207	212,207
Share premium reserve		902,492	948,017
Translation reserve		(9,873)	4,685
Retained earnings		(894,959)	(922,079)
Group's shareholders' equity	*24*	**209,866**	**242,829**
Minority interests		39,727	26,733
Shareholders' equity pertaining to minority interests		**39,727**	**26,733**
Total shareholders' equity		**249,593**	**269,561**
Non-current liabilities			
Bonds		-	-
Payables to banks and other lenders	*25.1*	620,574	30,730
Obligations under finance leases	*25.2*	76,631	15,918
Other non-current liabilities	*26*	128,734	131,398
Liabilities for pensions and staff severance indemnities	*27*	5,490	6,194
Provisions for risks and charges	*28*	16,505	38,059
		847,935	**222,299**
Current liabilities			
Bonds - Current portion		-	-
Payables to banks and other lenders	*29.1*	26,199	374,787
Obligations underr finance leases	*29.2*	17,898	12,303
Payables to suppliers	*30*	232,957	180,147
Other current liabilities	*31*	180,547	106,720
		457,601	**673,957**
Liabilities directly linked to assets held for sale		-	64,932
Total liabilities and shareholders' equity		**1,555,130**	**1,230,748**

CASH FLOW STATEMENT

STATEMENT OF CONSOLIDATED CASH FLOWS (in thousands of €)	**30.09.2007**	**30.09.2006**
OPERATING ACTIVITIES		
Net result for the period from operating activities (on-going)	**(95,372)**	**(36,757)**
Adjustments for:		
Atypical income - VNL acquisition	342	(64,352)
Depreciation of tangible assets	42,525	31,541
Amortization of intangible assets	69,586	59,773
Capital gains on disposal of properties, plant and machinery	(1,416)	-
Increases in provisions for risks	402	-
Increases in provisions for writedown of receivables	16,065	11,855
Payroll and related costs relating to stock options	499	-
Current income taxes	2,112	830
Staff severance indemnity and pension benefits	-	2,788
Financial income	(2,107)	-
Financial charges	63,665	24,591
Cash flow from operating activities before changes in working capital	**96,301**	**30,269**
(Increase)/Decrease in trade and sundry assets	(54,998)	(21,500)
(Increase)/Decrease in inventories	(4,626)	31
Increase/(Decrease) in trade and sundry liabilities	17,529	14,507
Cash and cash equivalents generated by operating activities	**54,207**	**23,307**
Interest paid (including upfront fees)	(71,151)	(34,367)
Net change in provisions for risks and charges	(21,955)	(4,316)
Decreases in staff severance indemnities	(704)	(2,198)
Change in prepaid taxes	-	(849)
Change in deferred taxes	53,761	-
NET LIQUIDITY DERIVING FROM OPERATING ACTIVITIES	**14,157**	**(18,423)**
INVESTMENT ACTIVITIES		
Interest received	2,107	-
Acquisition of properties, plant and machinery	(79,841)	(40,357)
Net increases in other intangible fixed assets	(61,077)	(84,363)
Increases in goodwill	(414)	-
Changes in fixed assets:	-	-
- Tangible	(17,651)	(1,227)
- Intangible	29,502	7,083
- Goodwill_ exchange delta	4,790	-
VNL acquisition	-	27,722
Pipex acquisition	(274,143)	-
NET LIQUIDITY USED IN INVESTMENT ACTIVITIES	**(396,727)**	**(91,142)**

STATEMENT OF CONSOLIDATED CASH FLOWS (in thousands of €)	**30.09.2007**	**30.09.2006**
FINANCIAL ACTIVITIES		
Increases/Decreases in financial fixed assets	-	192
Repayments of loans	(346,421)	(4,248)
Share capital increases and share premium reserve		62,546
New bank loans raised	589,908	221,922
Increase (decrease) in bank overdrafts	5,319	24,879
Change in shareholders' equity pertaining to minority shareholders	(4,958)	125
Change in short-term / medium-long term financial liabilities	66,244	(3,233)
Amounts due to shareholders for loans	-	2,471
Changes in shareholders equity	-	1,461
Effect of the change in exchange rates of foreign currencies	(11,625)	(221)
Change in bond issues	-	(211,044)
NET LIQUIDITY DERIVING FROM /(USED IN) FINANCIAL ACTIVITIES	**298,092**	**94,850**
Gross amounts received from disposals	282,140	-
NBV assets disposed of and cancellation of goodwill	(178,295)	-
Other disposal charges	(8,083)	-
Result for the period of assets disposed of and held for sale	(4,273)	(30,646)
Change in assets disposed of and held for sale net of cash and cash equivalents	153,613	56,243
Change in liabilities linked to assets held for sale	(64,930)	(23,116)
EFFECTS DERIVING FROM ASSETS DISPOSED OF/AVAILABLE FOR SALE	**180,172**	**2,481**
NET INCREASE /(DECREASE) IN CASH AND CASH EQUIVALENTS	**95,694**	**(12,234)**
Cash and cash equivalents of operating assets at the start of the period	3,824	26,243
Cash and cash equivalents of operating assets sold and destined to be sold at the start of the period	5,029	3,762
CASH AND CASH EQUIVALENTS AT THE START OF THE PERIOD	**8,853**	**30,005**
Cash and cash equivalents of operating assets at the end of the period	104,544	10,645
Cash and cash equivalents of operating assets sold and destined to be sold at the end of the period	-	7,120
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (9 MONTHS)	**104,544**	**17,765**

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
(in thousands of €)

	Share capital	Share premium reserve	Translation reserve	Stock option reserve	Undivided profits	Group shareholders' equity	Minority interests	Total
Balance as at 1 January 2007	**212,207**	**948,017**	**4,685**	**-**	**(922,079)**	**242,829**	**26,733**	**269,561**
Increases	-	-	-	498	-	**498**	-	**498**
Transfers to cover losses	-	(45,525)	-	-	45,525	**-**	-	**-**
Exchange differences deriving from conversion of foreign financial statements	-	-	(11,625)	-	-	**(11,625)**	-	**(11,625)**
Change in consolidation area	-	-	(2,933)	-	(15,019)	**(17,952)**	17,952	**-**
Profits (losses) recorded under shareholders' equity for the period		**(45,525)**	**(14,558)**	**498**	**30,506**	**(29,079)**	**17,952**	**(11,127)**
Net profit (loss) for the period	-	-	-	-	(3,884)	**(3,884)**	(4,958)	**(8,842)**
Total profits (losses) recorded for the period	**-**	-	-	**-**	**(3,884)**	**(3,884)**	**(4,958)**	**(8,842)**
Balance as at 30 September 2007	**212,207**	**902,492**	**(9,873)**	**498**	**(895,457)**	**209,866**	**39,727**	**249,593**

	Share capital	Share premium reserve	Translation reserve	Stock option reserve	Undivided profits	Group shareholders' equity	Minority interests	Total
Balance as at 1 January 2006	**198,369**	**953,717**	**3,975**	**-**	**(847,294)**	**308,767**	**2,553**	**311,320**
Increases	13,838	48,708	-	-	-	**62,546**	-	**62,546**
Transfers to cover losses	-	(54,409)	-	-	54,409	**-**	-	**-**
Exchange differences deriving from conversion of foreign financial statements	-	-	(221)	-	1,459	**1,238**	-	**1,238**
Change in consolidation area	-	-	-	-	-	**-**	30,505	**30,505**
Profits (losses) recorded under shareholders' equity for the period	**13,838**	**(5,701)**	**(221)**	**-**	**55,868**	**63,784**	**30,505**	**94,289**
Net profit (loss) for the period	-	-	-	-	(67,403)	**(67,403)**	125	**(67,278)**
Total profits (losses) recorded for the period	**-**	**-**	**-**	**-**	**(67,403)**	**(67,403)**	**125**	**(67,278)**
Balance as at 30 September 2006	**212,207**	**948,016**	**3,754**	**-**	**(858,829)**	**305,148**	**33,183**	**338,331**

EXPLANATORY NOTES

1. Introduction

This report and the related consolidated accounting schedules as at 30 September 2007 have been drawn up in observance of CONSOB Communication No. 11971 dated 14 May 1999 and subsequent amendments and in accordance with IAS 34 applicable to the preparation of interim accounts.

2. Basis of presentation

The financial statements have been drawn up in accordance with the principle of the business as a going-concern, since the Group's prospects should be considered to be fully consistent with a position of economic and financial balance as envisaged by the corporate plans.

This report has been prepared in observance of the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") as ratified by the European Union.
The "IFRS" are also understood to be the International Accounting Standards (IAS) currently in force, as well as all the interpretative documents issued by the International Financial Reporting Interpretations Committee ("IFRIC") and the SIC interpretations.
When preparing this report, drawn up in accordance with IAS 34 – *Interim financial statements*, the same accounting standards adopted for the preparation of the consolidated financial statements as at 31 December 2006 were applied, to which reference should be made, with the exception of the matters described in the subsequent section of the Accounting Standards applied as from 1 January 2007.
The preparation of the interim accounts requires the Directors to make certain estimates and, in specific cases, adopt assumptions in the application of the accounting standards. The valuations of the Directors are based on historic experience, as well as on the expectations linked to the achievement of future events, considered reasonable in the circumstances. If in the future, these estimates and assumptions - which are based on the best evaluation made by management - should differ from the effective circumstances, they would be amended appropriately in the period in which the circumstances themselves vary.

Furthermore, these evaluational processes, in particular the more complex ones such as the determination of any losses in value of non-current assets, are generally carried out fully only at the time of the preparation of the annual financial statements, when all the information eventually necessary is available, with the exception of the cases where there are indications of impairment which require the immediate valuation of any losses in value.

The actuarial valuations, necessary for the determination of the Provisions for employee benefits, are normally processed at the time the annual financial statements are drawn up.

Income taxes are recognized on the basis of the best estimate of the weighted average rate anticipated for the entire accounting period.

Tiscali's activities during the first nine months of the year were not significantly subject to phenomenon linked to the seasonal nature of the business.

3. Financial statement formats

The Tiscali Group has adopted the balance sheet format according to the current/non-current criteria, while, for the income statement, the format with the classification of the costs by nature was adopted.

The statement of cash flows has been drawn up using the indirect method.

Accounting standards applied as from 1° January 2007

On 3 March 2006, the IFRIC issued the interpreting document IFRIC 9 – *Subsequent valuation of implied derivatives* in order to specify that a company must evaluate whether the implied derivatives must be separated from the primary contract and recorded as derivative instruments at the time the company stipulates the contract. Subsequently, unless a change takes place in the contract conditions which produces significant effects on the cash flows which otherwise would be required by the contract, it is not possible to carry out this evaluation again. The adoption of this interpretation has not led to the recording of significant accounting effects.

On 20 July 2006, the IFRIC issued the interpreting document IFRIC 10 – *Interim financial statements and losses in value* in order to specify that the loss in value recorded on goodwill and on specific financial assets during an intermediate period cannot be reinstated in a subsequent intermediate period or in the annual financial statements. The adoption of this interpretation did not lead to any effect on the accounts.

On 2 November 2006, the IFRIC issued the interpreting document IFRIC 11 – *IFRS 2-Transactions on Group shares and own shares* in order to specify the accounting treatment for payments based on shares, which the company must acquire own shares in order to satisfy, as well as payments based on shares of a Group company (for example the parent company) allocated to employees of other Group companies. The adoption of this interpretation did not lead to the recording of any significant accounting effects on outstanding plans.

As from the 2007 full accounting period, and therefore involving the annual financial statements as at 31 December 2007, IFRS 7 – Financial Instrument Disclosures, will be applied.

New accounting standards

On 30 November 2006, the IASB issued accounting standard IFRS 8 – *Operating Segments* which will be applicable as from 1° January 2009 in replacement of IAS 14 - *Sector information*. The new accounting standard requires the companies to base the sector disclosure on elements which management uses for making its operational decisions, therefore it requires the identification of the operating segments on the basis of the internal reporting which is regularly reviewed by management for the purpose of the allocation of the resources to the various segments and for the purposes of the performance analysis. As of the issue date of this report, the Group is assessing the effects which could derive from the adoption of this principle.

On 29 March 2007, the IASB issued a revised version of IAS 23 – *Financial charges* which will be applicable as from 1° January 2009. In the new version of the standard, the option has been removed according to which the companies can immediately record – in the financial statements - the financial charges incurred in relation to assets for which a specific period of time normally elapses for rendering the asset ready for use or for sale. The standard will be applicable in a forecast manner to financial charges relating to assets capitalized as from 1° January 2009. As of the date of issue of this report, the competent bodies of the European Union had not yet concluded the approval process necessary for the application of this standard.

On 5 July 2007, the IFRIC issued the IFRIC 14 interpretation on IAS 19 – *Assets for defined-benefit plans and minimum coverage criteria* which will be applicable as from 1° January 2008. The interpretation provides the general guidelines on how to determine the limit amount established by IAS 19 for the recognition of the assets serving the plans and provides an explanation regarding the accounting effects caused by the presence of a minimum coverage clause of the plan.
As of the date of issue of this report, the competent bodies of the European Union had not yet concluded the approval process necessary for the application of this interpretation.

On 6 September 2007, the IASB issued a revised version of IAS 1 – *Presentation of the financial statements* which will be applicable as from 1° January 2009 with the aim of permitting an improved comparability and analysis of the information presented in the financial statements by its users. Following the amendments made, the standard requires that the information presented in the financial statements be aggregated on a common basis and that the company present an "extended" statement of the results ("comprehensive income") which facilitates the readers of the financial statements to distinguish, in an analysis of the changes in shareholders' equity, between the transactions concluded with the shareholders in as such as they are (distribution of dividends, purchase of own shares) and transactions with third parties. As of the date of issue of this report, the competent bodies of the European Union had not yet concluded the approval process necessary for the application of this standard.

In conclusion, shareholders are informed that, against during 2006, the following interpretations were issued which discipline cases and circumstances not present within the Tiscali Group:

- 'IFRIC 7 – Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies'
- 'IFRIC 12 – Service Concession Arrangements' (Contracts for services under concession*,* applicable as from 1° January 2008).
- 'IFRIC 13 – Customer Loyalty Programmes (applicable as from 1° January 2009).

4. FORM AND CONTENT / ACCOUNTING STANDARDS

The preparation of the interim accounts requires the Directors to make certain estimates and, in specific cases, adopt assumptions in the application of the accounting standards. The Directors' valuations are based on past experience, as well as on the expectations associated with the achievement of future events, considered reasonable under the circumstances. In detail, the estimation processes concerned the following financial statement areas:

Impairment of goodwill
The impairment test on goodwill is carried out in full at the time of the preparation of the annual financial statements, or more frequently during the year in the cases when indicators of impairment emerge which require an immediate assessment of any losses in value. The ability of each 'unit', identifiable under the circumstances with the subsidiary company, to generate cash flows capable of recovering the portion of goodwill allocated to the unit is determined on the basis of the forecast economic and financial figures of the units to which the goodwill refers. The processing of this forecast data, as well as the determination of an appropriate discount rate, requires, to a significant extent, estimates to be made. For the purposes of drawing this report up, account was taken of the fact that the Group's strategic plan is currently being reviewed, a circumstance which has not made it possible to avail of all the necessary valuational elements linked to complex processes such as the one in question.

Income taxes
The determination of the income taxes, with particular reference to deferred taxation, requires the use of estimates to a significant extent and the adoption of underlying assumptions. Deferred tax assets, arising from timing differences and/or prior tax losses, are recognized to the extent that it is considered probable that there will be taxable profits in the future which will consent the use of these deductible timing differences and/or prior tax losses. The provisions are based on the taxable income which can be generated with reasonable certainty in light of the approved business plan. These assets and liabilities are not recognized if the timing differences derive from goodwill or from the initial statement (not from business combination transactions) of other assets or liabilities in transactions that affect neither the accounting profit or the taxable profit. The book value of the deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Provisions for risks and charges
Provisions for risks and charges relating to potential legal and tax-related liabilities, are provided on the basis of the estimates made by the Directors, based on the valuations expressed by the Group legal and tax advisors, concerning the probable charges which are reasonably deemed will be incurred in order to fulfil the obligation. In the event that the Group is required, in relation to the final outcome of the assessments, to fulfil an obligation to an extent other than that envisaged, the related effects would be subsequently reflected in the income statement.

Remunerative plans under the form of stock-sharing

In line with the matters envisaged by IFRS 2, the Group classifies the stock options under “payments based on shares” and envisages for the type falling within the category “equity-settled” - which in other words envisages the physical consignment of the shares - the determination as of the assignment date of the fair value of the purchase options issued and their recognition as a payroll cost to be allocated on a straight-line basis over the period the rights accrue (so-called vesting period) with the registration of a matching balance represented by a specific shareholders’ equity reserve. This allocation is carried out on the basis of the estimate of the rights which effectively accrue in favour of entitled employees, taking into consideration the conditions of availability of the same not based on the market value of the rights.
The determination of the fair value takes place using the “Black - Scholes” model.

Seasonality
Tiscali’s activities during the first nine months of the year were not significantly subject to phenomenon linked to seasonality.

Consolidation area
Changes in the consolidation area which took place during the first nine months of 2007 when compared with the consolidated financial statement as at 31 December 2006, are illustrated below:

At the end of February 2007, the disposal of the German activities (BTC and BTB) was completed.
In February 2007, the disposal of the Spanish affiliated company, Tiscali Telecomunicaciones, took place.
In June 2007, the disposal of the Dutch activities to KPN Telecom was finalized. This was achieved thanks to the approval of the sale by the Dutch antitrust authority.
In July 2007, the disposal of the activities in the Czech Republic took place.
On 13 September 2007, the acquisition of Pipex’s broadband and voice division was finalized; for greater details, please refer to note 32 further on.

Greater details on the disposals are included in the Report on operations.
In these financial statements, the total economic result of the Dutch, German, Spanish and Czech subsidiaries is included under the item Result of assets disposed of and/or destined to be disposed (discontinuing operations), while the residual book values have been reclassified under on-going activities.
The residual equity values of these assets are not significant.

2. Revenues

The analysis of the revenues of operating activities by geographic area and business line are analyzed below.

Revenues by geographic area (thousands of €) (*)	30 September 2007	30 September 2006
Italy	198,146	154,234
UK	383,062	309,134
Other	33,123	23,642
Total	**614,332**	**487,010**

(*) net of infraGroup revenues and not inclusive of other income

Revenues by business line (thousands of €)	30 September 2007	30 September 2006
ADSL (broadband) access revenues	*319,871*	*253,350*
Dial up access revenues	*61,471*	*88,922*
Access revenues	381,342	*342,272*
Voip revenues	88,105	16,126
Voice revenues	52,930	62,297
Business revenues	42,709	31,933
Media revenues (portal and other)	36,521	29,736
Other revenues	12,725	4,647
Total	**614,332**	**487,010**

The increase in revenues was mainly determined by the development of services in the broadband access segment. For a detailed analysis of the performance of the income statement during the period, please refer to the Report on operations.

3. Information by business sector (geographic area)

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 information by business sector, as required by IAS 14. The geographic areas are represented in particular by the two countries in which the Tiscali Group operates (Italy and the UK). In this section, the main results of these business sectors are illustrated, together with the values of the balance sheets of the geographic areas and other information envisaged by the relevant accounting standards.

The business lines (Access, Voice, Business Services / Business, Media) represent, at sector information level, the secondary segment. In the previous section 2, the related segment information concerning revenues has already been illustrated.

Sector information by geographic area

Income statement

30 September 2007 (in thousands of €)	Italy	UK	Other	Sector information	Not allocated	Operating activities
Revenues						
From third parties	198,146	383,062	19,690	600,898	13,434	614,332
InfraGroup	3,834	11,549	4,788	20,170	(20,170)	-
Total revenues	**201,980**	**394,611**	**24,478**	**621,069**	**(6,737)**	**614,332**
Gross operating result	**38,734**	**58,565**	**5,383**	**102,682**	**830**	**103,512**
Operating result	**(1,309)**	**(24,909)**	**(815)**	**(27,034)**	**(9,284)**	**(36,318)**

30 September 2006 (in thousands of €)	Italy	UK	Other	Sector information	Not allocated	Operating activities
Revenues						
From third parties	154,234	309,134	11,445	474,813	12,197	487,010
InfraGroup	3,107	10,014	5,463	18,583	(18,583)	-
Total revenues	**157,341**	**319,147**	**16,908**	**493,396**	**(6,386)**	**487,010**
Gross operating result	**20,842**	**47,926**	**6,591**	**75,359**	**(7,781)**	**67,579**
Operating result	**(9,177)**	**(41,716)**	**251**	**(50,642)**	**38,659**	**(11,983)**

The unallocated components comprise the balances referring to corporate activities.

Other sector information and balance sheet

30 September 2007 (in thousands of €)	**Italy**	**UK**	**Other**	**Sectors**	**Not allocated**	**On-going activities**
ASSETS						
Sector assets	319,151	506,836	52,207	878,194	77,228	955,422
Equity investments carried at equity	2,133	-	-	2,133	-	2,133
Equity investments in other companies	-	-	-	-	20	20
Goodwill	3,406	594,148	-	597,554	-	597,554
Total consolidated assets	**324,690**	**1,100,984**	**52,207**	**1,477,881**	**77,248**	**1,555,130**
LIABILITIES						
Sector liabilities	298,340	891,763	16,686	1,206,789	98,747	1,305,536
Total consolidated liabilities	**298,340**	**891,763**	**16,686**	**1,206,789**	**98,747**	**1,305,536**
OTHER INFORMATION						
Investments	63,351	62,926	4,533	130,810	10,108	140,918
Amortization/depreciation	34,437	65,781	5,655	105,873	6,237	112,111
Provisions and writedowns	5,535	11,467	149	171,152	602	17,753

31 December 2006 (in thousands of €)	**Italy**	**UK**	**Other**	**Sectors**	**Not allocated**	**On-going activities**
ASSETS						
Sector assets	221,191	367,609	48,929	637,730	115,256	752,986
Equity investments carried at equity	2,474	-	-	2,474	-	2,474
Goodwill	3,406	313,240	-	316,646	-	316,646
Total consolidated assets	**227,071**	**680,849**	**48,929**	**956,850**	**115,256**	**1,072,106**
LIABILITIES						
Sector liabilities	177,995	337,456	15,244	530,695	365,560	896,255
Total consolidated liabilities	**177,995**	**337,456**	**15,244**	**530,695**	**365,560**	**896,255**
OTHER INFORMATION						
Investments	55,439	100,770	9,202	165,411	13,371	178,782
Amortization/depreciation	35,363	72,904	7,636	115,903	14,192	130,095
Provisions and writedowns	5,099	10,054	318	15,471	1,601	17,072

4. Other income

Other income includes out-of-period income and amounts not payable.

5. Purchases of external materials and services

(in thousands of €)	**30 September 2007**	**30 September 2006**
Purchases of raw materials and goods for resale	53	587
Line/traffic rental and interconnection costs	285,654	236,849
Costs for use of third party assets	12,495	7,782
Costs for portal services	28,000	14,978
Marketing costs	65,628	58,987
Other services	49,844	41,890
Total	**441,674**	**361,073**

The increase in costs with respect to the same period last year reflects the rise in revenues.

6. Payroll and related costs

(in thousands of €)	**30 September 2007**	**30 September 2006**
Wages and salaries	49,718	37,976
Other payroll costs	22,797	18,043
Total	**72,515**	**56,018**

Payroll and related costs increased significantly with respect to the same period in 2006 due to the acquisition of Video Network Ltd.

7. Other operating costs

The composition of these costs is as follows:

(in thousands of €)	30 September 2007	30 September 2006
Other operating expenses	-	3,033
Capital losses and other non-current costs	1,722	881
Total	**1,722**	**3,914**

8. Restructuring costs, provisions for risks and writedowns

(in thousands of €)	30 September 2007	30 September 2006
Writedown of amounts due from customers	16,065	10,304
Restructuring costs and other writedowns	11,253	40,744
Provisions for risks and charges	402	1,551
Total	**27,719**	**52,599**

The writedown of amounts due from customers represents around 2.6% of revenues, up slightly with respect to the percentage in 2006 (2.1%).

Restructuring costs and other writedowns amounted to around € 11.2 million and include charges relating to the VAT dispute, as well as the settlement of the Kinsella claim pertaining to Tiscali International BV for € 5.4 million and other charges relating to the restructuring plan of Video Network Ltd.

9. Financial income and charges

9.1 Net financial income and charges

The item net financial income and charges during the first nine months of 2007, whose composition is analyzed below, presented a negative balance of € 43.7 million.

(in thousands of €)	**30 September 2007**	**30 September 2006**
Financial income		
Interest on bank deposits	732	563
Interest income	1,362	243
Other	12	193
	2,107	**999**
Financial charges		
Interest on bonds	-	7,709
Interest and other charges due to banks	45,783	16,891
	45,783	**24,600**
Net financial income and charges	**(43,676)**	**(23,601)**

The item Financial income mainly includes the fair value valuation of the IRS recorded by Tiscali International BV, for a total of around € 1.1 million.

The item Financial charges totalling € 45.8 million includes interest expense charged by Silver Point for € 6.7 million, interest charged by Banca Intesa SanPaolo for € 16 million, interest recorded by the UK subsidiary on the Barclays loan for € 11.5 million and € 4.1 million in interest on the new Banca Intesa SanPaolo loan.
In addition, the item includes interest recorded by the Italian subsidiary for € 4.7 million, plus minor amounts recorded by other Group companies and € 1.4 million in interest on the amounts due to shareholders.

The balance for the first nine months of 2007 was higher than that in the same period last year due to the different composition and the related cost of borrowing.
In fact, during 2006, the debt was mainly represented by an instrument convertible into shares (bond issue), while in the first nine months of 2007 the debt entirely comprised banking instruments involving higher lending spreads, considering a general scenario of market rate rises.
In detail, the loan with Silver Point, repaid on 23 February 2007, involved rates considerably higher with respect to the new loan with Banca Intesa SanPaolo.
In conclusion, the sale and lease back transaction on the Sa Illetta property led to an increase in the absolute value of the debt by around € 30.5 million.

9.2 Other net financial income and charges

The item Other net financial income and charges during the period under review, totalling € 17.8 million, includes the penalties linked to the transactions with Silver Point (€ 13.3 million, essentially relating to the early repayment of the loan) and with Banca Intesa SanPaolo (€ 4.5 million relating to the penalty for the late collection on the sale of the Dutch activities).

(in thousands of €)	**30 September 2007**	**30 September 2006**
Other net financial income and charges	(17.881)	-
	(17.881)	**-**

10. Income taxes

(in thousands of €)	**30 September 2007**	**30 September 2006**
Current taxation	2,112	931
Net taxes for the period	**2,112**	**931**

Current taxation for the period concerns the IRAP (regional business tax) liabilities of the Italian subsidiary.

Deferred tax assets

As at 30 September 2007, tax assets for prepaid taxes totalling € 90.9 million were recorded in total in the financial statements.

(in thousands of €)	**30 September 2007**	**31 December 2006**
Deferred tax assets	90,945	144,706
	90,945	**144,706**

The deferred tax assets recorded in the financial statements mainly concern the prior tax losses carried forward by Tiscali Group companies. As envisaged by the applicable accounting standards, these repaid taxes are recorded since it is deemed probable that positive taxable income will be generated over the next few accounting periods, capable of permitting, via their use against subsequent years taxes, the recovery of the amount recorded under the assets. The forecasts are based on the taxable income which can be generated with reasonable certainty in light of the business plans, accompanied by the related tax plans, and the current performance of the Group companies to whom the tax losses refer.
Shareholders are informed that the forecasts underlying the calculation of the deferred tax assets have not been changed with respect to 31 December 2006 since we are waiting for the possibility of being able to draw up up-dated plans and tax observations for the end of 2007 in light of the Pipex integration activities and the future prospects of the Dutch tax entities, also in relation to the new business plan being drafted which is expected to be completed by the end of the year.

The balance specifically refers to the following Tiscali Group companies:

- Deferred tax asset relating to Tiscali International NV and subsidiaries falling within the sphere of Dutch tax consolidation (in particular the operating subsidiary Tiscali BV) for € 16.1 million (€ 67.2 million as at 31 December 2006), fully deriving from prior tax losses. The change of € 51.1 million when compared with 31 December 2006 is due to the partial release of tax assets covering the taxes calculated on the capital gain deriving from the sale of the Dutch activities.

- Deferred tax asset pertaining to the subsidiary Tiscali UK, amounting in total to € 74.7 million (€ 77.5 million at the end of 2006).

The prior tax losses of the subsidiaries based in the Netherlands and the UK can be carried forward without limit. From another standpoint, shareholders are informed that the deferred tax assets prudently take into account the adjustments to the prior losses in previous years deriving from the tax assessment carried out by the Dutch tax authorities, described in section 35 below, which also contains illustration of the outstanding tax disputes.

11. Operating assets sold and/or assets held for sale

This section contains indication of the result of assets sold and those destined to be sold, mainly represented by equity investments in non-strategic subsidiary companies, together with the analysis of the assets referring to those equity investments held for sale and the liabilities directly associated with the same, still outstanding as of the balance sheet date.

11.1 Result of discontinued and/or discontinuing operations

Assets sold during the year
At the end of February 2007, the disposal of the German assets (BTC and BTB) was concluded. The transaction involved the sale of the BTC customer base and the sale of the BTB customer base and assets.
In February 2007, the Spanish affiliated company, Tiscali Telecomunicaciones, was disposed of.
In June 2007, the sale of the Dutch assets to KPN Telecom was finalized. This was achieved thanks to the approval of the sale by the Dutch antitrust authority.
In July 2007, the disposal of the assets in the Czech Republic took place.

Greater details on disposals are included in the Report on operations.

The period result of assets sold and/or destined to be sold includes the period result and the capital gains on disposal relating to the assets disposed of (the Netherlands, Germany, Spain, the Czech Republic).

An analysis of assets sold and/or destined to sold is presented in the following table:

(in thousands of €)	30 September 2007	30 September 2006
Gross capital gains (losses) deriving from disposals of subsidiary companies and/or from assets disposed of)	199,227	-
Writedown of goodwill and other assets destined to be sold	(95,382)	(36,000)
Other charges/ release of provisions relating to disposals	(8,083)	199
Period result of subsidiary companies disposed of and destined to be sold	(4,273)	5,472
Profit (Loss) from discontinued and/or discontinuing operations and/or held for sale	**91,488**	**(30,327)**

Gross capital gains (losses) deriving from disposals, amounting to € 199.2 million, were determined as follows:
- the Netherlands: € 151.5 million, determined by gross amounts received totalling € 236 million, netted by the NBV of the assets sold for € 33.4 million and by € 51 million pertaining to the tax effect on said capital gain;
- Germany: € 43.2 million, determined by gross amounts received totalling € 45.5 million, netted by the NBV of the assets sold for € 2.3 million;
- Spain: € 7.3 million, determined by gross amounts received totalling € 0.6 million, increased by the cancellation of the negative shareholders' equity of the company sold amounting to € 6.7 million;
- the Czech Republic: capital losses amounting to € 2.8 million, determined by gross amounts received totalling € 100 thousand and disposal of the net equity for a total of € 2.9 million.

The writedown of goodwill and other assets destined for sale include the write down of the consolidated goodwill amounting to € 64.8 million (relating to the German assets for € 26.4 million, the Dutch assets for € 35.5 million, the Spanish assets for € 1.1 million and the assets in the Czech Republic for € 1.8 million). After this write down, the portion of consolidated goodwill relating to the companies sold came to zero.
This item also includes write-offs of assets recorded by the companies in which the sale of the assets took place for a total of € 30.5 million.

Other disposal charges include the provision for reorganization relating to the German assets for € 5 million and other charges for € 3 million.

The capital gains (losses) deriving from sales, net of the write down of the consolidated goodwill and the other disposal charges, amount in total to € 95.8 million.

11.2 Assets held for sale and sold

Just the period result of assets sold and/or destined to be sold, amounting to € 4.7 million, is indicated below. The capital gains, the writedown of goodwill, the write-offs of assets and the other disposal charges are represented in the table in section 11.1.

INCOME STATEMENT OF THE OPERATING ASSETS HELD FOR SALE AND SOLD (in thousands of €)	30 September 2007	30 September 2006
Revenues	64,971	144,572
Gross operating result	5,792	37,917
Operating result	(2,801)	6,450
Result before taxation	(4,270)	5,448
Net result	(4,723)	5,472

As at 30 September 2007, there were no assets held for sale . The comparative balance as at 31 December 2006 by contrast included the assets in the Netherlands, Germany, Spain and the Czech Republic among assets held for sale.

ASSETS (in thousands of €)	30 September 2007	31 December 2006
Non-current assets	-	129,763
Current assets	-	28,879
Assets held for sale	**-**	**158,642**

LIABILITIES (in thousands of €)	30 September 2007	31 December 2006
Non-current liabilities	-	12,337
Current liabilities	-	52,595
Liabilities directly linked to assets held for sale	**-**	**64,932**

12. Earnings per share

The earnings per share from operating activities disposed of amounted to € (0.01).
This is calculated by dividing the Group's result, totalling € (3,883,542) by the weighted average of the number of shares in the first nine months of 2007, amounting to 424,423,163 shares.
The earnings per share from operating activities amounted to € (0.22) per share.
This is calculated by dividing the result from operating activities, amounting to € (95,344,732) by the weighted average of the number of shares in the first nine months of 2007, amounting to 424,423,163 shares.

13. Goodwill

The goodwill derives from the acquisitions made by Tiscali in previous years and the acquisition of Pipex.

The increase of € 285.7 million in the first nine months of 2007 is attributable to the acquisition of Pipex for an amount totalling € 285.3 million.
In the 2007 annual financial statements, a more accurate valuation will be made, aimed at the breakdown of this amount between goodwill and intangible assets on the basis of the

results of the afore-mentioned valuation. Shareholders are reminded that IFRS 3 makes it possible to adjust the valuations in question in a period subsequent to the initial inclusion of the newly-acquired entities in the consolidation area (see section 32 below in this connection).
The residual increase of € 0.4 million concerns an adjustment to the opening value of the goodwill of Video Network Ltd.

The period decrease, amounting to € 4.8 million, is attributable to the exchange delta on the opening value of the goodwill of Video Network Ltd..

(in thousands of €)	31 December 2006	Increases	Decreases	30 September 2007
Italy	3,406	-	-	3,406
UK	313,240	285,698	(4,790)	594,148
	316,646	**285,698**	**(4,790)**	**597,554**

No situations occurred during the reference period which led to the recording of losses for reductions in value (impairment). As indicated in the accounting standards section, the impairment test on the goodwill is carried out at least yearly, or more frequently, if specific events or changed circumstances indicate the possibility that it may have suffered a loss in value. Any loss in value is identified by means of valuations which take as reference the ability of each 'unit', identifiable under the circumstances with the subsidiary company operating in a specific geographic area, to produce cash flows capable of recovering the portion of goodwill allocated to the unit. The recoverable amount is the greater between the fair value net of the sales costs and the usage value. The estimated future cash flows are discounted back using a discount rate which reflects the current estimate of the market referring to the cost of money, the cost of the capital and the specific risk of the assets. If the recoverable amount of the assets in question is estimated as lower than the related book value, it is reduced to the lower recoverable value. The losses in value relating to the goodwill are recorded in the income statement among costs for writedowns and are not subsequently reinstated.
In detail, the impairment test has been developed discounting back the forecast cash flows taken from Tiscali's business plan for the various business units over a limited time span, also taking into account the estimated realizable value ('Disposal value'). The results deriving from the application of the indicated method (DCF – Discounted Cash Flow) did not lead to the indication of any reductions in value and, therefore, no writedowns for impairment were made.

14. Intangible assets

Changes in intangible assets during the first nine months of 2007 were as follows:

Intangible assets (in thousands of €)	31 December 2006	Increases	Other changes	Amortization	30 September 2007
Computer Software and development costs	49,992	896	(41,879)	(2,821)	6,188
Concessions and similar rights	96,638	15,465	30,421	(18,279)	124,244
Broadband service activation costs	26,387	31,030	4,478	(36,578)	25,317
Other	45,354	13,685	(17,656)	(11,907)	29,476
Total	**218,371**	**61,077**	**(24,638)**	**(69,586)**	**185,224**

(*) Other changes includes the decreases, reclassifications, translation differences and changes in the consolidation area

The item "*Computer Software and development costs*" includes licences and the capitalization of development costs for applications software acquired for an unspecified period of time, personalized for the Company's exclusive use. These costs mainly concern costs for internal dedicated staff.

The balance of "*Concessions and similar rights*" amounts to € 124.2 million, and includes around € 83.3 million in rights and costs associated with the purchase of transmission capacity on a long-term basis, in the form of concession agreements for the use of the same (IRU/*Indefeasible right of use*). The overall increase recorded, equating to € 15.5 million, is mainly attributable (€ 12.4 million) to the creation of new IRU agreements, in relation to the investments made for the development of the unbundling network.

The item "*Broadband service activation costs*" totalling € 25.3 million concerns the capitalization of the activation costs relating to the ADSL *service*. These costs are amortized over the minimum duration of the contract with the customer, currently twelve months.

Other intangible assets mainly include the intangible assets of Video Network Ltd recorded at fair value (contents, technology, customer relationships), for a total of around € 10 million, as well as assets recorded by various Group companies in relation to which the amortization period has not yet elapsed amounting to € 17.6 million (in particular, these are software development costs relating to the UNIT2 and IPTV projects belonging to the subsidiary Tiscali Service Spa for around € 14.5 million).

"Other changes" include reclassifications between intangible assets and between the same and tangible assets.

The most significant reclassification in the categories includes a reclassification totalling € 18 million made by the Italian subsidiary, relating to costs for the installation and extension of the unbundling network, reclassified from the category "Other intangible fixed assets" under "Plant and machinery".
Another significant reclassification concerns the licenses and software relating to Video Network Ltd, whose balance, amounting to € 39.1 million has been reclassified from the category "Computer, software and development costs" under the category "Concessions and similar rights".
Furthermore, other changes include the decreases essentially attributable to the reversal of the capitalizations of activation costs referring to those customers for whom the inherent cancellation of the contract has taken place, in relation to the normal churn rate of the customer base, as well as exchange differences.

15. Properties, plant and machinery

Changes during the first nine months of the year 2007 are shown in the following table:

(in thousands of €)	31 December 2006	Increases	Other changes (*)	Depreciation	30 September 2007
Historic cost					
Properties	27,265	98	36,855	-	64,218
Plant and machinery	396,713	61,918	56,065	-	514,696
Other assets	27,522	17,826	(1,025)	-	44,323
	451,500	**79,841**	**91,895**	**-**	**623,237**

Accumulated depreciation	31 December 2006	Increases	Other changes (*)	Depreciation	30 September 2007
Properties	3,812	-	1,343	1,305	3,850
Plant and machinery	261,773	-	92,569	40,660	313,682
Other assets	4,742	-	14,004	560	18,186
	270,327	**-**	**107,917**	**42,525**	**335,719**

Net value	31 December 2006	Increases	Other changes (*)	Depreciation	30 September 2007
Properties	23,453	98	38,122	(1,305)	60,367
Plant and machinery	134,940	61,918	44,816	(40,660)	201,014
Other assets	22,780	17,826	(13,909)	(560)	26,317
Total	**181,173**	**79,841**	**69,029**	**(42,525)**	**287,518**

(*) The other changes include the decreases, the reclassifications, the translation differences and the changes in the consolidation area

The item '*Properties*', totalling € 64.2 million, mainly refers to the value of the Sa Illetta investment, the Parent Company's headquarters in Cagliari.
The sale & lease back transaction on the Sa Illetta property involved a net change in the book value amounting to € 31.7 million, comprising a decrease of € 29.5 million (net book value as at 31 December 2006) and a simultaneous increase of € 61.4 million, estimated value defined in the contract; the net change is included in the column "other changes".

The net book value of "*Plant and machinery*" (€ 201 million) includes specific and network equipment such as routers, servers, optical apparatus and telephone systems which make up the predominant part of tangible fixed assets. The increase of € 61.9 million reflects the significant investments inherent to the development of the infrastructure necessary for supporting the ADSL service product under unbundling.
Other changes include the plant and machinery of the Pipex division for a total of € 13.2 million.

"*Other assets*" include furniture and furnishings, electronic and electromechanical office machines and motor vehicles. "Other changes" reflect certain reclassifications.

16. Equity investments

Equity investments, carried at equity, recorded in the financial statements for a total value of € 2.1 million, refer to minority equity investments held by the Parent Company and by the operating subsidiary Tiscali Italia Spa. A list of these investments is included in the specific section (Lists of equity investments).

17. Other non-current financial assets

(in thousands of €)	30 September 2007	31 December 2006
Guarantee deposits	20,076	11,504
Other receivables	2,419	1,622
Equity investments in other companies	20	(31)
Total	**22,515**	**13,095**

Other non-current financial assets include financial instruments which the Group has the intention and ability to hold until maturity, but which do not respect the requisites for being classified as assets equivalent to cash and cash equivalents.

Guarantee deposits amounting to € 20.1 million, include € 6.2 million in deposits recorded in relation to the Italian subsidiary relating to the sale and lease back transaction on the SA Illetta property, € 9.4 million in deposits relating to lease agreements of the UK subsidiaries and € 3 million in deposits relating to the German subsidiaries.
Other receivables totalling € 2.4 million include amounts due from non-consolidated companies.

18. Deferred tax assets

(in thousands of €)	30 September 2007	31 December 2006
Deferred tax assets	90,945	144,706

For an analysis of the item in question, please refer to the comments contained in section 10 above.

19. Inventories

As at 30 September 2007, inventories amounted in total to € 8.7 million and are mainly represented by network equipment, consumables, telephone cards, goods destined to be resold for merchandising activities and modems.

20. Receivables from customers

(in thousands of €)	30 September 2007	31 December 2006
Receivables from customers	248,725	170,777
Allowance for doubtful receivables	(76,934)	(35,040)
Total	**171,792**	**135,737**

Receivables from customers, which as at 30 September 2007 totalled € 171.8 million, net of writedowns for a total of € 76.9 million, derive from sales of Internet services, the invoicing of network access services, inverse interconnection traffic, advertising contributions and services to business and telephony customers provided by the Group. The book value of the trade receivables, taking into account the underlying maturities and the conditions which discipline the supply of services by the Group, approximates their fair value.
The increase in the allowance for doubtful receivables when compared with the balance as at 31 December 2006 is mainly attributable to the consolidation of the Pipex allowance and the provision made during the year amounting to € 16 million.

The Group does not have any particular concentration of the credit risk, since its credit exposure is divided up between an extremely vast customer base.

21. Other receivables and current assets

(in thousands of €)	30 September 2007	31 December 2006
Other receivables	15,037	18,953
Accrued income	23,400	11,195
Prepaid expenses	27,429	13,987
Total	**65,866**	**44,135**

Other receivables, amounting to € 15 million, include VAT receivables for € 3.9 million.
Accrued income (€ 23.4 million) mainly refers to the portions of revenues pertaining to the period for services accrued within the sphere of the access segment.
The item prepaid expenses, whose balance comes to € 27.4 million, comprises prepaid costs concerning long-term line rental contracts, agreements for international circuits, and hardware and software maintenance costs.

The book value of the items in question approximates their fair value.

22. Other current financial assets

(in thousands of €)	30 September 2007	31 December 2006
Guarantee deposits	17,752	7,638
Other receivables	577	224
Total	**18,329**	**7,862**

Other current financial assets include € 9 million to guarantee any disputes regarding the sales price of the Dutch activities, € 5.9 million recorded by Tiscali UK and another € 2.5 million recorded in relation to Tiscali Spa., which is expected to be freed up shortly.

23. Cash and cash equivalents

Cash and cash equivalents as at 30 September 2007 amounted to € 104.5 million and include the Group's cash, essentially held in bank current accounts. For an overall analysis of the financial position, please refer to the matters illustrated in the section relating to information on operations.

24. Shareholders' equity

(in thousands of €)	30 September 2007	31 December 2006
Share capital	212,207	212,207
Share premium reserve	902,492	948,017
Translation reserve	(9,873)	4,685
Stock Option reserve	498	-
Retained earnings	(895,457)	(922,079)
Total	**209,866**	**242,829**

The changes which have taken place in the various shareholders' equity items are analyzed in the related statement.

As at 30 September 2007, the share capital amounted to € 212.2 million, corresponding to 424,413,163 ordinary shares with a par value of € 0.50 each.

The share premium reserve underwent a decrease of € 45.5 million, attributable to use for covering Tiscali Spa's previous year's losses.

The translation reserve underwent a decrease of € 14.5 million. This change includes the impact of the change in the Euro/Sterling exchange rates applied to the financial movements generated by the raising of a new loan with Banca Intesa SanPaolo for a total of around € 6.4 million, in addition to the exchange delta during the nine months relating to the balance sheet balances of the UK activities.

On 10 May 2007, the Board of Directors allocated the Chief Executive Officer 3,593,143 options for the purchase of ordinary shares in the Company, which will be possible to exercise, subject to the achievement of the performance targets, also in several tranches as from 4 May 2010 and by 3 November 2010, at a price of € 2.763 (equal to the average price of the Tiscali shares in the 30 days prior to the allocation).

On 28 June 2007, the Board of Directors assigned 23 managers a total of 3,330,000 options. It will be possible to exercise the options between 29 June 2010 and 28 December 2010, at an exercise price of € 2.378 also in several tranches.

The fair value of the options assigned was estimated as of the allocation date using the Black-Scholes valuation model, taking into consideration the terms and conditions under which the options were assigned.

The parameters adopted as the basis for the valuation of the Stock Options are as follows:
Estimated volatility: 30%
“Risk-free” interest rate: 4.2%
Estimated duration (years): 3 years

25. Non-current financial liabilities

(in thousands of €)	30 September 2007	31 December 2006
Payables to banks and other financers		
Payables to banks	589,910	-
Payables to other financers	30,664	30,730
	620,574	**30,730**
Obligations under finance leases (medium/long-term)	**76,631**	**15,918**
Total	**697,206**	**46,648**

The financial position referring to just operating activities is summarized in the following table:

(in thousands of €)	***30 September 2007***	***31 December 2006***
A. Cash	104,544	3,824
B. Other cash equivalents	-	-
C. Securities held for trading	-	-
D. Liquidity (A) + (B) + (C)	***104,544***	***3,824***
E. Current financial receivables	***17,751***	***7,638***
F. Current bank payables	23,464	358,896
G. Current portion of non-current debt	-	-
H. Other current financial payables (*)	20,632	28,194
I. Current financial debt (F) + (G) + (H)	***44,096***	***387,090***
J. Net current financial debt (I) – (E) – (D)	**(78,198)**	**375,629**
K. Non-current bank payables	589,909	-
L. Bonds issued	-	-
M. Other non-current debt (**)	107,296	46,648
N. Non-current financial debt ((K) + (L) + (M)	**697,205**	**46,648**
O. Net financial debt (J) + (N)	**619,007**	**422,277**

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

The statement presented above has been drawn up in light of the Consob Communication dated 28 July 2006 and differs from that indicated in the report on operations since it does not consider guarantee deposits and other current financial receivables amounting to around € 22.3 million among other cash equivalents.

The net financial position indicated in the above table reconciles with the net debt presented in the Report on operations as follows:

(in thousands of €)	*30 September 2007*	*31 December 2006*
Consolidated net financial debt presented in the Report on operations	**(596,729)**	**(397,163)**
Other cash equivalents and current financial receivables	(22,278)	(25,114)
Net financial debt	**(619,007)**	**(422,277)**

The trend in the current financial debt is illustrated in the following comments.

25.1 Payables to banks and other lenders

Payables to banks and other lenders includes the amount of the loan granted on 13 September 2007 by Banca Intesa SanPaolo and JP Morgan, equating to € 589.9 million. The loan, equating to a nominal € 650 million of which € 50 million not yet used, was stated on the basis of amortized cost.

The credit facility and the line of liquidity with Intesa SanPaolo contain financial commitments (*financial covenants*) essentially linked to the observance of the following financial indicators to be checked, at consolidated level, on a quarterly basis: the ratio between the debt and the EBITDA; the ratio between the EBITDA and payments by way of principal and interest servicing the debt (Debt Service Cover Ratio); ratio between the EBITDA and net cost for interest (Interest Cover Ratio).

The loan also envisages positive and negative type commitments (so-called general covenants), usual in this type of funding, including the following which are of significance: the limits placed on the further financial indebtedness of the Tiscali Group, the disbursement of dividends, the concession of secured guarantees and the extraordinary activities, such as acquisitions and disposals. The afore-mentioned limits are such that they do not involve significant restrictions to the Group's ordinary operations. In conclusion, the loan agreement is assisted by a pledge on the shares of the operating subsidiary companies of the Tiscali Group, as well as on the Tiscali trademark.

The failure to observe the afore-mentioned covenants will lead, from an essential standpoint, to the creditor's faculty to request the early repayment of the loan. It is also hereby stated that, at present, no problems in this connection exist.

The two bridging loans by contrast do not contain financial covenants but only general covenants, therefore the same considerations indicated above for the bank loans with IntesaSanPaolo and the line of liquidity apply.

The credit facility of € 650 million (of which € 600 million disbursed as of the date of this report) essentially replaced the previous loan with Banca Intesa SanPaolo (for € 150 million) and with Barclays (for around € 53 million). This total amount will be reduced, by € 150 million, by means of recourse to a share capital increase of at least € 150 million already approved, to a higher extent, by Tiscali's shareholders' meeting on 31 August to be carried out compatibly with the market conditions, within the first few months of 2008; it will also be reduced by means of recourse to market debt instruments totalling around € 400 million. If the share capital increase transaction does not take place by February 2008 and the market debt transaction does not take place by September 2008, the bridging loans will transform into long-term payables falling due on 13 September 2016 and 13 September 2014, respectively. The credit facility of € 50 million already disbursed, and that made available, both fall due on September 2011.

The loans have a floating rate linked to the Euribor and a cost, taking into account the spreads and the commission, which varies according to the structural features of said loan and, therefore, the various tranches indicated previously. The margin with respect to the Euribor for said loan is currently estimable in 400 base points, with the exclusion of the tranche relating to the envisaged share capital increase. The initial margin indicated will be subject to adjustment upward or downwards in relation to the Group's economic performance and the realization timescales of the share capital increase transaction and recourse to market debt instruments.
The final cost of the debt relating to the bridging loan for the debt market transaction, amounting to € 400 million, will be established at the time of completion of the market transaction in relation to exogenous factors such as the type of instrument chosen and the level of market demand.

Payables to other lenders (€ 30.6 million) refer to the loan bearing interest at market rates, disbursed in 2004 by the shareholder Andalas Limited. The loan was raised to support the investments necessary for supporting growth and in particular the implementation of an unbundling network infrastructure. On 13 September 2007, this loan was subordinated with respect to the new loan granted by Banca Intesa SanPaolo and JP Morgan.

25.2 Obligations under finance leases (medium/long-term)

The item obligations under finance leases (€ 76.6 million) includes the amounts due to leasing companies for financial lease agreements.

The increase of € 60.7 million compared with the figure in December 2006 (€ 15.9 million) is essentially attributable to the sale & lease back transaction on the Sa Illetta headquarters (Cagliari) while the residual portion concerns the rise in lease agreements.
The residual balance is attributable to lease agreements on network equipment, servers and other equipment used directly in the production process.

26. Other non-current liabilities

(in thousands of €)	**30 September 2007**	**31 December 2006**
Payables to suppliers	27,414	29,929
Other payables	101,320	101,469
Total	**128,734**	**131,398**

The balance of Other non-current liabilities mainly includes the amount due to the former shareholders of Video Network Ltd relating to the current value of the tax losses of this company, amounting to € 89.2 million, as well as medium/long-term trade payables due to suppliers for the purchase of plant linked to the stipulation of IRU (indefeasible right of use) contracts originated by the investments concerning the ULL project.

27. Liabilities for pension benefits and staff severance indemnities

The following table illustrates the changes during the period:

(in thousands of €)	31 December 2006	Provisions	Uses	30 September 2007
Staff severance indemnity	6,194	2,027	(2,731)	5,490
Total	**6,194**	**2,027**	**(2,731)**	**5,490**

The provision for staff severance indemnities, which comprises the indemnities accrued in favour of employees, amounts to € 5.5 million and refers to the Parent Company and the operating subsidiaries in Italy.

28. Provisions for risks and charges

The composition of provisions for risks and charges is as follows:

(in thousands of €)	31 December 2006	Provisions	Uses	30 September 2007
Provision for risks and charges	38,059	7,155	(28,709)	16,505
Total	**38,059**	**7,155**	**(28,709)**	**16,505**

The increase in risk provisions, amounting to € 7.1 million, is attributable to the balance of the provision recorded by the companies disposed of for € 1.7 million and to provisions for the period against disposal charges relating to the German affiliated companies for € 5 million.

Uses of the provision during the first nine months of 2007, amounting to € 28.7 million, were mainly attributable to the following events:

- uses of the provision established as at 31 December 2006 by the UK subsidiary in order to cover the charges for reorganizing Video Network Ltd, in relation to the related incurring of these charges during the first half of 2007, for an amount totalling € 18.1 million;
- use of the provision relating to the dispute with the supplier PRISA (established in 2006 by Tiscali S.p.A.) in relation to the definitive settlement of said dispute, for a total of € 6 million;
- use of the provision relating to the dispute with SCARLET (associated with the disposal of Tiscali Belgium), pertaining to Tiscali International BV, following the definitive settlement of the same for a total of € 2.7 million;
- use of the taxation provision (pertaining to Tiscali International BV), against the definitive definition and settlement of the Kinsella claim and the payment of the prior VAT for a total of € 1.9 million.

29. Current financial liabilities

(in thousands of €)	30 September 2007	31 December 2006
Payables to banks and other lenders:		
Payables to banks	26,199	374,787
Obligations under finance leases (short-term)	17,898	12,303
	44,097	**387,090**

29.1 Payables to banks and other lenders

This item disclosed a significant decrease with respect to December 2006.
The change, amounting to € 348.1 million, is essentially attributable to the following factors:

- repayment of the Silverpoint loan (€ 251.2 million),
- repayment of the EDC loan (€ 13.3 million),
- repayment of the Sa Illetta mortgage loan (€ 29.1 million) against a sale & lease back transaction for a total of € 59.7 million,
- repayment of the Barclays loan pertaining to the UK affiliated companies (€ 52.6 million).

The short-term debt has been refinanced by means of medium/long-term borrowing (see section 25.1).

29.2 Obligations under finance leases

Amounts due for financial leases refer to the short-term portion of amounts due to leasing companies for financial lease agreements.

30. Payables to suppliers

(in thousands of €)	30 September 2007	31 December 2006
Payables to suppliers	**232,957**	**180,147**

Payables to suppliers refer to commercial payables for the supply of services for contents, telephone traffic and data traffic. The balance also includes the amount of € 28.4 million relating to the acquisition of IRU (*indefeasible rights of use*) concerning the investments relating to the unbundling project.

31. Other current liabilities

(in thousands of €)	30 September 2007	31 December 2006
Accrued expenses	81,829	78,106
Deferred income	70,967	11,908
Other payables	27,752	16,706
	180,547	**106,720**

Accrued expenses include € 73.3 million 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 € 31.6 million (which will be released in portions over 15 years corresponding to the duration of the lease agreement), referrals on IRU sales contracts for around € 16 million and other deferrals on portions of revenues, not pertaining to the period, for the activation of ADSL services (deferred over a time span of 12 months) mainly relating to the Italian subsidiary.
The increase in this item with respect to the first nine months of 2006 is essentially attributable to the afore-mentioned sale & lease back transaction on the Sa Illetta property.

The item Other payables mainly includes amounts due to the tax authorities (VAT in the first instance) and due to welfare institutions for a total of € 13.6 million, together with amounts due to employees totalling € 7.9 million and other payables for the residual balance.

32. Acquisition of subsidiary companies

On 13 July 2007, Tiscali and Pipex Communications Plc ("Pipex") entered into an agreement for the acquisition by Tiscali UK Holdings Limited of Pipex's broadband and voice division.
The division is made up of nineteen corporate entities:

Pipex Homecall Ltd (Reg No. 04063120) *
Pipex Internet Ltd (Reg No. 5306519) *
Switch2 Telecoms Ltd (Reg No. 05199682) *
Toucan Residential Ireland Ltd (Reg No. 400751) *
Toucan Residential Ltd (Reg No. 4775696) *
Accent UK Ltd (Reg No. 4019639
Freedom to Surf Registration Services Ltd (Reg No. 5426431)
Freedom to Surf Consumer Services Ltd (Reg No. 4260037)
Freedom to Surf Ltd (Reg No. 3380801)
GX Networks Twelve Ltd (GM) (Reg No. 3469222)
HighwayOne Ltd (HO) (Reg No. 3955818)
Homecall (UK) Ltd (PI) (Reg No. 3132601)
Homecall Payment Services Ltd (Reg No. 05004760)
Nidram Ltd (Reg No. 3299919)
Pipex Broadband Ltd (ZT) (Reg No. 3137499)
Pipex Comms Services Ltd (GI) (Reg No. 3059016)
Pipex Networks Ltd (PX) (Reg No. 3681511)
Trinite Ltd (Reg No. 2320600)
Trinite Services Ltd (Reg No. 2469032)

* *operating concerns*

The acquisition was formalized on 13 September 2007.
The final price inclusive of the acquisition charges came to € 274.1 million.
The acquisition of Pipex's broadband and voice division further enhances Tiscali's position among the leading market operators for the integrated supply of telecommunications and media services. Thanks to this acquisition, important synergies and efficiencies may be achieved, in particular on the integration of the network, the migration of the customers and the reduction of the indirect costs.

The net assets acquired in the transaction and the goodwill provisionally determined as at 13 September 2007 which has been originated, are as follows:

(in thousands of €)	**Aggregate of the companies acquired as of the acquisition date**
Plant and machinery	19,473
Intangible assets	4,864
Amounts due from customers	16,637
Other receivables	22,103
	63,077
Amounts due to suppliers	32,730
Other short-term liabilities	41,114
Other long-term liabilities	375
	74,219
Net assets acquired	**(11,141)**
Goodwill	285,284
Acquisition price (including charges)	**274,143**

As at 30 September 2007, the sum total of the delta between net assets acquired and the acquisition price (increased by the acquisition costs), amounting to € 285.3 million, was fully allocated to goodwill pending the completion of the analysis and the valuation of the fair value attributable to the individual balance sheet elements for which a specific study carried out by an external consulting firm has been commissioned; the study as yet has not been completed.
In the 2007 annual financial statements, a more accurate valuation will be made, aimed at the breakdown of this amount between goodwill and the fair value of the various assets, liabilities and any potential liabilities acquired on the basis of the results of the afore-mentioned valuation. IFRS 3 makes it possible to adjust the valuations in question in a period subsequent to the initial inclusion of the newly-acquired entities in the consolidation area.

Within this sphere, the aggregate figures as at 30 September 2007 of the companies acquired have been drafted on the basis of the reporting used by management which originates from the accounts held in accordance with UK accounting standards (UK GAAP) subsequently supplemented by the adjustments considered necessary for aligning said figures with the Tiscali Group accounting standards and principles, which could undergo a number of adjustments at the time of the determination of the final fair value attributable to the newly-acquired companies.

The goodwill is attributable to the valuation of the current and future value of the Pipex broadband and voice division, with a view to it as a going-concern, a value which will be enhanced by the synergies which can be realized following integration with the Group.

The Pipex Division was consolidated as from 13 September 2007, contributing € 18.6 million in revenues and € 0.8 million to the pre-tax result of the Group between the acquisition date and the end of the 3rd quarter of 2007.

The situation as at 30 September 2007 does not reflect any provisions relating to possible restructuring charges consequent to the acquisition of Pipex since no decision in this sense has been reached yet and analysis is still underway for assessing whether any action needs to be taken and, if so, what the costs are.

33. Derivative instruments

In order to hedge the interest rate risk on loans, Tiscali has set up a partial hedge, for a portion of € 112.5 million of the debt, of the interest risk by means of an Interest Rate Swap (“IRS”) setting the reference rate at a maximum of 4.11%.
The IRS has been structured so as to provide the coverage of the outgoing cash flows.
As at 30 September, the value of the IRS presented a positive value of € 1.1 million. This amount has been recorded in the income statement under financial income in accordance with the IRS’s accounting nature of trading instrument in the absence of the drawing up of the formal documentation envisaged by IAS 39 for its accounting classification as a hedging instrument.

34. STOCK OPTIONS

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

The plan 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 will carry out on the market in compliance with Article 2357 of the Italian Civil Code and on the basis of the authorization of the shareholders’ meeting. The exercise of these options is dependent on the achievement of the performance objectives linked to the budget established by the Board of Directors, involving 40% with reference to the objectives established for 2006, which are understood to have been achieved, and the remaining 60% with reference to the objectives established for 2007;
- to the employees, of up to a maximum of 4,244,131 options for the subscription of the same amount of newly-issued ordinary shares in the Company, deriving from a share capital increase reserved in accordance with Article 2441.8 of the Italian Civil Code resolved by the shareholders’ meeting.

By way of implementing the afore-mentioned plan, the Board of Directors:
- on 10 May 2007, assigned the Chief Executive Officer all the options due him in a single tranche; it will be possible to exercise the options, subordinate to the achievement of the performance targets, in several tranches as well, between 4 May 2010 and 3 November 2010, at a price of € 2.763;
- on 28 June 2007, assigned 23 managers a total of 3,330,000 options; it will be possible to exercise the options, in several tranches as well, between 29 June 2010 and 28 December 2010, at an exercise price of € 2.378.

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 plan described above, intended for the Italian management of the Tiscali Group, runs alongside the plan of payments based on shares resolved last October for the UK management of the Group. This plan, with a three-year duration, envisages the allocation to 20 UK managers of a number of options, convertible into shares of the subsidiary Tiscali UK Ltd., not exceeding 5% of the share capital of said company, net of dilution. The exercise price of the options has been established on the basis of the equity value of the UK subsidiary at the time of their allocation.

35. DISPUTES, POTENTIAL LIABILITIES AND COMMITMENTS

35.1 Disputes

The Tiscali Group is involved in a number of legal proceedings. The Group's management does not believe it is probable that these proceedings will give rise to significant liabilities. Unless explicitly indicated, no provisions for risks have been made in the absence of certain and objective elements or if the negative outcome of the dispute is not considered to be probable. A summary of the main disputes outstanding is presented below.

In July 2001, the Dutch Foundation Vereniging van Effectenbezitters, which represents a group of former minority shareholders of World Online International N.V, presented a claim for unquantified damages against World Online International NV (currently 99.5% owned by Tiscali) and against the financial institutions tasked with the stock market listing of the Dutch subsidiary, disputing, in particular, the incomplete and incorrect nature of certain information contained in the listing prospectus and of certain public statements made by the company and by its chairman, at the time of listing.
In May 2007, the Amsterdam Court of Appeal passed sentence on the case, establishing that the prospectus used at the time of listing was incomplete in some of its parts and that World Online International BV should have corrected certain information reported by the media before said listing relating to the shareholding held by Nina Brink. Tiscali, along with the banks involved, decided to appeal to the Amsterdam Supreme Court, deeming the decision made by the 2nd level court as not completely correct. The sentence, what is more, restricts itself to ascertaining the company's responsibility but does not pass judgement with regards to the existence and the amount of any damage, which will have to form the subject matter of new and separate proceedings, as yet not started up.

A dispute of a similar nature was forwarded by another Dutch foundation, Stichting Van der Goen WOL Claims, in August 2001, and letters were subsequently received from other parties, in which the hypothesis of being able to proceed with action similar to that described above was advanced, if the conditions should apply. The District Court of Amsterdam still has to formulate its judgment on the case. It appears premature to consider that significant liabilities will probably arise in relation to these potentially significant disputes, and in any case sufficiently defined elements do not exist for quantifying the potential liability. Therefore, no provision was made in the financial statements.

In March 2007, a settlement agreement was signed between the parties relating to the PRISA dispute. On the basis of this agreement, in May 2007 Tiscali paid over the amount of

€ 6.6 million. The payment was made and recorded by the Parent Company, with the simultaneous release of the risk provision set aside in said company, amounting to € 6 million and the liability recorded in the accounts of Tiscali Espana, totalling € 1 million.

The subsidiaries Tiscali International Network BV and Tiscali International Network SA are involved in a dispute furthered by the company KPNQWest Bankruptcy, a joint venture formed between the Dutch KPN and the US Qwest, currently in liquidation. The dispute, which arose in previous years, concerns a 5-year IRU agreement entered into between Tiscali International Network BV and KPNQWest, which envisaged the payment by the former of an amount of € 3.1 million for the performance of services by the second. Following the placement in liquidation of KPNQWest, the supply of the services was suspended after just 5 months and Tiscali International Network BV received and recorded invoices in its accounts for a total of € 1.5 million. KPNQWest has requested the payment of the entire amount envisaged in the agreement.

Tiscali, in turn, put forward a payment request for the same amount against damages suffered for the suspension of the service. On 17 March 2006, Citybank (acting as liquidator of KPNQwest) filed a precautionary attachment request for a value of around € 5 million on the bank current accounts of Tiscali International Network BV which did not bring about any significant result. The dispute, which is not expected to be concluded over the short-term, is still underway, but it is not envisaged that significant liabilities may emerge from the same. On the basis of the information available, considering the level of risk and on a consistent basis with the progress of the lawsuit, the provision, previously made for € 4.2 million, was considerably curtailed in the Tiscali 2006 consolidated financial statements. The remaining liabilities in relation to this dispute present in the consolidated financial statements refer to the payables relating to Tinet BV amounting to around € 1.5 million.

On 21 February 2007, Tiscali S.p.A., together with other Group companies involved, concluded a final transaction with the Scarlet Group, on the basis of which, against payment by the Tiscali Group to the Scarlet Group of an amount totalling € 2.75 million, set aside as at 31 December 2006, the parties waive any claim vis-à-vis each other and any pending claims.

The subsidiary, Tiscali International BV, is involved in a dispute furthered by the company Mobistar NV (a Wanadoo Group company) in June 2006. The dispute concerns the termination by Wanadoo Belgium of a dial-in traffic termination agreement (the “Contract”) with Mobistar NV, following the acquisition in Spring 2003 by Tiscali Belgium NV/SA of 100% of Wanadoo Belgium SA/NV’s share . In the contract for the sale of the shares, Wanadoo had guaranteed Tiscali that the “Contract” could have been terminated at any time, a circumstance also confirmed by Tiscali’s legal advisors . Subsequently, it was discovered that the duration of the Contract was thirty-six months and Mobistar opposed the early termination of the same by Tiscali. On the basis of the contract for the sale of the Wanadoo Belgium SA/NV shares by Tiscali Belgium to Scarlet, Tiscali would therefore be responsible vis-à-vis Scarlet for the failure to terminate the “Contract”. Brought before the courts by Mobistar, Tiscali arraigned Wanadoo, the legal advisors and their insurance company. The value of the dispute, which was initially set at € 4 million, should be reduced (i) by around € 3 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 lead to a decrease in the responsibility of the latter. During this initial stage of the proceedings, Tiscali, having summons Wanadoo and the legal advisors before the court, believes that it is in no way responsible; however, given the complexity of the dispute and the number of parties involved, a forecast with regards to the possible outcome emerges as complex. Despite the fact that the possibility of reaching an agreement on the dispute has been outlined, involving the payment of approximately € 400.000, Tiscali intends to hold out in the court case, on the strength of its reasoning. In the financial statements as at 30 September 2007 Tiscali International BV had not made any provisions.

On 19 October 2007, Ecotel Communication AG - the company to which the Tiscali Group during the first half of 2007 transferred its German B2B activities for around € 18.5 million, sent Tiscali a letter by means of which it requested the latter to launch an independent appraisal of certain income values pertaining to the activities acquired. In detail, Ecotel Communication AG believes that these values were not correctly represented during the negotiations and in the related purchase agreement. Therefore, as a consequence of the alleged deviation from the real values, Ecotel Communication AG assumes that it has suffered damages for various reasons during its activities, whose effective total it estimates as coming to around € 15 million, which it intends to define on the outcome of the independent appraisal carried out. The Company believes that Ecotel Communication AG's demands are groundless, not only with regards to the merit of the case, but also in consideration of the settlement agreement reached on 24 August 2007 between Tiscali Group companies and the Group heading up the same Ecotel Communication AG, in accordance with which the parties had agreed the entity of the income values pertaining to the assets sold.

35.2 Tax assessments

On 27 December 2005, the Dutch tax authorities, following up the inspections carried out in 2005 and in previous years, issued a notice of assessment relating to the alleged failure to pay over tax withholdings (wage tax) on payments and on Tiscali S.p.A. shares which were supposed to have been acknowledged the former CEO of World Online International BV, Mr. J. Kinsella. The tax authorities argued that the amounts which were supposed to have been received by Mr. Kinsella in 2002 were paid by way of a bonus on remuneration and, consequently, "taxable", against the waiver, by Mr. Kinsella himself, of the exercise of the options for the purchase of World Online International BV (WOL) shares at the time of stock market listing (IPO) and the acquisition of WOL by Tiscali. The Dutch tax authorities calculated the amounts of the assessment as totalling € 51.3 million, inclusive of € 7.3 million in fines and € 5.0 million in interest. The liability was determined on the basis of the market price of Tiscali shares at the time of the IPO on WOL..In June 2007, Tiscali accepted and paid the settlement proposal formalized by the Dutch tax authorities for an amount equating to € 4.25 million, plus interest. The dispute was consequently settled.

The Dutch tax authorities forwarded World On Line International NV (and the direct subsidiary Tiscali International BV) a number of notices of assessment concerning the alleged non-payment of withholdings on remuneration and stock options acknowledged in previous years to Group executives. The total amount of these disputes comes to € 2 million, against which Tiscali International BV has made payments totalling around € 0.3 million. The residual amount mainly refers to stock options which are alleged to have been granted to Mr. Landefeld (a party what is more resident for tax purposes in Germany) and, in the opinion of Tiscali's tax advisors, not subject to taxation on the Netherlands. In consideration of this circumstance and taking into account the preliminary stage in which the dispute in question finds itself, it is not believed that the liability could be considered as probable and, consequently, no provision has been made.

Two notices of assessment have been issued by the Dutch tax authorities in relation to the checks made by the same regarding VAT for the accounting periods 1999 and 2000. In detail, the controversy refers to services concerning the stock market listing of World Online International NV and is based on the circumstance that Tiscali International BV (direct subsidiary of the listed corporate entity) would not have been entitled to deduct these costs for VAT purposes, since they pertain to World Online International NV, a corporate entity what is more without a VAT number. The disputed amounts total € 1.4 million for 1999 and € 2.7 million for 2000 respectively, excluding interest. In June 2007, Tiscali accepted and paid the settlement proposal formalized by the Dutch tax authorities for an amount equating to € 1.86 million, plus interest. The dispute was consequently settled.

In May 2005, the Dutch tax authorities issued an assessment report regarding the income declarations of World Online International NV and Tiscali International BV on the basis of which the reduction of the recognized tax losses relating to this period for Tiscali International BV was hypothesised, in relation to costs deriving from the waivers on receivables due from other Group companies, considered to be non-deductible. An appeal was presented against this assessment in September 2005. The risk profile associated with this dispute is limited to the re-calculation of the prior losses and does not present any problems linked to the estimate of any potential liability, or risks of a financial nature. In June 2007, Tiscali accepted the settlement proposal formalized by the Dutch tax authorities consequently defining the amount of the prior tax losses utilizable until 2005. This amount totals € 378 million, in the event that the company cannot manage to demonstrate the deductibility of the interest deriving from the waiver of the receivables granted to other Group companies. This is a “worst case” scenario for the company. If, by contrast, the company manages to demonstrate this deductibility, the amount of the recognized tax losses would rise to € 420 million.

During 2004, a tax assessment was started up regarding VAT relating to the German subsidiaries of the Tiscali Group. These assessments are currently being concluded. At the moment, no effective risk of sanctions can be established. With regard to the tax assessments relating to direct taxation in Germany (Corporate and Trade Tax), the assessment procedures are due to be concluded. The reports received so far do not disclose any tax liabilities and it is not envisaged that significant potential liabilities may arise; the adjustments mainly refer to prior tax losses associated with extraordinary transactions.

35.3 Commitments and other guarantees

Commitments

The Tiscali Group has not undertaken any commitments still to be met which do not fall within the normal operating cycle.

Guarantees

As at 30 September 2007, the following guarantees were outstanding:

- a surety for € 61.2 million pertaining to Tiscali Spa, guaranteeing the amount of the loan associated with the sale & lease back transaction on the Sa Illetta property;
- a surety for € 600 million pertaining to Tiscali Spa, guaranteeing the Intesa SanPaolo and JP Morgan loans stipulated within the sphere of the acquisition of a number of Pipex Group companies.

36. TRANSACTIONS WITH RELATED PARTIES

During the first nine months of 2007, the Tiscali Group had a number of dealings with related parties
These are transactions regulated on an arms'-length basis; the table below summarizes the balance sheet and income statement balances recorded in the consolidated financial statements of the Tiscali Group as at 30 September 2007 deriving from transactions with related parties.

The effects on the consolidated income statement for the nine months ended 30 September 2007 are indicated as follows:

INCOME STATEMENT	30 September 2007	of which: related parties	% change
(in thousands of €)			
Revenues	614,332	387	0.06
Other income	5,092		
Purchases of external materials and services	441,674	1,484	0.33
Payroll and related costs	72,515	1,058	1.46
Other operating costs	1,722		
Gross operating result	**103,512**	**(2,155)**	
Reorganization costs, provisions to risk reserves and writedowns	27,719		
Amortization/depreciation	112,111		
Operating result	**(36,318)**	**(2,155)**	
Portion of results of equity investments carried at equity	(342)		
Net financial income (charges)	(43,676)	(1,395)	3.19
Other net financial income (charges)	(17,881)		
Pre-tax result	**(98,218)**	**(3,550)**	

INCOME STATEMENT	30 September 2006	of which: related parties	% change
(in thousands of €)			
Revenues	487,010	514	0.16
Other income	1,573		
Purchases of external materials and services	361,073	762	0.32
Payroll and related costs	56,018		
Other operating costs	3,914		
Gross operating result	**67,579**	**(248)**	
Reorganization costs, provisions to risk reserves and writedowns	52,599		
Amortization/depreciation	91,314		
Other atypical income/charges	(64,352)		
Operating result	**(11,983)**	**(248)**	
Portion of results of equity investments carried at equity	(355)		
Net financial income (charges)	(23,601)	(1,429)	13.39
Other net financial income (charges)	-		
Pre-tax result	**(35,938)**	**(1,677)**	

The effects on the balance sheet are as follows:

CONSOLIDATED BALANCE SHEET (in thousands of €)	30 September 2007	of which: related parties	% change
Non-current assets	1,185,890		
Current assets	369,240	743	0.20
Assets held for sale	-		
Total assets	**1,555,130**	**743**	
Group shareholders' equity	209,866	499	0.23
Shareholders' equity pertaining to minority shareholders	39,727		
Total shareholders' equity	**249,593**	**499**	
Non-current liabilities	847,935	30,598	3.6
Current liabilities	457,601	1,676	0.36
Liabilities directly linked to assets held for sale	-		
Total liabilities and shareholders' equity	**1,555,130**	**32,773**	

CONSOLIDATED BALANCE SHEET (in thousands of €)	31 December 2006	of which: related parties	% change
Non-current assets	876,465		
Current assets	195,641	348	0.18
Assets held for sale	158,642		
Total assets	**1,230,748**	**348**	
Group shareholders' equity	242,829		
Shareholders' equity pertaining to minority shareholders	26,733		
Total shareholders' equity	**269,562**		
Non-current liabilities	222,299	30,730	13.8
Current liabilities	673,957	6	
Liabilities directly linked to assets held for sale	64,932		
Total liabilities and shareholders' equity	**1,230,748**	**30,736**	

The most significant balances, as at 30 September 2007, summarized by supplier of the services, are as follows:

INCOME STATEMENT BALANCES *(in thousands of €)*	Note	September 2007 (Group)	September 2006 (Group)
Shardna	1	0	0
Interoute	2	(495)	(248)
Leadsatz GmbH	3	(552)	0
Andalas SA	4	(1,395)	(1,429)
Francesco Bizzarri	5	(50)	0
Borghesi e Colombo Associati Srl	6	(520)	0
Studio Racugno	7	(39)	0
Stock options - CEO	8	(277)	0
Stock options - employees	8	(222)	0

BALANCE SHEET BALANCES *(in thousands of €)*	*Note*	September 2007 (Group)	December 2006 (Group)
Shardna	1	331	331
Interoute	2	(854)	11
Leadsatz GmbH	3	0	0
Andalas SA	4	(30,598)	(30,730)
Francesco Bizzarri	5	(27)	0
Borghesi e Colombo Associati Srl	6	(353)	0
Studio Racugno	7	(30)	0
Stock options - CEO	8	(277)	0
Stock options - employees	8	(222)	0

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

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

(3) Leadsatz GmbH: during 2007, Mr. J. Maghin, a minority shareholder of Ishtari Gmbh (company invested in by Tiscali Deutschland Gmbh) as well as Chief Executive Officer of Leadsatz Gmbh, company involved in services connected to the portal.

(4) As indicated in the explanatory notes to the financial statements, the shareholder *Andalas Limited* granted a loan in 2004 bearing interest at market rates. The loan agreement explicitly envisages subordination with respect to the other debts of the Tiscali Group.

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

(6) Studio Borghesi e Colombo Associati Srl: the director Arnaldo Borghesi, member of Tiscali Spa's Board of Directors, provides Tiscali Spa with consultancy services as part of extraordinary finance transactions.

(7) Studio Racugno: the director Gabriele Racugno, member of Tiscali Spa's Board of Directors, provides Tiscali Italia Spa and Tiscali Service Spa with legal and out-of-court assistance mainly concerning financial and intellectual property contractual matters.

(8) Stock option - CEO and employees. Cost stated under payroll and related costs in the Parent Company's financial statements.

37 . LIST OF SUBSIDIARY COMPANIES INCLUDED WITHIN THE CONSOLIDATION AREA

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

Name	Registered offices	Shareholding
Tiscali S.p.A.	Italy	
Quinary S.p.A.	Italy	85.0%
Tiscali Telecomunicaciones Sa *(disposed of in 2007)*	Spain	99.99%
Tiscali Services S.p.A.	Italy	100.0%
Tiscali Italia S.p.A.	Italy	100.0%
Tiscali Finance Sa	Luxembourg	100.0%
Tiscali Deutschland Gmb	Germany	100.0%
Tiscali GmbH	Germany	100.0%
Tiscali Comunications Gmbh *(disposed of in 2007)*	Germany	100.0%
Tiscali Verwaltungs Gmbh	Germany	100.0%
Tiscali Business Solution GmbH & Co KG	Germany	100.0%
Tiscali Network Gmbh	Germany	100.0%
Ishtari GmbH	Germany	51.0%
World Online International Nv	The Netherlands	99.5%
Tiscali International Bv	The Netherlands	99.5%
Tiscali B.V.	The Netherlands	99.5%
World Online Portal BV.	The Netherlands	99.5%
Myt Vision Bv	The Netherlands	99.5%
Xoip BV	The Netherlands	99.5%
Tiscali Media Service BV	The Netherlands	99.5%
Wolstar B.V. in liq.	The Netherlands	49.7%
Tiscali Partner B.V.	The Netherlands	99.5%
12 Move Vof	The Netherlands	99.5%
Tiscali Finance BV	The Netherlands	99.5%
Tiscali International Network B.V.	The Netherlands	99.5%
Tiscali International Network SpA	Italy	99.8%
Tiscali International Network SA (in liquidation)	France	99.5%
Tiscali International Network SAU (in liquidation)	Spain	99.5%
Tiscali International Network GmbH	Germany	99.5%
Tiscali International Network Ltd	UK	99.5%
Tiscali International Network USA	USA	99.5%
Tiscali Business International Ltd	UK	99.5%
Green Dot Property Man Ltd	UK	99.5%
World Online Ltd.	UK	99.5%
World Online Telecom Ltd.	UK	99.5%
Tiscali Holdings UK Ltd	UK	99.5%
Tiscali Uk Ltd	UK	86.3%
Tiscali Network Distribution Ltd	UK	86.3%
Video Network Ltd	UK	86.3%
VNL Sports Ltd	UK	86.3%
VNL Trustees Ltd	UK	86.3%
VNL Videonet Ltd	UK	86.3%
Unviersal Sports Ltd	UK	86.3%
Switch 2 Telecom Ltd	UK	86.3%
Toucan Residential Ireland Ltd	UK	86.3%
Toucan Residential Ltd	UK	86.3%
Pipex Homecall Ltd	UK	86.3%
Homecall Payment Serv Ltd	UK	86.3%
Pipex InternetLtd	UK	86.3%
Freedom 2 Surf Ltd	UK	86.3%
Freedom 2 Surf Registr Serv Ltd	UK	86.3%
Pipex Broatband Ltd	UK	86.3%
Higwai One Ltd	UK	86.3%
Pipex Networks Ltd	UK	86.3%
Freedom 2 Serf Cons. Serv. Ltd	UK	86.3%
Accent UK Ltd	UK	86.3%
Nildram Ltd	UK	86.3%
Trinite Ltd	UK	86.3%
Trinite Services Ltd	UK	86.3%
Pipex Comm. Serv. Ltd	UK	86.3%
GX Network Twelve Ltd	UK	86.3%
Homecall (UK) Ltd	UK	86.3%
Tiscali Business UK Ltd	UK	99.5%
Tiscali Business GmbH	Germany	99.5%
Nacamar Ltd (*wound up in 2007)*	UK	99.5%
Tiscali Espana SA (in liquidation)	Spain	99.5%
TISCALI Telekomunikace Ceská republika s.r.o. *(disposed of in 2007)*	Czech Republic	99.5%
Tiscali Network s.r.o.	Czech Republic	99.5%

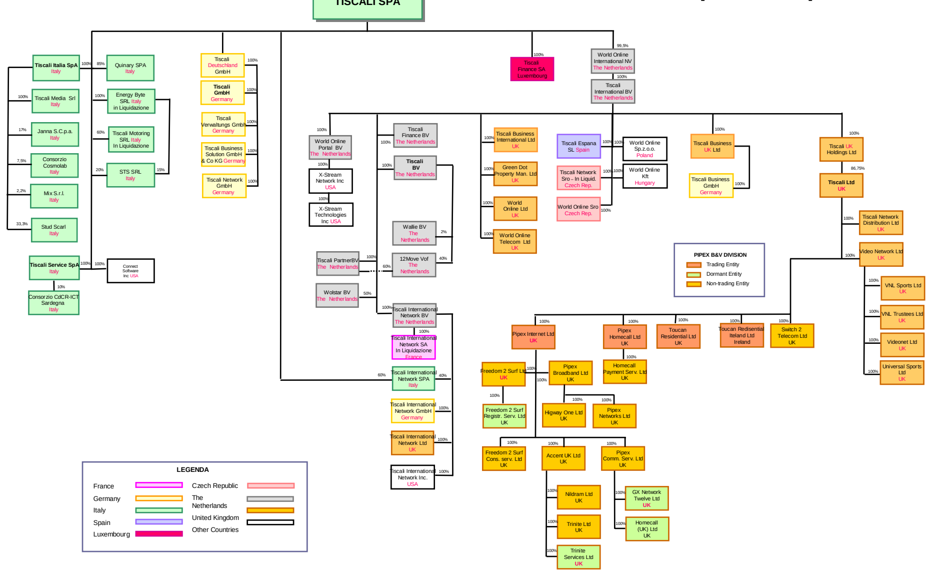
- **List of equity investments carried at equity**

Name	**Registered offices**	**Shareholding**
Energy Byte Srl *(in liquidation)*	Italy	100%
Connect Software Inc.	USA	100%
Tiscali Motoring Srl *(in liquidation)*	Italy	60%
Gilla Servizi Telecomuncaz Srl *(wound up in 2007)*	Italy	20%
STS S.r.l.	Italy	35%
Tiscali Media Srl	Italy	100%
STUD Soc. Consortile a.r.l.	Italy	33.33%

- **List of equity investments in other companies**

Name	**Registered offices**
Mix S.r.l.	Italy
Janna S.c.p.a.	Italy
Consorzio CdCR-ICT	Italy
World Online s.r.o.	Czech Republic
X-Stream Netwok Inc	USA
X-Stream Netwok Tecnologies Inc	USA
World Online Kft	Hungary
World Online Poland Sp Z.O.O.	Poland
Waille BV	The Netherlands

Group at 30 September 2007



Vittorio Serafino

On behalf of the Board of Directors

The Chairman
Vittorio Serafino

Tiscali S.p.A.
Registered Offices in the Sa Illetta district, SS 195 Km 2.3, Cagliari, Italy
Share capital € 212,206,580.98
Cagliari Companies' Register and VAT No. 02375280928
Economic and Administrative Roster No. 191784

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

I, the undersigned, Massimo Cristofori, executive appointed to draw up the company accounting documents of Tiscali S.p.A., hereby declare, in accordance with Article 154.2 bis of the Consolidated Finance Law, that the disclosure contained in the Quarterly Report complies with the documental records, the books and ledgers and the accounting records of the parent company and the information forwarded by the companies included within the consolidation area.

The executive appointed to draw up
the company accounting documents
s/Massimo Cristofori

Milan, Italy, 13 November 2007

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REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

To the Board of Directors of
TISCALI S.p.A.

1. We have reviewed the interim consolidated financial statements of Tiscali S.p.A. (and subsidiaries the "Tiscali Group"), which include the consolidated balance sheet, income statement, statement of changes in equity and cash flow statement, and the related explanatory notes at the consolidated level included in the report for the nine-month period ended September 30, 2007. Management is responsible for the preparation and fair presentation of this interim financial information in accordance with International Accounting Standard IAS 34 as adopted by the European Union. Our responsibility is to express a conclusion on this interim financial information based on our review.

2. We conducted our review in accordance with International Standard on Review Engagements 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

   As far as comparative figures related to the consolidated financial statements for the year ended December 31, 2006, reference should be made to our auditors' report dated April 10, 2007. The comparative figures related to the nine month interim consolidated financial statements of the prior year have not been audited or subject to a review. The conclusions in this report do not extend to these amounts.

3. Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information for the nine month period ended September 30, 2007 has not been prepared, in all material respects, in accordance with International Accounting Standard IAS 34 as adopted by the European Union.

4. We draw your attention to the following items for a better understanding of the interim financial information:

a) The first nine months of 2007 has seen the Tiscali Group continue the process of focusing on the British and Italian markets, mainly through the completion of disposals concerning operations in Germany, The Netherlands and the Czech Republic. In this context, from the financial standpoint mention should be made of the stipulation of the financing agreement with Intesa SanPaolo in February 2007 and the sale and lease back operation concerning the headquarters owned by the Group in Cagliari, as these also supported the repayment of the facility granted by Silver Point LP in the preceding financial years.

In addition in the third quarter 2007 the Tiscali Group has signed several important commercial and financial agreements, detailed in the Report on operations and explanatory notes and essentially relate to the acquisition of several companies of the Broadband and Voice division of Pipex Communications Plc operating in the UK market, and also the stipulation of a new credit facility in substitution of the previous one for Euro 650 million with Intesa SanPaolo S.p.A. and JP Morgan. The Directors' believe these financial agreements and the realisation of the capital increase already approved by the Shareholders' Meeting which has granted the Board of Directors the faculty to increase the share capital up to a maximum of EUR 220 million by 31 December 2008, will provide the Tiscali Group with the financial flexibility required to achieve the objectives stated in the business plan 2007-2010, approved in October 2006 and at the moment in a phase of being revised by the Board of Directors that is expected to be complete by the end of the year. Therefore, the ability to generate positive cash flows will remain a primary focus of the Group and a condition which will significantly influence the evolution of its financial position and stability.

b) The net result of the nine month ended 2007 has been positively affected by the result of activities disposed of or held for sale, amounting to approximately EUR 95.8 million and essentially consisting of profit arising from the disposal of operations in the Netherlands and Germany, net of the relevant taxes and the write down of assets of the subsidiaries sold.

c) At September 30 2007 the companies of the Broadband and voice division of "Pipex" were consolidated as from the date of acquisition September 13, 2007. In the consolidation the fair value allocation of the price paid has been provisionally allocated all to goodwill for approximately Euro 285 million pending the availability of the fair value allocation report of the assets acquired, that is being performed by an by an independent expert. As indicated by the Directors the amount indicated as goodwill and other amounts relating to assets acquired may change on the basis of the final valuation of the fair value as envisaged and allowed by IFRS 3. The Directors also report that the accounts as at 30 September 2007 do not reflect any provision relating to possible restructuring costs consequent to said acquisition since no decision in this sense has been made yet and analysis is underway for assessing whether any action should be undertaken and, if so, what the costs are.

d) At September 30, 2007 the Tiscali Group is involved in certain legal disputes initiated by third parties against entities of the Group World Online International N.V. (99.5% owned by the Tiscali Group), dating back to the time of the acquisition of the former World Online Group by the Tiscali Group. In particular, in May 2007, the Amsterdam Court of Appeal resolved on the case ascertaining World Online International N.V.'s responsibility without however passing judgement with regard to the existence and the amount of any damage, which will form the subject matter of new and separate proceedings, possibly launched by the injured parties. The Company has appealed to the Dutch Supreme Court against this sentence. The Directors, also supported by the opinion of their legal advisors, believe that it is premature to consider that significant liabilities will probably arise, and in any case believe that sufficiently defined elements do not exist for quantifying the potential liability.

Therefore, given the lack of elements capable of suggesting at present that the afore-mentioned potential liabilities are probable and in any event permitting quantification thereof, the Directors have not considered it necessary to make provisions in the financial statements against such disputes. Furthermore, additional risk situations are outstanding consequent to pending or looming disputes, also in relation to tax assessments, described in detail in Note 35 which the Tiscali Group believes overall should not give rise to liabilities of a significant amount, also taking into account the provisions made in the financial statements.

DELOITTE & TOUCHE S.p.A.

Signed by
Fabrizio Fagnola
Partner

Milan, Italy
November 23, 2007

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