tiscali.

ANNUAL REPORT 2007

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Tiscali Group

Management

Vittorio Serafino
Chairman

Mario Rosso
CEO *

Massimo Cristofori
CFO

Mary Turner
CEO Tiscali UK

Mario Mariani
CEO Tiscali Italy

Salvatore Pulvirenti
CIO

Paolo Susnik
CEO TINet

* from 29/02/2008

Directors and Auditors

BOARD OF DIRECTORS

Chairman
Vittorio Serafino

Chief Executive Officer
Mario Rosso*

Chief Financial Officer
Massimo Cristofori

Directors
Arnaldo Borghesi
Francesco Bizzarri
Tommaso Pompei

BOARD OF STATUTORY AUDITORS

Chairman
Aldo Pavan

Statutory Auditors
Piero Maccioni
Massimo Giaconia

Deputy Auditors
Andrea Zini
Rita Casu

INDEPENDENT AUDITORS
Deloitte & Touche S.p.A.

* from 29/02/2008

Milestones

January 1998
INCORPORATION: LAUNCH OF TELEPHONE SERVICES AT REGIONAL LEVEL IN SARDINIA

March 1999
LAUNCH OF TISCALINET, THE FIRST FREE INTERNET CONNECTION SERVICE IN WESTERN EUROPE. AWARDED A LICENSE FOR THE SUPPLY OF VOICE TELEPHONY SERVICES THROUGHOUT THE COUNTRY

October 1999
IPO ON NUOVO MERCATO

December 1999
EUROPEAN EXPANSION PLANS WITH THE ACQUISITION OF TWO FRENCH COMPANIES

January 2000
ACQUISITION OF WORLD ONLINE – PAN-EUROPEAN FOOTPRINT. EXPANSION IN SWITZERLAND, CZECH REPUBLIC, BELGIUM, GERMANY, NORWAY, NETHERLANDS AND SPAIN MAINLY THROUGH THE ACQUISITIONS OF LOCAL ISPs

January 2001
ACQUISITION OF LIBERTY SURF

Aprile 2001
ACHIEVED LEADERSHIP POSITION IN THE UK, AUSTRIA AND FINLAND FOLLOWING INTEGRATION OF ACQUISITIONS.

NARROWBAND (DIAL-UP)

Pan European Strategy

Tiscali was incorporated in 1998, following the liberalization of the telecommunications market in Italy.

In March 1999, Tiscali launched the first free Internet access service in Italy giving a significant boost to the growth of the whole market and establishing itself as an undisputed first mover.

At the end of October 1999, Tiscali began its pan European expansion plan following the IPO on Nuovo Mercato of Milan.

October 2001
LAUNCH OF ADSL PRODUCT

December 2002
ACHIEVED EBITDA BREAKEVEN

April 2004
REACHED 1.3 MILLION ADSL CUSTOMERS

August 2004
DISPOSAL OF AUSTRIA, SWITZERLAND, SOUTH AFRICA

December 2004
COMPLETED THE FIRST PHASE OF THE REFOCUS PLAN IN CORE COUNTRIES WITH THE DISPOSAL OF BELGIUM, NORWAY AND SWEDEN

January - December 2005
DISPOSAL OF THE FRENCH AND DANISH SUBSIDIARIES. DISPOSAL OF EXCITE, TINET LINK, ADSL CUSTOMERS IN THE NETHERLANDS AND SPAIN

January - December 2006
ACQUISITION OF VIDEO NETWORKS LTD. DISPOSAL OF THE DUTCH SUBSIDIARY

January - December 2007
ACQUISITION OF BROADBAND AND VOICE DIVSION OF PIPEX IPTV SERVICE LAUNCH IN THE UK AND ITALY

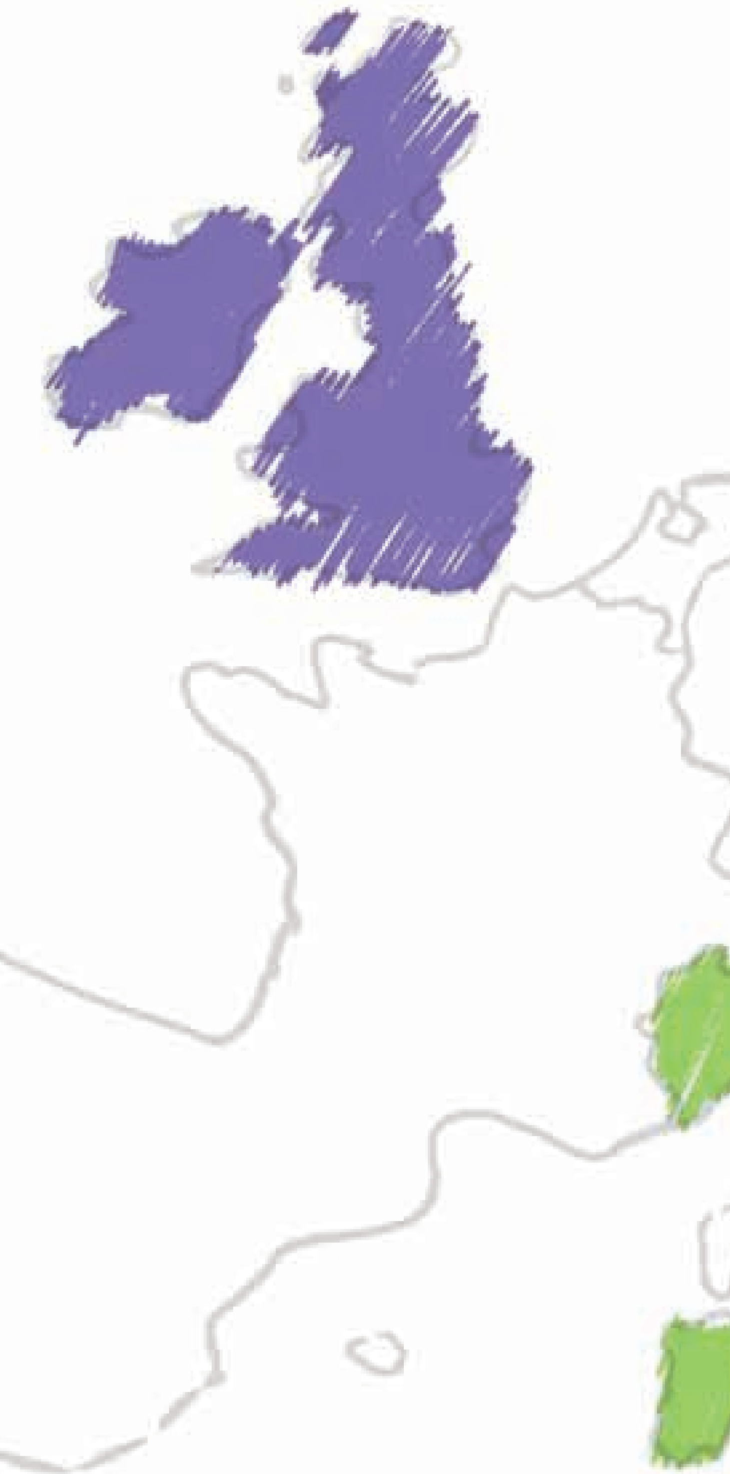
BROADBAND (DSL)

Core Countries focus

Following the implementation of its 2007 strategic plan, Tiscali has focused its activities in the European markets with the highest growth and value creation potential: Italy and the UK.

The new “IP-Play” strategy sees Tiscali as a single “Full-IP” service provider for a data-voice-video services package and upon three key pillars: focus on two core countries, acceleration of unbundling network deployment and innovative services offer with ULL technology.

Tiscali's 2007 Annual Report (and on equal perimeter in 2006) concerns the operations in the United Kingdom, Italy, TINet and other minor subsidiaries.



UNITED KINGDOM

	2007	2006	Change
Revenues (EUR ml)	609	445	37%
EBITDA (EUR ml)	99	65	52%
ADSL subscribers (000)	1,830	1,424	29%
Market share ADSL	13%	14%*	-
ULL subscribers (000)	643	350	84%
Number of Colocations	800**	420	90%
Coverage on households	55%	34%	62%
ULL Investments (EUR ml)	90	65	38%

* DSL market

** 760 Colocations in Full Unbundling and 630 able to offer IPTV services

Core Countries' Snapshot

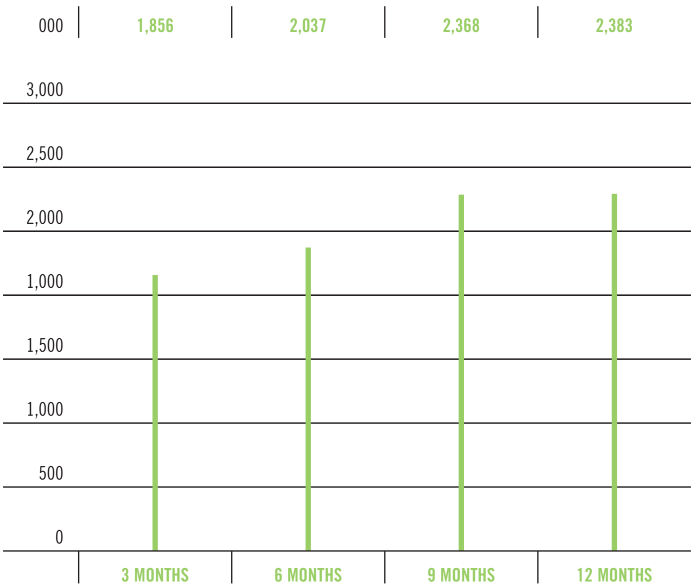
ITALY

	2007	2006	Change
Revenues (EUR ml)	278	218	28%
EBITDA (EUR ml)	50	30	67%
ADSL subscribers (000)	553	432	28%
Market share ADSL	5%	5%	-
ULL subscribers (000)	331	234	41%
Number of Colocations	486*	440	10%
Coverage on households	50%	30%	67%
ULL Investments (EUR ml)	79	47	68%

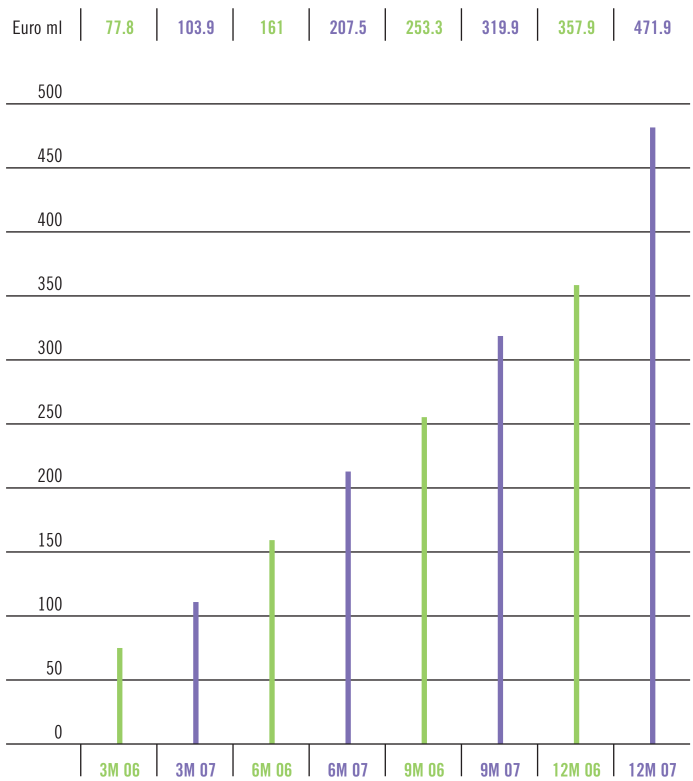
* 486 Colocations in Full Unbundling and 650 in Virtual Unbundling

Broadband Growth

ADSL SUBSCRIBERS



ADSL REVENUES



Key Figures

Income Statement (EUR ml)	31 / 12 / 2007 12 months	31 / 12 / 2006 12 months	Change (%)
Revenues	910.9	678.5	34%
Gross Operating Result (EBITDA)	161.4	100.4	61%
Operating Result (EBIT)	(80.4)	(12.8)	-
Net result	(75.3)	(136.6)	-

Balance Sheet (EUR ml)	31 / 12 / 2007	31 / 12 / 2006
Total Assets	1,600	1,231
Net Financial Debt	636	397
Shareholders' Equity	207	270
Capex	193	179

Non Financial Figures (000)	31 / 12 / 2007	31 / 12 / 2006
Access users	3,475	3,451
ADSL (broadband) subscribers	2,383	1,856
of which ADSL (unbundling) subscribers	974	583

Results by segment

Revenues by country

- United Kingdom 67%
- Italy 30%
- Others 3%

Group Total Revenues (EUR ml)

911

Revenues by business line

- Access 60%
- Voice 26%
- B2B 7%
- Media and Value Added Services (VAS) 6%
- Others 1%

Group Total Revenues (EUR ml)

911

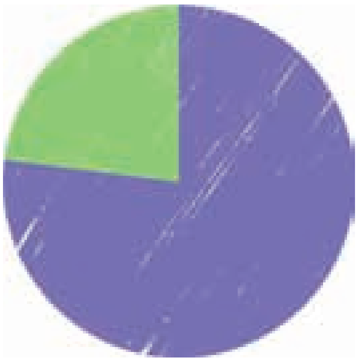
EBITDA by country

- United Kingdom 61%
- Italy 31%
- Others 8%

Group EBITDA
(EUR ml)

161,4

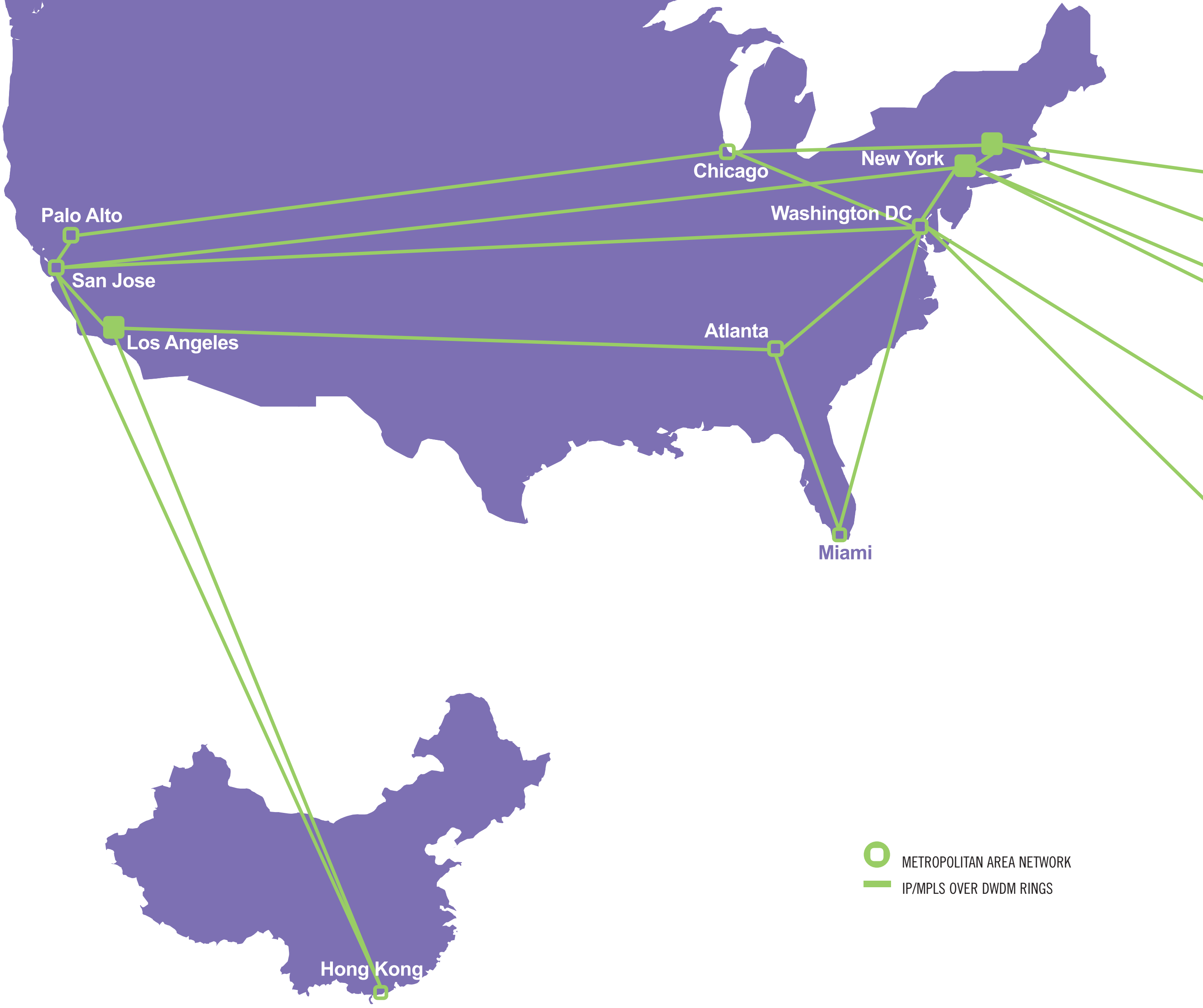
ADSL subscribers by country



- United Kingdom 77%
- Italy 23%

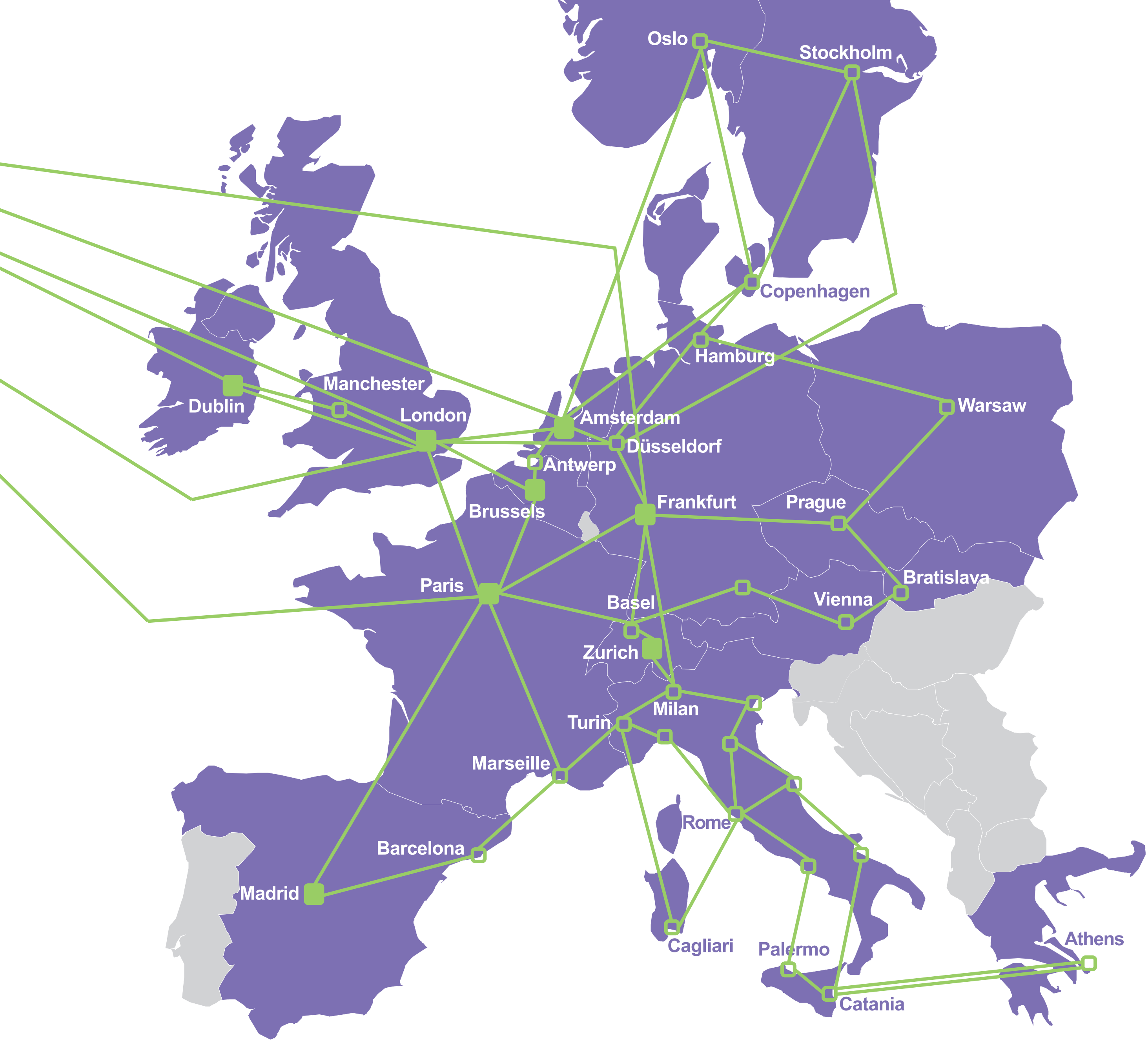
Group ADSL subscribers
(ml)

2,4



A strategic asset: the International Network Infrastructure

- IP /MPLS network technology
- Consolidated experience in the realization and management of the IP /MPLS
- Multiservice network (IPv4, IPv6, Data, video multicasting)



THE NETWORK IN FIGURES:

- 19 countries – 90 Points of Presence (POP) IP/MPLS in Europe, China and the US
- Interconnected to 14 Public Exchanges in Europe and 5 in the US
- 150 peering agreements with over 95% of traffic exchanged through a high quality private interconnection
- Third largest European IPv4 network and the largest Ipv6 network in Europe and the US

Broadband: 2007, focus on organic growth

Wholesale model: OLOs resell broadband access provided by the former incumbents. In this market, operators are unable to exploit the competitive advantage of owning proprietary networks - which squeezes margins - and they also have no control over the product offered to the end-user.

Bit-stream model: the interconnection to the network of the national telecoms operators is charged at cost. Bit-stream allows alternative operators such as Tiscali to use their own networks, which means they only have to pay the national carrier for access to the local loop and backhauling services (transmission of traffic to the interconnection point).

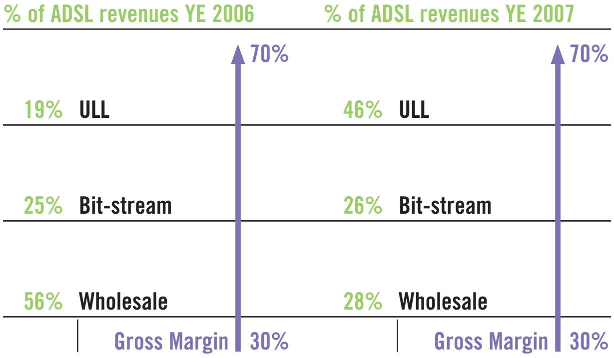
Unbundling model: OLOs can access the local loop by investing in local networks. Unbundled services allow operators to expand their margins to over 70% and to control the quality of the service provided to final customers.

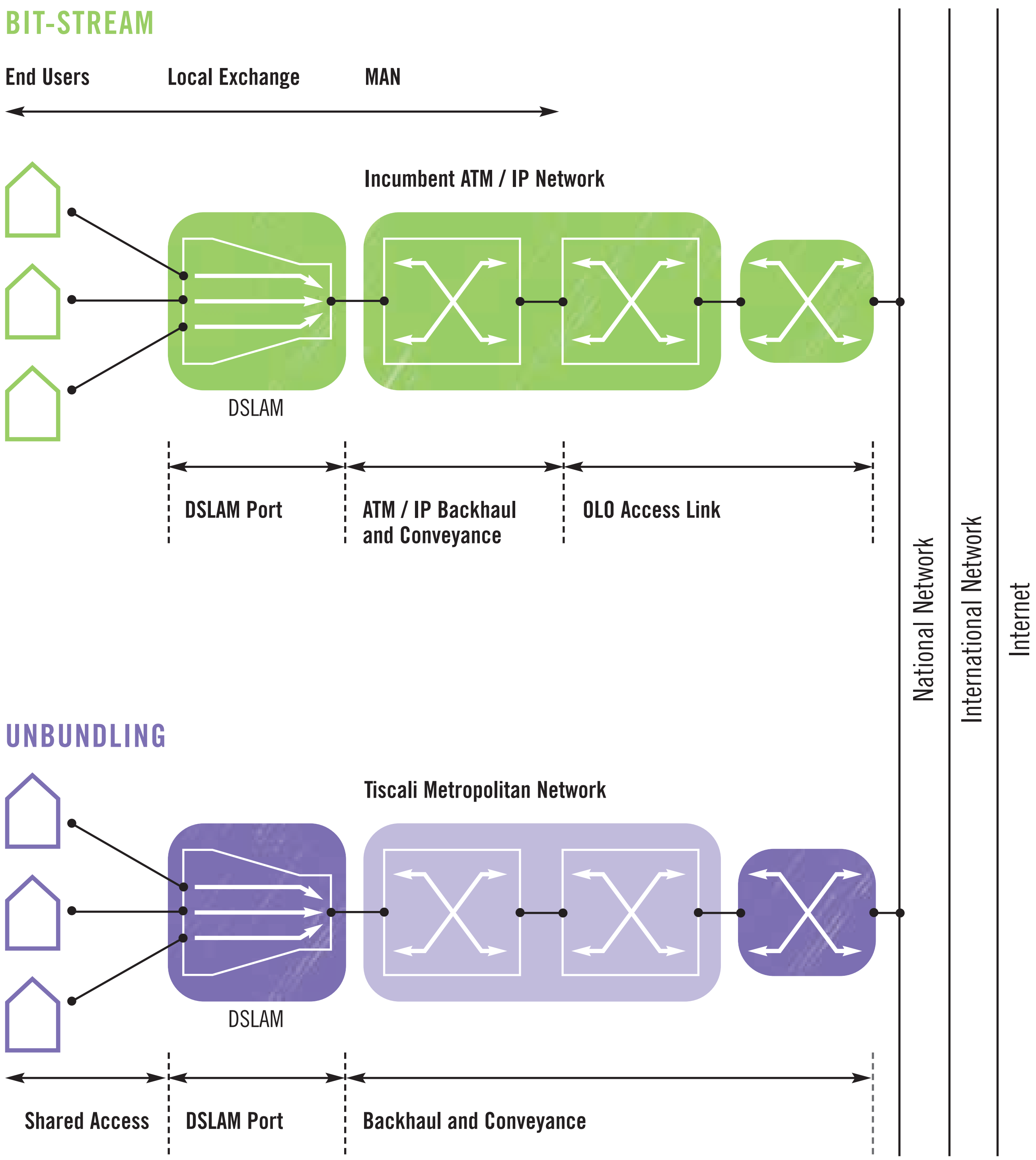
ULL: A SUSTAINABLE STRATEGY

As of 31 December 2007, Tiscali had reached:

- 486 co-locations in Italy, reaching a 50% market coverage
- 800 co-locations in the UK, with a 55% market coverage

GROSS MARGIN IMPROVEMENT




BIT-STREAM
End Users
Local Exchange
MAN
Incumbent ATM / IP Network
DSLAM
DSLAM Port
ATM / IP Backhaul and Conveyance
OLO Access Link
National Network
International Network
Internet
UNBUNDLING
Tiscali Metropolitan Network
DSLAM
Shared Access
DSLAM Port
Backhaul and Conveyance

A strong brand

ADV ITALY campaign

"Tiscali: the only true independent alternative"

(ADSL + Voice campaign launched by Tiscali Italia)

This new campaign promotes the fastest and most convenient dual play offer on the market: **Tiscali Voice 8 Mega**, which, in that particular promotion, provides ADSL flat + voice for only EUR 4.95 per month.

As a reliable integrated and people oriented Tlc provider, Tiscali has chosen as testimonial the hugely popular Ezio Greggio, close to people and representing the same values of Tiscali, such as freedom and independence.

The TV campaign, launched in November 2007 and designed by creative agency Hi!Communication, developed with various characters, sees Greggio as a funny and clumsy superhero, who comes to relieve a young lady of the iniquity of internet and telephone. It comes to a happy end, where the superhero saves the lady just as Tiscali saves its Clients from expensive and unclear offers.

The chosen media mix, TV-Radio-Online, allowed to reach a Spontaneous Brand Awareness, for TLC operators, of the 14% (8% in 2006) and a Generated Brand Awareness of 63% (51% in 2006).

2007 was marked by a sales increase of 33% (compared to 2006) during the adv campaign.

ADV UK campaign

"Office Meeting"

(ADSL and Talk Campaign launched by Tiscali UK)

The most successful advertising campaign in 2007, produced by subsidiary Tiscali UK, was "Office Meeting".

The campaign promoted the then brand new offer for unlimited broadband at £9.99 a month for the first 3 months then £12.99 thereafter with free UK weekend calls included. The advertisement concept to carry the product message was a humorous meeting between three bubbly women in a stylish office huddled together having an office gossip.

The campaign objective was new customer acquisition and reinforces Tiscali as the best value broadband provider.

The advertisement, broadcast in the first quarter 2007, was directed by Steve Bendelak whose credits include Little Britain and The Royle Family and was designed by creative agency MWO.

The TV Campaign was supported by both Radio and Press with the voice over by the hugely popular Martin Clunes.

During the campaign Tiscali reached its highest ever brand awareness at 70% and recruited ca 80,000 new broadband acquisitions over a two month period with a Talk bundle attached rate of 60%.

Report on operations

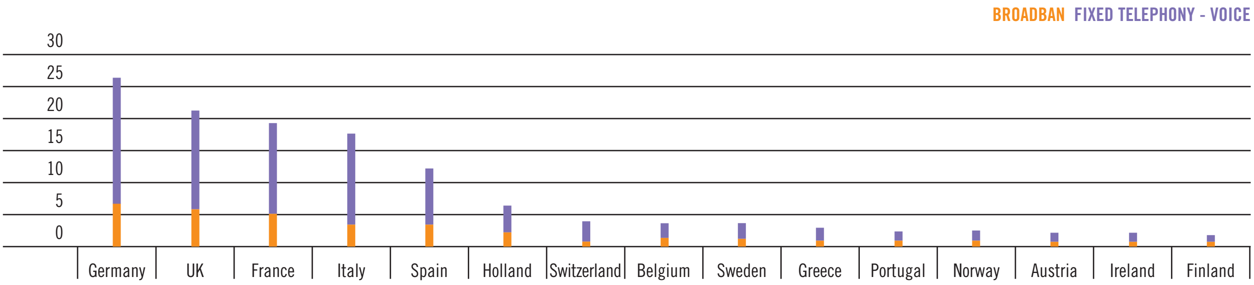
Market overview

The Tiscali Group provides telecommunications services on the fixed network in the UK and in Italy, respectively the second and fourth leading European countries in terms of value, after the German and French[1] markets.

Within this context, Tiscali is placed among the main alternative operators (OLOs) in Europe[2] who offer integrated Internet access, telephone and multimedia services, mainly to residential customers. In detail, Tiscali is positioned in the IP technology services segment which makes it possible to provide voice, Internet and video services using the same technological platform.

Faced with a decreasing fixed telephone service market, it is envisaged that the IP technology services market, both in Italy and the UK, will grow constantly until 2010, with significant increases in the VoIP, IPTV and value added service (VAS) sectors whose services will be offered under the form of bundled service packets featuring considerable advantages for the customer; such advantages will include the convenience of the cost, a sole provider as supplier and an extremely fast connection. These new methods for offering converging services, made possible by the development of broadband technology - double (Internet access + voice), triple (Internet access + voice + Iptv) and quadruple (Internet access + voice + Iptv + Mvno) play – extend the competitive arena of the fixed telephone market to operators of media services and mobile telephone services while also posing themselves as the driving force behind a consolidation process.

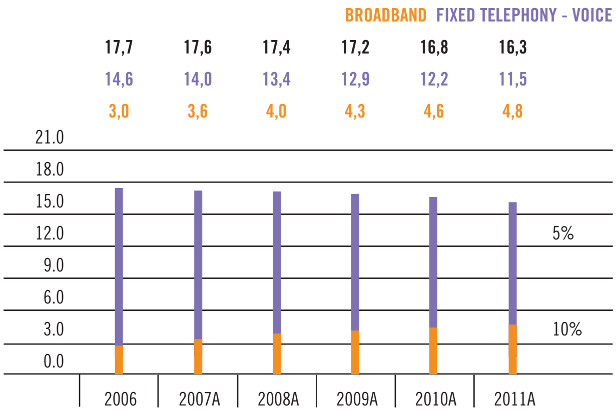
FIXED TELEPHONY MARKET - 2007A (IN BILLIONS USD)



SOURCE: TISCALI PROCESSING

National expenditure for telecommunications services on the fixed network came in 2006 to around US$ 21.6 billion in the UK and US$ 17.7 billion in Italy[3]. It is estimated that, while the traditional voice market will decrease at a rate of around 9% and 5% per annum in the period 2006-2011, respectively in the UK and in Italy, the *broadband* market will rise by approximately 10%[4].

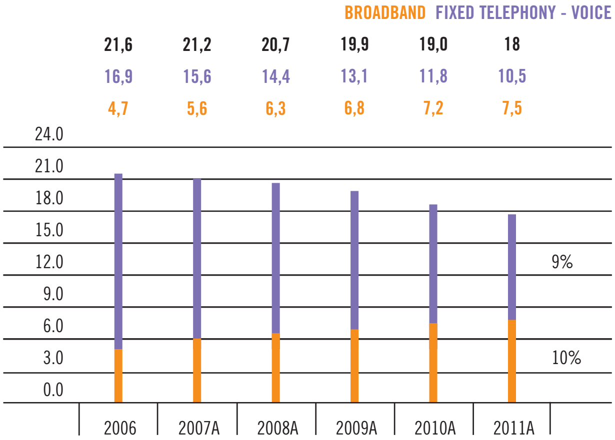
ITALY – FIXED TELEPHONY MARKET (IN BILLIONS OF USD)



SOURCE: TISCALI PROCESSING

1. - 2. - 3. - 4. TISCALI PROCESSING

UK - FIXED TELEPHONY MARKET (IN BILLIONS OF USD)



SOURCE: TISCALI PROCESSING

The broadband market in Europe

The strong broadband market has transformed Internet access into a mass consumption commodity. A dynamic market featuring growing competition has, in fact, forced the operators to extend their range of products/services, offering a wider portfolio of services, featuring numerous Internet access, VoIP (Voice on IP), and audiovisual content combinations in order to attract and retain customers.

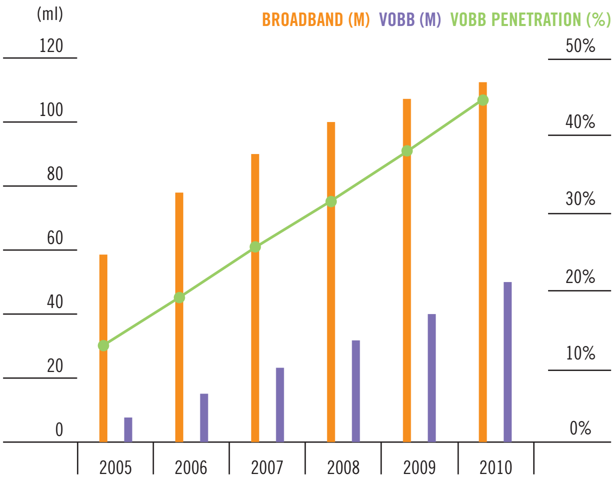
The increased demand for services and contents leads to a rising need for band availability for the end customer. Competition between the various telephone operators leads to the search for increasingly efficient and economic methods for providing IP services, also as an alternative to the unbundled DSL services. Considering the enormous scale of the copper connections (250 million lines alone in Europe[5]), the research for improving the DSL performance is ongoing and already today products exist which guarantee speeds greater than 10 Mbit/s if the end user is located within 2km of the telephone exchange. In light of the band requirements for the current services offered and the economic convenience of the DSL overhauls (mostly *software*), the unfurling of alternative technologies on a large scale aimed at creating new generation network or replacing the copper line with fibre optic network infrastructures which reach the telephone exchange or the end user, appear to be far from effectively implemented under the current state of play.

83% of the broadband connections in Europe take place by means of ADSL technology, the rest via cable. The figure has risen significantly since 2004, when ADSL technology represented 75% of *Broadband connections*[6]. It is envisaged[7] that by the end of 2010, broadband connections in Europe will reach 66% of households, corresponding to 86% of those who have *personal computers;* ADSL will continue to represent the most widely used technology.

Furthermore, following the distribution of multimedia services and contents (including IPTV), the western European broadband market saw the average band per user increase, which from 2.5 Mbps at the end of 2005 is estimated to exceed 9 Mbps by 2010[8].

When compared with the Wholesale method and faced with the higher investments in infrastructures, direct ULL (unbundling) access makes it possible to increase the operating profitability, greater flexibility in differentiating its product range and to increase the commercial ability of retaining the customer, an extremely significant factor especially when said operators offer services which are supplementary to access, such as voice on Internet protocol (VoIP), or multimedia contents.
Market developments have also seen the continual erosion of the market share of the *incumbent operators*, against growth in *unbundling* services which should rise from the current 15% to 25% of the *Wholesale* market by the end of 2010[9].
In Western Europe in the period 2005-2010, rapid growth is expected in the number of broadband voice connections. They will increase from 7.2 million in 2005 to 14.7 million in 2006 and almost 50 million in 2010 (IDC forecasts).

WESTERN EUROPE: BROADBAND CONNECTIONS AND PENETRATION OF VOBB, 2005-2010



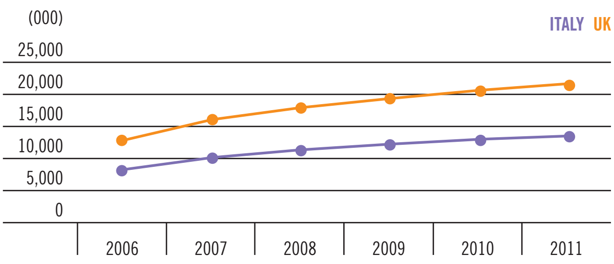
SOURCE: IDC, 2006

The broadband market in Italy and the UK

The incidence of DSL technology in Italy comes to around 96% of total connections, while in the UK DSL represents approximately 75% of the connections, followed by around 20% of the connections via traditional analogical transmission. The forecast trend in broadband connections within the markets on which the Tiscali Group operates is presented below.

5. - 6. - 7. - 8. - 9. TISCALI PROCESSING

BROADBAND CONNECTIONS

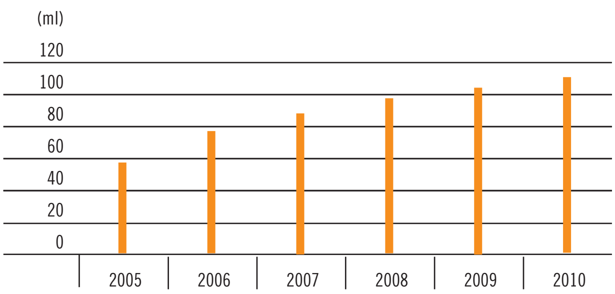


SOURCE: TISCALI PROCESSING

An increase in the penetration of *broadband*-type access has been witnessed on the market, against the continuation of sales policies leading to price competition.
If, on the one hand, the broadband market has without doubt the most significant weight for the operators in terms of revenues and is characterized by constant growth of the customers on a parallel with the on-going technological innovations, the n*arrowband market*, especially in Italy, is still of a significant size, even though continually decreasing. The number of users in fact fell by around 7.3 million at the end of 2003, to 3.3 million at 30 June 2007[10]

Such performance takes on the form of a normal market trend where we witness a migration of the n*arrowband* customers towards *broadband-type access* so as to avail of the faster *download* and *upload* speeds and exploit the more greatly customized services with a higher added value.
Broadband connections within the home-based market, according to IDC, were around 89 million at the end of 2007, and are expected to increase to over 111 million by 2010.

BROADBAND CONNECTIONS IN WESTERN EUROPE, 2005-2010

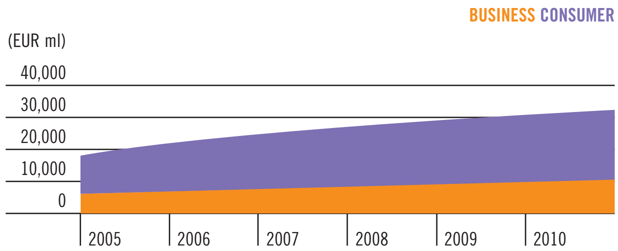


SOURCE: IDC DATA PROCESSING, 2006

In the wake of broadband product development there is also growing DSL product availability, accompanied by a diminishing monthly payment. The market trend shows a reduction in ARPU (Average revenue per user) in comparison with a higher bandwidth availability. This effect is also attributable to stronger marketing investments which, attracting new customers, contribute to the growing use of the product.

According to IDC, by 2010 revenues solely from broadband access in Western Europe are expected to represent a market value of about EUR 32 billion, compared with about EUR 26 billion in 2007. Of these, over 69% will be from the home-based market.

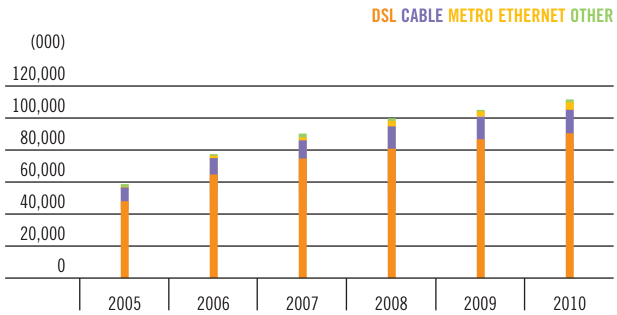
BROADBAND REVENUES BY CUSTOMER SEGMENT, 2005 - 2010



SOURCE: IDC DATA PROCESSING, 2006

The weight of DSL technology has a growing impact on the broadband market. IDC forecasts that in 2010, of the estimated 111 million broadband connections, about 81% will be via DSL.

BROADBAND CONNECTIONS BY TECHNOLOGY IN WESTER EUROPE, 2015 - 2010



SOURCE: IDC DATA PROCESSING, 2006

The broadband market is characterized by an increasingly significant presence of alternative operators (OLOs) who erode the traditionally dominant position of the former-monopolist operators, thanks to the development of a proprietary unbundling network. Consequently, competition has increased considerably within each single country, with around 50% of the total market held by the alternative operators (OLOs) who have significantly increased their market share.

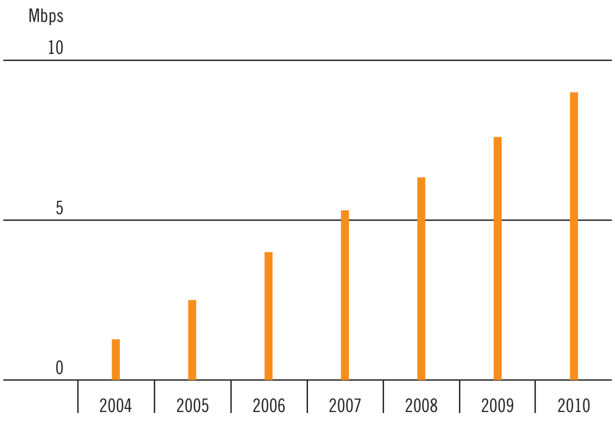
With regard to prices, the average trend for the period should see a reduction, albeit moderate. In this respect, it is important to mention that this access-only service price trend will

10. TISCALI PROCESSING

be counterbalanced by voice service sales (both CPS and VoIP) and content sales (Triple Play - IPTV) offered as bundled services.

IDC expects the bandwidth demand to grow from an average of 5.5 Mbps at the end of 2007 to almost 9 Mbps in 2010.

WESTERN EUROPE AVERAGE BAND CONNECTION 2005-2010



SOURCE: IDC, 2006

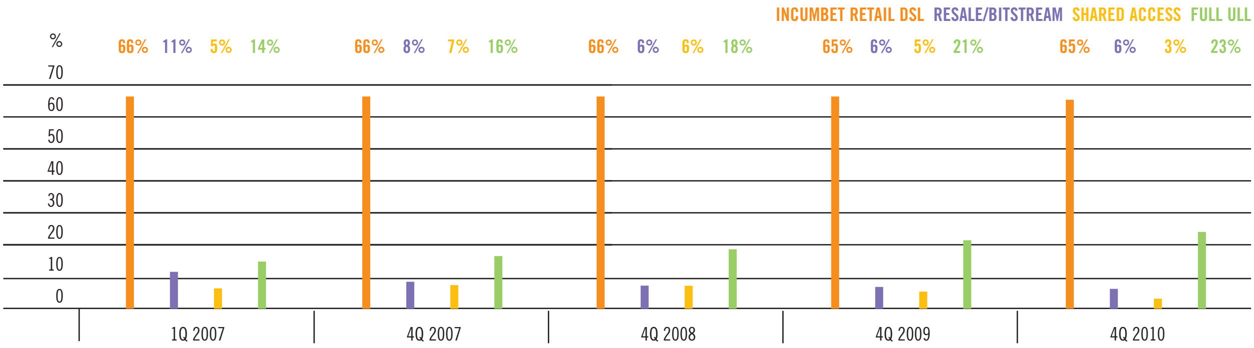
The services offered have become more attractive through quality aspects such as bandwidth availability, voice services (VoIP), music, video, content and sophisticated interaction with the customer.

The development of the *unbundling* market by alternative operators (OLOs)

Thanks to more favourable regulations and procedures for ULL, decreasing costs and growing demand for broadband access, over the last few years increasingly more operators have made infrastructural investments. Thanks to this direct access method, due to investments in infrastructures alternative operators (OLOs) such as Tiscali can achieve higher margins, greater flexibility in differentiating their range and higher customer retention, by means of favourable sales policies.
In this respect, in recent years there has been a strong development in network unbundling, to the detriment of wholesale and bitstream services.

The graphs presented below show the evolution of the *Wholesale shares*, where one can see an increase of the ULL market in Italy and the UK.

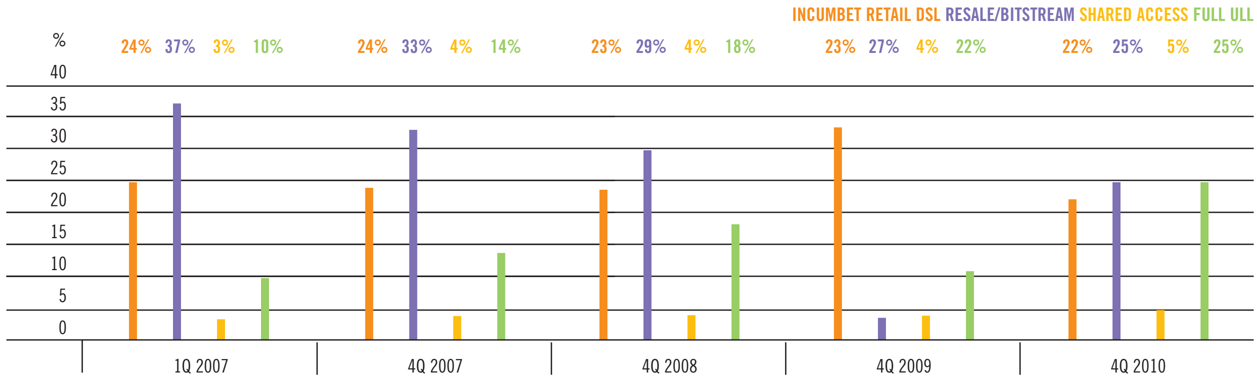
WHOLESALE MARKET SHARES IN ITALY



SOURCE: ANALYSIS, "THE COMPETITIVE DYNAMICS OF DSL IN WESTERN EUROPE: PROSPECTS FOR LOCAL LOOP AND BITSTREAM" (OCTOBER 2006)

In the UK, a pick-up is expected in unbundling coverage by alternative operators (OLOs), in the face of a market share of the *incumbent* operator already significantly lower than the European average and the Italian one.

WHOLESALE MARKET SHARES IN THE UK

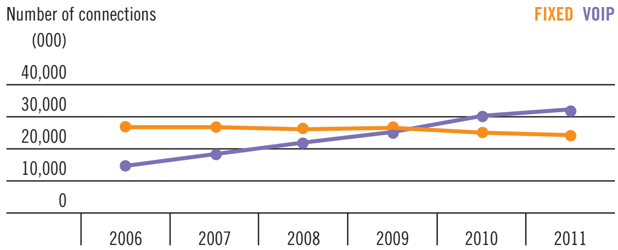


SOURCE: ANALYSIS, "THE COMPETITIVE DYNAMICS OF DSL IN WESTERN EUROPE: PROSPECTS FOR UNBUNDLING LOCAL LOOP AND BITSTREAM" (OCTOBER 2006)

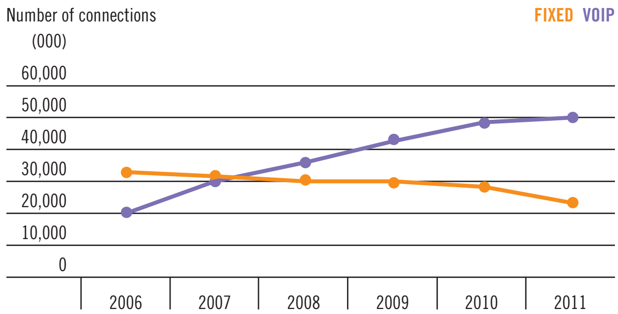
Growth in the range of integrated services: multiple play

With regard to the Voice segment, the traditional fixed telephone market is continually decreasing (6.3% in Western Europe in 2006) while IP technology telephone services by contrast continue to grow, in concurrence with *unbundling development*. In fact, it can be noted how in 2007 important growth was witnessed in VoIP[11] services by means of the integrated range of services, the so-called **double play** which flanks Internet access with the voice service.

VOICE ITALY



VOICE UK



SOURCE: TISCALI PROCESSING

In the next few years, former monopolies will need to face the erosion of traditional voice services, and the resulting drop in revenues and margins. This effect is due to growing pressure from competition following the development of new technologies, and increased regulation of the broadband market.

By supplementing the 'double play' package with TV contents as well, the '**triple play**' package is achieved, Internet access + voice + IPTV, which will become increasingly more competitive, representing a *core business* both for the incumbents and the alternative operators (OLOs), who will be able to avail of an increase in the share of expenditure in communication services by their customers. In order to offer IPTV services, it is important to have a network that provides a high-speed broadband and appropriate technological skills.

In the UK, one of the leading IPTV service providers is Homechoice. The latter is a brand of the company VNL – acquired by Tiscali in August 2006 – which has an optimum platform and an extension contents portfolio, thanks to the agreements concluded at local and international level. By means of its brand, Tiscali launched the IPTV service in the UK in March 2007 and in Italy in December 2007.

Market trends imply focus on the user for every strategy, and that competition targeted at capturing and keeping the attention of the public will intensify in the near future.

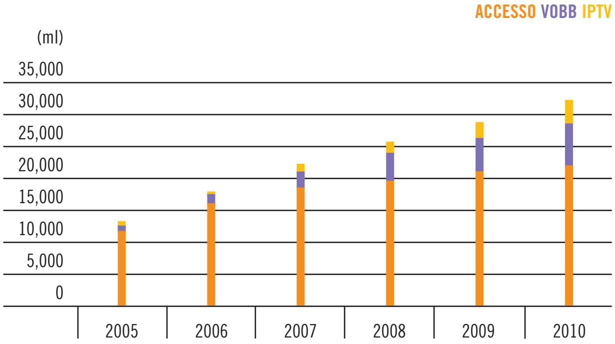
With a view to increasing ARPU and retaining customers, the operators differentiate their supply via these services. Even if, over the medium term, access will remain the most important application, operators adapt their strategies from a service access orientation to focusing on multi-play.

Tiscali's aim, by means of the changeover to 'Full Provider' of services, is to be productive and at the forefront, proposing itself as the sole provider of all the services requested by the customer via an "all-inclusive" formula, which is simple to use and innovative.

11. TISCALI PROCESSING

The graph below discloses the revenue trend in Western Europe by business segment, where one can note an exponential increase in IPTV revenues.

CONSUMER BROADBAND REVENUES IN WESTERN EUROPE BY LINE OF BUSINESS, 2005 - 2010



SOURCE: IDC DATA PROCESSING, 2006

A strategic factor with regard to IPTV is the proposal of contents and services which will be distributed and, in this scenario, the users will transform from mere consumer into "content producers and distributors". Competition in the supply of converging and integrated services – voice, Internet access and media services– will intensify, not only between the same telephone operators but also between content distributors who use other technological platforms (cable and satellite).

With regard to Internet access providers, whether they are *incumbents or OLOs*, the IPTV represents a strategy for retaining customer loyalty and reducing the erosion of the average revenue per user for telephone and pure Internet access. For the sole operators, the TV range will be complementary to the supply of voice and Internet access broadband services.

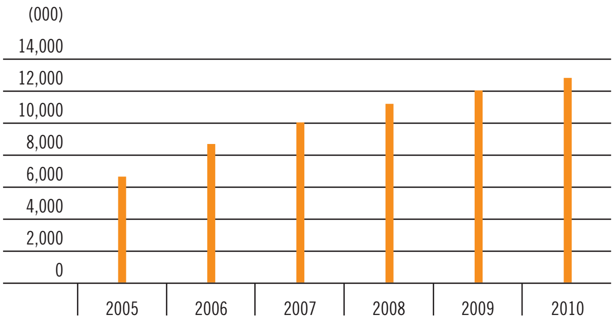
By integrating the *triple play* package with the mobile service, a new package will be created, the **quadruple play.** At the forefront with regard to products and ranges, thanks to an agreement with Telecom Italia, Tiscali also intends to complete its range of telecommunications services with a view to the supply of four types of integrated services using the IP protocol (so-called *quadruple-play*), or the integration in one or more packages of its fixed network data services offered (mail, portal, contents and value added services) with a mobile range.

The market broken down by geographic area: Italy and the UK

Italy

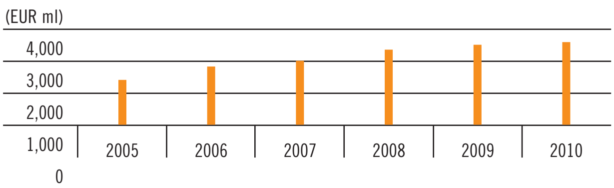
In Italy, broadband connections recorded in 2006 were about 9 million and IDC estimates that these will reach 13 million by 2010. In the same period, revenues are expected to increase by about 86%.

BROADBAND CONNECTIONS IN ITALY, 2005-2010



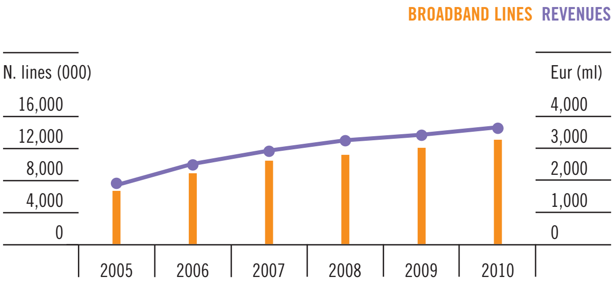
SOURCE: IDC DATA PROCESSING, 2006

BROADBAND REVENUES IN ITALY, 2005-2010



SOURCE: IDC DATA PROCESSING, 2006

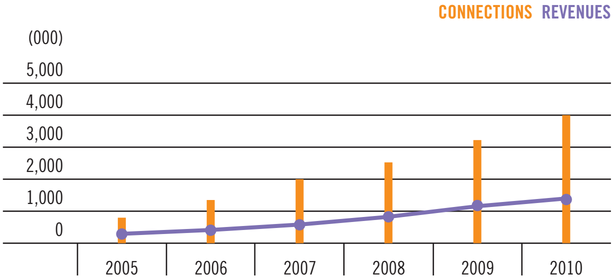
BROADBAND CONNECTIONS AND REVENUES IN ITALY, 2005-2010



SOURCE: IDC DATA PROCESSING, 2006

In Italy, VoBB services have risen within the broadband market.

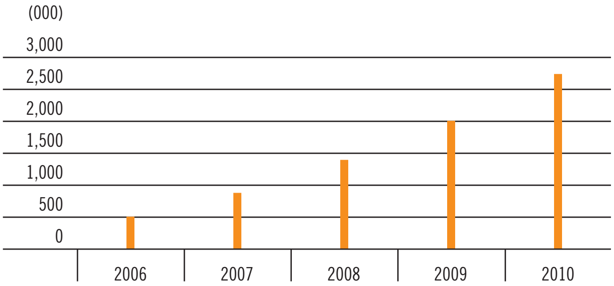
VOBB CONNECTIONS AND REVENUES IN ITALY, 2005-2010



SOURCE: IDC DATA PROCESSING, 2006

IPTV connections in Italy will increase from 0.5 million in 2006 to over 2.7 million in 2010.

IPTV CONNECTIONS IN ITALY, 2006-2010



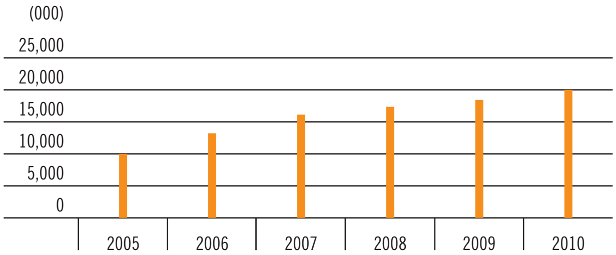
SOURCE: IDC DATA PROCESSING, 2006

At competitive level, Italy is distinguished from other European countries due to the strong position held by Telecom Italia. Telecom Italia broadband connection services are characterized by an average price higher than that applied by rival alternative operators, Tiscali included. Increased OLO development of unbundled DSL technology will lead to an unavoidable drop in Telecom Italia's market share. At the end of 2007, the Tiscali Group held about 5% of the broadband market in Italy.

United Kingdom

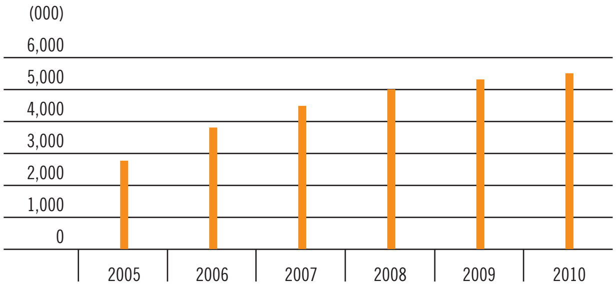
In recent years, the UK has been one of the most dynamic markets in Europe. Broadband connections recorded in 2006 were about 14 million and IDC estimates that these will increase considerably by 2010, to about 20 million. During the same time span, a rise in revenues is also expected.

BROADBAND CONNECTIONS IN THE UK, 2005-2010



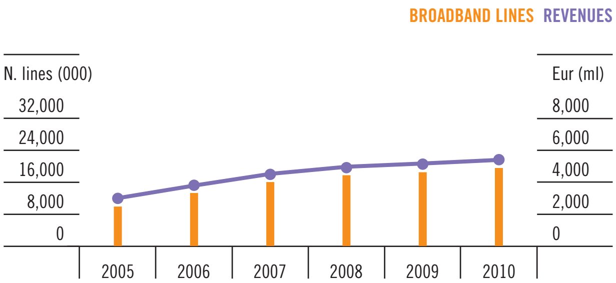
SOURCE: IDC DATA PROCESSING, 2006

BROADBAND REVENUES IN THE UK, 2005-2010



SOURCE: IDC DATA PROCESSING, 2006

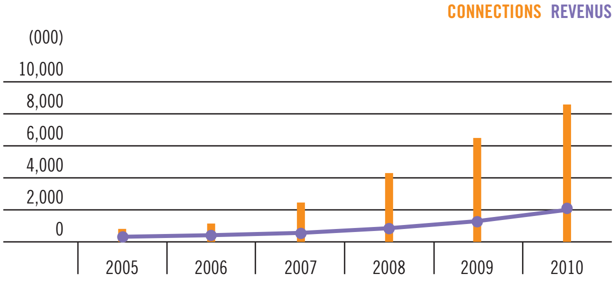
BROADBAND CONNECTIONS AND REVENUES IN THE UK, 2005-2010



FONTE: ELABORAZIONE DATI IDC, 2006

In 2006, the UK VoBB market recorded a considerable increase, with estimated coverage values at the end of 2007 of over 2 million connections (11% of broadband connections in Western Europe).

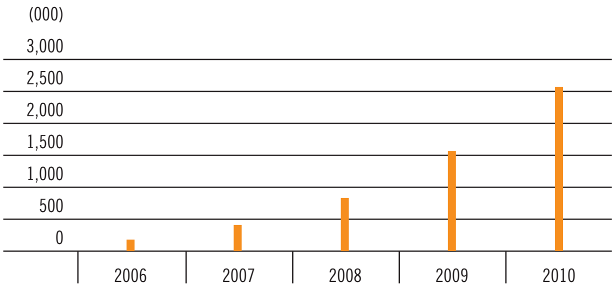
VOBB CONNECTIONS AND REVENUES IN UK, 2005 - 2010



SOURCE: IDC DATA PROCESSING, 2006

IPTV connections in the UK will increase from 0.08 million in 2006 to over 2.5 million in 2010.

IPTV CONNECTIONS IN THE UK, 2006-2010



SOURCE: IDC DATA PROCESSING, 2006

Competition on the UK market is high with regard to prices. The positive side to this competitive scenario lies in the fact that BT is the European incumbent with the lowest national market share. Over the next few years, BT is expected to lose a greater share of the market to OLOs, including to Tiscali.

Regulatory background

In Italy, the array of measures and resolutions issued by the Communications Watchdog committee (AGCOM) is in line with those introduced by the corresponding regulatory authorities of the most competitive markets in the European Union.

However, there is still the need to improve the efficacy of these measures and above all else their implementation since the incumbent operator still holds significant market power and a greater share with respect to that of its similars operating on other European markets.

In detail, with regard to the main regulatory activities introduced during 2007, the AGCOM concentrated on three focal aspects:

- Availability of new regulatory cases for the supply of communications services;
- Accountability in the supply in favour of informed choices by the users;
- Consumer protection.

Specifically, the most significant measures originated by these activities are illustrated below:

Separation of the network and development of the new generation access network (Next Generation Access Network - NGAN): for the purpose of ensuring equal and non-discriminatory treatment of the wholesale services offered by Telecom Italia to the other operators (including the Retail division of the Italian incumbent), AGCOM announced a special consultation with the aim of examining the possibility of separating the access network from the rest of the Telecom Italia organization. (*Resolution No. 208/07/CONS – Launch of public consultation on the regulatory aspects regarding the structure of the fixed access network and the prospects of the new generation broadband networks*). The bottle-neck connotation of the access network heightens with the changeover to the Next Generation Access Networks (NGAN), with the risk that we will – progressively – see a re-concentration of the end market, or rather a further restriction of the limited degree of competition guaranteed so far by the regulation of an open network. On the other hand, the need to evolve towards the NGANs affects all the fixed network operators, in all the European countries (and not only), due to the need for a change in the business models, associated with the integration processes: whether among fixed and mobile networks/services, or among telecommunication and audiovisual. On the basis of these observations, the Authority therefore started up reflection on the most efficient regulatory strategy for ensuring effective and stable competition with the fixed network markets.

Migration process between alternative operators of end customers: this is another important measure within the regulatory sphere by AGCOM. Resolution No. *274/07/CONS – Amendments and integrations to resolution 4/06/CONS: Activation, migration and termination methods in access services* – it permits the customers of an alternative operator (OLO) to choose another without necessarily going back to being a Telecom Italia customer. The end customer is also provided with the possibility of directly contacting the new operator (*recipient*) who will take steps to forward the documentation to the old Operator (donating) and reduce the duration of the migration procedures also in order to *assimilate the matters established by Italian Law No.* 40/2007 (so-called "Bersani" law) *"Urgent measures for the protection of consumers, the furthering of competition, the development of economic activities and the creation of new companies". The measure was defined at the end of 2007, even if for operative purposes it will be introduced at the end of the first half of 2008.*

Reverse termination: by means of *Resolution No.. 417/06/CONS Markets for the collection, termination and transit of calls on the fixed public telephone network, assessment of the existence of significant market power for the companies operating therein and regulatory obligations which the companies who avail of such power are subject to (markets No. 8, 9 and 10 among those identified by the recommendation on significant markets of products and services of the European Commission)* – the AGCOM acknowledged the principle of the *asymmetry in the application of the reverse termination tariffs* on voice calls which are terminated on the networks of alternative operators (OLOs). A fixed tariff has therefore been introduced, based on the costs incurred on average by the operators, and a corresponding gliding path which will gradually reduce over the years. The operators have also been authorized to request a higher starting value in the event that the costs incurred are greater with respect to the reference value identified.

Consumer protection and quality of the services: AGCOM has introduced various measures for increasing the accountability of the telecommunications market and protecting the end users. By way of example, these include *Resolution No. 126/07/CONS Measures protecting the user base so as to facilitate the comprehension of the economic conditions for telephone services and the choice between the various offers present on the market* and *Resolution No. 418/07/CONS – Provisions concerning transparency of the telephone bill, selective call blocking and protection of the user base.* A number of indications relating to the quality of the services have also been made mandatory for the voice services and for the broadband services and must be published periodically by the operators together with a detailed description of the services offered. These measures reinforce and complete those of Italian Law No. 40/2007 (so-called "Bersani" law) which imposed a series of restrictions on operators, eliminating unjustified costs charged to the users and imposing obligations aimed at reducing administrative delays.

Mobile Virtual Network Operators (MVNO) The Italian MVNO market may potentially grow in the future thanks to the first agreements signed during 2007 and the moral suasion action exercised by AGCOM (together with the measures of the Antitrust Authority). In detail, this will permit the fixed network operators to access new markets and offer convergent and innovative telecommunications services. Tiscali entered into an MVNO agreement with Telecom Italia in July 2007 and will launch its own service within the first half of 2008.

Broadband Wireless access technologies (in particular WiMAX): By means of Resolution No. *209/07/CONS Procedures for the awarding of frequency usage rights for Broadband Wireless Access (BWA) systems in the 3.5 GHz band* – AGCOM established tender procedures for the awarding of the broadband wireless frequencies. Those awarded the contracts will have the possibility of providing broadband access and related services using Wireless technology, mainly the WiMax system. The authorization granted will have a validity of fifteen years and may be renewed.

Wholesale Line Rental (WLR) On 31 October 2007, by means of Resolution No. 114/07/CIR AGCOM approved Telecom Italia's reference offer for 2007 for the Wholesale Line Rental (WLR) service. By means of this new offer for access services, the alternative operators can provide the POTS and ISDN voice service (solely in the area not open to unbundled access – ULL) involving the exclusive administrative management of the customer. In essence, at the time of subscribing to the new service with an Alternative operator (OLO), the user interrupts all dealings with TI (and stops receiving a Telecom Italia bill). The line rental which used to be paid to Telecom Italia, will be paid under wholesale by the Alternative operator to the *incumbent*.

Bitstream service supply: By means of *Resolution No. 249/07/CONS Formalities for achieving the supply of bitstream services in pursuance of resolution No. 34/06/CONS,* AGCOM established the principles on which Telecom must base the new type of wholesale broadband Internet access product. Besides the greater flexibility for the alternative operator (OLO) when configuring the services to be offered to the end customer, the main difference with respect to the previous wholesale ADSL product also involves a substantial reduction in costs (the new Bitstream product is based on the principle of cost orientation, while the previous product was based on the "retail minus" principle). With the old wholesale ADSL product it was also only possible to repeat the technical profiles present in the Telecom Italia commercial range.

With regard to the UK telecommunications market, the following activities were implemented by the local watchdog committee OFCOM:

Broadband

- On 15 November 2007, Ofcom published the results of the second consultation relating to the review of the wholesale broadband Internet access market in the UK. Ofcom proposes to deregulate the most densely populated areas of the country, covering the investment areas under Unbundling Local Loop (unbundled access). Ofcom is the first national regulatory watchdog for telecommunications in the EU to propose the definition of sub-national geographic markets for wholesale broadband access in areas where the national operator British Telecom (BT) no longer holds significant market power. The watchdog maintains that, thanks to the regulation of the wholesale access points (ULL and bitstream), competition is developing in the UK with alternative operators who make increasingly heavier investments in their own networks and in connections to the local line of the incumbent operator.

- In February 2007, Ofcom introduced the so-called "General Condition 22", commencing a rigid legislative regime relating to the formalities for the migration of users between operators. All this was accompanied by greater attention towards the irregularities in the sales processes, the specification relating to the services offered as well as to the advertising promoting marketing thereof. Consumer protection became the leading priority for Ofcom.

TV

- Following the conclusion of a survey into the impact in competitive terms of the purchase by Sky of 17.9% of ITV, the Government issued its decision indicating that the broadcaster must dispose of the majority of its shareholding. Ofcom called a consultation on Sky's plans relating to the launch of premium pay TV on the digital land-based platform in the UK.

- Ofcom carried out a market survey into pay TV in the UK, further to pressure from several parties who complained of significant market power in the hands of Sky. The provisional conclusions of the first consultation indicated Sky as in a dominant position on wholesale and retail markets relating to premium films and sporting contents. The remedies adopted in this connection still have to be discussed and Ofcom will commence a new round of talks during 2008.

- Following an assessment on the possible market effects, the BBC Trust approved the plan for launching BBC iPlayer. The potential overloading of the network as a result of the circulation of videos containing third-party audiovisuals was debated publicly, without reaching any conclusions capable of preventing possible overloading problems or assessing the potential impact on users.

New Generation network

- Ofcom introduced a pilot scheme for the installation of fibre optics in new building projects. Ofcom called a consultation on the regulation policy relating to new generation access and will publish its findings by the end of 2008.

- An intersectorial group has been created for the purpose of transforming the sub-loop unbundling (unbundled access to the local sub-network) into a feasible product, after the OTA was appointed to see to the operating aspects of the regulatory redress.

- The project for BT's 21st century network has met with difficulties and many changes have been made to the plans, the activities and the envisaged deadlines. The new wholesale products based on the new generation network have created many problems, in terms of equivalence and observance of the undertakings taken on by BT. These problems will be dealt with via an Ofcom project during 2008.

Other aspects

- In November, Ofcom published new regulations on number portability, laying down the introduction of a common database, and substantially improved the service level vis-à-vis the consumers introducing additional obligations for UK providers.

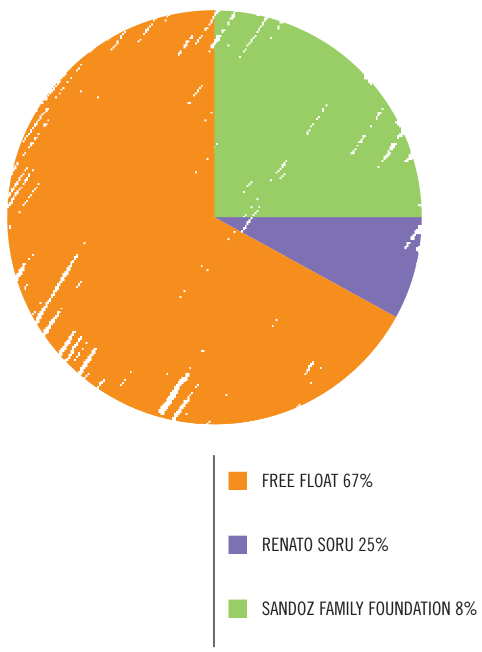
- Ofcom called a consultation on the new SLA (Service Level Agreement) and SLG (Service Level Guarantee) standards of Openreach during a project which aims to improve performance and encourage improvement. The project continues with a review of the financial structure during 2008, which envisages the review of the prices and the regulation relating to unbundled access and WLR (Wholesale Line Rental).

Tiscali shares

Tiscali shares have been listed on the Italian Stock Exchange (Milan:Tis) since October 1999. At 31 December 2007, market capitalization came to EUR 764 million, calculated on the value of EUR 1.80 per share as at 28 December 2007.

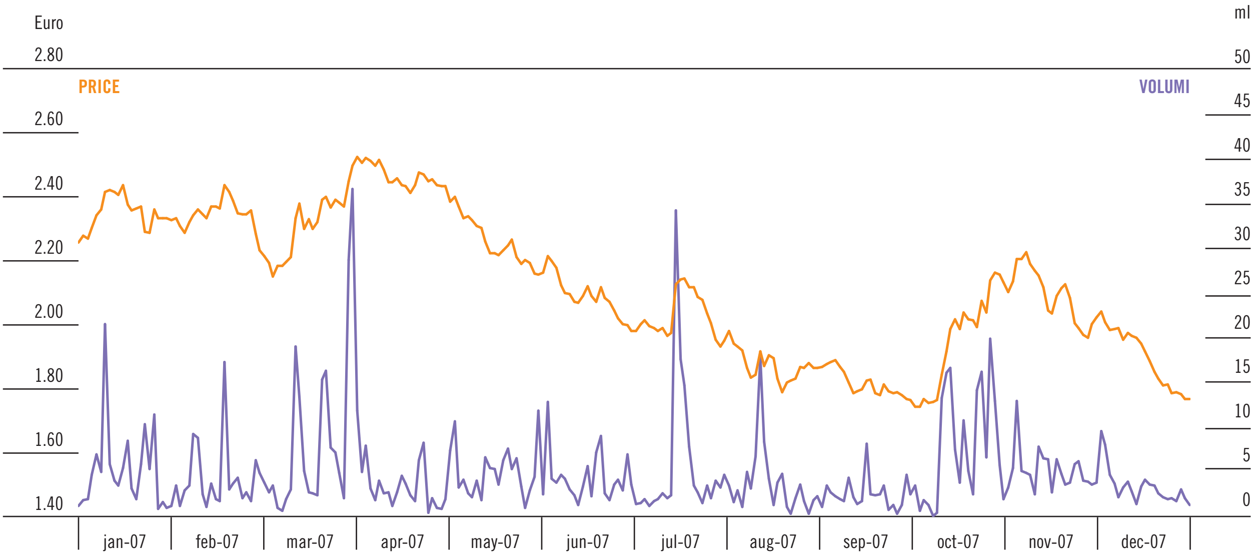
On 31 December 2007, the number of shares representative of the Group's share capital came to 424,413,163. Following the share capital increase during the first few months of 2008, involving the issue of 149,792,880 new ordinary shares, the number of shares representative of the share capital came to 574,206,043 at 28 February 2008.

Tiscali's shareholder base at 31 December 2007 is illustrated below:



At stock market level, we can identify three main phases in Tiscali share performance during the accounting period ended at 31 December 2007. During the first part of the year, until April, the stock achieved a daily average of EUR 2.4. In the following period, until October, price volatility was seen, attributable to sector-related and speculative dynamics. In the month of October, until the first few days of December, the stock underwent a change in direction and was bullish. The stock closed 2007 with a value of EUR 1.80.

The graph below illustrates Tiscali stock trends and volumes traded in 2007:

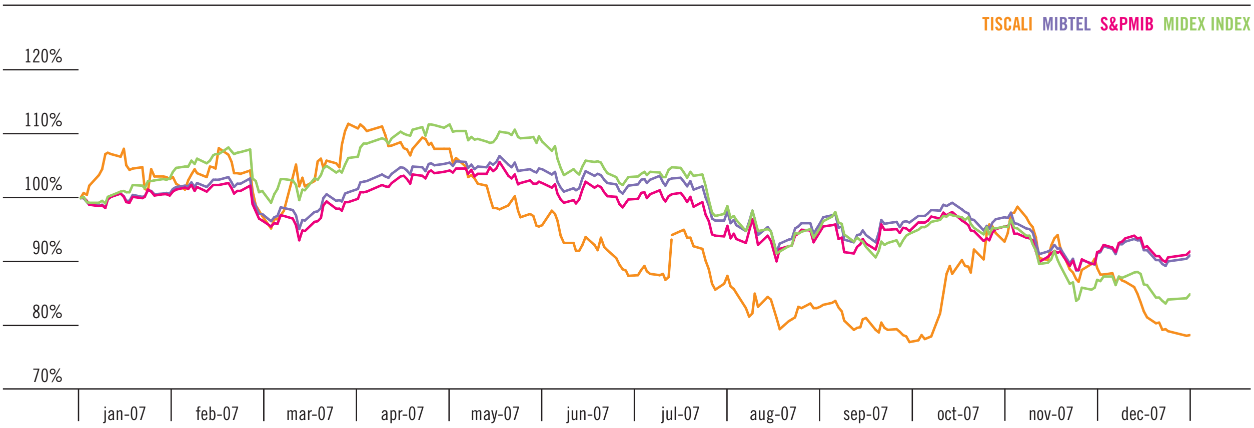


SOURCE: BLOOMBERG DATA PROCESSING

The average price for the period was EUR 2.15. The maximum price of EUR 2.54 for the period was recorded on 30 March, and the minimum of EUR 1.77 on 28 September 2007.

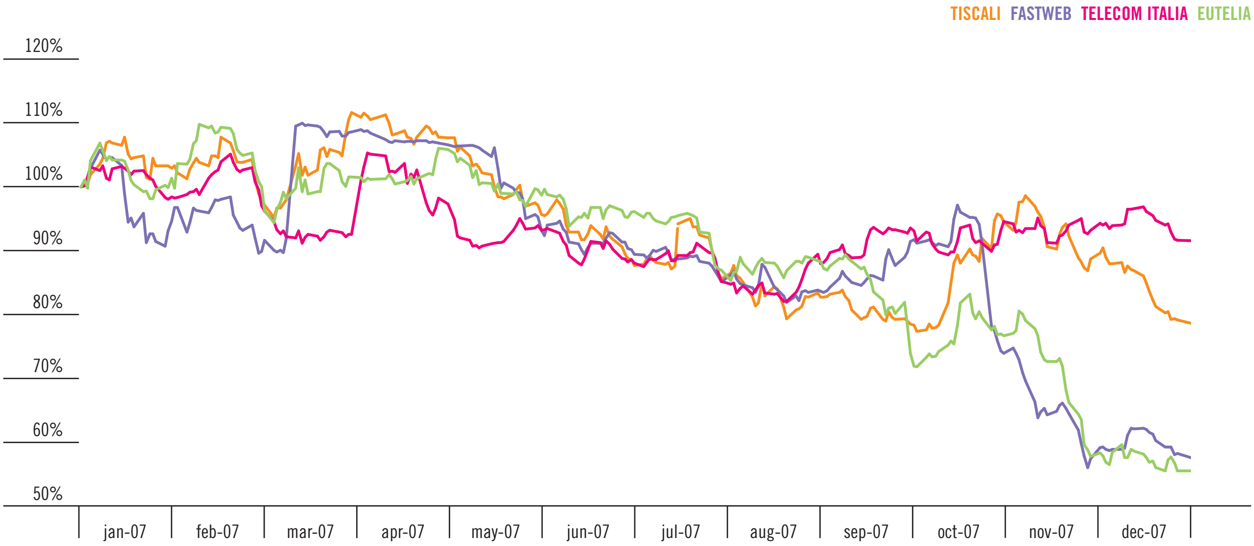
In comparison with market indexes, Tiscali stock shows a trend in line with the three reference indexes - S&PMIB, MIBTEL and MIDEX - in the first and last months of the year, whilst stock performance is recorded as below the performance of these three indexes in the June-October period.

The graph below illustrates Tiscali stock trends in comparison with market indexes:



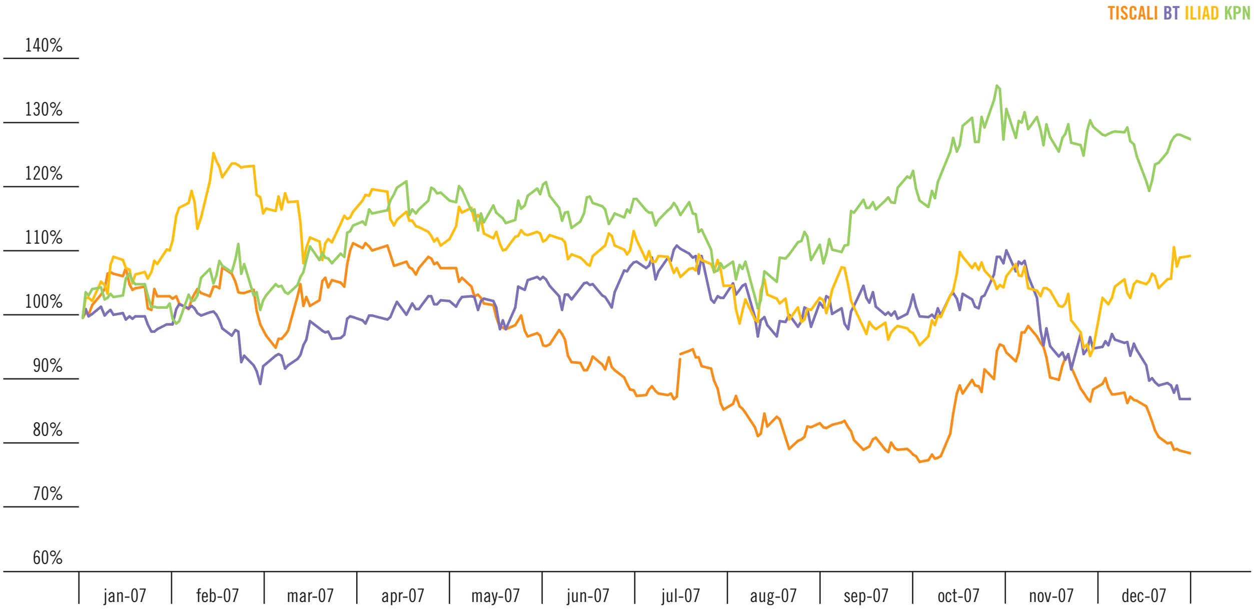
SOURCE: BLOOMBERG DATA PROCESSING

Tiscali stock trends are in line with those of its Italian competitors.



SOURCE: BLOOMBERG DATA PROCESSING

At European level, Tiscali stock performance was better than BT's during the first half of the year, involving performance under that of its competitors between June and November. In the last month of the year, there was slowdown in market performances. This is illustrated by the graph below.



SOURCE: BLOOMBERG DATA

Volumes stood at a daily average of about 5.9 million items, with a daily average trade value of EUR 12.6 million.

AVERAGE TISCALI STOCK TRADING ON THE ITALIAN STOCK EXCHANGE IN 2007

DATE	PRICE* (EUR)	N° OF SHARES
January	2.368	6,184,082
February	2.366	5,364,988
March	2.342	9,752,282
April	2.484	4,371,930
May	2.294	5,979,781
June	2.115	5,442,425
July	2.050	6,490,395
August	1.895	4,636,873
September	1.834	3,659,767
October	2.014	8,812,052
November	2.093	6,167,702
December	1.896	3,732,054
Average	**2.146**	**5,882,861**

(*) Prices adjusted due to the share capital increase in February 2008

Significant events during the financial year

2007 was a year of industrial growth, both systematic and via external lines, involving the acquisition of Pipex in the UK, and of profound and consequent change in the financial structure. The Group in fact raised a new bank loan for EUR 650 million to finance the afore-mentioned acquisition and to re-finance the outstanding bank borrowing with long-term facilities. Part of the loan has already been repaid by means of a share capital increase transaction for around EUR 150 million, resolved during 2007 and concluded in 2008 (also see the section on "Events subsequent to the end of the financial year"). The main events during the financial year are listed below, in chronological order.

Disposals of activities

- **Disposal of activities in Germany** On 31 January 2007, Freenet AG acquired Tiscali's consumer narrowband and broadband customers in Germany. On 5 February 2007, Tiscali disposed of the B2B activities in Germany to Ecotel Communication AG. The cash receipts from disposal of the B2C and B2B assets in Germany totalled around EUR 45 million.

- **Disposal of activities in the Netherlands** 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 EUR 248.5 million. Net of the repayment of intercompany payables for around EUR 12.5 million, the final payment for the disposal came to EUR 236 million.

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

Launch of the Tiscali TV service in the UK and Italy

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 service, active as of 1 March, will reach the entire Tiscali UK ULL network by the end of 2008 – at GBP 19.99 per month for the triple play option – and reflects Tiscali philosophy whereby TV complements the broadband access and voice services, giving users a premium content option in addition to the basic package.

In December, Tiscali Italia launched the service in three cities – Rome, Milan and Cagliari, with the aim of extending it to the whole of Italy during 2008.

Sale & lease back transaction

In the month of February 2007, Tiscali Group made known to have carried out the so-called sale & lease back transaction concerning the building located in Cagliari, with the headquarters of the group. By means of such operation, the ownership of the building was transferred to a pool of lenders with call option at the end of the lease. The pool of lenders was made up of Centro Leasing, Intesa Leasing and Locat; the trade value of the transaction was EUR 61.2 million. Tiscali Group kept the building available for lease for the next fifteen years, with a rent calculated on the basis of an annual rate of about Euribor + 140 basis points. Net of the repayment of the mortgage loan existing on the building and other accessory charges, the transaction generated resources equalling about EUR 30 million for the Group.

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 EUR 2.763. On the basis of the agreements between the Company and Tommaso Pompei consequent to the latter's relinquishing of his powers during the Board Meeting held on 27 and 28 February 2008, the options assigned to Tommaso Pompei are understood to be exercisable for the full amount resolved according to the terms envisaged by the regulations. As a result of the adjustment mechanism relating to the share capital increase, the exercise price for the options allocated to Tommaso Pompei currently stands at EUR 2.477 per share.

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 EUR 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. On 27 and 28 February 2008, the Board of Directors resolved to adjust the exercise price of the options allocated to the employees by means of the application of a ratio of 0.896756, identical to that published by Borsa Italiana on 11 January 2008 which was used to adjust the option and futures contracts on Tiscali shares consequent to the share capital increase for around Euro 150 million concluded on 22 February 2008. The exercise price for the options allocated to the employees therefore currently stands at EUR 2.132 per share.

The aim of the plan is to align the interests of management with the creation of value for the Tiscali Group and its shareholders, thereby encouraging the achievement of the strategic objectives.

The aforesaid plan, meant for the Italian management of Tiscali Group, goes together with the remuneration plan based on shares, allocated to the English management of the Group in 2007. Such plan provides for the allocation of a certain number of options to 20 English managers; those options may be converted into shares of the subsidiary Tiscali UK Ltd, and their number must not exceed 5% of the share capital of such company, net of the dilution.
The exercise price must be fixed on the basis of the equity value of the English subsidiary, at the time of their allocation. Those options will mature in a three-year period starting from the allocation, and may be exercised for ten years, still from the allocation date.

Acquisition of the Pipex broadband and voice division

On 13 July 2007, Tiscali and Pipex Communications Plc 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 EUR 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 EUR 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 EUR 650 million granted by IntesaSanPaolo and JP Morgan.

Raising of a new loan and partial repayment using a share capital increase

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

The credit facility of EUR 650 million (of which EUR 600 million disbursed) essentially replaced the previous loan with Banca Intesa SanPaolo (for EUR 280 million) and with Barclays (for around EUR 53 million), and financed the acquisition of Pipex.

This total amount was reduced by means of recourse to a share capital increase approved by Tiscali's shareholders' meeting on 31 August 2007, concluded on 22 February 2008.

It is also envisaged that the loan of around EUR 400 million may also be replaced by means of recourse to market debt instruments. If the market debt transaction does not take place by September 2008, the bridging loan will transform into a long-term payable falling due on 13 September 2014. The credit facility of EUR 50 million already disbursed, and that made available, will both fall due in September 2011.

Approval of the 2008-2012 Business Plan

On 26 November 2007, the Company's Board of Directors approved the 2008-2012 business plan which outlines the new strategic approach and the financial targets of the Tiscali Group and its subsidiaries in Italy and the UK. In detail, the business plan aims to (i) enhance the Group's competitive position, (ii) maximize the creation of value over the short/medium-term and (iii) guarantee further infrastructural and service developments which will make it possible to compete within more complex market scenarios.

Redefinition of the area of the activities in Italy

As part of the process aimed at simplifying the Group's legal structure and achieving greater operating efficiency, on 26 November 2007 Tiscali's Board of Directors approved the merger of Tiscali Italia S.p.A. and Tiscali Services S.p.A..

Therefore, as at 6 December 2007 Tiscali S.p.A. transferred the entire share capital of the subsidiary Tiscali Services S.p.A. to the subsidiary Tiscali Italia S.p.A. at the company's shareholders' equity value at 31 October 2007 equating to EUR 29,461,116.00 and (ii) subsequently, on 10 December 2007, the boards of directors of Tiscali Italia S.p.A. and Tiscali Services S.p.A. authorized the approval of the project for the merger through incorporation of Tiscali Services S.p.A. within Tiscali Italia S.p.A. It is envisaged that the merger deed will be drawn up during the first few months of 2008, and will have a retroactive effect as at 1 January 2008.

Launch of the new marketing campaign in Italy and choice of a testimonial

In November 2007, Tiscali launched a new marketing campaign in Italy choosing a testimonial for the first time, the actor Ezio Greggio, with the aim of promoting the Tiscali Italia dual play option, comprising joint voice and ADSL products, and of representing the brand image by means of an entirely new communications format. The market response has been extremely positive, permitting Tiscali to significantly increase the number of new customers signing up for its services.

Subscription by Management & Capitali of a convertible bond issue

On 27 December 2007, the company Management & Capitali subscribed a bond for EUR 60 million convertible into newly-issued Tiscali S.p.A. shares. On 21 December 2007, Tiscali's extraordinary shareholders' meeting approved a share capital increase with exclusion of the purchase option pursuant to Article 2441.4.2 of the Italian Civil Code, for up to a maximum of 42,441,316 Tiscali shares, reserved for the conversion of this bond.

The convertible bonds, which have a five-year duration as of the date of the shareholders' meeting, bear interest at 6.75%, which will be paid on maturity or before maturity if the bond is converted, partially or otherwise. The issuer has the faculty to opt for the payment of the interest in cash instead of shares, in observance of the limits of the above senior loans. The conversion price was originally established as EUR 2.7 per share, subsequently adjusted in order to take into account the dilution of the share capital to EUR 2.42 per share. The bonds will not be converted within the first year of their issue, without prejudice to the mandatory conversion clause described below. The instrument also envisages the faculty of early repayment by the issuer in the first two years and in certain cases (such as, for example, the change of control), M&C has the right to request the early reimbursement of the instrument at par for the entire duration of the loan.

The number of shares serving the principal of the bond issue, in the event of conversion, by M&C before maturity and subsequent to the adjustment of the conversion price, amounts in total to approximately EUR 24.8 million (around 4% of the Company's capital before the execution of the share capital increase under option). In the event the bonds are not converted over the duration of the bond issue, M&C will receive a number of Tiscali shares on maturity – valued on the basis of the simple average of the official price of the same in the 20 days prior to maturity – so that it can repay the value of the capital at par plus the accrued interest, but in any event no higher than the current 10% of Tiscali's share capital (corresponding to around 42.4 million shares).

The bond issue regulations also envisaged that if, before the maturity of the bonds, the average of the Official Prices (calculated with reference to the 20 days beforehand) is equal to or lower than the value of the capital plus the accrued interest divided by 42.4 million shares for five consecutive stock market days, the loan will be automatically and by way of obligation converted into the entire amount of shares indicated above, in the event the issuer does not opt for the payment of the interest in cash.

Agreement with Telecom Italia for the supply of mobile telephone services and for virtual unbundling

On 27 July 2007, Tiscali and Telecom Italia entered into a preliminary agreement which will permit Tiscali to become a mobile virtual network operator. Thanks to this agreement, Tiscali aims to complete its package of telecommunication services in a perspective of Quadruple Play with the further aim of integrating its own fixed network data services (mail, portal, contents and added value services) with a mobile telephony product.

As part of the plan for expanding the network, the sale was launched as from November 2007 of VULL (Virtual Unbundling Local Loop) services; this is a service which applies to newly activated lines under unbundling pending the physical creation of location sites. Tendentially, the VULL will be replaced as soon as possible by physical unbundling.

As a result of an agreement with Telecom Italia, Tiscali has been able to start up the marketing of its services on more than 1,000 sites – equating to around 13 million lines, or coverage of around 50% - , from as early as the end of 2007. On a parallel, the creation of the physical network was started with the aim of directly reaching approximately 800 sites at the end of 2008 and, if economically advantageous, around 1,000 sites in 2009.

Analysis of the Group economic, Equity and financial position

Foreword

The accounting period ended at 31 December 2007 saw the consolidation of the Tiscali Group in the geographic areas of Italy and the UK, where product and infrastructural investments were concentrated. Furthermore, the acquisition of Pipex's broadband and voice division was concluded on the UK market, and consolidated as from September 2007, bearing witness to the desire to expand on the UK market.

Tiscali Group revenues during 2007, relating to the activities in Italy and the UK and those of certain minor subsidiaries (including Tinet), which include Pipex's broadband and voice division as from 13 September 2007, amounted to EUR 910.9 million, up by 34% on an annual basis. The systematic growth, net of the Pipex acquisition, came to around 18% on an annual basis.

The gross operating result (EBITDA) came to EUR 161.4 million, in line with plan targets and up by 61% when compared with 2006. Net of Pipex's contribution, the systematic growth of the Group EBITDA in 2007 came to 50%.

ECONOMIC POSITION

CONSOLIDATED INCOME STATEMENT EUR 000	2007	2006	CHANGE	CHANGE %
Revenues	910,969	678,481	232,488	34%
Other income	5,652	3,685	1,967	53%
Purchase of materials and outsourced services	651,144	498,389	152,755	31%
Payroll and related costs	97,166	77,883	19,283	25%
Other operating costs	6,885	5,472	1,413	26%
Gross operating result (EBITDA)	**161,426**	**100,422**	**61,004**	**61%**
Writedowns of receivables from customers	27,332	15,394	11,938	77%
Stock option plan costs	11,697		11,697	100%
Gross operating result net of receivable writedowns and stock option plan costs	**122,397**	**85,028**	**37,369**	**44%**
Restructuring costs, provisions for risk reserves and writedowns	40,101	45,013	(4,912)	11%
Amortization/depreciation	162,744	130,095	32,649	25%
Other atypical (Income) charges	-	(77,229)	-	-
Operating result	**(80,448)**	**(12,852)**	**(67,596)**	**-526%**
Portion of results of equity investments carried at equity	(10)	(937)	927	99%
Net financial income (Charges)	(72,802)	(29,741)	(43,061)	145%
Other net financial income (charges)	(17,881)	(21,985)	4,104	19%
Pre-tax result	**(171,141)**	**(65,515)**	**(105,626)**	**161%**
Income taxes	17,305	5,851	11,454	196%
Net result from operating activities (on-going)	**(153,836)**	**(59,664)**	**(94,171)**	**-158%**
Result from assets disposed of and/or destined to be disposed of	78,511	(76,950)	155,461	202%
Net result	**(75,324)**	**(136,614)**	**61,290**	**45%**

Revenues by country

GEOGRAPHICAL BREAKDOWN OF REVENUES

* THE ITEM 'OTHER' INCLUDES REVENUES FROM TINET AND OTHER MINOR SUBSIDIARIES.

Italy

Tiscali Italia S.p.A., the Italian subsidiary responsible for all Tiscali Group business operations in Italy, recorded revenues of EUR 277.7 million in 2007, compared to the EUR 217.5 million in 2006, disclosing a 28% increase. In detail, revenues pertaining to Internet access services via broadband (A DSL) amounted to EUR 101.8 million, compared with EUR 73.3 million in 2006 (an increase of around 39% on annual basis). Of this figure, approximately 30% was generated from direct customers, i.e. those linked to the Tiscali network infrastructure (ULL). 2007 also saw persistent development in the revenues item which, also driven by VoIP services (over EUR 33 million in revenues in the period), exceeded EUR 70 million (EUR 73.9 million, compared to the EUR 40.9 million in 2005, involving an increase of around 80%). This rise in sales revenues is attributable to the increase in Tiscali customers who have signed up for dual play services, i.e. joint telephone and broadband Internet access options, and the consequent growth in ARPU. Retail ARPU, inclusive of narrowband, broadband and voice services, rose from EUR 14 in 2006 to EUR 21 in 2007, disclosing growth of 50%.

In 2007, the dynamics of the Tiscali customer base in Italy were characterized by a net increase of over 120,000 new ADSL customers, bringing the total customers for that service to over 552,000 (a 28% increase with respect to the end of the previous year), of which around 331,000 are already active and linked to the Tiscali network infrastructure (*unbundling*). Customers who during the year signed up for the dual play services option nearly doubled (data and voice via Internet), passing from around 80 thousand at 31 December 2006 to more than 170 thousand.

The customer base which uses dial-up (narrowband) Internet access and voice (CPS) services, despite the market decreasing on a general basis, remained significant (around 527,000 customers, of which more than 140,000 CPS voice customers).

The network coverage at 31 December 2007 in Italy included around 490 full unbundling sites and 650 "virtual" unbundling sites (see section "Significant events during the financial year") for a total of around 1,140 sites, involving coverage of approximately 50% of the fixed lines.

United Kingdom

There was a sharp acceleration in growth during 2007 for the UK, partly as a result of the acquisition of the Pipex broadband and voice division in the UK, with around 500,000 DSL customers and more than 350 thousand voice customers.

Tiscali UK, therefore inclusive of Pipex which was consolidated as from 13 September 2007, generated revenues during 2007 for a total of EUR 608.7 million, an increase of 37% when compared with 2006 (revenues totalling EUR 445.2 million). Without considering the Pipex contribution (amounting to EUR 114.9 million), systematic growth on an annual basis when compared with 2006 would have been around 11%.

Such performance is both the result of growth in the ADSL access services segment (EUR 370.6 million during 2007, compared with a figure of EUR 284.6 million in 2006, disclosing an increase of 30%) and, above all else, the rise in voice and DSL services (bundled options). These services generated revenues for EUR 155.1 million, more than double with respect to the EUR 70.4 million in revenues generated in 2006. The increase in revenues is linked to the rise of retail ARPU, inclusive of narrowband, broadband and voice services which rose from EUR 20 in 2006 to EUR 28 in 2007, involving growth of around 40%.

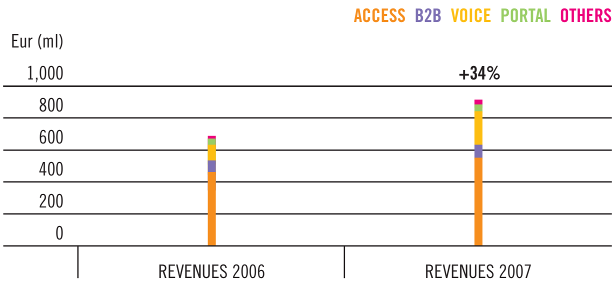
As a result of the acquisition of Pipex, net of Pipex customers already present on the Tiscali UK network infrastructure, during 2007 the customer base disclosed a significant increase: ADSL users acquired came to more than 400,000, reaching a total of 1.829 million at 31 December 2007. In detail, an increase was seen in the retail base of more than 450 thousand units, along with a reduction in the wholesale base of around 50 thousand units. Increases in customers linked directly under ULL were extremely significant (passing from around 350 thousand at 31 December 2006 to about 640 thousand) as were those for customers signing up for dual play services (who reached a quota of 787 thousand, up by 40% when compared with the figure at 30 September 2007).

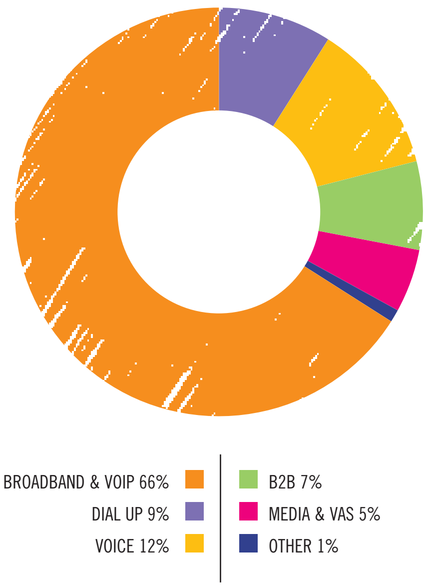
Network coverage at 31 December 2007 in the UK included around 800 unbundling sites (of which 760 full unbundling and 630 capable of offering IPTV services), involving market coverage of around 55%.

Revenues by business segment

Distribution of revenues by business segment and access method

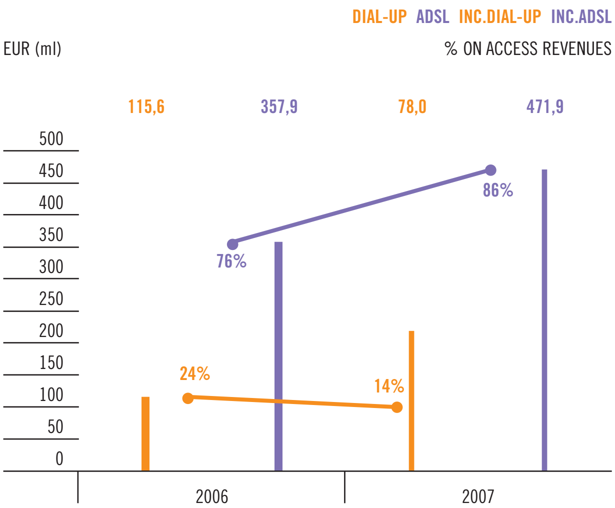
REVENUES BY BUSINESS LINE





Access

ACCESS REVENUES

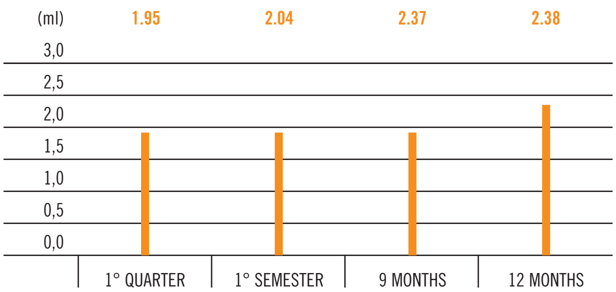


The segment in question, including revenues from Internet access services via narrowband (dial-up) and broadband (ADSL), in 2007 generated revenues of EUR 549.9 million, representing 60% of total Group revenues for the quarter and showing a 16% increase over the same period in 2006 (EUR 473.5 million). The figure takes into account the decrease in narrowband revenues (EUR 78.0 million in 2007 compared with EUR 115.5 million in 2006) due to the migration of dial-up users towards broadband services.

If, in fact, we analyze just ADSL revenues, we can see that the rise in revenues in 2007 when compared with 2006 came to around 32% (EUR 471.9 million in 2007 compared with EUR 357.9 million in 2006). The increase in retail ARPU (inclusive of narrowband services) was significant, rising from EUR 17 in 2006 to Euro 26 in financial year 2007, up by around 53%.

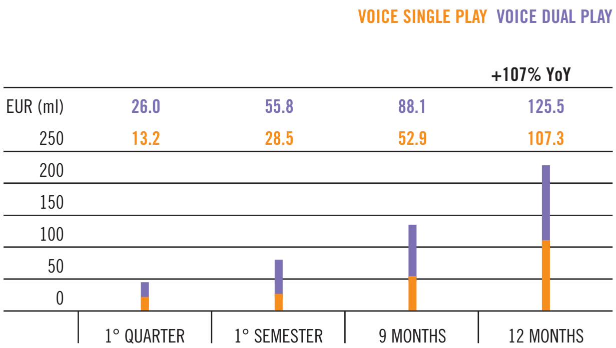
The ADSL services customer base acquired during 2007 was over 527 thousand, bringing the total customers accessing this service to over 2,382 million, 974 thousand of whom are already direct customers, i.e. connected via the Tiscali ULL network.

ADSL CUSTOMERS IN 2007



Voice

VOICE REVENUES TRREND IN 2007



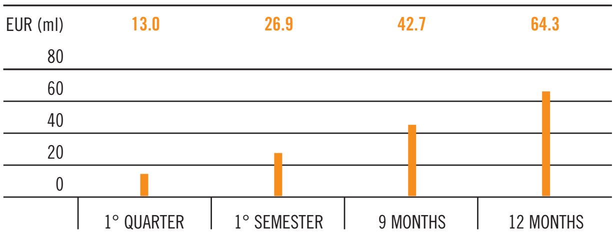
The revenue line linked to voice services includes both the telephone single play option and the dual play option, i.e. offered jointly with Internet access services, consistent with

Tiscali's strategy of posing itself as supplier of integrated telecommunications services with Internet access services.

The voice segment was the one which during 2007 saw the greatest growth, passing from EUR 112.2 million in 2006 to EUR 232.8 million in 2007 (+ 107%); such growth was essentially attributable to the dual play services which rose from EUR 32.1 million in 2006 to EUR 125.5 million in 2007, representing 54% of total voice revenues (+ 290% on an annual basis).

Business services

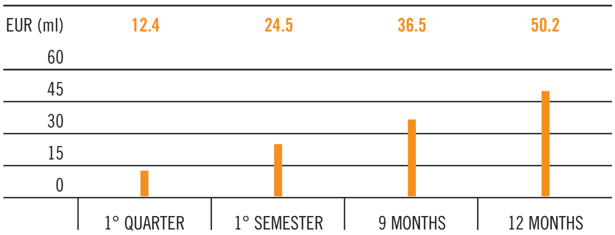
BUSINESS SERVICES TREND IN 2007



Revenues from business services (VPN, housing, hosting services, domains and leased lines, etc.), therefore excluding those from access and voice products for the same customer base which are included in their respective business segments, amounted in 2007 to EUR 64.3 million (a 45% increase over the EUR 44.4 million of 2006). The business segment results in part reflect a stronger strategic focus placed on access and voice products by the Tiscali Group during the year.

Media and VAS – Value Added services

MEDIA AND VAS SERVICES IN 2007



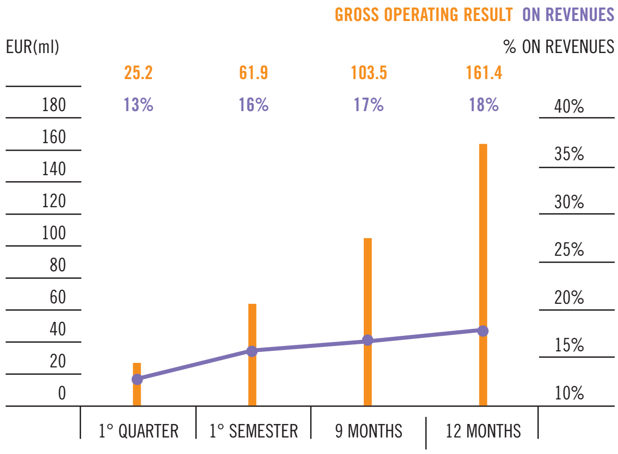
During 2007, revenues for this segment amounted to EUR 50.2 million, up by 19% when compared with 2006 (EUR 42.0 million); such growth was linked to the pick-up in the on-line advertising market, in part associated with the partnership with Google.

Gross Operating Result (EBITDA)

The Gross Operating Result in 2007, before provisions to risk reserves, stock option plan costs, Pipex operating costs (regarded as non-recurrent), as well as writedowns and amortisation/depreciation, came to EUR 161.4 million, up by 61% when compared with the result of EUR 100.4 million in 2006. This result, as a percentage of revenues for the period, increased to around 18%, involving an improvement of three percentage points with respect to the result in 2006. This improvement in profitability is linked to both the improvement of the industrial margin due to the increasingly greater incidence of customers linked to the Group's direct network infrastructure and to a reduction in the incidence of indirect costs, as more fully analyzed below.

Net of the Pipex contribution, consolidated as from 13 September 2007, the Group's gross operating result came to EUR 151.0 million (19% of revenues net of Pipex), systematic growth therefore standing at 50%.

GROSS OPERATING RESULT TREND IN 2007



The *Gross Industrial Margin*, understood to be revenues less direct industrial costs, came to EUR 421.8 million in 2007 (up by 39% when compared with EUR 303.8 million in 2006). As a percentage of revenues it increased from 45% to 46%, due to the greater use of the direct network infrastructure.

Indirect operating costs (including payroll and related costs, marketing and sales and other costs including general ones) during 2007 amounted to EUR 261.8 million, up by 28% when compared with EUR 205.3 million in 2006. As a percentage of revenues, indirect costs were down, from 30% in 2006 to 29% in 2007.

Within indirect operating costs, **payroll and related costs** during 2007 amounted to EUR 97.2 million, up in absolute value with respect to the figure in the same period of 2006 (EUR

77.9 million), but stable in terms of a percentage of revenues (11%), despite the acquisition of Pipex in the UK; this is a good indicator of the satisfactory stage of completion of the process for achieving the afore-mentioned cost synergies.

Marketing costs, including sales and distribution expenses, amounting to EUR 89.2 million were also higher in absolute value with respect to those in the previous year (EUR 75.9 million) and essentially stable in terms of a percentage of revenues.

Other indirect operating costs in 2007 totalled EUR 75.5 million, showing an increase over the EUR 51.5 million of 2006, but with an impact on revenues remaining constant (8%) and attenuating dynamics in absolute terms over the period, originating primarily from customer aftersales support costs which naturally reflect the customer base trend, and from operations consultancy incurred in 2007.

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

EUR (000)	31.12.2007	31.12.2006
Revenues	**910.969**	**678.481**
Other revenues	5.652	3.685
Purchase of materials and services, of which:	**651.144**	**498.389**
- marketing	89.172	75.902
- indirect costs (*)	72.787	47.853
- other direct costs	489.186	374.634
Staff costs	**97.166**	**77.883**
Other operating costs, of which:	**6.885**	**5.472**
- other indirect costs (*)	2.673	3.608
- other operating costs	4.212	1.864
Gross operating result	**161.426**	**100.422**
(*) Indirect cost total	**75.460**	**51.461**

Operating result

The operating result during 2007 presented a negative balance of EUR 80.45 million. Net of restructuring costs partly linked to the acquisition of Pipex in the UK, which were fully expensed during the year, amounting to around EUR 40.1 million (including about EUR 23.3 million due to Pipex operating costs regarded as non-recurrent in the future, thanks to the rationalization and restructuring operation), there would have been an operating loss of EUR 40.3 million. The figure thus adjusted improved with respect to the adjusted gross operating result in the previous year (a EUR 45.1 million loss). The calculation is illustrated in the following table.

CONSOLIDATED INCOME STATEMENT EUR (000)	2007	2006
Operating result	**(80,448)**	**(12,852)**
Restructuring costs	40,101	45,013
Other atypical income (VNL dilution effect)	-	(77,229)
Adjusted operating result	**(40,347)**	**(45,068)**

Overall **Restructuring costs, provisions to risk reserves and other writedowns** in 2007 totalled EUR 40.1 million (EUR 45.1 million in the same period of 2006). 2007 was affected by the restructuring costs deriving from the Pipex integration plan in the UK, amounting to around EUR 23.3 million and other charges, totalling EUR 16.8 million. Writedowns on receivables amounted during 2007 to EUR 27.3 million, essentially stable in terms of their percentage of revenues when compared with 2006.

Furthermore, the 2007 operating result was influenced by the charges relating to the fair-value assigned to the stock option plans of Tiscali S.p.A. and Tiscali UK, with an overall amount of EUR 9.9 million plus further benefits for the managers of the Group, amounting to EUR 1.8 million.

Amortisation and depreciation for 2007 amounted to EUR 162.7 million, up with respect to the figure of EUR 130.1 million in 2006. The balance, as already indicated, was influenced by the significant investments made during the period for the development of the unbundling network and the offer of ADSL services (modem and customer activation costs).

Operating result by geographic area

It should be mentioned that the data provided relates to the individual operations units, and therefore includes intra-group elements.

Tiscali Italia S.p.A. closed the 2007 accounting period with a gross operating result, net of infraGroup costs inherent in particular to information technology provided by Tiscali Services S.r.l., totalling EUR 50.5 million (18% of revenues), up by 67% when compared with the EUR 30.1 million in 2006 (14% of revenues). The significant increase in the profitability of the Italian subsidiary is linked to a rise in the gross margin which passed from 52% in 2006 to 58% in 2007, with indirect costs (and in particular marketing costs) up by 2 percentage points on revenues. This bears witness to the success of the migration of ADSL users to the direct network infrastructure and the marketing campaigns which commercially boosted the dual play products which offer greater ARPU.

The operating result of the Italian subsidiary presented a negative balance of EUR 6.4 million, a significant improvement with respect to the operating loss of EUR 13.0 million during 2006.

The gross operating result generated by the subsidiary Tiscali UK (**United Kingdom**) during 2007, inclusive of Pipex's broadband and voice division since 13 September 2007 and infra-Group costs for information technology services provided by *Tiscali Services S.r.l.*, amounted to EUR 98.6 million (16% of revenues), up by 52% compared with the EUR 65.1 million (15% of revenues) in 2006. The "systematic" figure, i.e. that not inclusive of the Pipex acquisition, came to EUR 88.2 million, up by 35% when compared with 2006.

The 2007 operating result presented a negative balance of EUR 54.2 million, an improvement with respect to the loss of EUR 59.5 million in 2006.

Result from operating activities

The 2007 accounting period closed with a negative net result from operating activities (on-going) of EUR 153.8 million, compared with a loss of EUR 59.7 million generated on a like-for-like basis in 2006. This result in particular reflected financial charges totalling EUR 90.7 million during the year, compared with EUR 51.7 million in 2006.

Result from assets destined to be disposed of

At 31 December 2007, this item, as in 2006, included the net results of subsidiaries held for sale. In particular, the balance of this item includes the results of business operations held by Tiscali in the Czech Republic, Germany and the Netherlands which proved to meet the conditions for treatment under the terms of IFRS 5 (*non current assets held for sale and discontinued operations*).

During 2007, the net result from assets destined to be disposed of presented a positive balance of EUR 78.5 million, compared with a negative balance of EUR 76.9 million in the same period of 2006. In order to more fully explain this result, see Note 16 of the financial statements.

Net result

At 31 December 2007, the overall result for the year disclosed a loss of EUR 75.3 million, compared with a loss of EUR 136.6 million in 2006. The figure includes net financial charges totalling EUR 90.7 million, compared with EUR 51.7 million in 2006 and deferred tax assets for EUR 19.9 million relating to the Dutch tax consolidation system.

It was considered advisable to make a provision for tax assets on the Dutch tax unit amounting to EUR 18.2 million. This provision equates to the tax liability estimated for 2008-2010, determined in relation to the profits of the tax unit estimated in the business plan, whose total value equals EUR 34.3 million.

Financial position

CONSOLIDATED BALANCE SHEET - EUR (000)	31.12.2007	31.12.2006
Non current assets	*1,210,692*	*876,465*
Current assets	*389,249*	*195,641*
Assets held for sale	-	158,642
Total Assets	**1,599,941**	**1,230,748**
Group shareholders' Equity	**169,647**	**242,829**
Shareholders' equity pertaining to minority shareholders	**37,322**	**26,733**
Total Shareholders' equity	**206,970**	**269,561**
Non current liabilities	*786,623*	*222,299*
Current liabilities	*606,348*	*673,957*
Liabilities directly related to assets held for sale	-	64,932
Total liabilities and shareholders' equity	**1,599,941**	**1,230,748**

Shareholders are informed that, as envisaged by IFRS 5, the residual balance sheet balances of the Netherlands, Germany and Czech Republic for 2007 have been consolidated line-by-line, whilst for 2006 the balance sheet balances for these assets had been recorded under the consolidated balance sheet items "assets held for sale" and "liabilities directly related to assets held for sale".

Assets

Non-current assets

Non-current assets include a goodwill value of EUR 515 million (EUR 316.6 million at 31 December 2006). The item under review essentially relates to UK business operations, including the goodwill value attributed to Pipex. Other intangible and tangible fixed assets relating to properties, plant and machinery are recorded with a total value at 31 December 2007 of EUR 558.3 million (EUR 399.5 million at 31 December 2006). Non-current assets also include EUR 28.3 million for other financial assets and EUR 2.5 million for equity investments carried at equity.

Investments

The expansion of the unbundling network and subsequent operational investments relating to the connection and activation of new ADSL customers have generated total investments in 2007 of EUR 193.5 million, EUR 103.3 million of which is attributable to investments in intangible assets and around EUR 90.2 million to investments in tangible assets. The investments in intangible assets mainly refer to costs in relation to ADSL customer activation and the stipulation of IRU (Indefeasible Rights of Use) contracts regarding the purchase of network and capacity rights, whereas those relating to tangible assets essentially refer to development of the unbundling network and related equipment.

The investments made during 2007 led to the activation of 800 sites in the UK and around 490 in Italy.

Non-current assets also include, amongst other items, *Deferred tax assets* totalling EUR 106.6 million. This amount comprises EUR 72.3 million in relation to subsidiaries operating in the UK and the remaining EUR 34.3 million to Tiscali International BV (Netherlands), a Group sub-holding company and reference entity for the purposes of the Dutch tax unit.

Current assets

Current assets mainly include "Receivables from customers" (EUR 164.4 million at 31 December 2007, compared to the EUR 135.7 million balance at 31 December 2006), as well as cash balance equalling EUR 134.2 million at 31 December 2007, with respect to EUR 3.8 million cash balance at 31 December 2006.

Liabilities

Non-current liabilities

Non-current liabilities at 31 December 2007 amounted in total to EUR 786.6 million (EUR 222.3 million at 31 December 2006). The significant increase is primarily due to the change in composition of items of a financial nature explained in the 'Financial Position' section below.

Current liabilities

Current liabilities totalling EUR 606.3 million (EUR -673.9 million at 31 December 2006) refer mainly to items of a financial nature (EUR 480.1 million due to banks and other lenders).

As required by CONSOB Note no. DEM/6064293 on 28 July 2006, the following table links the period result to the shareholders' equity of the Group, with the corresponding values of the parent company.

RECONCILIATION BETWEEN THE STATUTORY FINANCIAL STATEMENTS OF THE PARENT COMPANY AND CONSOLIDATED FINANCIAL STATEMENTS	31.12.2007	
Eur (000)	NET RESULT	SHAREHOLD. EQUITY
Tiscali S.p.A. balances	**(23,842)**	**930,201**
Elimination of effects of transactions between consolidated companies:		
- Writeback of equity investments in subsidiaries	21,998	21,998
- Shareholders' equity assessment of companies carried at cost in the financial statements	(10)	2,466
- Adjustment to goodwill from intra-group transaction	-	(162,546)
Book value of consolidated equity investments	**-**	**(905,167)**
Shareholders' equity and result for the period of consolidated companies	**(14,692)**	**(159,343)**
Differences allocated to assets of consolidated companies and related amortisation:		
- Consolidation difference – on-going operations	-	515,022
- Writedown of consolidation difference	(68,262)	(68,262)
Effect of other adjustments:		
- Other adjustments	9,483	(4,721)
BALANCES AS PER CONSOLIDATED FINANCIAL STATEMENTS – Group share	**(75,324)**	**169,647**
BALANCES AS PER CONSOLIDATED FINANCIAL STATEMENTS – Minority interest	**10,016**	**37,322**
BALANCES AS PER CONSOLIDATED FINANCIAL STATEMENTS	**(65,308)**	**206,970**

Financial position

At 31 December 2007 and in relation to on-going operations only, the Tiscali Group could count on cash and cash equivalents totalling EUR 134.2 million, against a net financial position as of the same date presenting debt of EUR 636.5 million (EUR 397.2 million at 31 December 2006).

The financial position relates to on-going operations only and is summarised in the following table:

EUR (ml)	31.12.2007	31.12.2006
A. Cash	134.2	3.8
B. Other cash equivalents	16.3	11.5
C. Securities held for trading	-	-
D. Cash and cash equivalents (A) + (B) + (C)	**150.5**	**15.3**
E. Current financial receivables	**12.1**	**21.2**
F. Current bank payables	176.2	374.8
G. Current portion of non-current debt	-	-
H. Other current financial payables (*)	19.5	12.3
I. Current financial debt (F) + (G) + (H)	**195,7**	**387,1**
J. Net current financial debt (I) – (E) – (D)	**33.1**	**350.6**
K. Non-current bank payables	450.1	-
L. Bonds issued	43.8	-
M. Other non-current payables (**)	109.5	46.6
N. Non-current financial debt (K) + (L) + (M)	**603.4**	**46.6**
O. Net financial debt (J) + (N)	**636.5**	**397.2**

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

The above statement was prepared on a different basis than that presented in the explanatory notes in order to maintain continuity with disclosure provided in previous periods and, in particular, with respect to details provided in the explanatory notes, it includes VAT receivables of around EUR 13.3 million under current financial receivables and guarantee deposits of around EUR 16.3 million under other cash equivalents, as well as other minor financial receivables amounting to EUR 1.2 million.
It should also be mentioned that the 2007 financial position was defined by applying the same consolidation area existing at 31 December 2006, i.e. including Germany, the Netherlands and the Czech Republic among assets held for sale.

Current bank payables include the bridging loans granted by Intesa Sanpaolo and JPMorgan for EUR 150.2 million, repaid in February 2008 by means of the proceeds of the share capital increase under option launched on 14 January 2008 (see section on "Subsequent events").

The item non-current payables includes the amount of the loan disbursed on 13 September 2007 by Banca Intesa Sanpaolo and JP Morgan, amounting to EUR 446.4 million.

The loan, amounting to a nominal EUR 650 million, of which EUR 50 million still not used, has been recorded 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).

Financial covenants are assessed on a three-month basis, and they were all respected at 31 December 2007.

In relation to the total loan of EUR 650 million:

- EUR 150 million has been repaid using the proceeds of the share capital increase concluded in February 2008
- EUR 400 million may be repaid by means of a market debt transaction. If the market debt transaction does not take place by the end of September 2008, the bridging loans will change into long-term debt maturing on 13 September 2014.
- the credit facility of EUR 50 million already disbursed, and that made available, for a further EUR 50 million, both fall due in September 2011.

All 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 is currently around 400 base points. The margin could be subject to adjustment upward or downwards in relation to the Group's economic performance and the realization timescales of the refinancing transactions using markets instruments.

Other non-current payables (EUR 109.5 million) include EUR 30 million relating to the loan bearing interest at market rates, disbursed during 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 postponed by 6 months with respect to the expiry of the new loan granted by Banca Intesa Sanpaolo and JP Morgan.

Furthermore, the balance includes amounts due to leasing companies for financial lease agreements (EUR 79.5 million). The increase in leasing payables with respect to the figure at 31 December 2006 (EUR 63.5 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 on network equipment, servers and other equipment used directly in the production process.

Bonds issued, totalling EUR 43.8 million, are represented by the convertible bond subscribed by Managment&Capitali in December 2007 for a nominal EUR 60 million at a rate of 6.75% per annum. The bond was recorded at fair value, net of the transaction charges. The fair value (EUR 65.8 million) was partly allocated to long-term debt (EUR 43.8 million) and partly to an equity reserve (EUR 22 million).

The fair value of the portion of liability was calculated using the market interest rate for an equivalent non-convertible loan. This amount is recorded as a liability on the basis of the IFRS amortized cost method until the conversion has finished or maturity of the loan. The remaining portion of fair value was allocated to the conversion option, which was included in an equity reserve, net of the effects of income taxes.

In subsequent periods, the bond will be stated at amortised cost and any difference is recorded under income (net of the transaction charges), and the redemption value will be recorded in the income statement in the period of the loan using the effective interest rate method.

Events subsequent to the end of the half year period, Business outlook and prospects

Execution of share capital increase under option

On 10 January 2008, Tiscali S.p.A.'s Board of Directors approved the issue conditions for the shares offered under option to the shareholders. The share capital increase resolved by the Board of Directors as a result of the authority granted them, in accordance with Article 2443 of the Italian Civil Code, by the extraordinary shareholders' meeting held on 31 August 2007, envisaged the issue of 149,792,880 ordinary shares with a par value of EUR 0.50 each with regular dividend rights, to be offered under option to the shareholders, at a ratio of 6 new ordinary shares for every 17 shares held, at a price of EUR 1.00 each, for a total equivalent value of Euro 149,792,880. The purchase options could be exercised between 14 January 2008 and 1 February 2008 inclusive and can be traded on the Stock Exchange between 14 January 2008 and 25 January 2008 inclusive. On conclusion of the option period, the share capital increase was subscribed for a total of 146,580,966 shares, equal to 98.75% of the total amount. Subsequently, between 11 and 15 February 2008 an auction took place for the unopted shares; the market accordingly subscribed 100% of the amount under offer. Therefore, it was not necessary for Banca IMI S.p.A. and J.P. Morgan Securities Ltd to provide their collateral guaranteeing the satisfactory outcome of the transaction. The equivalent value of the share capital increase (approximately EUR 150 million) was used to repay the bridging loan granted by Intesa Sanpaolo and JPMorgan in July 2007.

Assignment and improvement by Standard&Poors' of Tiscali's corporate rating to B+ with a stable outlook

Following the success of the share capital increase, the long-term corporate credit rating of the Company, assigned by Standard&Poors' on 10 January 2008, was raised by S&P to B+ with a stable outlook.

Resignation of Tommaso Pompei and appointment of Mario Rosso as Chief Executive Officer

Partly as a result of the successful completion of the share capital increase transaction, during the Board meeting held on 28/29 February, the Board announced that the strategic repositioning and equity/financial enhancement phase covering the last two years had been concluded.

Having reached an agreement with the Company, Tommaso Pompei therefore resigned from his office, while intending to remain on the Board of Directors until the natural expiry of the entire Board, and therefore until approval of the 2007 financial statements. The Directors Gabriele Racugno and Rocco Sabelli handed in their resignation with immediate effect.

Tiscali's Board of Directors reaffirmed the Company's desire to pursue the objectives outlined in the Business Plan and at the same time to explore the options for further generation of value for the shareholders in connection with the process for consolidating the telecommunications sector underway in Europe.

The Board of Directors therefore appointed the Director Mario Rosso to manage and coordinate this new strategic phase for the Company, appointing him Chief Executive Officer.

Mario Rosso, who has gained lengthy managerial experience with leading industrial groups, has in-depth knowledge of the Tiscali Group and its potential, having followed the growth over the last few years first by covering operational and strategic management roles and, recently, in his capacity as board director.

Amendments to the stock option plan

On 27 and 28 February 2008, the Board of Directors also resolved to adjust the exercise price of the options allocated to the employees by means of the application of a ratio of 0.896756, identical to that published by Borsa Italiana on 11 January 2008 which was used to adjust the option and futures contracts on Tiscali shares consequent to the share capital increase for around Euro 150 million concluded on 22 February 2008. The exercise price for the options allocated to the employees therefore currently stands at EUR 2.132 per share.

Furthermore, on the basis of the agreements between the Company and Tommaso Pompei consequent to the latter's remission from his powers during the Board Meeting held on 27 and 28 February 2008, the options assigned to Tommaso Pompei are understood to be exercisable for the full amount resolved (including the second tranche) according to the terms envisaged by the regulations.

As a result of the adjustment mechanism indicated above, the exercise price for the options allocated to Tommaso Pompei currently standards at EUR 2.477 per share.

Business outlook and prospects

The guidelines of the 2008-2012 Business Plan approved by Tiscali's Board of Directors on 26 November 2007, envisage the strengthening of the Group's positioning on the two reference markets (Italy and the UK) concentrating, in particular during 2008, on a rapid integration of Pipex in the UK and on a strong commercial boost in Italy. Our position will be maintained on the high-capacity and competitively priced Dual Play (voice and data) option, with an offer progressively extended to include IPTV services (already active in the UK and currently being launched in Italy) and the integration with mobile services (by means of agreements for the offer of MVNO services).

The Business Plan also foresees that the Group will (i) position itself on the SME market – in particular in the UK and drawing from the customer base acquired via Pipex – by offering the latter a complete package of integrated IP services at competitive prices; (ii) expand its network coverage to around 1,800 sites in 2008 and approximately 2,100 by 2009, hence roughly 30 million lines. In particular, it is expected that in the UK we will reach around 1,000 sites in 2008 (of which 740 equipped to supply the IPTV service) and about 1,100 in 2009 (approximately 17 million lines). Thanks to a "virtual unbundling" agreement reached with Telecom Italia, in Italy the Group will begin marketing its own services on around 1,000 sites, about 13 million lines, from early 2008, while its own network will be ready as from the second half of the 2009 so as to reach approximately 800 sites directly by the end of 2008 and around 1,000 sites in 2009.

Confirming the strategies and economic-financial objectives described in the plan, the Board meeting held on 28/29 February entrusted the new Chief Executive Officer, Mario Rosso, with the exploration of the options for the further generation of value for the shareholders, associated with the process for the consolidation of the telecommunication sector underway in Europe.

The directors believe that the previously mentioned agreements of trading and financial nature stipulated during 2007, together with the share capital increase taking place in January 2008, offer the group the necessary financial flexibility to reach the goals in the plan. In this respect, the Group's future skill to reach the goals and the assumptions in the plan, generating positive cash flows and economic results, is fundamental. This condition influences the evolution of Tiscali's financial position to a remarkable extent. Therefore, it also influences its financial, economic and equity equilibrium.

Corporate governance report

Foreword

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

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

Therefore, the Report is split into two parts. The first part fully illustrates the corporate governance model adopted by Tiscali and describes the directors and officers, as well as the shareholding structure. The second part by contrast provides detailed disclosure regarding compliance with the Code's recommendations by means of a comparison between the choices made by the Company and said recommendations of the Code.

Part I:
Corporate Governance structure

1.General principles

The term *Corporate Governance* defines the series of processes for managing the corporate activities with the aim of creating, protecting and increasing the value for the shareholders and investors over time. These processes must ensure the achievement of the corporate objectives, the maintenance of socially responsible conduct, transparency and responsibility vis-à-vis the shareholders and the investors.

In order to ensure the transparency of management's operations, correct market disclosure and protection of the socially relevant interests, the corporate governance system adopted by Tiscali fully draws on the recommendations of the Code of Conduct (the "**Code**"), drawn up by the *Corporate Governance Committee*, March 2006 edition. The Company adopts practices and principles of conduct, formalized in procedures and codes, in line with Borsa Italiana S.p.A.'s indications, CONSOB recommendations and with the *best practice* seen at national and international level; furthermore, Tiscali has equipped itself with an organizational structure suitable for correctly handling business risks and potential conflicts of interest which may occur between Directors and shareholders, majority and minority.

2.Adopted model

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. Notwithstanding the fact that recent company law reforms have given public limited companies the right to adopt models that depart from the traditional structure, the company has, at present, decided to keep its system of corporate governance unchanged in order to guarantee continuity and consistency with the consolidated structure, allowing a distinct division of roles and powers between governing bodies, in consideration of the provisions of the Code of Conduct for Listed Companies.

3.Directors and Auditors, and the company appointed to audit the accounts

At present, the governing bodies are the Board of Directors, the Board of Statutory Auditors and the Shareholders' Meeting.

BOARD OF DIRECTORS

Up until the meeting held on 27 and 28 February 2008, the Board of Directors was made up as follows:

Chairman	Vittorio Serafino
Chief Executive Officer	Tommaso Pompei
Directors	Francesco Bizzarri
	Arnaldo Borghesi
	Massimo Cristofori
	Gabriele Racugno
	Mario Rosso
	Rocco Sabelli
Company Secretary	Antonio Corda

The Board of Directors comprises the following committees:

- Internal Audit Committee; until the meeting held on 27 and 28 February 2008, it comprised Vittorio Serafino and Gabriele Racugno.
- Remuneration Committee; until the meeting held on 27 and 28 February 2008, it comprised Mario Rosso and Francesco Bizzarri.

As at the date of this Report, the Board of Directors was made up as follows:

Chairman	Vittorio Serafino
Chief Executive Officer	Mario Rosso
Directors	Francesco Bizzarri
	Arnaldo Borghesi
	Massimo Cristofori
	Tommaso Pompei
Company Secretary	Antonio Corda

BOARD OF STATUTORY AUDITORS

Chairman	Aldo pavan
Statutory Auditors	Massimo Giaconia
	Piero Maccioni
Deputy Auditors	Rita Casu
	Andrea Zini
Company Secretary	Antonio Corda
Executive in charge of drawing up the Company's accounting documents	Massimo Cristofori
Independent Auditing Firm	Deloitte & Touche S.p.A.

The Chairman of the Board of Directors, the current Chief Executive Officer Mario Rosso and the Directors Massimo Cristofori and Francesco Bizzarri were called to join the Board by the shareholders' meeting held on 5 May 2005;

The former Chief Executive Officer and current Director Tommaso Pompei was appointed by co-option by the Board on 11 January 2006 and subsequently confirmed by the shareholders' meeting held on 18 May 2006.

The Director Arnaldo Borghesi was appointed by co-option by the Board on 20 December 2006 and subsequently confirmed by the shareholders' meeting held on 3 May 2007.

During the Board meeting held on 27 and 28 February 2008, Tommaso Pompei relinquished the powers received on 11 January 2006 to the Board. During the same meeting, the Board delegated said powers to Mario Rosso, who currently covers the office of Chief Executive Officer.

During the above meeting, the Directors Gabriele Racugno, appointed by the shareholders' meeting held on 5 May 2005, and Rocco Sabelli, by co-option by the Board on 20 December 2006 and subsequently confirmed by the shareholders' meeting held on 3 May 2007, handed in their resignation.

The appointment of the current Directors will expire with the approval of the 2007 annual financial statements by the shareholders' meeting.

In view of the imminent expiry of its mandate, the Board of Directors, during the meeting held on 19 March 2008 did not consider it appropriate to co-opt two new Directors in replacement of the outgoing Gabriele Racugno and Rocco Sabelli.

The appointment of the current Statutory Auditors of the Company – appointed by the shareholders' meeting held on 18 May 2006 – will expire as of the date of the shareholders' meeting called for the approval of the 2008 annual financial statements.

As envisaged by Article 14 of the Articles of Association, in pursuance of the provisions of Italian Law No. 262/2005, on 20 December 2006 the Board of Directors took steps to appoint the Director Massimo Cristofori, currently Chief Financial Officer of the Company, as executive in charge of drawing up the Company's accounting documents.

The shareholders' meeting held on 5 May 2005, renewed the accounts auditing appointment granted to Deloitte & Touche for the years 2005, 2006 and 2007. This appointment will end with the approval of the 2007 annual financial statement by the shareholders' meeting.

4.Shareholding structure

As at the date of this Report, the authorized share capital came to EUR 310,445,745, while that subscribed and paid-in totalled EUR 287,103,021.50; it is represented by 574,206,043 ordinary shares with a par value of Euro 0.50 each.

The following table contains indication of the name or corporate name of the shareholders with the right to vote who hold an equity investment of more than 2% and who have informed the Company and CONSOB of their equity investment in pursuance of Article 120 of Italian Legislative Decree No. 58/1998, the number of shares held, as well as the percentage of the same in relation to the subscribed and paid-in share capital, as recorded in the shareholders' register.

SHAREHOLDER	SHARES HELD	PERCENTAGE
Renato Soru	**143,551,511**	**25.00%**
Directly	92,272,200	16.07%
Via Andalas Ltd	13,831,091	2.41%
Via Monteverdi S.p.A.	17,448,220	3.04%
Via Cuccureddus S.r.l. unip.	20,000,000	3.48%
Sandoz Family Foundation	**39,742,103**	**6.9%**
Directly	**1,525,025**	0.26%
Via Haselbeech Holding NV	**32,742,664**	5.70%
Via Mallowdale Corporation NV	5,474,414	0.95%

The remaining 68.1% of the share capital is held by the market. The Company is not aware of the existence of any shareholders' agreements.

Part II: Disclosure on compliance with the recommendations contained in the Code of Conduct for Listed Companies

1.Board of Directors

1.1.Role

The Board of Directors has a prominent role to play in Company life, being the body responsible for running the Company, providing strategic and organizational guidelines and, as such, for identifying Company objectives and monitoring their achievement.

This body is invested with all ordinary and extraordinary powers of administration pursuant to Article 14 (Powers of the Board of Directors) of the Company's Articles of Association.

The Board of Directors examines and approves strategic, industrial and financial plans for the Company and the Group to which it belongs, and reports to the Board of Statutory Auditors on a quarterly basis on activities carried out by the Company or its subsidiaries and operations which are of major significance from an economic, financial and balance sheet perspective.

The powers and duties exercised by the Company's Board of Directors in its role as provider of strategic guidelines, supervisor and monitoring body for Company Activities, as set out in the Company's Articles of Associations and implemented in corporate codes of practice, are largely consistent with what is laid down by Article 1 of the Code.

1.2.Composition

Article 10 (Company Administration) of the Articles of Association states that the Board of Directors may comprise between three and eleven members, as decided by the Shareholders' Meeting.

At the time of drafting this Report, the Board of Directors comprises six members, five of which appointed by the Shareholders' Meeting held on 5 May 2005.

Following the resignation of Board Members Victor Bischoff and Gabriel Prêtre on 19 May 2006, the Board of Directors, during the meeting held on 20 December 2006, co-opted Rocco Sabelli and Arnaldo Borghesi as new Board Members; they were subsequently confirmed by the shareholders' meeting held on 3 May 2007.

During the Board meeting held on 27 and 28 February 2008, the Directors Gabriele Racugno and Rocco Sabelli handed in their resignation.

The Board of Directors also includes the Internal Audit Committee and Remuneration Committee.

1.3. Chairman of the Board of Directors and Chief Executive Officer

In accordance with the Company's Articles of Association, the Chairman of the Board of Directors calls and conducts board meetings and coordinates its activities. For Board meetings, the Chairman ensures that Board Members receive all necessary documentation, well in advance, to allow the Board to knowledgeably discuss subjects under examination.

The Articles of Association also state that the Board of Directors, within legal limits, may appoint one or more Chief Executives, establishing powers to be granted to them, within legal limits.

The Board of Directors has conferred executive powers upon the Chief Executive Officer and powers of policy and control upon the Chairman. CEO powers may be exercised to a maximum value of EUR 25 million, or without limit in the case of joint signature with the Chairman.

The Chairman and CEO report to other Directors and to the Board of Statutory Auditors during Board meetings held at least once a quarter, on operations of significant economic or financial value performed by the Company or its subsidiaries. They also provide the Board of Directors meetings with adequate and on-going information on atypical or unusual transactions for which approval does not rest with the Board, and on significant operations implemented within the scope of powers and duties conferred upon the CEO. Except in cases of necessity or emergency, such matters are normally also submitted for prior examination by the Board of Directors so that they may decide upon them in a knowledgeable and considered manner.

1.4 Non-executive, minority and independent directors

In pursuance of the provisions of Italian Law No. 262/2005, as amended by Italian Legislative Decree No. 303/2006, the Articles of Association envisage the presence of at least one independent director if the Board is made up of less than seven members, and at least two independent directors if the Board is made up of more than seven members.

Furthermore, the list voting mechanism envisaged by the Articles of Association for the election of the members of the Board ensures the appointment of at least one director taken from the list which has obtained the second greatest number of votes and which is not in any way associated with the shareholders who have presented or voted for said list.

Up until the meeting held on 27 and 28 February 2008, the Board comprised eight Directors, two executive and six non-executive; the latter include two independent directors.

At present, the Board is made up of six Directors, two executive and four non-executive.

Directors with executive powers are the CEO Mario Rosso and the Director and CFO Massimo Cristofori.

As indicated in Article 3.2 of the Code, at the time of appointment and in any event once a year when this Report is prepared, the Board evaluates the Directors' independence on the basis of information provided by the Directors themselves, and provides the market with appropriate information in this respect by publishing said Report.

Up until the Board meeting held on 27 and 28 February 2008, Gabriele Racugno and Rocco Sabelli were independent directors; their independence requisites were consistent with the matters indicated by the principles and applications criteria pursuant to Article 3 of the Code. For the sake of completeness of information, it should be specified that during 2007, the law firm of the former Director Gabriele Racugno provided consultancy services to the Company under market terms for a total sum of EUR 65,727.88.

In view of the imminent expiry of its mandate, the Board of Directors, during the meeting held on 19 March 2008 did not consider it appropriate to co-opt two new Directors in replacement of the outgoing Gabriele Racugno and Rocco Sabelli.

The offices covered by the Board members in their capacity as directors of other listed companies, banks or insurance companies or businesses of a significant size, are listed below. None of the Directors cover roles in boards of statutory auditors of other listed companies, banks or insurance companies or businesses of a significant size. Even in consideration of the offices covered elsewhere and the part they play in Company life, the Company believes that the Directors are in a position to dedicate the necessary time for the diligent performance of their duties as Company directors.

ROLES IN BOARDS OF DIRECTORS OF OTHER LISTED COMPANIES, BANKS AND INSURANCE COMPANIES AND BUSINESSES OF A SIGNIFICANT SIZE	
Vittorio Serafino	Independent Director of ISAGRO S.p.A.
	Chairman of Finagen S.p.A.
Mario Rosso	Chairman of Consorzio Distretto ICT – Rome
Tommaso Pompei	Member of the Ugo Bordoni Foundation
Francesco Bizzarri	Freelance professional, Studio Bizzarri
Arnaldo Borghesi	Chairman of Borghesi Colombo & Associati
Massimo Cristofori	Sole Director of World Online International NV
	Director of Tiscali International BV
	Director of Tiscali Italia S.p.A.
	Director of Tiscali UK Ltd
	Director of Tiscali UK Holdings Ltd
	Director of Tiscali International BV
	Director of Tiscali Financial Services SA
	Director of Shar.DNA S.p.A.

In the specific *"investor relations" section of the website* **www.tiscali.com**, the Company publishes the professional résumés of its Directors, so that the shareholders and investors can assess the professional experience and the authoritativeness of the Board members.

1.5. Board meetings

The Board of Directors meets regularly and in any event at the time of the approval of the quarterly reports, the half year report and the draft annual financial statements.

It is consolidated practice that executives and consultants from outside the Company are also called to attend Board meetings, according to the subjects being dealt with. If and when necessary, the Board of Directors avails itself of *fairness opinions* or rather legal opinions issued by consultants and experts, so as to facilitate the adoption of the resolutions proposed during the meetings in an informed and aware manner.

As can be seen in the tables below, during 2007 the Board of Directors met twelve times, mainly so as to discuss and approve the periodic accounting figures and significant transactions implemented by the Company. During 2008, and up until the date of this Report, the Board met three times. On average, nearly all the Directors and the members of the Board of Statutory Auditors took part in the afore-mentioned meetings.

MEETINGS DURING FIRST HALF OF 2007	18.01.07	20.03.07	10.05.07	28.06.07	AVERAGE
Directors present	8	8	7	5	7
Percentage	100%	100%	87.5%	62.5%	87.5%
Statutory Auditors present	3	3	3	3	3
Percentage	100%	100%	100%	100%	100%

MEETINGS DURING SECOND HALF OF 2007	12.07.07	28.07.07	9.9.07	12.9.07	17.10.07	12.11.07	16.11.07	26.11.07	AVERAGE
Directors present	7	6	7	7	7	7	6	7	6.75
Percentage	87.5%	75%	87.5%	87.5%	87.5%	87.5%	75%	87.5%	83.67
Statutory Auditors present	3	3	3	3	3	3	3	3	3
Percentage	100%	100%	100%	100%	100%	100%	100%	100%	100%

MEETINGS DURING 2008	10.01.08	27/28.02.08	19.03.08	AVERAGE
Directors present	8	8	5	8
Percentage	100%	100%	83%	94%
Statutory Auditors present	3	3	3	3
Percentage	100%	100%	100%	100%

On 12 November 2007, the Board of Directors approved the calendar of its meeting for 2008.

The next meetings scheduled are for:

- 12 May 2008 (Approval of the Quarterly Report at 31 March 2008)
- 29 August 2008 (Approval of the Half-year Report at 30 June 2008)
- 12 November 2008 (Approval of the Quarterly Report at 30 September 2008)

1.6. Appointment of Directors

Article 11 (Board of Directors) of the Articles of Association specifies a voting list for the appointment of Directors, guaranteeing the appointment of a certain number of Directors from those listed who have not obtained the majority of votes, and ensuring transparency and correctness of the appointment procedure.

Shareholders are entitled to present lists if, alone or together with other shareholders, they represent at least the percentage of the share capital envisaged by applicable legislation (currently 2% of shares with the right to vote during ordinary shareholders' meetings). This mechanism ensures, therefore, that even minority Shareholders have the power to submit their own lists. Everyone with a voting right may vote for one list only.

The election of Directors proceeds as follows: (a) five sevenths of Directors are appointed from the list receiving the majority of votes expressed by Shareholders; (b) the remaining Directors are appointed from the other lists. For this purpose, the votes obtained by the lists are progressively divided by one, due, three, four, five, etc, according to the number of Directors to be elected.

The quotients obtained thus are then progressively assigned to candidates on each list, in accordance with their respective order. The quotients assigned to candidates on the various lists are compiled into a single list in descending order. Those elected are the candidates with the highest quotients, in any event after appointment of the candidate first on the list receiving the second highest number of votes, and who is in no way connected with that first list, and after the appointment of one or two independent directors, depending on whether the Board comprises more or less than seven members, in accordance with Italian Law No. 262/2005, as amended by Italian Legislative Decree No. 303/2006.

Pursuant to the aforementioned Article 11 (Board of Directors), the list of nominations must be filed at the Company's registered office at least ten days prior to the date of the next Shareholders' Meeting, together with the professional CVs of individuals appearing on the lists and a declaration from each accepting their candidature and declaring the inexistence of reasons for ineligibility or incompatibility and that the honourable and professional qualifications required under applicable law and by the Articles of Association are substantially in line with the principles and application criteria contained in Article 6 of the Code.

In the event of resolution to appoint individual members of the Board of Directors, the voting list appointment mechanism is not applicable, article 11 (Board of Directors) of the Articles of Association specifying its use only in the event of integral renewal of the Board.

On 18 May 2006, without applying the voting list appointment mechanism, the shareholders' meeting confirmed the appointment of the Chief Executive Officer Tommaso Pompei, co-opted by the Board on 11 January 2006, and on 3 May 2007, again without applying the voting list appointment mechanism, confirmed the appointment of the Directors Arnaldo Borghesi and Rocco Sabelli (who then resigned on 28 February 2008), co-opted by the Board on 20 December 2006

Based on the provisions of the aforementioned Article 11 (Board of Directors) and in the light of the above considerations, it was not considered necessary to establish a special Appointments Committee in that the Directors' appointment mechanism ensures an impartial and fair system with respect to minority shareholders.

The report on operations attached to the financial statements at 31 December 2007 contains an overview of the Board Members' remuneration system. Reference should be made to said report in this respect.

2. Shareholders' meetings

Consistent with the principles and application criteria contained in Article 11 of the Code, the Company encourages and facilitates the participation of Shareholders in meetings, providing any Company-related information requested by the Shareholders in accordance with regulations governing price-sensitive communications.

To facilitate the receipt of information and attendance at meetings by its Shareholders, and to facilitate access to documentation which, in accordance with law must be made available to them at the registered office when meetings are due to be held, the Company has made said information available in a special "investor relations" section of its website **www.tiscali.com**, allowing said information to be downloaded in electronic format.

As indicated in application criteria 5 of Article 11 of the Code, on 16 July 2001 the Shareholders' Meeting adopted its own AGM Regulations, also available on the Company website.

The Board of Directors believes that minority Shareholders' prerogatives have been respected when adopting resolutions, in so far as the current Articles of Association do not provide for majorities other than those laid down by law.

3. Board of Statutory Auditors

3.1. Appointment and composition

Consistent with Article 10.1 of the Code, in relation to the appointment of Statutory Auditors, Article 18 (Board of Statutory Auditors) envisages a voting list system which guarantees the transparency and correctness of the appointment procedure and protects minority Shareholders' rights.

Shareholders are only entitled to present lists if, alone or together with other shareholders, they can prove that they hold at least the percentage of the share capital envisaged by applicable legislation (currently 2% of the ordinary shares). Each list must indicate five candidates in descending order of professional seniority. Each Shareholder may submit, or jointly submit, one list only and each candidate may be listed in one list only or be disqualified. The list of nominations must be filed at the Company's registered office at least ten days prior to the date of the next Shareholders' Meeting in first calling, together with the professional CVs of individuals appearing on the lists and a declaration from each accepting the candidature and declaring the inexistence of reasons for ineligibility or incompatibility and that the honourable and professional qualifications required under applicable law and by the Articles of Association are met.

Each shareholder may vote for one list. They are elected as follows: two Statutory Auditors and two Deputy Auditors are elected, in the order in which they appear on the list receiving the most votes. The third Statutory Auditor is the first candidate on the list receiving the second highest number of votes. In accordance with Italian Law No. 262/2005, as amended by Italian Legislative Decree No. 303/2006, the person appearing first on the list receiving the second highest number of votes is appointed Chairman of the Board of Statutory Auditors.

On 18 May 2006, the ordinary shareholders' meeting applied the voting list mechanism described above for the appointment of the current Board of Statutory Auditors, which will remain in office until the date of the meeting called to approve the annual financial statements at 31 December 2008. Two lists were presented in total during said shareholders' meeting.

The first list, presented by the shareholder Renato Soru, proposed the following candidates:

Massimo Giaconia
Piero Maccioni
Andrea Zini
Rita Casu
Giuseppe Biondo

The second list, presented jointly by the shareholders Haselbeech Holdings N.V. and Mallowdale Corporation N.V., proposed the following candidates:

Aldo Pavan
Alberto Pregaglia
Paolo Tamponi
Simonetta Fadda
Riccardo Delisa

Aldo Pavan, Piero Maccioni and Massimo Giaconia were elected as Statutory Auditors. Rita Casu and Andrea Zini were elected as Deputy Auditors. Aldo Pavan was elected Chairman of the Board of Auditors.

3.2. Requisites

Article 18 (Board of Statutory Auditors) of the Articles of Association envisages that at least one of the Statutory Auditors and at least one Deputy Auditor, must be chosen from those listed on the official register of auditors with at least three years' experience in the auditing of accounts.

Auditors failing to meet the aforementioned condition must have a total of at least three consecutive years' experience in specific company purpose-related duties and, in any event, in the telecommunications sector. The aforementioned article also states that Auditors who are already Statutory Auditors for more than five listed companies may not be appointed.

In the specific "*investor relations" section of the website* **www.tiscali.com**, the Company publishes the professional résumés of its Statutory Auditors, so that the shareholders and investors can assess the professional experience and the authoritativeness of the members of the Board of Statutory Auditors.

3.3. Activities

The members of the Board of Statutory Auditors operate independently, in constant liaison with the Internal Audit Committee, regularly attending its meetings, and with the Internal Audit Department, in accordance with the principles and application criteria indicated in Article 10 of the Code.

4. Board of Directors internal committees

In accordance with the provisions of Article 5 of the Code, the Board of Directors has set up its own Internal Audit Committee and Remuneration Committee.

4.1. Internal Audit Committee (see reference)

With regard to the Internal Audit Committee, reference should be made to Section 6.2. of this Report

4.2. Remuneration Committee

Since March 2001 the Company's Board of Directors has set up its own Remuneration Committee, as recommended by Article 7 of the Code and relevant application criteria.

The Board of Directors also approved Remuneration Committee Regulations which envisaged that said committee should comprise three members, mainly chosen from among the Board members without executive functions. A Chairman is elected from among the members, by means of majority vote. The Committee makes proposals to the Board of Directors for the remuneration of the Chief Executive Officers and those who cover specific offices, as well as, upon the indication of the CEOs, for the determination of the criteria for the remuneration of the Company's senior management. The committee is also responsible for making proposals concerning any stock option plans of the Company and the related execution. As part of its functions, the Committee may avail itself of outside consultants, at the Company's expense. The Committee meets when it considers it necessary, upon the request of one or more members. The provisions of the Articles of Association, in as far as they are compatible, apply for the calling of said committee and the business of its meetings.

Up until 28 February 2008, the Remuneration Committee comprised Director Mario Rosso (Chairman) and Francesco Bizzarri. One position is vacant following the resignation of Director Victor Bischoff.

Following the appointment of Mario Rosso as Chief Executive Officer, during the Board meeting held on 27 and 28 February 2008, the Remuneration Committee was temporarily wound-up; it will be re-established by the new Board of Directors, which will be appointed by the shareholders' meeting called to approve the 2007 financial statements.

The Committee took part in drafting the stock option plan for the Italian management team of the Tiscali Group, discussed by the Board of Directors during the meetings held on 11 October 2006, 9 November 2006, 18 January 2007 and 20 March 2007, and subsequently approved by the shareholders' meeting on 3 May 2007. The Board of Directors allocated the options to employees during the meeting held on 28 June 2007.

The Committee took part in drafting the stock option plan for Tommaso Pompei, the Company's Chief Executive Officer until 28 February 2008, discussed by the Board of Directors during the meetings held on 11 October 2006, 9 November 2006, 18 January 2007 and 20 March 2007, and subsequently approved by the shareholders' meeting on 3 May 2007. The same meeting allocated the options to Tommaso Pompei.

Additional details regarding the stock option plans mentioned above are contained in the disclosure document published in the "investor relations" section on the Company website, www.tiscali.com.

The Committee also expressed its opinion to the Board regarding the fairness of the fee agreed between the Company and the Director Francesco Bizzarri for the consultancy services he has provided and continues to provide in relation to the development of IPTV services.

The Committee also expressed an fairness opinion concerning the fee acknowledged by the Board on 12 July 2007 to the Director Arnaldo Borghesi for financial advisory services he has provided to the Company within the sphere of negotiating the funding package granted by IntesaSanpaolo and JP Morgan.

The Committee has discussed a settlement agreement with the Chief Executive Officer which disciplines the economic aspects associated with the consensual termination of the management relationship established between Tommaso Pompei and the Company. This agreement was analyzed and approved by the Board on 28 February 2008.

4.3. Appointments Committee

As mentioned in paragraph 1.6 of this Report, the Board of Directors has not deemed it necessary to set up an Appointments Committee in so far as the voting list system as defined in Article 11 (Board of Directors) of the Articles of Association ensures the protection of minority Shareholders' rights. In addition, the voting list system requires proposals for the appointment of Directors to be submitted by Shareholders subject to candidate suitability selection.

5. Governance and interfunctional committees

During the meeting held on 9 November 2006, the former Chief Executive Officer Tommaso Pompei presented the Board of Directors with the main guidelines of the new organization and governance model adopted by the Company and the Tiscali Group, necessary in light of the review and simplification of the scope of the Group's activities, as emerging from the business plan approved by the Board of Directors on 11 October 2006. This model, as specified further on, was discussed during the meeting held on 20 March 2007.

The Group's key activities were organizationally grouped together into three operational macro-blocks.

The first two blocks include the operating activities located within the subsidiaries which operate in Italy and the UK, respectively Tiscali Italia S.p.A. and Tiscali UK Ltd., who have primary responsibility for the earnings-related and competitive results.

Technological services are envisaged for supporting these activities; these are grouped in a third block and aim at efficiency, and include *Network Technology services*, located within the subsidiaries belonging to the Tiscali International Network Group, and *Information Technology services*, located within the subsidiary Tiscali Services S.p.A., which was subsequently merged via incorporation within Tiscali Italia S.p.A. on 5 March 2008.

The remaining activities, essentially relating to *operations* in Germany not disposed of to third parties and to a number of non-strategic equity investments in Italy, have been grouped together in an additional block, pending disposal or winding-up.

The corporate structure, located within the Parent Company, maintains a policy and co-ordination role, as well as sees to the allocation of services and auditing within this organization model.

6. Internal auditing

Back in October 2001, the Company formalized the internal audit organizational set-up. Following the amendments to the Code of Conduct for listed companies and the suggestions of Borsa Italiana S.p.A., on 25 March 2004 the Board of Directors took steps to up-date the organizational set-up of the Company's internal audit system, on the basis of a proposal made by the Internal Audit Committee 24 March 2004. The current internal audit set-up is in line with the matters envisaged by the principles and applicative criteria contained in Article 8 of the Code.

6.1. Internal audit system

The internal audit system is the set of processes dedicated to monitoring efficiency of Company operations, the reliability of its financial data, the observance of laws and regulations, and the safeguarding of Company assets.

The internal audit system is the responsibility of the Board of Directors, which sets guidelines for the system and periodically verifies its adequacy and correct functioning, ensuring that the main business risks are identified and appropriately managed.

The Director appointed to this task identifies the main business risks, submits them for the attention of the Board of Directors and implements the Board's recommendations by developing, managing and monitoring the internal audit system. He is assisted in this task by an Internal Audit Coordinator, appointed by the CEO on the recommendation of the Internal Audit Committee. The Coordinator is equipped with all means necessary to perform this support role.

The Internal Audit Coordinator has no line manager, and reports directly to the CEO, the Internal Audit Committee and the Board of Statutory Auditors at least once every three months.

The Internal Audit Coordinator was identified as the person with operational responsibility for coordinating activities within the Internal Audit department, since he has no direct line manager and is in possession of the professional skills necessary to perform his duties as recommended by the Code.

To further reinforce the requirement of independence, the Internal Audit Coordinator and therefore also the Internal Audit department, report to the Chairman of the Internal Audit Committee. From an administrative standpoint, the Internal Audit Coordinator and therefore the Internal Audit department, report to the CEO. The provision of suitable means required by the Internal Audit Coordinator and therefore the Internal Audit department, is included in the CEO's executive powers. The Internal Audit Committee, in reviewing the work plan submitted by the Internal Audit Coordinator, also assesses the suitability of the means granted by the CEO to the Internal Audit Coordinator, based on the number of Internal Auditors and their responsibilities and qualifications in relation to the specific work plan.

During the period covered by the previous Report, the main activities carried out with regard to the internal audit by the Coordinator, the Committee and the Internal Audit department, were as follows:

- a compliance audit was carried out on the stage of application of Tiscali S.p.A.'s "Organization, management and control model" in pursuance of Italian Decree Law No. 231/2001; the related results were discussed by the Internal Audit Committee on 30 May 2007;

- a compliance audit was carried out on the stage of application of Tiscali Services S.p.A.'s "Organization, management and control model" in pursuance of Italian Decree Law No. 231/2001; the related results were discussed by the Internal Audit Committee on 30 May 2007;

- risk assessment was completed for identifying the sensitive activities with the aim of up-dating the "Organization, management and control model" for Tiscali S.p.A. and Tiscali Italia S.p.A., so as to assimilate the new offences introduced by Italian Law No. 146/2006 (transactional offences) and Italian Law No. 123/2007 (violation of accident-prevention norms);

- an audit was carried out on the administrative-accounting internal audit system of the subsidiary Tiscali UK. A final report was drawn up containing the recommendations of local management for improving the administrative-accounting internal audit system presented by the Audit Committee on 10 January 2008;

- following the appointment received from the Executive in charge of drawing up the accounting documents, the Internal Audit department devoted itself to checking the adequacy of the administrative and accounting procedures for the formation of the financial statements and the related efficacy, so as to obtain the certification pursuant to Article 154 *bis* of the FCA, introduced by Italian Decree Law No. 262/2005 as amended by Italian Decree Law No. 303/2006. The first stage was completed during 2007 (survey of the checks), while the start of the second stage (testing) was accomplished during the first quarter of 2008;

- the guidelines of the "Work Plan" for 2008 were drafted by the Internal Audit Coordinator and approved by the Audit Committee on 10 January 200

On the basis of the checks carried out, the Board of Directors deemed the internal audit system to be adequate for the Company's needs, as well as in line with current legislation and the Code's recommendations.

6.2. Internal Audit Committee

In accordance with the recommendations of the Code, the Board of Directors has set up an Internal Audit Committee to provide advice and recommendations, comprising non-executive Directors, one of which is independent. Committee meetings are attended by the Chairman of the Board of Statutory Auditors or another Statutory Auditor designated by the Chairman.

In particular, the Internal Audit Committee is responsible for:

A) helping the Board of Directors to set guidelines for the system and periodically verify its adequacy and correct function, ensuring that the main business risks are identified and appropriately managed;

B) assessing the work plan prepared by the Internal Audit Coordinator and receiving the Coordinator's periodic reports;

C) together with the Company's Directors and auditing company, verifying adequacy of the accounting standards used and their uniformity for the purpose of drafting the consolidated financial statements;

D) assessing bids submitted by auditing companies for the role of independent auditor, and the proposed work plan for the independent audit and the results expressed in the report and letter of recommendations, along with the day-to-day contact with the independent auditing firm;

E) assessing bids of an advisory nature formulated by the independent auditing firm - or its affiliated companies - in favour of Group companies;

F) assessing bids of an advisory nature in favour of Group companies that are for significant amounts;

G) reporting to the Board of Directors on tasks performed and on the adequacy of the internal audit system, at least once every six months on approval of the annual and half-yearly reports;

H) operating as Supervisory Body pursuant to Italian Legislative Decree No. 231/2001;

I) performing additional tasks as assigned by the Board of Directors.

The Internal Audit Committee is a sub-group of the Board of Directors, its sole function being to advise and recommend. Its objective is to improve the effectiveness and strategic guidance capacity of the Board of Directors with regard to the Internal Audit system.

Based on the model adopted by the Company, the Internal Audit Committee has three members. These must be non-executive Directors, and as such are entitled to provide independent, impartial opinions on topics for which they are responsible, since they have no first-hand involvement in running the Company.

The majority of the members are qualified as independent, as per the Instructions to the Regulations for Markets organized and run by Borsa Italiana S.p.A. Should it not be possible to guarantee that the composition of the Internal Audit Committee has a majority of non-executive and independent Directors, the Committee will have just two members, including at least one who is independent. This solution is preferable to having a majority of non-independent Directors, albeit temporary. If for a certain period the Internal Audit Committee is composed of two members only, the entire Board of Statutory Auditors is always invited to attend committee meetings. In addition, if for a certain period the Committee membership is reduced to two members only, and the number of votes is equal, then the independent Director has the casting vote.

The entire Board of Statutory Auditors is always invited to attend committee meetings.

The Chairman of the Internal Audit Committee may invite the CEO and other parties, e.g. the independent auditing firm, the General Manager, if appointed, and the CFO, to Committee meetings in relation to specific items on the agenda for which their presence may prove useful.

Meetings of the Internal Audit Committee are normally held prior to Board of Directors' meetings scheduled for approval of the quarterly, half-year and draft annual reports, and in any event at least once every six months. The Chairman of the Internal Audit Committee ensures that the committee members receive the necessary documentation and information well in advance of the meeting, unless necessity and urgency prevail. Minutes of the meetings are in any event summarised in writing.

Up until 28 February 2008, the Internal Audit Committee comprised two members, Vittorio Serafino (Chairman of said Committee), Chairman of the Board of Directors and non-executive Director, and Gabriele Racugno, non-executive and independent Director.

Following the resignation of the Director Gabriele Racugno, which took place during the Board meeting held on 27 and 28 February 2008, the Internal Audit Committee was temporarily wound-up and since there are no other non-executive and independent directors on the board, it will be re-established by the new Board of Directors, which will be appointed by the shareholders' meeting called to approve the 2007 financial statements.

During 2007, the Internal Audit Committee met seven times on the following dates: 18 January; 8 February,15 March; 20 March 2007; 30 May 2007; 28 June 2007; 8 November 2007.

The Board of Statutory Auditors attended all these meetings.

6.3 Organization, management and control model pursuant to Italian Legislative Decree no. 231/2001

The Board meeting held on 21 December 2005 approved the new "Organization, management and control model pursuant to Italian Legislative Decree No. 231/2001", which comprises a general section and two special sections, in force as from 1 March 2006. Following the introduction of the new types of offences within the sphere of application of Italian Legislative Decree No. 231/2001 introduced by Italian Law No. 146/2006 (transactional offences) and Italian Law No. 123/2007 (violations of accident-prevention norms);
with the support of a consulting firm specialized in this subject, the Company has launched a project for up-dating the Model.

The Boards of Directors of Tiscali Italia S.p.A. and Tiscali Services S.p.A. adopted the "Organization, management and control model", respectively, on 28 March 2006 and 22 March 2006, at the same time appointing the required Supervisory Body. Further to the changed organizational structure consequent to the merger of Tiscali Services S.p.A. within Tiscali Italia S.p.A. and the introduction of the new types of offence indicated above, the Tiscali Italia S.p.A. model is undergoing a review with the aid of a consulting firm specialized in this subject.

7. Related Parties

It is Company practice to keep transactions with related parties (i.e. operations considered such pursuant to Consob Communication No. 2064231 of 30 September 2002) to a minimum. Any transactions of this nature are in any event conducted in such a way as to ensure compliance with legal and procedural standards pursuant to Article 9 of the Code.

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

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

8. Handling of confidential information and market communications. Investor Relations office

As part of the corporate governance model adopted pursuant to Italian Legislative Decree No. 231/2001, the Company has drawn up a number of control procedures for the management of confidential information, in accordance with national and international best practices and with principles contained in the Market Disclosure Guidelines. In order to safeguard correct disclosure, Company conduct adheres to principles identified in said guidelines, and is committed to communicate with the market in such a way as to ensure that fairness, clarity, equality and timeliness criteria for access to information are observed.

The Company has an Investor Relations Office responsible for communications with shareholders and institutional investors.

Among its other duties, the Investor Relations Office, reporting directly to the CFO, drafts press releases and handles their publication, including via a network of external companies specialized in such tasks. In particular:

- the press releases pertaining to so-called periodic information (financial statements, half-year reports, quarterly reports, etc.) are approved by the CFO and the CEO and/or by the Chairman (if endowed with executive powers), having consulted the Board of Directors, where possible;

- the press releases relating to extraordinary transactions (mergers, take-over bids, share capital increases, etc.) are approved by the CEO and/or by the Chairman (if endowed with executive powers), having consulted the CFO and the head of the Legal and Corporate Affairs Division;

- in all other cases, the handling of the financial disclosure to the public is taken care of by the head of the *Investor Relations* office. If this is information considered to be *price sensitive*, the related publication is approved by the CFO and by the head of the Legal and Corporate Affairs Division.

Disclosure is ensured not only by means of press releases, but also via periodic encounters with institutional investors and the financial community, as well as by extensive documentation made available on the company website **www.tiscali.com** in the "investor relations" section. Recourse to on-line communication, which is mainly used by the non-institutional public, is considered strategic by the Company, since it makes standardized disclosure of the information possible. Tiscali undertakes to systematically see to the accuracy, completeness, continuity and up-dating of the financial matters disclosed via the Company website. It is also possible to contact the Company using a special e-mail address (**ir@tiscali.com**).

The Directors, Statutory Auditors and top management of Tiscali and its subsidies are obliged to respect the confidentiality of the documents and information acquired during their activities. Any dealings between these parties and the press or other means of mass media, as well as with financial analysts or institutional investors, which involve confidential documents or information concerning Tiscali or the Group, may take place solely via the head of investor relations, unless they involve interviews or declarations made by the executive directors and the CFO.

The company managers and, in any event, all the employees and collaborators are obliged to keep price sensitive information and documents acquired because of and during their activities confidential and not to communicate such information to others except for official or professional reasons, unless these documents or information have already been made public in the prescribed forms. The above parties are prohibited from giving interviews to press bodies, or making public declarations in general, which contain information on significant events, qualifiable as "privileged" as per Article 181 of Italian Legislative Decree No. 58/1998, unless such information has been included in press releases or documents already disclosed to the public, or expressly authorized by the *Investor Relations office*. The wording of Article 181 of Italian Legislative Decree No. 58/1998 envisages that the system for the protection of communication includes, on a general basis, all news which is sufficiently specific so as to permit the drawing of conclusions on the possible effect on financial instrument prices, regarding transactions not yet concluded but which one can reasonably envisage will be concluded and which presumably a reasonable investor would use as one of the elements they will base their investment choices on.

In compliance with the matters indicated by Article 114.2 of Italian Legislative Decree No. 58/1998, on 17 November 2004 a procedure was circulated within the Group with the aim of disciplining the communication to the Parent Company of price sensitive events which have occurred within the sphere of pertinence of the subsidiary companies.

In replacement of the Code of Conduct on Internal Dealing adopted by the Company in November 2002, and in enactment of the new Article 115(2) of Italian Legislative Decree No. 58/1998 on keeping a register of persons with access to privileged information, the Company established a register of persons (held by the Investor Relations Office) who, based on their business or profession or in relation to duties performed, have access to such information. In accordance with the aforementioned legislation, the IT-managed register contains: the identity of each person with access to privileged information, the reason that person was entered on the register, that date of registration, and the date of any updates to information relating to that person.

Shares held by Directors and Statutory Auditors

As required by current legislation, and specifically by Article 79 of CONSOB Regulation No. 11971/99 implementing Italian Legislative Decree 58/1998, the table below indicates the number of shares held by Directors and Statutory Auditors.

NAME - SURNAME	POSITION	NO. OF SHARES HELD AT 31.12.06	NO. OF SHARES PURCHASED/SUBSCRIBED	NO. OF SHARES SOLD	NO. OF SHARES HELD AT 31.12.07
BOARD OF DIRECTORS					
VITTORIO SERAFINO	CHAIRMAN	22,200(*)	-	-	22,200
TOMMASO POMPEI	CHIEF EXECUTIVE OFFICER (A)	366,000	-	-	366,000
MASSIMO CRISTOFORI	DIRECTOR	11,000	-	11,000	-
MARIO ROSSO	DIRECTOR (B)	-	-	-	-
FRANCESCO BIZZARRI	DIRECTOR	-	-	-	-
ARNALDO BORGHESI	DIRECTOR	-	-	-	-
GABRIELE RACUGNO	DIRECTOR (A)	-	-	-	-
ROCCO SABELLI	DIRECTOR (A)	-	-	-	-

(A) UNTIL 29 FEBRUARY 2008

(B) APPOINTED CEO AS FROM 29 FEBRUARY 2008

(*) ADJUSTED FIGURE WITH RESPECT TO 2006 FINANCIAL STATEMENTS

BOARD OF STATUTORY AUDITORS		-	-	-	-
ALDO PAVAN	CHAIRMAN	-	-	-	-
MASSIMO GIACONIA	STATUTORY AUDITOR	-	-	-	-
PIERO MACCIONI	STATUTORY AUDITOR	-	-	-	-
RITA CASU	DEPUTY AUDITOR	50	-	-	50
ANDREA ZINI	DEPUTY AUDITOR	2.054	-	2.054	-

Intra-group and related party relationships

As for the transactions carried out with related parties, including intra-group transactions, it is pointed out that the same are not defined as atypical or unusual, since they are part of the usual course of business of the Group's companies.

The information concerning the relationships with related parties is illustrated in the Note 43 of the Consolidated Financial Statements.

Consolidated Financial Statements and Explanatory Notes at 31 December 2007

Consolidated income statement

(EUR 000)

	NOTES	31.12.2007	31.12.2006
Revenues	(4) (5)	910,969	678,481
Other income	(6)	5,652	3,685
Purchase of materials and outsourced services	(7)	651,144	498,389
Payroll and related costs	(8)	97,166	77,883
Stock option plan costs	(9)	11,697	-
Other operating costs	(10)	6,885	5,472
Writedowns of receivables from customers	(11)	27,332	15,394
Restructuring costs and other writedowns	(12)	40,101	45,013
Amortization/depreciation		162,744	130,095
Other atypical Income/charges	(13)	-	(77,229)
Operating result		**(80,448)**	**(12,852)**
Portion of results of equity investments carried at equity		(10)	(937)
Net financial income (Charges)	(14.1)	(72,802)	(29,741)
Other net financial income (charges)	(14.2)	(17,881)	(21,985)
Pre-tax result		**(171,141)**	**(65,515)**
Income taxes	(15)	17,305	5,851
Net result from operating activities (on-going)		**(153,835)**	**(59,664)**
Result from assets disposed of and/or destined to be disposed of	(16)	78,511	(76,950)
Net result		**(75,324)**	**(136,614)**
Attributable to:			
- Result pertaining to the parent company		(65,308)	(130,572)
- Minority interests		(10,016)	(6,042)
Earnings (Loss) per share	**(17)**	-	-
From operating activities and those disposed of:			
- Basic		-0.15	-0.32
- Diluted		-0.14	-0.32
From operating activities:			
- Basic		-0.34	-0.13
- Diluted		-0.31	-0.13

Consolidated Balance Sheet

(EUR 000)

	NOTES	31.12.2007	31.12.2006
Non-current assets			
Goodwill	(18)	515,022	316,646
Intangible assets	(19)	286,042	218,371
Properties, plant and machinery	(20)	272,260	181,173
Equity investments	(21)	2,465	2,474
Other financial assets	(22)	28,269	13,095
Deferred tax assets	(23)	106,634	144,706
		1,210,692	**876,465**
Current assets			
Inventories	(24)	10,756	4,084
Receivables from customers	(25)	164,452	135,737
Other receivables and other current assets	(26)	71,652	44,135
Other current financial assets	(27)	8,158	7,862
Cash and cash equivalents	(28)	134,231	3,824
		389,249	195,641
Assets held for sale		-	158,642
Total Assets		**1,599,941**	**1,230,748**
Share Capital and reserves			
Share Capital		212,207	212,207
Share premium reserve		902,492	948,017
Translation reserve		(35,211)	4,685
Stock option reserve		9,969	-
Equity bond reserve		22,053	-
Retained earnings		(941,862)	(922,079)
Shareholders' equity pertaining to the Group	**(29)**	**169,647**	**242,829**
Minority interests		37,322	26,733
Shareholders' equity pertaining to minority shareholders		**37,322**	**26,733**
Total Shareholders' equity		**206,970**	**269,561**
Non current liabilities			
Bonds	(30.1)	43,842	-
Payables to banks and to other lenders	(30.2)	480,139	30,730
Payables for financial leases	(30.3)	79,467	15,918
Other non-current liabilities	(31)	120,807	131,398
Liabilities for pension obligations and staff severance	(32)	5,852	6,194
Provisions for risks and charges	(33)	28,624	38,059
Provision for deferred taxation	(34)	27,891	-
		786,623	**222,299**
Current liabilities			
Bonds – Current portion		-	-
Payables to banks and other lenders	(35.1)	176,204	374,787
Payables for financial leases	(35.2)	19,502	12,303
Payables to suppliers	(36)	239,127	180,147
Other current liabilities	(37)	171,515	106,720
		606,348	**673,957**
Liabilities directly related to assets held for sale		-	64,932
Total liabilities and Shareholders' equity		**1,599,941**	**1,230,748**

Consolidated Cash Flow Statemet

(EUR 000)

	2007	2006
OPERATIONS		
Result pertaining to the parent company	**(75,324)**	**(136,614)**
Adjustments for:		
Share of results of equity investments assessed in accordance with the equity method	10	937
Amortization of properties, plant and machinery	58,377	41,129
Amortization of intangible activities	104,367	88,966
Goodwill writedown	68,262	71,000
Net capital losses/gains from disposals of properties, plants and machinery	(1,485)	(82)
Profit/losses deriving from the disposals of subsidiaries net of taxes	(199,227)	-
Increases in provisions for risks and receivable writedowns	27.332	15,394
Staff costs relating to stock options	9,969	
Other unusual income	-	(77,229)
Income Taxes	(17,305)	(5,851)
Financial income/charges	90,683	51,726
Cash flow from operations before capital changes	**65,659**	**49,376**
(Increase)/Decrease in inventories	(6,672)	451
(Increase)/Decrease in trading activities and other	(53,570)	(15,611)
(Increase/Decrease) in trading liabilities and other	14,107	27,136
(Increase)/Decrease in other liabilities	(12,547)	(4,616)
(Increase)/Decrease in risk provision	(9,435)	21,184
(Increase)/Decrease in staff severance provision	(342)	86
Cash and Cash Equivalents deriving from operations	**(2,800)**	**78,006**
Payed interests	(85,943)	(38,537)
Payed income taxes	(890)	(1,960)
NET CASH FROM OPERATIONS	**(89,633)**	**37,509**
INVESTMENT ACTIVITY		
Income from financial assets acquisition	-	14,796
Payments for acquisitions of financial assets	(6,110)	-
Equity investment acquisitions	-	2,297
Countervalue from the sale of properties, plant and machinery	7,587	6,086
Countervalue from the sale of "sale & lease back" properties	61,400	-
Countervalue from the sale of intangible assets	2,887	5
Received interest	4,443	1,323
Acquisition of properties, plant and machinery	(103,311)	(77,410)
Acquisition of sale & lease back properties	(61,400)	-
Acquisition of intangible assets	(90,183)	(101,422)
Goodwill increase	(392)	-
Acquisition of subsidiaries	(269,403)	-
Countervalue from the disposals of subsidiaries	282,140	-
NET CASH USED FOR THE INVESTMENT ACTIVITY	**(172,342)**	**(158,919)**
FINANCIAL ACTIVITY		
Income from issuing shares of the subsidiary for third parties	18,427	-
Income from issuing convertible bond loans	60,000	-
Repayment of convertible bond loans	-	(146,954)
Payments for issuing costs relating to shares and convertible bond loans	(2,250)	-
Income from loans	880,000	268,681
Repayment of loans	(625,230)	(6,680)
Payments for issuing cost relating to payables	(14,342)	(9,608)
Increase in payables for financial leases	70,748	(6,279)
NET CASH DERIVING FROM/(USED FOR) THE FINANCIAL ACTIVITY	**387,353**	**99,160**
NET INCREASE/(DECREASE) IN NET CASH AND CASH EQUIVALENTS	**125.378**	**(22,250)**
Cash and cash equivalents of the assets operating at the beginning of the financial year	3,824	30,005
Cash and cash equivalents of the assets disposed of and destined to sale at the beginning of the financial year	5,029	1,099
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE FINANCIAL YEAR	**8.853**	**31,104**
Cash and cash equivalents of the assets operating at the end of the financial year	134,231	3,824
Cash and cash equivalents of the assets disposed of and allocated at the end of the financial year	-	5,029
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR	**134,231**	**8,853**

Statement Of Changes In Consolidated Shareholders' Equity

(EUR 000)

	Share capital	Share premium reserve	Translation reserve	stock option reserve	Equity bond reserve	Retained earnings	Group shareholders' equity	Minority interests	Total
Balance at 01.01.2007	212,207	948,017	4,685	-	-	(922,079)	242,829	26,733	269,561
Increases	-	-	-	9,969	22,053	-	32,022	18,427	50,449
Transfers covering losses	-	(45,525)	-	-	-	45,525	-	-	-
Exchange differences arising on the translation of the financial statements of foreign companies	-	-	(39,896)	-	-	-	(39,896)	2,178	(37,718)
Changes in the consolidation area	-	-	-	-	-	-	-	-	-
Profit (Loss) recorded under equity in the period	**-**	**(45,525)**	**(39,896)**	**9,969**	**22,053**	**45,525**	**(7,874)**	**20,605**	**12,731**
Net profit (loss) for the period	-	-	-	-	-	(65,308)	(65,308)	(10,016)	(75,324)
Total profit (loss) for the period	**-**	**(45,525)**	**(39,896)**	**9,969**	**22,053**	**(19,784)**	**(73,182)**	**10,589**	**(62,593)**
Balance at 31.12.2007	212,207	902,492	(35,211)	9,969	22,053	(941,863)	169,647	37,322	206,970

	Share capital	Share premium reserve	Translation reserve	stock option reserve	Equity bond reserve	Retained earnings	Group shareholders' equity	Minority interests	Total
Balance at 01.01.2006	198,369	953,717	3,975	-	-	(847,294)	308,767	2,553	311,320
Increases	13,838	48,708	-	-	-	-	62,546	-	62,546
Transfers covering losses	-	(54,409)	-	-	-	54,409	-	-	-
Exchange differences arising on the translation of the financial statements of foreign companies	-	-	710	-	-	1,377	2,087	-	2,087
Changes in the consolidation area	-	-	-	-	-	-	-	30,455	30,455
Minority interests	-	-	-	-	-	-	-	(233)	(233)
Profit (Loss) recorded under equity in the period	**13,838**	**(5,701)**	**710**	**-**	**-**	**55,786**	**64,634**	**30,222**	**94,856**
Net profit (loss) for the period	-	-	-	-	-	(130,572)	(130,572)	(6,042)	(136,614)
Total profit (loss) for the period	**13,838**	**(5,701)**	**710**	**-**	**-**	**(74,786)**	**(65,938)**	**24,180**	**(41,758)**
Balance at 31.12.2006	212,207	948,017	4,685	-	-	(922,079)	242,829	26,733	269,561

Investments

194

EUR million

Explanatory notes

Tiscali S.p.A. is a limited company incorporated under the laws of the Republic of Italy at the Cagliari Companies' Register. The main activities of Tiscali and its subsidiaries are described in the economic and financial analysis section of the report on operations.

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

These financial statements were prepared on the assumption that the company is a going concern and is operating normally, in that the Group prospects are considered fully coherent with a balanced economic and financial position as forecast in the business plans. In reference to Tiscali's competitive scenario and sector characteristics, availability of financial resources for supporting the development plans and repaying the financial debts falling due remain essential for the business continuity. During 2007, important re-financing agreements were entered into with Banca Intesa SanPaolo and JP Morgan, and a "sale & leaseback" transaction was concluded on the Cagliari property, which together with the proceeds deriving from the disposals in the Netherlands, Germany and the Czech Republic, as well as the capital increase taking place at the beginning of 2008, made it possible to achieve a more balanced financial position. With this context, the Group's ability to generate positive cash flows and operating results remains of primary importance, being a condition which significantly influences the evolution of Tiscali's financial position as well as the reaching of the goals in the 2008-2012 plan, and, therefore, its financial, equity and economic equilibrium.

1. Format and content of accounting statements

The 2007 consolidated financial statements were drawn up by following both the International Accounting Standards ("IFRS") issued by the Accounting Standards Board ("IASB") and ratified by the European Union, and the measures issued in conformity with Article 9 of Italian Legislative Decree no. 38/2005. IFRS include also all the reviewed international accounting standards ("IAS") and all the interpretations by the International Financial Reporting Interpretations Committee ("IFRIC") previously called Standing Interpretations Committee ("SIC").

The consolidated financial statements are composed of accounting statements (Income Statement, Balance Sheet, Statement of changes in consolidated shareholders' equity, and Cash Flow Statement), with explanatory notes. The Income Statement was drawn up in line with the minimum contents fixed by IAS 1 – Presentation of Financial Statements – with costs assignment by nature; the Balance Sheet was drawn up by following the scheme pointing out division of "current/non-current" assets and liabilities; the Cash Flow Statement was drawn up by following the indirect method. The 2006 Cash Flow Statement was reclassified so as to make it comparable with the 2007 Cash Flow Statement.

As from the financial year 2007, with subsequent adaptation of 2006 Income Statement, the intermediate result "gross operating margin" is no longer pointed out, in order to follow the example income statement scheme proposed by IAS 1 more strictly. Furthermore, the income statement item "stock option plan costs" was introduced. Those costs were not present in the financial year 2006. The operating costs of Pipex (EUR 23.3 million) considered with non-recurrent character were assigned to restructuring costs, in accordance with the integration and restructuring plan started after the acquisition and currently going on.

In conformity with IFRS 5, and with the necessary requirements, the income statements of the assets destined to be sold, especially the ones in the Netherlands, Germany and Czech Republic, were recorded under the item of the consolidated income statement "results of the disposed of or destined to be transferred assets", in relation to both the financial years 2007 and 2006, attached to these financial statements for comparative purpose.

2. Accounting standards

2.1 General standards

The consolidated financial statements were prepared in compliance with the International Financial Reporting Standards (IAS/IFRS). The main accounting standards are detailed below. These standards were applied consistently to all periods presented.

Preparation of the financial statements requires management to make accounting estimates and in certain cases assumptions in the application of accounting standards. The areas where assumptions and estimates are significant to the financial statements are disclosed in note 3 of this section.

2.2 Basis of consolidation

The consolidation area includes the parent company Tiscali S.p.A. and the companies over which Tiscali – either directly or indirectly – has the power to govern the financial and operating policies so as to obtain economic benefits from their activities. In the specific circumstances relating to Tiscali, control involves the majority of voting rights exercisable at ordinary shareholders' meetings of the companies included in the consolidation area.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are de-consolidated from the date on which control ceases.

All significant intra-company transactions within the Group and the relevant balances are eliminated on consolidation, as are unrealised gains and losses on intra-group operations.

Minority interests and net profit attributable to minority shareholders are classified separately from the Group's equity and results, on the basis of the percentage of net Group assets they possess.

Consolidation area

Changes in the consolidation area during 2007, when compared with the consolidated financial statements at 31 December 2006, are illustrated as follows:
During the month of February 2007, the disposals of the German assets (BTC and BTB) and of the Spanish affiliated company Tiscali Telecomunicaciones were completed.
During June 2007, the disposed of the Dutch assets to KPN Telecom was finalized. This was achieved thanks to the approval of the sale by the Dutch anti-trust authority.
In July 2007, disposal of the assets 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 39 below.
Greater details on the disposals are contained in the Report on operations.
In these financial statements, the overall economic result of the Dutch, German, Spanish and Czech subsidiaries is stated in the item Result from assets disposed of and/or destined to be disposed of (discontinuing operations), while the remaining, non-disposed of accounting balances have been reclassified under on-going activities.
The residual balance sheet values of these activities are not significant.

2.3 Business combinations and Goodwill

The acquisition of subsidiaries is accounted for using the purchase method, in accordance with IFRS 3 – *Business combinations*. The cost of the acquisition is measured as the aggregate of the fair values, at the date of the exchange, of assets, liabilities incurred or undertaken concerning the acquired company, and the financial instruments possibly issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair values at the acquisition date.

The excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised represents the goodwill arising on acquisition that is stated as an asset and initially valued at cost. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities, exceeds the cost of the business combination, the excess is booked immediately to the income statement.

The interest of minority shareholders in the acquiree is initially stated at the minority's proportion of the net fair values of the assets, liabilities and contingent liabilities stated.

Following initial statement, goodwill is recorded at cost less any accumulated impairment losses. In compliance with IFRS 3, goodwill is not amortised, but subject to impairment tests in order to identify any reductions in value.

Impairment testing on goodwill is compulsorily repeated once a year or more frequently if events or changes in circumstances indicate a possible impairment, i.e. a loss of value.

The impairment, if any, is identified by means of assessments referring to the ability of each 'unit', identifiable in this case with the subsidiary, to generate cash flows sufficient to recover the goodwill allocated to the unit. The recoverable amount is the higher between the 'fair value' less sales costs and its utilisation value. The expected future cash flows are discounted at a rate that reflects the current market estimate of the cost of money, the cost of capital and the risks specific to the unit. If the estimated recoverable amount of the unit concerned is lower than the relevant carrying value, it is decreased to the lower recoverable value. Impairment losses are booked to the income statement under writedown costs and are not subsequently reinstated.

On first time adoption of the IFRS and in accordance with the exemption envisaged by IFRS 1, it was not considered necessary to avail of the option of 'reconsidering' the acquisition transactions carried out prior to 1 January 2004. Consequently, the goodwill deriving from the business acquisitions which took place prior to this date, has been stated at the value recorded for this purpose in the last set of financial statements drawn up on the basis of the previous accounting standards (1° January 2004, date of changeover to the IFRS), subject to checking and statement of any impairment losses which arose as of the date this document was drawn up.

On disposal of a subsidiary, the net book value of the goodwill is calculated as the expected capital gain or loss on disposal.

2.4 Equity investments in associated companies

Associated companies are those over which the Group has significant influence, i.e. the power to participate in the financial and operating policy decisions of the investee, but without control or joint control over those policies.

Equity investments in associated companies are entered on the balance sheet as Non-current Assets and assessed using the equity method. Under the equity method, equity investments in associates are booked to the consolidated balance sheet at acquisition cost, as adjusted for post-acquisition changes in the shareholders' equity of the associate, less any impairment in the value of individual equity investments.

Any excess of the cost of acquisition over the Group's share of the net fair value of identifiable assets, liabilities and contingent liabilities of the associate at the date of acquisition is recognised as goodwill. The goodwill is included in the book value of the investment and is subject to impairment testing. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition of the associate at the date of acquisition is booked to the income statement in the financial year of acquisition.

When losses in an associate exceed the Group's interest, such losses are not recognised, unless the Group has applied a covering hedge.

2.5 Assets held for sale and discontinued operations

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

The assets (related to equity investments) are thus classified if it is estimated that their book value will be recovered by disposal rather than by continued use. This condition is observed only when the sale is highly probable, the asset (or investment) is available for immediate sale in its present condition and the Board of Directors of the parent company is committed to the sale, completion of which should be expected within one year from the date of classification.
After the sale, the remaining values were reclassified in the different balance sheet items.

For the purposes of classification in the income statement, gains and losses on assets held for sale and/or assets disposed of were listed and continue to be listed under the item 'Results from assets disposed of and/or intended to be disposed of (discontinued operations) if the conditions listed below and established by IFRS 5 apply to such assets:

A) they represent an important independent line of business or geographic business area;
B) they are part of a single co-ordinated plan to dispose of an independent major line of business or geographic business area;
C) they involve subsidiaries acquired exclusively with a view to resale.

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

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

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

2.6 Foreign currency transactions

The financial statements of foreign subsidiaries are presented in the currency of the primary economic environment in which they operate (operating currency). For the consolidated financial statements, accounting positions are presented in Euro, i.e. the Company's operating currency and the reporting currency for the consolidated financial statements. When preparing the financial statements of the individual companies, transactions in currencies other than Euro are initially recognised at the exchange rate prevailing at the time. At the reference date, the monetary assets and liabilities expressed in the above-mentioned currencies are retranslated to the rates prevailing at that date. Non-monetary items recognised at 'fair value' and expressed in foreign currency are retranslated at the rates prevailing on the date of the fair value calculation.

Exchange differences arising from settlement of monetary items and retranslation of monetary items using current exchange rates at year end, are booked to the income statement for that period.

For the purpose of presenting the consolidated financial statements, the assets and liabilities of foreign subsidiaries with operating currencies other than Euro, are translated into Euro at the rates prevailing at the financial year end date. Revenues and costs are translated at the average exchange rates for the period. The exchange differences arising from the application of this method are classified as equity under the Translation reserve. This reserve is booked to the income statement as income or expense in the period in which disposal of the foreign subsidiary is completed.
The exchange differences coming up from intra-group receivable/payable relationships of financial character are recorded in the shareholders' equity special conversion reserve.

The main exchange rates used for translation of the 2007 and 2006 financial statements for foreign companies into Euro were:

	31.12.2007		31.12.2006	
	average	final	average	final
GB pound	0.6994	0.7334	0.6729	0.6715
Czech coruna	26.317	26.628	27.7780	27.4850

2.7 Other intangible assets

Computer software – Development costs

Acquired computer software licenses are capitalised and included among intangible assets at purchase cost and are amortised on a straight-line basis over their estimated useful lives.

Internally-generated intangible assets arising from costs supported for the development of applications software under Group control and directly associated with the production of services, in particular with regard to 'technological platforms' for access and management of the Tiscali network, are recognised if the following conditions are met: (a) the asset created can be identified; (b) it is likely that the asset created will generate future economic benefits; (c) the development cost of the asset can be reliably gauged.

These internally-generated intangible assets are amortised on a straight-line basis over their estimated useful lives.

Costs associated with the development and the ordinary maintenance of software not meeting the above mentioned requirements, and with research costs, are charged in full to the income statement in the period in which they are incurred.

Long-term rights of use (IRU – 'Indefeasible Right of Use')

The IRU mainly refer to costs sustained for the purchase of long-term rights of use for the fibre optics network, i.e. the 'transmission capacity' and related charges. Amortisation is calculated using the straight-line method, either over the remaining life of the agreement or the estimated utilisation period of the right, whichever is the shorter. The amortisation period varies on average between 12 and 15 years.

Broadband service activation costs

These assets refer to equity investments incurred for the activation of broadband (ADSL) services, such as contributions for connection to the Tiscali network to 'networks managers' in the various geographic areas and relevant user equipment. These capitalised costs are amortised on a straight-line basis in relation to the minimum legal duration of the customer contract, currently 12 months, after which the contract is tacitly renewed, though the customer has the option to withdraw without penalty. For amortisation purposes the reference period is significantly shorter than the expected duration of the customer contract, usually 36 months on average, taking into account company statistics and market conditions. The standard adopted complies with IAS 38 – Intangible assets, considering that the customer has the right 'not to renew' his contract beyond the minimum period.

Intangible assets also include those originating from the VNL and Pipex business combination transactions in relation to software, IPTV content agreements, brands, customers' databases and non-competition agreements amortised on average over five financial years.

2.8 Properties, plant and machinery

Properties, plant and machinery are stated at purchase or production cost, including accessory charges directly attributable to the purchase of the items, less accumulated depreciation and any writedowns for impairment. No revaluations have been provided for such tangible assets.

Depreciation is calculated using the straight-line method on the cost of each asset less the relevant residual value, if any, over its estimated useful life, as follows:

Land and Buildings	3%
Plant	12%-20%
Equipment	12%-25%

The depreciation rates adopted for IP and Ethernet network equipment (such as routers and L3/L2 switches), representing the most significant plant category, were calculated on the basis of a report drawn up by an independent consultant.

Routine maintenance expenses are charged to the income statement in full, in the financial year in which the costs were incurred, while maintenance expenses of an incremental nature are allocated to relevant assets and are depreciated over the residual useful life.

Leasehold maintenance costs are capitalised, posted under the relevant line of tangible assets and are amortised over either the estimated useful life of the asset or the remaining term of the lease, whichever is shorter.

Gains and losses arising on disposals of items of property, plant and machinery are calculated as the difference between sales revenue and net book value and are booked to the income statement for the year.

Assets held under finance lease

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and benefits of ownership to the lessee. All other leases are considered operating leases.

Assets held under finance leases are recognised as Group assets at their fair value at the time of stipulation of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation, under financial payables. Lease payments are divided into their capital and interest elements. Financial charges are directly booked to the income statement for the year.

Assets held under finance leases are depreciated using the straight-line method based on their estimated useful life, in the same manner as owned assets, or over the lease term if shorter and only if there is no reasonable certainty of redeeming the asset considering the lease expiry terms.

Moreover, as for asset disposal and backdating operations on the basis of financial lease contracts, the accomplished capital gains are deferred for the duration of contracts or the residual life of the asset (if lower).

Operating lease payments are booked to the income statement as costs on an accruals basis.
competenza temporale.

2.9 Impairment of assets

The book value of Other intangible assets and of Properties, plant and machinery are tested for impairment whenever events or changes in circumstance indicate that the book value may not be recoverable. Intangible assets with unlimited useful life (goodwill) are tested annually or more frequently if there is any indication that those assets have suffered impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment.

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash Generating Unit (CGU) to which the asset belongs. The recoverable amount is the higher between the 'fair value' less sales costs and its utilisation value. When assessing the utilisation value, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments on the value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash generating unit) is estimated to be less than its book value, the latter is written down to its recoverable amount. The relevant impairment is booked to the income statement under write-downs. If the reasons for impairment are considered to no longer apply in the current year, the book value of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but not beyond the net book value that would have been determined had no impairment been recognised for the asset in previous years. An impairment reversal is booked to the income statement.

2.10 Inventories

Inventories are stated at the lower of cost and net realisable value. Considering the circumstances and characteristics of the Group's assets, the cost refers to direct materials.

The cost is calculated by using the average cost method. The net realisable value is the selling price less the costs considered necessary for achieving the sale.

2.11 Financial instruments

The financial instruments held by the Group are included in the following financial statements items.
Equity investments items and other non-current financial assets include the equity investments in non-consolidated companies and other non-current financial assets which the Group intends to keep until expiry, and include the positive fair value of derivative financial instruments.
The current financial assets include trading receivables and the other current financial assets (guarantee deposits, essentially), as well as cash and cash equivalents.
In particular, the item Cash and Cash Equivalents includes bank deposits.
Financial liabilities relate to financial payables, including payables due to financial leases, and to other financial liabilities (including the possibly negative fair value of derivative financial instruments), trading payables, and other payables.

Assessment
Equity investments in non-consolidated companies included in the non-current financial assets are recorded pursuant to what has been described in the previous paragraph, Consolidation standards. The non-current financial assets different from equity investments, in the same way as current financial assets and financial liabilities, are recorded pursuant to IAS 39 – Financial instruments: surveying and assessment.

The financial assets held with the aim of keeping them until expiry are recorded on the basis of the settlement date; at the time of their first recording in the financial statements, they are estimated at acquisition cost, including transaction accessory costs. After the first surveying, the financial instruments available for sale and the negotiation instruments are assessed at fair value. If the market price is not available, the fair value of the financial instruments available for sale is fixed by means of the most adequate estimating techniques, such as the analysis of updated cash flows, carried out with the market information available at the financial statements date.

The profits and the losses from financial assets available for sale are estimated directly on the shareholders' equity, until the time in which the financial asset is sold or devalued; at the time when the asset is sold, the accumulated profits or losses, including the ones previously assigned to the shareholders' equity, are included in the income statement for the period; at the time when the asset is devalued, the accumulated losses are included in the income statement. The profits and the losses generated by fair value changes in the financial instruments, classified as held for negotiation, are recorded in the income statement of the period.
The loans and the receivables which the Group does not hold with negotiation purposes (loans and receivables originated during the typical activity), the securities held with the intent of keeping them in portfolio until expiry, and all the financial assets for which there are no quotations in an active market, and whose fair values cannot be fixed in a reliable way, are

estimated at the amortised cost, if they have a fixed expiry, by using the effective interest method. When financial assets have no fixed expiry, they are estimated at the acquisition cost. Receivables with expiry over one year, unprofitable receivables, and receivables maturing interests at lower rates with respect to the market, are updated by using market rates.
Estimates are regularly carried out with the aim of making sure whether there is objective evidence that a financial asset or a group of assets have been subject to market value reduction. If there is objective evidence, the value loss must be recorded as cost in the income statement of the period.

Apart from derivative financial instruments, the financial assets are shown at amortised cost by using the effective interest method. The financial liabilities hedged by derivative instruments are estimated in accordance with the standards fixed for hedge accounting, applicable at fair value hedge: the profits and the losses deriving from the following estimates at fair value, due to changes in relevant hedged risks, are recorded in the income statement, and are compensated through the effective portion of the loss or the profit coming from subsequent estimates of the hedging instrument at fair value.

Convertible bonds
Convertible bonds are financial instruments made up of a liability component and a shareholders' equity component. At the date of issue, the fair value of the liability component is estimated by using the current interest rate in the market, for similar non-convertible bonds. The difference between the net amount obtained from the issue and the fair value assigned to the liability component (representing the implicit option of converting bonds into shares of the Group) is included in the shareholders' equity as capital reserve. Issue costs are subdivided into the liability component and the shareholders' equity component, on the basis of their respective book values at the date of issue. The part relating to the shareholders' equity is directly meant for reducing the same.

The interest expenses relating to the liability component are calculated by using the current interest rate in the market for similar non-convertible bonds.
The difference between that amount and the really paid interest is recorded as increase in the book value of convertible bonds.

2.12 Derivative instruments

Periodically the Group uses derivative financial instruments mainly to hedge its financial risks associated with interest rate fluctuations on long/medium term debt. In accordance with treasury management policies the Group does not use derivative financial instruments for declared trading purposes

Derivative instruments are recorded and subsequently stated at fair value. For hedges, the Group adopts the rules established by IAS 39 on 'Hedge accounting', as follows:

Cash flow hedge
These are derivatives to hedge exposure to fluctuations in future cash flows arising in particular from risks relating to changing interest rates on loans. Changes in the fair value of the 'effective' portion of the hedge are booked to equity while the ineffective portion is booked to the income statement. Hedge effectiveness, i.e. its ability to adequately offset fluctuations caused by the hedged risk, is periodically tested, in particular analysing correlation between the 'fair value' or the cash flows of the hedged item and those of the hedging instrument.

Fair value hedge
Hedging instruments fall within this classification when used to hedge changes in the fair value of an asset or liability that are attributable to a specific risk. Changes of value related both to the hedged item, in relation to changes caused by the underlying risk, and to the hedging instrument are booked to the income statement. Any difference, representing the partial ineffectiveness of the hedge, therefore corresponds to the net economic effect.

With regard to financial instruments that do not qualify for hedge accounting, changes arising from the fair value assessment of the derivative are booked to the income statement.

2.13 Liabilities for pension obligations and staff severance indemnities

Defined benefit schemes (as classified by IAS 19), in particular the Staff Severance indemnities relating to employees of the parent company and the subsidiaries with registered offices in Italy, are based on valuations performed at the end of each financial year by independent actuaries. The liability recognised in the balance sheet is the current value of the obligation payable on retirement and accrued by employees at the balance sheet date. It should be specified that no assets are held in support of the above scheme. The Group has not adopted the 'corridor approach', therefore actuarial gains and losses are entirely recognised in the period in which they arise and are directly recorded in the income statement.

Payments made in relation to outsourced pension schemes and defined contributions schemes are booked to the income statement in the period in which they are due. The Group does not recognise post-employment benefit schemes, therefore periodic contributions do not involve further liabilities or obligations to be recognised as such in the financial statements.

As from 1 January 2007, the 2007 Finance Act and relevant implementing decrees introduced remarkable changes in the staff severance indemnity regulation, including the worker's choice in relation to assigning one's indemnity to supplementary pension funds or to the "Treasury Fund" managed by the social security.
Therefore, as a consequence, pursuant to IAS 19, the obligation with respect to social security, and contribution to supple-

mentary pension types acquire the characteristic of “Plans with definite contribution”, while the quotas assigned to staff severance indemnity provision acquire the nature of “Plans with definite performances”.

Furthermore, the law changes taking place starting from 2007 implied a new calculation of actuarial assumptions, and of the consequent methods used to calculate staff severance indemnities, whose effects were directly ascribed to the income statement.

2.14 Provisions for risks and charges

Provisions for risks and charges relating to potential legal and tax liabilities are established following estimates performed by directors on the basis of judgements developed by the Group legal and tax advisors, concerning the charges that are reasonably deemed to be incurred in order to settle the obligation. If in relation to the final result of such judgements the Group is called upon to fulfil an obligation for a sum other than that estimated, the related effects are reflected in the income statement.

2.15 Remuneration plans in the shape of capital investments

The Group pays additional benefits to some members of the top management and employees by means of capital investment plans (stock option plans). Those plans are a component of the beneficiaries’ remunerations.
The cost is the fair value of the stock options at the date of allocation, and for accounting purposes, it follows the rules fixed by “IFRS 2 – Payments based on shares”; the cost is reported in the income statement with countervalue relating directly to the shareholders’ equity.

2.16 Revenue recognition

Revenues from sales of services are recognised net of discounts, rebates and bonuses in the period in which the services are rendered by reference to completion of the specific transaction. In particular, for revenues from internet access services (‘narrowband’ and ‘broadband’) and voice services, recognition in the income statement is based on the actual traffic produced at the reference date and/or periodic service rental payable at that date.

Revenues related to the activation of broadband services (ADSL), consistent with the relevant costs capitalised among intangible assets, are booked to the income statement on a straight-line basis in relation to the minimum legal duration of customer contracts, normally 12 months. Amounts relating to other financial periods are recorded under other current liabilities as deferred income.

The revenues originating from the sale of IRU (Indefeasible Rights of Use) are acknowledged per quota, depending on the duration of the concession, while any components which may be identified separately, whose fair values may be calculated, are recorded in the revenues on the basis of the nature of the performance or disposal.

2.17 Financial income and charges

Interest received and paid, including interest on bond issues, is recognised using the effective interest rate method.

2.18 Taxes

Income tax expense for the year includes the tax currently payable and deferred tax.

The *tax currently payable* is based on taxable income for the year. Taxable income differs from the result reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it also excludes items that are never taxable or deductible. Liability for current tax is calculated using tax rates applicable at the balance sheet date.

Deferred taxes are taxes likely to become payable or recoverable on temporary differences between the book value of assets and liabilities in the financial statements and the corresponding tax bases used in the calculation of taxable income, and are accounted for using the balance sheet liability method.
Deferred tax liabilities are generally recognised for all taxable temporary differences arising in the Group’s companies and subsidiaries, except where the Group is able to control reversal of the temporary difference and it is unlikely that the temporary difference will reverse in the foreseeable future.

Deferred tax assets, arising from temporary differences and/or previous losses, are recognised to the extent that it is probable that taxable profits will be available in the future against which deductible temporary differences and/or previous losses can be utilised. The provisions are based on taxable income likely to be generated in light of the approved business plans. Such assets and liabilities are not recognised if the temporary differences arise from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in transactions that affect neither the accounting result nor taxable income. The book value of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer likely that sufficient taxable income will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with under equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority, and the Group intends to settle its current tax assets and liabilities on a net basis.

2.19 Earnings per share

The basic result per ordinary share is calculated by dividing the operating result quota of the Group attributable to ordinary shares by the weighted average of the ordinary shares in circulation during the financial year.

For calculating the diluted result per ordinary share, the weighted average of shares in circulation is changed by assuming the subscription of all potential shares deriving, for instance, from the conversion of bonds, from exercising rights on shares with diluting effects, or from the potential diluting effect due to the allocation of shares to the beneficiaries of already accrued stock option plans.

3. Critical decisions in applying accounting standards and in the use of estimates

In the process of applying the accounting standards disclosed in the previous section, Tiscali's directors made some significant decisions in view of the recognition of amounts in the consolidated financial statements. The directors' decisions are based on historical experience as well as on expectations associated with the realisation of future events and considered reasonable under the circumstances.

3.1 Assumptions for the application of accounting strandards

Revenue recognition criteria

Revenues related to the activation of broadband services (ADSL) are deferred as the underlying benefits affect the entire duration of the customer contracts. The directors have deemed it appropriate to differ the recognition of these revenues (consistently with the corresponding activation costs, that have been capitalised among intangible assets) for a period of twelve months notwithstanding a significantly longer expected duration of the customer contract. The assumption adopted in applying IAS 18 'Revenue recognition' reflects a cautious interpretation of this standard considering that the customer may not renew his contract once the minimum period of twelve months has elapsed.

3.2 Accounting estimates and relevant assumptions

Impairment of goodwill

Goodwill is tested for impairment annually or more frequently during the financial year, as disclosed in the preceding section, under paragraph 2.3, 'Business combinations and goodwill'. The ability of each 'unit', identifiable in this case with the subsidiary, to generate cash flows such as to recover the goodwill allocated to the unit, is determined on the basis of the economic and financial data concerning the unit to which the goodwill refers. The development of such data, as well as the determination of an appropriate discount rate, requires a significant use of estimates.

Income taxes

The determination of income tax, in particular with reference to deferred taxes, involves the use of estimates and assumptions to a significant extent. Deferred tax assets, arising from temporary differences and/or previous losses, are recognised to the extent that it is probable that taxable profits will be available in the future against which deductible temporary differences and/or previous losses can be utilised. The provisions are based on taxable income likely to be generated in light of the approved business plans. Such assets and liabilities are not recognised if the temporary differences derive from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in transactions that affect neither the accounting result nor taxable income. The book value of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer likely that sufficient taxable income 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 liabilities are established following estimates performed by directors on the basis of judgements developed by the Group legal and tax advisors, concerning the charges that are reasonably deemed to be incurred in order to settle the obligation. If in relation to the final result of such judgements the Group is called upon to fulfil an obligation for a sum other than that estimated, the related effects are reflected in the income statement.

Fair value calculation

Depending on the instrument or financial statements item to be estimated, the directors identify the most suitable method, by taking into consideration market objective data as much as possible. In absence of market values, that is, quotations, estimating techniques are used, with reference to the ones which are most commonly used.

Accounting standards and interpretations applied in 2007

On 3 March 2006, the IFRIC issued interpretational document IFRIC 9 – *Subsequent assessment of underlying derivatives* in order to specify that a company must assess whether underlying derivatives must be separated from the primary contract and recognised as derivative instruments as of the moment that the company becomes party to the contract. Subsequently, unless contractual conditions are modified to produce significant effects on cash flows that would otherwise be required under contract, said assessment may not be implemented 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 accounting effect.

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.

In August 2005, the IASB issued the new accounting standard IFRS 7 – *Financial instruments: supplementary information* and a complementary amendment to IAS 1 – *Presentation of the financial statements: supplementary information relating to the share capital.* IFRS 7 requires supplementary information regarding the recognition of financial instruments concerning the performance and the financial position of a company. This information incorporates certain requisites previously included in accounting standard IAS 32 –*Financial instruments: disclosure in the financial statements and supplementary information*. The new accounting standard also requires information regarding the level of exposure to risk deriving from the use of financial instruments, and a description of the objectives, policies and procedures implemented by management to handle such risks. The amendment to IAS 1 introduces requirements relating to information to be provided on company capital. The Group adopted IFRS 7 in the 2007 financial statements.

Amendments and interpretations which are not applicable, yet, and were not previously adopted by the Group

On 30 November 2006, IASB issued accounting standard IFRS 8 – Business Segments, applicable as of 1 January 2009 in replacement of IAS 14 Segment Reporting.

The new accounting standard requires that the company bases information given in the Segment Report on elements used by management to make their business decisions, and therefore requires identification of the business segments based on internal reporting regularly reviewed by management for resource allocation purposes to the various segments and for performance analysis purposes.
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 income statement - 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 these financial statements, 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 these financial statements, the competent bodies of the European Union had not yet concluded the approval process necessary for the application of this standard.

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 these financial statements, 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, 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'* (applicable as from 1° January 2008 and not yet approved by the European Union).
- 'IFRIC 13 – *Customer Loyalty Programmes* (applicable as from 1° January 2009 and not yet approved by the European Union).

4. Revenues

The breakdown of revenues of the operating assets by country and by business segment is disclosed below.

Revenues by country (EUR 000) (*)	31.12.2007	31.12.2006
Italy	271,858	213,414
United Kingdom	593,481	430,313
Others	45,630	34,754
Total	**910,969**	**678,481**

(*) net of intra-group revenues and not including other income

Revenues by business segment (EUR 000)	31.12.2007	31.12.2006
Broadband ADSL access revenues	*471,909*	*357,920*
Dial up access revenues	*78,046*	*115,580*
Access revenues	549,955	473,500
VoIP revenues	125,503	32,172
Voice revenues	107,320	80,078
Business revenues	64,321	44,390
Media revenues (portal and others)	50,212	42,053
Other revenues	13,659	6,288
Total	**910,969**	**678,481**

The increase in revenues is mainly determined by the development of services in the broadband access segment. A detailed analysis of income statement performance for the year is included in the Report on Operations.

5. Segment reporting (by country and business segment)

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). This note reports the main results of these business segments, together with the balance sheet data of the various geographic areas and other information required by the reference standards.

Lines of business (Access, Voice, Business services / Business, Media) represent the secondary reporting segment, at sector information level. Note 4 above provides related information on segment revenues.

INCOME STATEMENT

31.12.2007 EUR (000)	Italy	United Kingdom	Others	Segment report	Unallocated	Total
Revenues						
From third parties	271,858	593,481	27,854	893,194	17,775	910,969
Intra-group	5,884	15,266	6,617	27,768	(27,768)	-
Total revenues	**277,743**	**608,748**	**34,471**	**920,962**	**(9,992)**	**910,969**
Operating result	**(6,360)**	**(54,238)**	**(79)**	**(60,677)**	**(19,771)**	**(80,448)**
Portion of results of equity inv. carried at equity						(10)
Net financial income (Charges)						(90,683)
Pre-tax result						(171,141)
Income taxes						17,305
Net result from operating activities (on-going)						(153,835)
Result from assets disposed of and/or destined to disposal destined to be disposed of						78,511
Net result						**(75,324)**

31.12.2006 EUR (000)	Italy	United Kingdom	Others	Segment report	Unallocated	Operating assets
Revenues						
From third parties	213,413	430,313	16,675	660,402	18,079	678,481
Intra-group	4,097	14,885	6,604	25,586	(25,586)	-
Total revenues	**217,510**	**445,199**	**23,279**	**685,988**	**(7,507)**	**678,481**
Operating result	**(13,015)**	**(59,539)**	**1,515**	**(71,040)**	**58,188**	**(12,852)**
Portion of results of equity inv. carried at equity						**(937)**
Net financial income (Charges)						(51,726)
Pre-tax result						(65,515)
Income taxes						5,851
Net result from operating activities (on-going)						(59,664)
Result from assets disposed of and/or destined to disposal destined to be disposed of						(76,950)
Net result						**(136,614)**

OTHER SEGMENT DATA AND BALANCE SHEETS

31.12.2007 EUR (000)	Italy	United Kigdom	Others	Segments	Unallocated	Total
Assets						
Segment assets	334,479	530,588	72,839	937,905	144,528	1,082,434
Equity investments carried at shareholders' equity	2,465	-	-	2,465	-	2,465
Equity investments in other companies	-	-	-	-	20	20
Goodwill	-	515,022	-	515,022	-	515,022
Total consolidated assets	**336,943**	**1.045,610**	**72,839**	**1,455,392**	**144,548**	**1,599,941**
Liabilities						
Segment liabilities	311,963	887,405	43,650	1,243,018	149,953	1,392,971
Total consolidated liabilities	**311,963**	**887,405**	**43,650**	**1,243,018**	**149,953**	**1,392,971**
OTHER INFORMATION						
Investments	79,443	89,915	8,719	178,076	15,417	193,494
Amortization/depreciation	45,614	94,036	7,592	147,242	15,502	162,744
Provisions to risk provisions and receivable write-downs	11,003	15,704	188	26,896	1,275	28,171

31.12.2006 EUR (000)	Italy	United Kigdom	Others	Segments	Unallocated	Total
Assets						
Segment assets	221,191	367,609	48,929	637,730	273,898	911,628
Equity investments carried at shareholders' 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**	**273,898**	**1,230,748**
Liabilities						
Segment liabilities	177,995	337,456	15,244	530,695	430,492	961,186
Total consolidated liabilities	**177,995**	**337,456**	**15,244**	**530,695**	**430,492**	**961,186**
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 to risk provisions and receivable write-downs	5,099	10,054	318	15,471	1,601	17,072

ASSETS BY BUSINESS SEGMENT

31.12.2007 EUR (000)	Access *Broadband*	Access *Narrowband*	Voice	Business services	Media & Vas	Unallocated	Total
Goodwill	-	-	-	4,390	-	510,632	515,022
Intangible assets	129,511	44	10,479	29,276	23	116,711	286,042
Properties, plant and machinery	215,299	2,180	19,022	13,746	-	22,014	272,260
Equity investments	-	-	-	780	-	1,685	2,465
Other financial assets	-	-	-	76	-	28,193	28,269
Deferred tax assets	-	-	-	-	-	106,634	106,634
	344,809	**2,223**	**29,500**	**48,267**	**23**	**785,869**	**1,210,692**
Current assets							
Inventories	-	-	-	-	-	10,756	10,756
Receivables from customers	75,668	8,715	44,888	15,306	9,962	9,912	164,452
Other receivables and other current assets	26,679	1,987	10,872	2,411	2,190	27,514	71,652
Other current financial assets	-	-	-	-	-	8,158	8,158
Cash and cash equivalents	-	-	-	4,210	-	130,022	134,231
	102,347	**10,702**	**55,759**	**21,927**	**12,152**	**186,361**	**389,249**
Assets held for sale	-	-	-	-	-	-	-
Total Assets	**447,156**	**12,925**	**85,260**	**70,194**	**12,175**	**972,230**	**1,599,941**

31.12.2006 EUR (000)	Access *Broadband*	Access *Narrowband*	Voice	Business services	Media & Vas	Unallocated	Total
Goodwill	-	-	-	6,584	-	310,062	316,646
Intangible assets	144,371	3,368	6,766	33,373	11	30,482	218,371
Properties, plant and machinery	80,672	21,618	1,580	22,776	-	54,527	181,173
Equity investments	-	-	-	780	-	1,694	2,474
Other financial assets	-	-	-	12	-	13,083	13,095
Deferred tax assets	-	-	-	16	-	144,690	144,706
	225,043	**24,986**	**8,346**	**63,542**	**11**	**554,538**	**876,465**
Current assets							
Inventories	-	-	-	-	-	4,084	4,084
Receivables from customers	75,152	5,410	27,228	27,912	4,124	(4,090)	135,737
Other receivables and other current assets	12,070	1,661	2,289	4,305	1,266	22,544	44,135
Other current financial assets	-	-	-	5	-	7,857	7,862
Cash and cash equivalents	-	-	-	589	-	3,235	3,824
	87,222	**7,071**	**29,518**	**32,811**	**5,390**	**33,631**	**195,641**
Assets held for sale	-	-	-	-	-	158,642	158,642
Total Assets	**312,265**	**32,057**	**37,864**	**96,352**	**5,401**	**746,811**	**1,230,748**

INVESTMENTS IN FIXED ASSETS BY BUSINESS SEGMENT

31.12.2007 EUR (000)	Access *Broadband*	Access *Narrowband*	Voice	Business services	Media & Vas	Unallocate	Total
Intangible assets	79,222	645	5,630	7,954	-	9,860	103,311
Properties, plant and machinery	70,687	23	5,464	908	12	13,088	90,183
	149,909	**668**	**11,094**	**8,862**	**12**	**22,949**	**193,494**

31.12.2006 EUR (000)	Access *Broadband*	Access *Narrowband*	Voice	Business services	Media & Vas	Unallocate	Total
Intangible assets	39,567	1,631	272	4,400	-	31,490	77,361
Properties, plant and machinery	74,156	1,724	3,962	7,185	412	13,982	101,420
	113,723	**3,355**	**4,234**	**11,585**	**412**	**45,472**	**178,781**

6. Other income

Other income amounts to EUR 5.6 million on the whole, and includes the quotas pertaining to the capital gain from the disposal of SA Illetta for about EUR 1.9 million, as well as other income.

7. Purchase of materials and outsourced services

EUR (000)	31.12.2007	31.12.2006
Purchase of raw materials and goods for resale	-	1,035
Line/traffic rental and interconnection costs	424,883	327,272
Costs for use of third party assets	16,172	12,715
Portal services	46,874	23,563
Marketing costs	89,172	75,902
Other services	74,044	57,902
Total	**651,144**	**498,389**

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

8. Payroll and related costs

EUR (000)	31.12.2007	31.12.2006
Wages and salaries	73,776	51,643
Other personnel costs	23,390	26,240
Total	**97,166**	**77,883**

At 31 December 2007, the Tiscali Group had 1,935 employees. The breakdown by category and the corresponding balance at 31 December 2006 are presented below.

	31.12.2007	31.12.2006
Senior managers	100	53
Middle managers	311	128
Office staff	1,521	1,168
Manual workers	3	5
Total	**1,935**	**1,354**

9. Stock option plan cost

EUR (000)	31.12.2007	31.12.2006
Stock option plan cost	11,697	-
Total	**11,697**	**-**

The amount entirely reflects the provision made for charges relating to the stock option plan of the UK (EUR 9 million) and Italian subsidiaries (EUR 0.9 million). The residual amount, amounting to EUR 1.8 million, is represented by further benefits meant for the management of the English subsidiaries.

10. Other operating costs

The table below shows a breakdown of these costs:

EUR (000)	31.12.2007	31.12.2006
Other operating expenses	2,673	3,608
Contingencies, capital losses and other non recurrent costs	4,212	1,864
Totale	**6,885**	**5,472**

11. Write-downs of receivables from customers

EUR (000)0	31.12.2007	31.12.2006
Writedowns of receivables from customers	27,332	15,394
Total	**27,332**	**15,394**

The writedown of receivables from customers represents around 3% of revenues, up slightly with respect to the percentage in the same period of 2006 (2.3%).

12. Restructuring costs and other writedowns

EUR (000)	31.12.2007	31.12.2006
Restructuring costs and other writedowns	40,101	45,013
Total	**40,101**	**45,013**

Restructuring costs and other writedowns, amounting to EUR 40.1 million, include: Pipex Division restructuring costs for EUR 23.3 million, which are regarded as non-recurrent in the future, writedowns of fixed assets for EUR 5 million relating to the Pipex, charges relating to the VAT dispute as well as the settlement of the Kinsella claim pertaining to Tiscali International BV for EUR 5.4 million, the impairment of the goodwill of minor Italian assets regarded as no longer profitable for EUR 3.4 million, other charges relating to the Video Network Ltd restructuring plan for EUR 1 million, restructuring charges attributable to Tiscali Italia S.p.A. for EUR 0.5 million and to Tiscali S.p.A. and Tiscali Service S.p.A. for a total of EUR 0.4 million.

13. Other atypical (Income) Charges

EUR (000)	31.12.2007	31.12.2006
Other atypical (Income) Charges	-	(77,229)
Total	**-**	**(77,229)**

The balance of EUR 77.2 million in 2006 was originated by the Video Networks Ltd (VNL) merger transaction which took place during the third quarter of 2006. This transaction, which led to the acquisition and consolidation of VNL's activities, a company wholly-owned by Tiscali UK, took place with the simultaneous Tiscali UK share capital increase intended for third parties, against the conferral by the same of the VNL activities, to be valued at fair value. This contribution led to a dilution of the Group interest previously held in Tiscali UK, but at the same time led to an increase in absolute value of the Group's equity interests in that company. In fact, following the VNL business combination concluded via a 100% share swap and increase in shareholders' equity in Tiscali UK, the Group achieved a net increase in equity value even if its control percentage was reduced. This increase, in accordance with reference accounting standards, is reflected under the relevant item of the income statement, coherent with the "parent company approach" of the current versions of IFRS 3 and IAS 27.

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14. Financial Income (Charges)

14.1 Net financial Income (Charges)

A breakdown of net financial income (charges) for the year, presenting a negative balance of EUR 72.8 million, is provided below.

EUR (000)	31.12.2007	31.12.2006
Financial income		
Interest on bank deposits	2,832	673
Interest earned	1,598	268
Other	13	383
	4,443	**1,323**
Financial charges		
Interest on bonds	-	8,904
Interest and other charges due to banks	77,245	22,160
	77,245	**31,064**
Net financial income (Charges)	**(72,802)**	**(29,741)**

The item Financial income mainly includes the fair value valuation of the IRS recorded by Tiscali International BV, for a total of around EUR 1.3 million as well as other interest earned from loans (of which, first of all, EUR 1.1 million from the Barclays loan and EUR 0.6 million from the Banca Intesa JP Morgan loan).

The item Financial charges totalling EUR 77.2 million includes interest expense charged by Silver Point for EUR 6.7 million, interest charged by Banca Intesa SanPaolo for EUR 16.1 million, interest recorded by the UK subsidiary on the Barclays loan for EUR 4.8 million and EUR 29 million in interest on the new Banca Intesa SanPaolo loan.
Still for the UK subsidiary EUR 7.8 million financial charges were recorded, originating from the income statement inclusion of amounts due to the former shareholders of VNL, relating to the current value of previous losses concerning such company, as well as lease interests for EUR 1.1 million and trading payable interests for EUR 0.9 million.
Furthermore, there are interests recorded by the Italian subsidiary amounting to EUR 6.8 million, minor amounts recorded by other Group companies for EUR 1.45 million, and EUR 1.9 million in interest on the amounts due to shareholders.

The balance for 2007 is higher than that in the same period last year due to the different composition and the related cost of borrowing.
Indeed, in 2006 debt was made up primarily of a financial instrument convertible into shares (bond issue), while in 2007 debt was made up entirely of bank instruments entailing higher credit spreads, in the framework of a general increase in market rates.
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 EUR 30.5 million.

14.2 Other net financial Income (Charges)

The item Other net financial income and charges during the period under review, totalling EUR 17.8 million, includes the penalties linked to the transactions with Silver Point (EUR 13.3 million, essentially relating to the early repayment of the loan) and with Banca Intesa SanPaolo (EUR 4.5 million relating to the penalty for the late collection on the sale of the Dutch activities). The corresponding balance in 2006, totalling EUR 21.9 million, also included penalties linked to the transactions with Silver Point.

EUR (000)	31.12.2007	31.12.2006
Other net financial income (charges)	(17,881)	(21,985)
	(17,881)	**(21,985)**

15. Income taxes

EUR (000)	31.12.2007	31.12.2006
Deferred taxes	18,195	7,811
Current taxes	(890)	(1,960)
Net taxes for the year	**17,305**	**5,851**

In December 2007, a tax assets allocation equalling EUR 18.2 million was carried out on the Dutch fiscal unit. That allocation amounts to the tax burden estimated for the years 2008-2010, calculated in relation to the profits of the fiscal unit assessed in the business plan, and whose overall value equalled EUR 34.3 million.
Current taxes relate to IRAP (Regional tax on productive activities) of Italian subsidiaries.

Deferred tax assets
At 31 December 2007, the total deferred tax assets due to prepaid tax were EUR 106.6 million.

EUR (000)	31.12.2007	31.12.2006
Deferred tax assets	106,634	144,706
Total	**106,634**	**144,706**

Deferred tax assets recorded in the financial statements mainly relate to tax losses brought 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.

The balance relates in particular to the Tiscali Group companies listed below:

- Prepaid taxes relating to Tiscali International NV and subsidiaries included in the Dutch consolidated tax regime for EUR 34.3 million (EUR 67.2 million at 31 December 2006), originating in full from previous tax losses. The change on the decrease of EUR 51 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 operating activities, happened during the financial year. The balance at 31 December 2007 is essentially relatable to the future income which may be generated by the intra-group interest earned which the subsidiaries will accrue in the future.

- Prepaid taxes pertaining to the subsidiary Tiscali UK, amounting in total to EUR 72.3 million (EUR 77.5 million at the end of 2006).

Tax losses of subsidiaries operating in the United Kingdom can be carried forward indefinitely, while the ones relating to the Netherlands are expiring from 2011 to 2013. 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 note 35 below, which also contains illustration of the outstanding tax disputes.

The table below illustrates the movements in prepaid taxes during 2007, broken down by the various Group companies included in the 'on-going operations' area.

EUR (000)	31.12.2006	Utilisation	Increase	Other changes(*)	31.12.2007
Tiscali International BV	67,152	(51,000)	18,195	-	34,247
Tiscali UK Ltd	77,519	-	-	(5,251)	72,268
Tiscali International Network S.p.A.	18	-	-	-	18
Tiscali International Sa	17	-	-	(17)	-
Total	**144,706**	**(51,000)**	**18,195**	**(5,267)**	**106,634**

(*) Changes in the translation reserve (exchange rate effects) and others

The tax benefit relating to previous losses brought forward compared to those recognised as assets for prepaid tax (deferred tax assets) represent only a part of the tax benefit linked to previous losses brought forward by the Tiscali Group companies which, at 31 December 2007, totalled EUR 1,775.6 million.

It should be noted that the sum of the prepaid taxes recorded in total is within the limits of the financial statement balance of EUR 106.6 million, as in the opinion of Tiscali S.p.A. directors and on the basis of the current business plan there are no reasonable assumptions justifying a higher recording, in particular considering the time factor.

The following table illustrates total previous tax losses deductible by the Tiscali Group and divided by year of expiry, together with deductible temporary differences. The same table illustrates the prepaid taxes with separate indication of those which, for the reasons stated above, were not recognised to accounts.

EUR (000)	Total	Year of expiry (*)				
	at 31.12.2007	2008	2009	2010	Beyond 2010	Indefinite
Total previous tax losses	1,603,950	178,684	123,468	16,751	319,616	965,431
Deductible temporary differences	171,654	81,515	53,888	10,170	23,539	2,544
Total tax losses and deductible temporary differences	**1,775,604**	**260,199**	**177,356**	**26,921**	**345,155**	**967,975**
Total deferred tax assets (at the theoretical average tax rate of 28%)	490,275					
Deferred tax assets recognised	106,634					
Deferred tax assets not recognised	**383,642**					

(*) For temporary differences this is the year of utilisation/deduction

The tax losses correspond to those recorded in tax returns and, for 2007, to taxable income calculations.

These losses relate to the parent company and Italian subsidiaries (EUR 599.6 million), Tiscali International BV and Dutch subsidiaries (EUR 155.8 million less confirmed adjustments) and to subsidiaries operating in the UK (EUR 1,020.2 million).

Tax losses with not indefinite maturities relate to Italian companies and in particular, with regard to maturities in 2008, to tax losses to be utilised exclusively against parent company taxable income.

16. Operating assets disposed of and/or assets held for sale

This note provides information on the result of operating assets disposed of and those held for sale, mainly comprising non-strategic equity investments in subsidiaries, as well as details on activities referring to those equity investments held for sale and of the liabilities directly related to the same outstanding as of the reference date.

16.1 Result of assets disposed of

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

EUR (000)	31.12.2007	31.12.2006
Gross capital gains (Losses) deriving from disposal of subsidiaries and/or asset disposals	199,227	-
Cancellation of goodwill and writedown of other assets destined to be disposed of	(101,969)	(71,000)
Other charges/release of provisions relating to disposals	(13,794)	(9,490)
Period result of subsidiaries disposed of and/or destined to be disposed of	(4,952)	3,540
Result from assets disposed of and/or destined to be disposed of	**78,511**	**(76,950)**

Gross capital gains (losses) deriving from disposals, amounting to EUR 199.2 million, were determined as follows:

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

The cancellation of the goodwill and the writedown of other assets destined for disposal include the cancellation of the consolidated goodwill amounting to EUR 64.8 million (relating to the German assets for EUR 26.4 million, the Dutch assets for EUR 35.5 million, the Spanish assets for EUR 1.1 million and the assets in the Czech Republic for EUR 1.8 million). After this cancellation, 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 disposal of the assets took place for a total of EUR 37.1 million.

Other disposal charges include the provision for restructuring relating to the German assets for EUR 10.4 million and other charges for EUR 3.4 million.

16.2 Assets held for sale and sold

Just the Period result of assets disposed of and/or destined to be disposed of, amounting to negative EUR 4.9 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 note 11.1.

Income statement of the operating assets Held for sale and sold		
EUR (000)	31.12.2007	31.12.2006
Revenues	66,427	190,085
Operating result	2,889	5,874
Pre-tax result	(4,350)	3,538
Net result	(4,952)	3,540

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

Assets		
EUR (000)	31.12.2007	31.12.2006
Non-current assets	-	129,763
Current assets	-	28,879
Assets held for sale	**-**	**158,642**

Liabilities		
EUR (000)	31.12.2007	31.12.2006
Non-current liabilities	-	12,337
Current liabilities	-	52,595
Liabilities directly related to assets held for sale	**-**	**64,932**

17. Earnings (Losses) per share

The earnings per share from operating activities and those disposed of amounted to EUR (0.15).
This is calculated by dividing the Parent Company's result, totalling EUR (65,308,429) by the weighted average of the number of shares during 2007, amounting to 424,423,163 shares.
The earnings per share from operating activities amounted to EUR (0.34).
This is calculated by dividing the result from operating activities, amounting to EUR (143,819,422) by the weighted average of the number of shares in 2007, amounting to 424,423,163 shares.

The diluted earnings per share from operating and sold assets are calculated by taking into consideration the adjustment to the trading profit concerning interests from convertible bonds, amounting to EUR 59,000, and the dilution effects originating from potentially ordinary shares relating to convertible bonds, which generate an increase in the number of shares equalling 42,441,316.

18. Goodwill

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

The increase of EUR 212.9 million during 2007 is essentially attributable to the acquisition of Pipex, while a more insignificant amount concerns the adjustment of the opening balance of Video Network Ltd's goodwill.

The item other movements, EUR 11.1 million, is attributable to the exchange delta on the opening value of the goodwill of Video Network Ltd..

EUR (000)	31.12.2006	Increases	Decreases	Other Movements	31.12.2007
Italy	3,406	-	(3,406)	-	-
United Kingdom	313,240	212,915	-	(11,133)	515,022
	316,646	**212,915**	**(3,406)**	**(11,133)**	**515,022**

The decrease, amounting to EUR 3.4 million, is due to the recording of losses reducing the consolidated residual goodwill of a few minor Italian assets.

As detailed in the section devoted to accounting standards, the impairment test on goodwill is applied at least annually or more frequently, if specific events or changes in circumstances indicate that assets may have suffered impairment. The impairment, if any, is identified by means of valuations referring to the ability of each 'unit', identifiable in this case with the subsidiary operating in a given geographic area, to generate cash flows sufficient to recover the goodwill allocated to the unit. The recoverable amount is the higher between the 'fair value' less sales costs and its utilisation value.

The expected future cash flows are discounted at a rate that reflects the current market estimate of the cost of money, the cost of capital and the risks specific to the unit. If the estimated recoverable amount of the unit concerned is lower than the relevant book value, it is decreased to the least recoverable value. Impairments are booked to the income statement under writedown costs and are not subsequently reversible.

In particular, the impairment test was developed by discounting expected future cash flows taken from the Tiscali business plan for the various business units over a limited period, also taking into account their presumed disposal value. The results arising from the application of the stated method (DCF – Discounted Cash Flow) did not highlight impairments and therefore no impairment writedowns were performed.

19. Intangible assets

Intangible asset movements for the year were as follows:

Intangible assets EUR (000)	Computers, software and development costs	Concessions and similar rights	Broadband service activation costs	Other	Total
Historic cost					
1.01.2007	**54,211**	**150,941**	**61,536**	**48,704**	**315,392**
Increases	3,159	17,875	49,991	19,157	90,183
Decreases	(452)	(19,541)	(38,243)	(15)	(58,251)
Acquisitions/changes in consolidation area	-	33,867	198	79,550	113,615
Revaluations/writedowns	-	-	-	-	-
Reclassifications	(44,726)	42,478	13,214	(37,473)	(26,507)
Exchange differences	(304)	(4,467)	4,445	917	(10,133)
Other	-	-	-	-	-
31.12.2007	**11,888**	**221,155**	**82,251**	**109,006**	**424,300**
EUR (000)					
Accumulated amortisation					
1.01.2007	**4,219**	**54,303**	**35,149**	**3,350**	**97,021**
Increases in amortisation	3,634	29,872	50,309	20,552	104,367
Decreases	(111)	(19,542)	(35,649)	-	(55,302)
Acquisitions/changes in consolidation area	-	6,571	7,132	-	13,703
Revaluations/Writedowns	-	-	-	-	-
Reclassifications	(1,093)	2,360	(2,229)	(1,747)	(2,710)
Exchange differences	(635)	2,985	(1,614)	(19,559)	(18,823)
Other	-	-	-	-	-
31.12.2007	**6,014**	**76,549**	**53,098**	**2,596**	**138,258**
EUR (000)					
Valore netto					
31.12.2006	**49,992**	**96,638**	**26,387**	**45,354**	**218,371**
31.12.2007	**5,874**	**144,606**	**29,153**	**106,409**	**286,042**

The item “Computers, software and development costs”, whose balance amounts to EUR 5.9 million, includes the capitalization of development costs of applicative software acquired for an unspecified time and personalized for the exclusive use of the company. Such costs mainly relate to the costs from internal staff devoted to it.

The balance of “Concessions and similar rights”, amounting to EUR 144.6 million, includes about EUR 81.3 million relating to rights and costs connected with the acquiring of conveying ability, on a several-year basis, in the shape of concession contracts for the use of the same (IRU/Indefeasible Rights of Use). Furthermore, that balance includes EUR 27.2 million of Pipex intangible assets, EUR 20 million of which originating from the allocation of the fair value calculated for the acquisition, and EUR 6.4 million existing at the date of the acquisition.
On the whole, the increase in such item, amounting to EUR 17.9 million, mainly depended (EUR 12.6 million) on the opening of new IRU contracts, in relation to the investments made for the development of the unbundling network.

The item “Broadband service activation costs”, equalling EUR 29.1 million, relates to the capitalization of the activation costs concerning the ADSL service. Such costs are amortised in relation to the minimum duration of the contracts with customers, currently amounting to twelve months. The item balance includes EUR 3.9 million relating to Pipex’s broadband activation costs.
The decreases relating to this item are attributable to the writeback of the capitalizations of the activation costs relating to those customers whose contracts were normally cancelled, depending on the normal churn rate of the customer database.

The “other” fixed assets include EUR 79.5 million of Pipex intangible assets originating from the allocation of the fair value calculated for the acquisition. In particular, it is the valorization of the customer database and of the non-competition agreements, for EUR 72.2 million and EUR 7.3 million, respectively.
Moreover, the balance includes the intangible assets of Video Network Ltd recorded with fair value (contents, technology, customer relationships), amounting to EUR 9.4 million, as well as software devel-

opment costs relating to the projects UNIT2 and IPTV, depending on the subsidiary Tiscali Service S.p.A., for about EUR 17.5 million. Among the most important category reclassifications, there is a reclassification amounting to EUR 21 million carried out by the Italian subsidiary, relating to the installation and extension costs of the unbundling network, reclassified from the category “Other intangible fixed assets” to “Plant and Machinery”.

A further remarkable reclassification concerns the licences and software relating to Video Network Ltd, whose balance, amounting to EUR 39.4 million, was reclassified from the category “Computers, software and development costs” to the category “Concessions and similar rights”.
Furthermore, the other movements include the decreases mainly attributable to the writeback of the capitalizations of the activation costs relating to those customers whose contracts were normally cancelled, depending on the normal churn rate of the customer database, as well as exchange differences.

20. Properties, plant and machinery

Changes during the financial year are shown in the following table:

Tangible assets EUR (000)	Properties	Plant and machinery	Other assets	Total
Historic cos				
1.01.2007	**27,265**	**396,713**	**27,522**	**451,500**
Increases	110	86,248	16,952	103,311
Sale & lease back – Sa Illetta	61,400	-	-	61,400
Decreases	(23,283)	(19,046)	(5)	(42,333)
Acquisitions /changes in consolidation area	-	21,649	1,818	23,468
Revaluations/Writedowns	-	-	-	-
Reclassifications	(1,266)	44,741	(22,453)	21,022
Exchange differences	4	(15,937)	(1,571)	(17,504)
Other	-	-	-	-
31.12.2007	**64,230**	**514,368**	**22,263**	**600,862**
EUR (000)				
Accumulated depreciation				
1.01.2007	**3,812**	**261,773**	**4,742**	**270,327**
Increases in amortization	1,799	55,727	851	58,377
Sale and lease back – Sa Illetta	-	-	-	-
Decreases	-	(5,986)	-	(5,986)
Acquisitions/changes in consolidation area	-	13,656	1,391	15,047
Revaluations/Writedowns	-	-	-	-
Reclassifications	(1,266)	(1,474)	(35)	(2,766)
Exchange differences	-	(5,922)	(394)	(6,387)
Other	-	-	-	-
31.12.2007	**4,344**	**317,703**	**6,554**	**328,601**
EUR (000)				
Net value				
31.12.2006	**23,453**	**134,940**	**22,780**	**181,173**
31.12.2007	**59,886**	**196,665**	**15,709**	**272,260**

The item "Properties", amounting to EUR 59.8 million, mainly relates to the value of the investment of SA Illetta, the headquarters of the parent company in Cagliari.
The sale & lease back transaction on the property of Sa Illetta implied a net change in the value recorded in the financial statements, equalling EUR 33 million, made up of an overall decrease by EUR 28.3 million (EUR 23.3 million of which recorded in the category Property, and EUR 5 million recorded in the category Plant and Machinery), and, at the same time, of an increase amounting to EUR 61.4 million, with valuation fixed in the contract.

The net accounting value of "Plant and Machinery" (EUR 196.6 million) includes, in particular, specific and network apparatuses such as routers, servers, optical devices and telephone exchanges which make up the predominant portion of tangible fixed assets. The EUR 86.2 million increase reflects the remarkable investments concerning the development of the infrastructure that is necessary to support the ADSL service supply in the unbundling mode.
Moreover, the balance includes EUR 2.2 million relating to Pipex's plant and machinery.

The "Other assets", whose balance amounts to EUR 15.7 million, include furniture and furnishings, electronic and electromechanical office equipment as well as motor vehicles.
The balance includes EUR 0.4 million of other Pipex's assets.

21. Equity investments

Equity investments, carried at equity and recorded in the financial statements for a total of EUR 2.5 million, refer to minor equity investments held by the parent company and by its operative subsidiary Tiscali Italia S.p.A. The list of companies is reported in the appropriate section (List of equity investments)

22. Other non-current financial assets

EUR (000)	31.12.2007	31.12.2006
Guarantee deposits	16,290	11,504
Other receivables	11,958	1,591
Equity investments in other companies	20	-
Total	**28,269**	**13,095**

Other non-current financial assets include financial instruments that the Group intends and is able to hold to maturity and that do not meet the requirements for classification as cash or cash equivalents.

Guarantee deposits amounting to EUR 16.3 million, include EUR 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, EUR 8.8 million in deposits relating to lease agreements of the UK subsidiaries, and EUR 1.3 million in deposits relating to the German subsidiaries.

Other receivables totalling EUR 11.9 million include the valorization at fair value of the options of advance conversion included in the regulation of the convertible bond loan amounting to EUR 8 million, the valorization at fair value of the swap (IRS) recorded by Tiscali International BV for EUR 1.3 million, and receivables due from non-consolidated companies totalling EUR 2.4 million.
The value of the options had an initial countervalue in the amount of the bond loan, contributing to the fixing of the basic value for calculating the amortised cost. Future changes in the fair value of the options will be recorded by the income statement.

23. Deferred tax assets

EUR (000)	31.12.2007	31.12.2006
Deferred tax assets	106,634	144,706

For an analysis of this item, reference should be made to note 15 above.

24. Inventories

At 31 December 2007, inventories totalled EUR 10.8 million and mainly relate to network equipment, consumables, telephone cards, goods for resale for merchandising activities and modems.

25. Receivables from customers

EUR (ml)	31.12.2007	31.12.2006
Receivables from customers	244,787	170,777
Writedown provision for losses	(80,335)	(35,040)
Total	**164,452**	**135,737**

At 31 December 2007, receivables from customers totalled EUR 164.4 million, after write-downs of EUR 80.3 million. These receivables accrued from the sale of internet services, billing of network access services, inverse interconnection traffic, advertising revenues and *business* and telephone services provided by the Group. The book value of trade receivables, in view of the maturities mentioned below and of conditions regulating the supply of services by the Group, is approximate to their 'fair value'.

The analysis of receivables is carried out periodically. Every country adopts a specific policy for calculating the receivable writedown provision, with reference to experience and historical trends.
However, the receivable writedown provision is fixed with a view

to hedge receivable expired over 360 days earlier, first of all.
In general, interests for delayed payment are not applied, unless they are provided for in the contract, in case of receivable recoveries by recovery companies.

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

As the Group's credit exposure is spread over a very large customer base, there is no particular credit concentration risk. The following table illustrates the ageing at 31 December 2007 and 31 December 2006, respectively:

EUR (000)	31.12.2007	31.12.2006
non-expired	49,517	45,010
1- 180 days	108,231	83,690
181 - 360 days	20,129	12,260
over 360 days	66,910	29,817
Total	**244,787**	**170,777**

The following table illustrates the movements of the receivable writedown fund during respective financial years.
The net movements happened in financial year 2007, amounting to EUR 45.3 million, is influenced by the change in the consolidation area due to Pipex's acquisition for EUR 31.2 million, from provisions for EUR 27.3 million and utilisation for EUR 13.2 million.

EUR (000)	31.12.2007	31.12.2006
Write-down provision for losses at 31.12.06	(35,040)	(41,868)
Consolidation area change	(31,189)	9,761
Provision	(27,332)	(15,394)
Utilisation	13,226	12,461
Write-down provision for losses at 31.12.07	**(80,335)**	**(35,040)**

26. Other Receivables and other Current Assets

EUR (000)	31.12.2007	31.12.2006
Other receivables	16,349	18,953
Accrued income	18,849	11,195
Prepaid expense	36,454	13,987
Total	**71,652**	**44,135**

Other receivables, amounting to EUR 16.3 million, include VAT receivables for EUR 6.3 million.
Accrued income (EUR 18.8 million) mainly relates to revenues accrued in 2007 from services in the access segment.
Prepaid expenses of EUR 36.4 million relate to costs associated with multi-year rental of lines, international circuit agreements as well as hardware and software maintenance costs.

The book value of the captions included in this item is approximate to their 'fair value'.

27. Other current financial assets

EUR (000)	31.12.2007	31.12.2006
Guarantee deposits	7,511	7,638
Other receivables	647	224
Total	**8,158**	**7,862**

Other current financial assets include EUR 4.7 million in deposits recorded in relation to Tiscali UK, and another EUR 2.5 million recorded in relation to Tiscali S.p.A., which is expected to be freed up shortly.

28. Cash and cash equivalents

Cash and cash equivalents at 31 December 2007 amounted to EUR 134.2 million and include the Group's cash, essentially held in bank current accounts. Please see the section relating to information on operations for a detailed analysis of the financial position.

29. Shareholders' equity

EUR (000)	31.12.2007	31.12.2006
Share capital	212,207	212,207
Share premium reserve	902,492	948,017
Translation reserve	(35,211)	4,685
Stock Options reserve	9,969	-
Equity bond reserve	(22,053)	
Retained earnings	(941,863)	(922,079)
Total	**169,647**	**242,829**

Changes in 2007 in shareholders' equity items are detailed in the relevant table.

At 31 December 2007, the share capital amounted to EUR 212.2 million corresponding to 424,413,163 ordinary shares with a par value of EUR 0.50 each.

On 31 August 2007, a capital increase was approved for a countervalue of EUR 150 million, equalling 149,792,880 shares. Such capital increase was carried out and completely subscribed in February 2008. Moreover, on 21 December 2007, a capital increase was approved up to the threshold of 42,441,316 shares, with a view to the bond loan convertible into Tiscali S.p.A. shares of EUR 60 million, issued by the subsidiary under Luxembourg law, Tiscali Financial Services SA.

The share premium reserve underwent a decrease of EUR 45.5 million, attributable to use for covering Tiscali S.p.A.'s previous year's losses.

The translation reserve underwent a decrease of EUR 39.9 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 and the consequent intra-group loans, in addition to the exchange delta 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 EUR 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 EUR 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.

In January 2007, the UK management was assigned 2,920 non performance options and 1,301 performance options on Tiscali UK Ltd shares, at the strike price of 3,599 Sterling. The fair value of the options assigned to the staff of the UK subsidiaries was estimated at the date of allocation by using the “binominal” appraising method, taking into consideration the conditions of the options. Such options accrue in a three-year period from the assignment, and may be exercised for ten years, still from the allocation date.

The parameters adopted as the basis for the valuation of the Stock Options are as follows:

Estimated volatility: 30% (Italy and UK)
“Risk-free” interest rate: 4.2% (Italy) and 5.25% (UK)
Estimated duration (years): 3 years (Italy and UK)

The Equity Bond reserve amounts to EUR 22 million.
It represents the implicit option to convert bonds into shares of the Group, and it is calculated as difference between the net amount obtained from the issue (EUR 57.7 million) and the fair value assigned to the liability component (EUR 35.7 million).

30. Non-current financial liabilities

EUR (000)	31.12.2007	31.12.2006
Payables to bondholders	43,842	-
Payables to banks and other lenders		
Payables to banks	450,053	-
Payables to other lenders	30,086	30,730
	480,139	**30,730**
Payables for finance leases (m/l term)	79,467	15,918
Total	**603,449**	**46,648**

The financial position relates to operating activities only and is summarised in the following table:

EUR (000)	31.12.2007	31.12.2006
A. Cash	134,231	3,824
B. Other cash equivalents	-	-
C. Securities held for trading	-	-
D. Cash and cash equivalents (A) + (B) + (C)	**134,231**	**3,824**
E. Current financial payables	**7,511**	**7,638**
F. Current bank payables	171,276	358,896
G. Current portion of non-current debt	-	-
H. Other current financial payables (*)	24,430	28,194
I. Current financial debt (F) + (G) + (H)	**195,706**	**387,090**
J. Net current financial debt (I) – (E) – (D)	**53,964**	**375,629**
K. Non-current bank payables	450,053	-
L. Bonds issued	43,842	-
M. Other non-current payables (**)	109,553	46,648
N. Non-current financial debt (K) + (L) + (M)	**603,449**	**46,648**
O. Net financial debt (J) + (N)	**657,413**	**422,277**

(*) includes leasing payables
(**) includes leasing payables and payables 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 EUR 20.9 million among other cash equivalents.

The net financial position indicated in the table above is reconciled with the net debt shown in the Report on Operations as follows:

EUR (000)	31.12.2007	31.12.2006
Consolidated net financial debt presented in the Report on Operations	**(636,504)**	**(397,163)**
Other cash, cash equivalents and current financial receivables	(20,909)	(25,114)
Net Financial Debt	**(657,413)**	**(422,277)**

For the evolution of current financial debt, reference should be made to the comments below.

The debt ratio at year end was as follows:

EUR (000)	31.12.2007	31.12.2006
Net debt (*)	(657,413)	(422,277)
Shareholders' equity (**)	206,970	269,562
Debt ratio	**3,2**	**1,6**

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

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

30.1 Payables to bondholders

The bonds issued, amounting to EUR 43.8 million, are represented by the convertible bond subscribed by Managment&Capitali in December 2007 for a nominal EUR 60 million at a rate of 6.75% per annum. The bond has been stated at fair value, net of the transaction charges . The fair value (EUR 65.8 million) has been partly allocated to long-term debt (EUR 43.8 million) and in part to an equity reserve (EUR 22 million). The fair value of the portion of liability has been determined using the market interest rate for an equivalent non-convertible loan. This amount is registered as a liability on the basis of the IFRS amortized costs approach until discharge of the conversion or maturity of the loan. The remaining portion of fair value is allocated to the conversion option, which is included in an equity reserve, net of the effects of the income taxes.

On 27 December 2007, M&C subscribed a bond for EUR 60 million convertible into Tiscali shares. The bonds were issued by the Luxembourg-based company Tiscali Financial Services SA, a Tiscali subsidiary, and guaranteed by Tiscali.

On 21 December 2007, the Issuer's extraordinary shareholders' meeting approved a share capital increase with exclusion of the purchase option pursuant to Article 2441.4.2 of the Italian Civil Code, for up to a maximum of 42,441,316 Tiscali shares, reserved for the conversion of this bond.

The convertible bonds, which have a five-year duration as of the date of the shareholders' meeting, bear interest at 6.75%, which will be paid on maturity or before maturity if the bond is converted, partially or otherwise. The issuer has the faculty to opt for the payment of the interest in cash instead of shares, in observance of the limits of the described senior loans.

The conversion price was established as EUR 2.7 per share and later on adjusted to EUR 2.42 per share, to take into consideration the dilution in the capital increase. The bonds will not be converted within the first year of their issue, without prejudice to the mandatory conversion clause described below. The instrument also envisages the faculty of early repayment by the issuer in the first two years and in certain cases (such as, for example, the change of control), M&C has the right to request the early reimbursement of the instrument at par for the entire duration of the loan.

The number of shares serving the principal of the bond issue, in the event of conversion, by M&C before maturity and subsequent to the adjustment of the conversion price, amounts in total to approximately EUR 22.2 million (around 5% of the Company's capital before the execution of the share capital increase under option). In the event the bonds are not converted over the duration of the bond issue, M&C will receive a number of Tiscali shares on maturity – valued on the basis of the simple average of the official price of the same in the 20 days prior to maturity – so that it can repay the value of the capital at par plus the accrued interest, but in any event no higher than the current 10% of Tiscali's share capital (corresponding to around 42.4 million shares).

The bond issue regulations also envisaged that if, before the maturity of the bonds, the average of the Official Prices (calculated with reference to the 20 days beforehand) is equal to or lower than the value of the capital plus the accrued interest divided by 42.4 million shares for five consecutive stock market days, the loan will be automatically and by way of obligation converted into the entire amount of shares indicated above, in the event the issuer does not opt for the payment of the interest in cash.

The aforesaid conversion operations were recorded at their fair values in the non-current financial receivables with the bond debt itself as countervalue. In future periods, the fair value change of such options will be recorded in the income statement.

30.2 Payables to banks and other lenders

The item 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 EUR 596.7 million. The loan, equating to a nominal EUR 650 million, including EUR 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. The financing agreement is also aided by a pledge on the shares of Tiscali Group subsidiaries and in relation to the Tiscali brand name.

Failure to observe the above-mentioned Covenants would, in substance, provide the lender with the option to request early settlement of the financing. Also in this case, no problems exist in this respect.

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 EUR 650 million (of which EUR 600 million disbursed as of the date of this report) essentially replaced the previous loan with Banca Intesa SanPaolo (for EUR 280 million) and with Barclays (for around EUR 53 million).

From the overall loan of EUR 650 million:

- EUR 150 million were repaid through the income originating from the capital increase concluded in February 2008;
- EUR 400 million might be repaid by means of a transaction of market debt. If the market debt transaction did not take place within September 2008, the bridging loan would be changed into long term payables falling due on 13 September 2014;
- Both the already disbursed credit facility of EUR 50 million and the one made available, for another EUR 50 million, fall due in 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 EUR 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 (EUR 30.1 millions) refer to the interest-bearing loan granted in 2004 by the shareholders 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. That loan expires on 12 March 2015 (180 days after the expiry of the senior debt fixed on 13 September 2014).

The following table summarizes the main elements of the existing loans with Intesa San Paolo and JP Morgan

Loan	Amount and use	Duration	Financial backer	Borrower	Obligatory early repayment	Financial and non-financial covenants	Guarantees
Senior Secured Bridge Facility Agreement	EUR 400 million to be used for financing the acquisition of Pipex, the associated costs and for the repayment of Tiscali's debt and that of certain of its subsidiaries	13 September 2007-13 September 2008. Commitment to re-finance, within timescales reasonably achievable, via market instruments Possibility of transformation into a Term Loan/Exchange Notes maturing on 13 September 2014	JP Morgan Chase Bank N.A. Intesa Sanpaolo S.p.A. – London Branch	Tiscali UK Holdings Ltd, wholly-owned subsidiary of Tiscali SpA	In the event of change of control In the event of extraordinary or compensation transactions In the event of notification of unlawfulness of contractual obligations	These include limitations such as the payments, asset disposals, intercompany payables, the payment of dividends, on the transfer of assets (also infraGroup) to the payment of other payables in	On the assets and on the shares of the Group companies which are also guarantors of the loan
Credit Facility	EUR 50 million to be used for repaying the debt with Banca Intesa Sanpaolo	13 September 2009 – 31 December 2011	Intesa Sanpaolo S.p.A. – London Branch	Tiscali UK Holdings Ltd, wholly-owned subsidiary of Tiscali SpA	In the event of change of control In the event of extraordinary or compensation transactions In the event of notification of unlawfulness of contractual obligations	These include limitations such as the payments, asset disposals, intercompany payables, the payment of dividends, on the transfer of assets (also infraGroup) to the payment of other payables in Financial covenants (Debt Service Cover Ratio, Net debt/EBITDA and EBITDA/Net interest	On the assets and on the shares of the Group companies which are also guarantors of the loan
Revolving Credit Facility	EUR 50 million to be used for financing the working capital in Italy / UK	31 December 2011 (not yet disbursed as of the date of the Information Prospectus)	JP Morgan Chase Bank N.A. Intesa Sanpaolo S.p.A. – London Branch	Tiscali UK Holdings Ltd, wholly-owned subsidiary of Tiscali SpA	In the event of change of control In the event of extraordinary or compensation transactions In the event of notification of unlawfulness of contractual obligations	These include limitations such as the payments, asset disposals, intercompany payables, the payment of dividends, on the transfer of assets (also infraGroup) to the payment of other payables in Financial covenants (Debt Service Cover Ratio, Net debt/EBITDA and EBITDA/Net interest	On the assets and on the shares of the Group companies which are also guarantors of the loan

ADSL subscribers

2,4

million

30.3 Liabilities for finance leases (m/l term)

The item Liabilities for finance leases (EUR 79.5 million) includes payables to *leasing* companies based on finance lease agreements.

The increase of EUR 63.5 million compared with the figure in December 2006 (EUR 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.

Finance leases

The reconciliation between the total of the minimum payments due for leasing as of the balance sheet date and the current value for each of the periods considered, is presented below.

EUR (000)	Minimum payments due		Current value of minimum payments due	
	31.12.2007	31.12.2006	31.12.2007	31.12.2006
Less than 1 year	24,971	14,986	19,502	12,304
Between 1 and 5 years	49,858	14,935	79,467	15,917
More than 5 years	55,242	-	-	-
	130,071	29,920	98,969	28,221
Less future financial charges	(31,102)	(1,700)	-	-
Current value of minimum payments	**98,969**	**28,221**	**98,969**	**28,221**
Included in the balance sheet				
Payables due to current finance leases			19,502	12,304
Payables due to non-current finance leases			79,467	15,917
			98,969	**28,221**

Operating leases

The payments for leasing and sub-leasing recorded in the income statement are presented in the table below.

EUR (000)	31.12.2007	31.12.2006
Minimum payments due for leasing	68,238	49,970
Subleasing payments	589	364
	69,827	**50,334**

Total commitments relating to payments due from operating lease transactions which cannot be cancelled, are presented in the following table.

EUR (ml)	31.12.2007	31.12.2006
Less than 1 year	33,821	28,181
Between 1 and 5 years	41,988	49,436
More than 5 years	22,625	33,398
	98,433	**111,015**

The breakdown of leasing between the various categories of intangible and tangible assets is presented below.

Leasing included in Intangible assets EUR (000)	Computers, software and development costs	Concessions and similar rights	Broadband service activation costs	Other	Total
NET VALUE					
31 December 2006	-	631	-	-	631
31 December 2007	-	431	-	-	431

Leasing included in Tangible assets EUR (000)	Properties	Plant and machinery	Other assets	Total
NET VALUE				
31 December 2006	-	25,929	-	25,929
31 December 2007	59,711	48,473	0	108,145

At 31 December 2007, the increase by EUR 59.7 million recorded in the item Properties is attributable to the sale & lease back transaction relating to the Sa Illetta headquarters.

31. Other non-current liabilities

EUR (000)	31.12.2007	31.12.2006
Payables to suppliers	24,923	29,929
Other payables	95,885	101,469
Total	**120,807**	**131,398**

The balance of Other non-current liabilities mainly includes the payable due to the former shareholders of Video Network Ltd relating to the current value of the tax losses of this company, amounting to EUR 93.9 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.

32. Liabilities for pension obligations and staff severance

The table below shows the period movements:

EUR (000)	31.12.2006	Provisions	Utilisation	31.12.2007
Staff severance	6,194	2,719	(3,061)	5,852
Total	**6,194**	**2,719**	**(3,061)**	**5,852**

The staff severance provision, which comprises the indemnities accrued in favour of employees, amounts to EUR 5.8 million and refers to the Parent Company and the subsidiaries operating in Italy.

In accordance with national regulations and laws, the amount due to each employee matures depending on the service provided, and has to be immediately disbursed when the employee leaves the company. At the end of the work relationship, the amount due is calculated pursuant to Italian civil and work law, on the basis of the duration of the work relationship itself and the taxable remuneration of each employee. The liability is annually adjusted in compliance with the official index of living cost, and with the interests fixed by law. It is not associated with any condition or period of accrual, or with any obligation of financial borrowing; therefore, there are no assets in the service of the provision. In compliance with IAS 19, the provision was recorded under “Plan with definite performances”.

In compliance with the new rules introduced by Italian Legislative Decree no. 252/2005, and by Law no. 296/2006 (Finance Act 2007), for the companies with at least 50 employees, the staff severance indemnities accrued from 2007 are ascribed either to the Treasury Fund of the social security (from 1 January) or to the supplementary types of pension (from the option month), and acquire the nature of “Plan with definite contributions”. However, the revaluations of the provision existing at 31 December 2006 (carried out on the basis of the official index of living cost and of the legal interests) and the quotas accrued with companies with less that 50 employees remain as staff severance indemnities.

Following IAS 19, for estimating staff severance indemnities, the following methods were used: the Traditional Unit Credit Method for companies with at least 50 employees, and the Projected Unit Credit Cost – service pro rate for the other companies, in accordance with the following stages:

- on the basis of a series of financial hypotheses (increase in living cost, remuneration, etc.), the possible future performances which might be disbursed in favour of each employee registered in the programme in the case of retirement, decease, disability, resignation, etc. were projected. The estimate of future performances includes any foreseeable increases relating to a further length of service, and to the alleged growth of the remuneration received at the date of estimate, only for the employees of companies with less than 50 employees;
- the current average value of future performances was calculated at the date of estimate, on the basis of the adopted annual interest rate, and of the probability of each performance to be really disbursed.

Financial assumptions	
Inflation rate:	2%
Discount rate:	5.6%
Demographic assumptions:	
Mortality:	ISTAT 2002 M/F mortality tables with reference also to SIM 2002 and SIF 2002
Disability:	INPS 1998 M/F disability tables
Resignation:	4% for Tiscali Services S.p.A. and Tiscali S.p.A. between 20 and 65 years of age 5% for Tiscali Italia S.p.A.
Advance payments:	1% according to age
Retirement:	65 for men and 60 for women, with maximum length of service of 40 years

33. Provisions for risks and charges

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

EUR (000)	31.12.2006	Provisions	Utilisation	31.12.2007
Provisions for risks and charges	38,059	22,787	(32,223)	28,624
Total	**38,059**	**22,787**	**(32,223)**	**28,624**

The increase in risk provisions, amounting to EUR 22.8 million, is attributable to the opening balance of the provision recorded by the companies disposed of for EUR 1.5 million, to provisions for the period against disposal charges relating to the German affiliated companies for EUR 10.4 million and to provisions recorded by UK subsidiaries for EUR 10.4 million, and by Tiscali S.p.A. for EUR 0.4 million.

Uses of the provision during 2007, amounting to EUR 32.2 million, were mainly attributable to the following events:

- use 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 effective incurring of these charges during the first half of 2007, for an amount totalling EUR 20.3 million, and for the charges relating to non-leased properties for EUR 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 EUR 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 EUR 2.8 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 EUR 1.9 million.

34. Provision for deferred taxation

The item provision for deferred taxation amounts to EUR 27.9 million. The amount was recorded in the financial statements by taking into consideration the fair value of intangible fixed assets, excluding goodwill, registered in conformity with IFRS 3 at the acquisition of Pipex.

35. Current financial liabilities

EUR (000)	31.12.2007	31.12.2006
Payables to banks and other lenders:		
Payables to banks	176,204	374,787
Payables for finance leases (short-term)	19,502	12,303
	195,706	**387,090**

35.1 Payables to banks and other lenders

This item disclosed a significant decrease with respect to December 2006.
The change, amounting to EUR 198.5 million, is essentially attributable to the following factors:

- repayment of the Silverpoint loan (EUR 251.2 million),

- repayment of EDC loan (EUR 13.3 million),

- repayment of the Sa Illetta mortgage loan (EUR 29.1 million) against a sale & lease back transaction for a total of EUR 59.7 million,

- repayment of the Barclays loan pertaining to the UK affiliated companies (EUR 52.6 million).

- opening of Banca Intesa San Paolo & JP Morgan loan amounting to nominal EUR 650 million, of which nominal EUR 250 million are classified short-term, since repaid in February by means of the income originating from the capital increase with the same amount.

35.2 Payables for finance leases

This item refers to the short-term portion of payables due to lea-

sing companies for finance lease agreements.
For further details, see note 30.3.

36. Payables to suppliers

EUR (000)	31.12.2007	31.12.2006
Payables to suppliers	239,127	180,147

Payables to suppliers refer to trade payables for the supply of services such as content, telephone traffic and data traffic. The balance also includes EUR 6.5 million for the purchase of IRU (*Indefeasible Right of Use*) concerning investments for the unbundling project.

37. Other current liabilities

EUR (000)	31.12.2007	31.12.2006
Accrued expenses	76,927	78,106
Deferred income	65,269	11,908
Other payables	29,319	16,706
	171,515	**106,720**

Accrued expenses include EUR 68.7 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 EUR 31.6 million (which will be released in portions over 15 years corresponding to the duration of the lease agreement), deferrals on IRU sales contracts for around EUR 13.3 million and other deferrals on portions of revenues, not pertaining to the period, for the activation of ADSL services (deferred over a time span of 12 months) mainly relating to the Italian subsidiary.
The increase in this item with respect to the same period in 2006 is essentially attributable to the afore-mentioned sale & lease back transaction on the Sa Illetta property.
The item Other payables mainly includes payables due to the tax authorities (VAT in the first instance) and due to welfare institutions for a total of EUR 15.7 million, together with payables due to employees totalling EUR 9 million and other payables for the residual balance.

38. Financial instruments

38.1 Financial risk management objectives

The Group's Corporate Treasury division provides business services, co-ordinates access to the local and international financial markets, and monitors and handles the financial risk associated with Group operations by means of internal risk reports which analyze the exposures by degree and magnitude of the risk. These risks include market risks (inclusive of currency risks, fair value interest rate risks and price risks), credit risks and risks in cash flow interest rates.
The use of financial derivatives is disciplined by policies approved by the Board of Directors, which provides written principles on foreign exchange risks, interest rate risks, credit risks, on the use of financial derivatives and non-derivative financial instruments, and the investment of surplus liquidity. Consensus regarding the policies and exposure limits is reviewed by the internal auditor on an on-going basis.

38.2 Market risks

Group activities expose it primarily to the financial risk of changes in exchange rates for foreign currency and to the interest rate.

38.3 Handling of the foreign exchange risk

Analysis of foreign currency sensitivity
The Group is mainly exposed to the UK currency (Great British Pound).
The fluctuation of the English Sterling with respect to Euro influences the various items in the income statement generated by the British subsidiaries. As a consequence, it influences the contribution for fixing the consolidated result of the period.
Moreover, Sterling fluctuations cause changes in the conversion reserve, due to both the changes in the shareholders' equity pertaining to the subsidiaries, and to the exchange differences for currency infra-group financial receivables and payables.

38.4 Risk management linked with interest rate

The Group is exposed to the risk linked to the interest rate when the Group companies raise loans either at fixed or floating interest rates. The Group exposure to interest rates on financial assets and liabilities is analyzed in the section on the handling of the liquidity risk in this note.

Sensitivity analysis of the interest rate
The sensitivity analysis presented below was determined on the basis of the exposure to interest rates of all the derivative and non-derivative instruments as of the balance sheet date. With regard to floating rate liabilities, the analysis was prepared by presupposing that the amount of the unpaid liability as of the balance sheet date had been in default for the entire year. An increase or decrease equating to 70 basis points was used internally in order to take the fluctuation risk rate for interest back to *key management* and represents management's estimate of the possible, reasonable change in the interest rates.

If the interest rates changed by more or less 70 basis points, and all the other variables remained the same, the following would occur for the Group: the interests for the year ended 31 December 2007 would have increased/decreased by EUR 0.8 million. This is essentially attributable to the Group's exposure to interest rates on floating rate loans.
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38.5 Handling of the liquidity risk

EUR (000)	Financial statements value	Outgoing cash flows	less than 1 year	between 1 and 5 years	more than 5 years
Secured bank loans	596,700	906,031	203,509	227,283	475,238
Convertible notes	43,842	80,250	-	80.250	-
Unsecured bank facility	33,669	33,669	-	3,583	30,085
Trade and other payables	389,253	389,253	389,253	-	-
Bank overdraft	25,973	25,974	25,974	-	-

38.6 Financial instruments

Fair Value

The following table illustrates the estimate, at 31 December 2007, of the fair value relating to the financial instruments which were present at the date of the financial statements:

EUR (000)	31.12.2007	
	Financial statements value	Fair Value
Secured Bank Loans	596,700	607,231
Convertible bond	43,842	43,842
Unsecured Bank Facility	33,669	28,300
Finance Lease Liabilities	98,969	95,525

The interest rates used for the calculation of the fair value range from 6% to 11%.

39. Acquisition of subsidiaries

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 companies

The acquisition was formalized on 13 September 2007.
The final price inclusive of the acquisition charges came to EUR 269.4 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.

Net assets acquired in the transaction, the goodwill and the value of the other intangible assets defined on 13 September 2007:

EUR (000)	Financial statements value	Fair value	Aggregate of the companies acquired as of the acquisition date
Plant and machinery	18,501	3,219	15,282
Intangible assets	-	99.610	99,610
Receivables from customers	25,621	-	25,621
Other receivables	15,807	-	15,807
	59,930	**96,391**	**156,320**
Payables to suppliers	31,089	-	31,089
Other short-term liabilities	38,503	-	38,503
Other long-term liabilities	356	29,491	29,847
	69,948	**29,491**	**99,439**
Net assets acquired	**(10,018)**	**66,900**	**(56,881)**
Goodwill			212,522
Acquisition price (including charges)			**269,404**

The estimate of the fair value attributable to single equity elements was carried out by a third consulting company.
The value ascribed to the other intangible assets, totalling EUR 99.6 million, is illustrated below:

- Value of Pipex brands (Pipex, Toucan, Homecall, F2S, Bulldog) for EUR 20 million;
- Value of the customer database amounting to EUR 72.1 million;

- Value of non-competition agreements equalling EUR 7.3 million.

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 EUR 114.6 million in revenues and EUR 10.2 million to the pre-tax result of the Group between the acquisition date and the closing date of the Annual Financial Statements 2007.
The negative result of the division depends on the imputation of EUR 21.2 million of restructuring charges, EUR 14.2 of which relating to the fourth quarter of 2007, and EUR 6.9 million for the restructuring provision.

40. Derivative instruments

In order to hedge the interest rate risk on loans, Tiscali has set up a partial hedge, for a portion of EUR 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.
At 31 December 2007, the value of the IRS presented a positive balance of EUR 1.3 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.

41. Stock Options

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

The plan 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 in several tranches as well, between 4 May 2010 and 3 November 2010, at a price of EUR 2.763, adjusted to € 2.477 following capital increase;

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

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

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

The 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 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. Such options mature in a three-year period from the allocation, and may be exercised for 10 years, still from the date of allocation.

42. Ongoing disputes, contingent liabilities and commitments

During the normal course of its business, the Tiscali Group is involved in a number of legal and arbitration proceedings, as well as being subject to tax assessments.
A summary of the main proceedings to which the Group is a party, is presented below.

42.1 Disputes

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

By means of provision dated 17 December 2003, the first level Dutch court deemed that in certain press releases issued by World Online International NV prior to 3 April 2000, sufficient clarity was not provided regarding the declarations made public by its former chairman at the time of listing relating to his shareholding. Consequently, World Online International N.V was held responsible vis-à-vis the parties who had subscribed the shares of the company at the time of the IPO on 17 March 2000 (start date of trading) and who acquired shares on the secondary market up to 3 April 200o (date on which the press release was issued, specifying the effective shareholding held by the former chairman of World Online International NV). World Online International BV appealed against this decision, deeming that it was not necessary to provide further clarification, citing the correctness of the information prospectus.

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

On 24 July 2007, the Dutch association and the foundation mentioned above proposed an appeal before the Dutch Supreme Court against the sentence of the Court of Appeal. On 2 November 2007, World Online International NV and the financial institutions tasked with the stock market listing filed their counter-appeal. Similar proceedings have an average duration of between 15 and 18 months approximately and at present it is not possible to make any forecasts regarding the outcome of these proceedings.

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

KPNQWest Bankruptcy dispute
The subsidiaries Tiscali International Network BV and Tiscali International Network SA are involved in a dispute furthered by the receivership of 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 EUR 3.1 million for the performance of services by the second. Following the liquidation of KPNQWest, the provision of services was interrupted after only 5 months and Tiscali International Network BV received and recognised invoices for the sum of EUR 1.5 million. KPNQWest has demanded payment of the entire amount stipulated in the agreement.

Tiscali in turn objected to a demand for payment of this amount given the damages sustained from interruption of the service. On 17 March 2006, Citybank (acting as liquidator of KPNQwest) filed a precautionary attachment request for a value of around EUR 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 EUR 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 EUR 1.5 million..

Mobistar dispute

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 of 100% of Wanadoo Belgium's shares. The contract for the sale of the Wanadoo Belgium shares between Wanadoo SA and Tiscali Belgium envisaged the possibility of early termination of the Contract, a circumstance also confirmed by Tiscali's legal advisors.

Mobistar however opposed this early termination.

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

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

The *petitum* amounts to 4 million, nevertheless the Issuer believes that the same should be reduced (i) by around 1 million on the basis of the correct interpretation of the Contract, (ii) by a further amount, since the summons before the court of Wanadoo and the legal *advisors* for Tiscali should at least minimize the profile of responsibility of the latter. During this initial stage of the proceedings, Tiscali believes that it is in no way responsible; however, given the complexity of the dispute and the number of parties involved, a forecast with regards to the possible outcome emerges as complex. Despite the fact that the possibility of reaching an agreement on the dispute has been outlined, involving the payment of approximately EUR 400.000, Tiscali intends to hold out in the court case, unless the negotiations currently underway conclude favourably. In the financial statements at 31 December 2007, Tiscali International BV had not set aside provisions.

Ecotel Communication AG/Tiscali

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

The Company 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. Therefore, the Company has not made any provision in the financial statements in relation to this dispute and has challenged the reasoning argued by Ecotel in its own letters.

42.2 Tax assessments

The Dutch tax authorities forwarded World On Line International NV (and the direct subsidiary Tiscali International BV) a number of notices of assessment concerning the alleged non-payment of withholdings on remuneration and stock options acknowledged in previous years to Group executives. The total amount of these disputes comes to EUR 2 million, against which Tiscali International BV has made payments totalling around EUR 0.3 million. The residual amount mainly refers to stock options which are alleged to have been granted to Mr. Landefeld (a party what is more resident for tax purposes in Germany) and, in the opinion of Tiscali's tax advisors, not subject to taxation on the Netherlands. 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.
During 2006, a tax assessment was started up relating to VAT and direct taxation regarding the German subsidiaries of the Tiscali Group for the tax periods 2000-2004.

The tax assessments for VAT purposes, still underway, have so far indicated assessed liabilities for the tax periods 2000-2003 for the purposes of indirect taxation totalling EUR 726 thousand, plus interest, already paid in 2007. At the moment, it is not believed that any tangible risk of sanctions exists for the 2004 tax period.

With regard to the tax assessments relating to direct taxation in Germany (Corporate and Trade Tax), the assessment procedures have concluded. The assessment reports received disclose tax liabilities payable solely by the parent company Tiscali Deutschland GmbH for a total of approximately EUR 400 thousand, plus interest, already paid in 2007.

42.3 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.

43. Transactions with related parties

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

The table below summarises the balance sheet and income statement values recorded in the Tiscali Group's consolidated financial statements at 31 December 2007 arising from transactions with related parties.

The effects on the consolidated income statement at 31 December 2007 and 31 December 2006 are indicated as follows:

Income statement			
EUR (000)	**31.12.2007**	**of which: related parties**	**% change**
Revenues	910,969	401	0.044%
Other income	5,652		
Purchase of materials and outsourced services	651,144	958	0.15%
Payroll and related costs	97,166		
Stock option plan costs	11,697		
Other operating costs	6,885	898	13%
Writedowns of receivables from customers	27,332		
Restructuring costs and other writedowns	40,101		
Amortization/depreciation	162,744		
Other atypical Income/charges	-		
Operating result	**(80,448)**	**(1,455)**	
Portion of results of equity investments carried at equity	(10)		
Net financial income (Charges)	(72,802)	(1,934)	2.6%
Other net financial income (charges)	(17,881)		
Pre-tax result	**(171,141)**	**(3,389)**	
Income taxes	17,305		
Net result from operating activities (on-going)	**(153,835)**	**(3,389)**	
Result from assets disposed of and/or destined to be disposed of	78,511	(620)	(0.79)%
Net result	(75,324)	(4,009)	

Income statement			
EUR (000)	31.12.2006	of which: related parties	% change
Revenues	678,481	514	0.07%
Other income	3,685	-	
Purchase of materials and outsourced services	498,389	762	0.15%
Payroll and related costs	77,883	-	
Stock option plans cost	-	-	
Other operating costs	5,472	-	
Writedowns of receivables from customers	45,013	-	
Restructuring costs and other writedowns	185	-	
Amortization/depreciation	130,095	-	
Other atypical Income/charges	(77,229)	-	
Operating result	**(12,852)**	**(248)**	
Portion of results of equity investments carried at equity	(937)	-	
Net financial income (Charges)	(29,741)	(1,429)	4.8%
Other net financial income (charges)	(21,985)	-	
Pre-tax result	**(65,515)**	**(1,677)**	
Income taxes	5,851	-	
Net result from operating activities (on-going)	**(59,664)**	**(1,677)**	
Result from assets disposed of and/or destined to be disposed of	(76,950)	-	
Net result	**(136,614)**	**(1,677)**	

The effects on the balance sheet at 31 December 2007 and at 31 December 2006 were as follows:

Consolidated balance sheet			
EUR (000)	31.12.2007	of which: related parties	% change
Non-current assets	1,210,692	-	
Current assets	389,249	360	0.09%
Assets held for sale	-	-	
Total Assets	**1,599,941**	**360**	
Group shareholders' equity	169,647	-	
Shareholders' equity pertaining to minority shareholders	37,322	-	
Total Shareholders' equity	**206,970**	**-**	
Non-current liabilities	786,623	30,086	3.8%
Current liabilities	606,348	430	0.074%
Liabilities directly related to assets held for sale	-		
Total liabilities and shareholders' equity	**1,599,941**	**30,516**	

Consolidated balance sheet			
EUR (000)	31.12.2006	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 related to assets held for sale	64,932	-	
Total Shareholders' equity and liabilities	**1,230,748**	**30,736**	

The most significant balances, at 31 December 2007, summarized by supplier of the services, are as follows:

Income statement balance EUR (000)	Note	December 2007 (Group)	December 2006 (Group)
Shardna	1	0	0
Interoute	2	(557)	(248)
Leadsatz GmbH	3	(620)	0
Andalas SA	4	(1,934)	(1,429)
Francesco Bizzarri	5	(69)	0
Borghesi e Colombo Associati Srl	6	(770)	0
Studio Racugno	7	(59)	0

Balance sheet balance EUR (ml)	Note	December 2007 (Group)	December 2006 (Group)
Shardna	1	331	331
Interoute	2	(76)	11
Leadsatz GmbH	3	(7)	0
Andalas SA	4	(30,086)	(30,730)
Francesco Bizzarri	5	(25)	0
Borghesi e Colombo Associati Srl	6	(270)	0
Studio Racugno	7	(23)	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 the Tiscali offices in the suburbs of Cagliari.

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

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

(4) As indicated in the explanatory notes, 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 S.p.A..

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

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

44. remuneration of the directors, statutory auditors and executives with strategic responsibility

The remuneration due to the directors and statutory auditors of Tiscali SpA in relation to the performance of their functions, in other Group companies as well, is presented below:

EUR (000)	2007	2006
Directors	1,977	1,202
Statutory Auditors	202	201
Total remuneration	**2,179**	**1,403**

The total value of the cost incurred in 2007 for the remuneration due to executives with strategic responsibility amounted to EUR 6.3 million. This liability includes the following amounts:

- the figurative cost of the stock option plans granted to a number of Group executives for around EUR 3.4 million;
- the Group's contributions to public and corporate welfare funds for EUR 0.1 million.

The costs indicated above refer to Executives with strategic responsibility already present in 2006 and still in service.

964.000

unbundling subscribers

45. List of subsidiaries included in the consolidation area

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

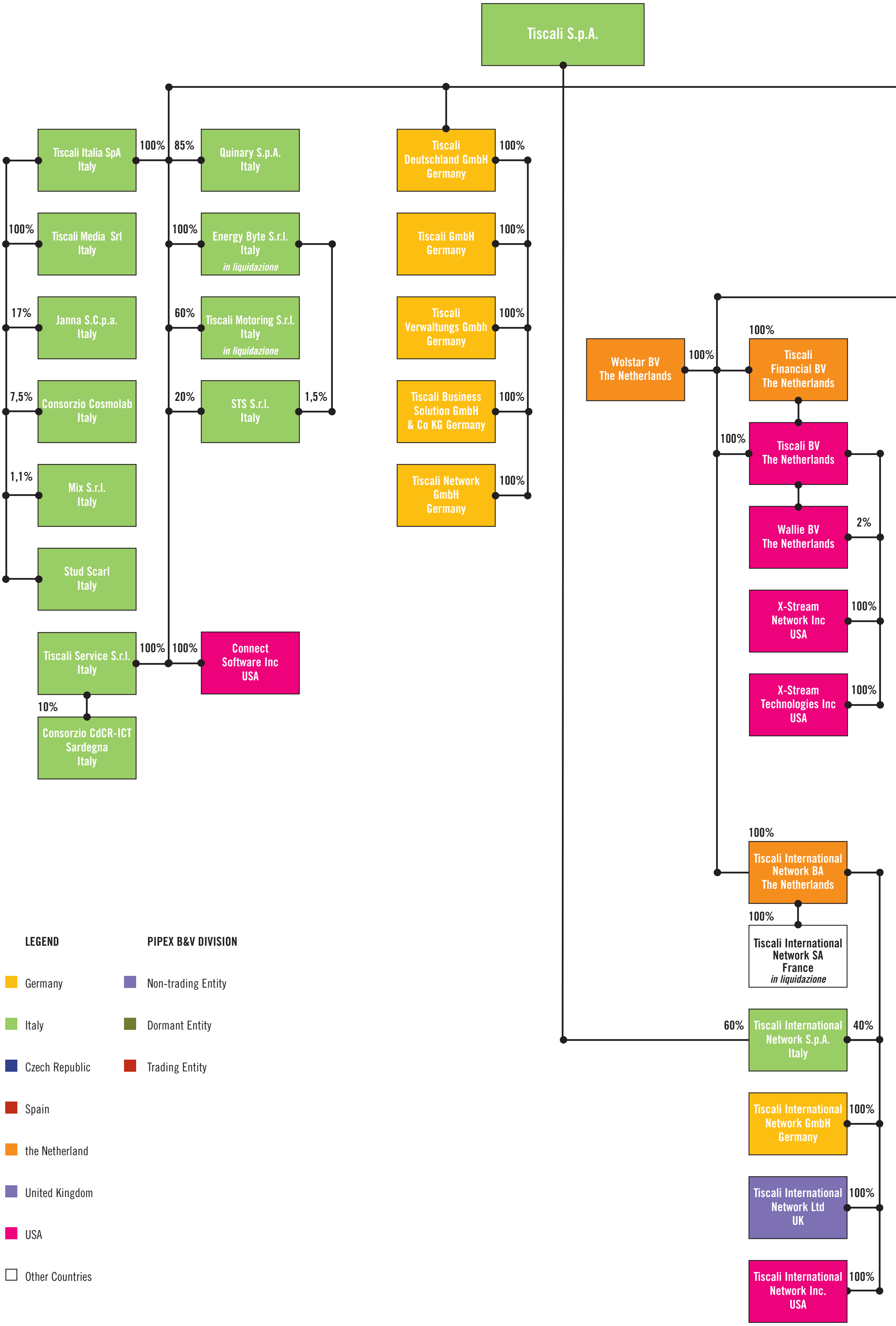
Company name	Country	% investment
Tiscali S.p.A.	Italy	
Quinary S.p.A.	Italy	85.0%
Tiscali Telecomunicaciones Sa (disposed of in 2007)	Spain	99.99%
Tiscali Services S.r.l.	Italy	100.0%
Tiscali Italia S.p.A.	Italy	100.0%
Tiscali Finance Sa	Luxemburg	100.0%
Tiscali Finance Service SA	Luxemburg	100.0%
Tiscali Deutschland Gmb	Germany	100.0%
Tiscali GmbH	Germany	100.0%
Tiscali Comunications Gmbh (disposed of in 2007)	Germany	100.0%
Tiscali Breidband 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%
Necamar Gmbh (disposed of in 2007)	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%

List of equity investments carried at equity

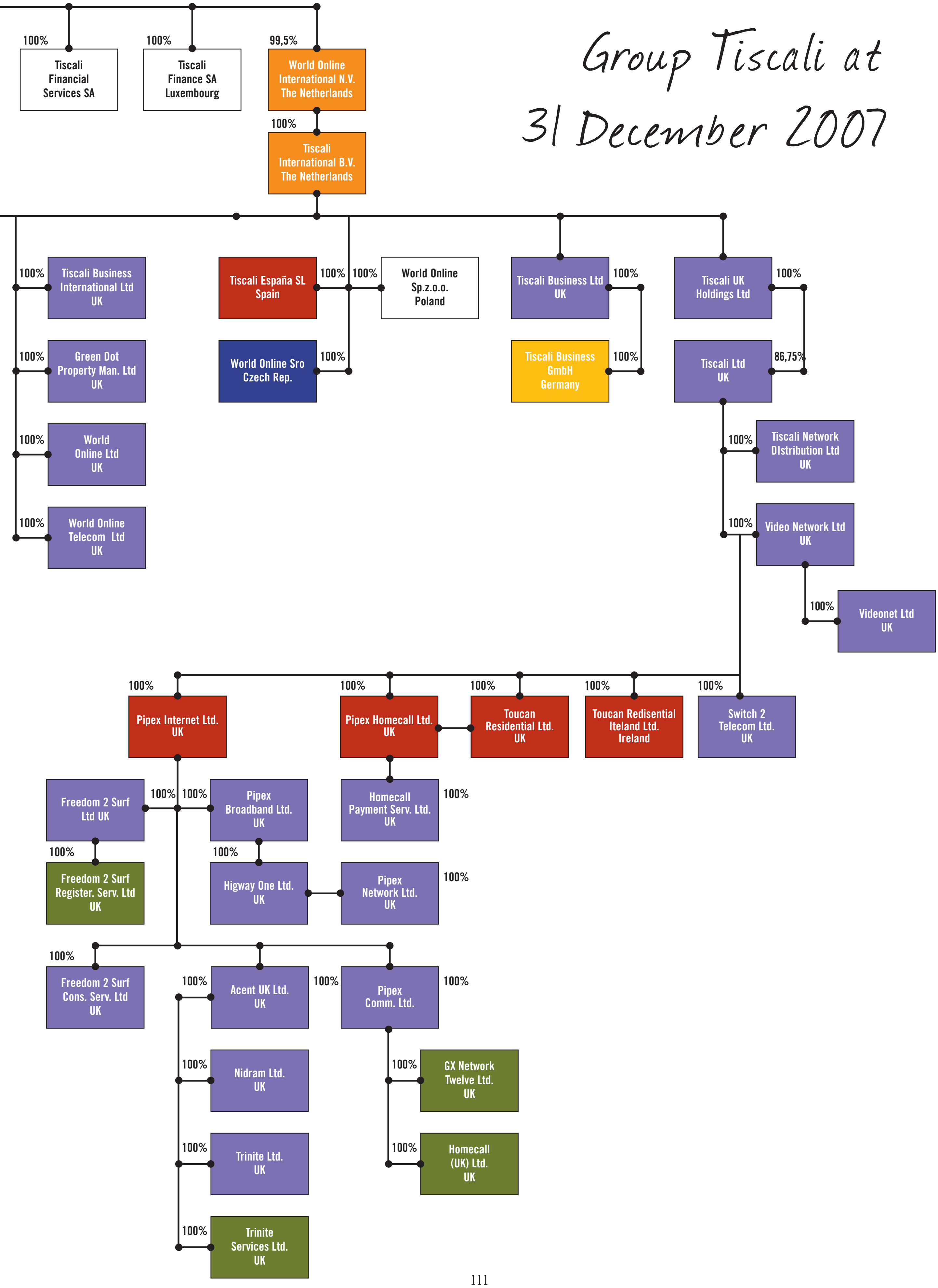
Company name	Country	% investment
Energy Byte Srl (in liquidation)	Italy	100%
Connect Software Inc.	USA	100%
Tiscali Motoring Srl (in liquidation)	Italy	60%
Gilla Servizi Telecomuncaz Srl (wound up in 2007)	Italy	20%
STS S.r.l.	Italy	35%
Tiscali Media Srl	Italy	100%
STUD Soc. Consortile a.r.l.	Italy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

List of equity investments in other companies

Company name	Country
Mix S.r.l.	Italy
Janna S.c.p.a.	Italy
CdCR-ICT Consortium	Italy
Cosmolab Consortium	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


Tiscali S.p.A.
Tiscali Italia SpA Italy
100%
85%
Quinary S.p.A. Italy
100%
Tiscali Media Srl Italy
100%
Energy Byte S.r.l. Italy in liquidazione
17%
Janna S.C.p.a. Italy
60%
Tiscali Motoring S.r.l. Italy in liquidazione
7,5%
Consorzio Cosmolab Italy
20%
STS S.r.l. Italy
1,5%
1,1%
Mix S.r.l. Italy
Stud Scarl Italy
Tiscali Service S.r.l. Italy
100%
100%
Connect Software Inc USA
10%
Consorzio CdCR-ICT Sardegna Italy
Tiscali Deutschland GmbH Germany
100%
Tiscali GmbH Germany
100%
Tiscali Verwaltungs Gmbh Germany
100%
Tiscali Business Solution GmbH & Co KG Germany
100%
Tiscali Network GmbH Germany
100%
Wolstar BV The Netherlands
100%
100%
Tiscali Financial BV The Netherlands
100%
Tiscali BV The Netherlands
Wallie BV The Netherlands
2%
X-Stream Network Inc USA
100%
X-Stream Technologies Inc USA
100%
100%
Tiscali International Network BA The Netherlands
100%
Tiscali International Network SA France in liquidazione
60%
Tiscali International Network S.p.A. Italy
40%
Tiscali International Network GmbH Germany
100%
Tiscali International Network Ltd UK
100%
Tiscali International Network Inc. USA
100%
LEGEND
Germany
Italy
Czech Republic
Spain
the Netherland
United Kingdom
USA
Other Countries
PIPEX B&V DIVISION
Non-trading Entity
Dormant Entity
Trading Entity

Group Tiscali at 31 December 2007



Attachment

Information pursuant to Article 149 *duodecies* of the Consob Issuers' Regulations.

The following table, drawn up in accordance with Article 149 *duodecies* of the Consob Issuers' Regulations, indicates the fees for 2007 for auditing services and those for other services provided by the independent auditing firm. There were no services provided by bodies belonging to its network.

EUR (000)	Party providing the service	Beneficiary	Fees for 2007
Accounts auditing	*Deloitte & Touche S.p.A.*	*Tiscali Spa*	*417*
	Deloitte & Touche S.p.A.	*Subsidiary companies*	*123*
	Deloitte Network	*Subsidiary companies*	*473*
Certification services	*Deloitte & Touche S.p.A.*	*Tiscali Spa*	*260*
		Subsidiary companies	*10*
Tax advisory services	*Deloitte Network*	*Subsidiary companies*	*35*
*Other services**	*Deloitte Network*	*Tiscali Spa*	*349*
		Subsidiary companies	*538*
Total			**2,205**

* Due Diligence activities and appraisal procedures agreed between the parties on financial statements or transfer figures.

Certification of the Consolidated Financial Statements pursuant to Article 81-ter of Consob Regulation no. 11971 of May 14, 1999, as amended

The undersigned Mario Rosso, as Chief Executive Officer, and Massimo Cristofori, as the Manager responsible for preparing Tiscali S.p.A.'s financial reports, hereby certify, having also taken into consideration the provisions of Article 154-bis, paragraphs 3 and 4, of Italian Legislative Decree no. 58 of February 24th 1998:

- adequacy with respect to the company structure;
- the administrative and accounting procedures for the preparation of the consolidated financial statements for the 2007 fiscal year have been effectively applied.

The adequacy of the administrative and accounting procedures used for the preparation of the consolidated financial statements at December 31, 2007 has been assessed in accordance with the *Internal Control – Integrated Framework* model issued by the Committee of Sponsoring Organizations of the Treadway Commission, an internationally-accepted reference framework.

The undersigned also certify that the consolidated financial statements at December 31, 2007:

- correspond to the results documented in the books, accounting and other records;
- have been prepared in accordance with International Financial Reporting Standards (IFRS) adopted by the European Union (as well as with the provisions issued in implementation of Article 9 of Italian Legislative Decree no. 38/2005) and based on their knowledge, fairly and correctly represent the financial condition of the issuer and of the Group companies included in the scope of consolidation.

Milan, 19th March 2008

Chief Executive Officer

Mario Rosso__________

Manager responsible for preparing Tiscali S.p.A.'s financial reports

Massimo Cristofori________________

Tiscali S.p.A. - Financial Statements at 31 December 2007

Analysis of the economic and financial position of Tiscali S.p.A.

Foreword

The statements presented below have been drawn up on the basis of the statutory financial statements at 31 December 2007, to which reference should be made. In this connection, note that the 2007 statutory financial statements represent the separate financial statements of the Parent Company Tiscali S.p.A. and have been prepared in observance of the International Accounting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") as approved by the European Union, as well as the instructions issued by way of implementation of Article 9 of Italian Legislative Decree No. 38/2005. The IFRS are understood to include all the reviewed international accounting standards ("IAS") and all the interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), previously known as the Standing Interpretations Committee ("SIC").

Economic position

EUR (000)	31.12.2007	31.12.2006
Capital gains (losses) from equity investments	(156)	-
Value adjustment on equity investments (Other writedowns)	(15,423)	(38,421)
Net financial charges	(310)	(508)
Revenues from services and other income	31,438	19,267
Payroll and related, service and other operating costs	(36,517)	(22,068)
Other writedowns	(2,797)	(3,632)
Taxes	(77)	(163)
Net result	**(23,842)**	**(45,525)**

The item Capital gains (losses) from equity investments, presenting a negative balance of EUR 0.2 million, refers to the capital loss generated on the 100% disposal of the equity investment held in the company Tiscali Services S.p.A. in December 2007 and the capital gain generated by the 100% disposal of the equity investment held in the company Tiscali Telecomunicaciones SA.
Value adjustments on equity investments include EUR 6.4 million in relation to the writedown of the equity investment held in Tiscali Deutschland Gmbh (written down for EUR 30 million last year) and EUR 8.3 million relating to the waiver, against the coverage of losses, of receivables due from the subsidiary Tiscali Services S.p.A. to the parent company.

Revenues from services mainly comprise (EUR 14.7 million) the fees contractually agreed deriving from 'Corporate' services to subsidiary companies including the payments for licences to use the Tiscali trademark calculated as a percentage of the sales revenues generated by the Group companies using said trademark. The item also includes revenues from third parties totalling EUR 16 million deriving from the partnership agreement with the search engine *Google,* which have been invoiced to the customer

by the Parent Company as from October 2006. The portions of revenues pertaining to the Group companies were then remitted to the same and at the same time infraGroup costs totalling EUR 16 million 2007 were recorded in the financial statements of the Parent Company.
The increase of EUR 12.2 million when compared with last year, was essentially generated by the rise in revenues from third parties.

The most significant cost component other than the costs remitted for the Google agreement, is represented by payroll and related costs, which amounted to EUR 10 million while other operating costs include management consultancy services and professional expenses pertaining to current business operations.

Other writedowns mainly include the provisions to risk reserves for EUR 1.9 million and writedowns of receivables for EUR 0.9 million.

Taxes payable for the year amounting to EUR 0.1 million are classified in the item taxes.

Finalcial position

Balance sheet

EUR (000)	31.12.2007	31.12.2006
Non-current assets	*1,187,779*	*1,176,111*
Current assets	*51,288*	*55,471*
Assets held for sale	-	-
Total Assets	**1,239,067**	**1,231,582**
	-	-
Shareholders' equity	930,201	953,157
Total Shareholders' equity	**930,201**	**953,157**
Non-current liabilities	*258,469*	*234,909*
Current liabilities	*50,397*	*43,516*
Liabilities directly related to assets held for sale	-	-
Total liabilities and Shareholders' equity	**1,239,067**	**1,231,582**

Activities

Non-current assets

Non-current assets mainly represent controlling equity investments in the more important Group companies for a total of EUR 1.134 million.
Tangible assets (property, plant and machinery) and other intangible assets total, respectively EUR 0.1 million and EUR 0.6 million, while other financial assets total EUR 53 million.

Current assets

Current assets mainly include Receivables from customers for EUR 45 million (of which EUR 43.5 million due from Group companies), compared with EUR 42.2 million last year (of which EUR 40.2 million due from Group companies).

The same item also includes "Other receivables and other current assets" totalling EUR 1.5 million, down by EUR 11.5 million when compared with last year, EUR 7 million of which justified by the VAT credit rebate in March 2007.

Liabilities

Non-current liabilities

Non-current liabilities, other than items relating to the financial position for which reference should be made to the next note, include provisions for risks and charges of EUR 25 million generated from provisions set aside for disputes and contingent liabilities.

Current liabilities

Current liabilities not relating to the financial position are mainly represented by payables to suppliers of EUR 44 million (EUR 32 million of which due to Group companies).

Financial position

The Parent Company's financial position is shown in the table below:

EUR (000)	31.12.2007	31.12.2006
A. Cash	171	-
B. Other cash equivalents	2,012	152
C. Securities held for trading	-	-
D. Cash and cash equivalents (A) + (B) + (C)	**2,183**	**152**
E. Current financial receivables (*)	**4,082**	**13,097**
F. Current bank payables	(2,169)	(12,419)
G. Current portion of non-current debt	-	-
H. Other current financial payables	-	-
I. Current financial debt (F) + (G) + (H)	**(2,169)**	**(12,419)**
J. Net current financial debt (I) – (E) – (D)	**4,096**	**830**
K. Non-current bank payables	-	-
L. Bonds issued	-	-
M. Other non-current payables to Group companies	(236,062)	(208,162)
M. Other non-current payables to third parties	-	-
N. Non-current financial debt (K) + (L) + (M) + (N)	**(236,062)**	**(208,162)**
O. Net financial debt (J) + (O)	**(231,966)**	**(207,332)**

(*) The table presented in note 29, Net financial position, does not include Current financial receivables

Other non-current payables relate mainly to financial payables to subsidiary Tiscali International BV, a sub-holding of the Tiscali Group.

TISCALI S.P.A. – FINANCIAL STATEMENTS 2007

Income Statement

(EUR 000)

	NOTES	31.12.2007	31.12.2006
Revenues	(4)	30,902	18,801
Other income	(5)	897	466
Purchase of materials and outsourced services	(6)	(23,566)	(11,028)
Payroll and related costs	(7)	(10,392)	(9,341)
Other operating costs	(8)	(2,686)	(1,113)
Writedowns of receivables from customers	(9)	(873)	(101)
Other writedowns	(9)	(17,347)	(41,951)
Amortization/depreciation		(390)	(586)
Operating result		**(23,455)**	**(44,853)**
Portion of results of equity investments carried at equity			
Net financial income (Charges)	(10)	(310)	(508)
Pre-tax result		**(23,765)**	**(45,362)**
Income taxes	(11)	(77)	(163)
Net result from operating activities (on-going)		**(23,842)**	**(45,525)**
Result from assets disposed of and/or destined to be disposed of		-	-
Net result		**(23,842)**	**(45,525)**

Balance Sheet

(EUR 000)

	NOTES	31.12.2007	31.12.2006
Non-current assets			
Intangible assets(12)		612	911
Properties, plant and machinery	(13)	141	218
Equity investments	(14)	1,133,883	1,170,203
Other financial assets	(15)	53,144	4,779
		1,187,779	**1,176,111**
Current assets			
Receivables from customers	(16)	45,023	42,221
Other receivables and other current assets	(17)	1,549	13,097
Other current financial assets	(18)	2,533	-
Cash and cash equivalents	(19)	2,183	152
		51,288	**55,471**
Assets held for sale		-	-
Total Assets		**1,239,067**	**1,231,582**
Share Capital and reserves			
Share Capital		212,207	212,207
Share premium reserve		902,492	948,017
Stock Option reserve		886	-
Retained earnings		(185,383)	(207,066)
Total Shareholders' equity	(20)	**930,201**	**953,157**
Non-current liabilities			
Other non-current liabilities	(21)	236,062	208,162
Liabilities for pension obligations and staff severance	(22)	345	401
Provisions for risks and charges	(23)	22,062	26,347
		258,469	**234,909**
Current liabilities			
Payables to banks and other lenders	(24)	2,169	12,419
Payables to suppliers	(25)	43,999	26,847
Other current liabilities	(26)	4,229	4,249
		50,397	**43,516**
Liabilities directly related to assets held for sale		-	-
Total liabilities and Shareholders' equity		**1,239,067**	**1,231,582**

Statement of changes in shareholders' equity

(EUR 000)

	Share Capital	Share premium reserve	Retained earnings	Stock option reserve	Total
Balance at 01.01.2006	**198,369**	**953,717**	**(215,950)**	**-**	**936,136**
Increases	13,838	48,708	-	-	62,546
Transfers covering losses	-	(54,409)	54,409		-
Net profit (loss) for the period	-	-	(45,525)	-	(45,525)
Balance at 01.01.2007	**212,207**	**948,016**	**(207,066)**	**-**	**953,157**
Increases	-	-	-	886	886
Transfers covering losses	-	(45,525)	45,525		-
Net profit (loss) for the period	-	-	(23,842)	-	(23,842)
Balance at 31.12.2007	**212,207**	**902,491**	**(185,383)**	**886**	**930,201**

Cash Flow Statement

(EUR 000)

	31.12.2007	31.12.2006
OPERATIONS		
Net result for the period	**(23,842)**	**(45,525)**
Adjustments for:		
Depreciation of tangible assets	86	279
Amortisation of intangible assets	305	307
Writedown of financial assets	-	2,038
Writedown of equity investments	15,423	38,421
Capital gains (losses) on the disposal of equity investments	156	-
Stock Option costs	886	-
	(6,986)	**(4,480)**
(Increase)/Decrease in receivables	(2,802)	(3,912)
Increase/(Decrease) in payables to suppliers	17,152	(5,792)
Net changes in the provisions for risks and charges	(4,285)	(525)
Net changes in the staff severance indemnity fund	(56)	(74)
Changes in other liabilities	(20)	785
Changes in other assets	11,548	2,111
	21,538	**(7,407)**
NET CASH GENERATED FROM OPERATIONS	**14,552**	**(11,887)**
INVESTING ACTIVITIES		
- Changes in other financial assets	(30,643)	(3,468)
- Purchases of tangible fixed assets	(9)	16
- Purchases of intangible fixed assets	(5)	(49)
- Payments for the sale of financial fixed assets	486	-
NET CASH USED IN INVESTING ACTIVITIES	**(30,171)**	**(3,501)**
FINANCING ACTIVITIES		
Changes in financial assets	-	-
Increase (decrease) in other non-current liabilities	27,900	10,125
Changes in shareholders' equity	-	-
NET CASH ARISING FROM /(USED IN) FINANCING ACTIVITIES	**27,900**	**10,125**
Changes in assets disposed of and held for sale	-	-
NET INCREASE / (DECREASE) OF CASH AND CASH EQUIVALENTS	**12,281**	**(5,265)**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE FINANCIAL YEAR	**(12,267)**	**(7,002)**
CASH AND CASH EQUIVALENTS	**14**	**(12,267)**

Explanatory notes

Tiscali S.p.A. is a limited company incorporated under the laws of the Republic of Italy at the Cagliari Companies' Register. The address of the registered office is indicated in the introduction to this report.

The financial information included in these statements is presented in euro (EUR) which is the currency used to conduct most of the parent company's operations.

The income statement and balance sheet, cash flow statement, statement of changes in shareholders' equity and values indicated in the notes to the financial statements are presented in thousands of euro.

These financial statements were prepared on an ongoing concern basis, in that the Tiscali S.p.A. prospects, and more in general those of the Group, are considered fully coherent with a balanced economic and financial position as forecast in the business plans. In reference to Tiscali's competitive scenario and sector characteristics, availability of financial resources for supporting the development plans and repaying the financial debts falling due remain essential for the business continuity. During 2007, important re-financing agreements were entered into with Intesa SanPaolo and JPMorgan involving a credit facility for EUR 650 million comprising the following elements: a bridging loan pertaining to a market debt transaction for EUR 400 million, a bridging loan for a share capital increase of EUR 150 million, a credit facility of Banca IntesaSanPaolo for EUR 50 million and a line of liquidity, unused at present, for EUR 50 million.

The credit facility of EUR 650 million (of which EUR 600 million disbursed) essentially replaced the previous loan with Banca Intesa SanPaolo (for EUR 150 million) and with Barclays (for around EUR 53 million).

This total amount was reduced by means of recourse to a share capital increase approved by Tiscali's shareholders' meeting held on 31 August 2007; the increase was concluded on 22 February 2008, for a total of EUR 150 million.
It is also envisaged that the loan of around EUR 400 million may also be replaced by means of recourse to market debt instruments. If the market debt transaction does not take place by September 2008, the bridging loan will transform into a long-term payable falling due on 13 September 2014.

The credit facility of EUR 50 million already disbursed, and that made available, will both fall due in September 2011.
With this context, the Group's ability to generate positive cash flows and economic results remains of primary importance, being a condition which significantly influences the Group's ability to respect the plans drawn up by the directors and the evolution of Tiscali's financial position and, therefore, its financial, equity and economic equilibrium.

1. Format and content of accounting statements

The 2007 statutory financial statements represent the separate financial statements of the Parent Company Tiscali S.p.A. and have been prepared in observance of the International Accounting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") as approved by the European Union, as well as the instructions issued by way of implementation of Article 9 of Italian Legislative Decree No. 38/2005. The IFRS are understood to include all the reviewed international accounting standards ("IAS") and all the interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), previously known as the Standing Interpretations Committee ("SIC").
In observance of European Regulation No. 1606 of 19 July 2002, as from 2005 the Tiscali Group adopted the International Accounting Standards ("IFRS") issued by the 'International Accounting Standards Board ("IASB") for the preparation of the consolidated financial statements. On the basis of national legislation implementing the afore-mentioned Regulation, the financial statements of the Parent Company Tiscali S.p.A. have been drawn up according to the afore-mentioned standards as from 2006. The disclosure required by IFRS 1 – First time adoption of the IFRS, relating to the effects consequent to the changeover to the IFRS, was included in the specific Attachment to the financial statements at 31 December 2006, to which reference should be made.
The financial statements have been drawn up on the basis of the historic cost approach, amended as required for the valuation of certain financial instruments.

2. Accounting standards

2.1 General standards

The financial statements were prepared in compliance with the International Financial Reporting Standards (IFRS). The main accounting standards are detailed below. These standards were applied consistently to all periods presented.

Preparation of the financial statements requires management to make accounting estimates and in certain cases assumptions in the application of accounting standards. The areas where assumptions and estimates are significant to the financial statements are disclosed in note 3 to this section.

2.2 Equity investments in subsidiaries

Equity investments in subsidiaries and affiliated companies are recognised at cost, adjusted for any impairment.
The positive difference emerging at the time of acquisition between the acquisition cost and the equity investment share pertaining to the company is therefore included in the carrying amount of the investment.
In application of IAS 36, the value of equity investments recognised at cost is reduced if there is impairment or if circumstances emerge that indicate that said cost is irrecoverable. If the impairment is discovered to no longer apply or is reduced,

the book value is increased to the new estimated recoverable value, up to a maximum of the value recognised initially.

2.3 Assets held for sales and discontinued operations

Assets due for disposal in relation to equity investments in non-strategic subsidiaries held for sale as required by IFRS 5 - Assets Held for Sale and Discontinued Operations (applicable from 1 January 2004), are classified under a specific item in the balance sheet and are stated at the lower of the asset's previous book value and market value, less any sales costs. The assets (related to equity investments) are thus classified if it is estimated that their book value will be recovered by disposal rather than by continued use. This condition is observed only when the sale is highly probable, the asset (or investment) is available for immediate sale in its present condition and the Board of Directors of the parent company is committed to the sale, completion of which should be expected within one year from the date of classification.

2.4 Foreign currency transactions

Sums receivable and payable in foreign currency are recorded at the exchange rate valid at the end of the year, and related gains or losses from conversion are credited or charged to the income statement under "Exchange gains and losses". There are no tangible assets, intangible assets or equity investments recognised at cost in foreign currency. After closing of the financial period, there were no significant changes in the reference exchange rates used in the preparation of these statements.

2.5 Other intangible assets

Concessions, licenses and similar rights

Acquired computer software licenses are capitalised and included among intangible assets at the purchase cost and are amortised on a straight-line basis over their estimated useful lives.

2.6 Properties, plant and machinery

All property, plant and machinery is shown at purchase or production cost, including accessory charges directly attributable to purchase of the items, less accumulated depreciation and impairment. No revaluation is provided for such tangible assets.

Depreciation is calculated using the straight-line method on the cost of each asset less the relevant residual value, if any, over its estimated useful life, as follows:

Properties	**17%**
Plant	**12-20%**
Equipment	**12-25%**

Routine maintenance expenses are charged to the income statement in full, in the financial year in which the costs were incurred, while maintenance expenses of an incremental nature are attributed to relevant assets and are depreciated over the residual useful life.

Upgrade costs on third-party assets under operating lease agreements are capitalised, posted under the relevant line of tangible assets and are amortised over either the estimated useful life of the asset or the remaining term of the lease, whichever is shorter.

Gains and losses arising on disposals of items of property, plant and machinery are calculated as the difference between sales revenue and net carrying value and are recognised to the income statement for the year.

2.7 Impairment of assets

The book value of Equity investments, Other intangible assets and Properties, plant and machinery is tested for impairment whenever events or changes in circumstance indicate that the book value may be impaired. The assets in question are tested annually or more frequently if there is any indication that those assets have suffered impairment. If any such indication exists the recoverable amount of the asset is estimated in order to determine the extent of the impairment. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the Cash Generating Unit (CGU) to which the asset belongs. The recoverable amount is the higher between the 'fair value' less sales costs and its utilisation value. When assessing utilisation value, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment on the value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash generating unit) is estimated to be less than its book value, the latter is written down to its recoverable amount. The relevant impairment is booked to the income statement under writedowns. If the reasons for impairment are considered to no longer apply in the current year the book value of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but not beyond the book value that would have been determined had no impairment been recognised for the asset in previous years. An impairment reversal is booked to the income statement.

The accounting standards adopted for specific assets and liabilities are disclosed below.

Other financial assets

Other financial assets are valued, consistently with IAS 39 provisions for financial assets 'available for sale', at fair value or alternatively at cost whenever fair value cannot be reliably calculated. Gains and losses from changes in fair value are directly booked to equity until the security is disposed of or is impaired, at which time the cumulative gain or loss previously booked to equity is included in the income statement for the period. The original value is re-recognised in the following financial year if the reasons for write-down are considered to no longer apply.

Receivables from customers and other receivables
Receivables are initially stated at their nominal value (representative of the 'fair value' of the transaction) and are subsequently valued at amortised cost, net of writedowns for impairment, booked to the income statement when there is objective evidence that the asset is impaired. Such writedowns are calculated as the difference between the carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. Particularly with regard to short-term trade receivables, considering the scarce significance of the period of time, the valuation at amortised cost is equivalent to the nominal value, less writedowns for impairment.

Cash and cash equivalents
Cash and cash equivalents include cash in hand, current accounts and deposits held on demand with banks, and other short-term highly liquid financial investments readily convertible to an amount of cash and are subject to an insignificant risk of changes in value. Cash and cash equivalents are stated at fair value, corresponding to their nominal value, or at cost plus interest charges, if any.

Bonds
The Company has no existing bond issues.

Payables to banks
Interest-bearing bank loans and overdrafts are recorded on the basis of the amounts received net of transaction costs and are subsequently measured at amortised cost, using the effective interest rate method.

Payables to suppliers and other payables
Trade payables and other payables are stated at amortised cost which, considering the characteristics and maturity of such payables, is generally equivalent to the nominal value.

Derivative instruments
The Company has no existing contracts relating to derivatives.

2.8 Liabilities for pension obligations and staff severance indemnities

Defined benefit schemes (as classified by IAS 19), in particular the Staff Severance indemnities relating to employees of the Company, are based on valuations performed at the end of each financial year by independent actuaries. The liability booked in the balance sheet is the present value of the obligation payable on retirement and accrued by employees at the balance sheet date. It should be specified that no assets are held in support of the above scheme. The Company has not adopted the 'corridor approach', therefore actuarial gains and losses are entirely recognised in the period in which they arise and are directly recorded in the income statement.

Payments made in relation to outsourced pension schemes and defined contributions schemes are booked to the income statement in the period in which they are due. The Group does not recognise post-employment benefit schemes, therefore periodic contributions do not involve further liabilities or obligations to be recognised as such in the financial statements.

As from 1 January 2007, the 2007 Finance Bill and the related implementing decrees introduced significant amendments to the regulation of staff severance indemnities (TFR), including the worker's choice regarding the allocation of their accruing TFR to supplementary welfare funds or to the " Treasury Fund" managed by INPS (national insurance institute for social security).
Therefore, the obligation vis-à-vis INPS and the contribution to the supplementary pension schemes takes on the form, as per IAS 19, of "Defined contribution schemes", while the portions recorded in the staff severance indemnity (TFR) remain "Defined benefit schemes".

The legislative amendments introduced as from 2007 also led to a re-determination of the actuarial assumptions and the consequent calculations used for determining the staff severance indemnity (TFR); the effects have been booked directly to the income statement

2.9 Provisions for risks and charges

Provisions for risks and charges are recognised when the Company has a present obligation as a result of a past event and is likely to be required to settle that obligation. Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the balance sheet date and are discounted to present values where the effect is material.

2.10 Remuneration schemes involving interests in the share capital

The Group has assigned certain members of senior management and employees additional benefits via plans for interests in the share capital (stock option plans). These plans represent a component of the remuneration of the beneficiaries.
The cost, represented by the fair value of the stock options as of the date of allocation is recorded, for accounting purposes in accordance with "IFRS 2- Payments based on shares" in the income statement with a matching balance directly under shareholders' equity.

2.11 Revenue recognition

Revenues from sales of services are recognised net of discounts, rebates and bonuses in the period in which the services are rendered by reference to completion of the specific transaction. Amounts relating to other financial periods are recorded under other current liabilities as deferred income.

2.12 Financial income and charges

Interest received and paid is recognised using the effective interest method.

2.13 Taxes

Income tax expense for the year includes the tax currently payable.

The tax currently payable is based on taxable income for the year. Taxable income differs from the result reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. Liability for current tax is calculated using tax rates applicable at the balance sheet date.

3. Critical decisions in applying accounting standards and in the use of estimates

In the process of applying the accounting standards disclosed in the previous section, Tiscali's directors made some significant decisions in view of the recognition of amounts in the financial statements. The directors' decisions are based on historical experience as well as on expectations associated with the realisation of future events and considered reasonable under the circumstances.

3.1 Accounting estimates and relevant assumptions

Provisions for risks and charges

Provisions for risks and charges related to potential legal and tax liabilities are established following estimates performed by directors on the basis of judgements developed by the Company's legal and tax advisors, concerning the charges that are reasonably deemed to be incurred in order to settle the obligation. If in relation to the final result of such judgements the Company is called upon to fulfil an obligation for a sum other than that estimated, the related effects are reflected in the income statement.

Equity investments

Impairment testing, with particular regard to equity investments, is performed annually as indicated under point 2.7 "Impairment of assets". The ability of each unit (investment) to produce cash flows sufficient to recover the value recorded in the financial statements is determined on the basis of forecast economic and financial data of the company concerned or any subsidiaries. The development of such data, as well as the determination of an appropriate discount rate, requires a significant use of estimates.

Determination of the Fair Value

In relation to the instrument or the financial statement item to be valued, management identifies the most appropriate method, referring as far as possible to objective market data. In the absence of market values, i.e. listings, valuation techniques are used with reference to those most commonly used in practice.

3.2 New accounting standards

On 3 March 2006, the IFRIC issued interpretational document IFRIC 9 – *Subsequent assessment of underlying derivatives* in order to specify that a company must assess whether underlying derivatives must be separated from the primary contract and recognised as derivative instruments as of the moment that the company becomes party to the contract. Subsequently, unless contractual conditions are modified to produce significant effects on cash flows that would otherwise be required under contract, said assessment may not be implemented 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 accounting effect.

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.

In August 2005, the IASB issued the new accounting standard IFRS 7 – *Financial instruments: supplementary information* and a complementary amendment to IAS 1 – *Presentation of the financial statements: supplementary information relating to the share capital*. IFRS 7 requires supplementary information regarding the recognition of financial instruments concerning the performance and the financial position of a company. This information incorporates certain requisites previously included in accounting standard IAS 32 –*Financial instruments: disclosure in the financial statements and supplementary information*. The new accounting standard also requires information regarding the level of exposure to risk deriving from the use of financial instruments, and a description of the objectives, policies and procedures implemented by management to handle such risks. The amendment to IAS 1 introduces requirements relating to information to be provided on company capital. The Company adopted IFRS 7 in the 2007 financial statements.

Accounting standards, amendments and interpretations not yet applicable or not adopted in advance by the Company
On 30 November 2006, IASB issued accounting standard IFRS 8 – Business Segments, applicable as of 1 January 2009 in replacement of IAS 14 Segment Reporting. The new accounting standard requires that the company bases information given in the Segment Report on elements used by management to make their business decisions, and therefore requires identification of the business segments based on internal reporting regularly reviewed by management for resource allocation purposes to the various segments and for performance analysis purposes.

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 income statement - 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 these financial statement, 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 these financial statements, 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 these financial statements, 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, 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* (applicable as from 1° January 2008 and not yet approved by the European Union).
- 'IFRIC 13 – *Customer Loyalty Programmes* (applicable as from 1° January 2009 and not yet approved by the European Union)

4. Revenues

Operating revenues are represented by:

Revenues EUR (000)	31.12.2007	31.12.2006
Revenues from services provided to Group companies	14,681	14,286
Revenues from services to third parties	16,221	4,515
	30,902	**18,801**

Revenues from services provided to Group companies mainly refer to the invoicing of services provided by the Company in favour of Group companies.
This item also includes charges for rights of use of the Tiscali brand name calculated as a percentage of sums invoiced by Group companies using the brand name. The increase over the previous year is mainly due to increased charges for brand name usage.

Revenues for services provided to third parties are essentially represented by the partnership agreement with the search engine Google which have been invoiced to the customer by the Parent Company as from October 2006. The portions of revenues pertaining to the Group companies are then remitted to the same and at the same time infraGroup costs are recorded in the financial statements of the Parent Company.

5. Other income

Other income from third parties includes capital gains on the sale of equity investments.

6. Purchase of materials and outsourced services

Costs for the purchase of materials and outsourced services amount in total to EUR 23.6 million, compared with EUR 11

3.476.000

Active users

million in 2006; they include costs for services provided by Group companies totalling EUR 17.9 million, (EUR 5 million in 2006) of which EUR 16 million represents the portions of revenue remitted in relation to the partnership agreement with the search engine *Google.*

Costs for services provided by third parties amount to EUR 5.6 million (EUR 5.9 million in 2006) and mainly comprise costs for professional advice in the legal, administrative and financial field totalling EUR 4 million, marketing costs for EUR 0.2 million, as well as insurance costs and other general expenses.

Detailed below are the services purchased from group companies:

EUR (000)	31.12.2007
Tiscali Uk Ltd	14,486
Tiscali B.V.	84
Tiscali GmbH	79
Tiscali Telecomunicaciones Sa	6
Tiscali Telekomunikace Sro	53
Tiscali Italia S.p.A.	2,466
Tiscali Services S.p.A.	737
Total	**17,913**

7. Payroll and related costs

EUR (000)	31.12.2007	31.12.2006
Wages and salaries	4,319	5,456
Remunerative component from Stock Option plans	886	-
Other personnel costs	5,186	3,885
Total	**10,392**	**9,341**

Payroll and related costs were essentially in line with those of 2006.

The remunerative component deriving from the Stock Option plans totalling EUR 0.8 million, refers to the figurative charges accrued in 2007 deriving from the plans assigned to the Chief Executive Officer for EUR 0.45 million and to the Company's managers for EUR 0.43 million, with a matching balance in a specific equity reserve. For further information on the Stock Option plans assigned, reference should be made to the commentary on shareholders' equity in Note 20.

At 31 December 2007, Tiscali S.p.A. had 32 employees. The relevant categories are disclosed below together with the corresponding figure at 31 December 2006.

Categoria	31.12.2007	31.12.2006
Dirigenti	15	15
Quadri	6	9
Impiegati	11	22
Operai	-	3
Totale	**32**	**49**

8. Other operating costs

The table below shows a breakdown of these costs:

EUR (000)	31.12.2007	31.12.2006
Other operating expenses	2,169	1,113
Capital losses on disposal of equity investments	517	-
Total	**2,686**	**1,113**

Other operating costs include sundry operating charges for EUR 1.6 million and capital losses totalling EUR 0.5 million. The capital loss was generated at the time of the 100% disposal of the equity investment held in the company Tiscali Services S.p.A. in December 2007.

9. Writedowns of receivables from customers and other writedowns

EUR (000)	31.12.2007	31.12.2006
Writedowns of receivables from customers	873	101
Other writedowns	15,423	40,459
Provisions for risks and charges	1,923	1,493
Total	**18,220**	**42,053**

The item other writedowns amounting to EUR 15.4 million includes EUR 6.4 million in relation to the writedown of the equity investment held in Tiscali Deutschland Gmbh, EUR 8.3 million for the partial waiver of the receivables due from the subsidiary Tiscali Services S.p.A. intended to cover the losses accrued in 2006 and EUR 0.7 million for the partial waiver of the receivables due from the subsidiary Quinary S.p.A..

The balance relating to 2006 included the writedown referring to the subsidiary Tiscali Deutschland Gmbh totalling EUR 30 million.

Provisions for risks and charges totalling EUR 1.9 million include the provision for the coverage of the loss accrued in 2007 by the subsidiary Quinary S.p.A. for EUR 1.5 million.

10. Financial income and charges

A breakdown of net financial charges for the year of EUR 0.3 million is provided below.

EUR (000)	31.12.2007	31.12.2006
Financial income		
Interest on bank deposits	90	3
Others	11	81
	101	**83**
Financial charges		
Interest on bonds	-	-
Interest and other charges due to banks	(343)	(539)
Other financial charges	(68)	(53)
	(411)	**(592)**
Net financial charges	**(310)**	**(508)**

11. Income taxes

EUR (000)	31.12.2007	31.12.2006
Current taxes	77	163
Net taxes for the year	**77**	**163**

The balance of current taxes includes IRAP (regional business tax) for 2007.

The following table illustrates total previous tax losses deductible by Tiscali S.p.A. and divided by year of expiry, together with deductible temporary differences.

EUR (000)	Total at	Year of expiry (*)				
	31.12.2007	2008	2009	2010	Beyond 2010	Indefinite
Total previous tax losses	457,614	178,463	122,538	626	145,348	10,639
Deductible temporary differences	22,656	19,995	25	25	67	2,544
Total tax losses and deductible temporary differences	**480,270**	**198,458**	**122,563**	**651**	**145,415**	**13,183**
Total prepaid taxes (at the theoretical average tax rate of 27.5%)	**132,074**					
Prepaid taxes recognised	0					
Prepaid taxes not recognised	**132,074**					

(*) For temporary differences this is the year of utilisation/deduction

12. Intangible assets

Intangible asset movements for the year were as follows:

Intangible assets EUR (000)	31.12.2006	Increases	Amortisation	(Decreases) and Other changes	31.12.2007
Concessions, licenses and similar rights	911	5	(305)	-	612
Other	-	-	-	-	-
Total	**911**	**5**	**(305)**	**-**	**612**

Concessions, licenses and similar rights of EUR 0.6 million include a software license purchased at the end of 2004 for management of territorial information via a system based on vectorial mapping and a geo-referencing database.

13. Properties, plant and machinery

The table below shows the movements occurring during the financial year:

Historic cost EUR (000)	31.12.2006	Increases	Depreciation	(Decreases) and Other changes	31.12.2007
Properties	1,962	4	-	-	1,966
Plant and machinery	65	-	-	-	65
Other assets	708	9	-	(18)	699
	2,736	**12**	**-**	**(18)**	**2,730**

Accumulated depreciation	31.12.2006	Increases	Depreciation	(Decreases) and Other changes	31.12.2007
Properties	1,958	-	3	-	1,962
Plant and machinery	49	-	4	-	53
Other assets	511	-	78	(15)	574
	2,518	**-**	**86**	**(15)**	**2,589**

Net value	31.12.2006	Increases	Depreciation	(Decreases) and Other changes	31.12.2007
Properties	4	4	(3)	-	4
Plant and machinery	17	-	(4)	-	12
Other assets	197	9	(78)	(3)	124
Total	**218**	**12**	**(86)**	**(3)**	**141**

14. Equity investments

At 31 December 2007, this item included equity investments in subsidiaries of EUR 1,133.4 million, together with equity investments in affiliated and other companies for a total of approximately EUR 0.5 million.
The tables below provide a detailed composition of the balance and movements in the period.

SUBSIDIARIES	31.12.2007			31.12.2006		
EUR (000)	Cost	Reval / (write-down)	Book value	Cost	Reval / (write-down)	Book value
Connect Software Inc.	1,027	(1,027)	-	1,027	(1,027)	-
Energy Byte Srl in liquidation	677	(677)	-	677	(677)	-
Quinary S.p.A.	30,773	(30,416)	357	30,161	(29,935)	226
Tiscali Czech Republic a.s.	39	(39)	-	39	(39)	-
Tiscali Deutschland Gmbh	283,475	(283,475)	-	283,475	(277,088)	6,387
Tiscali Finance SA	125	(125)	-	125	-	125
Tiscali Italia S.p.A.	55,439	-	55,439	55,439	-	55,439
Tiscali Motoring S.r.l. in liquidation	500	(500)	-	500	(500)	-
Tiscali Services S.p.A	-	-	-	29,828	-	29,828
Tiscali Telecomunicaciones SA	-	-	-	2,452	(2,327)	125
World Online International N.V.	1,811,994	(735,724)	1,076,270	1,811,994	(735,724)	1,076,270
Tiscali Int.l Network S.p.A.	1,306	-	1,306	1,306	-	1,306
Tiscali Financial Services Sa	31	-	31	-	-	-
	2,185,386	**(1,051,983)**	**1,133,403**	**2,217,023**	**(1,047,317)**	**1,169,706**

ASSOCIATED COMPANIES	31.12.2007			31.12.2006		
	Cost	Reval / (write-down)	Book value	Cost	Reval / (write-down)	Book value
STS Studi Tecnologie e Sistemi S.r.l.	1,291	(811)	480	1,291	(811)	480
STUD Soc. Consortile a.r.l.	-	-	-	15	-	15
	1,291	**(811)**	**480**	**1,306**	**(811)**	**495**

OTHER COMPANIES	31.12.2007			31.12.2006		
	Cost	Reval / (write-down)	Book value	Cost	Reval / (write-down)	Book value
Mix S.r.l.	-	-	-	1	-	1
Tiscali Int.l Network S.p.A.	-	-	-	34	-	34
	-	**-**	**-**	**35**	**-**	**35**

The table below indicates movements in the period for each investment.

SUBSIDIARIES	Balance 31.12.2006	Increases	(Disposals)	Reval/(write-down)	Balance 31.12.2007
Connect Software Inc.	-	-	-	-	-
Energy Byte S.r.l. in liquidazione	-	-	-	-	-
Ideare S.p.A.	-	-	-	-	-
Quinary S.p.A.	226	824	-	(693)	357
Tiscali Czech Republic a.s.	-	-	-	-	-
Tiscali Deutschland Gmbh	6,387	-	-	(6,387)	-
Tiscali Finance SA	125	-	-	(125)	-
Tiscali Italia S.p.A.	55,439	-	-	-	55,439
Tiscali Motoring S.r.l	-	-	-	-	-
Tiscali Services S.p.A	29,828	8,358	(29,978)	8,208)	-
Tiscali Telecomunicaciones SA	125	-	(125)	-	-
World Online International N.V.	1,076,270	-	-	-	1,076,270
Tiscali Int.l Network S.p.A.	1,306	-	-	-	1,306
Tiscali Financial Services Sa	-	31	-	-	31
	1,169,706	**9,213**	**(30,103)**	**(15,413)**	**1,133,403**

Disposals during the year concerned the equity investment in the company Tiscali Services S.p.A., transferred for EUR 29.4 million to the subsidiary Tiscali Italia S.p.A. in December 2007, involving a capital loss of EUR 0.5 million; it was subsequently absorbed via merger during 2008. In February 2007, the Spanish subsidiary Tiscali Telecomunicaciones SA was also disposed of to World Wide Web Ibercom S.L. for a total of EUR 0.5 million.

As indicated in the section on accounting policies in these notes to the financial statements, equity investments are recognised at cost, with the writedown of any permanent loss of value determined via impairment testing. It is considered that the book value of equity investments at 31 December 2007 remains valid, given the significant amount of goodwill intrinsic to the equity investments.
For direct or indirect equity investments of a strategic nature, verification of the book value for the equity investments was performed in a similar manner to the previous year, by development of a specific impairment test based on discounting of expected cash flows as indicated in the Tiscali Group business plan.

Considerations emerging from the analysis of the book values of equity investments held by the Company, together with related effects on the Tiscali S.p.A. financial statements at 31 December 2007, and a brief comment on changes in the period, are provided below.

Connect Software Inc.
This equity investment, acquired in December 2000, was fully written down in 2004 since the related intangible assets (software licenses) are no longer used in the Tiscali Group, and no realisation and/or sale to third parties is anticipated.

Energy Byte Srl in liquidation
By resolution of the shareholders' meeting of 11 March, this company was placed in liquidation in 2004. The equity investment was fully written down in previous periods.

Quinary S.p.A.
This company operates in systems integration software produc-

tion and development. Net changes during the period relate to the EUR 0.3 million waiver by the Parent Company of receivables, with the full amount charged to the income statement. Quinary is still undergoing redefinition of its role in the Tiscali Group. It is considered that the residual carrying amount can be deemed to represent the goodwill value of the investment.

Tiscali Czech Republic S.r.o.

This is a small equity investment in a non-operating company in the Czech Republic, now in liquidation.

Tiscali Deutschland Gmbh

Tiscali Deutschland held a substantial portion of operating assets in the Tiscali Group in Germany, managed by Tiscali GmbH. In the first months of 2007, agreements were reached between Tiscali S.p.A. and Freenet AG for the disposal of B2C assets.

The results of the impairment test, developed taking into account the effects of the events indicated above, led to the integral writedown of the equity investment by mean of booking to the income statement.

Tiscali Finance SA

The book value for this investment, a Tiscali Group "vehicle" which managed the Equity Linked Bonds of EUR 209.5 million repaid in September 2006, is indirectly adjusted by the sum of EUR 18.7 million recognised as a provision for risks and charges, established in previous years to cover the residual deficit of this subsidiary. During 2007, the equity investment was written down in full by means of booking to the income statement.

Tiscali Italia S.p.A.

As part of the project to streamline the Tiscali Group structure, effective from 1 January 2005, all operating activities of Tiscali S.p.A. in Italy were transferred to Tiscali Italia S.r.l., i.e.: consumer, business, media, technology, the Italian network infrastructure, staff activities, licenses and authorisations for telecommunications and Internet services, for a total value of EUR 184.9 million. This value mainly represents goodwill, assessed as EUR 158.7 million.

Even though the investee company ended 2007 with a net loss of EUR 28.8 million, the results of impairment testing did not reveal any issues concerning the book value for this equity investment (EUR 55 million), in the light of the valuation performed using the Discounted Cash Flow method described above.

Tiscali Motoring S.r.l

The book value of this equity investment, currently in liquidation, was fully written down during 2006.

Tiscali Services S.p.A.

On a similar basis to Tiscali Italia S.p.A., this company was affected by the transaction for the conferral of Tiscali S.p.A.'s operating activities in 2005. In detail, Tiscali Services S.r.l. received all the information technology, media development and new products activities intended for the entire Group, for a total value of EUR 31.2 million.

Changes during the period refer to the partial waiver of receivables to cover the loss for 2006 by means of the booking to the income statement of EUR 8.2 million, as well as the transfer of the same to the subsidiary Tiscali Italia S.p.A.

The subsidiary ended the financial year with profit of EUR 2.2 million.

World Online International N.V.

This is a sub-holding based in the Netherlands which, at 31 December 2007, controlled Tiscali Group companies operating, in particular, in the UK.

Impairment testing on the book value of Tiscali S.p.A.'s investment in World Online International NV at 31 December 2007 (net of write-downs for permanent losses of EUR 735.7 million recognised in previous years) was performed on the basis of assumptions indicated in the foreword to the notes on equity investments.

The value of World Online International NV was in this case mainly represented by the value of the underlying Dutch sub-holdings and items in the financial statements relating to its financial position, was determined on the basis of an approach focused on the discounting of expected cash flows as indicated in the Tiscali Group business plan.

The residual net book value of EUR 1,076 million maintains its importance, taking into account that the main underlying assets refer to the operating equity investments in the UK in particular.

Tiscali International Network S.p.A.

In the last financial year, Tiscali International Network S.p.A. was 10% controlled by Tiscali S.p.A. and the remaining 90% by Dutch sub-holding Tiscali International Network BV.

ASSOCIATED COMPANIES EUR (000)	Balance 31.12. 2006	Increases	(Disposals)	Reval / (write-down)	Balance 31.12. 2007
STS Studi Tecnologie e Sistemi S.r.l.	480	-	-	-	480
STUD Soc. Consortile a. r. l.	15	10	(15)	(10)	-
	495	**10**	**(25)**	**(10)**	**480**

Equity investments in associated companies include the equity investment in STS Studi Tecnologie e Sistemi S.r.l., operating in the software and IT production and development sector.

OTHER COMPANIES EUR (000)	Balance 31.12. 2006	Increases	(Disposals)	Reval / (write-down)	Balance 31.12. 2007
Mix S.r.l.	1	-	(1)	-	-
	1	**-**	**(1)**	**-**	**-**

Equity investments – Other information

SUBSIDIARIES EUR (000)	Country	Share Capital	Shareholders' equity	Result	% Held	Book value
Connect Software Inc.in liquidation (*)	S.Francisco (USA)	48	(43)	(2)	100%	-
Energy Byte S.r.l.in liquidation	Milan	68	55	(4)	100%	-
Quinary S.p.A.	Milan	400	(849)	(1,359)	85%	357
Tiscali Czech Republic a.s. (**) in liquidation	Prague	505	(43)	(23)	100%	-
Tiscali Deutschland Gmbh (***)	Monaco	555	(6,985)	2,169	100%	-
Tiscali Finance SA	Luxemburg	125	(19,190)	(961)	100%	-
Tiscali Italia S.p.A.	Cagliari	185,000	119,102	(28,807)	100%	55,439
Tiscali Motoring S.r.l in liquidation	Cagliari	100	(46)	(1)	60%	-
World Online International N.V.	Maarsen (NL)	115,519	1,080,095	-	100%	1,076,270
Tiscali Int.l Network S.p.A.	Cagliari	350	528	142	60%	1,306
Tiscali Financial Services Sa	Luxemburg	31	22,031	(53)	100%	31
						1,133,403

(*) Balance sheet data at 31 December 2002 (**) - Balance sheet data at 31 December 2003 - (***) Forecast balance sheet data at 31 December 2007

ASSOCIATED COMPANIES EUR (000)	Country	Share Capital	Shareholders' equity	Result	% Held	Book value
STS Studi Tecnologie e Sistemi S.r.l.	Rome	100	132	(23)	20%	480

With regard to STS S.r.l. it should be mentioned that 15% of the share capital is held by Energy Byte S.r.l. (in liquidation), which is 100% controlled by Tiscali S.p.A.

15. Other non-current financial assets

EUR (000)	31.12.2007	31.12.2006
Receivables from Group companies	53,144	4,779
Other receivables	-	-
Total	**53,144**	**4,779**

Other non-current financial assets include financial receivables from Group companies of EUR 53 million at 31 December 2007. The increase with respect to the end of the previous year was essentially determined by the receivable due from the subsidiary Tiscali Italia S.p.A. for EUR 29.46 million generated by the 100% disposal of the equity investment in Tiscali Services S.p.A. on 6 December as already mentioned in the commentary to the item equity investments.

The financial receivables due from Group companies are detailed below:

EUR (000)	31.12.2007	31.12.2006
Energy Byte S.r.l	112	111
Quinary SpA	328	235
Tiscali International Network SpA	663	0
Tiscali Motoring Srl	351	387
Tiscali Telecomunicaciones SA	-	1
Tiscali Italia S.p.A.	31,948	3,892
Tiscali Services S.p.A.	19,421	-
Tiscali Media Srl	321	153
	53,144	**4,779**

16. Receivables from customers

EUR (000)	31.12.2007	31.12.2006
Receivables from customers	45,523	42,221
Writedown provision for losses	(500)	-
Total	**45,023**	**42,221**

At 31 December 2007, receivables from customers totalled EUR 45 million, including receivables from Group companies of EUR 43.6 million and from third party customers of EUR 1.4 million. The book value of trade receivables, in view of conditions regulating services provided by the Group, is approximate to their fair value.

Trade receivables due from Group companies are detailed below:

EUR (000)	31.12.2007	31.12.2006
Quinary SpA	122	32
Tiscali Deutschland Gmbh	4,151	12,755
Tiscali International BV	-	125
Tiscali Business Gmbh	505	9,305
Tiscali Gmbh	10,405	-
Tiscali B.V.	-	1,140
Tiscali Espana SLU	315	315
Tiscali UK Ltd	22,185	10,320
Tiscali UK Holdings Ltd	774	774
Tiscali International Network BV	1,715	973
Tiscali International Network SpA	137	137
Tiscali Italia S.p.A.	2,733	4,198
Tiscali Services S.p.A.	526	173
Total	**43,568**	**40,249**

17. Other Receivables and other Current Assets

EUR (000)	31.12.2007	31.12.2006
Other receivables	1,291	12,848
Accrued income	25	-
Prepaid expense	233	249
Total	**1,549**	**13,097**

Other receivables at 31 December 2007 amounted to EUR 1.5 million. The net decrease with respect to the previous year of EUR 11.5 million, includes EUR 7 million for the VAT credit rebate in March 2007.

Prepaid expense of EUR 0.2 million includes prepaid insurance and leasing costs.

The book value of the items included in this account group is representative of their fair value.

18. Other current financial assets

Other current financial assets at 31 December 2007 totalled EUR 2.5 million and refer to the amounts restricted in order to support the guarantees given within the sphere of the disposal of the Group’s German assets.

19. Cash and cash equivalents

At the end of 2007, cash and cash equivalents totalled EUR 2.2 million and include the company’s liquid resources, essentially held in bank current accounts. Reference should be made to the report on operations for a detailed analysis of the financial position.

20. Shareholders’ equity

EUR (000)	31.12.2007	31.12.2006
Share capital	212,207	212,207
Share premium reserve	902,492	948,017
Stock option reserve	886	-
Retained earnings	(185,383)	(207,066)
Total	**930,201**	**953,157**

Changes in 2007 in shareholders’ equity items are detailed in the relevant table, to which reference should be made.

The number of shares representing the Parent Company’s share capital amount to 424,413,163, unchanged with respect to last year.

On 31 August 2007, a share capital increase was resolved for a total of EUR 150 million, equating to *149,792,880* shares; this share capital increase was carried out and fully subscribed in February 2008. Furthermore, on 21 December 2007 a share capital increase was authorized for up to a maximum of 42,441,316 shares serving the bond issue convertible into Tiscali S.p.A. shares for EUR 60 million issued by the Luxembourg-based subsidiary Tiscali Financial Services SA.

The share premium reserve decreased by an overall EUR 45.5 million due to its utilisation to cover the Parent Company's losses from the previous year, as resolved by the shareholders' meeting of 3 May 2007.

The Stock Option reserve totalling EUR 0.8 million includes the matching balance of the remunerative component deriving from the stock option plans assigned to the Chief Executive Officer for EUR 0.45 million and the Company's managers for EUR 0.43 million (see Note 7).

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 EUR 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 EUR 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

DETAILED STATEMENT OF SHAREHOLDERS' EQUITY ITEMS	Amount	Utilisation options	Available portion	Available portion with no tax effect	Available portion with tax effect	Summary of uses in the last 3 accounting period: Loss coverage	Other
Share capital	212,207		-	-	-	-	-
Share premium reserve	902,491	A,B	902,491	-	-	589,712	-
Retained earnings	(184,497)		-	-	-	-	-
Total	**930,201**		**902,491**	**-**	**-**	**589,712**	**-**

Utilisation options – Key:

A For share capital increases

B For loss coverage

C For distribution to shareholders

21. Other non-current liabilities

EUR (000)	31.12.2007	31.12.2006
Payables to Group companies	236,062	208,162
Other liabilities	-	-
Total	**236,062**	**208,162**

The balance of Other non-current liabilities primarily concerns financial payables to group companies, mainly represented by Tiscali International BV. It should be remembered that the financing agreement with this subsidiary, a sub-holding of the Tiscali Group, does not include interest charges (interest-free financing).
The analysis of financial liabilities to Group companies is as follows:

EUR (000)	31.12.2007	31.12.2006
Tiscali International BV	234,270	206,223
Tiscali B.V.	-	8
Tiscali Motoring S.r.l.	69	74
Tiscali Italia S.p.A.	509	3
Tiscali Services S.p.A.	927	-
Quinary SpA	268	-
Tiscali International Network SpA	3	-
Tiscali International Network BV	-	1,839
Tiscali International Network SA	16	16
Total	**236,062**	**208,162**

The distribution by expiry of Other non-current liabilities is as follows:

EUR (000)	31.12.2007	31.12.2006
1-5 years	1,792	1,939
beyond 5 years	234,270	206,223
Total	**236,062**	**208,162**

22. Liabilities for pension obligations and staff severance

The table below shows the period movements:

EUR (000)	31.12.2006	Provisions	Utilisation	31.12.2007
Staff severance	401	343	(399)	345
Total	**401**	**343**	**(399)**	**345**

The staff severance fund of EUR 0.3 million, chiefly covering amounts payable to employees, relates to the parent company and subsidiaries operating in Italy.

In accordance with the matters envisaged by Italian laws and regulations, the amount due to each employee accrues in relation to the service rendered and must be paid out immediately if the employee leaves the Company. The indemnity due on termination of the employment relationship is calculated according to Italian statutory and employment law provisions with reference to the duration of said relationship and the assessable remuneration of each employee. The liability, adjusted annually in relation to the official cost of living index and the interest envisaged by law, is not associated with any condition or period of accrual, nor any financial funding obligation; therefore, there are no assets serving the provision. Pursuant to IAS 19, the provision has been recorded as a “Defined benefit plan”.

On the basis of the new legislation introduced by Italian Legislative Decree No. 252/2005 and Italian Law No. 296/2006 (2007 Finance Bill), with regard to companies with at least 50 employees the portion of severance indemnity (T.F.R.) accrued as from 2007 will be allocated to either an INPS Treasury Fund (as from 1 January) or to supplementary welfare schemes (from the month of option) and will adopt the nature of a “Defined contribution plan”. The revaluations of the provisions existing at 31 December 2006, made in relation to the official cost of living index and the legal interest, and the portions accrued within companies with less than 50 employees, will remain recorded under the severance indemnity (T.F.R).

In accordance with IAS 19, the following methods have been adopted in order to value the severance indemnity: the Traditional Unit Credit Method, for companies with at least 50 employees and the Projected Unit Credit Cost – service pro rate, for the others broken down into the following phases:

- the possible future benefits which could be disbursed in favour of each employee enrolled in the plan in the event of retirement, decease, disability, resignation, etc., have been projected on the basis of a series of financial hypotheses (increase in the cost of living, increase in remuneration, etc.). The estimate of the future benefits takes into account any foreseeable increases corresponding to the additional length of service as well as the presumable increase in the level of remuneration received as of the valuation date only for employees of companies with less than 50 employees;
- the current average value of the future benefits has been calculated as of the date of the valuation, on the basis of the annual interest rate adopted and the probability that each benefit must be effectively disbursed;

Financial assumptions	
Inflation rate:	2%
Discount rate:	5,6%
Demographic assumptions:	
Mortality:	ISTAT 2002 M/F mortality tables with reference also to SIM 2002 and SIF 2002
Disability:	INPS 1998 M/F disability tables
Resignation:	4% from 20-65 years
Anticipated payments:	1% according to age
Retirement:	65 for men and 60 for women, with maximum length of service of 40 years.

23. Provisions for risks and charges

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

EUR (000)	31.12.2006	Provisions	Utilisation	31.12.2007
Provisions for risks and charges	26,347	1,923	(6,208)	22,062
Total	**26,347**	**1,923**	**(6,208)**	**22,062**

At 31 December 2007, the provision for risks and charges totalled EUR 22 million and includes provisions for contingent liabilities and disputes for around EUR 3 million, plus EUR 18.7 million (unchanged since 2006) essentially in relation to subsidiary Tiscali Finance SA for the portion of the writedown in excess of the book value.

24. Payables to banks and other lenders

EUR (000)	31.12.2007	31.12.2006
Payables to banks and other lenders:		
Payables to banks	2,169	12,419
Total	**2,169**	**12,419**

The item only refers to bank overdrafts necessary for covering operating cash requirements.

25. Payables to suppliers

EUR (000)	31.12.2007	31.12.2006
Trade payables to third parties	11,818	12,012
Trade payables to Group companies for materials and services	32,182	14,836
	43,999	**26,847**

Trade payables to third party suppliers relate mainly to payables for professional consulting services.

It should be mentioned that Trade payables are for settlement by the end of the next financial year and it is considered that their book value is approximate to their fair value.

Trade payables to Group companies are detailed below:

EUR (000)	31.12.2007	31.12.2006
Tiscali International BV	7,960	8,085
Tiscali Business Gmbh	546	546
Tiscali Deutschland Gmbh	-	30
Tiscali Gmbh	109	-
Tiscali B.V.	-	149
Tiscali Espana SL	5	5
Tiscali UK Ltd	18,362	3,876
Tiscali Italia S.p.A.	2,179	83
Tiscali Services S.p.A.	2,140	1,181
Quinary S.p.A.	7	7
Tiscali International Network BV	873	873
Total	**32,182**	**14,836**

26. Other current liabilities

EUR (000)	31.12.2007	31.12.2006
Accrued expenses	36	139
Deferred income	308	306
Other payables	3,885	3,804
Total	**4,229**	**4,249**

Deferred income mainly refers to deferrals on portions of revenues, not pertaining to the accounting period, while the item Other payables mainly comprises amounts due to the tax authorities (employee withholdings) and to social security and welfare institutions for around EUR 1 million, amounts due to employees for EUR 1.8 million and other payables for a total of EUR 1 million. Other payables include emoluments due to Directors for approximately EUR 0.8 million.

27. Guarantees issued and commitments

In dettaglio le garanzie prestate si articolano come segue:

	31.12.2007	31.12.2006
GUARANTEES ISSUED TO THIRD PARTIES		
Sureties	802,127	317,952
	802,127	**317,952**
OTHER MEMORANDUM ACCOUNTS		
Leasing payments falling due	-	187
Commitments	8,376	33,347
	8,376	**33,534**
Total	**810,503**	**351,486**

Sureties given include EUR 600 million in relation to the guarantee given by the Parent Company for the loans granted by Banca Intesa San Paolo and JP Morgan as part of the acquisition of certain Group companies.
The same item includes the surety given by Tiscali S.p.A. to guarantee the amount of the loan granted for the sale & lease back transaction on the Sa Illetta property, totalling EUR 74.5 million.
The item commitments includes EUR 6.6 million for the maintenance of credit facilities granted to the subsidiary Tiscali Italia S.p.A..
The same item at 31 December 2006 included the residual amount of the medium/long-term loan raised with Banca CIS, transferred to the subsidiary Tiscali Italia S.p.A. in 2005; the Parent Company Tiscali S.p.A. was bound jointly and severally in its capacity as guarantor for this loan which was repaid in 2007.

28. Net financial position

As required by Consob Communication dated 28 July 2006, the Company's net financial position at 31 December 2007 is as follows:

EUR (000)	31.12.2007	31.12.2006
A. Cash	171	-
B. Other cash equivalents	2,012	152
C. Securities held for trading	-	-
D. Cash and cash equivalents (A) + (B) + (C)	**2,183**	**152**
E. Current financial receivables (*)	**-**	**-**
F. Current bank payables	(2,169)	(12,419)
G. Current portion of non-current debt		
H. Other current financial payables		
I. Current financial debt (F) + (G) + (H)	**(2,169)**	**(12,419)**
J. Net current financial debt (I) – (E) – (D)	**14**	**(12,267)**
K. Non-current bank payables	-	-
L. Bonds issued	-	-
M. Other non-current payables to Group companies	(236,062)	(208,162)
N. Other non-current payables to third parties	-	-
O. Non-current financial debt (K) + (L) + (M) + (N)	**(236,062)**	**(208,162)**
P. Net financial debt (J) + (O)	**(236,048)**	**(220,429)**

The net financial position indicated in the table above is reconciled with the net debt shown in the Report on Operations as follows:

EUR (000)	31.12.2007	31.12.2006
Net debt as per the Report on operations	**(231,966)**	**(207,332)**
Current financial receivables	(4,082)	(13,097)
Net financial position	**(236,048)**	**(220,429)**

29. Financial risk management

29.1 Financial risk management objectives

The Group's Corporate Treasury division provides business services, co-ordinates access to the local and international financial markets, and monitors and handles the financial risk associated with Group operations by means of internal risk reports which analyze the exposures by degree and magnitude of the risk. These risks include market risks (inclusive of currency risks, fair value interest rate risks and price risks), credit risks and risks in cash flow interest rates.

The use of financial derivatives is disciplined by policies approved by the Board of Directors, which provides written principles on foreign exchange risks, interest rate risks, credit risks, on the use of financial derivatives and non-derivative financial instruments, and the investment of surplus liquidity. Consensus regarding the policies and exposure limits is reviewed by the internal auditor on an on-going basis.

29.2 Market risks

Group activities expose it primarily to the financial risk of changes in exchange rates for foreign currency and to the interest rate.

30. Transactions with related parties

During 2007, the Tiscali S.p.A. had a number of dealings with related parties.

These were transactions regulated on an arms'-length basis; the table below summarises the balance sheet and income statement values recorded in the Parent Company's financial statements at 31 December 2007 arising from transactions with related parties.

The effects on the income statement are indicated as follows:

INCOME STATEMENT EUR (000)	31.12.2007	of which: related parties	% change
Revenues	30,902	14,681	48%
Other income	897		
Purchase of materials and outsourced services	(23,566)	(18,752)	80%
Payroll and related costs	(9,031)		
Other operating costs	(2,686)		
Writedowns of receivables from customers	(873)		
Other provisions	(886)	(886)	100%
Restructuring costs and other writedowns	(17,822)		
Amortization/depreciation	(390)		
Operating result	**(23,455)**	**(4,957)**	
Portion of result of equity investments carried at equity	-		
Net financial income (Charges)	(310)		
Pre-tax result	**(23,765)**	**(4,957)**	
Income taxes	(77)		
Net result from operating activities (on-going)	**(22,842)**	**(4,957)**	
Result from assets disposed of and/or destined to be disposed of			
Net result	**(23,842)**	**(4,957)**	

INCOME STATEMENT EUR (000)	31.12.2006	of which: related parties	% change
Revenues	18,801	14,286	76%
Other income	466		
Purchase of materials and outsourced services	(11,028)	(5,050)	46%
Payroll and related costs	(9,254)		
Other operating costs	(1,113)		
Writedowns of receivables from customers	(101)		
Other provisions	-		
Restructuring costs and other writedowns	(42,038)		
Amortization/depreciation	(586)		
Operating result	**(44,853)**	**9,236**	
Portion of result of equity investments carried at equity			
Net financial income (Charges)	(508)		
Pre-tax result	**(45,361)**	**9,236**	
Income taxes	(163)		
Net result from operating activities (on-going)	**(45,524)**	**9,236**	
Result from assets disposed of and/or destined to be disposed of	-		
Net result	**(45,524)**	**9,236**	

The effects on the balance sheet were as follows:

BALANCE SHEET EUR (000)	31.12.2007	of which: related parties	% change
Non-current assets	*1,187,779*	*53,144*	*4%*
Current assets	*51,288*	*43,568*	*85%*
Assets held for sale	-	-	
Total Assets	**1,239,067**	**96,712**	
	-	-	
Shareholders' equity	**930,201**	**886**	**0%**
Total Shareholders' equity	**930,201**	**886**	
Non-current liabilities	*258,469*	*236,062*	*91%*
Current liabilities	*50,397*	*32,477*	*64%*
Liabilities directly related to assets held for sale	-	-	
Total liabilities and Shareholders' equity	**1,239,067**	**269,425**	

BALANCE SHEET EUR (000)	31.12.2006	of which: related parties	% change
Non-current assets	*1,176,111*	*4,779*	*0%*
Current assets	*55,471*	*40,249*	*73%*
Assets held for sale	-	-	
Total Assets	**1,231,582**	**45,028**	
Shareholders' equity	**953,157**	**-**	**0%**
Total Shareholders' equity	**953,157**	**-**	
Non-current liabilities	*234,909*	*208,162*	*89%*
Current liabilities	*43,516*	*14,836*	*34%*
Liabilities directly related to assets held for sale	-	-	
Total liabilities and Shareholders' equity	**1,231,582**	**222,997**	

The most significant balances, at 31 December 2007, summarized by supplier of the services, are as follows:

INCOME STATEMENT VALUES	Notes	31.12.2007		31.12.2006	
EUR (000)		Costs	Revenues	Costs	Revenues
Quinary S.p.A.	4	-	98	-	108
Tiscali International Network B.V.	4	-	741	-	823
Tiscali B.V.	4	(84)	730	(49)	1,868
Tiscali Deutschland Gmbh	4	-	806	-	546
Tiscali Gmbh	4	(79)	-	(30)	-
Tiscali Espana SLU	4	-	-	(3)	315
Tiscali Telecomunicaciones Sa	4	(6)	-	0	-
Tiscali Telekomunikace Sro	4	(53)	-	(18)	162
Tiscali Uk Ltd	4	(14,486)	7,635	(3,535)	5,980
Tiscali Business Gmbh	4	-	50	-	771
Tiscali Italia S.p.A.	4	(2,466)	4,401	(606)	3,390
Tiscali Services S.p.A.	4	(737)	221	(809)	323
Total Group companies		**(17,913)**	**14,681**	**(5,050)**	**14,286**
Bizzarri Francesco	1	(69)	-	-	-
Borghesi e Colombo Associati Srl	2	(770)	-	-	-
Stock options CEO	3	(447)	-	-	-
Stock options - employees	3	(439)	-	-	-
Other related parties	-	(1,725)	-	-	-
Total Group companies and other related parties	**8**	**(19,638)**	**14,681**	**(5,050)**	**14,286**

BALANCE SHEET VALUES	Notes	31.12.2007					31.12.2006			
EUR (000)		Trade receivables	Financial receivables	Trade payables	Financial payables	Stock Option reserve	Trade receivables	Financial receivables	Trade payables	Financial payables
Energy Byte S.r.l	1	-	112	-	-	-	-	111	-	-
Quinary SpA	1	122	328	7	268	-	32	235	7	-
Tiscali B.V.	1	-	-	-	-	-	1,140	-	149	8
Tiscali Business Gmbh	1	505	-	546	-	-	9,305	-	546	-
Tiscali Deutschland Gmbh	1	4,151	-	-	-	-	12,755	-	30	-
Tiscali Gmbh	1	10,405	-	109	-	-	-	-	-	-
Tiscali Espana SLU	1	315	-	5	-	-	315	-	5	-
Tiscali International BV	1	-	-	7,960	234,270	-	125	-	8,085	206,223
Tiscali International Network BV	1	1,715	-	873	-	-	973	-	873	1,839
Tiscali International Network SA	1	-	-	-	16	-	-	-	-	16
Tiscali International Network SpA	1	137	663	-	3	-	137	-	-	-
Tiscali Italia S.p.A.	1	2,733	31,948	2,179	509	-	4,198	3,892	83	3
Tiscali Media Srl	1	-	321	-	-	-	-	153	-	-
Tiscali Motoring Srl	1	-	351	-	69	-	-	387	-	74
Tiscali Services S.p.A.	1	526	19,421	2,140	927	-	173	-	1,181	-
Tiscali Telecomunicaciones SA	1	-	-	-	-	-	-	1	-	-
Tiscali UK Holdings Ltd	1	774	-	-	-	-	774	-	-	-
Tiscali UK Ltd	1	22,185	-	18,362	-	-	10,320	-	3,876	-
Total Group companies		**43,568**	**53,144**	**32,182**	**236,062**	**-**	**40,249**	**4,779**	**14,836**	**208,162**
Bizzarri Francesco	2	-	-	25	-	-	-	-	-	-
Borghesi e Colombo Associati Srl	3	-	-	270	-	-	-	-	-	-
Stock options CEO	4	-	-	-	-	447	-	-	-	-
Stock options - employees	4	-	-	-	-	439	-	-	-	-
Other related parties		**-**	**-**	**295**	**-**	**886**	**-**	**-**	**-**	**-**
Total Group companies and other related parties	8	**43,568**	**53,144**	**32,477**	**236,062**	**886**	**40,249**	**4,779**	**14,836**	**208,162**

(1) Group companies

(2) 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.

(3) 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.

(4) Stock option – CEO and employees. Cost recorded in the item Other provisions in the Parent Company's financial statements.

31. Stock options

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

The plan 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 EUR 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 EUR 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).

32. Ongoing disputes and contingent liabilities

During the normal course of its business, the Tiscali Group is involved in a number of legal and arbitration proceedings, as well as being subject to tax assessments.
A summary of the main proceedings to which the Group is a party, is presented below.

32.1 Disputes

Vereniging van Effectenbezitters/ Stichting Van der Goen WOL Claim disputes

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

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

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

On 24 July 2007, the Dutch association and the foundation mentioned above proposed an appeal before the Dutch Supreme Court against the sentence of the Court of Appeal. On 2 November 2007, World Online International NV and the financial institutions tasked with the stock market listing filed their counter-appeal. Similar proceedings have an average duration of between 15 and 18 months approximately and at present it is not possible to make any forecasts regarding the outcome of these proceedings.

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

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 has been made in the financial statements.

KPNQWest Bankruptcy dispute

The subsidiaries Tiscali International Network BV and Tiscali International Network SA are involved in a dispute furthered by the receivership of 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 EUR 3.1 million for the performance of services by the latter. Following the liquidation of KPNQWest, the provision of services was interrupted after only 5 months and Tiscali International Network BV received and recognised invoices for the sum of EUR 1.5 million. KPNQWest has demanded payment of the entire amount stipulated in the agreement.

Tiscali in turn objected to a demand for payment of this amount given the damages sustained from interruption of the service. On 17 March 2006, Citybank (acting as liquidator of KPNQwest) filed a precautionary attachment request for a value of around EUR 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 EUR 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 EUR 1.5 million.

Mobistar dispute

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

Mobistar however opposed this early termination.

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

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

The *petitum* amounts to EUR 4 million, nevertheless the Issuer believes that the same should be reduced (i) by around EUR 1 million on the basis of the correct interpretation of the Contract, (ii) by a further amount, since the summons before the court of Wanadoo and the legal advisors for Tiscali should at least minimize the profile of responsibility of the latter. During this initial stage of the proceedings, Tiscali believes that it is in no way responsible; however, given the complexity of the dispute and the number of parties involved, a forecast with regards to the possible outcome emerges as complex. Despite the fact that the possibility of reaching an agreement on the dispute has been outlined, involving the payment of approximately EUR 400.000, Tiscali intends to hold out in the court case, unless the negotiations currently underway conclude favourably. In the financial statements at 30 September 2007, Tiscali International BV had not set aside provisions.

Ecotel Communication AG/Tiscali

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

The Company 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. Therefore, the Company has not made any provision in the financial statements in relation to this dispute and has challenged the reasoning argued by Ecotel in its own letters.

32.2 Tax assessments

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

During 2006, a tax assessment was started up relating to VAT and direct taxation regarding the German subsidiaries of the Tiscali Group for the tax periods 2000-2004.

The tax assessments for VAT purposes, still underway, have so far indicated assessed liabilities for the tax periods 2000-2003 for the purposes of indirect taxation totalling EUR 726 thousand, plus interest. At the moment, it is not believed that any tangible risk of sanctions exists for the 2004 tax period.

With regard to the tax assessments relating to direct taxation in Germany (Corporate and Trade Tax), the assessment procedures have concluded. The assessment reports received disclose tax liabilities payable solely by the parent company Tiscali Deutschland GmbH for a total of approximately EUR 400 thousand, plus interest, already paid by the end of the year.

Remuneration of the directors and statutory auditors

In accordance with Article 78 of regulations enforcing Italian Legislative Decree No. 58/1998, issued by CONSOB under Resolution No. 11971/99, the following tables indicate the fees paid to Directors and Statutory Auditors.

NAME AND SURNAME	Position	Term of office	Emoluments for office	Non-monetary benefits	Other forms of remuneration
Board of Directors					
Vittorio Serafino	Chairmanv(1)	Shareholders' meeting 29April 2008	€ 180,000	-	-
Tommaso Pompei	Chief Executive Officer (2)	Resigned on 28 February 2008	€ 900,000	€ 447,147	300,000
	Director (2)	Shareholders' meeting 29 April 2008	-		-
Mario Rosso	Director (3)	Shareholders' meeting 29 April 2008	€ 25,000	-	-
Massimo Cristofori	Director (3)	Shareholders' meeting 29 April 2008	€ 25,000	€ 31,000	€ 500,000
Francesco Bizzarri	Director (4)	Shareholders' meeting 29 April 2008	€ 25,000	-	-
Gabriele Racugno	Director (4)	Resigned on 28 February 2008	€ 25,000	-	-
Arnaldo Borghesi	Director (5)	Shareholders' meeting 29 April 2008	€ 25,000	-	-
Rocco Sabelli	Director (5)	Resigned on 28 February 2008	€ 25,000	-	-
Board of Statutory Auditors					
Aldo Pavan	Chairman (6)	Approval of 2008 annual report	€ 64,000	-	-
Piero Maccioni	Statutory auditor (6)	Approval of 2008 annual report	€ 42,000	-	-
Massimo Giaconia	Statutory auditor (6)	Approval of 2008 annual report	€ 42,000	-	-
Andrea Zini	Deputy Auditor (6)	Approval of 2008 annual report	-	-	-
Rita Casu	Deputy Auditor (6)	Approval of 2008 annual report	-	-	-

(1) Chairman since 23 September 2004
(2) Chief Executive Officer and Director since 18 May 2006
(3) Appointed on 6 May 2004
(4) Appointed on 5 May 2005
(5) Appointed on 20 December 20.06
(6) Appointed on 18 May 2006

Attachments

Information pursuant to Article149 duodecies of the Consob Issuers' Regulations

In pursuance of Article 149 *duodecies* of the CONSOB Issuers' Regulations, the fees pertaining to 2007 for auditing services and other services provided by the same Independent Auditing Firm and companies belonging to its networks, are presented in the table below.

Type of service	Party providing the services	Fee EUR (000)
Accounts auditing	Deloitte and Touche S.p.A.	418
Certification services	Deloitte and Touche S.p.A.(1)	260
Other services	Deloitte Financial Advisory Services S.p.A. (2)	349
		1,027

(1) Services associated with the share capital increases resolved during 2007

(2) Due diligence activities associated with the corporate acquisitions which were not concluded successfully

Vittorio Serafino

On behalf of the Board of Directors
The Chairman
Vittorio Serafino

Certification of the Statutory Financial Statements pursuant to Article 81-ter of Consob Regulation no. 11971 of May 14, 1999, as amended

The undersigned Mario Rosso, as Chief Executive Officer, and Massimo Cristofori, as the Manager responsible for preparing Tiscali S.p.A.'s financial reports, hereby certify, having also taken into consideration the provisions of Article 154-bis, paragraphs 3 and 4, of Italian Legislative Decree no. 58 of February 24th 1998:

- adequacy with respect to the company structure;
- the administrative and accounting procedures for the preparation of the Statutory Financial Statements for the 2007 fiscal year have been effectively applied.

The adequacy of the administrative and accounting procedures used for the preparation of the f the Statutory Financial Statements at December 31, 2007 has been assessed in accordance with the *Internal Control – Integrated Framework* model issued by the Committee of Sponsoring Organizations of the Treadway Commission, an internationally-accepted reference framework.

The undersigned also certify that the Statutory Financial Statements at December 31, 2007:

- correspond to the results documented in the books, accounting and other records;
- have been prepared in accordance with International Financial Reporting Standards (IFRS) adopted by the European Union (as well as with the provisions issued in implementation of Article 9 of Italian Legislative Decree no. 38/2005) and based on their knowledge, fairly and correctly represent the financial condition of the issuer.

Milan, 19th March 2008

Chief Executive Officer

Mario Rosso

Manager responsible for preparing Tiscali S.p.A.'s financial reports

Massimo Cristofori

Reports of the Independent Auditors

Deloitte.

Deloitte & Touche S.p.A.
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AUDITORS' REPORT
PURSUANT TO ARTICLE 156
OF ITALIAN LEGISLATIVE DECREE NO. 58 OF 24 FEBRUARY 1998

To the Shareholders of
TISCALI S.p.A.

1. We have audited the consolidated financial statements of Tiscali S.p.A. and subsidiaries (the "Tiscali Group"), which comprise the balance sheet as of December 31, 2007, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. These consolidated financial statements are the responsibility of the Company's Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

2. We conducted our audit in accordance with the Auditing Standards recommended by CONSOB, the Italian Commission for listed Companies and the Stock Exchange. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

   For the opinion on the prior year's consolidated financial statements, the balances of which are presented for comparative purposes, reference should be made to our auditors' report issued on 10 April 2007.

3. In our opinion, the consolidated financial statements present fairly the financial position of the Tiscali Group as of 31 December 2007 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree n° 38/2005.

4. For a better understanding of the consolidated financial statements, we wish to draw attention to the following aspects described by the Directors in the report on operations and in the explanatory notes:

a) During the year, the Tiscali Group continued its process of concentrating mainly on the British and Italian markets, by completing the disposal of its assets in Germany, Netherlands, and the Czech Republic. In this context, mention should be made of the stipulation of a loan agreement with Intesa SanPaolo S.p.A. and the sale and lease back operation relating to the property owned by the Group located in Cagliari, during the first six months, and that such funding also allowed for the repayment of the loan obtained from Silver Point LP in the previous financial years. Later on, in the second half-year, the Tiscali Group entered into a number of important agreements of a commercial and financial character described in detail in the report on operations and the explanatory notes. These agreements related mainly to the acquisition of a number of companies of the Broadband and Voice division of Pipex Communications PLC, operating in the British market, and the stipulation of new credit facilities with Intesa SanPaolo S.p.A. and JP Morgan, replacing the previous one, and amounting to EUR 650 million. In particular, the Directors believe that the aforesaid financial agreements together with the capital increase, resolved by the Shareholders' Meeting during 2007 and concluded in February 2008, will provide the Tiscali Group with the necessary financial flexibility in order to achieve the objectives in the 2008-2012 business plan, approved at the end of November 2007. Therefore, the future ability of the Group to achieve the objectives in the plan by generating positive results and cash flows is fundamental, and a condition which will influence the evolution of its financial position and stability.

b) The net result of the financial year 2007 benefited from the net positive result of the assets disposed of and/or destined to be disposed of during the year, recorded in the specific income statement item for EUR 78.5 million, and essentially represented by the gains originating from the disposal of the assets in The Netherlands and in Germany, net of the relevant taxes and the write-down of the assets of subsidiaries sold, as well as the write-downs and provisions for the closing of the residual activities.

c) As described in note 42 of the explanatory notes, the Tiscali Group is involved in certain potentially significant disputes initiated by third parties against the companies of the World Online International N.V. Group, 99.5% of which is held by Tiscali. These disputes go back to the time of the acquisition of the former World Online Group by Tiscali Group. In particular, in May 2007, the Court of Appeal of Amsterdam deliberated on the case and ascertained the responsibility of World Online International N.V. without nevertheless pronouncing on the existence and the amount of any damage, which could be the subject of new and separate proceedings which maybe instituted by the injured parties. The company appealed to the Dutch Supreme Court against such sentence. The Directors believe that it is premature to consider probable that any significant charges will arise, and that there is not available sufficiently clear elements to quantify any potential liability. As a consequence, the Directors have not made any provisions in the financial statements.

Moreover, there are further risk situations regarding either current or threatened disputes, relating also to tax audits, described in note 42, which Tiscali Group believe will not originate in any significant liabilities, taking into consideration the provisions recorded in the financial statements.

DELOITTE & TOUCHE S.p.A.

Signed by

Fabrizio Fagnola
Partner

Milan, Italy,
April 11, 2008

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

Deloitte.

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AUDITORS' REPORT
PURSUANT TO ARTICLE 156
OF ITALIAN LEGISLATIVE DECREE NO. 58 OF 24 FEBRUARY 1998

To the Shareholders of
TISCALI S.p.A.

1. We have audited the financial statements of Tiscali S.p.A., which comprise the balance sheet as of December 31, 2007, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. These financial statements are the responsibility of the Company's Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

2. We conducted our audit in accordance with the Auditing Standards recommended by CONSOB, the Italian Commission for listed Companies and the Stock Exchange. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

   For the opinion on the prior year's financial statements, the balances of which are presented for comparative purposes, reference should be made to our auditors' report issued on 10 April 2007.

3. In our opinion, the financial statements present fairly the financial position of Tiscali S.p.A. as of December 31, 2007, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree n° 38/2005.

4. For a better understanding of the financial statements, we wish to draw attention to the following aspects, more analytically described by the Directors in the management report and in the explanatory notes:

a) During the year, the Tiscali Group continued its process of concentrating mainly on the British and Italian markets, by completing the disposal of its assets in Germany, Netherlands, and the Czech Republic. In this context, mention should be made of the stipulation, by the Tiscali Group, of a loan agreement with Intesa SanPaolo S.p.A. and the sale and lease back operation relating to the property owned by the Group located in Cagliari, during the first six months, and that such funding also allowed for the repayment of the loan obtained from Silver Point LP in previous financial years. Later on, in the second half-year, the Tiscali Group entered into a number of important agreements of a commercial and financial character described in the report on operations and the explanatory notes of the consolidated financial statements. These agreements related mainly to the acquisition, by its indirectly held subsidiary Tiscali Holding Ltd, of a number of companies of the Broadband and Voice division of Pipex Communications PLC, operating in the British market, and the stipulation of a new credit facilities with Intesa SanPaolo S.p.A. and JP Morgan, replacing the previous one, and amounting to EUR 650 million. In particular, the Directors believe that the aforesaid financial agreements together with the capital increase, resolved by the Shareholders' Meeting during 2007 and concluded in February 2008, will provide the Tiscali Group with the necessary financial flexibility in order to achieve the objectives in the 2008-2012 business plan, approved at the end of November 2007. Therefore, the future ability of the Group to achieve the objectives in the plan by generating positive results and cash flows is fundamental, and a condition which will influence the evolution of its financial position and stability.

b) As described in note 32 of the explanatory notes, the Tiscali Group is involved in certain potentially significant disputes initiated by third parties against the companies of the World Online International N.V. Group, 99.5% of which is held by Tiscali. These disputes go back to the time of the acquisition of the former World Online Group by Tiscali Group. In particular, in May 2007, the Court of Appeal of Amsterdam deliberated on the case and ascertained the responsibility of World Online International N.V. without nevertheless pronouncing on the existence and the amount of any damage, which could be the subject of new and separate proceedings which maybe instituted by the injured parties. The company appealed to the Dutch Supreme Court against such sentence. The Directors believe that it is premature to consider probable that any significant charges will arise, and that there is not available sufficiently clear elements to quantify any potential liability. As a consequence, the Directors have not made any provisions in the financial statements.

Moreover, there are further risk situations regarding either current or threatened disputes, relating also to tax audits, described in note 32, which Tiscali Group believe will not originate in any significant liabilities, taking into consideration the provisions recorded in the financial statements.

DELOITTE & TOUCHE S.p.A.

Signed by

Fabrizio Fagnola
Partner

Milan, Italy
April 11, 2008

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Report of the Statutory Auditors

BOARD OF STATUTORY AUDITORS' REPORT FOR THE SHAREHOLDERS' MEETING UNDER ARTICLE 153 OF ITALIAN LEGISLATIVE DECREE 58/98 AND ARTICLE 2429 SUBSECTION 3 OF ITALIAN CIVIL CODE

For the Shareholders' Meeting of the company Tiscali SpA.

During the financial year closed at 31 December 2007, we carried out the auditing activity fixed by law, in accordance with the conduct standards of the Board of Statutory Auditors recommended by the National Boards of Professional Accountants and Accounting Experts.

Taking into account that the analytical audit in the merits and contents of the financial statements was not ascribed to us, we declare to have audited the general framework of the financial statements as well as the conformity with the law of their structure and drawing up. In this respect, nothing has to be pointed out except for the adoption of International Accounting Standards IAS/IFRS, in compliance with the transitory system ruled by CONSOB by means of its deliberation no. 14990 on 14 April 2005, to which the accounting record refers.

In compliance with the instructions supplied by CONSOB through its note on 6 April 2001, too, subsequently integrated through the notes on 4 April 2003 and 7 April 2006, we declare as follows:

- We supervised the abidance of the law and the corporate charter.

- We obtained the due information from the Directors on the performed activity and the major operations carried out by the Company, or through its subsidiaries, under the economic, financial and equity point of view, and we may reasonably state that operations were resolved and carried out in compliance with the law, the articles of association and general criteria of economic rationality, that is, they were not openly imprudent, hazardous, potentially arousing conflict of interest, or in contrast with the resolutions adopted by the Shareholders' Meeting, and there were no operations which might have compromised the integrity of the corporate equity.

- Within our competence, we knew of and audited the adequacy of the organizational structure of the company, respect of the rules of correct management, and the adequacy of the provisions given by the Company to subsidiaries under Article 114, subsection 2 of Italian Legislative Decree 58/98, by collecting information from various people in charge, and by meeting the auditing firm with the aim of exchanging remarkable information and data. In this respect, we didn't have to make any special remarks.

- Pursuant to Article 2 of Law 262 on 28 December 2005 – which introduced a series of modifications to Italian Legislative Decree 58/98, including the provision under the first subsection of Article 151, following which the Board of Auditors of the Auditing Firm may ask news about the trend of corporate operations, or about certain deals, directly to the auditing and managing bodies of the audited companies -, the Board required the six-monthly submission by the Board of Auditors of the Tiscali Italia SpA subsidiary of the copies of the minutes relating to the meetings taking place every half-year, with the aim of obtaining information on the management and auditing systems, as well as on the general trend of the subsidiary. In this respect, there were neither remarkable data nor information worth being pointed out in this report.

Tiscali SpA
Board of Statutory Auditors' Report

- We audited and evaluated the adequacy of the internal audit system and the accounting/management system, as well as the reliability of the latest for correctly representing management operations, by obtaining information from the people in charge of respective functions, the examination of corporate documents, and the analysis of the results of the work carried out by the auditing firm, and by auditing the activity of the Internal Audit Coordinator. In this respect, we had no special remarks to relate. We acknowledge that the Directors approved the new "Organization, management and control model under Italian Legislative Decree 231/2001", coming into force since 1 March 2006, and integrating and replacing the previous model adopted in 2004. The Internal Audit Committee was identified as the supervising body. Therefore, it was entrusted with the auditing functions concerning the abidance of the adopted protocols and procedures.

- We arranged meetings with the exponents of the auditing firm, under Article 150, subsection 2 of Italian Legislative Decree 58/98, and there were neither remarkable data nor information worth being pointed out in this report.

- The most significant intra-group operations which we learnt of pursuant to Article 150 of Legislative Decree 58/98 concerned the reorganization of the Group (disposal of the assets in Germany, Netherlands and Czech Republic).

- The operations with related parties are analytically described in the management report, which includes the economic and equity values for which you are kindly requested to read the specific paragraph no. 43 of the consolidated financial statements "Operations with related parties".

- The auditing firm Deloitte Et Touche SpA is issuing its reports for the statutory financial statements and the consolidated financial statements with no remarks. Hopefully, those reports will include the following informative report references:

  - emphasising the fact that the Group's ability to generate cash flows and positive results remains fundamental; this condition influences the evolution of the financial position of Tiscali Group in a significant way; therefore, it also influences its financial, economic and equity equilibrium;
  - emphasising the fact that the net result of the financial year took advantage of the net positive result of the assets disposed of and/or destined to be sold during the year, recorded in the specific income statement item for EUR 78.5 million, and essentially represented by the capital gains originating from the assets in The Netherlands and in Germany;

- the state of the existing and potentially significant disputes, of fiscal character, too.

The aforesaid informative report references did not require comments by the Board of Statutory Auditors.

- There were neither complaints under ex Article 2408 of Civil Code, nor statements by third parties.

- Pursuant to Article 149 no. 1 letter c) bis of Italian Legislative Decree 58/98, we acknowledge that the Directors, in their corporate governance report, pointed out that Tiscali Group accepted and conformed to the Code of Conduct of Italian listed companies issued in March 2006. We actually noticed the adoption of the regulations stated by the aforesaid Code. Its various aspects were dealt with in the corporate governance report which the Board of Directors made available to you. For further and more detailed information on the subject, please read it. As stated in the report above, after the resignation of Director Gabriele Racugno, taking place during the meeting of the Board on 27 and 28 February 2008, the Internal Audit Committee was temporarily dissolved. The same will be re-established by the new Board of Directors, which will be appointed by the Shareholders' Meeting approving the 2007 financial statements.

- During financial year 2007, Deloitte Et Touche SpA, as well as other entities connected with its network, carried out professional services different from the auditing of the statutory financial statements and the consolidated financial statements. The total compensation pertaining to financial year 2007 may be summarized as follows:

	EUR 000
Audit (statutory financial statements and consolidated financial statements) including financial statements of associated companies and assets under ex Article 155 of Italian Legislative Decree no. 58/98	540
Audit by Deloitte network	473
Certification services	270
Other services (Due diligence and auditing procedures agreed upon by the parties in relation to financial statements and disposal data)	922
Total	2,205

- During the financial year, the Board of Auditors issued its opinion pursuant to Article 2389 of Italian Civil Code (remunerations for managers).

Tiscali SpA
Board of Statutory Auditors' Report

- The auditing firm Deloitte Et Touche SpA issued its opinion for the Extraordinary Shareholders' Meeting taking place on 21 December 2007 pursuant to Article 158, first subsection, of Legislative Decree 58/98, and Article 2441, fourth subsection, second period of the Italian Civil Code, on the conformity with the market value of the issue price of the shares relating to the share capital increase with exclusion of purchase option reserved for the conversion of the bonds relating to the bond loan "EUR 60,000,000 – 6.75 per cent Convertible Bonds due 2012 exchangeable into ordinary shares of Tiscali SpA".
- The auditing activity described above was carried out through eight meetings of the Board of Auditors and seven meetings of the Internal Audit Committee, as well as by taking part in all the twelve meetings of the Board of Directors, in conformity with Article 149, subsection 2 of Legislative Decree 58/98.

During the carrying out of the auditing activity, and on the basis of the information obtained from the auditing firm, there were no omissions and/or censurable facts, and/or irregularities, or however remarkable facts which should have been communicated to the auditing bodies or pointed out in this report.

We remind you that the task entrusted to the auditing firm Deloitte Et Touche SpA expired by fulfilment of the nine-year period, and thus, you will be asked to deliberate on this subject.

Cagliari, 11 April 2008

THE BOARD OF STATUTORY AUDITORS

ALDO PAVAN

MASSIMO GIACONIA

PIERO MACCIONI