ANNUAL REPORT 2002

TISCALI

"The Annual Report has been translated from the Italian into the English language solely for the convenience of international readers"

TISCALI THE GROWING COMPANY

Contents

Rising up out of the olive groves of Sa Illetta, on the outskirts of Cagliari, is Tiscali’s campus.

From its base in Sardinia, Tiscali has become Europe's leading internet company.

In the space of just five years the company has achieved a pan-European presence following a series of carefully targeted acquisitions. This rapid expansion into 15 countries in Europe and South Africa was backed by a steadfast belief in the internet's strategic role in the communications sector. The company has also built up an extensive proprietary network over the period.

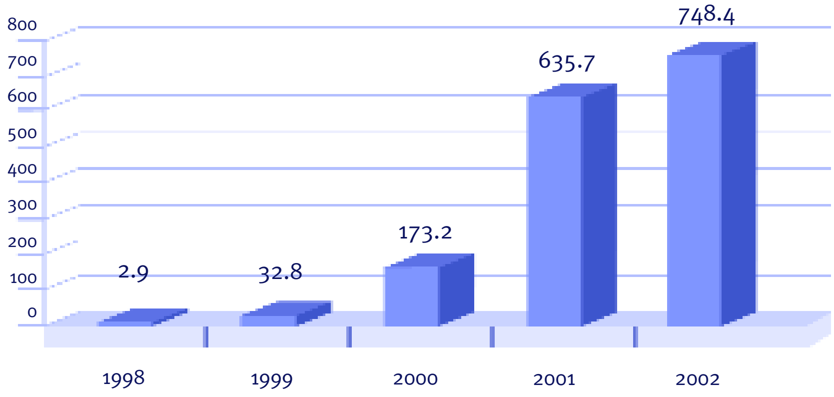
Commitment and passion

The acquisition of over 40 companies—including some of Europe's largest ISPs—has generated synergies and economies of scale that have delivered unprecedented growth, with revenues soaring to EUR 748.4 million in 2002, from EUR 3 million in 1998.

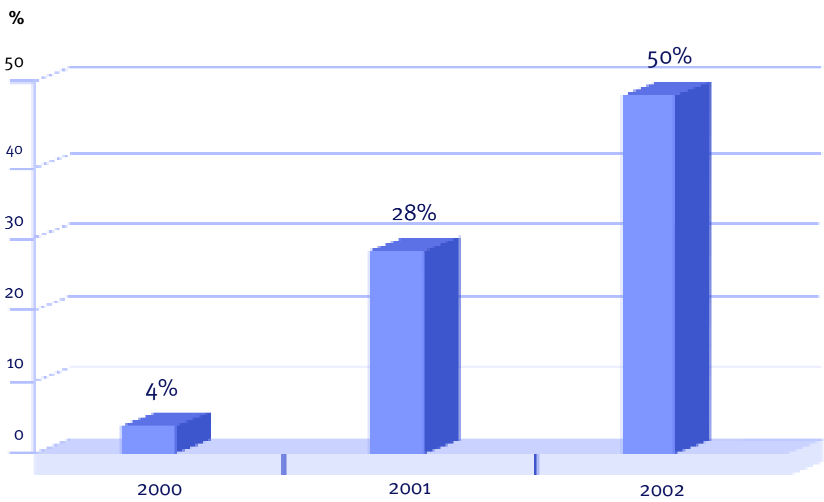
Tiscali's "One Brand, One Technology, One Company" philosophy has helped it to become a major player on the European market, with a well-established core business and the critical mass to continue growing. The marked improvement in the group's gross margin, from 4% in 4Q00 to 50% in 4Q02, bears witness to the success of this model.

The restructuring programme completed in 2002 represented a major challenge, but the results are already evident: from a loss of EUR 616.9 million (pro-forma) in 2000, EBITDA came in at a positive EUR 1 million in 2002. This achievement was the fruit of an unshrinking commitment and a strong customer focus based on the provision of high quality integrated services at competitive prices.

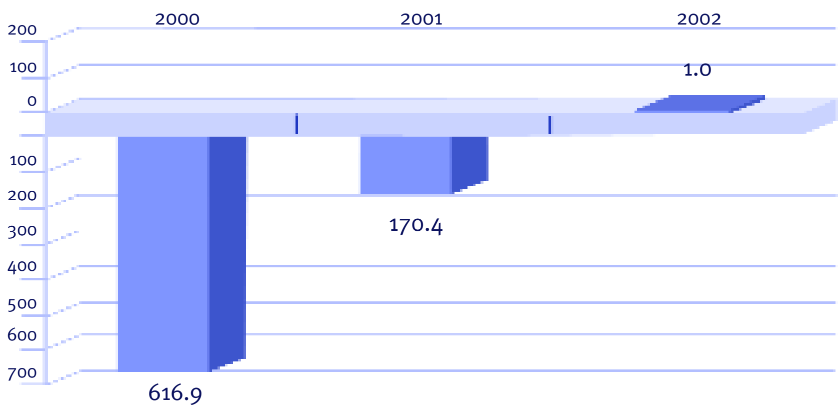
Revenues (€ ml)



Gross Margin (% on revenues)



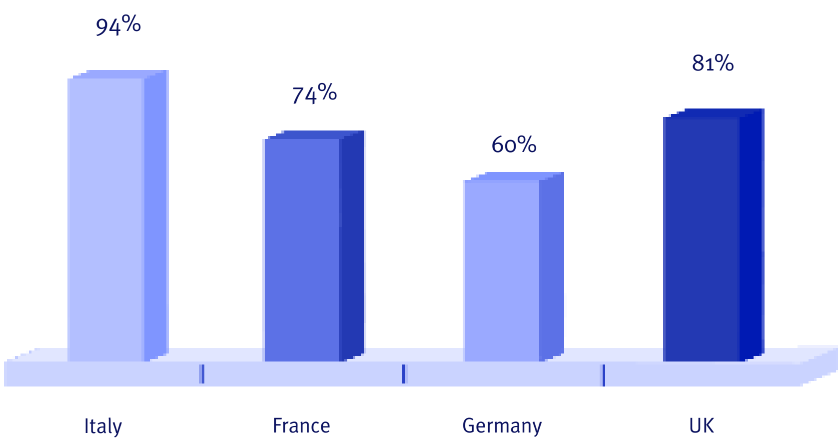
EBITDA (€ ml)



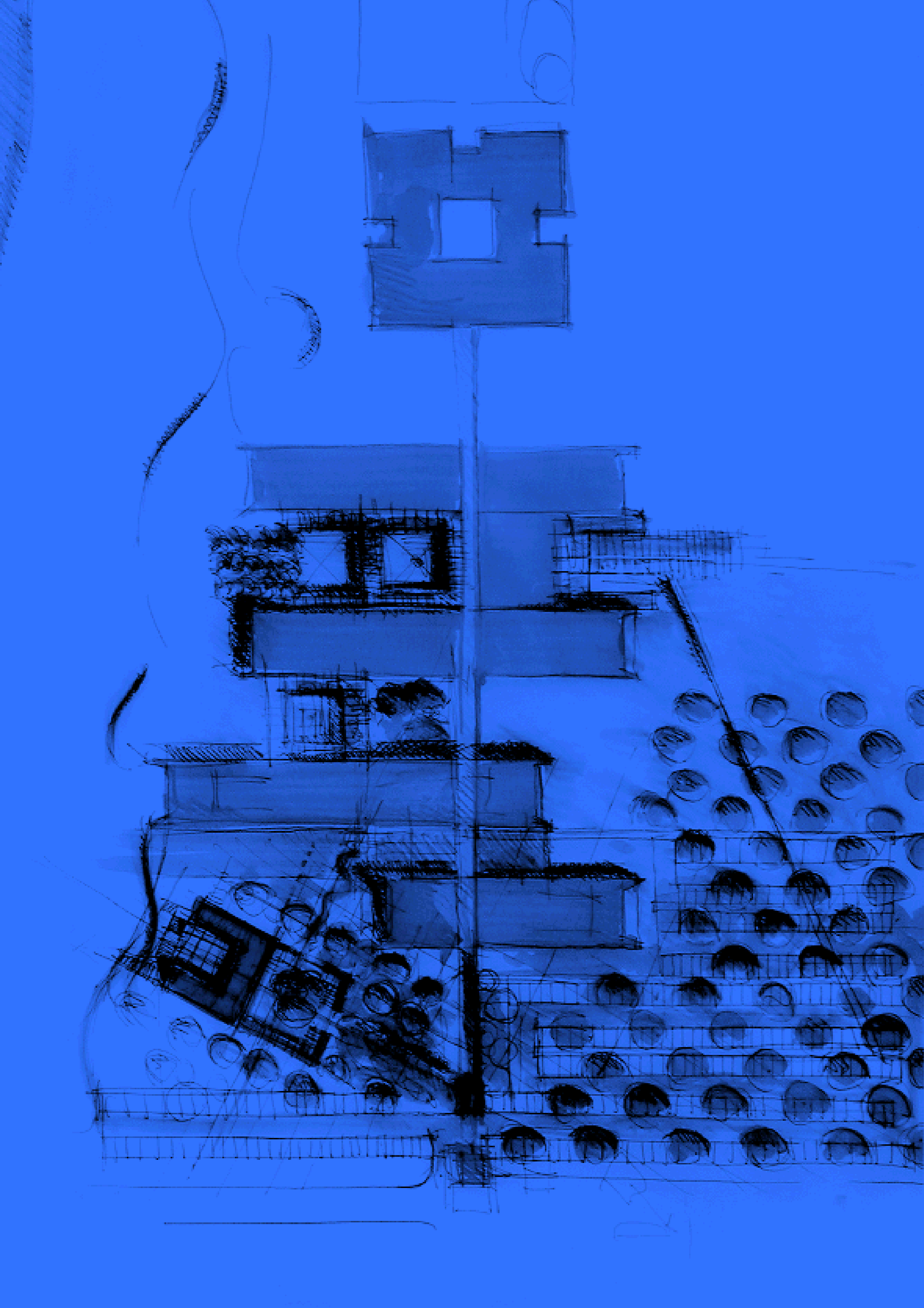
A strong brand with a reputation for value

Over the last few years the group recognition has channelled its efforts and resources into raising the awareness of the Tiscali brand, in the certainty that a strong brand with a reputation for value would be a key asset in the company's pursuit of expansion. The results show that this strategy has worked: as well as achieving strong recognition as a leading player in the main countries in which the group operates, Tiscali is thought of as a ground-breaking company in tune with the needs of its customers and delivering the products and services they want.

Tiscalis brand awareness



Source: Monitor Group - October 2002

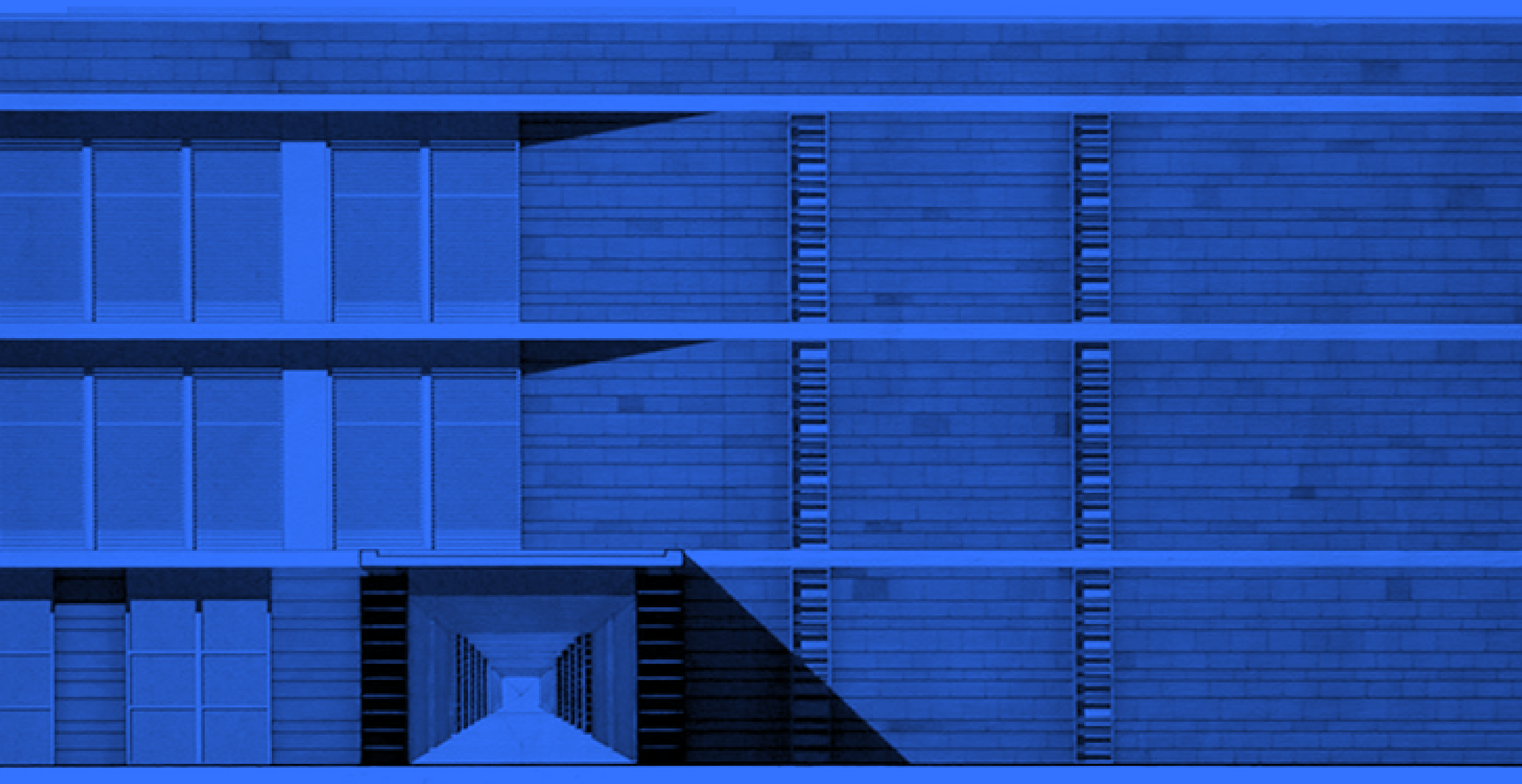


Tiscali confronts monopolies

The group's success is also based on its willingness to lead the battle against monopolies. Tiscali was the first operator to launch free internet access in Italy following the liberalisation of the telecoms market in 1998, and since 1992 it has been involved in a pan-European campaign against the de facto monopoly in the broadband market.

The development of broadband is not only a major business opportunity for the company, it is also a means of helping to shape the internet of the future. The new technology will expand the internet's potential for content exchange and enhance its role in facilitating any number of everyday tasks.

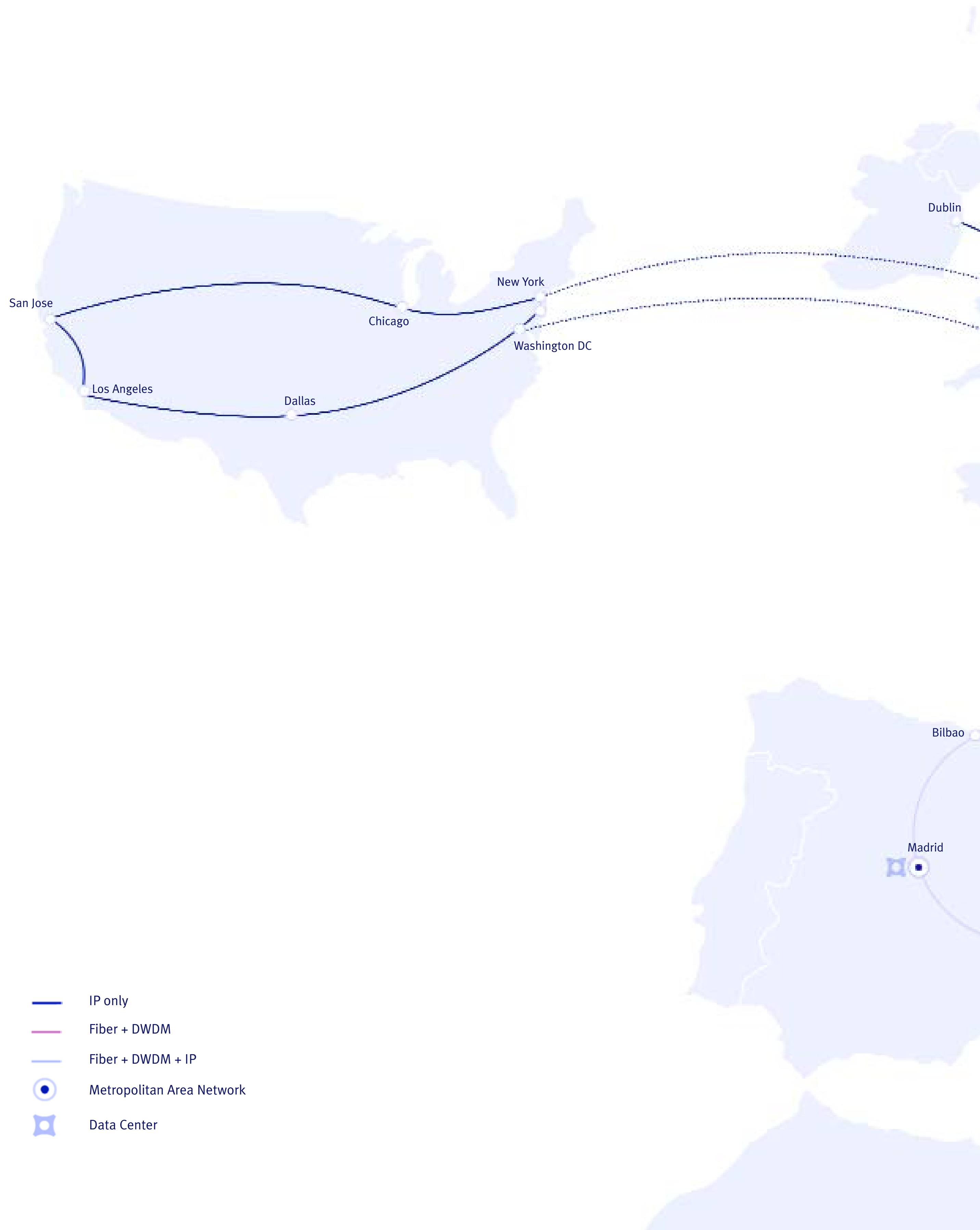
Tiscali stands out in the sector as a company that has consistently striven for a level playing field in the internet market, with the conviction that freedom of communication is a foundamental objective, which once achieved, must be protected and maintained.



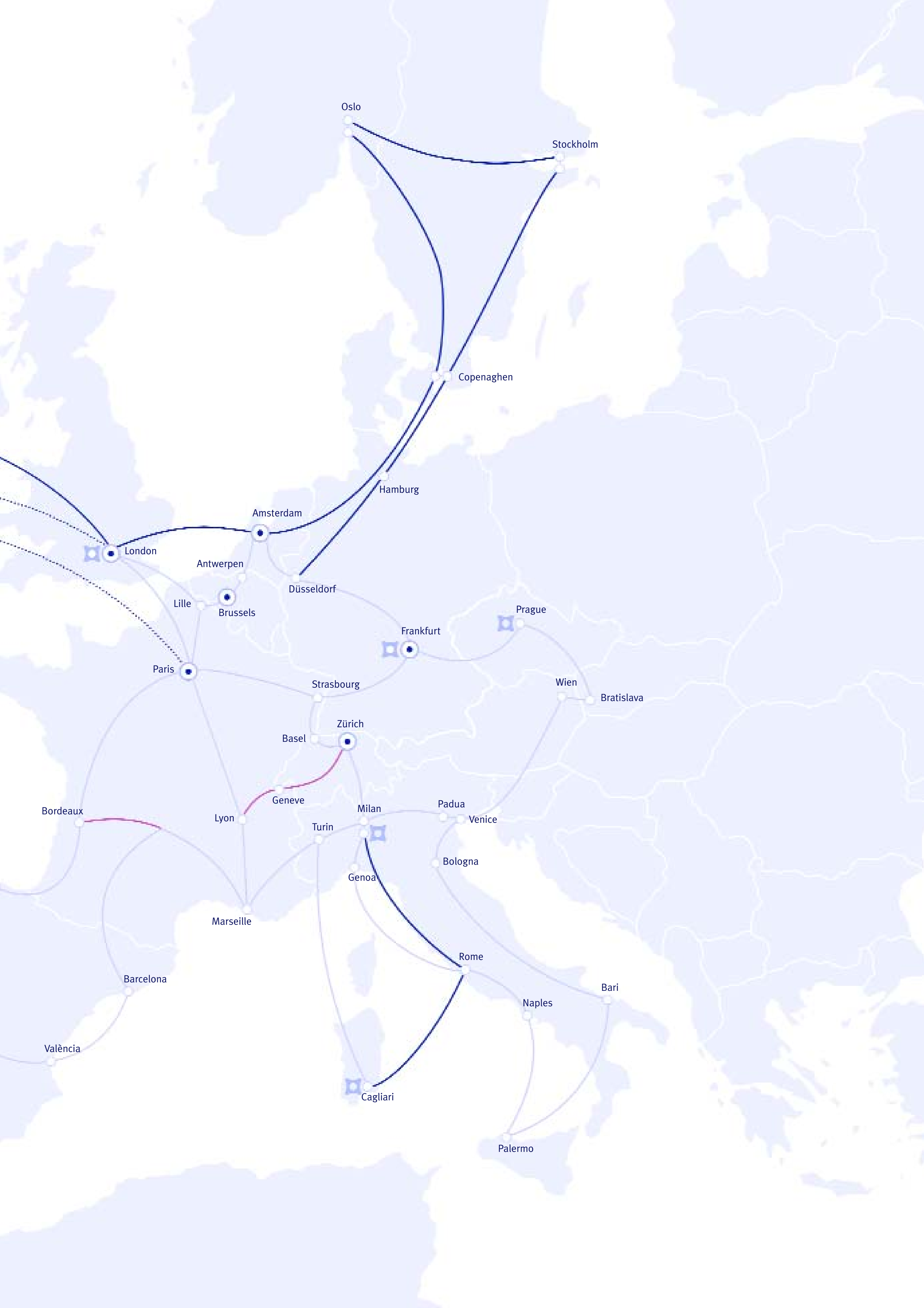
Technological innovation creates value

Tiscali's business and management decisions are always made with the future in mind. Developing advanced technology gives Tiscali a great opportunity to create value for its customers. By continuously improving its international network, Tiscali is able to supply basic service packages of a very high quality. The company uses new technology to develop value-added products and services to facilitate access and online transactions for millions of users. One example of this is the development of broadband services such as innovative ADSL packages offered on a number of European markets, satellite-only connections that render geographical barriers irrelevant, and advanced business services such as Virtual Private Networks (VPNs) that make communications between a company's different locations more efficient and secure.

International Backbone



IP only
Fiber + DWDM
Fiber + DWDM + IP
Metropolitan Area Network
Data Center


Oslo
Stockholm
Copenaghen
Hamburg
Amsterdam
London
Antwerpen
Düsseldorf
Lille
Brussels
Prague
Frankfurt
Paris
Strasbourg
Wien
Bratislava
Zürich
Basel
Geneve
Bordeaux
Lyon
Milan
Padua
Venice
Turin
Bologna
Genoa
Marseille
Rome
Barcelona
Naples
Bari
València
Cagliari
Palermo

A strong sense of responsibility

Tiscali's mission is simple in concept yet delivers significant results:

"we aim to empower people by promoting equality through access to the internet"

This ethos gives rise to an ambitious vision:

"to be Europe's leading internet company, an independent and innovative organisation making the internet affordable for all"

Person-centred values

Tiscali's European market leadership is grounded in a value system that puts people first. We respect cultural diversity and the worth of every individual regardless of background or nationality. These are the foundations that underpin Tiscali's business vision and its aim of helping to establish the importance of individuals and their different cultures in the digital era.

Tiscali's core values are simple, but far-reaching: a clearly-defined set of criteria that steer the decisions of the company and its management in a common direction, so that the best option can always be chosen with confidence from a range of fast-moving and complex possibilities.

Customer Centric
We put the customer first, developing products and services that are simple to use and that meet our customers' needs. We seek always to deliver an outstanding customer experience and superior quality.

Goal-oriented
Everyone works with clear goals, understands priorities and measures progress. People have a strong commercial awareness and are focused on increasing revenues and reducing costs.

Nice Company
We value our employees as a main asset of our company. While we enjoy working together we encourage individual ability and personal growth. We also care about the wider community and hold true to our principles.

Teamwork
We can only succeed as a team. We work cooperatively across functions and different countries, sharing best practice and offering mutual support.

Pioneering & innovative
We exist as Tiscali mainly because we are pioneering and encourage creativity and innovation. By so doing we remain at the cutting edge of this industry.

Fast & dynamic
Strength is nothing without speed. We have the strength of a large company and the dynamism of a start-up.

Renato Soru
Chairman and CEO

Tiscali's multicultural team

The acquisition of some of Europe's largest ISPs has transformed Tiscali in the space of a few years from a modest local operator to a large organisation with a well-organised multicultural team. The combined talents of this international team contribute to the group's development, thanks to a shared business ethic based on the fundamental values that guide the company along its path to growth.

Sergio Cellini
CEO UK

Ruud Huisman
CEO BENELUX

Eric Van Grimbergen
GM Belgium

Rafi Kouyoumdjian
CEO France

Carl Müehlner
CEO Germany

Lis Lysholm
GM Denmark

Michele Lavizzari
GM Spain

Tomas Eriksson
GM Sweden

Naveed Gill
GM Czech. Rep.

Dieter Haacker
GM Austria

Olav Sande
GM Norway

Osvald Ortiz
GM Switzerland

Massimo Cristofori
SVP & CFO

Pasquale Lionetti
SVP Internal Auditing,
Organization & Facility

Mario Mariani
SVP Business
Development
& International Media

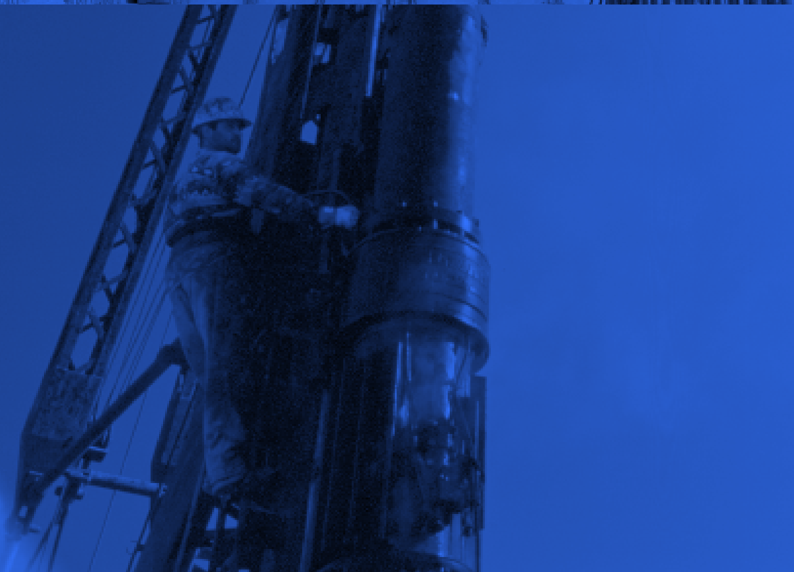
Beatrice Niedda
SVP Strategic
Marketing
& Communication

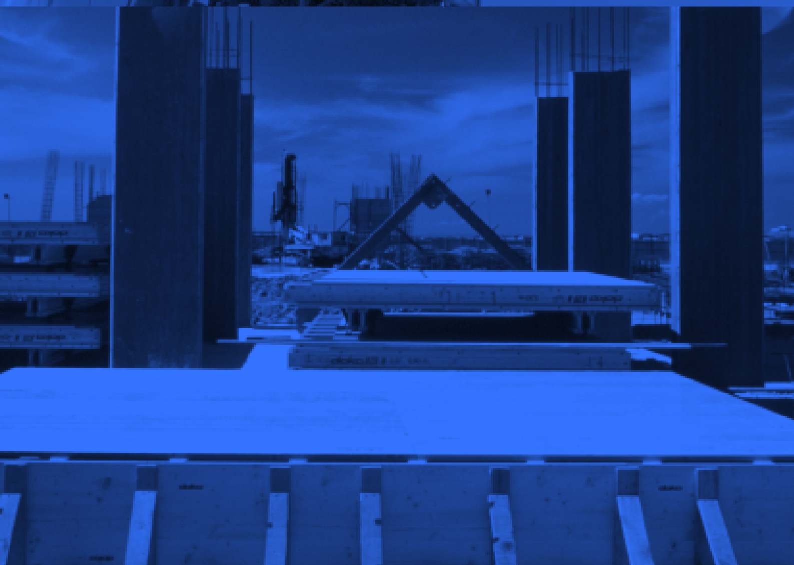
Paolo Susnik
SVP & CTO

Laurent Grimaldi
CEO Tiscali
International Network

Salvatore Pulvirenti
SVP & CIO








Rising to the challenge

Tiscali will face many challenges in the future. We identify two of the most important as:

The “internal” challenge
To expand the network and broadband services in Europe, capitalising on the ongoing advances in technology and facilitating the convergence of all telecoms services on the internet, so as to offer the group’s customers a constant stream of new opportunities for growth, cultural exchange and knowledge.

The “external” challenge
To develop and coordinate activities that will help the liberalisation of the internet market and new regulatory framework. Tiscali is actively contributing to the process of drafting the new regulations, which should boost the broadband market and provide a truly competitive environment for all operators.

In this way we are moving towards the objectives of making internet access easier and more competitive, and delivering real value to customers by making the entire process more democratic.

Corporate bodies

Board of Directors

CHAIRMAN AND CEO

Renato Soru

DIRECTORS

Franco Bernabè

Victor Bischoff

Hermann Hauser

Gabriel Pretre

Elserino Piol

Board of Statutory Auditors

CHAIRMAN

Andrea Zini

STATUTORY AUDITORS

Rita Casu

Piero Maccioni

SUBSTITUTE AUDITORS

Giuseppe Biondo

Livio Bianchi

Independent Auditors

Deloitte & Touche S.p.A.

Dear Shareholders

This year Tiscali celebrates its fifth birthday. In five years, from a small regional operator, we have become a major player competing with Europe's telecoms giants also thanks to an extraordinary market environment.

Today Tiscali is a pan-European company which is also present in South Africa. The group's network extends beyond 60,000 km, carrying over 110 million minutes of internet connections and 50 million e-mails every day as well as data at a speed of over 50 Megabytes per second.

We have risen to a challenge—one that still motivates us today: being the independent internet communication company that challenges the monopolies offering innovative and independent internet access services accessible to everyone.

In recognition of the fundamental role played by the exchange of ideas in the innovation process and of the value of human resources as the real assets of our business, we are building Sa Illetta, our new technological campus, in a location near Cagliari. Construction of the new headquarter should be completed by the end of 2003.

The Group has already notched up some significant achievements. The intense year of M&A activity in 2001—aimed at achieving the fast economies of scale needed to consolidate our position in the European internet market—was followed by a 2002 focused on rationalising processes, integrating new acquisitions and raising the profile of the Tiscali brand throughout Europe. These initiatives have already delivered tangible results—revenues of around EUR 750 million and EBITDA breakeven—thanks to the contribution of Tiscali's people, based in different countries and with different cultural backgrounds, but all working together with common tools towards common objectives.

Despite last year's difficult macroeconomic environment and broadband regulations that continued to disadvantage independent operators, Tiscali could expand further in 2002, recording significant results that are the springboard for future achievements.

The regulatory environment is currently undergoing profound changes, which have enabled Tiscali and other independent operators to enter the broadband market on competitive terms. By the last quarter of 2002, Tiscali was adding some 11,000 new ADSL subscribers per week, elevating it to the level of Europe’s major national players—further evidence of the success of the company’s pan-European strategy.

Tiscali’s prospects for 2003 look extremely bright. The vast opportunities represented by the technological revolution of the broadband, the growing importance of the corporate services market and new access services such as WI-FI all represent important openings for the companies that have survived the sector’s intense consolidation process.

We can now look to the future—buoyed by our first quarter 2003 results—with greater confidence in the prospects for our market, and with the strong belief that Tiscali will become the leading European player in the field of internet communications.

Renato Soru

Renato Soru

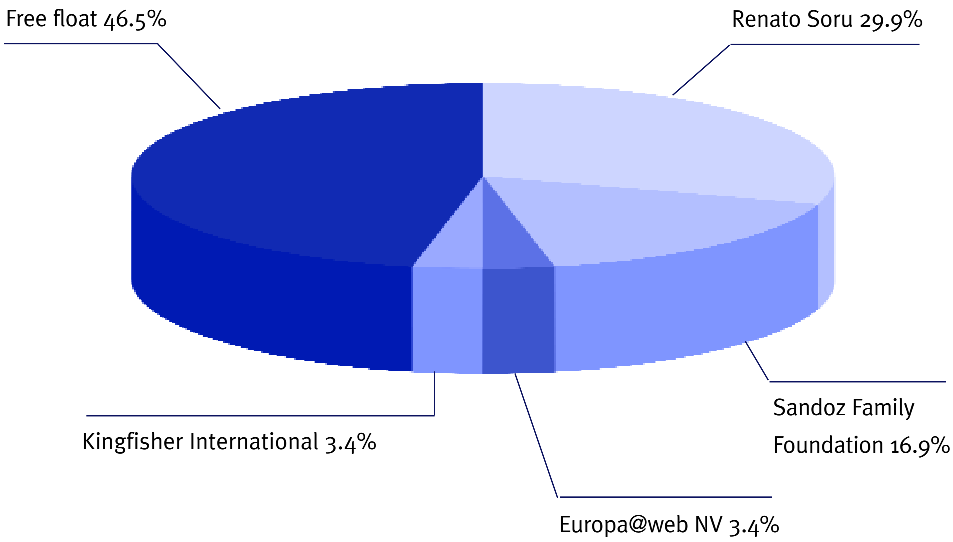
Tiscali shares

Tiscali's shares are listed on Milan's Nuovo Mercato (TIS), and on the Paris Nouveau Marché (005773). Once again in 2002, Tiscali was the most highly capitalised company (EUR 1,544.6 million at 31 December 2002) on both the Nuovo Mercato and the Nouveau Marché. Last year the total number of shares rose from 358,417,658 at 31 December 2001, to 361,734,135 at 31 December 2002.

The table below lists the capital increases carried out last year, and the transactions to which they refer:

DATE	TRANSACTION	SHARES ISSUED
07.11.02	Contribution of a credit to Dino Trovato	2,278,287
18.07.02	2nd tranche of the warrants Connect Software	74,349
17.05.02	Acquisition of the remaining 30% of Excite Italia	300,121
28.03.02	Increase of share capital subscribed by Neue Medien Ulm Holding GmbH	589,371
19.02.02	1st tranche of the warrants Connect Software	74,349

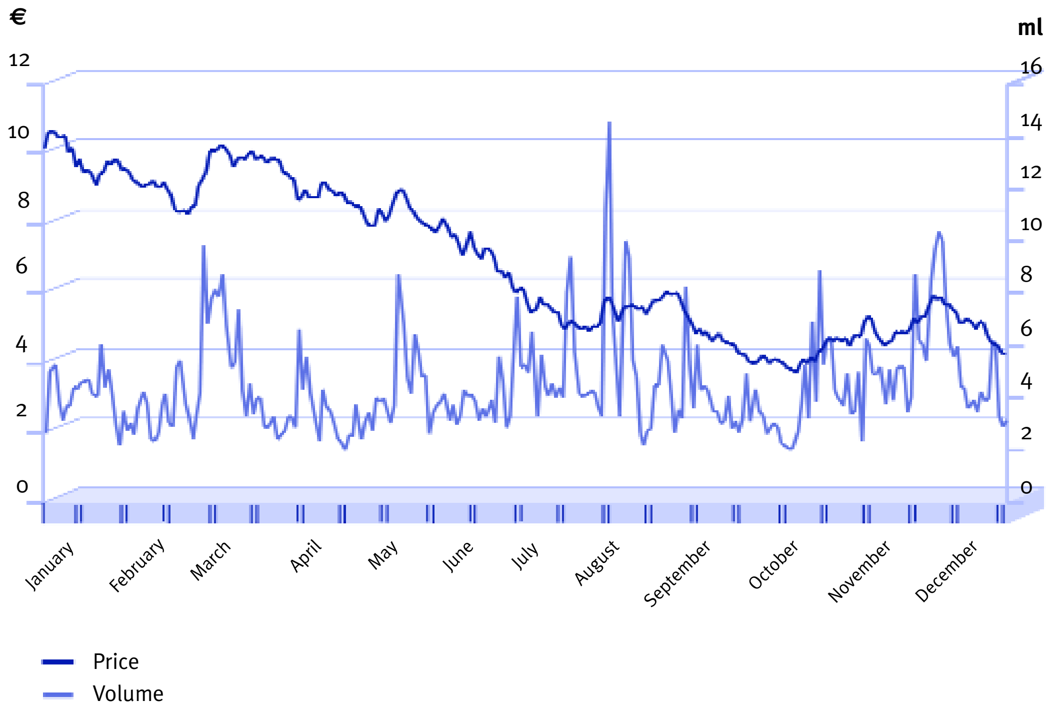
Tiscali's shareholder base at 31 December 2002



Source: Tiscali

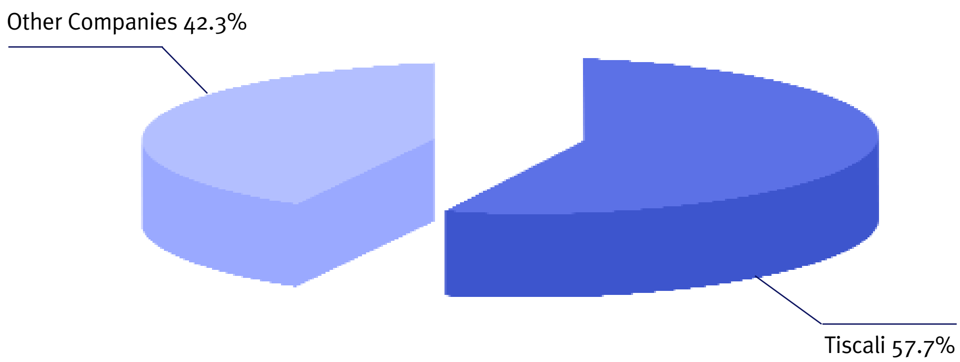
In 2002 Tiscali's share price declined steadily, in line with the market trend (as can be seen from the performances of the Numtel index and the Europewide Bloomberg Internet Index). The share price held firm in the first half of the year thanks to positive quarterly results and in the first quarter the achievement of EBITDA breakeven, but it fell in the second half as a result of a slight downward revision of forecasts, a deterioration in the global economic situation and the market's continuing wariness towards hi-tech stocks in particular.

Transactions involving Tiscali shares numbered over 1.1 million in 2002, with a daily average of 4,540. Average daily volumes were around 3.3 million, a slight fall from the previous year, putting the total average daily value of trading at EUR 24 million. This performance confirms Tiscali's status as the most liquid stock on the Italian Nuovo Mercato, and as one of the most liquid internet stocks in Europe. Above-average volumes were seen in July and November, with a peak of 13.4 million on 31 July 2002. The highest price (EUR 10.60) was recorded on 3 January, while the lowest (EUR 3.70) was reached on 9 October.



In 2002 the total value of Tiscali tradesing was EUR 6 billion, around 57.7% of the Nuovo Mercato total.

Percentage of Nuovo Mercato total value



In 2002, the Nuovo Mercato remained the main market for Tiscali shares, accounting for 99.8% of total trading.

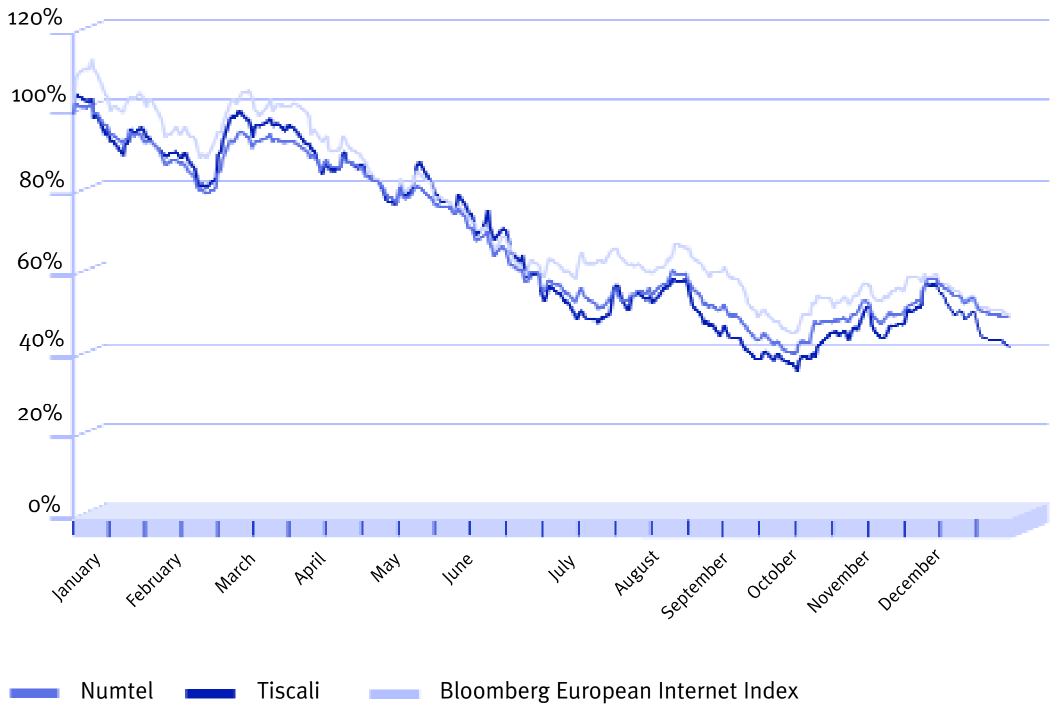
AVERAGE DAILY VOLUMES OF TISCALI SHARES ON ITS TWO MARKETS

In number of shared

date		Nuovo Mercato		Nouveau Marché		Total	
		No. of shares	in %	No. of shares	in %	No. of shares	in %
January	2002	2,911,640	99.80%	5,704	0.20%	2,917,344	100%
February	2002	2,641,114	99.78%	5,756	0.22%	2,646,870	100%
March	2002	3,735,563	99.87%	4,875	0.13%	3,740,438	100%
April	2002	2,224,088	99.75%	5,679	0.25%	2,229,767	100%
May	2002	3,185,675	99.88%	3,791	0.12%	3,189,466	100%
June	2002	2,932,521	99.80%	5,911	0.20%	2,938,432	100%
July	2002	4,416,054	99.86%	6,049	0.14%	4,422,104	100%
August	2002	3,777,139	99.91%	3,459	0.09%	3,780,598	100%
September	2002	2,493,064	99.79%	5,165	0.21%	2,498,229	100%
October	2002	3,003,752	99.77%	6,946	0.23%	3,010,698	100%
November	2002	4,583,273	99.91%	4,021	0.09%	4,587,294	100%
December	2002	3,782,692	99.78%	8,401	0.22%	3,791,094	100%
Daily average		**3,307,215**	**99.83%**	**5,480**	**0.17%**	**3,312,694**	**100.00%**

Source: Tiscali Finanza

Last year Tiscali's shares lost 58% of their value, compared to a negative performance of the Numtel index and the Bloomberg Internet Index, which both dropped by 50%.



Report on operations

Report on operations

Market background

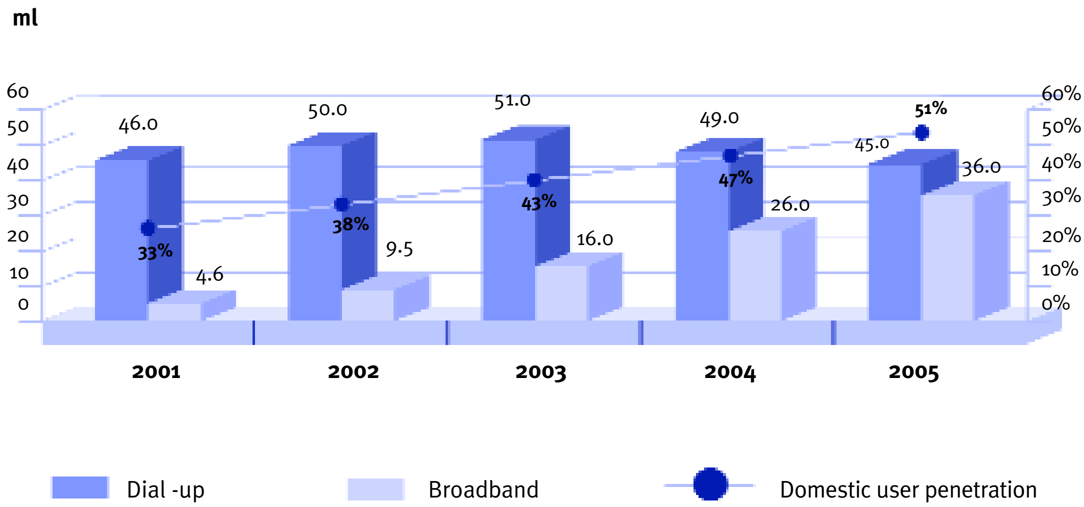
Macroeconomic situation

In 2002 the eurozone continued to suffer as a result of stagnating domestic demand and a general inability to address either ongoing or structural economic difficulties. GDP grew by only 0.7%, leaving Europe far behind the US, which posted growth of around 2.4%.
Inflation, at 2.5%, limited the scope for intervention by the European Central Bank, which last December cut interest rates by 50 basis points to 2.7%.
Moreover, the implementation of the EU Stability Pact was accompanied by a worsening of public finances in Germany, France and Italy, caused by runaway public spending and over-optimistic forecasts from the monetary and economic authorities.

The internet market

Despite the economic downturn, the market for European internet services saw an increase in spending on services and in the number of active users. Trends in demand and broadband remained unchanged from 2001.

Western Europe - Consumer Internet Access Connections and households penetration



Source: IDC 2002

From a competitive standpoint, all of Europe's major players—T-Online, Wanadoo, Tiscali and Terra Lycos—strengthened their market positions in 2002. In Western Europe, the number of active users rose from 50 million in 2001 to 59.7 million in 2002, while the number of residential users as a percentage of the total went up from 33% to 38%.
Although the market as a whole grew by 18% over the year, the aggregate market shares of the European leaders, as measured by the number of active users, remained broadly steady. This

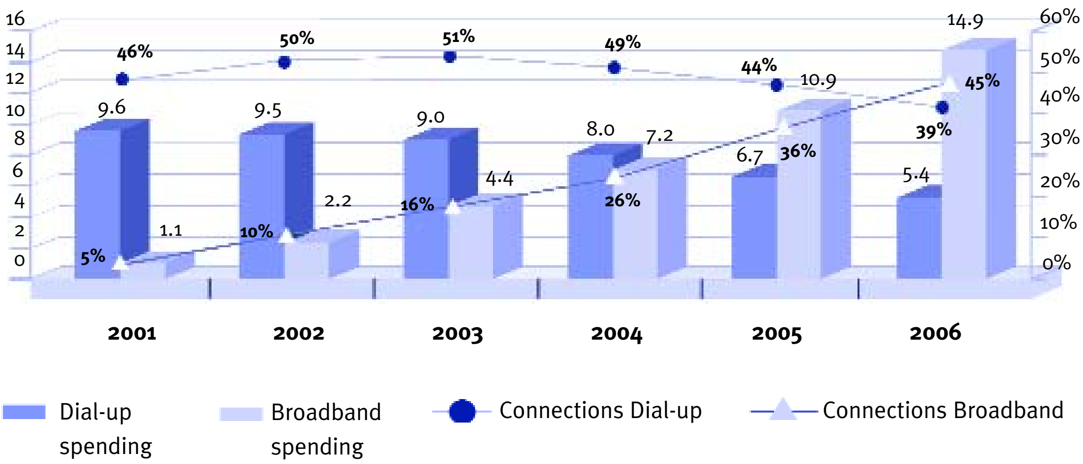
trend was due to organic growth which squeezed out local operators, and—albeit to a lesser extent—to acquisitions.

Dial-up market

Over the next three or four years, the dial-up internet services market should continue to predominate in terms of both number of connections and spending by user.
However, the downtrend in online advertising spending and the increasing range of broadband services will lead to growing convergence between dial-up and broadband business models and services.
FRIACO (flat rate internet access call origination) services are now well established in the UK and France, and are being developed for the end user and wholesale markets in the other major European countries. The business rationale for FRIACO is that it attracts enough users to cover the costs, and they are popular with customers as the services can be customised and are cheaper than the DSL services currently available. But despite the increasing popularity of narrowband FRIACO and directly-billed services, pay-as-you-go products have held on to a significant user market share, as they are cheap and easy to use.
These types of services are however paving the way for the expected dominance of broadband.

Internet connection and spending in western Europe

$ ml



Source: IDC 2002

Broadband market

At the start of 2002 the broadband market bore all the hallmarks of a monopoly, in which other licensed operators (OLOs) were at a disadvantage compared with the incumbents and their ISP operations. The most accessible business for OLOs was the wholesale market, which limited their role to that of resellers and squeezed their margins.

The re-emergence of a monopoly as in the early days of the dial-up market was due mainly to the inefficiency of the local loop unbundling (LLU) process, which posed major financial and technical barriers to market entry.

The OLOs were therefore driven towards the wholesale market, and acted solely as resellers of services. They were totally dependent on the tariffs set by the incumbent and had little opportunity to add value. Faced with this situation, the regulatory authorities were forced to intervene to establish the principle of a competitive, non-monopolistic market.

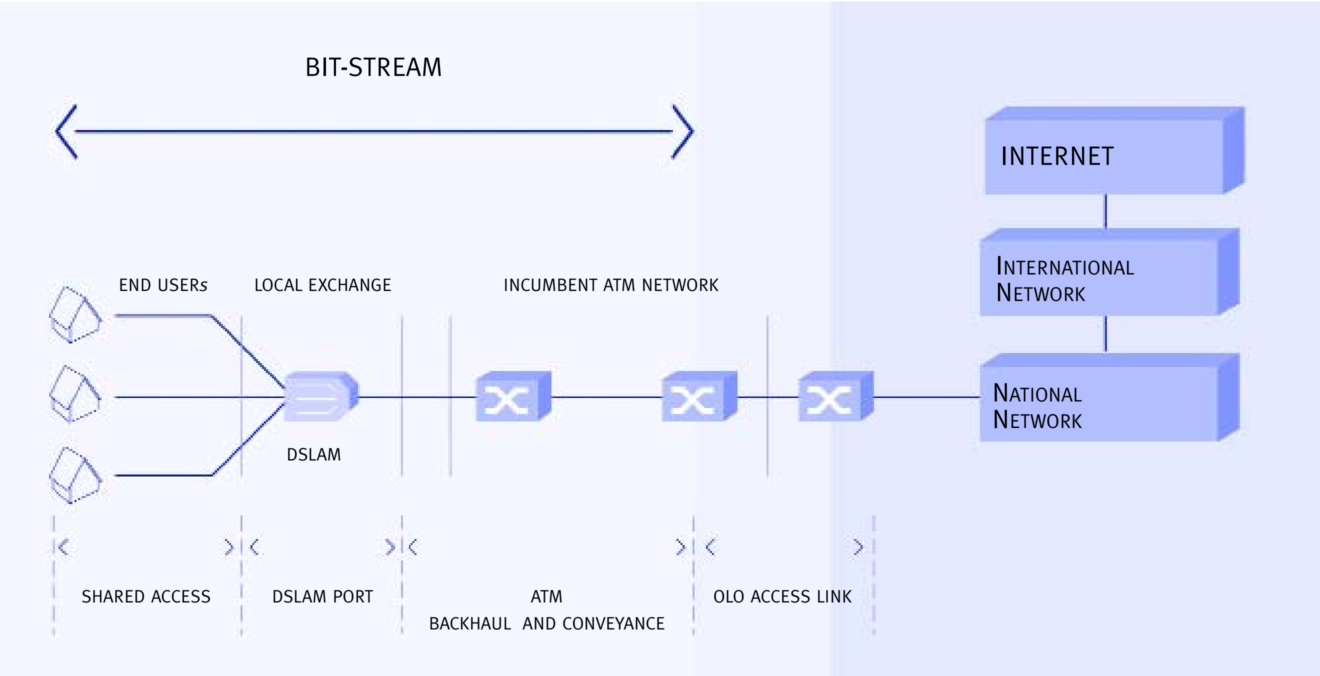
In 2002, broadband services were the main driver of revenue growth for the major European ISPs, as first-time internet users increasingly opted for broadband connection over dial-up. ISPs see broadband as the future of internet access, as this means portals will be less dependent on advertisers once revenues from the sale of content such as games, music and videos increase.

Despite growing demand however, the broadband market began to take off only in the second half of the year owing to the long, drawn-out liberalisation process, which held back the development of ADSL services by independent companies like Tiscali.

Of particular importance in this respect is the recommendation published by the European Commission ("Recommendation on relevant product and service markets within the electronic communications sector susceptible to ex-ante regulation"), which opens the way to growth and competition in the broadband market. The recommendation, if properly implemented, will enable broadband to take off all over Europe, putting an end to the incumbents' de facto monopoly and allowing OLOs to develop a successful business model in a sector offering bright growth prospects—with indisputable advantages for consumers.

Broadband growth is therefore highly dependent on the regulatory framework, and, more specifically, to decisions on wholesale bit-stream unbundling, whereby the "best European price" is applied to the whole range of unbundled access services, and especially to the fixed costs involved in co-locating equipment at the sites of the incumbent operator. These costs represent a barrier to entry as they limit the number of possible players on the market.

Wholesale bit-stream unbundling model

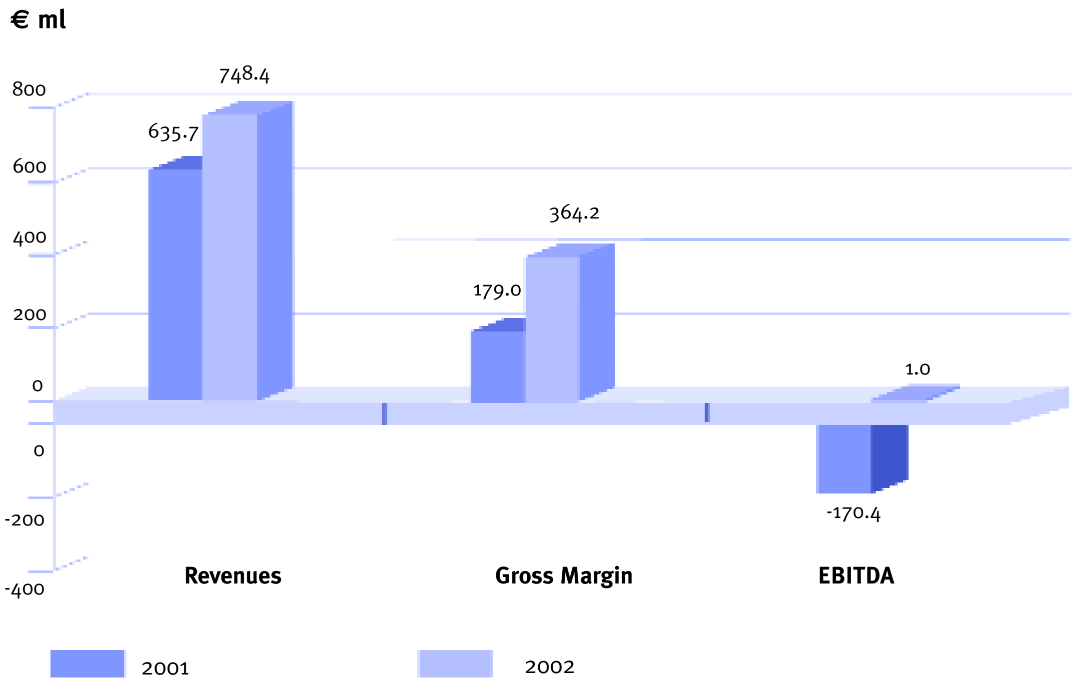


Tiscali Group: key figures

Following the string of acquisitions made in 2001, last year Tiscali faced the challenge of consolidating its position as the European leader in internet services. Despite the difficult economic situation that cut across all sectors, Tiscali put in a highly positive performance in 2002, which included:

- total revenues of EUR 748.4 million, an increase of 18% on 2001;
- a gross margin of 49%, compared with 28% the previous year;
- EBITDA breakeven; this was a considerable improvement on the EUR 170.4 million loss made in 2001.

These three figures are the result of the successful reorganisation and rationalisation process implemented last year, aimed at integrating the companies acquired in 2000 and 2001 and supporting an expansion strategy that has made Tiscali one of Europe's leading internet operators. At the same time, the group committed itself strongly to gaining a foothold in the fledgling ADSL market: although this is currently dominated by the former telecoms monopolies, Tiscali made good progress in increasing its customer base and ADSL revenues.

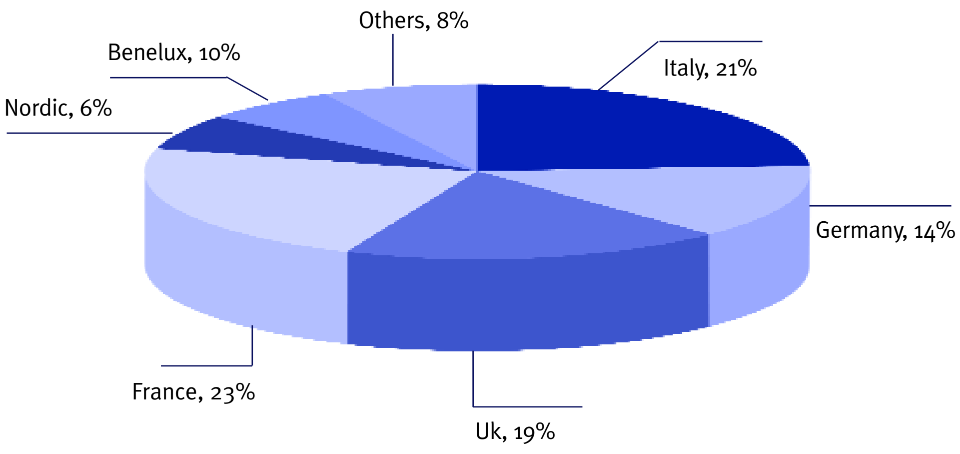


Tiscali ended 2002 with consolidated revenues of EUR 748.4 million, a rise of 18% on the previous year.

PROFIT AND LOSS ACCOUNT	31.12.2002	31.12.2001
(EUR ml)		
Revenues	748,358	635,737
Value of production	**748,358**	**635,737**
COGS	(383,602)	(456,700)
Gross Margin	**364,756**	**179,037**
Sales & Marketing costs	(122,832)	(118,400)
Personnel costs	(140,052)	(152,702)
G&A	(100,890)	(78,420)
EBITDA	**982**	**(170,485)**
Depreciation, amortisation and write-downs	(505,919)	(497,742)
EBIT	**(504,937)**	**(668,227)**
Gross profit (loss)	**(589,881)**	**(1,690,465)**
Net profit (loss)	**(593,145)**	**(1,664,429)**

A breakdown of revenues by region shows that 87% were generated in the five main European markets: 21% in Italy, 23% in France, 14% in Germany, 19% in the UK and 10% in the Benelux countries. Spain, Switzerland, the Czech Republic and South Africa (listed under "Other" in the chart below) all increased their contribution to revenues last year.

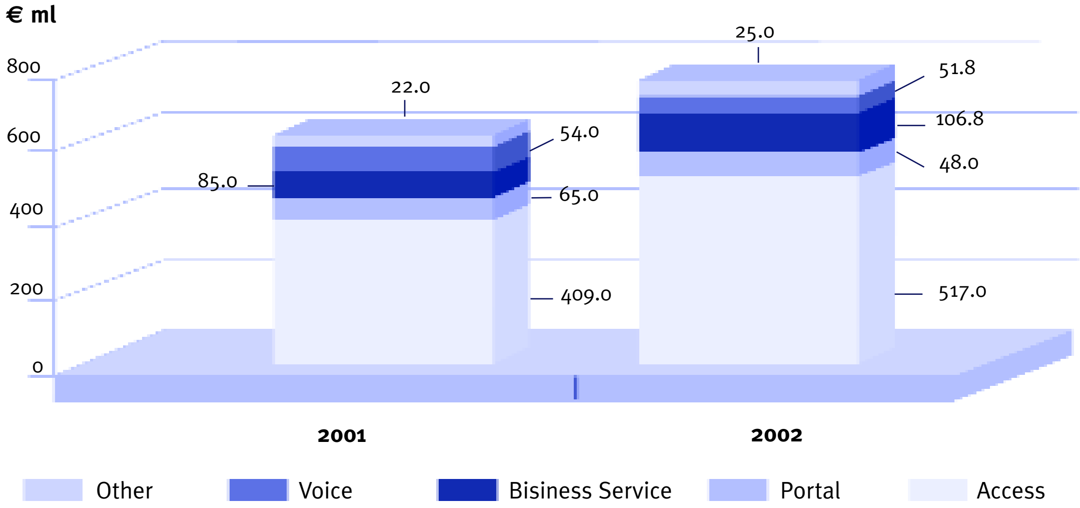
Breakdown of revenues by region



After the wave of M&A activity in 2001 launched in pursuit of the company's European leadership ambitions, last year Tiscali confirmed its position thanks to the combination of a broad user base (which generated some 40 billion minutes of dial-up traffic), a higher brand profile and the wider reach of the Tiscali network.

Once again in 2002 internet access was the group's main revenue source, at 69% of the total, in line with the 2001 figure.
B2B services posted an excellent performance, accounting for 14% of total revenues, while the contribution of portal revenues declined from 10% to 6%.

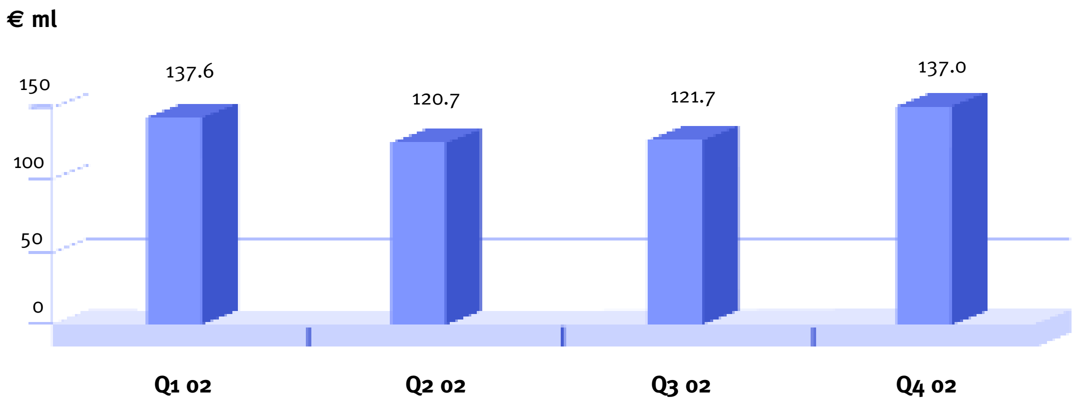
Tiscali FY revenues



Access revenues

The group generated internet access revenues of EUR 517 million, an increase of 26% on the previous year.

Access revenues



This performance was chiefly achieved due to:

1. the wider consolidation base;
2. the solid performance of the narrowband services;
3. the gradual development of innovative broadband access products (mainly xDSL).

A breakdown of access revenues by quarter shows a decline in the second and third quarters, due mainly to technical difficulties caused by the introduction and integration of networks, the migration of traffic from customers of the newly-acquired companies onto Tiscali's proprietary network, the introduction of a single billing and provisioning system ("UNIT") in some countries, and the traditional summer lull.

These temporary difficulties, caused by one-off operations aimed at improving efficiency and providing a better quality of service, led to a short-term loss of dial-up customers, mainly in Germany and France. By the third quarter these difficulties had been fully resolved and there was a considerable increase in volumes thanks to a rise in the user base and in internet traffic across all countries.

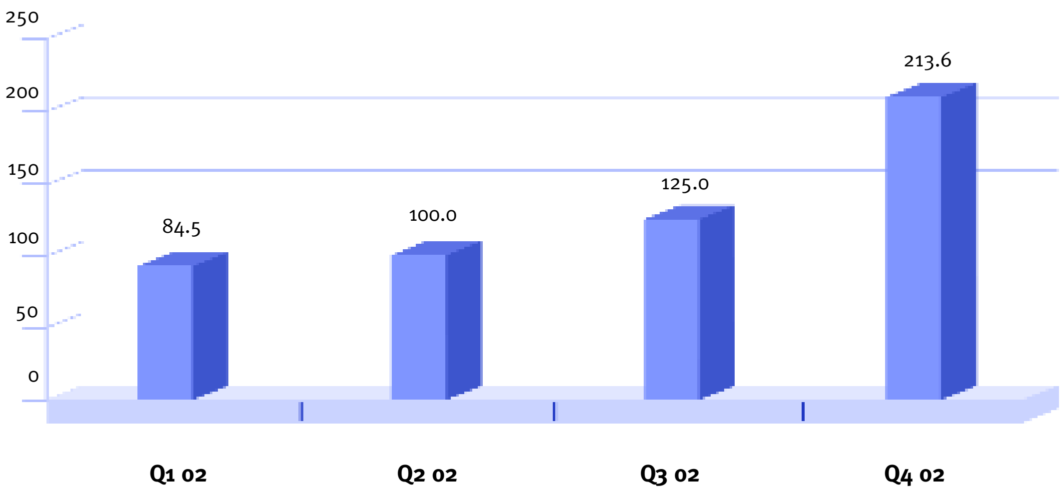
However, the fall in the number of narrowband customers over the year was comfortably offset by an increase in the number of minutes spent online and in average revenues per user (ARPU).

Revenue growth was also held back to some extent by the delayed launch of xDSL services, which was largely due to regulatory restrictions that prevented independent companies from competing effectively with incumbent operators on the broadband market.

Until September, the prices and network access conditions offered by all of the former monopolies created a de facto monopoly on ADSL markets. Only in the fourth quarter, following intervention by national telecom regulators to open up the market, was Tiscali able to launch its broadband

services at competitive prices. However, the service generated excellent results, and at 31 December 2002 the group had 214,000 ADSL customers.
Around 90,000 ADSL users were added in the last quarter, compared with growth of 60,000 over the previous nine months. This sharp rise was largely due to the success of Tiscali services in the UK, France, Germany and Italy.

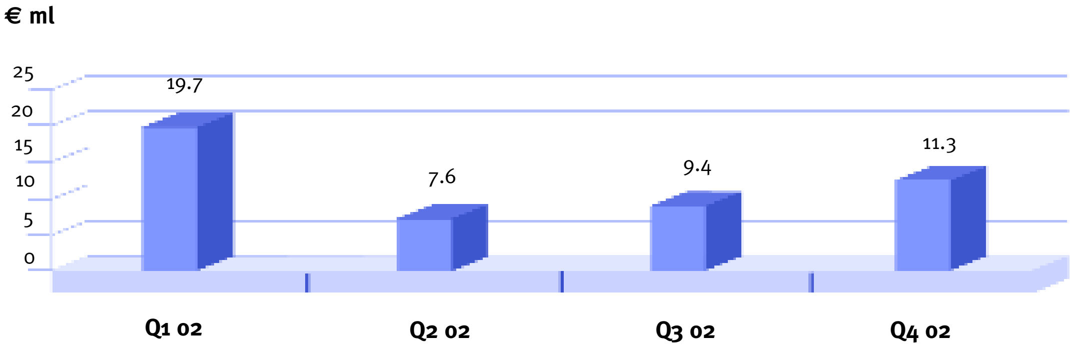
ADSL Users (OOOs)



Portal revenues

The group generated portal revenues of EUR 48 million in 2002, a decline of 26% on 2001.

Portal revenues



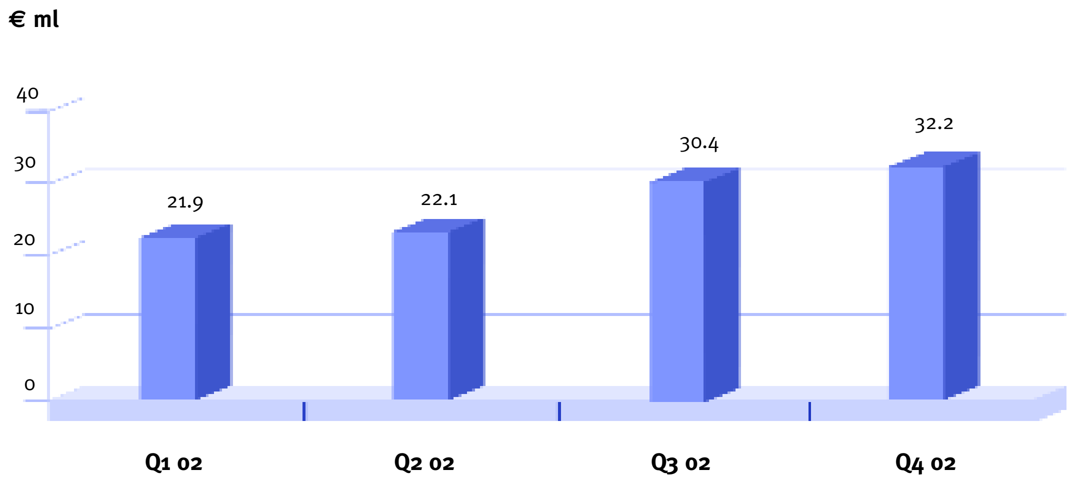
The fall was caused by the ongoing crisis in the advertising market, which affected the whole of the media sector (including the press and TV), but was most severely felt on the internet market. More than EUR 8 million of the decrease was however due to the sale of non-core holdings in Spain (Hispavista) and the US (World Online Merchandising), which had formed part of the consolidation base for the whole of 2001.

Despite these testing times, in 2002 Tiscali continued to develop its content and portal services, and at end-2002 boasted 13.7 million unique visitors throughout Europe (Source: Nielsen NetRatings). This strategy was aimed at consolidating the group's pan-European leadership and capitalising on the recovery in the sector, which over the next few years should be driven by growth in the broadband market.

B2B revenues

Revenues from business services were EUR 106.6 million, an increase of 25% on the previous year.

Business Services revenues



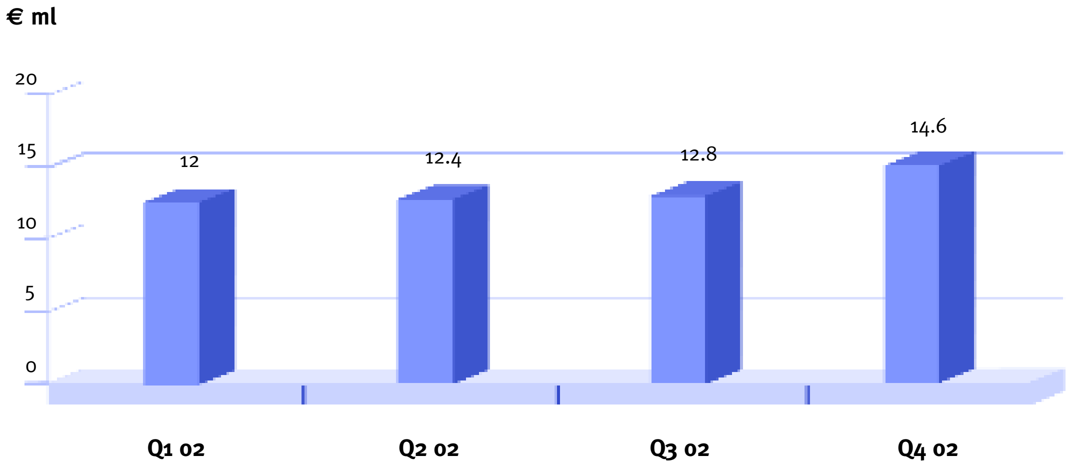
This excellent performance was due mainly to an extended range of products and services which include broadband access (leased lines and xDSL), virtual private networks (VPNs), housing, hosting and co-location, the wholesale supply of IP and voice traffic services, and value-added services like managed hosting, firewalls and security solutions. Synergies and efficiency gains generated by the ownership of a proprietary network also contributed.

The B2B segment grew steadily throughout the year, and the growing interest of business customers in these products led the group to set up locally-based business units aimed at exploiting the potential of this market.

Voice revenues

Voice revenues stood at EUR 51.8 million, a fall of 5% on 2001. Last year, Tiscali continued selling these services in Italy and France, particularly via pre-paid cards.

Voice revenues



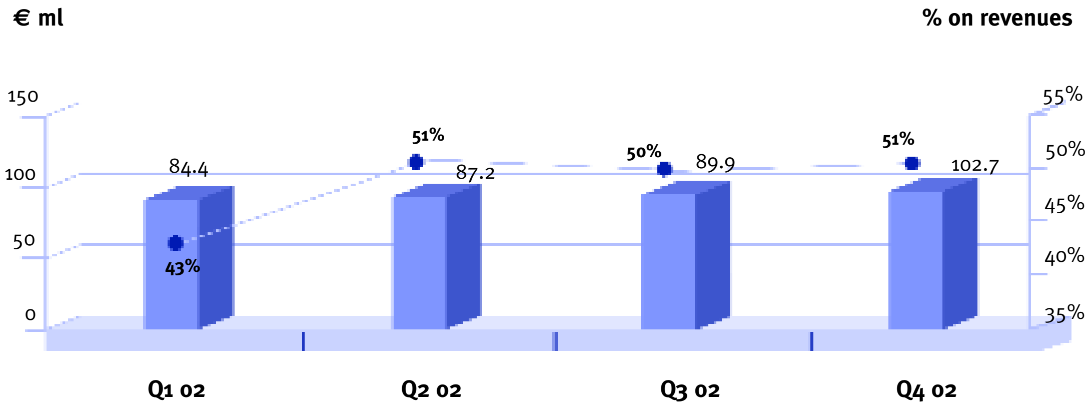
Although no longer a core activity for the group, voice services remain an area of significant interest, owing to the profitability of the business and the fact that it can be easily integrated—both technologically and commercially—with the group's other activities.
The services can also be included in both consumer and business packages, and thus represent another source of revenue for Tiscali.

Gross margin and operating costs

One of the most important achievements for the group last year was undoubtedly the level of operating efficiency attained. In particular, the gross margin expanded to 49% of total revenues, a strong increase on the 2001 figure of 28%.

Gross profit for the year came in at EUR 364.8 million, an increase of over 104% on the EUR 179 million posted in 2001.

Gross Margin evolution in 2002



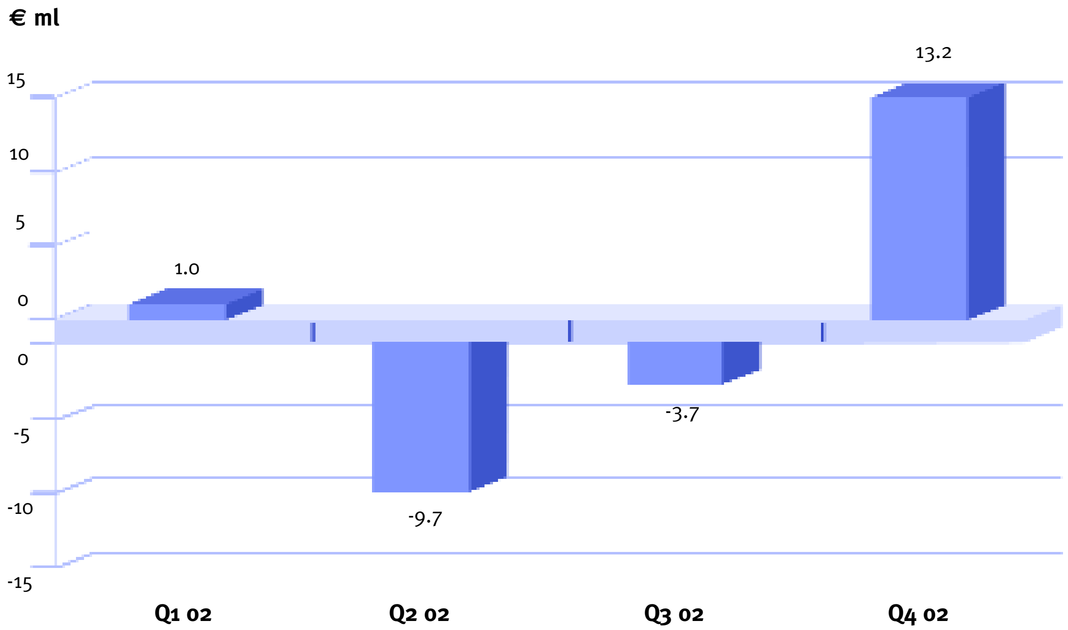
This significant improvement was chiefly attributable to the operating and industrial synergies generated by the introduction and use of the proprietary network, which bears out the soundness of the company's decision to create, develop and independently run its own national and international network infrastructure. This decision has also raised industrial efficiency considerably, owing to:

1. extensive local networks, which deliver substantial kickbacks on dial-up services and slash local loop costs on narrowband, ADSL, and business access services;
2. big cost savings on the main network backbones, achieved through advantageous IRU (indefeasible rights of use) contracts;
3. the almost complete elimination of IP transit costs;
4. a sharp reduction in running and maintenance costs.

These factors also bring considerable operating leverage, as the heavy burden of variable costs (mainly traffic termination costs) is reduced in favour of an increased proportion of fixed or semi-variable costs. As a result of this shift, operating profit becomes highly sensitive to changes in traffic volumes, and thus to changes in revenues.

This operating leverage has led to a significant improvement in industrial performance, especially in countries where the user base and the traffic generated have allowed Tiscali to capitalise fully on the potential of its network.

Ebitda evolution in 2002



Sales and marketing costs stood at EUR 122 million for the year, broadly in line with 2001. Spending in the first half largely concentrated on raising brand awareness across Europe, while the focus in the second half was the launch of new broadband and narrowband products at a local level.

Marketing activities benefited from brand unification for all core business units, which improved the effectiveness of publicity campaigns. The Tiscali brand has now become a byword for quality and innovation, and is well established all over Europe as a leading name in the internet market.

Personnel costs fell 14% to EUR 140 million following the rationalisation, and the headcount stood at 3,039 as of 31 December 2002. EBITDA for the year was a positive EUR 1 million, compared with a loss of EUR 170.4 million in 2001.

This figure vindicates the company's aggressive acquisitions campaign aimed at conquering a significant market share in Europe, followed by a major effort to reach full profitability, since it has succeeded in hitting this target despite the difficult market situation.

EBIT was negative to the tune of EUR 504.9 million. This figure was however a 24% improvement on the EUR 668.2 loss posted in 2001. EBIT before goodwill amortisation was negative at EUR 288.3 million, compared with a loss of EUR 307.6 million the previous year.

The group posted a consolidated net loss of EUR 593.1 million in 2002, compared with EUR -1,664.4 million in 2001 (this figure was partly the result of Goodwill write-down).

Rightsizing of the Tiscali Group

The process of integrating the companies acquired in 2000 and 2001 has generated synergies and economies of scale, as well as allowing for a significant improvement in the cost base, all of which delivered a substantial improvement to the group's bottom line in 2001. This process is now largely complete, with just a few operations remaining to be carried out in 2003.

The key aims for the rightsizing of the group, which had expanded very rapidly, were:

- a reduction in the number of companies: at the end of 2002 this had dropped to around 100 operating and holding companies organised on a sector basis by country;
- generation of economies of scale and synergies;
- implementation of the UNIT single billing and provisioning system;
- adoption of the Tiscali brand throughout Europe.

Key balance sheet figures

At 31 December 2002, total non-current assets stood at EUR 1,076.3m, around EUR 226m lower than in 2001. This fall was chiefly due to goodwill amortisation generated by acquisitions in previous years, which the group mainly financed by issuing new shares.
At year end, the group had total cash of EUR 334m, while excluding other financial payables (leasing) net debt stood at EUR 134m.

Consolidated Net Financial Position

(Amounts in EUR / 000)	31.12.2002	31.12.2001
Cash and Cash Equivalents	333,751	547,835
Short term debts	(56,057)	(155,649)
Short Term Financial Position	**277,694**	**392,186**
Long Term Debts	(412,460)	(250,007)
Net Financial Position	**(134,766)**	**142,179**

To increase its financial flexibility, the group launched a EUR 150m bond issue in 2002. These two-year bonds were issued by Tiscali Finance SA and guaranteed by Tiscali SpA.
Consolidated shareholders' equity at 31 December was EUR 616m. This was a reduction compared to the previous year, mainly due to a net loss of EUR 593.1m.

Group investments

The group's gross investments in tangible and intangible assets totalled EUR 190m for the year. The main projects focused on the development of network infrastructure through the purchase of new servers and routers, and upgrades to software to improve the quality of service and support internet traffic growth, the integration of technology platforms and the construction of the new company headquarters and server base in Cagliari.

The new headquarters will generate significant rental cost savings, as Tiscali currently operates from a number of different offices, and will enable the group to organise its Italian operations and the holding company more efficiently. The new server base will also help improve network management.

Parent company: operating performance

Parent company value of production rose 22% on 2001 to EUR 140.9m. Net of trade accounts, growth—posted across all business areas—came out at 13.1%, or EUR 8.8m. Specifically, internet access revenues rose 14%, on the back of a 5% rise in pay-as-you- go dial-up traffic and the addition of around 28,000 ADSL connections as at 31 December. Despite the contraction of the free dial-up market, Tiscali customers spent more minutes online than in the previous year, confirming its leading position alongside Virgilio-Tin.it and Wind-Infostrada.

2002 EBITDA was negative for approximately of EUR 30.2m, compared to a EUR 22.9m loss in 2001. Although value of production grew, performance was hit by holding company and group operating costs attributed to Tiscali SpA. Stripping out holding company costs, and applying the IAS 17 accounting principle, gives a positive EBITDA figure for 2002 of EUR 11.6m (compared to EUR 5.3m in 2001).

A net loss of EUR 152m was posted for the year—a vast improvement on 2001 (EUR -1,041m)—as extraordinary costs were just EUR 90m compared to EUR 979m in 2001. Except for some minor operations still outstanding, the rightsizing process has been completed.

PROFIT AND LOSS ACCONT

EUR m	31.12.2002	31.12.2001	% CHANGE
Revenues	140.9	115.8	+22%
Operating expenses	(171.1)	(138.7)	+23%
EBITDA	**(30.2)**	**(22.9)**	**+32%**
Depreciation, amortisation and provisions	(65.0)	(33.2)	+96%
EBIT	**(95.2)**	**(56.1)**	**+70%**
Net financial income/ charges	33.2	(6.2)	-
Net extraordinary charges	(19.0)	(978.9)	-
Write-downs	(71.3)		-
Pre-tax profit (loss)	(152.3)	(1,041.2)	-
Tax	-	-	-
Net profit (loss)	**(152.3)**	**(1,041.2)**	**-**

Parent company: revenue breakdown

EUR m			
BUSINESS AREA	**31.12.2002**	**31.12.2001**	**% CHANGE**
Access	69.3	60.8	14%
Portal	20.0	15.6	28%
B2B	6.5	3.9	66%
Voice	20.6	18.8	9%
Other	24.4	16.7	46%
Total	**140.9**	**115.8**	**22%**

Access

Internet access revenues were up 14% on the previous year at EUR 69.3m, and accounted for 49% of the total.

This increase was chiefly due to a rise in both active user numbers to over 1.4 million at 31 December 2002 and in traffic minutes +5% to 9.2 billion minutes, from 8.7 billion in 2001.

2002 also saw the expansion of Tiscali's range of internet access services, with the addition of broadband packages (ADSL and Tiscali SAT). ADSL revenues totalled EUR 7m in 2002.

Portal

Portal revenues (advertising and e-commerce) came in at EUR 20m, 14% of the total and up 28% on 2001.

The group therefore consolidated its leading position on the Italian market, despite the advertising sector decline. Tiscali's excellent performance can be attributed to the portal's growing reputation and the launch of the first pan-European campaigns in which Tiscali Italia acted as an agent for other countries. Furthermore, Tiscali Advertising collected advertising revenues under concession for the subsidiary Excite BV in 2002, which helped the group to top spot on the Italian advertising market.

B2B

Business-to-business revenues were EUR 6.5m, up 66% on the previous year. Growth was chiefly attributable to housing, hosting and wholesale services.

Voice

Voice services generated revenues of EUR 20.6m, up 9% on 2001. The key growth driver was the introduction of new international services.

Operating costs

Operating costs rose 23% on the previous year to EUR 171.1m.

However, leased lines and ports costs fell again in 2002—to 11%—following a 9% yoy drop in 2001. Traffic acquisition costs also fell, by 5% compared to 2001, despite higher volumes.

These costs amounted to 28% of revenues, compared to 35% in 2001. The lower proportion of direct costs was offset by higher staff and publicity costs, chiefly spent on European sponsorship deals.

Salaries and related costs grew by around EUR 8.4m to EUR 27.6m (19.6% of revenues), following the increase in the headcount from 733 at 31 December 2001 to 755 at the end of December 2002. This item also includes salaries and costs related to staff working for the holding company. In addition to the increase in staff numbers, higher wages and the end to tax breaks for trainees under law no. 448 also pushed up this figure.
Depreciation, amortisation and provisions rose 95% from EUR 33.2m in 2001 to EUR 65m in 2002. The increase is chiefly attributable to growth in non-current assets, resulting from both higher investments made during the year and the start of amortisation and depreciation for projects launched in 2001.

Extraordinary charges of EUR 19.m and extraordinary income of around EUR 1m put the net figure at EUR 20m, compared to a negative figure of EUR 979m in 2001. This was due to one-off charges relating to the previous year and extraordinary charges related to subsidiaries.

Parent company: key balance sheet figures

EUR m	31.12.2002	31.12.2001	% CHANGE
Non-current assets	2,187.3	2,166.9	-
Current assets	250.1	219.9	14%
Total assets	**2,437.4**	**2,386.8**	**2%**
Shareholders' equity	1,661.5	1,793.0	-7%
Risk and staff severance funds	57.6	24.8	137%
Liabilities	718.3	569.0	26%
Total liabilities	**2,437.4**	**2,386.8**	**2%**

The group's total assets increased by 2%. The value of investment holdings remained in line with the previous year, after writedowns.

Net debt stood at EUR 44.2m. Cash flows—broken down in the parent company's cash flow statement—suffered due to the year's net loss and investments. This position will improve rapidly once the rightsizing programme is complete and the expected growth in revenues is achieved.

Parent company: investments

In 2002, investments totalled EUR 74.8m, with leasing operations accounting for EUR 2.8m. The company invested EUR 53.9m in intangible assets and EUR 22m in tangible assets.
The investment programme was intended to increase production capacity, mainly in order to equip the network for the development of ADSL services, which need to provide customers with a much faster connection than ordinary dial-up services. A new fibre-optic ring was activated in July 2002, and required an overall investment of around EUR 34m for the purchase of the necessary IRUs and equipment. New POPs were also opened, which required the company to invest in routers. The group also invested in intangible assets, specifically acquiring and developing software as part of its project to standardise its technology platform, along with the billing and IT management systems of the whole group.

Significant events which took place after year end

On 3 February 2003, Tiscali acquired Airtelnet, the Spanish internet business of the Vodafone Group Plc. The acquisition cost was EUR 9.86m, to be financed through newly-issued Tiscali shares. The shareholders' meeting, to take place by the end of April, will vote on the capital increase. The acquisition should strengthen Tiscali's position on the Spanish market and raise its profitability, especially as there is no debt to be taken on, and there will be no transfer of Airtelnet employees to Tiscali. As a result, the integration of the Spanish company will not involve any rightsizing costs, and should therefore boost the P&L straight away. Airtelnet has around 110,000 active dial-up users—including around 5,000 business users—so Tiscali's market share in Spain should rise substantially.

On 7 February, Tiscali acquired Wanadoo Belgium SA from the Wanadoo Group, through its subsidiary Tiscali Belgium NV. The cost of this acquisition was EUR 9.5m, to be financed through newly-issued Tiscali shares. The April EGM will vote on this capital increase.
Wanadoo Belgium is one of Belgium's leading ISPs and portals, with around 85,000 active users, of which 25,000 are ADSL customers.
The acquisition will deliver significant economies of scale from an early stage, mainly as a result of migrating traffic generated by Wanadoo Belgium users onto Tiscali's IP network, which should boost the P&L substantially. The acquisition cements Tiscali's position as Belgium's second largest ISP, and more significantly, markedly increases its presence on the broadband market, as ADSL customers now number over 30,000. The deal confirms Tiscali's commitment to establishing a pan-European presence and further consolidates its leadership on the Benelux internet market.

On 18 March, Tiscali announced the acquisition of Nextra SpA from Telenor for EUR 2.4m, to be financed through newly-issued Tiscali shares. The April EGM will vote on this capital increase.
Nextra SpA is a leading ISP operating in the Italian corporate sector and is known for the quality of its advanced IP services, which include fixed and wireless internet access, hosting, virtual private networks (IP-VPNs) and messaging services. Most of Nextra's 3,000 business clients are based in north-east and central Italy.
The acquisition of Nextra should generate significant synergies and economies of scale through Tiscali's IP network in Italy, boosting the profitability of its Italian operations and strengthening its position on the Italian business services market.

In February 2003 Tiscali settled its dispute with Viatel for an amount of EUR 3.2 million, which is fully covered by provisions made previously.

Outlook for 2003

Tiscali's main objective for 2003 is to consolidate its market share throughout Europe and increase the profitability of all its business units by extending its base of both broadband and narrowband users.
In early February 2003, the European Commission published its "Recommendation on relevant product and service markets within the electronic communications sector susceptible to ex-ante regulation", the key document in the new EU regulatory package for the telecoms sector, including ADSL services. The regulations are to be implemented by July.
This recommendation invites individual member states to adopt regulations opening up competition to all operators, thereby facilitating the expansion of broadband services.
In most of Europe, the former incumbents currently have a monopoly in the broadband market, which adversely affects competition and, in turn, consumers.
Tiscali believes that this recommendation- if implemented effectively by national authorities- should drive the expansion of ADSL services throughout Europe. Above all, independent operators would be able to compete actively on the ADSL market through network interconnection (bit-stream access to ex-incumbents' local networks) bringing better prices and services to consumers.

To capitalise on the opportunities offered by changes in interconnection regulations, Tiscali has launched a wide range of broadband services on the ADSL market, tailored to consumers' new and varied requirements.
The group also plans to consolidate further its own share of the narrowband access market by launching new products and services aimed at increasing traffic on its own network, strengthening customer loyalty and raising average revenues per user (ARPU).
Tiscali will use its network infrastructure and know-how to broaden its range of high-quality business services, which should continue to make an important contribution to company growth. The rationalisation and development of resources in this profitable area will drive future revenue growth, boosting operating profit very quickly.
Tiscali believes that its pan-European presence makes it one of the most appealing partners for any company looking to promote and sell its services on the internet.
The group will therefore continue to expand its range of services and content across Europe, through agreements with the most important national and international operators, focusing on the integration of these activities with its own broadband services.

The group's performance in 2002 and the first quarter of 2003 conformed to the forecasts set out in its business plan, which for 2003 also projects a markedly positive EBITDA and cash flow generation from the second half. A positive EBIT figure is expected in 2004.

Legal Proceedings

Tiscali is subject to legal proceedings, claims and litigation arising in the course of business. However, even if a negative outcome were to arise, the group's management does not expect any of the cases pending to have a major impact on its consolidated financial position or on future results. The main cases pending are listed below.

In March 2001, Tiscali initiated arbitration proceedings in Switzerland against Nikolai Manek, who, along with other parties in April 2000, sold German company Nikoma GmbH to Tiscali. Tiscali is claiming damages of over EUR 56m, alleging that the purchase agreement overestimated the number of the company's active subscribers. Tiscali has frozen over 800,000 Tiscali shares held as a guarantee and which were part of the payment made to Mr Manek for the transaction. Mr Manek denies Tiscali's allegations and is claiming damages for unlawful custody of the shares.

In July 2001, Dutch foundation Vereniging van Effectenbezitters, which represents a group of shareholders, sued World Online International NV (currently 99.5%-owned by Tiscali) and the main agents involved in its listing for damages, alleging, in particular, that some of the information provided in the flotation prospectus and in the public statements issued by the company and its chairman at the time was incomplete and inaccurate. Similar proceedings were launched by another Dutch foundation, Stichting Van der Goen WOL Claims, in August 2001.

In December 2000, Jean Philippe Illiesco de Grimaldi and Illiesco de Grimaldi & Co initiated legal proceedings against World Online Ltd, a UK subsidiary of the World Online Group. The plaintiffs claim that they were prevented from exercising a purchase option on World Online Ltd capital and are demanding damages of over EUR 17.4m for the loss of the profit they could have made on the resale of the shares.

In December 2000, Globetrans Ltd and Interglobetrans Ltd began legal proceedings against World Online International NV. The plaintiffs, both of which are controlled by Jean Philippe Illiesco de Grimaldi, are asserting their right to a 1% commission on the total sum paid by Tiscali for the purchase of World Online International NV, since they put the company's management in contact with Tiscali. The sum claimed is about EUR 69m.

In June 2000, European Unique Resource Organisation 2000 BV sued Tiscali BV (formerly World Online BV), claiming that Tiscali BV failed to fulfil the terms of a contract signed in December 1999 to develop and supply internet services. European Unique Resource Organisation 2000 BV publicly declared that it incurred costs of around EUR 4.5m as a result. In June 2002, the court of Amsterdam ruled against Tiscali BV, and called on the plaintiff to provide proof of the amount of costs incurred. Tiscali BV appealed against the decision.

Corporate Governance

Introduction

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

The main changes contained in this report relate to compliance with regulations on internal dealing introduced by Borsa Italiana (the Italian stock market management company), and recommendations concerning the internal audit system. In addition, the recommendations on monitoring the independence of non-executive directors and transactions carried out with related parties have been dealt with in more detail for the purposes of best disclosure practices and to avoid any potential conflict of interest.
The main points are set out below.

- **Internal audit**: the internal audit procedures have been updated in line with international standards, with a particular focus on all of the company's processes. The internal audit procedures monitor the efficiency of operations, reliability of financial information, compliance with the applicable laws and regulations, and the safeguarding of the company's assets. The duties of the Board of Directors in this area have been broadened and set out in more detail, and the CEO has been assigned a more extensive role. The Internal Audit Committee, which comprises non-executive directors (mostly independent), is also required to examine the accounting principles adopted at a group level.
- **Handling confidential information**: the Code stipulates that internal procedures must be adopted, and a code of conduct on internal dealing established to govern disclosure obligations in respect of transactions carried out by senior managers involving company securities.
- **Directors' independence**: the Board of Directors as a whole is required to monitor the independence of each director periodically, based on specific criteria, and report the outcome to the market.
- **Transactions with related parties**: the company is expected to define general criteria to identify transactions that require the approval of the Board of Directors. Please note that these transactions must comply with legal and procedural criteria. Furthermore, any directors who have an interest, even if only potential or indirect, in a transaction with related parties must provide the Board with detailed information of the existence of such interest and of the related circumstances in a timely manner, and leave the Board meeting when the issue is discussed. Where the nature, value or other aspects of a transaction with related parties make this necessary, the Board is expected to appoint independent experts (banks or audit firms for example) to advise on the fairness of the transaction, and lawyers to provide legal opinions.

- **Remuneration committee**: this committee is responsible for defining stock option or equity-based remuneration plans to be approved by the ordinary shareholders meeting called to approve the annual report and accounts.

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

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

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

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

Board of Directors - Role

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

During the year ending 31 December 2002, the Board of Directors met seven times, mainly to discuss and approve the quarterly and half-yearly results and other major transactions carried out by the Company, which are set out in detail in the reports prepared by the Board for shareholders.

The 2003 timetable for Board meetings was approved in November 2002. Five meetings have been scheduled for the approval of the quarterly report as of 31 December 2002, 31 March 2003 and 30 September 2003, the approval of the annual results as of 31 December 2002 and of the half-year report as of 30 June 2003.

In addition, as required by article 14 of the Articles of Association (Powers of the Board of Directors), the Board of Directors provides the Board of Auditors with a quarterly report on activities and major business and financial transactions, and any asset-related operations that have been carried out by the Company or its subsidiaries.

Prior to each board meeting, the Company Secretary provides the directors with the relevant documentation necessary in good time so that board members can express an informed view regarding matters on the agenda.

Composition

The Board of Directors currently comprises five non-executive directors, out of a total of six members. Please note that Gabriel Pretre has been co-opted to the board from 12 February 2003, following the resignation of James Kinsella on 24 January 2003.

The shareholders meeting held on 30 April 2002 appointed the current members of the Board of Directors, which will expire once the shareholders meeting held to approve the annual report and accounts for year 2004 has taken place.

The sole executive director of the Company is the Chairman and Managing Director, Renato Soru.

The functions of the current board members as directors of other listed companies or of banking, insurance or other major companies are listed below. None of the current directors has any function as statutory auditor at other listed companies or banking, insurance or other major companies. Taking into account the functions held by board members for other companies, the Company believes that the board members have the abilities and time necessary to effectively fulfil their roles as directors.

BOARD OF DIRECTORS	Director at other listed companies or banking, insurance or other major companies
Renato Soru	Director, Liberty Surf SA (Euronext Paris) Director, World Online International NV (traded but not listed – Euronext Amsterdam) Director, Hutchison 3G Italia S.p.A. Director, Banca CIS
Franco Bernabé	Chairman, Franco Bernabè Group Vice Chairman, H3G S.p.A. Vice Chairman, Hutchison 3G Italia S.p.A. Director, TPG-TNT Post Group
Victor Bischoff	Director, Sandoz Family Foundation Chairman, Interoute/C21 Director, Citco Group Vice President, BB Biotech AG
Hermann Hauser	Director, Amadeus Capital Partners Ltd Director, GlobespanVirata Inc (NASDAQ)
Gabriel Pretre	Director, Sandoz Family Foundation Director, Banque Edouard Constant (BEC) Director, Sandoz FF Holding Bancaire et Financière Director, SFF Financial Services SA Director, Citco Bank B.V.I. Ltd Director, Interoute Communications Group Director, G.G.B. (Gornergrat-Monte Rosa-Bahnen) Listed on the SWX market (Swiss market)
Elserino Piol	Chairman, Pino Venture Partners Chairman, Pino Partecipazioni S.p.A. Chairman, Pino Consulting S.r.l. Director, Datalogic S.p.A. (Nuovo Mercato) Director, Cdb Web Tech (Nuovo Mercato)

The Board of Director assessed the independence of the Directors Hermann Hauser, Elserino Piol and Franco Bernabè, which meets the independence requirements set out in article 3 of the Code. For the purpose of completeness, please be informed that, as detailed in the above table, Franco Bernabè is Vice Chairman of the company Hutchison 3G Italia S.p.A., where Tiscali Finance S.A., subsidiary of the Company, holds a stake of approx. 0.3%.

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

Chairman and Chief Executive

The Chairman of the Board of Directors fulfils the functions described in articles 4.1 and 4.2 of the Code. The Chairman also carries out the functions of Chief Executive, and was attributed with full powers by a decision of the Board of Directors on 14 May 2002.

Information provided to the Board of Directors

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

Appointment of Directors

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

Furthermore, this shareholders' meeting will be called to vote on an amendment of the said article 11, which states that the list containing the proposal for the appointment as director must be filed at the Company's registered office at least ten days before the first date scheduled for the meeting, together with a detailed curriculum vitae of the candidates. This amendment is in line with the recommendations contained in article 7.1 of the Code, and is aimed at harmonising the regulation governing the appointment of board members with the provisions of article 18 (Board of Auditors) of the Articles of Association in respect of the filing of lists for the appointment of auditors.

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

Directors' remuneration

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

The Remuneration Committee was newly appointed during the board meeting held on 14 May 2001, following the shareholders' meeting on 30 April 2002 that appointed the current Board of Directors. As of the date here of, the committee's members are directors Elserino Piol (Chairman), Renato Soru and Victor Bischoff.

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

Handling of confidential information

The Company has implemented a procedure for supervising the management of confidential information that separates the task between members of staff appointed for that purpose and senior management. This procedure is to be included in an Internal Regulation to be adopted following approval by the Board of Directors.

The procedure states that the communication of confidential information to the public is to be managed by the Investor Relations Office referred to in point 6 below, which prepares the text of press releases and handles subsequent publication via a network of companies employed for that purpose. In detail:

- press releases relating to the information that must be released on a regular basis (annual report and accounts, half-yearly report, quarterly reports, etc.) are approved by the Chief Financial Officer and Managing Director after obtaining the opinion of the Board of Directors, where possible;
- press releases relating to extraordinary operations (mergers, acquisitions, increases in share capital, etc.) are approved by the Managing Director after obtaining the opinion of the Chief Financial Officer;
- in all other cases, the Investor Relations Manager is responsible for managing information provided to the public. Where possible, publication of price-sensitive information is decided in conjunction with the Legal Department, after obtaining the approval of the Chief Financial Officer.

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

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

Internal audit

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

The Internal Audit Manager has no operating line manager, as recommended by article 9.4 of the Code, and instead reports directly to the Chief Executive, the Internal Audit Committee and the Board of Statutory Auditors. As a further safeguard of the independence of the Internal Audit Manager, the person holding this post is provided with his/her own budget.

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

Internal Audit Committee

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

The Internal Audit Committee was newly appointed during the board meeting of 14 May 2002, following the shareholders' meeting held on 30 April 2002, which appointed the current Board of Directors. The members of the Internal Audit Committee are currently the non-executive directors Victor Bischoff and Elserino Piol (Chairman).

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

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

The Chairman of the Board of Auditors and the Managing Director may participate in the work of the Internal Audit Committee.

Related parties

It is company practice to keep transactions with related parties to a minimum. Any transactions of this nature that are carried out, however, are conducted in such a way as to ensure compliance with legal and procedural criteria, as indicated in article 11.2 of the Code.

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

Communications with institutional investors and other shareholders

Communications with institutional investors and other shareholders are handled by the Investor Relations Office. This office reports to the Chief Financial Officer, and its responsibilities include the release of information on the Company and its operations to the financial community, including the confidential and price-sensitive information referred to in point 2 above.

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

Shareholders’ meetings

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

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

The Board of Directors believes that the interests of minority shareholders have been respected, as the current Articles of Association do not allow any majorities other than those contemplated by law.

Statutory Auditors

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

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

Stock Option Plan

On March 12, 2001, the Annual General Meeting of Tiscali SpA, meeting in ordinary session, adopted a Stock Option plan open to managers, employees and staff of all Tiscali Group Companies, tasking the Board of Directors with the definition of terms and assignment of options. At the same meeting, in extraordinary session, two separate capital increases were approved (pursuant to article 2441, paragraphs 5 and 8 of the Civil Code), relating to the issue of a total of 15,000,000 shares to cover the Stock Options.

At its meeting of March 27, 2001, the Board of Directors exercised its powers by drawing up a plan and list of regulations for the assignment of Stock Options covering the period 2001-2005 (the "Plan"), aimed at providing an incentive for management and staff alike and making each individual a direct participant in the benefits deriving from a positive Company performance, in order to ensure their full commitment to the objectives of expansion and added value of the Company and the Group as a whole.

In order to achieve the aims set out above, and on the basis of the role played by each of the beneficiaries, the Plan makes provision for the assignment, free of charge, of options for the underwriting of ordinary Tiscali shares. The Plan is reserved exclusively to beneficiaries designated, in purely discretionary and irrevocable form, by the Board of Directors or, via a specific power of attorney, by its Chairman, who also takes into account the opinion expressed by the Remuneration Committee. Each option gives the right to underwrite one share at the price established by the Board of Directors or, via a specific power of attorney, by its Chairman, taking account of, inter alia, the fiscal regulations applicable in the various countries relating to tax relief on Stock Options.

These options are personal, registered, non-transferable and non-negotiable, with the exception of their transfer mortis causa. The Plan, of three years' duration, sets out that the options may be exercised in three lots, each equaling one-third of the options assigned to each beneficiary. The lots of options may also be partially exercised. The exercise periods are established by the Board of Directors for each year, starting from September 2001. In accordance with current law, on April 27, 2001 an Information Prospectus was filed with CONSOB.

The Plan includes specific "stability commitment" obligations, whereby the options may be exercised only on condition that the beneficiary continues to work for or hold office continuously with Tiscali or another Group Company from the date of their assignment until the date they are exercised. Moreover, in line with current practice on this subject, special checks and balances have been set up to protect the rights of beneficiaries in the event of extraordinary operations, such as for example mergers or Company sales, and in the event of changes in the Company control structure. On May 14, 2001, the Board of Directors, exercising the powers assigned to it by the Annual General Meeting, assigned a total of 15,000,000 options to staff, employees and managers of the Company and of the Tiscali Group. On March 13, 2002, the Board passed a motion to revoke in their entirety the options previously assigned, and at the same time to assign the same number of options to the same beneficiaries but at a different exercise price. In both cases, the exercise price, as established by the Board, corresponds to the “regular value” of Tiscali shares as defined by article 9, paragraph 4, sub-paragraph a), of Presidential Decree 917 of 1986 — that is, the mathematical average of the official price of Tiscali shares taken in the month immediately preceding assignment.

As at the date of this Report, none of the Stock Options assigned has been exercised. Consequently, the capital increase approved during the meeting of March 12, 2001, which has a five-year duration, has not been even partially underwritten.

Shares Held by Directors and Statutory Auditors

As required by current legislation, in particular Article 79 of the implementing regulations of D.Lgs. 58/1998 issued by CONSOB, with decision 11971/1999, the number of shares held by Directors and Statutory Auditors is listed hereunder.

SURNAME, FIRST NAME	POSITION	NO. OF SHARES HELD AS AT 31.12.01	NO. OF SHARES PURCHASED	NO. OF SHARES SOLD	NO. OF SHARES HELD AS AT 31.12.02
Board of Directors					
Soru Renato	Chairman and CEO	108,100,000	-	-	108,100,000
Bernabè Franco	Director	-	-	-	-
Hauser Hermann	Director	-	-	-	-
Piol Elserino	Director	-	-	-	-
Bischoff Victor	Director	-	-	-	-
Pretre Gabriel	Director	(*)	-	-	489

SURNAME, FIRST NAME	POSITION	NO. OF SHARES HELD AS AT 31.12.01	NO. OF SHARES PURCHASED	NO. OF SHARES SOLD	NO. OF SHARES HELD AS AT 31.12.02
Board of Statutory Auditors					
Zini Andrea	Chairman	2,054	-	-	2,054
Casu Rita	Statutory Auditor	50	-	-	50
Casu Piero	Statutory Auditor	-	-	-	-
Biondo Giuseppe	Substitute Auditor	60	-	-	60
Bianchi Livio	Substitute Auditor	880	-	-	880

(*) Effective from 29 April 2003

For the Board of Directors
The Chairman

Renato Soru



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Consolidated Accounts for the year ended

31 December 2002

Balance sheet - Assets
(EUR 000)

			Assets	Due → 12 months 31.12.2002	Due → 12 months 31.12.2001	31.12.2002	31.12.2001
A)			**CAPITAL CONTRIBUTIONS DUE FROM SHAREHOLDERS**				
			Portion called up				
			From other shareholders			-	80
			Portion not called up				
			From other shareholders			28	154
			CAPITAL CONTRIBUTIONS DUE FROM SHAREHOLDERS			**28**	**234**
B)			**NON-CURRENT ASSETS**				
	I		**Intangible assets**				
		1)	Start-up and expansion costs			5,281	9,172
		2)	Research, development and advertising costs			38,000	44,881
		3)	Industrial patent rights and intellectual property rights			3,686	4,686
		4)	Concessions, licenses, trademarks and similar rights			141,933	63,084
		5)	Goodwill			160	-
		6)	Payments on account and intangible assets in course of acquisition			6,161	16,873
		7)	Other intangible assets			13,005	46,920
		8)	Consolidation difference			540,987	685,084
			Intangible assets			**749,213**	**870,700**
	II		**Fixed assets**				
		1)	Land and buildings			11,224	53,073
		2)	Plant and machinery			224,461	40,792
		3)	Industrial and commercial equipment			636	201,494
		4)	Other fixed assets			41,306	35,064
		5)	Payments on account and tangible assets in course of acquisition			9,582	55,738
			Fixed assets			**287,209**	**386,161**
	III		**Long-term investments**				
			Investments				
		a)	Investments in non-consolidated subsidiaries			288	1,837
		b)	Investments in affiliated companies			185	10,611
		c)	Investments in parent companies			-	-
		d)	Investments in other companies			12,687	30,552
			Receivables	**31.12.2002**	**31.12.2001**		
		a)	from non-consolidated subsidiaries	26,715	-	26,714	-
		b)	from affiliated companies	-	-	-	-
		c)	from parent companies	-	-	-	-
		d)	other	-	2,564	-	2,564
				26,715	**2,564**		
			Other securities			-	-
			Own shares			-	-
			Long-term investments			**39,874**	**45,564**
			NON-CURRENT ASSETS			**1,076,296**	**1,302,425**

Balance sheet - Assets (continued)

						31.12.2002	31.12.2001
C)			**Current Assets**				
	I		**Inventories**				
		1)	Raw materials, supplies and consumables			6,310	16,796
		2)	Work in progress and semi-finished products			-	679
		3)	Contract work in progress			-	136
		4)	Finished products and merchandise			-	-
		5)	Advance payments			-	241
			Inventories	*Due*	*12 months*	**6,310**	**17,852**
	II		**Receivables**	**31.12.2002**	**31.12.2001**		
		1)	Trade receivables	190,572	244,614	190,572	245,327
		2)	From non-consolidated subsidiaries	830	659	830	659
		3)	From affiliated companies	-	-	-	-
		4)	From parent companies	-	-	-	-
		5)	Other	36,042	96,482	38,631	101,557
			Receivables	**227,444**	**341,755**	**230,033**	**347,543**
	III		**Investments other than non-current assets**				
		1)	Investments in non-consolidated subsidiaries			3,209	-
		2)	Investments in affiliated companies			-	-
		3)	Investments in parent companies			-	-
		4)	Other investments			-	-
		5)	Own shares			-	-
		6)	Other securities			124,187	162,954
			Investments other than non-current assets			**127,396**	**162,954**
	IV		**Cash and cash equivalents**				
		1)	Bank and post office deposits			209,564	384,862
		2)	Cheques			3	-
		3)	Cash and other negotiable instruments			3	19
			Cash and cash equivalents			**209,570**	**384,881**
			CURRENT ASSETS			**573,309**	**913,230**
D)			**ACCRUED INCOME AND DEFERRED CHARGES**				
			Accrued income			13,622	278
			Deferred charges			28,250	44,366
			ACCRUED INCOME AND DEFERRED CHARGES			**41,872**	**44,644**
			TOTAL ASSETS			**1,691,505**	**2,260,533**

Balance Sheet - Liabilities

		Liabilities	Due > 12 months 31.12.2002	Due > 12 months 31.12.2001	31.12.2002	31.12.2001
A)		**SHAREHOLDERS' EQUITY**				
		Group				
I		Share capital			180,867	179,209
II		Share premium reserve			1,632,896	2,654,963
III		Revaluation reserve			-	-
IV		Legal reserve			-	-
V		Reserve for own shares held			-	-
VI		Statutory reserves			-	-
VII		*Other reserves*				
		Currency translation reserve (group)			(28,613)	17,692
		Subsidiaries' undistributed profits (losses) and other reserves			(575,977)	(61,156)
VIII		Retained earnings (losses carried forward)			-	-
IX		Profit (loss) for the year			(593,145)	(1,664,429)
		Group Shareholders' Equity			**616,028**	**1,126,279**
XI		Minorities			16,309	(18,336)
		SHAREHOLDERS' EQUITY			**632,337**	**1,107,943**
B)		**RESERVES FOR RISKS AND FUTURE LIABILITIES**				
	1)	Pension payments and similar obligations			-	-
	2)	Tax reserve			100	83
	3)	Other			20,059	39,454
		RESERVES FOR RISKS AND FUTURE LIABILITIES			**20,159**	**39,537**
C)		**STAFF SEVERANCE INDEMNITY RESERVE**			**7,002**	**2,591**
D)		**PAYABLES**				
	1)	Bonds	400,000	250,000	409,211	375,294
	2)	Convertible bonds	-	-	-	-
	3)	Due to banks	12,460	7	59,306	30,362
	4)	Other short-term financing	46,941	43,853	62,929	63,445
	5)	Payment on account	-	-	-	663
	6)	Trade accounts payable	-	-	306,676	352,114
	7)	Debt instruments payable	-	-	-	-
	8)	Due to non-consolidated subsidiaries	-	95,018	4,482	95,018
	9)	Due to affiliated companies	-	-	468	6,103
	10)	Due to parent companies	-	-	-	-
	11)	Taxes payable	11,483	-	32,375	31,136
	12)	Payables to social security agencies	-	-	10,726	6,675
	13)	Other payables	9,025	16,883	12,142	71,926
		PAYABLES	**479,909**	**405,761**	**898,315**	**1,032,736**
E)		**ACCRUED LIABILITIES AND DEFERRED INCOME**				
		Accrued liabilities			66,684	21,323
		Deferred income			67,008	56,403
		ACCRUED LIABILITIES AND DEFERRED INCOME			**133,692**	**77,726**
		LIABILITIES			**1,691,505**	**2,260,533**

Memorandum Accounts

Memorandum Accounts - Liabilities	31.12.2002	31.12.2001
GUARANTEES RECEIVED		
from subsidiaries and third parties		
Sureties	2,448	6,131
Collateral	1,571	-
From subsidiaries and third parties	**4,019**	**6,131**
Other Memorandum Accounts - Liabilities	**-**	**-**
Warrants	183	12,704
Commitments	11,060	15,066
Other Memorandum Accounts - Liabilities	**11,243**	**27,770**
GUARANTEES GIVEN		
to third parties		
Sureties	254,829	251,532
Collateral	3,612	195,280
To third parties	**258,441**	**446,812**
To subsidiaries	**-**	**-**
Collateral	2,996	-
To subsidiaries	**2,996**	**-**

Profit and Loss Accounts

				31.12.2002	31.12.2001
A)			**VALUE OF PRODUCTION**		
	1)		Revenues from sales and services	739,312	615,116
	2)		Changes in inventories of work in progress, semi-finished and finished products	-	140
	3)		Changes in contract work in progress	-	(1,007)
	4)		Increase in assets for work in progress/internal	153	18,580
	5)		Other revenues & income	8,893	2,908
			VALUE OF PRODUCTION	**748,358**	**635,737**
B)			**PRODUCTION COSTS**		
	6)		Raw materials, supplies, consumables and goods	(12,034)	(42,591)
	7)		Services	(572,172)	(592,335)
	8)		Use of third party assets	(13,837)	(13,072)
	9)		*Personnel Costs*		
		a)	Wages and salaries	(111,462)	(112.228)
		b)	Social security contributions	(20,290)	(22,823)
		c)	Provision for staff severance indemnities	(3,400)	(1,696)
		d)	Pension payments and similar obligations	-	(1,234)
		e)	Other costs	(4,900)	(14,721)
	10)		*Depreciation, amortisation and write-downs*		
		a)	Amortisation of intangible assets	(253,560)	(402,265)
		b)	Depreciation of fixed assets	(117,376)	(81,951)
		c)	Other write-downs/amortisation of non-current assets	(4,342)	-
		d)	Depreciation of receivables included in working capital and cash & cash equivalents	(23,293)	(8,481)
	11)		Changes in inventories of raw materials, supplies & consumables	(177)	564
	12)		Risk provisions	(2,242)	(3,045)
	13)		Other provisions	-	(2,000)
	14)		Other operating expenses	(9,104)	(6,086)
			PRODUCTION COSTS	**(1,148,189)**	**(1,303,964)**
(A-B)			**Difference between value of production and costs**	**(399,831)**	**(668,227)**
C)	**15)**		**FINANCIAL INCOME AND CHARGES**		
			Income from investments		
		a)	In subsidiaries	-	-
		b)	In affiliated companies	-	-
		c)	In other companies	-	561
	16)		**Income other than the above**		
		a)	*From receivables listed under non-current assets*		
			From third parties	-	9,738
			From non-consolidated subsidiaries	-	-
			From affiliated companies	619	-
			From parent companies	-	-
		b)	*From securities listed under non-current assets other than equity investments*	4	-
		c)	*From securities listed under working capital other than equity investments*	941	20,156
		d)	*Earnings other than the above*		
			From third parties	70,073	67,762
			From non-consolidated subsidiaries	24,053	-
			From affiliated companies	2,376	-
	17)		**Interest and other financial charges**		
		a)	Due to third parties	(87,932)	(84,385)
		b)	Due to non-consolidated subsidiaries	-	-
		c)	Due to affiliated companies	-	-
		d)	Due to parent companies	-	-
			FINANCIAL INCOME AND CHARGES	**10,134**	**13,832**

Profit and Loss Accounts (continued)

				31.12.2002	31.12.2001
D)			**ADJUSTMENTS IN VALUATION OF LONG-TERM ASSETS**		
	18)		**Revaluations**		
		a)	Of equity investments	-	950
		b)	Of long-term investments other than equity investments	-	-
		c)	Of securities listed under working capital other than equity investments	-	-
	19)		**Write-downs**		
		a)	Of equity investments	(81,088)	-
		b)	Of long-term investments other than equity investments	-	-
		c)	Of securities listed under working capital other than equity investments	-	-
			VALUATION ADJUSTMENTS TO FINANCIAL ASSETS	**(81,088)**	**950**
E)			**EXTRAORDINARY INCOME (CHARGES)**		
	20)		**Extraordinary income**		
		a)	Income	92,122	36,630
		b)	Capital gain on asset disposals	-	108
	21)		**Extraordinary charges**		
		a)	Charges	(209,691)	(1,073,620)
		b)	Capital loss on asset disposals	(1,527)	(138)
		c)	Taxes pertaining to previous years	-	-
			EXTRAORDINARY INCOME (CHARGES)	**(119,096)**	**(1,037,020)**
			Profit (loss) before tax	**(589,881)**	**(1,690,465)**
			Corporate income tax for the financial year		
		a)	Current	(2,796)	(645)
		b)	Deferred	(92)	(446)
			Profit (loss) for the financial year	**(592,769)**	**(1,691,556)**
			(Profit) loss for the period pertaining to third parties	(376)	27,127
			Consolidated profit (loss)	**(593,145)**	**(1,664,429)**

For the Board of Directors
The Chairman

Renato Soru

Tiscali Group

Notes to the Consolidated Accounts

as of 31 December 2002

Form and content of the consolidated annual accounts

1) Criteria used to prepare the accounts

The consolidated annual accounts have been prepared in accordance with article 25 and subsequent articles of Legislative Decree 127/91 and consist of the balance sheet, the profit and loss account and the notes to the accounts (drafted pursuant to article 38 of the aforementioned decree), which constitute an integral part of the annual report and accounts. For ease of comparison, the accounts contain figures for the 2001 financial year, which have been prepared and presented in a manner consistent with those for the year to 31 December 2002.

Annexed to these notes are:

- the consolidated restated balance sheet;
- the consolidated restated profit and loss accounts;
- the consolidated cash flow statement.

2) Basis of consolidation

The consolidated annual accounts of the Tiscali group include the financial statements of the parent company and those of all Italian and foreign companies where Tiscali (either directly or indirectly) controls the majority of votes exercisable at ordinary shareholders' meetings, all companies where an agreement or clause in the articles of association makes Tiscali the dominant shareholder in compliance with applicable legislation, and all companies where Tiscali itself controls a majority of votes thanks to agreements with other shareholders.

The consolidation basis has changed since 31 December 2001 following the continuation of the group's restructuring programme. Additions include new acquisitions and the purchase of the remaining shares in Excite BV, Tiscali Datacomm AG, Tiscali Motoring Srl, and other small Italian subsidiaries not already owned. A number of disposals of group companies were also made, including the Czech subsidiary CD Telekomunikace Sro.

Excluded from the consolidated accounts are all subsidiaries whose financial statements would have no material impact on the values shown, subsidiaries held solely with a view to their future disposal, and all non-operating subsidiaries. Stakes in non-consolidated subsidiaries that constitute non-current assets and stakes held in affiliated companies of a significant size are valued at equity. Affiliated companies are those where Tiscali SpA—either directly or indirectly—controls one fifth of the votes exercisable at ordinary shareholders' meetings or one tenth of the votes if the company is listed on the stock market.

Stakes in companies valued at equity are listed in these notes. Stakes in non-consolidated subsidiaries that constitute non-current assets and stakes in affiliated companies that have no material impact on group results are valued at cost, and are also listed in these notes.

3) Accounting reference date

The consolidated accounts were prepared using the draft financial statements approved by the boards of directors of group companies, or if these were not available, they were based on the accounting data provided by each of the companies in accordance with consolidation procedures.

4) Consolidation principles

The financial statements used for consolidation have been restated and amended as necessary to bring them into line with the accounting principles and valuation criteria of the parent company, which comply with the rules set out in article 2423 and subsequent articles of the Italian civil code, and the accounting principles recommended by CONSOB.

The accounts of the companies included in the consolidation base are reported using the line by line method method. The following adjustments were made for consolidation purposes:

a) the book value of stakes held in consolidated companies is eliminated in respect of the corresponding proportion of shareholders' equity;
b) any negative differences that are not the result of adverse forecasts are booked under the consolidation reserve shown on the "Statement of changes in shareholders' equity"; any positive differences are booked under assets as a consolidation difference;
c) profits and losses arising from transactions carried out between group companies and still listed in the financial statements are eliminated, as are any credits, debits, costs, revenues and any transactions conducted between consolidated companies;
d) any write-downs or provisions made solely for tax purposes are eliminated;
e) minorities and net profit attributable to minorities are listed separately under the appropriate items on the consolidated balance sheet and profit and loss accounts.

5) Translation of items denominated in foreign currency

Balance sheet items not denominated in euro are converted at the exchange rate in force at the end of the financial year. Items on the profit and loss account are converted into euro at the average exchange rate for the financial year. Any differences between the results for the financial year calculated using average exchange rates and those obtained using year-end exchange rates, and any changes in the value of assets/liabilities resulting from fluctuations in exchange rates during the financial year are recorded under shareholders' equity on the "Currency translation reserve" line. Detailed information on the currencies used in the preparation of the consolidated annual accounts is appended to these notes.

6) Accounting policies

a) General criteria

Accounting principles and valuation criteria have been applied in a uniform manner to all consolidated companies. The valuation criteria adopted in preparing the consolidated annual accounts are the same as those used by the parent company Tiscali SpA, and conform to those stipulated in the aforementioned prevailing regulations. These criteria have been integrated and interpreted in accordance with the accounting principles issued by the national association of Italian chartered accountants (Consiglio Nazionale dei Dottori Commercialisti), supplemented by IFRS accounting principles (International Financial Reporting Standards) where appropriate. The criteria adopted are the same as those applied in the preparation of the accounts for the previous year, including with regard to valuation principles and continuity in applying the said principles. The valuation of balance sheet items was performed based on general criteria of prudence and diligence, on a going concern basis. For the purposes of accounting entries, the economic substance of transactions prevails over their legal form. Investments are therefore booked at the time of payment. Profits are included only if they accrue within the period under review, while provision is made for risks and losses that may come to light at a later date. Miscellaneous items included under single accounting entries have been valued separately. Assets destined for long-term use have been listed under non-current assets.

b) Write-downs and write-backs

The value of fixed and intangible assets whose useful life is limited over time are written down respectively through depreciation and amortisation charges. These fixed and intangible assets, and any other assets, are written down each time a permanent loss of value is noted; but if the reasons for the loss of value are considered no longer applicable, then the original value is re-established. The method for calculating depreciation and amortisation charges is explained separately in these notes.

c) Revaluations

To date, no revaluations have been made.

d) Exceptions

No exceptions to the valuation criteria set out in the legislation pertaining to consolidated financial statements have been made in this, or any other financial year.

e) Accounting entries made solely in application of tax laws

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

Key principles and criteria

f) Intangible assets

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

Research, development and advertising costs are posted under the appropriate line item under "Assets" and amortised over a five-year period starting from the financial year in which they were incurred, since such costs may generate profits over a number of years.

Industrial property rights and intellectual property rights are recorded at their acquisition cost and amortised systematically in accordance with the period of use established by the agreement. Under no circumstances shall the amortisation period exceed five years from the financial year in which the costs were incurred.

Licenses, trademarks, patent rights and similar are also recorded at their acquisition cost and amortised systematically in accordance with the period of use established by the agreement. Under no circumstances shall the amortisation period exceed five years from the financial year in which the costs were incurred. Intangible assets are recorded at their purchase or internal production cost, including any additional charges, and amortised in fixed amounts.
Goodwill is recorded only on assets acquired for a substantial amount, within the limits of the costs incurred, and amortised over a period not exceeding the duration of the asset's use. Where this cannot be estimated, goodwill on such assets shall be amortised over a period not exceeding five years.

Consolidation differences are recorded on the consolidated financial statements when the book value of a stake held in a company is offset against the group's share of the shareholders' equity of the subsidiary/affiliated company in question. Any significant positive balance not attributable to single entries under the assets of consolidated companies is recorded as an adjustment to the value of consolidated shareholders' equity, or, when the necessary requirements are met, booked under "Consolidation difference" on the asset side of the balance sheet and amortised over the period in which it is expected to produce economic benefits, up to a maximum of ten years.

Maintenance and upgrade costs on fixed assets belonging to third parties are included under "Other intangible assets" and amortised systematically either over the estimated useful life of the asset or the remaining term of the lease, whichever is the shorter.

Non-current assets whose market value at the end of the financial year suffers a permanent reduction versus the acquisition cost, and are amortised in accordance with the above criteria, are written down until the value shown corresponds to their market value. Should the reasons for the loss of value cease to apply, the cost is written back.

g) Fixed assets and depreciation

Fixed assets are recorded at purchase or production cost, including any additional charges. Depreciation is calculated on the basis of cost and the estimated residual useful life of the asset.

Routine maintenance expenses are charged to the profit and loss account in full. Maintenance expenses of an incremental nature are attributed to the asset to which they refer and depreciated over the estimated residual useful life of the asset.

Depreciation rates are unchanged from the previous financial year, and are generally in line with those of the parent company:

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

When an asset is purchased during a financial year, depreciation charges on the asset are reduced by 50 per cent for that year. This accounting approach is deemed to provide a reasonable approximation of the time distribution of asset purchases over the year.

Fixed assets obtained through financial leasing agreements are posted under the relevant line of fixed assets, and are systematically depreciated in the same manner as fixed assets owned by the group, based on their estimated residual useful life. Short-term and medium-term debts payable to the leasing organisation are booked as offsetting entries under the entry for the appropriate fixed assets. Leasing payments are written off against rental expenses on assets owned by third parties and interest charges for the financial year booked under financial charges. This ensures that financial leasing operations are represented in accordance with the methodology established under IAS 17.

h) Long-term investments

Stakes held in non-consolidated subsidiaries and affiliated companies:

Non-current assets consisting of investments in non-consolidated subsidiaries and affiliated companies are valued at equity, i.e. booked in proportion to the group’s share of the net assets of the company as shown on its accounts for the previous year, after deduction of dividends and application of adjustments required under the regulations pertaining to consolidated financial statements.

Capital gains or losses resulting from application of the equity method are booked on the profit and loss account under “Revaluations of equity investments” and “Write-downs of equity investments” respectively.
Long-term investments in the form of loans are valued at their estimated realisable value.

Stakes held in other companies and long-term securities:

Other stakes held in companies and long-term financial investments are valued at cost. In the event of a permanent loss of value, including a drop in the market price of listed securities, the value of shareholdings and securities is written down accordingly. Should the reasons for the loss of value cease to apply, the pre- write-down value is restored in the accounts for the year.

i) Inventories

Raw materials, work in progress and finished products:

Inventories are valued at the lower of purchase cost and estimated market value. Inventories of obsolete or slow turnover goods are written down according to their use and/or sale potential.

l) Receivables

Receivables are booked at their estimated realisable value. This value is obtained by direct write-down of the receivables, performed on a case-by-case basis for large items and on a lump-sum basis for other items.

m) Investments other than non-current assets

Stakes held in subsidiaries and affiliated companies intended for future disposal are valued at historical cost or market value, whichever is the lower. Other shareholdings and securities are valued at the lower of their purchase cost and market value (based on prevailing stock market prices).

n) Accruals and deferrals

Accruals and deferrals include only the proportion of earnings and charges for the financial year that will be booked in subsequent financial years, and the proportion of revenues and expenses accruing or incurred before the close of the financial year but that will fall due in subsequent financial years. At no time shall this account include portions of revenues and expenses spread over two or more financial years, the amount of which varies over time.

o) Reserves for risks and future liabilities

Reserves for risks and future liabilities are intended to provide cover for company liabilities of a certain type, that are likely or certain to be incurred, for which the amount or period of application are not known at the end of the financial year.

p) Corporate income tax

Corporate income tax is calculated on the basis of the taxable income of each consolidated company under the current tax laws of the respective countries.

In the interests of caution, tax credits resulting from tax loss carry forwards are not booked in the accounts.

q) Staff severance indemnity reserve

The staff severance indemnity reserve provides cover for amounts payable and reserves in respect of commitments to employees under current legislation, employment contracts or any company agreement in force in any country in which the consolidated group operates that expires at the close of the financial year in question.

r) Payables

Payables are recorded at nominal value.

s) Risks, commitments and guarantees

Commitments and guarantees are included in the memorandum accounts at their contractual value. The risks deemed most likely to generate a liability are described in the notes, and an allocation to the risk funds is made as appropriate. Those risks deemed to represent only a possible liability are described in the notes, without allocation to a specific risk fund, in line with standard accounting criteria. Remote risks are not taken into consideration.

t) Recording of revenues, income, costs and charges

Revenues and income, and costs and charges are recorded in the accounts net of returns, discounts, rebates and bonuses, and net of taxes linked directly to the sale of services. Financial income is posted on the basis of pro-tempore accounting principles.

u) Recording of foreign currency amounts

Receivables and payables in foreign currencies are adjusted to the exchange rates in force at the end of the period, taking into account any hedging agreements that may exist. Profits and losses deriving from exchange rate fluctuations are booked to the profit and loss account as receivables or payables.

CURRENCY	ISO CODE	FINAL	AVERAGE
Swiss franc	CHF	1.452400	1.470719
Czech koruna	CSK	31.577000	30.787076
Danish krone	DKK	7.428800	7.430543
Euro	EUR	1.000000	1.000000
British pound	GBP	0.650500	0.633128
Hungarian forint	HUF	236.290000	236.070000
Icelandic krona	ISK	84.740000	84.920000
Norwegian krone	NOK	7.275600	7.486569
Polish zloty	PLZ	4.021000	3.985800
Swedish krona	SEK	9.152800	9.144464
US dollar	USD	1.048700	0.992200
South African rand	ZAR	9.009400	9.767382

ANALYSIS OF BALANCE SHEET ITEMS

Assets

(EUR 000)

A) Receivables from shareholders in respect of unpaid capital contributions

DUE FROM SHAREHOLDERS FOR CAPITAL CONTRIBUTIONS PAYABLE	31.12.2002	31.12.2001	CHANGE
Portion called up	-	80	(80)
Portion not called up	28	154	(126)
Total	**28**	**234**	**(206)**

B) Non-current assets

I – Intangible assets

Changes in intangible assets are shown below:

INTANGIBLE ASSETS	31.12.2001	INCREASE	DECREASE	OTHER CHANGES	AMORTISATION	31.12.2002
Start-up and expansion costs	9,172	-	-	(69)	(3,822)	5,281
Research, development and advertising costs	44,881	-	-	(3,835)	(3,046)	38,000
Industrial patent rights and intellectual property rights	4,686	2,477	(472)	(23)	(2,982)	3,686
Concessions, licenses, trademarks and similar rights	63,084	79,100	(1,566)	23,631	(22,316)	141,933
Goodwill	-	-	-	240	(80)	160
Payments on account and intangible assets in course of acquisition	16,873	18,030	(3,903)	(24,839)	-	6,161
Other intangible assets	46,920	3,461	-	(32,708)	(4,668)	13,005
Consolidation difference	685,084	158,596	(86,047)	-	(216,646)	540,987
Total	**870,700**	**261,664**	**(91,988)**	**(37,603)**	**(253,560)**	**749,213**

The "Start-up and expansion costs" line relates to the parent company Tiscali SpA and includes the long-term cost of capital increases and start-up costs. The start-up costs, which accrued mainly in 1999, include the cost of starting the network roll-out process (installation and data centre activation) and of the launch campaign for the TiscaliFreenet internet access service.

The "concessions, licenses, trademarks and others" line relates mainly to investments in software and the associated implementation costs, and shows an increase of approximately EUR 79m relative to 31 December 2001, mainly due to the purchase of user licenses for software that will be used in the management of the new technological platform for network access and management systems, and for IT systems covering billing and administration. This line item also includes the rights of affiliated company Tiscali International Network SA to purchase transmission capacity on a multi-year basis.

Other non-current assets rose due to the changes in consolidation area. The "Other movements" column mainly includes the restatement of non-current assets in course of acquisition as concessions, licenses, trademarks and similar rights of around EUR 23m, and the restatement of other intangible assets of around EUR 5m as R&D and advertising costs.

Details of consolidation differences are shown below:

CONSOLIDATION DIFFERENCE	31.12.2001	INCREASE	DECREASE	OTHER CHANGES	AMORTISATION	31.12.2002
Tiscali SpA (*)	489,465	40,034	(37,142)	-	(141,553)	350,804
Tiscali International BV	138,154	101,566	(43,904)	-	(61,408)	134,408
Liberty Surf Group SA	54,439	5,796	(5,001)	-	(10,659)	44,575
Tiscali Deutschland GmbH	3,026	11,200	-	-	(3,026)	11,200
Total	**685,084**	**158,596**	**(86,047)**	**-**	**(216,646)**	**540,987**

(*) Consolidation difference pertaining to the parent company

The consolidation difference arising from the consolidation of subsidiaries by the global integration method is generally amortised over five years, or up to a maximum period of ten years, starting from the purchase date of the subsidiaries and according to their sector.

Increases in the consolidation difference last year are a result of the company purchasing the remaining stakes in subsidiaries that it did not already own (30% of Excite BV; 20% of Czech CD Telekomunikace Sro in April 2002; and 20% of Switzerland Tiscali Datacomm AG), and the acquisition of other small companies or divisions.

Decreases were mainly due to the disposal of Czech CD Telekomunikace Sro at the end of 2002, and the restatement of goodwill in respect of the Tiscali UK Ltd subsidiary.

In 2002, a consolidation difference of around EUR 63m relating to write-downs made in 2001 was written back in respect of the subsidiary Tiscali UK Holding plc. The write-back was required following the change in the group's business plan, under which subsidiaries are now valued by the DCF method. In addition, the performance of the UK subsidiaries improved markedly in 2002, as did prospects on the UK market. This meant that the reason for a large proportion of the write-down made in the previous financial year no longer applied. In the interests of caution, the write-back was attributed directly to shareholders' equity.

The consolidation differences relating to group companies are shown below:

COMPANY	DIFFERENCE AT 31.12.2002
Cz Com S.r.o.	547
Tiscali Denmark A/S	304
Tiscali Oy	1
Tiscali Ab	1,134
Tiscali Espana SA	1,284
Quinary S.p.A.	1,654
STS Studi Tecnologie Sistemi S.p.A.	1,175
Excite Italia BV	3,854
Ideare S.p.A.	2,071
Tiscali Motoring S.r.l.	70
Tiscali Österreich Gmbh	1,927
Tiscali Datacomm Ag (Datacomm Ag)	20,705
Tiscali GmbH	11,200
Tiscali Deutschland Gmbh	60,726
Ovni Web Sa	357
Objectif Net Sa	600
Infonie Promotions	9,505
Tiscali Telecom SA (Ex Liberty Surf Telecom Sa)	14,549
Intercall SA	20,337
Liberty Surf Group Sa	43,482
Liberty Surf Sa	4,227
Tiscali Holdings UK Plc. / Tiscali UK Ltd	113,576
World Online Telecom Ltd.	4,952
World Online International Nv	207,932
Tiscali B.V.	1,300
E-Trade B.V.	8,821
Vodacom World Online Ltd.	4,697
Total consolidation difference	**540,987**

II – Fixed assets

A summary of the changes in the historical cost of fixed assets is given below:

FIXED ASSETS

GROSS VALUE	31.12.2001	INCREASE	DECREASE	OTHER CHANGES	AMORTISATION	31.12.2002
Land and buildings	56,762	3,423	(38,474)	(6,896)		14,815
Plant and machinery	62,039	108,277	(85,065)	292,680		377,931
Industrial and commercial equipment	321,646	42	-	(320,004)		1,684
Other fixed assets	44,390	11,148	(7,521)	88,162		136,179
Payments on account and tangible assets in course of acquisition	55,738	7,794	(1,953)	(51,997)		9,582
Total	**540,575**	**130,684**	**(133,013)**	**1,945**	**-**	**540,191**

ACCUMULATED DEPRECIATION	31.12.2001	INCREASE	DECREASE	OTHER CHANGES	AMORTISATION	31.12.2002
Land and buildings	3,689	3	-	(1,339)	1,238	3,591
Plant and machinery	21,247	395	(13,911)	68,324	77,413	153,468
Industrial and commercial equipment	120,152	-	-	(119,438)	333	1,047
Other fixed assets	9,326	-	(5,851)	53,007	38,392	94,874
Payments on account and tangible assets in course of acquisition	-	-	-	-	-	-
Total	**154,414**	**398**	**(19,762)**	**554**	**117,376**	**252,980**

NET VALUE	31.12.2001	INCREASE	DECREASE	OTHER CHANGES	AMORTISATION	31.12.2002
Land and buildings	53,073	3,420	(38,474)	(5,557)	(1,238)	11,224
Plant and machinery	40,792	107,882	(71,154)	224,354	(77,413)	224,461
Industrial and commercial equipment	201,494	42	-	(200,567)	(333)	636
Other fixed assets	35,064	11,148	(1,670)	35,156	(38,392)	41,306
Payments on account and tangible assets in course of acquisition	55,738	7,794	(1,953)	(51,997)	-	9,582
Total	**386,161**	**130,286**	**(113,251)**	**1,389**	**(117,376)**	**287,209**

The total value of net fixed assets at 31 December 2002 was EUR 287m, an increase of EUR 130m before depreciation, on end-2001. The increase mostly relates to investments in networks, servers and equipment used in the provision of internet access services.

The “Land and buildings” line includes the purchase of land acquired for the construction of the new parent company headquarters in Cagliari. The part of the building already completed is booked under “Payments on account and tangible assets in course of acquisition”, at approximately EUR 9.6m. During the first quarter of the year, the sale of a building in Denmark resulted in a EUR 39m reduction in the “Land and buildings” figure.

The “Plant and machinery” line largely includes dedicated equipment and networks, routers, servers and telephone centres that make up most of the tangible fixed assets. The item shows an increase due to investment in upgrading network and access infrastructure.

In a change from the previous year, all communications and network equipment, routers, servers and telephone centres are now listed under "Industrial and commercial equipment", with the aim of listing fixed assets in more detail. The change is shown in the "Other changes" column.

The "Other fixed assets" line mainly includes furnishings, IT and office equipment and vehicles.

A EUR 53m reduction in "Payments on account and tangible assets in course of acquisition" was due to the disposal of CD Telekomunikace Sro, whose fibre optic network under construction was previously listed under this item.

III – Long-term investments

The breakdown of long-term investments is as follows:

LONG-TERM INVESTMENTS	31.12.2002	31.12.2001	CHANGE
Investments			
Investments in non-consolidated subsidiaries	288	1,837	(1,549)
Investments in affiliated companies	185	10,611	(10,426)
Investments in parent companies	-	-	-
Investments in other companies	12,687	30,552	(17,865)
Receivables	**26,714**	**2,564**	**24,150**
Total	**39,874**	**45,564**	**(5,690)**

Equity investments in consolidated and non-consolidated subsidiaries are valued at equity. These mainly include stakes held by Tiscali SpA in non-consolidated subsidiaries.

Equity investments in other companies are valued at cost, and are among the smallest stakes held by Tiscali SpA.

The item "Investments in other companies" mainly includes the 0.3% stake in H3G SpA, a 3G mobile operator, acquired by Luxembourg-based Tiscali Finance for EUR 12,5m.

The change versus the previous year relates to equity investments that were fully written off, either after their disposal or because they are no longer consolidated.

Receivables from non-consolidated subsidiaries increased following the disposal of CD Telekomunikace Sro, which owes EUR 25.3m to the parent company. On 18 December 2002, an agreement was signed with Eurolight Associates Limited for the purchase of 100% of CD Telekomunikace Sro. The terms of the loan to th e subsidiary depend on fulfilment of certain conditions, including the transfer of ownership of CD Telekomunikace Sro to Eurolight Associates Limited.

C) Current assets

I - Inventories

At 31 December 2002 the group's inventories were worth EUR 6.7m and consisted mainly of network equipment, consumables, telephone cards, goods for resale by the company's merchandising business, and modems. The reduction in the value of inventories reflects the use of assets as well as adjustments to the book value of the assets.

II – Receivables

Receivables break down as follows:

RECEIVABLES	31.12.2002	31.12.2001	31.12.2002	31.12.2001
	12 months		12 months	
Trade receivables	190,572	244,614	-	713
From non-consolidated	830	659	-	-
from affiliated companies	-	-	-	-
From parent companies	-	-	-	-
Other	36,042	96,482	2,589	5,075
Total	**227,444**	**341,755**	**2,589**	**5,788**

At 31 December 2002 receivables from customers totalled EUR 190.6m, after write-down provisions of EUR 57.2m. These receivables accrued from the sale of internet services, consisting mainly of the invoicing of network access services, invoicing of usage-based fees for traffic generated by Tiscali subsidiaries on third-party fixed lines, advertising revenues and business-to-business and telephone services provided by the group. The reduction in the value of this line reflects the group's stringent efforts to collect outstanding receivables, and the introduction of its new billing platform in certain countries, which also delivered higher revenues.

To allow receivables to be booked at their estimated realisable value, an "ad hoc" reserve for bad debts has been established. This reserve was adjusted during the year, in the interests of caution.

A breakdown of other receivables is shown below:

OTHER RECEIVABLES	31.12.2002	31.12.2001	CHANGE
advances to employees	57	7	50
for VAT refunds	-	828	(828)
VAT credits	29,456	62,621	(33,165)
for corporate income tax refunds	9,071	3,602	5,469
deposits	-	788	(788)
other	47	33,711	(33,664)
Total	**38,631**	**101,557**	**(62,926)**

Receivables for corporate income tax refunds include a tax credit for dividends accrued during the year. The VAT credits include requests for tax to be refunded on investments.

Receivables for VAT refunds and other receivables were reduced in relation to the credits collected during the year.

III – Investments other than non-current assets

Other securities constituting current assets are as follows:

INVESTMENTS OTHER THAN NON-CURRENT ASSETS	31.12.2002	31.12.2001	CHANGE
Bonds	-	40,272	(40,272)
Other	124,187	122,682	1,505
Total	**124,187**	**162,954**	**(38,767)**

"Other securities" include the investment of liquid assets in securities and other forms of short-term investment, and are mainly listed in the accounts of Tiscali International BV, Liberty Surf Group SA, Tiscali Finance and Tiscali Datacomm. Other investments other than non-current assets include around EUR 50m in deposits in respect of guarantees given by group companies.

IV – Cash and cash equivalents

CASH AND CASH EQUIVALENTS	31.12.2002	31.12.2001	CHANGE
Bank and post office deposits	209,564	384,862	(175,298)
Cheques	3	-	3
Cash and other negotiable instruments	3	19	(16)
Total	**209,570**	**384,881**	**(175,311)**

The balance of cash and cash equivalents is mainly attributable to Liberty Surf Group SA and Tiscali Finance SA. Please see the Report on Operations for details of changes to the overall financial position.

D) Accrued income and deferred charges

Accrued income and deferred charges break down as follows:

ACCRUED INCOME AND DEFERRED CHARGES	31.12.2002	31.12.2001	CHANGE
Accrued income			
Accrued rentals	184	-	184
Accrued bank interest	684	-	684
Contributions	-	115	(115)
Other accrued income	12,754	163	12,591
	13,622	**278**	**13,344**
Deferred charges			
Insurance premiums	-	811	(811)
Leasing and licenses	58	10,681	(10,623)
Rentals	97	3,569	(3,472)
Pre-paid expenses	28,084	29,305	(1,221)
Pre-paid interest	11	-	11
	28,250	**44,366**	**(16,116)**
Total	**41,872**	**44,644**	**(2,772)**

"Other accrued income" includes other advertising costs of EUR 4.3m.

Under deferred charges, "Other pre-paid expenses" mainly refers to several years rental of international circuits held by Tiscali International Network SA (formerly Nets SA), hardware and software maintenance fees (one of the most frequent pre-paid expenses in the sector), pre-paid rentals for connectivity circuits and sponsorship costs.

Liabilities

A) Shareholders' equity

Statement of changes in shareholders' equity

The table below sets out changes in shareholders' equity.

SHAREHOLDERS' EQUITY	31.12.2001	INCREASE	CAPITAL DISTRIBUTION	TRANSFER	EXCHANGE DIFF.	31.12.2002
Group						
Share capital	179,209	1,658	-	-	-	180,867
Share premium reserve	2,654,963	19,142	-	(1,041,209)	-	1,632,896
Currency translation reserve (group)	17,692	-	-	-	(46,305)	(28,613)
Subsidiaries' undistributed profits (losses) and other reserves	(61,156)	-	-	(514,821)	-	(575,977)
Consolidation reserve	-	-	-	-	-	-
Other reserves	-	-	-	-	-	-
Retained earnings (losses carried forward)	-	-	-	-	-	-
Profit (loss) for the year	(1,664,429)	(593,145)	-	1,664,429	-	(593,145)
Total Shareholders' Equity	**1,126,279**	**(572,345)**	**-**	**108,399**	**(46,305)**	**616,028**
Minorities	(18,336)	-	-	34,645	-	16,309
Total Shareholders' Equity	**1,107,943**	**(572,345)**	**-**	**143,044**	**(46,305)**	**632,337**

Changes in shareholders' equity, especially the figures listed in the "Increase" column refer to capital increases carried out by the parent company during the year.

In addition, EUR 1,041m of the share premium reserve was used to cover losses made in the 2001 financial year, as approved at the extraordinary shareholders' meeting of Tiscali SpA held on 30 April 2002.

The currency translation reserve varies according to the euro/sterling exchange rate.

The decrease in subsidiaries' undistributed profits (losses) and other reserves is attributable to losses not covered by the share premium reserve pertaining to subsidiaries, which were the result of write-downs made in 2001.

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

SUMMARY COMPARISON OF PARENT COMPANY AND CONSOLIDATED ACCOUNTS				
	31.12.2002		31.12.2001	
	Net profit	Net equity	Net profit	Net equity
Balances: Tiscali SpA	**(152,297)**	**1,661,466**	**(1,041,208)**	**1,792,964**
Elimination of effects of transactions between consolidated companies, after tax adjustments:				
- Internal profits on investments	-	-	-	(1,183)
- Write-off of write-downs of stakes held in subsidiaries	935	-	920,439	-
- Dividends paid by consolidated group companies	-	-	(27)	-
Effect of the change and harmonisation of group valuation criteria, after tax adjustments:				
- Harmonisation of accounting policy on intangibles	12,372	-	-	-
- Application of financial method for assets leased from third parties	(330)	19,064	11,557	14,681
- Valuation at equity of companies listed on the balance sheet at cost	(9,054)	(8,627)	950	(397)
Book value of consolidated equity investments	-	(2,072,766)	-	(2,089,088)
Shareholders' equity and net profit (loss)	(373,674)	567,765	(911,133)	1,196,180
Attribution of differences to the assets of consolidated companies	-	-	-	-
and related depreciation and amortisation:	-	-	-	-
- Goodwill	(127,613)	540,987	(368,253)	489,465
Other adjustments:	-	-	-	-
- Group restructuring and other adjustments	56,516	(91,861)	(28,492)	(28,081)
BALANCE VS THE CONSOLIDATED ACCOUNTS - group	**(593,145)**	**616,028**	**(1,664,429)**	**1,126,279**
BALANCE VS THE CONSOLIDATED ACCOUNTS - minorities	**376**	**16,309**	**(27,127)**	**(18,336)**
BALANCE VS THE CONSOLIDATED ACCOUNTS	**(592,769)**	**632,337**	**(1,691,556)**	**1,107,943**

B) Reserves for risks and future liabilities

This reserve consists of:

RESERVES FOR RISKS AND FUTURE LIABILITIES	31.12.2001	PROVISIONS	DRAWDOWN	OTHER CHANGES	31.12.2002
Pension provisions and similar obligations	-	-	-	-	-
Tax reserve	83	17	-	-	100
Exchange fluctuation reserve	252	8	(252)	-	8
Provision for future risks and expenses	39,202	2,217	(21,368)	-	20,051
Total	**39,537**	**2,242**	**(21,620)**	**-**	**20,159**

Reserves mainly cover the estimated cost of future restructuring, both at operational companies and companies being shut down.

During the year, the reserve for future risks and expenses was used to cover costs incurred by the German subsidiaries that were provisioned as of 31 December 2001 by the parent company. Other provisions were attributable to the parent company and relate to charges that will apply in future years, but which were generated in 2002.

C) Staff severance indemnity reserve

The table below sets out changes for the year:

STAFF SEVERANCE INDEMNITY RESERVE	31.12.2001	PROVISIONS	DRAWDOWN	OTHER CHANGES	31.12.2002
Manual workers	-	6	-	-	6
Office staff	2,417	3,281	(82)	1,107	6,723
Middle managers	-	-	-	-	-
Senior managers	174	113	(14)	-	273
Total	**2,591**	**3,400**	**(96)**	**1,107**	**7,002**

This item mainly applies to the parent company, Italian subsidiaries and French subsidiary Liberty Surf Group SA. Other changes related to the restatement of the Liberty Surf Group SA fund are listed under “Other payables”.

D) Payables

Breakdown

PAYABLES	31.12.2002	31.12.2001	CHANGE
Bonds	409,211	375,294	33,917
Convertible bonds	-	-	-
Due to banks	59,306	30,362	28,944
Other short-term financing	62,929	63,445	(516)
Payments on account	-	663	(663)
Trade payables	306,676	352,114	(45,438)
Credit instruments payable	-	-	-
Due to subsidiaries	4,482	95,018	(90,536)
Due to non-consolidated subsidiaries	468	6,103	(5,635)
Due to parent companies	-	-	-
Tax	32,375	31,136	1,239
Due to social security agencies	10,726	6,675	4,051
Other payables	12,116	71,926	(59,810)
Total	**898,289**	**1,032,736**	**(134,447)**

PAYABLES	31.12.2002	31.12.2001	31.12.2002	31.12.2001
	Falling due within 1 yr		Falling due after 1 yr	
Bonds	9,211	125,294	400,000	250,000
Convertible bonds	-	-	-	-
Due to banks	46,846	30,355	12,460	7
Other short-term financing	15,988	19,592	46,941	43,853
Payments on account	-	663	-	-
Trade payables	306,676	352,114	-	-
Credit instruments payable	-	-	-	-
Due to group companies	4,482	-	-	95,018
Due to non-consolidated subsidiaries and affiliated companies	468	6,103	-	-
Due to parent companies	-	-	-	-
Tax	20,892	31,136	11,483	-
Due to social security agencies	10,726	6,675	-	-
Other payables	3,117	55,043	9,025	16,883
Total	**418,406**	**626,975**	**479,909**	**405,761**

"Bonds" (EUR 409m) include bonded loans contracted by Tiscali Finance in the last six months of 2000 and those contracted by Tiscali International BV to fund the acquisition of Telinco UK. The loan contracted by Tiscali Finance has a total value of EUR 400m and is due to be repaid in a lump sum after five years. The first tranche of EUR 150m is due for repayment on 12 July 2004, with the remainder falling due on 7 July 2005. The terms of the loan agreement include a debt limit of two times consolidated net equity. The Telinco loan is posted under short-term payables and due to be repaid by the end of the financial year, although it may be rolled over. Interest accrues at Euribor plus a variable spread. Swap contracts have been entered into to hedge against interest rate risk.

Payables to banks include an overdraft and long-term financing for the construction of the new “Sailletta” headquarters in Cagliari.

Trade payables mainly refer to the provision of services for content, and telephone and traffic data. The decrease is attributable to an improvement in the group’s credit terms.

Payables to group companies relate to non-consolidated subsidiaries and affiliated companies, and total EUR 4.5m. This figure is lower than in the previous year, as the amount for the future capital increase of around EUR 63m to be carried out by Tiscali UK Ltd in respect of Liberty Surf Communication Ltd and Liberty Surf Media Ltd no longer applies, and as a result of the settlement of outstanding payables accounting for the remainder.

Other short-term financing relates mainly to the debt principal deriving from the restatement of financial leasing contracts pursuant to IAS 17.

Note that payables due in more than five years total EUR 12m, and relate to the part of the loan already drawn down for the construction of the new headquarters.

Taxes payable break down as follows:

TAX PAYABLES	31.12.2002	31.12.2001	CHANGE
Corporate income tax	2,405	406	1,999
Tax on property	12,856	-	12,856
VAT payables to tax authority	10,363	2,374	7,989
Tax deduction payables to tax authority	1,264	4,431	(3,167)
Tax deduction on employees payables to tax authority	5,446	-	5,446
Other tax payables	41	23,925	(23,884)
Total	**32,375**	**31,136**	**1,239**

Other payables break down as follows:

OTHER PAYABLES	31.12.2002	31.12.2001	CHANGE
Directors’ remuneration	585	166	419
Staff wages and salaries	1,752	4,185	(2,433)
Staff holidays	-	3,170	(3,170)
Other liabilities	9,805	64,405	(54,600)
Total	**12,142**	**71,926**	**(59,784)**

E) Accrued liabilities and deferred income

Accrued liabilities and deferred income break down as follows:

ACCRUED LIABILITIES AND DEFERRED INCOME	31.12.2002	31.12.2001	CHANGE
Accrued liabilities			
Rent liabilities	1,311	-	1,311
Bank interest liabilities	78	280	(202)
Accrued compensation	3,101	535	2,566
Accrued holiday pay allowance	2,906	-	2,906
Other accrued expenses	59,288	20,508	38,780
	66,684	**21,323**	**45,361**
Deferred income			
Rentals	35,779	30,476	5,303
Pre-paid internet services	465	-	465
Pre-paid voice services	-	9,443	(9,443)
Bank interest earned	30,764	14,708	16,056
Financing rate premium	-	1,776	(1,776)
	67,008	**56,403**	**10,605**
Total	**133,692**	**77,726**	**55,966**

Accrued liabilities mainly consist of operating expenses, such as payments for content, network access costs, consultancy fees and line rental costs, chiefly from the UK subsidiaries.

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

PROFIT AND LOSS ACCOUNTS

A) Value of production

Breakdown of value of production

REVENUES FROM SALES AND SERVICES	31.12.2002	31.12.2001	CHANGE
Access revenues	517,218	409,323	107,895
Voice revenues	51,790	54,386	(2,596)
Business revenues	106,503	85,347	21,156
Portal revenues	47,882	64,935	(17,053)
Other revenues	24,965	21,746	3,219
Total	**748,358**	**635,737**	**112,621**

The EU accounts for most of the group's revenues, and the main contributor is the ISP business. In 2002, access revenues rose by EUR 108 million (+18%), and represented 69% of the total. B2B services contributed 14.2%, followed by voice and advertising revenues with 6.9% and 6.4% respectively. Business revenues increased significantly following changes in the consolidation base.

During the year, the group focused on developing its access and B2B packages, as these products offer high gross margins and excellent growth prospects. A key driver for the access business is the sale of ADSL subscriptions, which the group promoted with a major pan-European marketing campaign in the last quarter of 2002.

A breakdown of revenues by region is shown below:

REVENUES BY REGION	31.12.2002	31.12.2001	CHANGE
EU	696,154	606,716	89,438
Non-EU	52,204	29,021	23,183
Total	**748,358**	**635,737**	**112,621**

Non-EU revenues are mainly generated in the Czech Republic, South Africa and Switzerland.

B) Production costs

Purchases of raw materials, supplies, consumables and other goods

Purchases of raw materials, supplies, consumables and other goods include the cost of consumables and equipment for pre-pay telephone cards, goods intended for resale and modems.

Breakdown of costs for the provision of services

COST ITEMS: SERVICES	31.12.2002	31.12.2001	CHANGE
Leased lines	150,356	209,425	(59,069)
Traffic acquisition	107,375	166,603	(59,228)
Installation	345	-	345
Content	13,086	-	13,086
Portal services	7,795	-	7,795
Call centre	20,462	-	20,462
Other direct costs	67,183	-	67,183
Advertising and promotions	118,356	100,380	17,976
Maintenance	19,930	16,877	3,053
Cost of sales	2,671	18,006	(15,335)
Utilities	4,119	7,787	(3,668)
Bank and postal charges	2,458	1,528	930
Transport expenses	74	6,639	(6,565)
Travel expenses	8,617	-	8,617
Insurance expenses	1,492	-	1,492
Other services	22,150	44,098	(21,948)
Other professional services	25,703	20,992	4,711
Total	**572,172**	**592,335**	**(20,163)**

This table has been expanded in the 2002 accounts. Figures for items not shown in 2001 are therefore given as zero.

The most important cost elements for the provision of services are described below:

Leased lines. This is a standard cost item in the sector that is incurred by all subsidiaries. In 2002 it accounted for 26.3% of the total cost of service provision and 20% of total revenues. These costs fell substantially versus the previous year thanks to the extension of the proprietary network. In addition, the group's restructuring has already delivered significant savings, with no change in transmission capacity. The weighting of these costs is expected to fall further as revenues increase.

Traffic acquisition costs were EUR 107m million in 2002, and relate directly to voice revenues and the type of internet connection sold. These are variable costs. This item has fallen sharply due to the expansion of the proprietary network as well as savings made during the year. The largest proportion of these costs is incurred in France, where the group and Liberty Surf Telecom acquired control of Intercall SA (a pre-pay phone service specialist), in Italy, where the group has traditionally offered telephone services, and in the UK.

Advertising and promotional costs. These costs, which account for approximately 20.7% of the total cost of service provision and 16% of total revenues, have increased considerably owing to the re-branding campaign designed to boost awareness of the Tiscali brand throughout Europe.

Maintenance costs of around EUR 19.9m mostly consist of regular fees for the maintenance of network equipment and software. The increase in maintenance costs relative to the previous financial year is a direct consequence of the group's increased investments.

Advisory and professional services. This item was affected by the group's operational and corporate restructuring, which involved substantial legal costs.

Breakdown of other operating expenses

OTHER OPERATING EXPENSES	31.12.2002	31.12.2001	CHANGE
Government & telecommunications licenses	257	978	(721)
Taxes others than corporate income tax	-	349	(349)
Subscriptions to magazines and newspapers	33	33	-
Other non-extraordinary transactions	5,052	4,057	995
Other minorities charges	3,762	669	3,093
Total	**9,104**	**6,086**	**3,018**

This item mainly consists of telephone license costs in Italy and France, plus other minor expenses.

C) Financial income and charges

Financial income breaks down as follows:

FINANCIAL INCOME	31.12.2002	31.12.2001	CHANGE
Income from investments	-	561	(561)
From securities listed under non-current assets other than equity investments	4	-	4
From securities listed under working capital other than equity investments	941	20,156	(19,215)
From receivables registered under non-current assets	619	9,738	(9,119)
	1,564	**30,455**	**(28,891)**
Earnings other than the above			
From non-consolidated subsidiaries	24,053	-	24,053
From affiliated companies	2,376	-	2,376
From third parties			-
Interest earned from banks	6,907	29,728	(22,821)
Interest earned on tax credits	153	-	153
Interest earned on other short-term receivables	12,466	560	11,906
Exchange rate gains	195	-	195
Positive adjustments on exchange rates	6,614	1,737	4,877
Interest from customers	1	-	1
Other financial receivables	1,933	-	1,933
Receivables on short-term investments	41,804	35,737	6,067
	96,502	**67,762**	**2,311**
Total	**98,066**	**98,217**	**(26,580)**

Financial income from "Other securities" accrued on cash investments made by Tiscali International BV, the Liberty Surf Group and Tiscali Finance. Income from group companies includes the distribution of net assets of the subsidiary Tiscali ITS Srl in the form of a dividend.

Income from short-term investments includes income from hedging agreements taken out by Tiscali Finance, such as swap contracts and repurchase agreements. Most of these are interest rate swaps taken out by Luxembourg-based Tiscali Finance SA so as to reduce the cost of financing the bonds issued by this subsidiary.

Interest earned from banks refers to cash investments made by the Liberty Surf Group SA, Tiscali International BV and Tiscali Finance SA subsidiaries. Positive adjustments on exchange rates mainly concern movements in the EUR/GBP exchange rate in respect of dealings with UK and European subsidiaries, and any other business transacted in sterling.

Interest and other financial charges break down as follows:

INTEREST AND OTHER FINANCIAL CHARGES	31.12.2002	31.12.2001	CHANGE
Due to third parties			
Bonds	21,412	30,457	(9,045)
Bank overdraft	11,377	788	10,589
Due to banks for mortgages and other medium-/long-term loans	201	435	(234)
Due on other short-term financing	2,855	2,604	251
Due to suppliers	149	-	149
Other payables	738	241	497
Exchange rate losses	7,246	-	7,246
Negative adjustments on exchange rates	-	560	(560)
Losses on securities trading	18	-	18
Losses on short-term investments	42,917	48,200	(5,283)
Others	1,019	1,100	(81)
Total	**87,932**	**84,385**	**3,547**

Financial charges totalled EUR 88m in 2002 and mainly related to bonds issued by Tiscali Finance SA and Tiscali International BV. Other financial charges relate to bank overdrafts and interest on financial leasing operations.

Interest rate risk management:

Tiscali takes an active approach to managing interest rate risk by entering into interest rate swaps (IRS) signed by Tiscali Finance with leading financial institutions. All such agreements to date have been taken out as part of the company's interest rate risk hedging strategy.
Interest rate swaps are used to achieve a more favourable interest rate differential, thus reducing overall financing costs.

Under the terms of such agreements, on agreed maturity dates Tiscali agrees to swap with its counterparties the difference between interest amounts accrued on a nominal benchmark at an agreed, fixed or variable, interest rate.

D) Revaluations of investments

No write-backs of financial assets or equity investments took place during the year.

The write-downs of equity investments listed under item 19 a) concern the following companies:

CD Telekomunikace Sro – EUR 39.5m write-down made after the agreement to sell the company was signed by the parent company in December 2002.
Tiscali ITS Srl – this company was acquired in December 2002, and after its net assets were distributed in the form of a dividend, a write-down of EUR 25.4m was made.
Netchemia SpA – after this company went into liquidation, the parent company wrote down its 20% stake by around EUR 4.5m.

This item also includes write-downs in respect of affiliated companies and the impact of valuing non-consolidated subsidiaries at equity.

E) Extraordinary income and charges

Breakdown of extraordinary income

Extraordinary income items are shown below:

EXTRAORDINARY INCOME (CHARGES)	31.12.2002	31.12.2001	CHANGE
Extraordinary gains (losses)	-	6,255	(6,255)
Correction for posting adjustments on previous financial year	329	-	329
Income other than recurrent items	617	-	617
Other extraordinary income	91,176	30,375	60,801
	92,122	**36,630**	**55,492**
Capital gain on asset disposals			
Capital gain on disposal of tangible assets	-	104	(104)
Other extraordinary capital gains	-	4	(4)
	-	**108**	**(108)**
Total	**92,122**	**36,738**	**55,380**

Other extraordinary income includes: EUR 25m for loans to non-consolidated subsidiaries of the French Liberty Surf group that were written down in 2001 but repaid in 2002; and income following the removal of around EUR 63m in liabilities for future capital increases by Tiscali UK Ltd in respect of Liberty Surf Communication Ltd and Liberty Surf Media Ltd, companies not included in the consolidation base.

Breakdown of extraordinary charges

Extraordinary charges are detailed in the table below:

EXTRAORDINARY CHARGES	31.12.2002	31.12.2001	CHANGE
Extraordinary losses and expenses	8,136	-	8,136
Staff redundancy costs	2,515	-	2,515
Restructuring costs due to contracts ending early	8,651	-	8,651
Restructuring costs due to write-downs of fixed assets	26,578	-	26,578
Other restructuring costs	29,173	1,073,620	(1,044,447)
Other extraordinary charges	134,638	-	134,638
	209,691	**1,073,620**	**(863,929)**
Capital loss due to asset disposals			
Capital loss due to disposal of tangible assets	1,527	138	1,389
	1,527	**138**	**1,389**
Total	**211,218**	**1,073,758**	**(862,540)**

Extraordinary expenses and losses include costs pertaining to the parent company incurred in 2001. Staff redundancy costs are a result of the group's restructuring. Restructuring costs include penalties paid for terminating certain supply contracts inherited with new acquisitions that were either superfluous or considered too costly, as part of the global rationalisation of group purchasing. The item "Restructuring costs due to write-downs of fixed assets" include write-downs made by the UK subsidiaries following the rationalisation of processes involved in supplying services to customers. "Other restructuring costs" include other expenses incurred in the rationalisation of group processes that are not listed elsewhere.

In particular, this item includes EUR 6.5m spent on non-routine network maintenance by French subsidiary Tiscali International Network SA, and around EUR 39m of restructuring and other extraordinary charges relating to the German subsidiaries.

OTHER INFORMATION

As required by law, the table below shows a breakdown of the number of employees by category.

AVERAGE NO. OF EMPLOYEES BY CATEGORY	31.12.2002	31.12.2001	CHANGE
Senior managers	131	123	8
Managers	479	431	48
Office staff	2,405	2,528	(123)
Manual workers	24	-	24
Total	**3,039**	**3,5082**	**(43)**

Pursuant to art. 78 of CONSOB resolution 11971/1991 (the regulation implementing Legislative Decree 58/1998) the table below sets out remuneration to directors and auditors. For information on the number of shares owned by directors and auditors, please see the Report on Operations.

NAME	POST		TERM	EMOLUMENTS	NON-MONETARY BENEFITS	BONUSES AND OTHER INCENTIVES
Board of Directors						
Soru Renato	Chairman	(1)	to approval of 2004 accounts	-	-	-
Piol Elserino	Director	(2)	to approval of 2004 accounts	-	-	-
Hauser Hermann	Director	(2)	to approval of 2004 accounts	-	-	-
Bernabè Franco	Director	(3)	to approval of 2004 accounts	-	-	-
Gabriel Prêtre	Director	(4)	to approval of 2004 accounts	-	-	-
Bischoff Victor	Director	(3)	to approval of 2004 accounts	-	-	-
Board of Auditors						
Zini Andrea	Chairman	(5)	3 years	77,226	-	-
Casu Rita	Permanent Auditor	(6)	3 years	54,859	-	-
Maccioni Piero	Permanent Auditor	(7)	3 years	54,332	-	-
Biondo Giuseppe	Statutory Auditor	(7)	3 years	-	-	-
Bianchi Livio	Statutory Auditor	(7)	3 years	-	-	-

(1) Chairman from 30 June 1999 and Chief Executive since 21 July 1999, subject to renewal
(2) Appointed on 30 June 1999
(3) Appointed on 30 June 2000
(4) Appointed on 13 February 2003, co-opted by Director James Michael Kinsella
(5) Appointed on 17 April 2000 – Chairman since 17 April 2000
(6) Appointed on 17 April 2000 – Chairman until 17 April 2000
(7) Appointed on 17 April 2000

DEALINGS WITH RELATED PARTIES

During the year, dealings with related parties, in which members of the Board of Directors hold a direct or indirect stake (Bernabè Franco & C. SpA, Kelyan SMC SpA and Kelyan SpA) generated business worth EUR 1.9 million.

TABLES

The table below lists Tiscali group companies, specifying the consolidation method used:

COMPANY NAME	COUNTRY	% OWNED DIRECT %	% OWNED INDIRECT %	SHARE OF PROFIT	SECTOR	CONSOLIDATION METHOD (8)
Tiscali S.p.A.	Italy				Internet and telecom	I
Tiscali Czech Republic Sro	Czech Rep.	100.0%		100.0%	Internet	I
CD Telekomunikace Sro	Czech Rep.	0.0%		0.0%	B2B	I
Tiscali Telecomunicaciones SA	Spain	99.99%		99.99%	Internet	I
Excite Italia	Neth	100.0%		100.0%	Portal	I
Ideare S.p.A.	Italy	60.0%		60.0%	Software	I
Tiscali Motoring Srl	Italy	100.0%		100.0%	Portal	I
Informedia Srl (1)	Italy	95.0%	5.0%	100.0%	Software	I
Tiscali Information Tecnology System Srl	Italy	100.0%		100.0%	Information Tecnology	N
Andaledda S.p.A.	Italy	85.0%		85.0%	Inactive	N
Energy Byte S.p.A.	Italy	100.0%		100.0%	Portal	N
Quinary S.p.A.	Italy	70.0%		70.0%	Software	I
Best Engineering S.p.A.	Italy	60.0%		60.0%	Software	I
STS Studi Tecnologie Sistemi S.p.A.	Italy	50.0%		50.0%	Software	I
Gilla Servizi Telecomunicazione Srl (2)	Italy	90%	10.0%	100.0%	Call Center	N
Tiscali Datacomm Ag (3)	Switz	83.4%	16.6%	99.9%	Internet and telecom	I
Tiscali Deutschland GmbH	Germany	100.0%		100.0%	Holding	I
World Online GmbH	Germany		100.0%	100.0%	Internet	I
Brandgate GmbH	Germany		65.0%	65.0%	Inactive	I
Finanzdirect 24 GmbH	Germany		60.0%	60.0%	Inactive	I
Tiscali GmbH	Germany		100.0%	100.0%	Internet and telecom	I
Tiscali Games GmbH	Germany		100.0%	100.0%	Portal	I
Nextra Deutschland GmbH	Germany		100.0%	100.0%	B2B	I
Nextra Deutschland Verwaltungs GmbH	Germany		100.0%	100.0%	B2B	I
Liberty Surf Group SA	France	94.5%		94.5%	Hold co	I
Tiscali Business SA	France		100.0%	94.5%	B2B	I
Cyber Press Publishing SA	France		15.8%	14.9%	Portal	I
Losir Net SA	France		88.0%	13.1%	Portal	I
Tiscali Acces Sa (ex Liberty Surf SA)	France		100.0%	94.5%	Internet	I
Film Non Stop Monsieur Cinema.Com SA	France		100.0%	94.5%	Portal	I
Ovni Web SA	France		100.0%	94.5%	Network mg	I
Ceic Srl	France		100.0%	94.5%	Portal	N
Respublica SA	France		100.0%	94.5%	Portal	I
Tiscali Média SA (ex Objectif Net SA)	France		100.0%	94.5%	Network mg	I
Liberty Contact SA	France		50.0%	47.3%	Inactive	I
Infonie Promotions SA	France		100,0%	94.5%	Portal	I
Tiscali Télécom SA	France		100,0%	94.5%	Telecomsi	I
Intercall SA	France		88.0%	83.2%	Telecoms	I
Intercall SA	Spain		100.0%	94.5%	Telecoms	I
Intercall Hellas SA	Grece		100.0%	94.5%	Telecoms	I
Saftel Com SA	France		99.2%	82.5%	Telecoms	
Liberty Surf Network BV	Neth		100.0%	94.5%	Inactive	N
Liberty Telecom BV	Neth		100.0%	94.5%	Inactive	N
Tiscali Telecom SA	Spain		100.0%	94.5%	Inactive	N
Liberty Surf Comunication Ltd	UK		100.0%	94.5%	Inactive	N
X-Stream Network Inc	USA		100.0%	94.5%	Inactive	N
X-Stream Technologies Inc	USA		100.0%	94.5%	Inactive	N
Liberty Surf Uk Ltd	UK		100.0%	94.5%	Inactive	N

COMPANY NAME	COUNTRY	& OWENED DIRECT %	INDIRECT %	SHARE OF PROFIT	SECTOR	CONSOLIDATION METHOD (8)
Tiscali S.p.A.						
Tiscali Armement Sarl	France	100.0%		100.0%	Sport and promotions	I
Tiscali Finance SA	Luxembourg	100.0%		100.0%	Finance	I
World Online International NV	Neth	99.5%		99.5%	Hold co	I
Tiscali International BV	Neth		100.0%	99.5%	Hold co	I
World Online Sro	CzechRep.		100.0%	99.5%	Internet	I
World Online Kft	Hungary		100.0%	99.5%	Inactive	N
World Online Poland Sp Z.O.O.	Poland		100.0%	99.5%	Inactive	N
Tiscali Denmark A/S	Denmark		100.0%	99.5%	Internet	I
Surfeu Oy	Finland		100.0%	99.5%	Internet	I
Tiscali As	Norway		100.0%	99.5%	Internet	I
Tiscali Ab	Swede		100.0%	99.5%	Internet	I
Tiscali Espana SA	Spain		100.0%	99.5%	Internet	I
World Online Epe	Grece		100.0%	99.5%	Inactive	N
World Online S.r.l. in liquidazione (4)	Italy		100.0%	99.5%	Inactive	N
Tiscali Österreich GmbH	Austria		100.0%	99.5%	Internet	I
Tiscali N.V.	Belg		100.0%	99.5%	Internet and telecom	I
Tiscali Switzerland Holding S.A.	Switz		100.0%	99.5%	Internet and telecom	I
Surfeu.Com Ag	Switz		100.0%	99.5%	Internet	I
World Online Ltd.	UK		100.0%	99.5%	B2B	I
Tiscali Business UK Plc.	UK		100.0%	99.5%	Hold co	I
Tiscali Business GmbH	Germany		100.0%	99.5%	B2B	I
Nacamar Luxembourg Sarl (5)	Luxembourg		100.0%	99.5%	B2B	I
Nacamar Ltd	UK		100.0%	99.5%	B2B	I
Tiscali Business Austria GmbH	Austria		100.0%	99.5%	B2B	I
Tiscali Holdings UK Plc.	UK		100.0%	99.5%	Hold co	I
Tiscali Uk Ltd	UK		100.0%	99.5%	Internet and telecom	I
Telinko Uk Ltd	UK		100.0%	99.5%	Internet and telecom	I
Connect Free Internet Services Ltd	UK		100.0%	99.5%	Internet	I
Springboard Internet Services Ltd	UK		100.0%	99.5%	Internet	I
World Online Telecom Ltd.	UK		100.0%	99.5%	Telecoms	I
World Online Ltd.	UK		100.0%	99.5%	Internet	I
Tiscali Luxembourg SA	Luxembourg		100.0%	99.5%	Internet	I
Tiscali B.V.	Neth		100.0%	99.5%	Internet	I
12Move Vof (6)	Neth		100.0%	99.5%	Portal	I
Sonera Plaza	Neth		100.0%	99.5%	Portal	I
Wolstar B.V.	Neth		50.0%	49.7%	Inactive	I
World Online Partner BV	Neth		100.0%	99.5%	Hold co	I
12Move ApS	Denmark		100.0%	99.5%	Inactive	I
Tiscali International Network BV	Neth		100.0%	99.5%	Network mgt	I
Tiscali International Network SA	France		100.0%	99.5%	Network mgt	I
Tiscali International Network SAU	Spain		100.0%	99.5%	Network mgt	I
Tiscali International Network S.p.A (7)	Italy		100.0%	99.5%	Network mgt	I
Tiscali International Network GmbH	Germany		100.0%	99.5%	Network mgt	I
Tiscali International Network Ltd	UK		100.0%	99.5%	Network mgt	I
Myt Vision BV	Neth		100.0%	99.5%	Inactivel	
Tiscali (Pty) Ltd	S Africa		100.0%	99.5%	Internet and telecom	I
World Online Merchandising Llc	USA		0.0%	0.0%	Sold	I
Wol Acquisition Corp.	USA		100.0%	99.5%	Inactive	I
Connect Sofware Inc	USA		100.0%	100.0%	Inactive	N

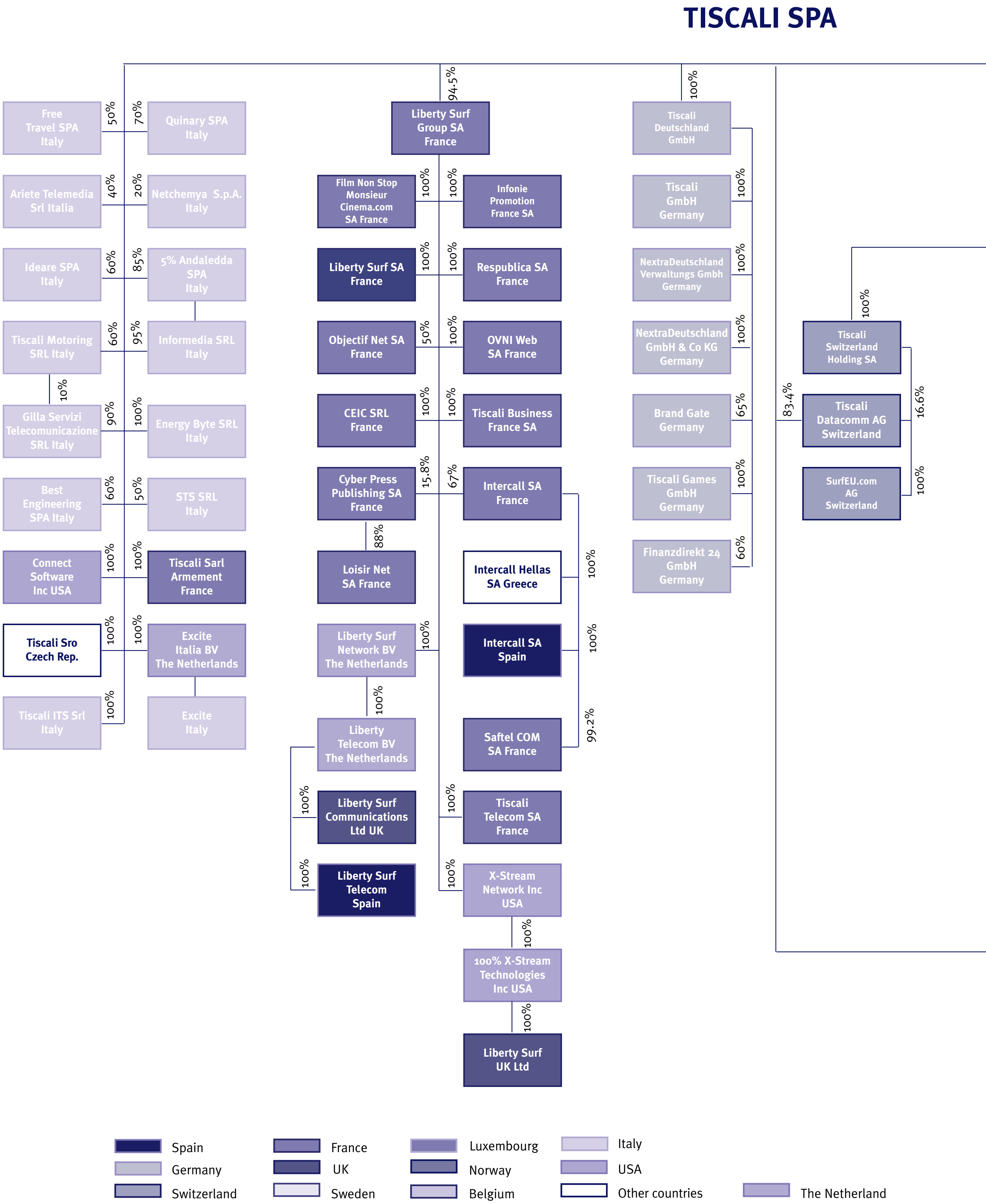
(1)	Tiscali SpA owns 95%; Andaledda SpA owns 5%
(2)	Tiscali SpA: 90%; Tiscali Motoring Srl: 10%
(3)	Tiscali SpA: 83.39%; Tiscali Switzerland Holding SA: 16:61%
(4)	Tiscali International BV: 80%; Tiscali BV: 20%
(5)	Tiscali Business UK plc: 51%; Tiscali International BV: 49%
(6)	Tiscali BV: 40%; World Online Partner BV: 60%
(7)	Tiscali International Network SA: 90%; Tiscali SpA: 10%
(8)	Consolidation methods: **I** = global; **P** = proportional; **N** = equity

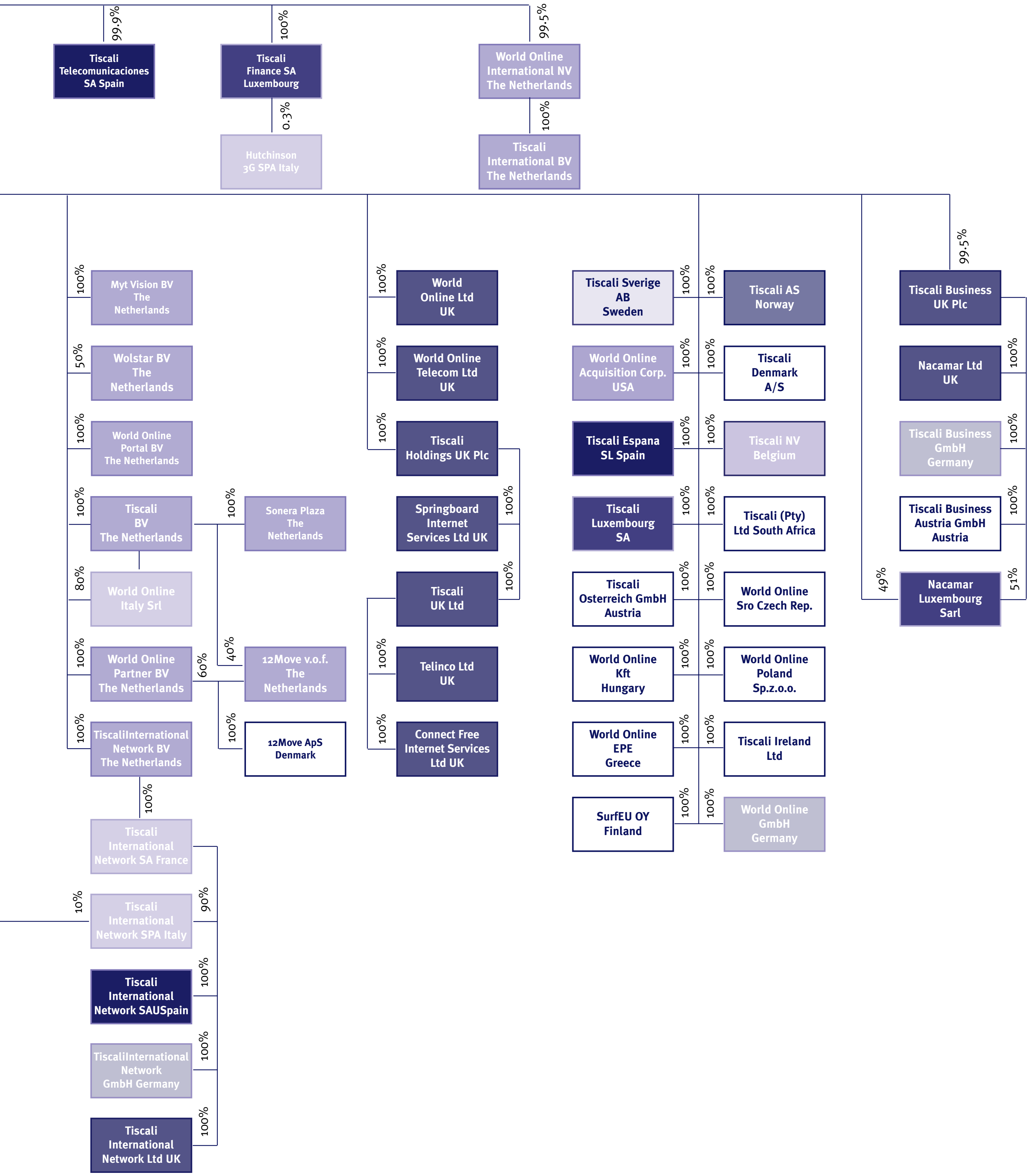
Breakdown of directly-owned holdings in subsidiaries and other companies

COMPANY NAME	BASED IN	SHARE CAPITAL	NET PROFIT (LOSS)	% OWNED	VALUE ON B/S
STAKES IN SUBSIDIARIES					
Freetravel in liquidazione SpA	Milan	268	(19)	50.0%	134
Ariete Telemedia Srl	Milan	46	(36)	40.0%	18
Janna scarl	Cagliari	100	-	33.0%	33
Total					**185**

STAKES IN OTHER COMPANIES	
Consorzio Green Management	-
CRS4 Scarl	126
Netchemya in liquidazione SpA	-
Stud Scarl	15
Mix Srl	1
Total	**142**

The Tiscali group's consolidation base is shown below:




99.9%
Tiscali Telecomunicaciones SA Spain
100%
Tiscali Finance SA Luxembourg
0.3%
Hutchinson 3G SPA Italy
99.5%
World Online International NV The Netherlands
100%
Tiscali International BV The Netherlands
100%
Myt Vision BV The Netherlands
50%
Wolstar BV The Netherlands
100%
World Online Portal BV The Netherlands
100%
Tiscali BV The Netherlands
100%
Sonera Plaza The Netherlands
80%
World Online Italy Srl
100%
World Online Partner BV The Netherlands
60%
40%
12Move v.o.f. The Netherlands
100%
TiscaliInternational Network BV The Netherlands
100%
12Move ApS Denmark
100%
Tiscali International Network SA France
10%
90%
Tiscali International Network SPA Italy
100%
Tiscali International Network SAUSpain
100%
TiscaliInternational Network GmbH Germany
100%
Tiscali International Network Ltd UK
100%
World Online Ltd UK
100%
World Online Telecom Ltd UK
100%
Tiscali Holdings UK Plc
100%
Springboard Internet Services Ltd UK
100%
Tiscali UK Ltd
100%
Telinco Ltd UK
100%
Connect Free Internet Services Ltd UK
Tiscali Sverige AB Sweden
100%
World Online Acquisition Corp. USA
100%
Tiscali Espana SL Spain
100%
Tiscali Luxembourg SA
100%
Tiscali Osterreich GmbH Austria
100%
World Online Kft Hungary
100%
World Online EPE Greece
100%
SurfEU OY Finland
100%
Tiscali AS Norway
100%
Tiscali Denmark A/S
100%
Tiscali NV Belgium
100%
Tiscali (Pty) Ltd South Africa
100%
World Online Sro Czech Rep.
100%
World Online Poland Sp.z.o.o.
100%
Tiscali Ireland Ltd
100%
World Online GmbH Germany
99.5%
Tiscali Business UK Plc
100%
Nacamar Ltd UK
100%
Tiscali Business GmbH Germany
100%
Tiscali Business Austria GmbH Austria
49%
Nacamar Luxembourg Sarl
51%

ACCOUNTS ANALYSIS

To provide a comprehensive overview of the parent company's financial statements, the following tables contain a summary of key figures from the Restated Balance Sheet, the Restated Profit and Loss Accountss and the Cash Flow Statement. The balance sheet has been restated according to the criterion of increasing liquidity to provide a brief summary of total assets and liabilities, thereby allowing for an accurate valuation of the financial position. The profit and loss account has been restated in single column format, showing the different elements making up operating profit and costs. The restatement of the profit and loss account was carried out using management criteria and with pro-forma figures provided for ease of comparison with the half-yearly report to 30 June 2002.

The Consolidated Statement of Changes in Financial Position is intended to highlight the most significant changes in the accounts in a comprehensive and structured manner. The statement is organised according to financial flows, as recommended by the Italian Association of Chartered Accountants (Consiglio Nazionale dei Dottori Commercialisti e dei Ragionieri).

ASSETS	31.12.2002	31.12.2001	CHANGE	% CHANGE
Current assets				
Cash and cash equivalents	333,757	547,835	(214,078)	(39.1)
Trade receivables	190,572	244,614	(54,042)	(22.1)
Inventory	6,310	17,852	(11,542)	(64.7)
Accrued income & deferred expenses	41,872	44,644	(2,772)	(6.2)
Other short-term receivables	66,824	99,939	(33,115)	(33.1)
Total current assets	**639,335**	**954,884**	**(315,549)**	**(33.0)**
Fixed assets				
Tangible Assets	287,209	386,161	(98,952)	(25.6)
Intangible Assets	749,213	870,700	(121,487)	(14.0)
Investments	13,160	43,000	(29,840)	(69.4)
Other fixed assets	2,588	5,788	(3,200)	(55.3)
Total fixed assets	**1,052,170**	**1,305,649**	**(253,479)**	**(19.4)**
Total assets	**1,691,505**	**2,260,533**	**(569,028)**	**(25.2)**

LIABILITIES	31.12.2002	31.12.2001	CHANGE	% CHANGE
Short-term liabilities				
Bank overdraft	46,846	30,355	16,491	54.3
Other financial payables	25,199	144,886	(119,687)	(82.6)
Trade payables	306,676	352,114	(45,438)	(12.9)
Other payables	18,793	68,484	(49,691)	(72.6)
Accrued expenses & deferred revenues	133,692	77,726	55,966	72.0
Tax payables	20,892	31,136	(10,244)	(32.9)
Total short-term liabilities	**552,098**	**704,701**	**(152,603)**	**(21.7)**
Long-term liabilities				
Long-term debt	459,401	293,860	165,541	56.3
Staff severance indemnity reserve	7,002	2,591	4,411	170.2
Provisions for risk and future liabilities	20,159	39,537	(19,378)	(49.0)
Other long-term liabilities	20,508	111,901	(91,393)	(81.7)
Total long-term liabilities	**507,070**	**447,889**	**59,181**	**13.2**
Minority interests	**16,309**	**(18,336)**	**34,645**	**(188.9)**
Total liabilities	**1,075,477**	**1,134,254**	**(58,777)**	**(5.2)**
Shareholders' equity				
Share capital	180,867	179,209	1,658	0.9
Reserves	1,028,306	2,611,499	(1,583,193)	(60.6)
Net profit (losses)	(593,145)	(1,664,429)	1,071,284	(64.4)
Total shareholders' equity	**616,028**	**1,126,279**	**(510,251)**	**(45.3)**
Total	**1,691,505**	**2,260,533**	**(569,028)**	**(25.2)**

Profit & Loss

PROFIT & LOSS	31.12.2002	31.12.2001	CHANGE	% CHANGE
Revenues	**748,358**	**635,737**	**112,621**	**17.7**
Operating expenses				
Goods	(12,034)	(42,591)	30,557	(71.7)
Services	(572,172)	(592,335)	20,163	(3.4)
Personnel Costs	(140,052)	(152,702)	12,650	(8.3)
Change in inventory	(177)	564	(741)	(131.4)
Other operating expenses	(22,941)	(19,158)	(3,783)	19.7
EBITDA	**982**	**(170,485)**	**171,467**	**(100.6)**
Amortisation & depreciation	(505,919)	(497,742)	(8,177)	1.6
EBIT	**(504,937)**	**(668,227)**	**163,290**	**(24.4)**
Financial income	98,066	98,217	(151)	(0.2)
Financial expenses	(87,932)	(84,385)	(3,547)	4.2
Other income	92,122	37,688	54,434	144.4
Other expenses	(187,200)	(1,073,758)	886,558	(82.6)
PBT	**(589,881)**	**(1,690,465)**	**1,100,584**	**(65.1)**
Current taxes	(2,796)	(645)	(2,151)	333.5
Deferred taxes	(92)	(446)	354	(79.4)
Profit (loss) before minorities	**(592,769)**	**(1,691,556)**	**1,098,787**	**(65.0)**
Minorities	(376)	27,127	(27,503)	(101.4)
Net profit (loss)	**(593,145)**	**(1,664,429)**	**1,071,284**	**(64.4)**

Cash Flow Statement

CASH FLOW STATEMENT	**31.12.2002**	**31.12.2001**
A) Net financial position at the end of the previous year	**517,480**	**1.284.915**
Net loss	(593,145)	(1,664,429)
Depreciation and amortisation	525,936	1,350,857
Change in reserve for risks and future liabilities	(21,620)	446
Change in staff severance indemnity reserve	(96)	1,427
Change in working capital, of which:	**(120,838)**	**157,836**
- change in receivables	33,942	(152,908)
- change in inventory	11,542	(11,831)
- change in accrued income and deferred charges	2,772	5,433
- change in payables	(225,060)	298,446
- change in accrued liabilities and deferred income	55,966	18,696
B) Cash flow from operations	**(209,763)**	**(153,863)**
Investments in non-current assets		
- *tangible*	(89,210)	(284,796)
- *intangible*	(183,505)	(1,027,508)
- *long-term investments*	17,606	(860)
C) Cash flow from investments	**(255,109)**	**(1.313.164)**
Changes in bank debt	165,541	108,100
Change in consolidation base	107,910	-
Change in minorities' share of net equity	34,645	-
Other medium-/long-term liabilities	(91,393)	8,050
Other medium-/long-term assets	(3,200)	7,806
Changes in net equity	20,800	575,636
D) Cash flow from investments	**234,303**	**699,592**
E) Cash flow for the year (B + C + D)	**(230,569)**	**(767,435)**
F) Net financial position at the end of the year (A - E), of which:	**286,911**	**517,480**
Cash and receivables from banks	209,570	384,881
Short-term investments	124,187	162,954
Short-term bank debt	(46,846)	(30,355)

For the Board of Directors
The Chairman

Renato Soru

Tiscali S.p.A.
Annual Accounts

as of 31 December 2002

Balance Sheet - Assets

			Assets (EUR)	31.12.2002	31.12.2001
A)			**CAPITAL CONTRIBUTIONS DUE FROM SHAREHOLDERS:**		
			Portion called up	-	-
			Portion not called up	-	-
			Total capital contributions due from shareholders	-	-
B)			**NON-CURRENT ASSETS:**		
	I		**Intangible assets:**		
		1)	start-up and expansion costs	5,769,504	9,589,474
		2)	research, development and advertising costs	-	2,531
		3)	industrial patent rights and intellectual property rights	20,299,049	2,595,797
		4)	concessions, licenses, trademarks and similar rights	38,355,385	9,167,000
		5)	goodwill	160,134	240,201
		6)	payments on account and intangible assets in course of acquisition	5,712,022	16,522,395
		7)	other intangible assets	6,861,823	7,687,523
			Total Intangible assets	**77,157,917**	**45,804,921**
	II		**Fixed assets:**		
		1)	land and buildings	4,246,631	-
		2)	plant and machinery	17,919,611	9,632,760
		3)	industrial and commercial equipment	998,472	1.186,163
		4)	other fixed assets	2,348,737	2,899,643
		5)	payments on account and other fixed assets in course of acquisition	9,261,892	1,994,660
			Total Fixed assets	**34,775,343**	**15,713,226**
	III		**Long-term investments:**		
		1)	*Investments in:*		
		a)	subsidiaries	2,075,144,548	2,099,698,160
		b)	non-consolidated subsidiaries and affiliated companies	-	993,698
		d)	other companies	-	-
				209,484	4,730,649
		2)	*Receivables:*		
		3)	Other securities	-	-
		4)	Own shares	-	-
			Total Long-term investments	**2,075,354,032**	**2,105,422,507**
			Non-current assets	**2,187,287,292**	**2,166,940,654**

Balance Sheet – Assets (continued)

						31.12.2002	31.12.2001
C)			**CURRENT ASSETS**				
	I		**Inventories:**				
		1)	raw materials, supplies and consumables			1,207,975	1,327,688
		2)	advance payments			-	-
			Total Inventories			**1,207,975**	**1,327,688**
				due ⇠ 1 year			
	II		**Receivables:**	**31.12.2002**	**31.12.2001**		
		1)	trade receivables	-	-	46,582,593	45,354,339
		2)	from subsidiaries	17,328,067	1,914,521	161,556,422	132,899,308
		3)	from non-consolidated subsidiaries and affiliated companies	-	-	-	658,600
		4)	from parent companies	-	-	-	-
		5)	other companies	293,054	234,249	33,603,727	22,605,667
			Total Receivables	**17,621,121**	**2,148,770**	**241,742,742**	**201,517,914**
	III		**Investments other than non-current assets**				
		1)	in subsidiaries			3,209,000	-
		2)	other securities			-	8,536,315
			Total Investments other than non-current assets			**3,209,000**	**8,536,315**
	IV		**Cash and cash equivalents:**				
		1)	bank and post office deposits			2,073,386	223,429
		2)	cheques			-	
		3)	cash and other negotiable instruments			6,086	16,907
			Total Cash and cash equivalents			**2,079,472**	**240,336**
			Total Current Assets			**248,239,189**	**211,622,253**
D)			**ACCRUED INCOME AND DEFERRED CHARGES:**				
			accrued income and deferred charges			1,863,668	8,228,729
			Total accrued income and deferred charges			**1,863,668**	**8,228,729**
			TOTAL ASSETS			**2,437,390,149**	**2,386,791,636**

Balance Sheet - Liabilities

		Liabilities (EUR)	Due → 1 year 31.12.2002	Due → 1 year 31.12.2001	31.12.2002	31.12.2001
A)		**SHAREHOLDERS' EQUITY:**				
	I	Share capital			180,867,068	179,208,829
	II	Share premium reserve			1,632,896,251	2,654,963,008
	III	Revaluation reserve			-	-
	IV	Legal reserve			-	-
	V	Reserve for own shares held			-	-
	VI	Statutory reserves			-	-
	VII	*Other reserves:*				
		reserve for rounding differences			-	7
	VIII	Retained earnings (losses carried forward)			-	-
	IX	Profit (loss) for the year			(152,296,834)	(1,041,208,375)
		Total Shareholders' Equity			**1,661,466,485**	**1,792,963,469**
B)		**PROVISIONS FOR RISKS AND CHARGES:**				
	1)	pension provisions and similar obligations			-	-
	2)	tax provisions			-	-
	3)	other			54,701,926	23,001,873
		Total provisions for risks and charges			**54,701,926**	**23,001,873**
C)		**STAFF SEVERANCE INDEMNITY RESERVE**			**2,952,163**	**1,806,541**
D)		**PAYABLES:**				
	3)	due to banks	12,460,008	-	44,118,548	14,590,001
	4)	other short-term financing	-	129,712	1,919,336	1,746,661
	6)	trade accounts payable	14,520,600	-	100,692,421	64,411,673
	8)	due to subsidiaries	-	-	554,159,937	475,789,532
	9)	due to non-consolidated subsidiaries and affiliated companies	-	-	-	56,294
	11)	taxes payable	-	-	888,832	854,831
	12)	due to social security agencies	-	-	918,907	675,121
	13)	other payables	-	-	7,597,092	949,800
		Total payables	**26,980,608**	**129,712**	**710,295,073**	**559,073,913**
E)		**ACCRUED LIABILITIES AND DEFERRED INCOME**				
		accrued liabilities and deferred income			7,974,502	9,945,840
		premiums on loans			-	-
		Total accrued liabilities and deferred income			**7,974,502**	**9,945,840**
		TOTAL LIABILITIES			**2,437,390,149**	**2,386,791,636**

Memorandum Accounts

MEMORANDUM ACCOUNTS (EUR)				31.12.2002	31.12.2001
A)			**GUARANTEES GIVEN:**		
	I		**to third-parties:**		
		a)	Sureties	254,828,643	250,000,000
			Total guarantees given	**254,828,643**	**250,000,000**
B)			**OTHER MEMORANDUM ACCOUNTS**		
			Leasing payments falling due	42,055,418	54,937,364
			Warrants	110,372	183,238
			Guarantees	10,877,167	11,059,524
			Total Other Memorandum Accounts	**53,042,957**	**66,180,126**
C)			**GUARANTEES RECEIVED:**		
	I		**from subsidiaries and third parties:**		
		a)	sureties	2,448,331	7,227,298
			Total guarantees received	**2,448,331**	**7,227,298**
			TOTAL MEMORANDUM ACCOUNTS	**310,319,931**	**323,407,424**

Income Statement

			PROFIT AND LOSS ACCOUNTS (EUR)	31.12.2002	31.12.2001
A)			**(+) VALUE OF PRODUCTION:**		
	1)		revenues from sales and services	131,993,785	115,037,997
	2)		changes in inventories of work in progress, semi-finished and finished products	-	-
	3)		changes in contract work in progress	-	-
	4)		increases in assets for work in progress (internal)	-	788,580
	5)		other revenues and income		
			- Other revenues and income	8,184	1,960
			- Contributions to the operating account	8,885,062	-
			Total value of the production	**140,887,031**	**115,828,537**
B)			**(-) PRODUCTION COSTS:**		
	6)		raw materials, supplies, consumables and goods	(2,068,325)	(10,700,217)
	7)		Services	(120,063,778)	(91,828,676)
	8)		use of third-party assets	(20,436,809)	(15,839,764)
	9)		*personnel costs*		
		a)	wages and salaries	(21,689,510)	(16,129,147)
		b)	social security contributions	(4,207,629)	(1,913,876)
		c)	provision for staff severance indemnities	(1,375,259)	(1,147,888)
		e)	other costs	(372,007)	(34,703)
	10)		*depreciation, amortisation and write-downs:*		
		a)	amortisation of intangible assets	(15,327,621)	(8,521,116)
		b)	depreciation of fixed assets	(4,537,348)	(2,305,141)
		c)	other write-downs/amortisation of non-current assets	-	-
		d)	depreciation of receivables included in working capital and cash and cash equivalents	(13,163,061)	(8,054,917)
	11)		changes in inventories of raw materials, supplies and consumables	(176,789)	558,901
	12)		risk provisions	(31,995,843)	(14,371,467)
	13)		other provisions	-	-
	14)		other operating expenses	(683,896)	(1,591,769)
			Total production costs	**(236,097,875)**	**(171,879,780)**
(A - B)			**DIFFERENCE BETWEEN VALUE OF PRODUCTION AND COSTS**	**(95,210,844)**	**(56,051,243)**
C)			**FINANCIAL INCOME AND CHARGES**		
	15)		**(+) income from equity investments:**		
		a)	in subsidiaries	35,435,475	8,555,623
		b)	in affiliated companies	-	-
		c)	in other companies	-	-
	16)		**(+) income other than the above:**		
		a)	*from receivables listed under non-current assets:*		
			from third parties	-	-
			from subsidiaries	-	-
			from affiliated companies	-	-
			from parent companies	-	-
		b)	*from securities listed under non-current assets other than equity investments*	-	-
		c)	*from securities listed under working capital other than equity investments*	221,657	465,457
		d)	*earnings other than the above:*		
			from third parties	391,169	524,858
			from subsidiaries	44,835	1,863
			from affiliated companies	-	-
	17)		**(-) interest and other financial charges:**		
		a)	due to third parties	(2,057,914)	(1,241,149)
		b)	due to subsidiaries	(753,114)	(14,527,660)
		c)	due to affiliated companies	-	-
		d)	due to parent companies	-	-
			Total financial income and charges	**33,282,108**	**(6,221,008)**

Income Statement (continued)

				31.12.2002	31.12.2001
D)			**ADJUSTMENTS IN VALUATION OF LONG-TERM INVESTMENTS**		
	18)		**(+) write-ups:**		
		a)	of equity investments	-	-
		b)	of long-term investments other than equity investments	-	-
		c)	of securities listed under working capital other than equity investments	-	-
	19)		**(-) write-downs:**		
		a)	of equity investments	(71,344,556)	-
		b)	of long-term investments other than equity investments	-	-
		c)	of securities listed under working capital other than equity investments	-	-
			Total adjustments	**(71,344,556)**	**-**
E)			**EXTRAORDINARY INCOME (CHARGES)**		
	20)		**(+) extraordinary income:**		
		a)	income	979,240	5,747,005
		b)	capital gains from disposal of non-current assets	-	2,849,430
	21)		**(-) extraordinary charges:**		
		a)	charges	(18,449,919)	(987,513,574)
		b)	capital losses from disposal of non-current assets	(1,552,863)	(18,985)
		c)	taxes relating to previous periods	-	-
			Total extraordinary items	**(19,023,542)**	**(978,936,124)**
			Profit (loss) before taxes	**(152,296,834)**	**(1,041,208,375)**
	22)		**(-) Corporate income tax for the financial year:**		
		a)	current	-	-
			Total income tax		
			PROFIT (LOSS) FOR THE YEAR	**(152,296,834)**	**(1,041,208,375)**

For the board of directors
Chairman

Renato Soru

Tiscali S.p.A.

Notes to the Accounts

as of 31 December 2002

Form and Content

1) Criteria used in the preparation of the accounts

These accounts have been prepared in accordance with art. 2423 and subsequent articles of the Italian civil code and consist of the balance sheet, the profit and loss accounts and the notes to the accounts, which conform to the standards set out in art. 2427 of the Italian civil code, and pursuant to art. 2423, constitute an integral part of this annual report and accounts. For ease of comparison the accounts contain figures for the 2001 financial year, which have been prepared and presented in a consistent and coherent manner. Moreover, pursuant to legislative decree no. 127 of 1991, the consolidated accounts are presented together with those of Tiscali SpA. In order to provide a better overview of the company's operations and financial position, the following documents are supplied as supplementary information:

- Restated Balance Sheet;
- Restated Profit and Loss Accounts;
- Statement of Changes in Financial Position.

2) Valuation

a) General criteria

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

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

b) Valuation adjustments and recovery of value

The values of fixed and intangible assets whose useful life is limited over time are written down respectively through depreciation and amortisation charges. The same fixed and intangible assets and other assets are written down each time a permanent loss of value has been noted; the original value is re-established insofar as the reasons for this loss are no longer considered current. The methodology for calculating depreciation and amortisation charges is explained separately in these notes.

c) Revaluations

To date, no revaluations have been performed.

d) Exceptions

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

The most important principles and criteria are as follows:

e) Intangible assets

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

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

Licenses, trademarks, patent rights and similar are recorded at their acquisition cost and amortised systematically in accordance with the period of use established by specific agreements. Under no circumstances shall the amortisation period exceed five years from the financial year in which the costs were incurred.

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

Goodwill is posted within the limits of the costs incurred and amortised over five years.
Maintenance and upgrade costs on fixed assets belonging to third parties are listed under 'other' and are depreciated over either the estimated useful life of the asset or the residual period of the agreement, whichever is the shorter.

f) Fixed assets and depreciation

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

Depreciation is calculated on the basis of cost, according to the estimated residual life of the asset. Capital equipment leasing operations performed in the financial year under consideration are posted on the balance sheet based on the interpretation of current legislation, i.e. leasing fees must be posted in the period to which each payment refers.

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

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

plant and machinery	
- general plant and machinery	20%
- minor plant and machinery	12%
- specific plant and machinery	20%
- other plant and machinery	20%
industrial and commercial equipment	
- network and other specific equipment	20%
- other industrial and trade equipment	20%
- miscellaneous minor items	25%
other fixed assets	
- office furniture	12%
- IT and automated office equipment	20%
- vehicles	25%
- other assets	20%

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

g) Long-term investments

Investments in group and affiliated companies:

Investments in group and affiliated companies that are classed as non-current financial assets are valued according to the cost method, as the companies concerned have either been set up or acquired recently. The cost is lowered when there is a permanent loss of value.

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

h) Inventories

Raw materials, work in progress and finished products:

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

i) Receivables

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

j) Investments other than non-current assets

Unlisted securities are valued at their purchase price. Listed securities are valued at either their purchase price or their realisable market value, whichever is the lower.

k) Accruals and deferrals

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

l) Provisions for risks and changes

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

m) Tax

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

n) Staff severence indemnity reserve

This provision corresponds to all amounts due to employees under current laws.

o) Payables

Payables are posted at their nominal value.

p) Risks, commitments and guarantees

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

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

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

q) Recording of revenues

Revenues from the sale of services are entered on the basis of traffic actually recorded as of 31 December 2002. Financial income is recorded in accordance with the matching principle.

r) Foreign currency amounts

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

CURRENCY	ISO CODE	FINAL	AVERAGE
Swiss franc	CHF	1.452400	1.470719
Czech crown	CSK	31.577000	30.787076
Danish crown	DKK	7.428800	7.430543
Euro	EUR	1.000000	1.000000
British pound	GBP	0.650500	0.633128
Hungarian forint	HUF	236.290000	236.070000
Icelandic krona	ISK	84.740000	84.920000
Norwegian krone	NOK	7.275600	7.486569
Polish zloty	PLZ	4.021000	3.985800
Swedish krona	SEK	9.152800	9.144464
US dollar	USD	1.048700	0.992200
South African rand	ZAR	9.009400	9.767382

Analysis of balance sheet items
Assets
(figures in EUR 000)

B) Non-current assets
I – Intangible assts

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

	31.12.2001			31.12.2002		
	COST	(AMORTISATION)	NET BOOK VALUE	COST	(AMORTISATION)	NET BOOK VALUE
start-up and expansion costs	19,989	(14,219)	5,770	19,993	(10,404)	9,589
R&D and advertising costs	26	(26)	-	26	(24)	3
industrial patent and intellectual property rights	26,328	(6,029)	20,299	3,446	(850)	2,596
concessions, licences, trademarks	45,765	(7,410)	38,355	12,430	(3,263)	9,167
goodwill	400	(240)	160	400	(160)	240
payments on account and assets in course of acquisition	5,712	-	5,712	16,523	-	16,522
Other	11,541	(4,679)	6,862	10,267	(2,579)	7,688
Total	**109,761**	**(32,603)**	**77,158**	**63,085**	**(17,280)**	**45,805**

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

	BALANCE 31.12.2001	INCREASES	WRITE-UPS (WRITE-DOWNS)	OTHER CHANGES	AMORTISATION	BALANCE 31.12.2002
start-up and expansion costs	9,589	-	-	-	(3,819)	5,770
R&D and advertising costs	3	-	-	-	(3)	-
industrial patent and intellectual property rights	2,596	12,232	-	10,650	(5,180)	20,299
concessions, licences, trademarks	9,167	33,335	-	-	(4,147)	38,355
goodwill	240	-	-	-	(80)	160
payments on account and assets in course of acquisition	16,522	7,129		(17,939)	-	5,712
other	7,688	1,273	-	-	(2,099)	6,862
Total	**45,805**	**53,969**	**-**	**(7,289)**	**(15,328)**	**77,158**

The 'start-up and expansion costs' line includes:

	31.12.2002	31.12.2001	CHANGE
start-up and expansion costs	3,473	5,203	(1,730)
capital increase expenses	2,066	3,989	(1,923)
start-up costs	231	397	(166)
other	5,770	9,589	(3,819)

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

Deecreases are due to the normal process of amortisation.

The ‘industrial patent rights and use of intellectual property rights’ line mainly includes applications software acquired for an unlimited period and customised for the exclusive use of the company. The EUR 22.9m increase is mainly due to the capitalisation of costs relating to licences and the development of software and other services acquired as part of the project to standardise the technological and operating platform of services provided to group companies, which began this year.

The change in ‘concessions, licences, trademarks and similar’ mainly relates to the purchase of software licences and associated costs (EUR 5.5m). In particular, this includes renewals of licences for management and invoicing software purchased for the whole group, access systems software and network services management.

The remaining EUR 27.8m relates to the acquisition of exclusive rights to fibre optics (IRU) over 15 years. These rights will be amortised over the life of the contract.

The 'payments on account and intangible assets in course of acquisition' line includes the Mobile Internet project (approximately EUR 2.8m) for the provision of an internet connection service via mobile phone. The item also includes investment in setting up a data warehouse for the company’s own data.

The ‘other’ line chiefly includes investment in adapting technical sites and commercial and administrative offices.

Decreases (‘other changes’) are due to the reassessment in the accounts of new projects and their amortisation (about EUR 14m - see above), the reassessment of costs relating to the company’s new headquarters, listed under fixed assets (EUR3.4m), and the write-down of the ULL project (EUR 1.9m).

II – Fixed assets

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

	BALANCE 31.12.2001	INCREASES	REVALUATIONS	OTHER CHANGES	(DISPOSALS)	BALANCE 31.12.2002
land and buildings						
- land	-	2,988	-	1,259	-	4,247
	-	**2,988**	-	**1,259**	-	**4,247**
plant and machinery						
- general plant and machinery	1,212	169	-	-	-	1,381
- specific plant and machinery	8,467	11,512	-	-	-	19,979
- other plant and machinery	1,945	32	-	-	-	1,977
	11,624	**11,713**	-	-	-	**23,337**
industrial and trade equipment						
- network and other specific equipment	288	178	-	-	-	466
- other equipment	1,637	40	-	-	-	1,677
- miscellaneous minor items	5	2	-	-	-	7
	1,930	**220**	-	-	-	**2,150**
other goods						
- office furniture	1,269	52	-	-	-	1,321
- IT and automated office equipment	2,267	90	-	-	(9)	2,348
- other goods	350	17	-	-	-	367
	3,886	**159**	-	-	**(9)**	**4,036**
payments on account and other assets in course of acquisition						
- payments on account and other assets in course of acquisition	1,995	7,093	-	2,127	(1,953)	9,262
	1,995	**7,093**	-	**2,127**	**(1,953)**	**9,262**
Total	**19,435**	**22,173**	-	**3,386**	**(1,962)**	**43,032**

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

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

Increases under this item are due to investments necessary to cover the increase from 29 POPs as of 31 December 2001 to 39 POPs at the end of 2002, the purchase of equipment for fibre optics (IRU) acquired during the year and the purchase of new servers.

'Fixed assets in course of acquisition' include other investments made to date in the new company headquarters for which work began during the year (EUR 8.1m), and which is expected to be completed in 2003.
Telephone switchboards, purchased from a group company the previous year and allocated to fixed assets, were sold; the operation generated a capital loss of EUR 1.5m shown in the related cost item.

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

DEPRECIATION	BALANCE 31.12.2001	RATE OF DEPRECIATION	WRITE-DOWNS	OTHER CHANGES	(DISPOSALS)	BALANCE 31.12.2002
plant and machinery						
- general plant and machinery	282	190	-	-	-	472
- specific plant and machinery	847	2,846	-	-	-	3,693
- other plant and machinery	863	392	-	-	-	1,255
	1,991	**3,428**	**-**	**-**	**-**	**5,420**
industrial and trade equipment						
- network and other specific equipment	29	75	-	-	-	104
- other equipment	714	331	-	-	-	1,045
- miscellaneous minor items	1	1	-	-	-	2
	744	**407**	**-**	**-**	**-**	**1,151**
other goods						
- office furniture	218	157	-	-	-	375
- IT and automated office equipment	664	461	-	-	(2)	1,123
- other goods	104	84	-	-	-	188
payments on account and other assets in course of acquisition	-	-	-	-	-	
	986	**702**	**-**	**-**	**(2)**	**1,686**
Total	**3,721**	**4,537**	**-**	**-**	**(2)**	**8,257**

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

NET BOOK VALUE	BALANCE 31.12.2001	INCREASES	WRITE-UPS AND OTHER CHANGES	(DEPRECIATION AND WRITE-DOWNS)	(DISPOSALS)	BALANCE 31.12.2002
land and buildings						
- land	-	2,988	1,259	-	-	4,247
	-	**2,988**	**1,259**	**-**	**-**	**4,247**
plant and machinery						
- general plant and machinery	930	169	-	(190)	-	909
- specific plant and machinery	7,620	11,512	-	(2,846)	-	16,286
- other plant and machinery	1,083	32	-	(392)	-	723
	9,634	**11,713**	**-**	**(3,428)**	**-**	**17,918**
industrial and trade equipment						
- network and other specific equipment	258	178	-	(75)	-	361
- other equipment	923	40	-	(331)	-	632
- miscellaneous minor items	4	2	-	(1)	-	5
	1,185	**220**	**-**	**(407)**	**-**	**998**
other goods						
- office furniture	1,051	52	-	(157)	-	946
- IT and automated office equipment	1,603	90	-	(461)	(7)	1,225
- other goods	246	17	-	(84)	-	179
other goods	-	-	-	-	-	-
	2,899	**159**	**-**	**(702)**	**(7)**	**2,350**
payments on account and other assets in course of acquisition						
- payments on account and other assets in course of acquisition	1,995	7,093	2,127	-	(1,953)	9,262
	1,995	**7,093**	**2,127**	**-**	**(1,953)**	**9,262**
Total	**15,713**	**22,173**	**3,386**	**(4,537)**	**(1,960)**	**34,775**

III – Long-term investment

1) equity investmenrs

As of 31 December 2002, this item included holdings in group and other companies totaling approximately EUR 2,075.1m and EUR 0.2m respectively.

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

Breakdown of equity investments

GROUP COMPANIES	31.12.2002			31.12.2001		
	COST	WRITE-UPS (DOWNS)	B/S VALUE	COST	WRITE-UPS (DOWNS)	B/S VALUE
Best Engineering S.p.A.	5,643	(4,353)	1,290	5,643	(4,353)	1,290
C D Telekomunikace S.r.o.	-	-	-	22,641	(8,834)	13,807
Energy Byte S.r.l.	677	677	-	523	-	523
Excite Italia B.V.	30,648	-	30,648	27,000	-	27,000
Guglielmo Gmbh	-	-	-	14,704	(10,511)	4,193
Ideare S.p.A.	6,745	(3,747)	2,998	6,745	(3,747)	2,998
Informedia S.r.l.	535	(535)	-	535	(277)	258
Liberty Surf Group SA	599,812	(80,883)	518,929	599,812	(80,883)	518,929
Tiscali Motoring S.r.l (ex Motorcity S.p.A.)	500	-	500	500	-	500
Tiscali Int.l Network SA (ex Nets SA)	-	-	-	17,720	(3,105)	14,615
Quinary S.p.A.	29,474	(18,378)	11,096	24,292	(18,378)	5,914
STS Studi Tecnologie e Sistemi S.r.l.	3,228	-	3,228	3,228	-	3,228
Tiscali Armement Sarl	892	-	892	892	-	892
Tiscali Belgium Holding SA in liquidazione	-	-	-	57	(57)	-
Tiscali Datacomm Ag (ex Datacomm AG)	75,622	(35,300)	40,322	63,682	(35,300)	28,382
Tiscali Finance SA	125	-	125	125	-	125
Tiscali Reseaux SA (ex Tiscali France SA)	-	-	-	154,597	(149,597)	5,000
Tiscali Deutschland Gmbh (ex Nikoma)	283,475	(230,309)	53,166	283,475	(230,309)	53,166
Tiscali Telecomunicaciones SA	2,452	(2,327)	125	2,452	(2,327)	125
World Online International N.V.	1,809,694	(400,660)	1,409,034	1,809,694	(400,660)	1,409,034
Andaledda S.p.A.	88	-	88	88	-	88
Connect Software Inc.	1,027	-	1,027	1,027	-	1,027
Gilla Servizi Telecomunicaz. S.r.l. (ex Gilla S.p.A.)	1,295	(1,250)	45	1,250	(1,250)	-
SurfEU.com Ltd in liquidazione	-	-	-	26,784	(18,219)	8,565
Tiscali Czech Republic S.r.o.	39	-	39	39	-	39
Tiscali I.T.S. S.r.l.	1,593	-	1,593	-	-	-
Total	**2,853,564**	**(778,419)**	**2,075,145**	**3,067,505**	**(967,807)**	**2,099,698**

Affiliated companies

AFFILIATED COMPANIES	31.12.2002			31.12.2001		
	COST	WRITE-UPS (DOWNS)	B/S VALUE	COST	WRITE-UPS (DOWNS)	B/S VALUE
FreeTravel S.p.A.in liquidazione	250	(250)	-	250	-	250
Ariete Telemedia S.r.l	744	(744)	-	744	-	744
Total	**994**	**(994)**	**-**	**994**	**-**	**994**

OTHER COMPANIES	31.12.2002 COST	31.12.2002 WRITE-UPS (DOWNS)	31.12.2002 B/S VALUE	31.12.2001 COST	31.12.2001 WRITE-UPS (DOWNS)	31.12.2001 B/S VALUE
Crs4	126	-	126	126	-	126
Consorzio Green Management	5	(5)	-	5	-	5
Mix S.r.l.	1	-	1	1	-	1
Stud Soc. Consortile	15	-	15	15	-	15
Tiscali Int.l Network S.p.A. (ex Nets Broadband S.p.A.)	34	-	34	34	-	34
Netchemya S.p.A. in liquidazione	4,550	(4,550)	-	4,550	-	4,550
Janna S.C.p.a.	33	-	33			
Total	**4,764**	**(4,555)**	**209**	**4,731**	**-**	**4,731**

Changes during the year

The changes in the composition of holdings during the year are listed in the table below.

GROUP COMPANIES	BALANCE 31.12.2001	INCREASES	(DISPOSALS)	WRITE-UPS (DOWNS)	OTHER CHANGES	BALANCE 31.12.2002
Best Engineering S.p.A.	1,290	-	-	-	-	1,290
C D Telekomunikace S.r.o.	13,807	28,882	-	(39,480)	(3,209)	-
Energy Byte S.r.l.	523	154	-	(677)	-	-
Excite Italia B.V.	27,000	6,424	(2,776)	-	-	30,648
Guglielmo Gmbh	4,193	-	(4,193)	-	-	-
Ideare S.p.A.	2,998	-	-	-	-	2,998
Informedia S.r.l.	258	-	-	(258)	-	-
Liberty Surf Group SA	518,929	-	-	-	-	518,929
Tiscali Motoring S.r.l (ex Motorcity S.p.A.)	500	-	-	-	-	500
Tiscali Int.l Network SA (ex Nets SA)	14,615	-	(14,615)	-	-	-
Quinary S.p.A.	5,914	5,182	-	-	-	11,096
STS Studi Tecnologie e Sistemi S.r.l.	3,228	-	-	-	-	3,228
Tiscali Armement Sarl	892	-	-	-	-	892
Tiscali Datacomm Ag (ex Datacomm AG)	28,382	11,940	-			40,322
Tiscali Finance SA	125	-	-	-	-	125
Tiscali Reseaux SA (ex Tiscali France SA)	5,000	-	(5,000)	-	-	-
Tiscali Deutschland Gmbh (ex Nikoma)	53,166	-	-	-	-	53,166
Tiscali Telecomunicaciones SA	125	-	-	-	-	125
World Online International N.V.	1,409,034	-	-	-	-	1,409,034
Andaledda S.p.A.	88	-	-	-	-	88
Connect Software Inc.	1,027	-	-	-	-	1,027
Gilla Servizi Telecomunicaz. S.r.l. (ex Gilla S.p.A.)	-	216	(171)	-	-	- 45
SurfEU.com Ltd in liquidazione	8,565	-	-	-	(8,565)	-
Tiscali Czech Republic S.r.o.	39	422	-	-	(422)	39
Tiscali I.T.S. S.r.l.	-	26,973	-	(25,380)	-	1,593
Total	**2,099,698**	**80,193**	**(26,755)**	**(65,795)**	**(12,196)**	**2,075,145**

The changes that took place in 2002 came to increases of EUR 80.2m and decreases of some EUR 104.7m, of which EUR 26.8m related to disposals, EUR 65.8m to write-downs and EUR 12.2m to other changes.

A brief description of the most significant operations carried out during the year is set out below:

CD Telekomunikace Sro

The EUR 28.8m rise in value of the holding in CD Telekomunikace Sro relates to a capital increase fully subscribed by Tiscali SpA in May 2002, and carried out via a conversion of loans made to the subsidiary.

In December 2002, Tiscali SpA signed a contract to sell 100% of CD Telekomunikace Sro to Eurolight Associates Limited, pending the approval of the Czech competition authorities. The holding has therefore been written down by EUR 39.5m to bring it into line with the sale price of EUR 3.2m, and is now listed under item C) III 1) of current assets.

The sale was carried out as part of the group's restructuring of its Czech activities. The sale also included a contract for the purchase of fibre optic equipment by Tiscali Czech Republic at below market prices.

Excite Italia B.V.

In March 2002, Tiscali SpA, which already held a 70% stake in Excite Italia, acquired the remaining 30% from Excite@Home via the issue of 300,121 new shares for a total value of EUR 2.9m.

The further increase of EUR 3.4m and decrease of EUR 2.7m relate to the exercise of a call option and the subsequent sale in June 2002 of 384 shares in Excite Italia BV given to the management of this company.

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

Guglielmo Gmbh

In March 2002, Guglielmo Gmbh was sold to Tiscali's indirectly-owned German company, Tiscali Gmbh, at its book value of EUR 4.2m.

Tiscali International Network SA (ex Nets SA)

In June, Nets SA, renamed Tiscali International Network SA in 2002, was sold to Dutch subsidiary Tiscali International BV at its book value of EUR 14.6m.

Quinary S.p.A.

Tiscali SpA increased its stake in the company by EUR 5.2m by acquiring a further 14.97% of the capital, on top of the 70% it already owned. The acquisition cost was EUR 5.2m, financed through 1,022,321 newly-issued Tiscali shares.

Tiscali Datacomm A.G.

The EUR 11.9m increase relates to the acquisition of the remaining 20% of the Swiss company's capital, which Tiscali SpA did not already own. Tiscali SpA financed the transaction in October 2002 with 2,278,287 newly issued Tiscali shares.

Tiscali Reseaux SA (ex Tiscali France SA)

The company was sold in March 2002 to French group Tiscali Telecom SA, which Tiscali SpA indirectly owns via LibertySurf Group SA, at its book value of EUR 5m.

SurfEU.Com LTD in liquidazione

The process of voluntary liquidation of this company, which began in December 2001, was completed in July 2002. The shareholders' meeting allocated the shareholders' equity resulting from the liquidation (EUR 10.9m) to Tiscali SpA, the sole shareholder in SurfEU.Com LTD, generating a final income of EUR 2.3m.
The final shareholders' equity allocated when the company was liquidated related to receivables from and payables to group companies of EUR 11.9m and EUR 0.9m respectively.

Tiscali Czech Republic S.r.o.

The EUR 0.4m rise in the value of the holding relates to the cancellation by the parent company of a loan granted to the subsidiary to recapitalise it, resulting in a debt for this amount appearing on the profit and loss accounts.

Tiscali Information Technology Services S.r.l. (Tiscali I.T.S. S.r.l.)

In November 2002, Tiscali SpA acquired 100% of Tiscali Information Technology Services Srl (previously P.L.& C. Srl) for EUR 26.9m (shareholders' equity + EUR 1.4m).
In December 2002, the company paid out dividends of EUR 24m entered under the 'Income from holdings' item of 'Financial Income' on the profit and loss accounts. This led to a write-down of EUR 25.4m to bring the value of the holding into line with the new value of the company's shareholders' equity.

GROUP COMPANIES	BALANCE 31.12.2001	INCREASES	(DISPOSALS)	WRITE-UPS (DOWNS)	OTHER CHANGES	BALANCE 31.12.2002
FreeTravel S.p.A. in liquidazione	250	-	-	(250)	-	-
Ariete Telemedia S.r.l	744	-	-	(744)	-	-
Total	**994**	**-**	**-**	**(994)**	**-**	**-**

OTHER COMPANIES	BALANCE 31.12.2001	INCREASES	(DISPOSALS)	WRITE-UPS (DOWNS)	OTHER CHANGES	BALANCE 31.12.2002
Crs4	126	-		-	-	126
Consorzio Green Management	5	-	-	(5)	-	
Mix S.r.l.	1	-	-	-	-	1
Stud Soc. Consortile	15	-	-	-	-	15
Tiscali Int.l Network S.p.A.(ex Nets Broadband S.p.A.)	34	-	-	-	-	34
Netchemya S.p.A. in liquidazione	4,550	-	-	(4,550)	-	-
Janna S.C.p.a.	-	33	-	-	-	33
Total	**4,731**	**33**	**-**	**(4,555)**	**-**	**209**

Tiscali has a 10% holding in Tiscali Intl. Network SpA (ex Nets Broadband SpA), while the remaining 90% is held by Tiscali International Network SA (ex Nets SA), which is 100% owned by Tiscali SpA through Dutch company Tiscali International BV. Tiscali SpA therefore indirectly holds 100% of the company.
Netchemya, set up to develop unbundled ADSL services, went into liquidation in November and as a precaution, has been completely written off.

ADDITIONAL INFORMATION

Holdings in group companies

COMPANY NAME	HEAD OFFICE	SHARE CAPITAL	SHAREHOLDER S'EQUITY	PROFIT (LOSS)	% HELD	B/S VALUE
Best Engineering S.p.A.	Torin	843	823	(3)	60.00%	1,290
Energy Byte S.r.l.	Milan	68	(46)	(174)	100.00%	-
Excite Italia B.V.	Amsterdam	76	16,022	967	100.00%	30,648
Ideare S.p.A.	Pisa	520	2,945	(248)	60.00%	2,998
Informedia S.r.l.	Rome	52	12	(56)	95% (***)	-
Liberty Surf Group Sa	Paris	(*) 75,280	(*) 130,983	(*) (21,876)	94.50%	518,929
Tiscali Motoring S.r.l (ex Motorcity S.p.A.)	Cagliari	100	100	(105)	60.00%	500
Quinary S.p.A.	Milan	1,280	813	(365)	84.97%	11,096
STS S.r.l.	Rome	100	544	(10)	50.00%	3,228
Tiscali Armament Sarl	Paris	8	(101)	(96)	100.00%	892
Tiscali Datacomm Ag (ex Datacomm AG)	Basle	20,724	6,889	(5,039)	100.00%	40,322
Tiscali Finance SA	Brussels	125	(20,730)	486	100.00%	125
Tiscali Deutschland Gmbh (ex Nikoma)	Hamburg	(*) 72,946	(*) (79,136)	(*) (47,741)	100.00%	53,166
Tiscali Telecomunicaciones SA	Madrid	2,100	(4,672)	(3,674)	99.99%	125
World Online International N.V.	Maarsen (NL)	115,519	657,782	(90,170)	99.49%	1,409,034
Andaledda S.p.A.	Cagliari	(**) 103	(**) 88	(**) (3)	85.00%	88
Connect Software Inc.	S. Francisco (USA)	(**) 48	(**) (43)	(**) (2)	100.00%	1,027
Gilla Servizi Telecomunicaz. S.r.l. (ex Gilla S.p.A.)	Cagliari	50	(1,157)	(1,507)	90.00%	45
Tiscali Czech Republic s.r.o.	Prague	505	(43)	(23)	100.00%	39
Tiscali I.T.S. S.r.l.	Cagliari	(**) 780	(**) 1,544	(**) 19	100.00%	1,593
Total						**2,075,145**

*(*) Data pertaining to subsidiaries' consolidated companies.*
*(**) Data referring to the updated accounting position, since the accounts for the year concerned have yet to be approved.*
*(***) The remaining 5% is held by Andaledda SpA.*

The ongoing group reorganisation has entailed the revaluation of book values of holdings to align them with the changed market conditions, as detailed above. However, we believe that the residual value of long-term investments, while exceeding the amount of equity, provides a fair picture of the sector's development potential. The differences between the residual value and the amount of equity are mainly due to the goodwill value of the subsidiaries.
With regard to STS Srl, the company holds a de facto controlling stake, since the Chairman and CEO—as well as being majority shareholder of Tiscali SpA—owns a further 10% of the company.

Holdings in group companies

COMPANY NAME	HEAD OFFICE		SHARE CAPITAL		SHAREHOLDER'S EQUITY		PROFIT (LOSS)	% HELD	B/S VALUE
Ariete Telemedia S.r.l.	Milan	(*)	52	(*)	46	(*)	(36)	40%	-
FreeTravel S.p.A. in liquidazione	Milan	(**)	500	(**)	268	(**)	(19)	50%	-

*(*) Data referring to the updated accounting position, since the accounts for the year concerned have yet to be approved.*
*(**) Data referring to the accounting position during the liquidation on 31 August 2002.*

C) CURRENT ASSETS

I - Inventories - raw materials, supplies and consumables

Inventories consist largely of goods for resale and consumables.
A schedule of changes in inventories follows:

INVENTORIES - RAW MATERIALS, SUPPLIES AND CONSUMABLES	31.12.2002	31.12.2001	CHANGE
Telephone cards and various components	346	244	102
Goods for resale	862	1.084	(222)
Total	**1,208**	**1,328**	**(120)**

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

II – Receivables

Receivables from customers arise from the sale of telephone and internet services, totaling EUR 72.6m, mainly consisting of the invoicing of usage-based fees for traffic generated by Tiscali subscribers on third party fixed-lines, and advertising revenues. The company is currently making stringent efforts to collect outstanding receivables.
To align the value of receivables with that of the estimated market value, bad debt provision has been set at approximately EUR 26.1m.
Net trade receivables therefore total EUR 46.6m compared to EUR 45.3m last year.

Analysis of receivables

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

WORKING CAPITAL	31.12.2002 RECEIVABLES FALLING DUE			31.12.2001 RECEIVABLES FALLING DUE		
	with in 1 year	in 1 to 5 years	after 5 years	with in 1 year	in 1 to 5 years	after 5 years
Receivables:						
Trade receivables	46,583	-	-	45,354	-	-
From subsidiaries	64,228	97,328	-	130,984	1,915	-
From non-consolidated subsidiaries and affiliated	-	-	-	659	-	-
From others	33,311	293	-	22,372	234	-
Total	**144,122**	**97,621**	**-**	**199,369**	**2,149**	**-**

RECEIVABLES FROM GROUP COMPANIES

Receivables from group companies are detailed below:

GROUP COMPANIES:	FINANCIAL RECEIVABLES		TRADE RECEIVABLES		TOTAL
	⇠ 1 year	⇢ 1 year	⇠ 1 year	⇢ 1 year	
Best Engineering SpA	566	-	3	-	569
Energy Byte S.r.l	225	-	58	-	283
Excite Italia BV	-	-	2,322	-	2,322
Ideare SpA	-	-	66	-	66
Informedia S.r.l.	99	-	238	-	337
Liberty Surf Group SA	-	-	77	-	77
Quinary SpA	-	-	114	-	114
STS S.r.l.	-	-	3	-	3
Tiscali Datacomm AG	-	-	2,219	-	2,219
Tiscali Deutschland Gmbh (ex Nikoma)	-	17,328	3,420	-	20,748
Tiscali Finance SA	-	-	128	-	128
Tiscali International BV	10,142	80,000	15,960	-	106,102
Tiscali International Network SA (ex Nets SA)	40	-	438	-	478
Tiscali Motoring Srl (ex Motorcity SpA)	197	-	3	-	200
Tiscali Telecomunicaciones SA	-	-	1,178	-	1,178
Andaledda S.p.A.	5	-	-	-	5
CD Telekomunikace Sro	25,302	-	-	-	25,302
Connect Software Inc.	49	-	-	-	49
Gilla Servizi Telecomunicazioni S.r.l. (ex Gilla S.p.A.)	812	-	293	-	1,105
Tiscali Armement Sarl	263	-	-	-	263
Tiscali I.T.S. S.r.l	1	-	-	-	1
Tiscali Czech Republic S.r.o.	-	-	7	-	7
Total	**37,701**	**97,328**	**26,527**	**-**	**161,556**

Receivables from group companies posted as long-term receivables refer to financial receivables that the parent company intends to convert into capital increases for companies in which it holds

a stake. In particular, this covers the sum of about EUR 17.3m in respect of German company Tiscali Gmbh, indirectly owned by Tiscali SpA through Tiscali Deutschland Gmbh. EUR 11.2m relates to financial receivables acquired following the liquidation of its subsidiary SurfEU.Com Ltd in July 2002. For further details, please refer to the section on holdings.
Receivables from Tiscali International BV include EUR 80mn from the acquisition of Springboard Internet Services Ltd concluded in 2001. These receivables do not generate interest since they are destined to form part of an increase in the capital of the subsidiary, as part of the group's reorganisation.
With regard to receivables totaling EUR 25.3m from CD Telekomunikace Sro, on 18 December 2002, Tiscali signed a contract for the sale of 100% of the company capital to Eurolight Associates Limited. This sales contract is subject to certain conditions, including the transfer of Tiscali SpA's holding in CD Telekomunikace Sro to Eurolight Associates Limited, as stated in the comments on holdings.
Trade receivables relate to the billing of group companies for services carried out by the holding company, as well as passing on costs sustained by Tiscali SpA that pertain to group companies.

ANALYSIS OF OTHER RECEIVABLES

Other receivables break down as follows:

	FINANCIAL	
	BALANCE 31.12.2002	BALANCE 31.12.2001
Receivable within one year		
withholding taxes	436	433
receivables from the Treasury for contributions under Law 388, art. 8	572	6,209
receivables from employees	15	4
receivables from others	33	26
tax credits on dividends	9,019	-
VAT refunds receivable	13,834	-
VAT receivables	6,751	15,586
other receivables	2,651	113
	33,311	**22,371**
Receivable after one year		
Deposits	293	234
	293	**234**
Total	**33,604**	**22,605**

Remaining contributions for investments carried out during the 2001 financial year totaled EUR 0.6m, accruing from the subsidies granted under article 8 of Law 388. A matching item to the amount of EUR 6.2m was posted on the liabilities side under deferrals, since the benefit, which accrued in 2002 (EUR 5.6m), is to be included in the profit and loss accounts in relation to its use.
The item 'tax credits on dividends' includes EUR 9.0m of tax credits resulting from the payment

of dividends by Tiscali I.T.S. International Technology Services Srl, acquired during the year. An application was made for the reimbursement of VAT amounting to EUR 13.8m in 2002. The tax office has to date settled EUR 8.6m of the credit.
'Other receivables' include advance payments from suppliers of EUR 2.6m. This amount has been reduced in previous financial years by payables to suppliers.

III – Investments other than non-current assets

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

Other securities

	31.12.2001			31.12.2002		
	COST	WRITE-UPS (DOWNS)	B/S VALUE	COST	WRITE-UPS (DOWNS)	B/S VALUE
Holdings in group companies	3,209	-	3,209	-	-	-
Bonds	-	-	-	8,536	-	8,536
Total Securities	**3,209**	**-**	**3,209**	**8,536**	**-**	**8,536**

The holding listed as a long-term investment under current assets refers to CD Telecomunikace Sro, as an agreement was struck during the year for its disposal, subject to a suspensive condition that had not been met as of the date of this report.

The bonds were sold in June, to take advantage of favourable market prices, thereby generating a trading profit.

IV – Cash and cash equivalents

Cash and cash equivalents break down as follows:

	31.12.2002	31.12.2001	CHANGE
bank and post office deposits	2,073	223	1,850
cash and other negotiable instruments	6	17	(11)
Total	**2,079**	**240**	**1,839**

D) Accrued income and deferred charges

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

	31.12.2002	31.12.2001	CHANGE
Accrued income:			
Accrued interest	184	2	182
Deferred charges:			
Insurance premiums	-	63	(63)
Leasing payments	338	2,503	2,503
Rentals	43	440	(397)
Pre-paid expenses	312	201	111
Other deferred charges	987	5,020	(4,033)
Accrued income and deferred	**1,680**	**8,227**	**(6,547)**
charges	**1,864**	**8,229**	**(6,365)**

The 'Accrued interest' item includes EUR 0.15m for interest on VAT refunds receivable.

Liabilities

A) Shareholders' equity

Statement of changes in shareholders' equity

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

	BALANCE 31.12.2001	ALLOCATION OF EARNINGS	DIVIDENDS	OTHERS CHANGES	NET PROFIT (LOSS)	BALANCE 31.12.2002
Share Capital	179,209	-	-	1,658	-	180,867
Share premium reserve	2,654,963	(1,041,208)	-	19,141	-	1,632,896
Other reserves:						
Retained earnings (losses carried forward)	-	-	-	-	-	-
Profit (loss) for the year	(1,041,208)	1,041,208	-	-	(152,297)	(152,297)
Total	**1,792,964**	**-**	**-**	**20,799**	**(152,297)**	**1,661,466**

At 30 June 2002, the company's share capital was EUR 180,867,067.50 consisting of 361,734,135 ordinary shares with a nominal value of EUR 0.50 each.

The extraordinary general meeting held on 30 April 2002 voted to cover losses relating to the 2001 financial year by using EUR 1,041,208,369.50 from the share premium reserve.

Other capital increases and increases in the share premium reserve that occurred during the year came about as a result of takeover operations by means of share transfers. During the course of the financial year, a total of 3,316,477 shares were issued, at a nominal amount of EUR 1,658,237.50.

At the same time, the share premium reserve was increased by EUR 19,141,612.67, but after the use of an amount to cover losses, a net decrease of EUR 1,022,066,756.83 was shown on this line.

As stated earlier, art. 2444 of the Italian civil code stipulates that references to capital increases must not appear in company records before they are recorded in the Italian companies register. For this reason, the issue of shares to pay for the acquisition of a 14.97% stake in Quinary-although this took place on 1 October 2002-was not included in this report because the companies register was not notified until 9 January 2003.

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

	ISSUE DATE	NO. SHARES ISSUED	SHARE CAPITAL INCREASE EUR	SHARE PREMIUM RESERVE
Exercise of warrants - Connect Software - I tranche	29/01/2002	74,349	37,175	-
Neue Medien Ulm HLD Gmbh	28/03/2002	589,371	294,686	5,505,315
Acquisition 30% Excite	17/05/2002	300,121	150,060	2,834,940
Use of share premium reserve to cover losses	30/04/2002			(1,041,208,370)
Exercise of warrants - Connect Software - II tranche	16/07/2002	74,349	37,175	-
Issue of Dino Trovato shares (Tiscali Datacomm AG)	07/11/2002	2,278,287	1,139,144	10,801,359
Total		**3,316,477**	**1,658,240**	**(1,022,066,756)**

The capital increase for Neue Medien was fully subscribed and paid up in cash. The issue for the acquisition of 30% of Excite took place through a transfer of shares.

SHARE CAPITAL COMPOSITION (No. shares - 000)

Nominal value of each share EUR 0,50				
CATEGORY	**31.12.2001**	**INCREASES**	**(DECREASES)**	**31.12.2002**
Ordinary shares	358,417,658	3,316,477	-	361,734,135
Total	**358,417,658**	**3,316,477**	**-**	**361,734,135**

B) Provisions for risks and future liabilities

Provisions for risks and future liabilities are detailed below:

	BALANCE 31.12.2001	PROVISIONS	(AMOUNTS USED)	OTHER CHANGES	BALANCE 31.12.2002
Provision for exchange rate losses	130	8	(130)	-	8
Provisions for risks and future liabilities	22,872	31,613	(166)	-	54,319
Other provisions	-	375	-	-	375
Total	**23,002**	**31,996**	**(296)**	**-**	**54,702**

The allocation to the reserves for risks and future liabilities includes a provision of around EUR 31.6m to cover any losses arising in relation to holdings.

The ‘Other provisions’ item includes a provision to cover potential losses deriving from any legal disputes arising from the group’s restructuring.

C) Staff severance indemnity reserve

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

	BALANCE 31.12.2001	PROVISIONS	(AMOUNTS USED)	OTHER CHANGES	BALANCE 31.12.2002
Manual workers	12	4	-	-	16
Office workers	1,551	1,214	(195)	-	2,570
Senior managers	244	157	(35)	-	366
Total	**1,807**	**1,375**	**(230)**	**-**	**2,952**

This reserve consists of the actual amount payable by the company to its employees as at the dates shown, net of advance payments made. Amounts used represent payments made to employees who resigned during the period.

D) Payables

Analysis of payables

	31.12.2002	31.12.2001	CHANGE
Due to banks	44,119	14,590	29,529
Other short term financing	1,919	1,747	172
Trade account payable	100,692	64,412	36,280
Due to group and affiliated companies	554,160	475,846	78,314
Taxes payable	889	855	34
Due to social security agencies	919	675	244
Other payables	7,597	950	6,647
Total	**710,295**	**559,075**	**151,220**

The increase recorded under the “due to banks” line mainly derives from the disbursement of the first tranche of a loan granted to the company by Banca CIS for the construction of its new head-quarters (Tiscali Campus) and the purchase of the necessary land. The total amount of the loan is EUR 35m. During the year, a pre-financing amount and the first tranches of financing totaling EUR 12.5m were paid in respect of the stages of work completed. The pre-financing amount is fully repayable by the end of the next financial year. The loan term will cover a total period of 10 years, in addition to an initial 30-month period in which interest only is paid, although this may be reduced at the request of the borrower. Unless we decide otherwise therefore, the capital shall be repaid from 30/06/04.

EUR 8.5m of this increase derives from bringing forward VAT credits.

'Other short-term financing’ includes payables to French company France Finance SA in respect of financing for the purchase of equipment, repayable in 18 months (EUR 0.5m). The remainder will be fully paid off in the 12 months following the end of the period under review. It also includes payables of EUR 1.4m to IBM Italia Servizi Finanziari for a financing contract with regard to trade payables to be repaid according to an amortisation plan, to begin at the latest by the end of the following financial year (EUR 1.3m).

The increase under 'trade payables' is attributable to significant investments made in the year and the inclusion in the accounts of the acquisition of IRUs. The company will pay EUR 6.1m by the end of 2003 and EUR 14.5m over the following six years.

	31.12.2001			31.12.2002		
	1 year	From 1 to 5 years	Afte 5 years	1 year	Trade payables	Afte 5 years
due to banks	31,659	12,030	430	-		-
other short-term financing	539	1,380	-	-	-	-
trade payables	-	-	-	86,171	-	1,662
taxes payable	889	-	-	-	12,859	-
due to social security institutions	919	-	-	-	-	-
other payables	7,597	-	-	-	-	-
Total	**41,603**	**13,410**	**430**	**86,171**	**12,859**	**1,662**

Intracompany payables

Intracompany payables break down as follows:

GROUP COMPANIES	FINANCIAL PAYABLES		TRADE PAYABLES		TOTAL
	1 year	1 year	1 year	1 year	
Best Engineering S.p.A.	-	-	25	-	25
Energy Byte S.r.l	-	-	38	-	38
Excite Italia BV	12,911	-	4,720	-	17,631
Ideare S.p.A.	913	-	898	-	1,811
Informedia S.r.l.	-	-	64	-	64
Liberty Surf Group SA	-	-	1,783	-	1,783
Quinary S.p.A.	293	-	-	-	293
Tiscali Datacomm AG	3	-	82	-	85
Tiscali Deutschland Gmbh (ex Nikoma)	-	-	961	-	961
Tiscali Finance SA	3,058	-	-	-	3,058
Tiscali International BV	505,814	-	20,214	-	526,028
Tiscali Motoring S.r.l. (ex Motorcity SpA)	42	-	69	-	111
Tiscali Telecomunicaciones SA	-	-	290	-	290
Andaledda S.p.A.	56	-	-	-	56
Gilla Servizi Telecomunicazioni S.r.l. (ex Gilla S.p.A.)	-	-	136	-	136
Tiscali I.T.S. S.r.l	1,790	-	-	-	1,790
Total	**524,880**	**-**	**29,280**	**-**	**554,160**

Financial payables to group companies consist mainly of financing obtained by subsidiaries that had cash resources to carry out takeovers, and partly accrue from corporate restructuring operations.

In particular, interest-generating payables to Tiscali International BV increased by EUR 224.8m over the year, partly because Tiscali took over the debt of Tiscali Finance SA (EUR 162.5m at the end of the previous year); the remaining EUR 3.1m relates solely to interest accrued up to 31 December 2001; payables to Excite Italia BV accrued entirely during 2001 and generate interest at a floating rate, linked to the three-month EURIBOR.

ANALYSIS OF TAXES PAYABLE

	31.12.2002	31.12.2001	CHANGE
Payables to the Treasury for advance withholding tax	848	814	34
Other taxes	41	41	-
Total	**889**	**855**	**34**

Taxes and levies payable to the Treasury consist mainly of advance withholdings on personal income tax (IRPEF).

ANALYSIS OF OTHER PAYABLES

ANALYSIS OF OTHER PAYABLES	31.12.2002	31.12.2001	CHANGE
Emoluments payable to directors	585	100	485
Payables to personnel in lieu of holidays	1,744	705	1,039
Other payables	5,268	145	5,123
Total	**7,598**	**950**	**6,648**

Payables to directors include emoluments. In the previous year, various directors waived this payment, and this has resulted in the increase in 2002.
The ‘Payables to personnel’ line mainly refers to holiday owing and not taken by the end of the year (EUR 1.6m).
The ‘Other payables’ item includes payables of EUR 5.3m to the former shareholders of group company Quinary, resulting from the acquisition of 14.97% of the share capital, to be financed with newly issued Tiscali SpA shares. The capital increase for this operation was approved at the extraordinary shareholders’ meeting on 1 October 2002. As stated previously, pursuant to art. 2444 of the civil code, which prohibits the mention of the capital increase in the company articles of incorporation before it is entered in the companies register (which took place on 9 January 2003), this issue of shares has not been included in these accounts.

E) Accrued liabilities and deferred income

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

	31.12.2002	31.12.2001	CHANGE
Accrued liabilities:			
Accrued holiday bonuses	724	535	189
Others	587	63	524
	1,311	**598**	**713**
Deferred income:			
Pre-paid internet services	3,235	533	2.702
Pre-paid voice services	1,988	2,368	(380)
Deferred income for contributions under law 388, art. 8	572	6,209	(5,637)
Others	869	238	631
	6,664	**9,348**	**(2,684)**
Total	**7,975**	**9,946**	**(1,971)**

The 'Accrued liabilities' item includes provisions of around EUR 0.7m for holiday bonuses accrued, EUR 0.3m for costs to be attributed to the financial year in progress for interest payable, government grants and commissions.

Deferred income refers to future financial years' revenues for internet services pertaining to the 2002 financial year and residual receivables from the sale of pre-paid phone cards.

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

MEMORANDUM ACCOUNTS

	31.12.2002	31.12.2001	VARIAZIONE
GUARANTEES GIVEN			
sureties	254,830	250,000	4,830
	254,830	**250,000**	**4,830**
OTHER MEMORANDUM ACCOUNTS			
Leasing payments falling due	42,055	54,937	(12,882)
Warrants	110	183	(73)
Guarantees	10,877	11,060	(183)
	53,042	**66,180**	**(13,138)**
GUARANTEES RECEIVED			
sureties	2,448	7,227	(4,779)
	2,448	**7,227**	**(4,779)**
Total	**310,320**	**323,407**	**(13,087)**

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

The reduction in the memorandum accounts is mainly due to a EUR 12.8m decrease in leasing payments falling due.

In addition, new guarantees were given to CASIC (Area Consortium for the Industrial Development of Cagliari) via Banca CIS, in respect of the land acquired as detailed above (EUR1.2m), and to Autostrade for trade commitments (EUR 1.5m).

In addition, the EUR 5.2m surety given to Telecom Italia to guarantee the fulfillment of our contractual obligations has been closed.
New guarantees given to third parties in relation to contractual commitments total EUR 1.7m.

Profit and loss accounts

A) Value of production

Breakdown of sales and services

This account increased by EUR 0.8m on the previous period and includes the following items:

BREAKDOWN BY CATEGORY OF BUSINESS:	31.12.2002	31.12.2001	CHANGE
Access	69,328	60,851	8,477
Voice services	20,589	18,815	1,774
Portal services	20,070	15,616	4,454
Business services	6,471	3,916	2,555
Other services	15,536	15,840	(304)
Total	**131,994**	**115,038**	**16,956**

Overall, revenues increased by 14.7% on the previous year. This was due to the rise in revenues from access services (13.9%), online advertising (28.5%) and business services (+65.2%), and voice services (9.4%).

The advance in access revenues (EUR 2.1mn) was chiefly attributable to ASDL, a service which began at the end of the previous year (+ EUR 6.4m). Fees for traffic generated on third-party fixed-lines also rose, by EUR 2.2m, with interconnection minutes climbing from 8.6 billion in 2001 to 9.1 billion in 2002.

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

Practically all revenues were recorded in EU countries. Transactions between group companies produced a sum of EUR 16.9m, as shown in more detail below.

ANALYSIS OF INTRACOMPANY REVENUES

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

	AMOUNT
Tiscali International BV	12,033
Tiscali Deutschland Gmbh (ex Nikoma)	1
Tiscali International Network SA (ex Nets SA)	333
Tiscali Datacomm AG	561
Energy Byte S.r.l.	47
Excite Italia BV	3,590
STS S.r.l.	15
Quinary SpA	204
Ideare SpA	24
Gilla Servizi Telecomunicazioni S.r.l. (ex Gilla S.p.A.)	98
Total	**16,906**

Revenues from group companies mainly derive from the invoicing of expenses borne by the parent company on their behalf and services carried out centrally by the holding company. Specifically, billing services and IT accounting services are undertaken by the parent company.

OTHER INCOME

	31.12.2002	31.12.2001	CHANGE
Other income	8,893	-	8,891

'Other income' includes contributions received in 2001 in respect of incentives set out under art. 8 of Law 388 on investment (EUR 8.3m) and those set out under art. 7 of Law 388 (EUR 0.5m).

B) Production cost

Purchase of raw materials, supplies and consumables

	31.12.2002	31.12.2001	CHANGE
Purchase of goods destined for resale	1,359	1,511	(152)
Purchase of consumables	252	468	(216)
Purchase of advertising and promotional materials	456	379	77
Other purchases	1	8,342	(8,341)
Total	**2,068**	**10,700**	**(8,632)**

The reduction in purchasing costs is mainly due to the end of the cabling project in the Czech Republic on behalf of the subsidiary CD Telecomunikace. The “Other purchases” line covers fibre optic cables purchased for this project.

Analysis of expenses for the provision of services

	31.12.2002	31.12.2001	CHANGE
Rental of telephone lines and ports	23,250	26,157	(2,907)
Traffic acquisition costs	13,588	14,352	(764)
Advertising and promotional expenses	42,017	15,264	26,753
Maintenance costs	7,789	5,881	1,908
Advisory services	6,396	6,503	(107)
Sale charges	1,986	867	1,119
Utilities	1,329	1,223	106
Bank and postal charges	595	331	264
Travel and transport costs	74	151	(77)
Other services	23,040	21,099	1,941
Total	**120,064**	**91,828**	**28,236**

Overall, the cost of service provision increased by 30.7% on the previous year.
The most significant line items consist of:

Rental costs for telephone lines and ports decreased, despite the higher production capacity (particularly in relation to connectivity) offered by the development of the network (the number of POPs rose from 29 to 39 over the year) and the fibre-optic backbone/ring.

Traffic acquisition costs totalling EUR 13.6m were generated by voice services and the costs of terminating international calls to mobiles; these also include variable interconnection costs. Despite the increase in voice revenues, these costs fell, reflecting a general fall in traffic costs and more efficient routing to various destinations.

Advertising and promotional costs rose EUR 26.8m due to the national and Europewide campaign, designed to boost awareness of the brand across Europe. These included sponsorship contracts for the BAR Formula 1 team and the Danish cycling squad, and in Italy, the launch of the ‘Tutto Tiscali’ integrated internet-voice service and ADSL services.

Maintenance costs rose to EUR 7.8m, mainly due to the increase in company investments.

Costs relating to the 'Other services' item included around EUR 5.6m for the purchase of content, EUR 5.6m for costs borne on behalf of other group companies and passed on to same, around EUR 4.3m for business trips and relocations and EUR 0.6m for emoluments to company directors.

INTRACOMPANY PRODUCTION COSTS

Intracompany production costs break down as follows:

	AMOUNT
Best Engineering S.p.A.	17
Energy Byte S.r.l	186
Excite Italia BV	5,299
Ideare S.p.A.	15
Liberty Surf Group SA	1,299
Tiscali Datacomm AG	79
Tiscali Deutschland Gmbh (ex Nikoma)	961
Tiscali International B.V.	4,572
Tiscali Motoring S.r.l. (ex Motorcity SpA)	754
Tiscali Telecomunicaciones SA	36
Gilla Servizi Telecomunicazioni S.r.l. (ex Gilla S.p.A.)	382
Tiscali Armement Sarl	850
Total	**14,450**

Costs invoiced by Tiscali International BV mainly refer to the transfer of expenses in respect of services and personnel working in the offices of the parent company.

The costs of Excite Italia, LibertySurf, Tiscali Deutschland and Tiscali Armement are mainly advertising costs. The costs invoiced by Tiscali Motoring cover the content updates throughout Europe.

COST OF USING THIRD-PARTY ASSETS

	31.12.2002	31.12.2001	CHANGE
Financial and operating leasing fees	17,636	13,987	3,649
Rentals	2,157	1,525	632
Others	644	328	316
Total	**20,437**	**15,840**	**4,597**

The increase with respect to the previous financial year relates to a sharp increase in spending on leases.

PERSONNEL COSTS

	31.12.2002	31.12.2001	CHANGE
Wages and salaries	21,689	16,129	5,560
Social security contributions	4,208	1,914	2,294
Staff severance indemnity	1,375	1,148	227
Other costs	372	35	337
Total	**27,644**	**19,226**	**8,418**

The increase reflects the significant rise in staff numbers, from 733 at 31 December 2001 to 755 at 31 December 2002, partly as a result of the holding company activities carried out by the parent company. Furthermore, tax benefits received in previous years no longer applied in 2002.

OTHER OPERATING EXPENSES

	31.12.2002	31.12.2001	CHANGE
Government concessions and telecommunications licences	334	461	(127)
Taxes other than corporate income tax	110	54	56
Magazines and newspaper subscriptions	39	24	15
Other non-extraordinary contingent liabilities	3	986	(983)
Other minor charges	198	67	131
Total	**684**	**1,592**	**(908)**

C) FINANCIAL INCOME AND CHARGES

Income from equity investments

Income generated over the year is shown in the table below.
From group companies:

	INTERESTS	OTHERS	TOTAL
Tiscali Information Technology Services Srl	-	33,019	33,019
Tiscali Belgium	-	40	40
Surf EU.Com Ltd	-	2,376	2,376
Energy Byte, S.r.l,	8	-	8
Best Engineering SpA	16	-	16
Tiscali Armament S.a.r.l.	13	-	13
Tiscali Telecomunicaciones SA	8	-	8
Total	**45**	**35,435**	**35,480**

Tiscali I.T.S. Srl announced the payment of dividends totaling EUR 24m after the company was acquired in 2002. This payment generated a tax credit (basket A) of around EUR 9m.

Dividends received from Tiscali Belgium and Surf Eu.Com Ltd were allocated to shareholders in accordance with the final distribution plan following liquidation of the company.

ANALYSIS OF OTHER FINANCIAL INCOME

	31.12.2002	31.12.2001	CHANGE
from securities listed under working capital other than equity investments			
Interest from other securities	222	465	(243)
	222	**465**	**(243)**
earnings other than the above:			
from third parties			
Interest on VAT refunds receivable	41	165	(124)
Interest receivable on other short-term payables	1	6	(5)
Income from positive exchange rate movements	195	354	(159)
Total	**612**	**990**	**(378)**

Financial income accruing from "Securities listed under current assets other than holdings" refers to the interest accruing on Cariplo bonds. This figure was lower in 2002 than in 2001, as these bonds were sold during the year.

INTEREST AND OTHER FINANCIAL CHARGES

	31.12.2002	31.12.2001	CHANGE
due to subsidiaries			
Interest	753	14,528	(13,775)

Interest charges mainly relate to the EUR 0.6m loan granted to Excite Italia BV.

COMPOSITION OF OTHER FINANCIAL CHARGES

	31.12.2002	31.12.2001	CHANGE
Financial charges on:			
Amounts due to banks for overdrafts	1,391	677	714
Amounts due to banks for medium-/long-term loans	201	-	201
Amounts due to other financiers	96	41	55
Other payables	140	48	92
Exchange rate losses	84	120	(36)
Others	146	355	(209)
Total	**2,058**	**1,241**	**817**

This item mainly comprises interest charges due on bank overdrafts.
The "other charges" line covers interest payable on swap transactions.

D) Adjustments in valuation of long-term investments

Write-ups, write-backs and write-downs of holdings and other long-term investments are shown and commented on in the section on long-term investments.

E) Extraordinary income and charges

Composition extraordinary income

DESCRIPTION	31.12.2002	31.12.2001	CHANGE
Extraordinary income:			
Contingent assets and non-existent liabilities	979	5,747	(4,768)
	979	**5,747**	**(4,768)**
Capital gains on disposals of non-current assets:			
Capital gains on disposals of long-term investments	-	2,849	(2,849)
Total	**-**	**2,849**	**(2,849)**

Contingent assets derive from a EUR 0.3m offsetting transaction in respect of loans granted to the Liberty Surf Group subsidiary and a EUR 0.3m payment for withdrawal from the IMI WEB options contract.

Composition of extraordinary charges

DESCRIPTION	31.12.2002	31.12.2001	CHANGE
Extraordinary charges:			
Contingent liabilities and non-existent assets	8,136	15,657	(7,521)
Other extraordinary charges	10,312	50,167	(39,855)
Capital losses on disposals of assets	1,553	-	(1,553)
Write-downs on holdings	-	921,690	(921,690)
Total	**20,001**	**987,514**	**(967,513)**

'Contingent liabilities' includes EUR 0.9m in interest payable on loans taken out in 2001 for the subsidiaries Tiscali Belgium and Tiscali Telecomunicaciones, EUR 5.1m comprising a number of minor cost items not established in previous financial years, EUR 0.2m in higher revenues attributed to previous years and EUR 1.9m in non-existent assets.

'Other extraordinary charges' include EUR 2.7m for the higher acquisition price paid for Surf EU.Com Ltd, a company acquired from the subsidiary Tiscali International BV, EUR 5.8m in subscriber acquisition costs for Germany spent by the parent company, and payments totaling EUR 0.8m to Telecom Italia and Autostrade in respect of agreements terminated early.

OTHER INFORMATION

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

	AVERAGE 31.12.2002	31.12.2002	AVERAGE 31.12.2001	31.12.2001
Manual workers	7	7	7	7
Office workers	650	655	641	645
Middle managers	57	59	50	55
Senior managers	30	34	23	26
Total	**744**	**755**	**721**	**733**

Remuneration of Directors and Statutory Auditors

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

SURNAME & NAME	POSITION		TERM IN OFFICE	EMOLUMENTS	NON-MONETARY BENEFITS	BONUSES AND OTHER INCENTIVES
Board of Directors						
Soru Renato	Chairman & CEO	(1)	until approval of results 2004	-	-	-
Piol Elserino	Director	(2)	until approval of results 2004	-	-	-
Hauser Hermann	Director	(2)	until approval of results 2004	-	-	-
Bernabè Franco	Director	(3)	until approval of results 2004	-	-	-
Prêtre Gabriel	Director	(4)	until approval of results 2002	-	-	-
Bischoff Victor	Director	(3)	until approval of results 2004	-	-	-
Board of Statutory Auditors						
Zini Andrea	Chairman	(5)	3 years	77,226	-	-
Casu Rita	Statutory Auditor	(6)	3 years	54,859	-	-
Maccioni Piero	Statutory Auditor	(7)	3 years	54,332	-	-
Biondo Giuseppe	Substitute Auditor	(7)	3 years	-	-	-
Bianchi Livio	Substitute Auditor	(7)	3 years	-	-	-

(1) Chairman from 30 June 1999 and Chief Executive since 21 July 1999, subject to renewal
(2) Appointed on 30 June 1999
(3) Appointed on 30 June 2000
(4) Appointed on 13 February 2003, co-opted by Director James Michael Kinsella
(5) Appointed on 17 April 2000 – Chairman since 17 April 2000
(6) Appointed on 17 April 2000 – Chairman until 17 April 2000
(7) Appointed on 17 April 2000

DEALINGS WITH RELATED COMPANIES

During the year, members of the board maintained, either directly or indirectly, various dealings with related companies. Specifically, director Franco Bernabè had dealings with Bernabè Franco & C. SpA, Kelyan SMC SpA and Kelyan SpA, which generated EUR 1.9m in expenses for services related to the company's data warehouse project and consultancy services for IT operating systems. The consultancy services services were charged at market prices.

ACCOUNTS ANALYSIS

To provide a comprehensive overview of the parent company's accounts, the following tables contain a short analysis consisting of the Restated Balance Sheet, the Restated Profit and Loss Account, a series of balance sheet ratios and the Statement of Changes in Financial Position.

Balance sheet analysis

ASSETS	31.12.2002	%	31.12.2001	%	CHANGE	CHANGE %
CURRENT ASSETS						
Cash and banks	2,079		240		1,839	766.25%
Receivables	46,583		45,354		1,229	2.71%
Receivables from group companies	144,229		131,644		12,585	9.56%
Other receivables	33,311		22,371		10,940	48.90%
Inventory	1,208		1,328		(120)	-9.04%
Pre-payments and accrued income	1,864		8,229		(6,365)	-77.35%
Other current assets	3,209		8,536		(5,327)	-62.41%
Total current assets	**232,483**	**9.54%**	**217,702**	**9.12%**	**14,781**	**6.79%**
NON-CURRENT ASSETS						
Fixed assets	34,775		15,713		19,062	121.31%
Intangible assets	77,158		45,805		31,353	68.45%
Investments and securities	2,075,354		2,105,423		(30,069)	-1.43%
Other non-current assets	17,621		2,149		15,472	719.96%
Total non-current assets	**2,204,908**	**90.46%**	**2,169,090**	**90.88%**	**35,818**	**1.65%**
TOTAL ASSETS	**2,437,391**	**100.00%**	**2,386,792**	**100.00%**	**50,599**	**2.12%**

Balance Sheet

LIABILITIES AND SH. EQUITY	31.12.2002	%	31.12.2001	%	CHANGE	CHANGE %
CURRENT LIABILITIES						
Banks	31,659		14,590		17,069	116.99%
Other financial payables	-		-	-		-
Trade creditors (within 12 months)	86,172		64,412		21,760	33.78%
Payables to group companies	554,160		475,846		78,314	16.46%
Other creditors	10,435		3,242		7,193	221.87%
Accrued liability and deferred income	7,975		9,946		(1,971)	-19.82%
Tax payables	889		855		34	3.98%
Total current liabilities	**691,290**	**28.36%**	**568,891**	**23.83%**	**122,399**	**21.52%**
MEDIUM-/LONG-TERM LIABILITIES						
Loans	12,460	-	130		12,330	9484.62%
Trade creditors (medium-/long-term)	14,521		-		14,521	-
Staff severance indemnity	2,952		1,807		1,145	63.36%
Provisions for risks and future liabilities	54,702		23,002		31,700	137.81%
Other medium-/long-term liabilities	-	-				-
Total medium-/long-term liabilities	**84,635**	**3.47%**	**24,939**	**1.04%**	**59,696**	**239.37%**
Total liabilities	**775,925**	**31.83%**	**593,830**	**24.88%**	**182,095**	**30.66%**
SHAREHOLDERS' EQUITY						
Share capital	180,867		179,209		1,658	0.93%
Reserves	1,632,896		2,654,962		(1,022,066)	-38.50%
Net profit	(152,297)		(1,041,209)		888,912	-85.37%
Total shareholders' equity	**1,661,466**	**68.17%**	**1,792,962**	**75.12%**	**131,496**	**-7.33%**
TOTAL	**2,437,391**	**100.00%**	**2,386,792**	**100.00%**	**50,599**	**2.12%**

Analysis of profit and loss accounts

PROFIT AND LOSS ACCOUNTS	31.12.2002	%	31.12.2001	%	CHANGE	CHANGE %
Net sales	**140,887**	**100.00%**	**115,038**	**100.00%**	**25,849**	**22.47%**
operating costs:						
purchases	(2,068)	-1.57%	(10,700)	-9.30%	8,632	-80.67%
services rendered	(120,064)	-90.96%	(91,828)	-79.82%	(28,236)	30.75%
personnel costs	(27,644)	-20.94%	(18,437)	-16.03%	(9,207)	49.94%
increase (decrease) in inventories	(177)	-0.13%	559	0.49%	(736)	-131.66%
other running costs	(21,121)	-16.00%	(17,432)	-15.15%	(3,689)	21.16%
gross operating profit	**(30,187)**	**-22.87%**	**(22,800)**	**-19.82%**	**(7,387)**	**32.40%**
amortisation/depreciation	(19,865)	-15.05%	(10,826)	-9.41%	(9,039)	83.49%
other provisions	(45,159)	-34.21%	(22,426)	-19.49%	(22,733)	101.37%
net operating profit	**(95,211)**	**-72.13%**	**(56,052)**	**-48.72%**	**(39,159)**	**69.86%**
financial income	36,093	27.34%	9,548	8.30%	26,545	278.02%
financial charges	(2,811)	-2.13%	(15,769)	-13.71%	12,958	-82.17%
miscellaneous income	979	0.74%	8,598	7.47%	(7,619)	-88.61%
miscellaneous charges	(91,347)	-69.21%	(987,533)	-858.44%	896,186	-90.75%
profit before tax	**152,297**	**-115.38%**	**(1,041,208)**	**-905.10%**	**888,911**	**-85.37%**
corporate income tax for the year:						
current	-		-		-	-
deferred	-		-		-	-
PROFIT (LOSS) FOR THE YEAR	**(152,297)**	**-115.38%**	**(1,041,208)**	**-905.10%**	**888,911**	**-85.37%**

Cash flow statement

	CASH FLOW STATEMENT	31.12.2002	31.12.2001
A)	**Net financial position at the end of the previous year**	**14,350**	**9,714**
	Net profit (loss) for the year	(152,297)	(1,041,209)
	Depreciation and amortisation	23,768	15,055
	Net change in provisions for risks and charges	31,700	10,511
	Net change in staff severance indemnity reserve	1,145	1,064
	Write-downs on long-term investments		
	Change in net working capital, of which:	**106,910**	**353,439**
	- change in receivables	(19,426)	(67,226)
	- change in inventories	120	1,013
	- change in accrued income and deferred charges	6,365	(2,306)
	- change in payables	121,822	414,659
	- change in accrued liabilities and deferred income	(1,971)	7,299
B)	**Cash flows from operations**	**11,226**	**(661,140)**
	Net changes in non-current assets		
	- tangible assets	(20,213)	(12,417)
	- intangible assets	(53,969)	(29,025)
	- long-term investments	30,069	152,946
C)	**Cash flows from investments**	**(44,113)**	**111,504**
	Change in financial payables	12,330	130
	Other medium-/long-term payables	-	-
	Other medium-/long-term assets	(15,472)	(1,929)
	Changes in shareholders' equity	20,799	546,798
D)	**Cash flows from financing operations**	**17,657**	**544,999**
E)	**Cash flows for the year (B + C + D)**	**(15,230)**	**(4,637)**
F)	**Net financial position at the end of the year (A - E), of which:**	**(29,580)**	**(14,351)**
	Cash and cash equivalents and receivables from banks	2,079	240
	Long- and short-term investments	-	-
	Short-term payables to banks	(31,659)	(14,590)

For the Board of Directors
The Chairman

Renato Soru

REPORT OF THE BOARD OF AUDITORS TO THE SHAREHOLDERS' GENERAL MEETING PURSUANT TO ARTICLE 153 OF LEGISLATIVE DECREE 58/98 AND ARTICLE 2429 PARAGRAPH 3 OF THE ITALIAN CIVIL CODE

To the shareholders of Tiscali SpA

During the financial year ending on 31 December 2002, we performed the auditing duties required by law, in accordance with the regulations for internal auditors recommended by the Italian association of auditors and accountants.

In particular, pursuant to the guidelines issued by CONSOB on 6 April 2001 and updated on 4 April 2003, we report that:

- we have carried out our activities in compliance with the law and the company's articles of association;
- we have obtained from the directors the necessary information on the company's business and any major transactions entered into by the company in relation to its business, finances or assets either directly or through its subsidiaries, and are satisfied that all actions approved and implemented were carried out in accordance with the law, the company's articles of association and general criteria of best practice, and that such actions may not be considered imprudent or risky, or lead to a potential conflict of interest or conflict with decisions made at the shareholders' meeting, or compromise the integrity of the company's assets;
- within our mandate, we analysed and monitored the efficiency of the company's organisational structure and adherence to principles of best practice through the collection of information from the heads of each corporate department and meetings with the external auditors for the purpose of exchanging relevant information. With regard to the appropriateness of the instructions given by the company to its subsidiaries pursuant to art. 114, paragraph 2 of Legislative Decree 58/98, we can report that the company—following the adoption of the new Code of Conduct (July 2002)—has updated its control procedures for the handling of price sensitive information, so as to separate the management of price sensitive information between staff appointed for that purpose and senior management. This procedure will be formalised in an internal regulation.
- We monitored the effectiveness of the internal audit systems, administrative procedures and the accounting system, including the ability of the latter to accurately reflect the status of operations. This was achieved by obtaining information from the heads of the relevant departments, attending meetings with the Internal Audit Committee and the Internal Audit Manager and analysing the results of the work carried out by the external auditors. On this point, the Board of Auditors reports that the systems referred to above have been redesigned and improved over the last two years, and that further improvements are being implemented, with the aim of equipping the company with the structures and processes appropriate to its business activities.
- We have held meetings with the external auditors, pursuant to art. 150, paragraph 2 of Legislative Decree 58/98. In the course of these meetings no significant facts worthy of mention in this report came to light.
- In addition to work carried out separately, the auditors attended 23 meetings of the Board of Auditors and seven meetings of the Board of Directors, in accordance with art. 149, paragraph 2 of Legislative Decree 58/98.

- Further to the directors' report in the Notes to the Accounts, in December 2002—as part of the group's restructuring—Tiscali SpA sold its stake in CD-Telecomunikace Sro (a company experiencing considerable financial difficulties) for EUR 3.2 million, after writing down the value of this holding by EUR 39.5 million. At the same time, Tiscali subsidiary Tiscali Telecomunikace Sro signed an agreement with CD-Telecomunikace under which it will use the latter's fibre optic network for fifteen years, at a cost substantially below market rates.
- Under transactions with related parties, we report the dealings with the companies Franco Bernabè & C. SpA, Kelyan SMC SpA and Kelyan SpA, in which the director Franco Bernabè has an interest, as indicated in the Notes to the Accounts of Tiscali SpA's annual report.
- On 11 April 2003, the auditing company Deloitte & Touche SpA issued its report on the annual report and accounts and the consolidated accounts. The Deloitte & Touche report made the following observation, which we repeat here in full: "*As described in the Notes to the Accounts, the group booked the amount of EUR 63.1 million in "Other reserves" under shareholders' equity, for an increase in the consolidation difference relating to goodwill in respect of Tiscali UK Ltd. This sum refers to a write-back of the consolidation difference, given that as of 31 December 2002, the conditions leading to the write-down in the consolidated accounts for the previous year had changed. If the group—as is recommended in our view by standard accounting principles had attributed this amount to the profit and loss account, its net profit would have been EUR 63.1 million higher, and the overall figure for shareholders' equity would have remained unchanged compared to the previous year*".
- No complaints were received pursuant to art. 2408 of the Italian civil code, and no charges were brought by third parties.
- With reference to corporate governance, the company adheres to the Code of Conduct for Listed Companies, which was last updated in July 2002. For further information please refer to the report on this subject presented by the directors at the shareholders' meeting.
- During 2002, Tiscali SpA asked Deloitte & Touche SpA (including related parties) to carry out a number of assignments other than the auditing of the annual report and accounts and consolidated accounts. The payments for these services (ex VAT) are shown below:

	EUR/000
Auditing services (annual report/consolidated accounts, including accounts of subsidiaries and holdings) pursuant to art. 155 of Legislative Decree 58/98	1,139
Opinions on compliance with art. 2441 of the civil code	40
Other assignments (includes auditing fees paid to other Deloitte & Touche offices in Europe)	167
Total	1,346

- During the year, the Board of Auditors was not required to issue any opinions in accordance with the law. Opinions issued by the external auditors were as follows:

Date	Opinion
12 April 2002	Report on the minimum price of shares issued in respect of a capital increase (with no subscription rights) pursuant to art. 2441 of the civil code and art. 158 of Legislative Decree 58/98 (Excite Italia BV - Netherlands)
13 September 2002	Report on the minimum price of shares issued in respect of a capital increase (with no subscription rights) pursuant to art. 2441 of the civil code and art.

	158 of Legislative Decree 58/98 (Trayboard Holding SA)
13 September 2002	Report on the price of shares issued in respect of a capital increase (with no subscription rights) pursuant to art. 2441 of the civil code and art. 158 of Legislative Decree 58/98 (Quynari SpA - in relation to a loan granted to Messrs Cavallotto, Decio, Gilardoni and Massironi)
13 September 2002	Report on the price of shares issued in respect of a capital increase (with no subscription rights) pursuant to art. 2441 of the civil code and art. 158 of Legislative Decree 58/98 (Tiscali Datacomm AG - in relation to a loan granted to Dino Trovato)

In the course of our auditing activities, and based on the information obtained from the external auditors, we found no significant omissions and/or shortcomings and/or irregularities or any other significant fact necessitating a report to the authorities or worthy of mention in this report.

Cagliari, 12 April 2003

THE BOARD OF AUDITORS:

ANDREA ZINI

RITA CASU

PIERO MACCIONI

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AUDITOR'S REPORT IN ACCORDANCE WITH ARTICLE 156 OF LEGISLATIVE DECREE N. 58 OF 24 FEBRUARY 1998

**To the Shareholders of
Tiscali S.p.A.**

We have audited the consolidated financial statements of Tiscali S.p.A. (the "Group") as of 31 December 2002. These financial statements are the responsibility of the Tiscali's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the Auditing Standards recommended by CONSOB, the Italian Commission for listed Companies and 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 management, 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 consolidated financial statements of the prior year, which are presented for comparative purposes as required by law, reference should be made to the auditor's report issued by us on 13 April 2002.

As disclosed in the notes to the consolidated financial statements, the Group accounted for under Other reserves of the Shareholders' equity, an amount of Euro 63.1 million relating to an increase of the subsidiary Tiscali UK Ltd. consolidation difference, representing the goodwill. This amount arises from an increase in value accounted for as a result of the change of the circumstances, which caused a write-down as of the previous year-end. If the Group, as in our opinion recommended by the Italian accounting standards, had accounted for the amount deriving from the consolidation difference increase in value directly to the income statement, the net result for the year would have been higher for the amount of Euro 63.1 million, whereas the Shareholders' equity would have remained unchanged.

In our opinion, except for the matter referred to in the preceding paragraph, the consolidated financial statements present fairly the financial position of the Group as of 31 December 2002, and the results of its operations for the year then ended in accordance with the Italian regulations governing financial statements.

DELOITTE & TOUCHE S.p.A.

Signed by

Antonio Cocco
Partner

Cagliari, 11 April 2003

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

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We conducted our audit in accordance with the Auditing Standards recommended by CONSOB, the Italian Commission for listed Companies and 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 management, 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 financial statements of the prior year, which are presented for comparative purposes as required by law, reference should be made to the auditor's report issued by us on 13 April 2002.

In our opinion, the financial statements present fairly the financial position of the Company as of 31 December 2002, and the results of its operations for the year then ended in accordance with the Italian regulations governing financial statements.

The Company holds controlling interests and has therefore prepared the consolidated financial statements. These consolidated financial statements have been audited by us.

DELOITTE & TOUCHE S.p.A.

Signed by

Antonio Cocco
Partner

Cagliari, 11 April 2003

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