ANNUAL REPORT 2008

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Issue date: 31 December 2008

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TISCALI S.P.A.
Registered offices: SS195 Km 2.3, Sa Illetta, Cagliari, Italy
Share Capital EUR 308,272,742.50
Cagliari Companies' Register and VAT No. 02375280928 Econ. & Admin. Roster - 191784

Tiscali Group

Management

Mario Rosso
Chairman and CEO

Mary Turner
CEO Tiscali UK

Luca Scano
General Manager Tiscali Italy

Romano Fischetti
Executive in charge of drawing up the Company's accounting documents

Salvatore Pulvirenti
CIO

Paolo Susnik
CEO TINet

3. Directors and Auditors

BOARD OF DIRECTORS

Chairman and Chief Executive Officer
Mario Rosso

Directors
Francesco Bizzarri
Massimo Cristofori
Umberto De Iulio[1]
Renato Soru[2]

BOARD OF STATUTORY AUDITORS

Chairman
Aldo Pavan

Statutory Auditors
Piero Maccioni
Andrea Zini

Deputy Auditors
Rita Casu

Executive appointed to draw up the accounting and corporate documents
Romano Fischetti

INDEPENDENT AUDITING FIRM
Reconta Ernst & Young S.p.A.

[1] From 29 April 2008.
[2] From 19 March 2009.

Milestones

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

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

October 1999
IPO ON NUOVO MERCATO

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

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

January 2001
ACQUISITION OF LIBERTY SURF

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

October 2001
LAUNCH OF ADSL PRODUCT

NARROWBAND (DIAL-UP)

Pan European Strategy

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

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

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

December 2002
ACHIEVED EBITDA BREAKEVEN

April 2004
REACHED 1.3 MILLION ADSL CUSTOMERS

August 2004
DISPOSAL OF AUSTRIA, SWITZERLAND, SOUTH AFRICA

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

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

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

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

January December 2008
RIGHTS ISSUE OF CA EUR 150 MILLION

CONVERSION OF THE EUR 60 MILLION CONVERTIBLE BONDS UNDERWRITTEN BY MANAGEMENT&CAPITALII

BROADBAND (DSL)

Core Countries focus

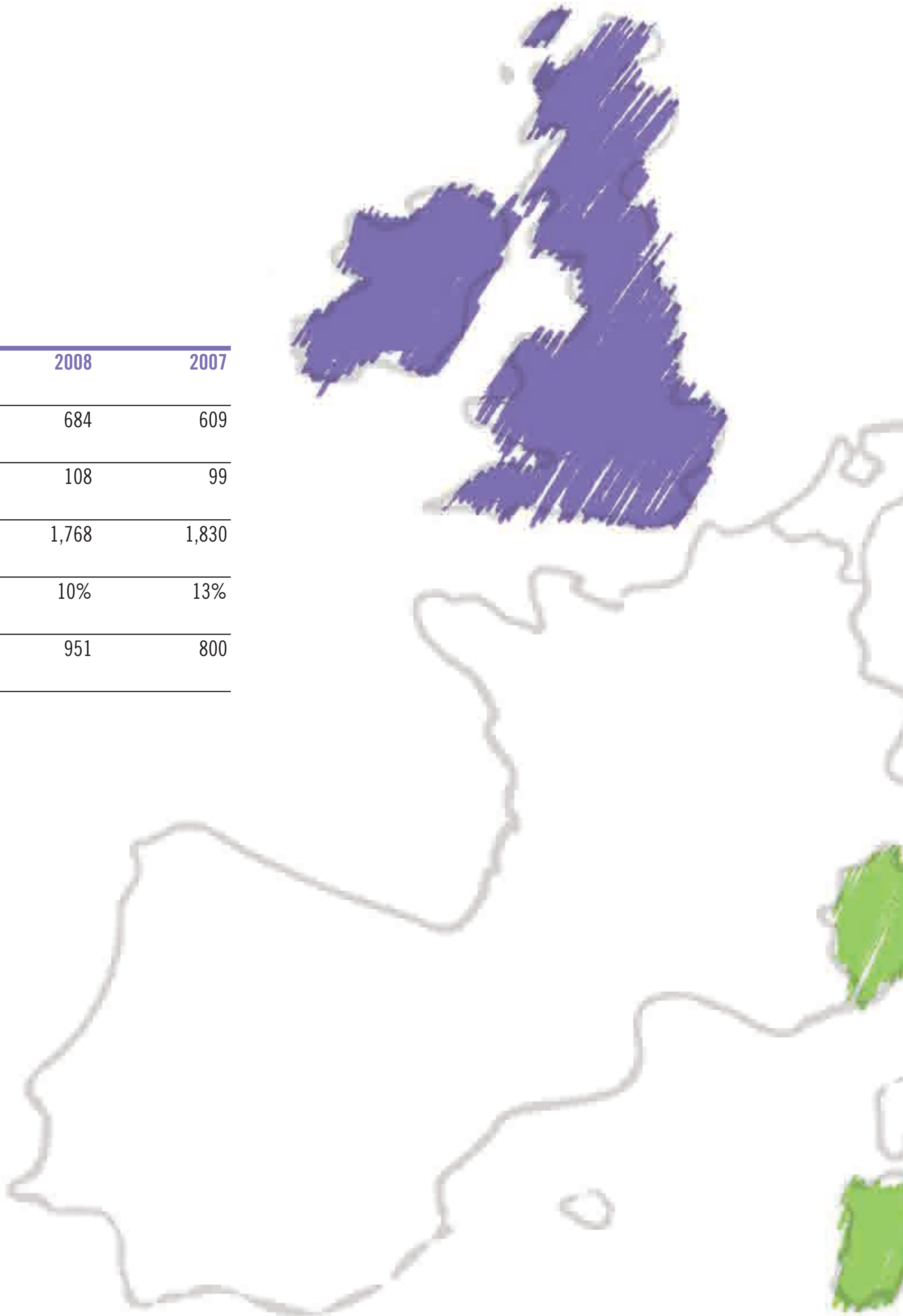
Tiscali, with its activities in the European markets with the highest growth - Italy and the UK - is one of the leading alternative telecommunications companies in Europe.

Tiscali supplies a wide range of services to its customers, both private individuals and companies, namely: internet access through dial-up and ADSL, Voice, VoIP, media, value-added services and other technologically advanced products.

Thanks to its unbundling network (ULL), its offer of innovative services and its strong brand, Tiscali reaches a strategic position in the market.

UNITED KINGDOM

	2008	2007
Revenues (EUR ml)	684	609
EBITDA (EUR ml)	108	99
ADSL subscribers (000)	1,768	1,830
Market share ADSL	10%	13%
Number of colocations	951	800



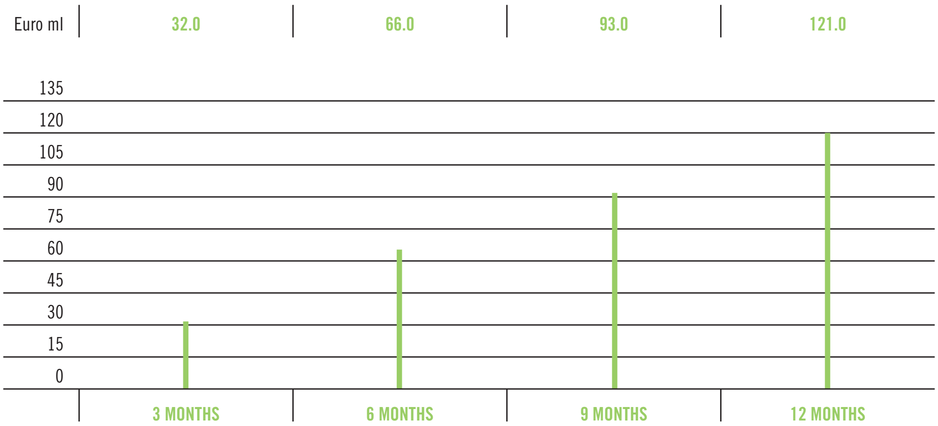
Core Countries' Snapshot

ITALY

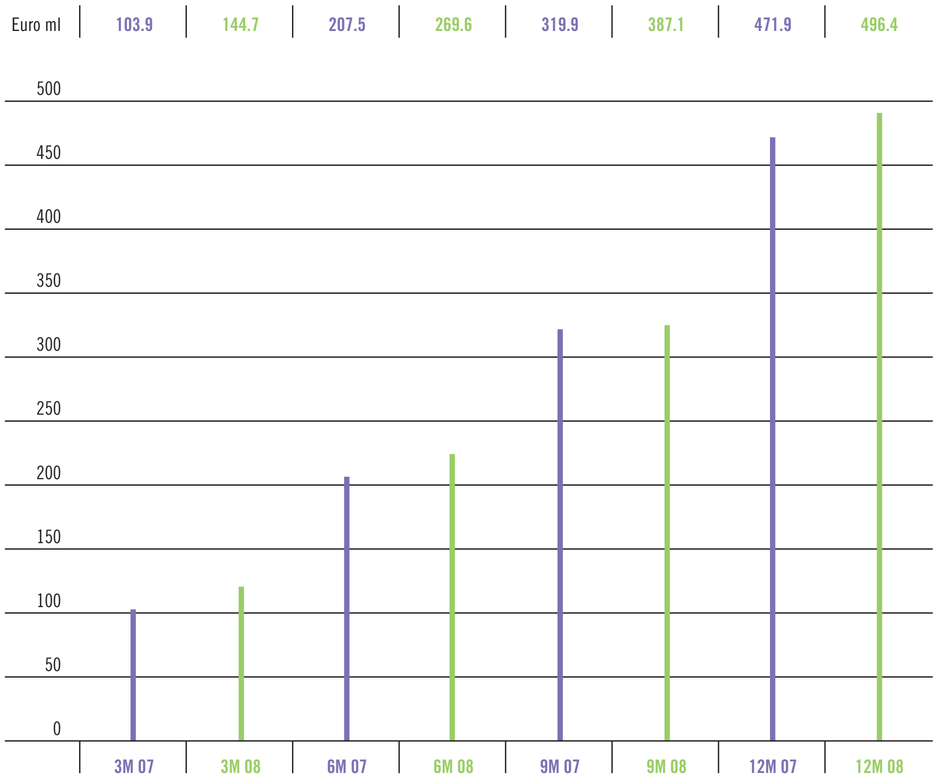
	2008	2007
Revenues (EUR ml)	314	292
EBITDA (EUR ml)	76	63
ADSL subscribers (000)	586	553
Market share ADSL	5%	5%
Number of colocations	486	486

ADSL and Double Play revenues growth

DOUBLE PLAY REVENUES GROWTH IN 2008



ADSL REVENUES



2. Highlights

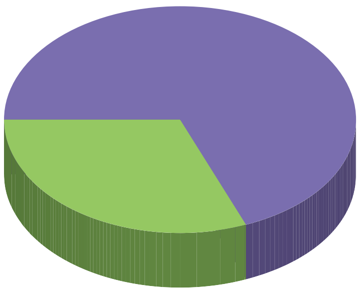
INCOME STATEMENT (EUR mln)	31 / 12 / 2008	31 / 12 / 2007
Revenues	**983.6**	883.1
Adjusted Gross Operating Result (EBITDA)	**197.0**	158.7
Gross Operating Result (EBITDA)	**155.1**	119.9
Operating result	**(99.9)**	(74.9)

BALANCE SHEET (EUR mln)	31 / 12 / 2008	31 / 12 / 2007
Total assets	**1,205.8**	1,599.9
Net Financial Debt	**601.1**	636.5
Net financial debt as per "Consob"	**616.4**	657.4
Shareholders' equity	**4.8**	207.0
Investments	**174.3**	193.5

OPERATING FIGURES (000)	31 / 12 / 2008	31 / 12 / 2007
Internet Access and Voice users	**2,948.3**	3,475.9
ADSL (broadband) users	**2,354.0**	2,382.7
of which: Direct ADSL users (LLU)	**1,292.1**	974.2

Results by segment

Revenues by country



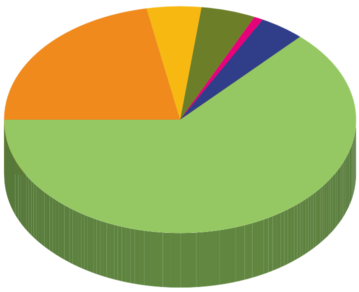
United Kingdom 69%

Italy 31%

Group Total Revenues (EUR ml)

984

Revenues by business line



Bband and VoIP 63%

Voice 22%

Media 5%

Dial up 5%

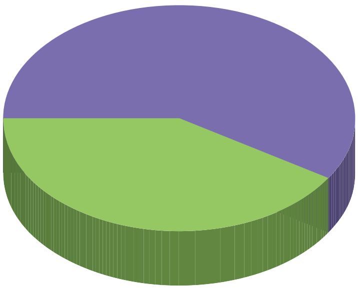
Other 1%

B2B 4%

Group Total Revenues (EUR ml)

984

EBITDA by country

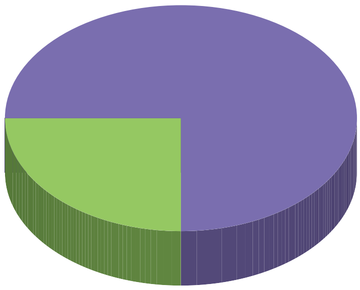


- United Kingdom 59%
- Italy 41%

Group EBITDA
(EUR ml)

197

ADSL subscribers by country



- United Kingdom 75%
- Italy 25%

Group ADSL subscribers
(EUR ml)

2,3

A strong brand

Italy - ADV CAMPAIGN

"Tiscali TuttoIncluso"

(ADSL + Voice campaign launched by Tiscali Italia))

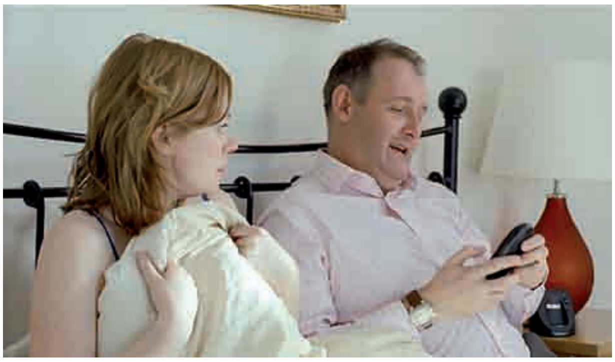
The most successful advertising campaign in 2008, produced by subsidiary Tiscali Italy, was "Tiscali TuttoIncluso" which promoted the dual play offer, the best package - ADSL flat + voice – with very competitive prices.

The offer provides, for EUR 4.95 per month, 8 Mega Adsl flat + free national calls, without the need to pay telecom Italia fixed charges.

As a reliable integrated and people oriented Tlc provider, Tiscali has chosen again as a testimonial the hugely popular Ezio Greggio.

The TV campaign, designed by creative agency Hi!Communication with the direction of Nick Hamm, sees Greggio as a dour admiral of a submarine to drive clients among the sea of offers. In the submarine there is also a young lady, the beautiful Nina Senicar, who discovers that with "Tiscali TuttoIncluso" she can stay on the phone with friends for hours.

The chosen media mix, Cinema-TV-Radio, allowed to reach a Spontaneous Brand Awareness, for TLC operators, of 13% and a Generated Brand Awareness of 66% (63% in 2007).



UK - ADV CAMPAIGN

"Home Early"

(ADSL and Voice Campaign launched by Tiscali UK)

The most successful advertising campaign in 2008, produced by subsidiary Tiscali UK, was "Home Early" which promoted Tiscali's brand new up to 8Mb Superfast Broadband package with Free UK & International weekend calls, plus a free wireless router all for £6.49 a month for the first three months then just £12.99.

The advertisement uses humour to carry the product message and is based on a well-understood scenario of a wife being discovered with her lover by a husband returning "Home Early".

The campaign objective was new customer acquisition and to reinforce Tiscali as the UK's best value Broadband and Talk provider.

The advertisement was broadcast in Q1 2008 and was masterminded by MWO design agency and directed by Tristram Shapeero.

The TV campaign was supported by both radio and national press with the unmistakable Joanna Lumley as the voice of Tiscali.

During the campaign period (Jan-Mar '08) Tiscali acquired 110,548 new broadband registrations with a voice bundle attach rate of 69%. We also achieved our highest brand awareness level for Tiscali at 70%.

3. Alternative performance indicators

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

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

Pre-tax result and result deriving from assets destined to be disposed of
+ Financial charges
- Financial income
+/- Income/Charges from equity investments in associated companies
Operating result
+ Restructuring costs
+ Amortisation/depreciation
+/- Atypical charges/income
Gross Operating Result (EBITDA)
+ Writedowns of receivables from customers
+ Stock option plan costs
Gross Operating Result (Adjusted EBITDA)

Financial Statements at 31 December 2008

4. Report on operation

4.1 Tiscali's position within the market scenario

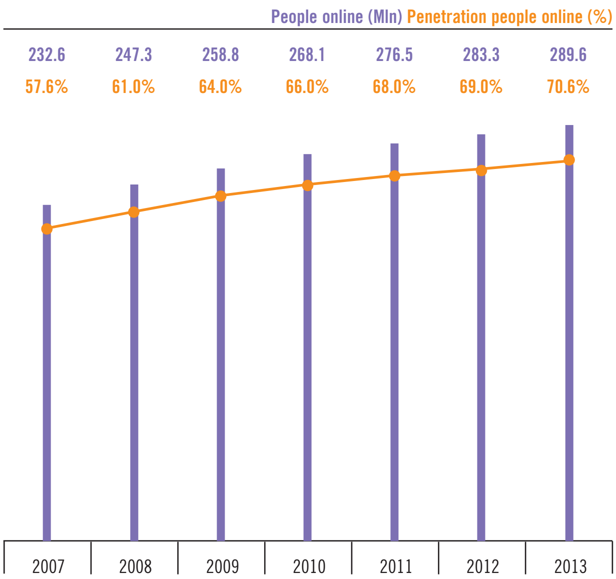
The Tiscali Group provides telecommunications services on the fixed network in the UK and in Italy. Within this context, Tiscali is placed among the main alternative operators in Europe offering integrated Internet access, and telephone services, mainly to residential customers. Tiscali is positioned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

The broadband market in Europe

It is envisaged that the European market of broadband services on IP technology will continue the growth process already highlighted over the last few years. In detail, the differences in terms of Internet access in the leading European countries will tend to decrease even further.

The rate of internet penetration in countries less evolved in the use of the web will tend to speed up, leading to a general increase in penetration within Europe. Forrester Research envisages that it will rise from 57.6% in 2007 to 70.6% in 2013.

FIG. 4.1: EUROPEANS ON-LINE AND PENETRATION RATE 2007 - 2013



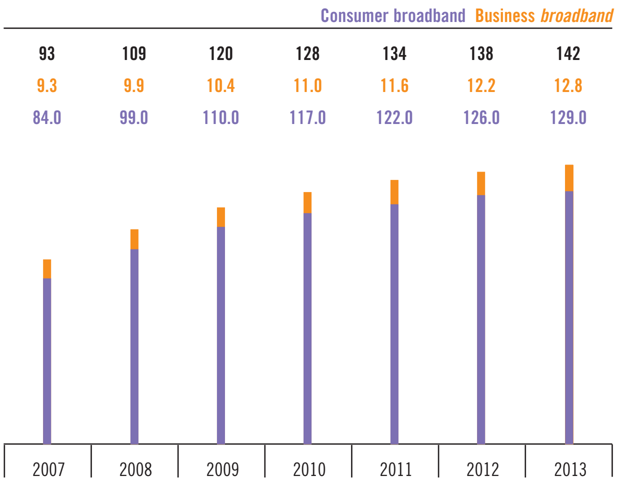
SOURCE: FORRESTER RESEARCH 2008

Strong broadband distribution has transformed Internet access into a mass consumption commodity. A dynamic market, characterized by a growing level of competition, which has forced European operators to expand their range with a portfolio made up of numerous Internet access, voice and multi-media service combinations. The increased request for services and contents has, in turn, generated a growing band requirement by the end customer.

Competition between the various telecommunications operators has also lead to the search for increasingly more efficient and economic procedures for the supply of IP services. Direct unbundled access (LLU) permits greater flexibility, with respect to the Bitstream/Wholesale method, when differentiating its product range and the possibility of offering its user base a higher quality service.

It follows that the adoption of broadband connections within European households will continue to grow also in the current macro-economic situation guided by both the irreplaceability of Web services and the stabilization of the prices of the supply to households and businesses.

FIG. 4.2 – EVOLUTION OF BROADBAND CONNECTIONS IN WESTERN EUROPE, 2007-2013



SOURCE: FORRESTER RESEARCH 2008

The broadband market in Italy and the UK

Sector studies indicate that the progression of broadband is not destined to diminish over the next few years, but rather experience different breakdowns according to the geographic context and the transmission technology used by the operators to offer these services (xDSL, cable, fibre optic or other technology).

Despite the technological evolution and the increasingly greater availability of bundled multi-media services with broadband access, the triple play (voice+data+video) products are still not very widespread since both Italian and UK users continue to prefer the classic broadband connection and dual play (voice+data) service.

Italy

The development of broadband connections in Italy has been one of the most sustained in Europe over the last few years, passing from just over 6 million lines in 2006 to more than 11 million lines in 2008.

During 2008, progressive territorial coverage of the broadband networks continued in Italy. Alongside first generation broadband (up to 7 Mbps), which covers around 96% of the population, coverage of 20 Mbps connections also rose and at present stands at 57% of the population. At the same time, the infrastructure level of the operators has increased, which by now potentially permits more than half the population to use the broadband services under LLU (Local Loop Unbundling).

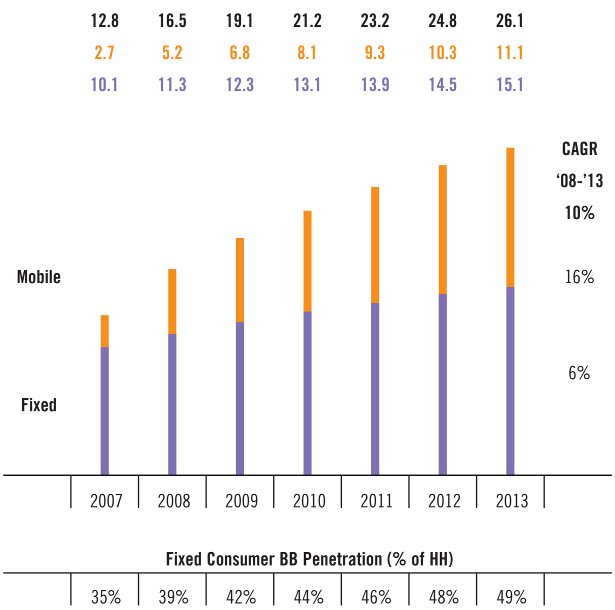
The competitive scenario still remains characterized by heavy vertical integration of the incumbent operator and by a reduced presence of alternative broadband infrastructures.

It is estimated that the broadband connections on the fixed network will increase at an annual average rate of around 6% between 2008 and 2013, when 15 million users are reached.

In relative terms, or as a percentage of households, it is envisaged that between 2008 and 2013, broadband penetration will rise from 39% to 49%.

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

FIG. 4.3: EVOLUTION OF RESIDENTIAL AND BUSINESS BROADBAND CONNECTIONS IN ITALY, 2007-2013 (Mln)



SOURCE: TISCALI ANALYSIS, 2008

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

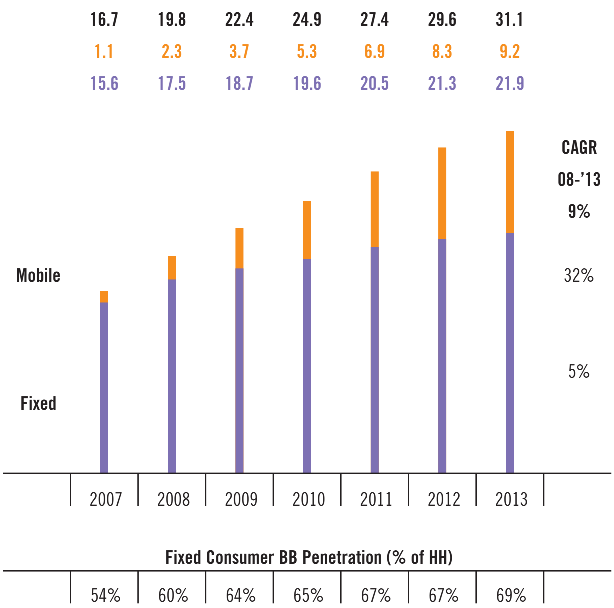
United Kingdom

Over the last few years, the UK market has been one of the most dynamic in Europe. Broadband connections on the fixed network registered in 2008 came to over 17 million and it is expected that in 2013 they will reach 22 million.

Over the same time period, an increase in revenues is also envisaged, rising respectively from GBP 3 billion to GBP 3.8 billion.

Sharp growth will also be seen within the sphere of mobile broadband connections which will pass from the 2.3 million registered in 2008 to over 9 million in 2013, with an average annual growth rate for the period of 32%.

FIG. 4.4: EVOLUTION OF RESIDENTIAL AND BUSINESS BROADBAND CONNECTIONS IN THE UK, 2007-2013 (Mln)



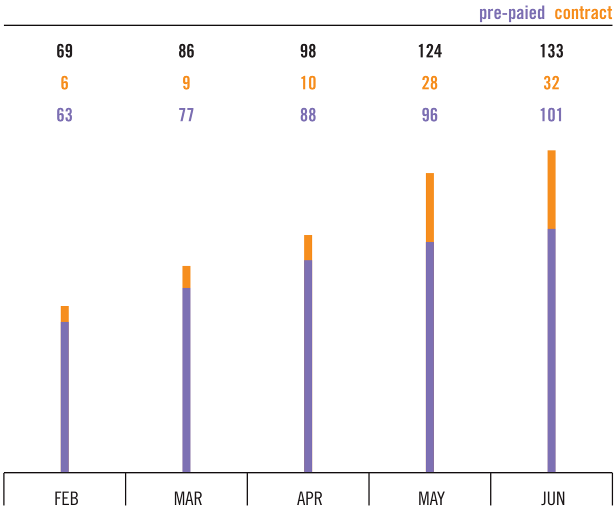
SOURCE: TISCALI ANALYSIS, 2008

The UK broadband market is very competitive and is characterized by the presence of few large infrastructured operators which are joined by a consistent number of operators who merely resell internet access.

With regard to the penetration of broadband within households, a slight slowdown in the growth rate is expected. In fact, between 2008 and 2013, this will rise from 60% (17.5 million connections) to 69% (21.9 million connections).

A considerable rise in the number of broadband connections on the mobile network is also envisaged, as witnessed by the data relating to the first half of 2008.

FIG. 4.5: BROADBAND CONNECTIONS ON THE MOBILE NETWORK IN THE UK FEBRUARY-JUNE 2008 (Mln)



SOURCE: OFCOM, 2008

The proportion of buildings linked to unbundled sites (LLU) rose by more than 15% between 2007 and 2008, reaching more than 80% of the total.

Again in 2008, the incumbent operator BT announced an infrastructure expansion plan based on fibre optics, which will bring the super broadband to 10 million homes by 2012.

The initial speed according to BT will be around 40 Mbps, but within new buildings it may also reach 100 Mbps.

With regard to the rate of penetration within households, broadband rose from 52% in the first quarter of 2007 to 58% in the same period in 2008 with a slight drop in the growth rate with respect to that registered in previous years.

The proportion of households with a fixed connection remains stable at 88% in the first quarter of 2008.

4.2 Regulatory background

Globally, the telecommunications sector has confirmed itself to be one of the most dynamic spheres.

Both in Italy and the UK, the series of measures and resolutions issued by national regulators (the Communications Watchdog Committee - AGCOM, in Italy and the Office of Communications – OFCOM in the UK) is in line with those introduced by the corresponding regulatory authorities of the other leading markets in the European Union.

However, on both markets there is still the need to improve the efficacy of measures and their implementation.

Italy

In **Italy**, during 2008 the AGCOM concentrated on the following macro-areas of intervention:

- Provisions relating to the Telecom Italia access network
- Improvement of the procedures relating to the Operator changeover processes
- Accountability in the supply in favour of informed choices by the users
- Consumer protection.

The most significant measures deriving from these activities are indicated below:

Access network: TI's commitments

On 29 December 2008, AGCOM – via Resolution No. 718/08/CONS – finally approved the commitments presented by Telecom Italia, pursuant to Article 14 *bis* of Italian Decree Law No. 233 dated 4 July 2006, converted by Italian Law No. 248 dated 4 August 2006, on 24 July 2008, as amended on 29 October 2008 and 5 December 2008. The afore-mentioned commitments, having taken into account the results of the public consultation pursuant to resolution No. 208/07/CONS and the launch of procedures for the analysis of the fixed network access markets as per resolution No. 626/7/CONS, aim at integrating and enhancing the provisions of resolution No. 152/02/CONS concerning equal treatment, for the purpose of furthering greater competitiveness on the fixed network access markets, as well as the markets related to these. The commitments are also aimed at eliminating both the assumptions, and the consequences of the conduct challenged by the Authority in the sanctioning procedures to the charge of Telecom Italia. In particular, the commitments aim:

- to offer additional guarantees of equal treatment between the Telecom commercial divisions and the other electronic communications operators who acquire access services wholesale from Telecom;
- to ensure the satisfaction of the Operators and the end customers, by means of the development and the qualitative improvement of the fixed access network and the related services;
- to make the evolution of Telecom's fixed access network more transparent for the Operators;
- to guarantee the maintenance of competitive conditions in the transition towards the new generation networks.

The Commitments grouped into 14 groups for a total of 223 elementary commitments can be represented in 4 macro-areas of competence/intervention:

- Equivalence (Gr. from 1 to 6 and 8)
- Next Generation Network (Gr. 6 and 9)
- Governance (Gr. 7, 9 and 10)
- Consumer Protection (Gr. 11-12-13-14)

and will manifest their effects on the following markets: 11 (LLU); 12 (Bitstream); 13 (Transmission circuits with dedicated capacity); WLR (wholesale line rental); Co-location Services.

Increase in Telecom Italia retail fee and increase in wholesale access service fees

By means of Resolution No. 719/08/CONS "Change in prices for Telecom Italia S.p.A. access services as from 1 February 2009", dated 23 December 2008, the increase in monthly fees applied by Telecom Italia to residential customers for the access service to the public telephone network from a fixed position was approved. As from 1 February 2009, with regard to the accesses as per categories B and C, as well as in relation to the unidirectional in-coming connections, the fee rose from EUR 12.14 to EUR 13.40, without prejudice to the reduction of 50% of the fee for assisted categories and for lines held in the name of residential customers who are entitled to the concession of a purchasing card (so-called "Social Card"), pursuant to Article 81 of Italian Law No. 133 dated 8 August 2008. Almost at the same time, Telecom Italia, by means of the reference proposal for market 11 (disaggregated access to the local network) published on 31 October 2008, proposed a significant increase in the fees which must be paid over by alternative Operators for use of the access network (duplex cables). In practice, the proposal envisages an increase of 23% for LLU lines (from EUR 7.64 a month to EUR 9.39 a month) and 29% for shared access lines (from EUR 1.99 a month to EUR 2.57 a month). This proposal was keenly challenged by all the alternative Operators who considered the TI increase request to be unjustified partly because it is clear that measures taken on the economic conditions, capable of significantly changing the conditions of appeal, can in fact take on the form of a genuine inversion in the trend with respect to the promotion of the competition on the market. Also following these challenges, AGCOM by means of Resolution No. 91/08/CIR dated 24 December 2008 *"Publication consultation relating to the approval of the economic conditions of the Telecom Italia reference proposal relating to wholesale disaggregated access services to the metallic networks and sub-networks and to co-location services for 2009"* proposed a outline of measures (submitted for Consultation) which scales down the TI requests on the services pertaining to market 11 and in particular establishes the value of the fee relating to the LLU accesses as EUR 8.55 a month and the fee related to shared access accesses as EUR 1.97 a month. Despite the reductions proposed by AGCOM, the alternative Operators, in response to the consultation, confirmed their opposition since the proposed changes in any event lead to an increase in the costs with respect to 2008.

The authority, which in the meantime forwarded the proposal to the European Commission as standard procedure, will make its final decision by means of approval Resolution in the first few months of 2009.

Protection of the consumer and quality of the services

AGCOM introduced various measures for increasing the transparency of the telecommunications market and for protecting the end users.

The most significant include Resolution No. 244/08/CSP "Additional provisions concerning quality and service charters for internet access services from fixed positions supplementing resolution No. 131/06/CSP" which amends/supplements the quality indicators (for internet access from a fixed position) already established by the previous resolution, also foreseeing a "third body" which, upon the appointment of the Authority will have to handle the gauging activities and provide the service for assessing the quality of Internet access from a fixed position, to the end users who request this service. Furthermore, under Resolution No. 381/08/CONS dated 30 July 2008 *"Methods for implementing the services aimed at guaranteeing transparency on the telephone bill of the amounts charged for services with surcharges and informing the customer of the detection of anomalous traffic"*, the Authority carried out and integrated the matters laid down by resolution No. 418/07/CONS "Provisions concerning transparency of the telephone bill, selective blocking of calls and protection of the customer" introducing the warning service (achieved by means of sending: SMS or registered voice messages) for presumable anomalous traffic which should kick in when two expenditure thresholds are jointly exceeded, comprising:

a) a variable threshold equating to triple the amount of the average consumption in the last three two-month periods;

b) a threshold established by the operator within a maximum amount of EUR 300, VAT inclusive, for residential customers and EUR 500, VAT inclusive, for business customers.

Furthermore, an Inter-Operator procedure is currently being defined, so as to contrast fraud and for the development of software for analyzing and correlating traffic data.

Process for migration of end customers between alternative operators

Considering that, in perspective, migration requests will undergo an increase also in light of the improvement of the migration processes and the greater awareness of the customer, resolution

No. 68/08/CIR dated 30 October 2008 "Provisions concerning the daily capacity to execute migration requests in pursuance of resolution No. 274/07/CONS" increases the daily migration capacity of each donating Operator in relation to their customer base. Specifically, the increase in the execution capacity defined as from 2009, is around 30% with respect to that on commencement of the process (start 2008). This resolution also envisages that the Authority is sent a monthly report drawn up by each Operator both in the capacity of "donating" and "recipient" party for the purpose of monitoring the correct handling of the migrations.

Mobile telephony and inclusion of mobile virtual Operators (MVNO)

Resolution No. 667/08/CONS *"Voice call termination on individual mobile networks market (market No. 7 among those identified by the recommendations of the European Commission No. 2007/879/CE)"* dated 5 December 2008, identified four separate relevant markets comprising the termination service of voice traffic on an individual mobile network offered by each of the following operators: H3G S.p.A., Telecom Italia S.p.A., Vodafone Omnitel N.V. and Wind Telecomunicazioni S.p.A. The most significant effects for the market, which follow this announcement, relate to the pre-definition of termination prices, which as from 1° July 2009 and on the basis of a glide path decrease until 1 July 2012, when the level will be unequivocal for all the mobile Operators and equal to EUR 4.5 cents a minute. By means of resolution No. 78/08/CIR *"Norms regarding the portable nature of the mobile number"* the Authority finally considered it necessary to review the series of norms, provisions and models of interaction which regulate the service for transferring the mobile number for customers of all the operators, including therein virtual operators, as well as the disclosure formalities vis-à-vis the Authority, in light of the changed situation determined by the inclusion within the market of virtual operators. One of the most significant measures present in the ruling is without doubt that which reduces the cut-over (migration) times from 5 to 3 days. This measure besides having benefits for the end customer, should permit a more fluid migration towards the newcomers. In fact, due to the reduction in the timescales for the changeover, it will be more difficult for "historic" Operators to implement retention activities for the purpose of retaining the customers who have expressed their desire to change Operator. Furthermore, since the service provided on mobile telephony in most cases is based on the use of prepaid SIM cards, by means of resolution No. 353/08/CONS dated 30 June 2008 *"New deadlines for meeting the obligation of the portability of the residual credit in the event of transfer of the customers pursuant to resolution No. 416/07/CONS containing: "Intimation of mobile telephone operators to meet the obligation of crediting the residual credit to customers as per Article 1.3 of Italian Law No. 40/2007"*, the Authority forced "historic" mobile telephone Operators (MNO) and some newcomer virtual Operators (MVNO) to make the service available within 10 months of notification of the ruling.

Market analysis

By means of separate resolutions (Resolution No. 133/08/CONS; Resolution No. 145/08/CONS; Resolution No. 183/08/CONS; Resolution No. 184/08/CONS; Resolution No. 324/08/CONS; Resolution No. 325/08/CONS; Resolution No. 667/08/CONS), AGCOM launched the new analysis procedures on the 7 markets considered significant on the basis of the European directive 2007/879/EC *"relating to significant product and services markets in the electronic communications sector which may be subject to ex-ante regulation in pursuance of European Parliament and Council directive 2002/21/EC which establishes a common legislative framework for electronic communication networks and services"*.

The analysis process involves:

- markets of services and products supplied to end customers (retail markets);
- markets of elements necessary for operators which in turn provide their services and products to end customers (wholesale markets);

The figures (traffic/capacity/revenues) referring to the previous three-year period, provided by all the Operators present within the market, will contribute in observance of European Directive 2002/21/EC towards establishing whether a market is effectively competitive and in this case to suspending the ex ante regulation obligations, as already occurs under directive 2007/879/EC which reduced the markets to be analyzed from 18 to 7 on the basis of the results of previous market analysis.

New Numbering Plan in the telecommunications sectors and implementing regulations

Under resolution No. 26/08/CIR dated 18 July 2008, *"Numbering plan in the telecommunications sector and implementation regulations"*, the Authority considered it necessary to see to the up-dating of the plan approved by means of the previous resolution No. 9/03/CIR, partly on the basis of that which emerged within the sphere of the supervisory activities and with reference to the compliance of said plan with the evolution of the market needs and the promotion of the development and spreading of innovative services, as well as the full interoperability of the services, the availability of the numbering resources, their efficient allocation, and the consumer protection requirements.

United Kingdom

The main regulatory activities introduced in the United Kingdom by the British regulator OFCOM during 2008, can be summarized as follows.

Broadband and voice

- OFCOM launched the Openreach Pricing Review (a review of the Openreach prices) so as to assess the maximum spending limits existing with reference to cost and efficiency factors. The consultations were published in May and December and the proposals concerned the potential alignment between expenditure, costs and expected returns over a period of control of the four-yearly costs, as well as the correction of an imbalance between WLR and MPF (LLU). OFCOM intends to implement the proposals by April 2009.

- A code of voluntary practice for the communication of data on broadband speeds was launched in June and signed by the leading ISPs in December. The code also includes the norms which discipline the methods by means of which the ISPs guarantee that the consumers understand which speeds can be expected from the broadband. OFCOM also continued research activities into the effective download performances with the aim of publishing the figures acquired in Spring 2009.

- The legislative declaration on the review of the wholesale broadband access market was published in May, deregulating the wholesale broadband in the LLU areas and eliminating the existing legislative provisions concerning Bitstream access.

- During the year, the Government launched consultations on the subject of illegal downloading, arranging for ISPs and representatives of the contents sector to take part. The search for implementable solutions remains difficult, essentially because of the underlying disagreement regarding the party to whom responsibility for the action and application of the norms should be assigned and on the parties to whom the costs should be allocated. Following a number of changes within the Government, the matter is currently the responsibility of the Digital Britain review project.

Consumer protection

- OFCOM launched a series of consultations on the additional costs imposed by the communication providers (CPs) on consumers in February and published a series of guidelines in December. The matters dealt with were, among other things, costs for early termination and costs for billing and payment changes. The guidelines are compatible with the rights of the consumers and provide useful recommendations to the CPs on how to calculate the costs, avoiding unequal treatment.

- OFCOM announced consultations on possible new norms regarding the settlement of disputes and the handling of complaints in July. Work continued in 2009.

- The OFCOM application programme on the migration of consumers continued throughout the year.

- OFCOM renewed efforts directed at avoiding undue sales of products and services to consumers during the year and applied pertinent conditions and obligations. The norms should be reviewed and finalized at the start of 2009, together with the continuation of the consultations on general policies concerning migration.

New generation access

- OFCOM launched a series of consultations on the norms relating to the installation of the fibre in new structures in April and published a declaration in September, clarifying the methods for applying the existing regulations and the obligations of the network owners concerned.

- OFCOM published the second consultation document on new generation access in September with the aim of publishing a declaration at the beginning of 2009. OFCOM intends to encourage development without neglecting the envisaged obligations, awaiting effective legislative changes after the market reviews and the data on significant market powers.

Television

- In September, OFCOM published the consultations on the pay TV market and on pay TV on the digital land-based platform. The next phase is envisaged in May 2009, and should take on the form of a legislative declaration or a further consultation.

- OFCOM has proposed that Sky be obliged to wholesale the premium channels dedicated to films and sport to other market players due to the significant market power held and so as to benefit consumers on the UK market.

- During the year, the Office of Fair Trading and the Competition Commission examined the project presented by the BBC, Channel 4 and ITV to group together their contents in a sole video on demand proposal ("Kangaroo" project). The project was rejected by the Commission for competitive reasons in February 2009.

Other

- In 2008, OFCOM carried out the Business Connectivity Market Review (review of the market providing connectivity services to businesses) which in December led to a declaration. The review introduced a number of deregulation procedures and clarified some significant market positions in the connectivity sector for businesses (leased lines, Ethernet, etc). A further consultation on the controls of the costs relating to specific BT products was also published in December.

- In March, OFCOM published a declaration on the SLAs and on the Openreach SLGs improving the structure by means of which the performance of the service is gauged and the compensation for breach of contract is made to the customers concerned.

- The debate continued during the year, participated in by OFCOM, BT and sector operators, on the formalities by means of which the principles of equivalence must be applied to access products and new generation networks. Work continued so as to establish what will be required in order to guarantee the transposition of the prescriptive norms to the new technologies and the protection of the competitive context.

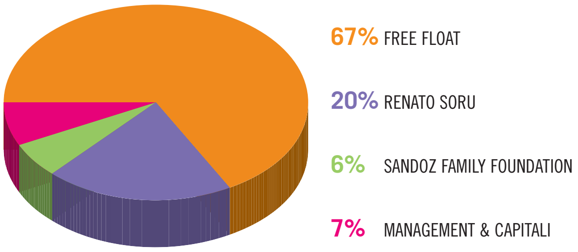
4.3 Tiscali shares

Tiscali shares have been listed on the Italian Stock Exchange (Milan: TIS) since October 1999. At 30 December 2008, market capitalization came to EUR 437.5 million, calculated on the value of EUR 0.7096 per share as of that date.

On 31 December 2008, the number of shares representative of the Group's share capital came to 616,545,485.

Tiscali's shareholder base at 30 December 2008 is illustrated below:

FIG. 4.6 – TISCALI SHARES

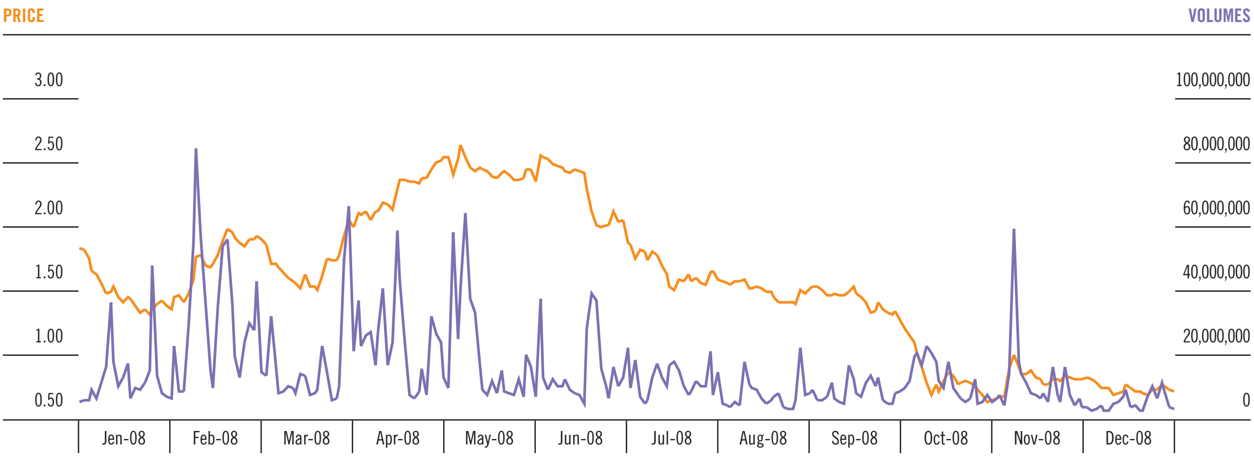


SOURCE: TISCALI

The graph below illustrates the Tiscali stock trend during 2008, characterized by sustained trading volumes, in particular in the period April-June.

The value of the Tiscali shares, at 27 March 2009, date of the Board meeting which approved the draft financial statements, came to EUR 272.4 million.

FIG. 4.7 – TISCALI SHARE PERFORMANCE IN 2008



SOURCE: BLOOMBERG DATA PROCESSING

The average monthly price for the period was EUR 1.567. The maximum price of EUR 2.637 for the period was recorded on 8 May 2008, and the minimum of EUR 0.625 on 27 October 2008. Trading volumes stood at a daily average of about 14.3 million items, with a daily average trade value of EUR 22.3 million.

AVERAGE TRADING OF TISCALI STOCK ON THE ITALIAN STOCK EXCHANGE DURING 2008

	Price (EUR)	Number of shares
January	1.487	12,788,138
February	1.755	32,117,697
March	1.661	13,822,070
April	2.249	26,158,202
May	2.454	20,151,529
June	2.299	14,820,141
July	1.665	11,796,192
August	1.492	7,175,045
September	1.413	6,522,768
October	0.783	10,892,793
November	0.826	10,933,918
December	0.721	5,020,751
AVERAGE	**1.567**	**14,349,937**

During the first quarter, from January to March, the stock achieved a daily average of EUR 1.63. In this period, and precisely on 14 January 2008, the Company announced a share capital increase under option for approximately EUR 150 million, concluded in February, which negatively influenced the stock trend (also see “Significant events during the year”).

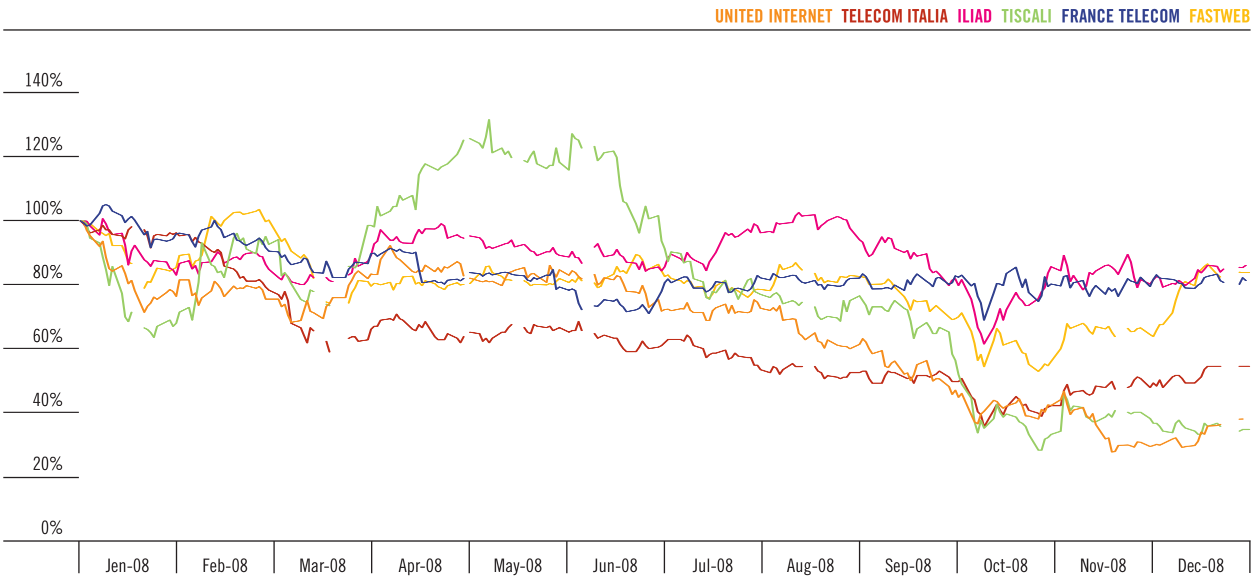
During the second quarter, from April to June, the stock achieved a daily average of EUR 2.34. In this period, the Company launched a process aimed at maximizing the value of the company assets which, generating strong expectations over the short term, pushed the price of the shares upwards (also see “Significant events during the year”).

During the third quarter, from July to September, the stock achieved a daily average of EUR 1.53, re-establishing itself at the average levels of the first quarter.

During the fourth quarter, from October to December, the stock achieved a daily average of EUR 0.78, pushed downwards by the general deterioration of the financial markets and the global economy.

The overall performance of the Tiscali stock is set within the context of the global share market which in 2008 lost between 30% and 50% of the initial value. Italy in fact did not remain immune. As a result, the Italian Stock Exchange lost nearly 50% of its value from the start of the year, with telecommunications operators fluctuating between minus 20% and minus 70% from the year start value.

FIG. 4.8 – SHARE PERFORMANCE OF THE MAIN TLC OPERATORS IN EUROPE DURING 2008



SOURCE: BLOOMBERG, TISCALI ANALYSIS

4.4 Significant events during the financial year

2008 was a year characterized, in the initial phase, by completion of the industrial developments already launched during the previous year with the acquisition of the broadband and voice division of Pipex, and culminating in February 2008 with the execution of a share capital increase for EUR 150 million to partially repay the bank loan of EUR 650 million raised in 2007. The rest of the year was characterized, by contrast, by the plan for developing strategic assets, launched with the appointment of a new Chief Executive Officer, and by a series of activities aimed at rationalizing Italian operations.

The main events during the year are listed below, in chronological order.

Execution of share capital increase under option

The Board Meeting held on 10 January 2008, resolved a share capital increase on the basis of the authority assigned to it by the Extraordinary Shareholders' Meeting held on 31 August 2007, pursuant to Article 2443 of the Italian Civil Code, envisaging the issue of 149,792,880 ordinary shares with a par value of EUR 0.50 each and regular dividend entitlement, offered under option to the shareholders, at a ratio of 6 new ordinary shares for every 17 shares held, at a price of EUR 1.00 each, for a total value of EUR 149,792,880. The share capital increase was subscribed, at the end of the option period, for 146,580,966 shares, corresponding to 98.75% of the overall amount. Subsequently, between 11 and 15 February 2008 an auction took place for the un-opted shares, as a result of which the market subscribed for 100% of the amount under offer. Consequently, the security provided by Banca IMI S.p.A. and J.P. Morgan Securities Ltd guaranteeing the satisfactory outcome of the transaction did not need to be activated. The consideration for the share capital increase (approximately EUR 150 million) was used to repay the bridging loan granted by Intesa SanPaolo and JPMorgan in July 2007.

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

The Board Meeting held on 27 and 28 February 2008, having considered the phase for strategic repositioning and equity and financial enhancement covering the last two years to be at an end, also on the outcome of the successful completion of the share capital increase transaction, resolved to launch a new strategic phase aimed at exploring the options for the further generation of value for the shareholders associated with the consolidation process in the telecommunications sector under way in Europe.

The Chief Executive Officer in charge as of that date, Tommaso Pompei, in mutual agreement with the Company, relinquished his powers, intending to remain a Board Director until the natural expiry of the entire Board, and therefore until approval of the 2007 financial statements on 29 April 2008. The Directors, Gabriele Racugno and Rocco Sabelli, handed in their resignation at the same time.

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

Amendments to the stock option plan

The Board Meeting *held* on 28 February 2008 resolved to adjust the exercise price of the options assigned to the employees by means of applying a ratio of 0.896756, identical to that published by the Italian Stock Exchange on 11 January 2008 and used to adjust the option contracts and the futures on Tiscali shares as a consequence of the share capital increase for around EUR 150 million concluded on 22 February 2008. Consequently, the exercise price of the options assigned to the employees was fixed at EUR 2.132 per share.

Furthermore, on the basis of the agreements between the Company and Tommaso Pompei as a consequence of the relinquishing of his powers, the options assigned to Tommaso Pompei are understood to be exercisable for the full amount resolved (including the second tranche) according to the terms established in the regulations. As a result of the above-mentioned adjustment mechanism, the exercise price for the options allocated to Tommaso Pompei therefore comes to EUR 2.477 per share.

Appointment of financial advisors for strategic alternative analysis

On 31 March 2008, JPMorgan and Banca IMI were appointed as financial advisors for the Tiscali Group. The appointment followed the decision of the Board of Directors to task the CEO Mr. Mario Rosso with launching a process for maximizing the Group's strategic value. Please note that Studio Borghesi Colombo & Associati is a company consultant.

Merger of Pipex in the UK

During the year, Tiscali UK continued with the programme for the merger of the Pipex broadband and voice division, acquired in September 2007. These activities generated reorganization costs of approximately EUR 32 million during the year.

Execution of the treasury share purchase programme

In accordance with the treasury share purchase programme, initiated on 19 March 2008, relating to the stock options assigned to Tommaso Pompei, Tiscali purchased 2,600,000 treasury shares on 18 April (corresponding to around 0.45% of the share capital), at an average unit price of EUR 2.379, for a value of approximately

EUR 6.2 million. The purchase transactions were carried out in accordance with the provisions set forth in Articles 2357 and et seq. of the Italian Civil Code and within the limits set in the authorisation from the shareholders' meeting.

Pursuant to articles 132 of the Italian Finance Consolidation Act and 144-bis of the Italian Issuers' Regulations, the purchases took place on regulated markets in accordance with the operational procedures set forth in the rules for the organisation and management of said markets. Moreover, the purchases were executed with daily volumes of no more than 25% of the average daily volume of the Tiscali shares traded in the month prior to the official public notification of the programme, pursuant to article 5 of the Regulation (EC) No. 2273/2003.

Appointment of the new Board of Directors and audit mandate to Reconta Ernst&Young S.p.A.

Tiscali's ordinary shareholders' meeting held on 29 April 2008 appointed the new Board of Directors, made up of five members, including Mario Rosso, appointed Chairman and Chief Executive Officer, Massimo Cristofori, Francesco Bizzarri and Arnaldo Borghesi, reconfirmed, and the new director Umberto De Julio, an independent member.

The Shareholders' Meeting also appointed Reconta Ernst & Young S.p.A. as auditor for the years 2008-2016.

Renewal of the organizational set-up of the finance area

On 9 June 2008, Massimo Cristofori, CFO of the Group (who had followed Tiscali since its start-up) left the Company, maintaining his role as Tiscali S.p.A. Board Director. The Chief Executive Officer, Mario Rosso, undertook the role of Group CFO ad interim. Romano Fischetti, head of Planning, Reporting and Auditing, was appointed as Executive in charge of drawing up the Company's accounting documents.

Conversion of the convertible bond (EUR 60 million) subscribed by Management & Capitali and subsequent reduction of the interest holding

In September 2008, the convertible bond subscribed by Management&Capitali (M&C) on 27 December 2007 for a nominal EUR 60 million was fully and automatically converted – also with regard to the capitalized interest portion – into approximately 42.3 million ordinary Tiscali SpA shares, corresponding to around 6.9 percent of the capital after the new issue. The bond regulations envisaged the automatic mandatory conversion in the event that the changeable average (20 days) of the official Stock Exchange prices was, for five consecutive days, equal to or less than the value of the Tiscali stock, calculated by dividing the nominal value of the bond plus capitalized interest by the maximum number of new shares authorized by the share capital increase resolution with the exclusion of the purchase option, approved by the Tiscali extraordinary shareholders' meeting held on 27 December 2007.ordinaria degli azionisti di Tiscali del 27 dicembre 2007.

Resignation of Mario Mariani from the office of Chief Executive Officer of Tiscali Italia S.p.A.

On 11 November 2008, Mario Mariani, Chief Executive Officer of Tiscali Italia since June 2006, left the Company so as to follow the development of a new professional project. The Role of Tiscali Italia S.p.A.'s Chief Executive Officer was covered ad interim by the Group's Chief Executive Officer Mario Rosso, aided with regard to the co-ordination of the operating activities by Luca Scano, CFO of Tiscali Italia S.p.A..

Launch of a plan for the rationalization of Italian operations and of a voluntary incentive redundancy programme

As from November 2008, Tiscali launched a plan aimed at rationalizing Italian operations for the purpose of simplifying the structure of the operating costs. In this context, the Company drew up, together with the trade unions, a voluntary incentive redundancy programme for its employees. The plan has set itself the aim of making a total reduction in operating costs and overheads of up to around EUR 40 million (of which EUR 13 million on payroll and related costs).

On 3 December 2008, the Trade Union organizations SLC-CGIL, FISTel-CISL and UILCOM-UIL signed an agreement with the Company for the handling of the redundancies by means of the use of just incentive laying off on a voluntary basis. At 31 December 2008, the initiative led to the termination of 49 permanent employment contracts (with voluntary incentive redundancy) and of 36 collaboration agreements.

4.5 Analysis of the Group economic, equity and financial position

Foreword

Tiscali is one of the leading alternative telecommunications operators in Europe. With over 2.9 million customers, at 31 December 2008, Tiscali is one of the leading suppliers of Broadband services with xDSL technology (over 2.3 million customers) and voice and Narrowband services (around 600 thousand customers). Via a cutting edge network based on IP technology, Tiscali is able to provide its customers with a wide range of services, from Internet access, both via broadband and narrowband, together with more specific and technologically advanced products for satisfying the market requirements. This range also includes voice services (VoIP and CPS), portal services and IPTV.

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

Tiscali Group revenues during 2008 came to EUR 983.6 million, up by 11.4% when compared with the figure of EUR 883.1 million reported in 2007. The 2008 figure includes both the organic growth and that via external lines relating to the acquisition of the Pipex division in the UK, during September 2007.
During 2008, internet access and voice services – the Group's core business – represented around 89.7% of total turnover. Group profitability increased, with Gross Operating Income (Adjusted EBITDA) before provisions of EUR 155.1 million, up by 29.4% compared to the Adjusted EBITDA of EUR 119.9 million recorded in 2007. Profitability as a percentage of revenues therefore increased by two percentage points (15.8% in 2008 compared to 13.6% in 2007).

At the end of 2008, ADSL users amounted to more than 2.3 million, of which over 1.2 million direct customers (LLU) and around 1.4 million customers who acquire voice services via VoIP and CPS.

Note that the reclassified income statement shown on page 32 can be reconciled with the consolidated income statement included in these financial statements.

Main risks and uncertainties which Tiscali S.p.A. and the Group are exposed to

Risks relating to the general economic situation

The economic, equity and financial situation of the Group is influenced by various factors which make up the macro-economic picture – such as, for example, changes in GDP (Gross Domestic Product), confidence in the economic system shown by savers and the trends relating to interest rates.

During 2008, the financial markets were characterized by great volatility which heavily influenced many financial institutions, leading to an impact on the entire global macro-economic system.
The progressive weakening of the economic system, combined with a drop in the available income of households, downsized the general level of consumption, triggering off a downtrend which is envisaged will have further effects in 2009.

At present, it is impossible to be certain that the measures adopted by Governments and by the monetary authorities in response to this situation will be able to lead to a general improvement in the economic situation within an acceptable timescale. Consequently, it is not possible to establish by way of priority how much time will effectively be necessary so that the markets return to operating under normal conditions.

If this period of economic uncertainty should protract significantly over time, the activities, strategies and prospects of the Tiscali Group could be negatively influenced by this state of play and, consequently, also the equity, financial and economic position of the Company could be affected.

Risks associated with the performance of the telecommunications market

The telecommunications market in which the Tiscali Group operates is extremely competitive in terms of innovation, prices, efficiency and customer service. Tiscali competes with other groups of International standing, as well as with various local operators.

The success of the Group's activities will depend on its ability to maintain and increase the market shares where it currently operates by means of innovative and high quality services which ensure adequate levels of profitability. If the Company is not able to maintain the competitive level with respect to the leading competitors in terms, among other things, of price and quality, Tiscali Group market shares could fall with a negative impact on the economic and financial results of the Group.

Risks associated with financial requirements

The evolution of the Group's financial situation depends on different factors, in particular, for example, the achievement of the envisaged objectives, the trend in the general conditions of the economy, the financial markets and the sector in which the Group operates. During the first few months of 2009, following a review of the main preliminary results in 2008 and of the Group's financial position, also in light of the deterioration of the macro-economic conditions and the sharpening of the competitive context in the sector, Tiscali took steps to launch a process aimed at restructuring the Group's borrowing as well as ensuring the long-term financial equilibrium. In consideration of this and so as to be able to avail of the necessary timescale for drawing up these Plans, the Company requested the leading financial institutions to grant a period of suspension on the interest payments, principal amounts and financial covenants, so as to achieve the operating objectives established for the year underway.

The Company has also specified that the route taken has the aim of renegotiating the financial debt with leading lending institutions, who are willing to negotiate, and that the business activities in Italy and the UK are proceeding regularly vis-à-vis both customers and suppliers. Despite management being confident in reaching an agreement before long with the leading banks aimed at establishing long-term financial equilibrium, the drawing out of the negotiations could negatively influence the Company's activities. For further details, reference should be made to the section *Assessment of the business as a going-concern and business outlook* and prospects on page 39.

Risks associated with fluctuations in interest and Exchange rates

The Tiscali Group, which operates both in Italy and in the UK, is naturally exposed to market risks associated with fluctuations in exchange and interest rates. The exposure to exchange risks is mainly linked to the different geographic distribution of the commercial activities, which lead it to have flows denominated in various currencies (Euro and GB Sterling).

The Tiscali Group uses various forms of financing with the aim of covering the requirements of its activities. Changes in the levels of the interest rates may lead to increases or reductions in the cost of the loans.
On a consistent basis with its risk management policies, the Tiscali Group tries to deal with the risks relating to exchange rate and interest rate fluctuations by means of recourse to financial hedging instruments.

Despite these financial hedging transactions, sudden fluctuations in exchange and interest rates could have a negative impact on the Group's economic and financial results.

Risks associated with dealings with employees and suppliers

Both in Italy and the UK, Group employees are protected by various laws and/or collective labour agreements which ensure them, via local and national delegations, the right to be consulted with regard to specific matters, including therein downsizing or the closure of departments and the reduction of the workforce. These laws and/or collective labour agreements applicable to the Group and to its suppliers could influence its flexibility when strategically redefining and/or repositioning its activities. Tiscali's ability and that of its suppliers to make any staff reductions or take other measures, temporary or otherwise, for the interruption of the employment relationship, is conditioned by governmental authorizations and by the consent of the trade unions. Trade union protests by workers could negatively influence the Company's activities.

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

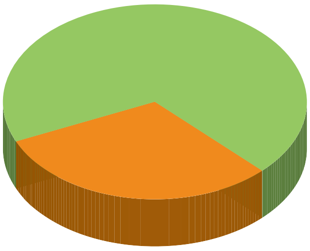
The Company's future depends greatly on the ability of its executives to handle it effectively. The loss of the services of an executive director, a first level manager or other key resources without adequate replacement, as well as the inability to attract and maintain new and qualified resources, could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

ECONOMIC POSITION

CONSOLIDATED INCOME STATEMENT EUR (Mln)	31.12.2008	31.12.2007	CHANGE	CHANGE %
Revenues	983.6	883.1	100.5	11.4%
Other income	12.4	5.2	7.3	139.7%
Purchase of materials and outsourced services	710.5	633.3	77.2	12.2%
Payroll and related costs	91.1	90.0	1.1	1.3%
Other operating costs	(2.5)	6.3	(8.8)	-140.0%
Gross operating result (adjusted EBITDA)	**197.0**	**158.7**	**38.2**	**24.1%**
Writedowns of receivables from customers	34.3	27.1	7.2	26.5%
Stock option plan cost	7.6	11.7	(4.1)	-35.0%
Gross operating result (EBITDA)	**155.1**	**119.9**	**35.2**	**29.4%**
Restructuring costs, provisions for risk reserves and writedowns	78.8	39.7	39.2	98.7%
Amortisation/depreciation	176.1	155.2	21.0	13.5%
Operating result	**(99.9)**	**(74.9)**	**(25.0)**	**33.3%**
Share of results of equity investments valued using the equity method	(0.1)	-	(0.1)	0.0%
Net financial income (charges)	(96.5)	(72.6)	(23.9)	32.9%
Other net financial income (charges)		(17.9)	17.9	-100.0%
Pre-tax result	**(196.5)**	**(165.5)**	**(31.0)**	**18.7%**
Income taxes	(64.9)	17.5	(82.4)	-470.2%
Net result from operating activities (on-going)	**(261.4)**	**(147.9)**	**(113.4)**	**76.7%**
Result from assets disposed of and/or destined to be disposed of	(9.7)	72.6	(82.4)	-113.4%
Net result	**(271.1)**	**(75.3)**	**(195.8)**	**259.9%**
Minority interests	**(28.4)**	**(10)**	**(18.3)**	**183%**
Group Net Result	**(242.7)**	**(65.3)**	**(177.4)**	**272%**

Revenues by country

FIG. 4.9 – REVENUES BY COUNTRY



SOURCE: TISCALI

Italy

Operational Income Statement – Italy

EUR (mln)	31.12.2008	31.12.2007
Revenues	**313.5**	**292.0**
of which: ADSL revenues	124.6	101.8
of which: voice revenues	95.1	73.9
EBITDA	**76.3**	**62.9**
EBIT	**(17.4)**	**(2.4)**

During 2008, Tiscali Italia SpA generated revenues for EUR 313.5 million, up by 7.4% with respect to the figure of EUR 292.0 million during the same period in 2007. Revenues from voice and ADSL services, the core business of the Italian subsidiary, disclose a higher growth rate. In detail, revenues pertaining to ADSL access services amounted to EUR 124.6 million, up by 22.4% when compared with the EUR 101.8 million in 2007. It is appropriate to specify that, following the launch of the bundled voice and data proposals, ADSL revenues include all the "flat" components of the proposals (including therein access fees). The traffic generated, on the other hand, is included in the "Voice" revenue line.

Voice revenues amounted to EUR 95.1 million in the year, an increase of 28.7% compared to 2007 (EUR 73.9 million).

At 31 December 2008 Tiscali recorded a net increase of over 33 thousand new ADSL customers in Italy when compared to 31 December 2007, bringing the total customer base for this service up to 586 thousand, including over 385 thousand already active and linked to the Tiscali network infrastructure (unbundled).

During the year, over 82 thousand customers subscribed to the double play services (data and voice via the internet), bringing the total number of double play customers in Italy to around 254 thousand. The customer base using dial-up access (narrowband) and CPS voice services stood at around 277 thousand users. The reduction in the narrowband customer base follows the market trend which sees progressive replacement with broadband services in the proposals to customers.

Evolution of the customer base – Italy

(000)	31.12.2008	31.12.2007
ADSL customers	586.1	552.7
of which: LLU	385.1	331.3
Narrowband and voice customers	277.4	527.6
Dual play customer	254.2	171.4

Unbundled network coverage in Italy at 31 December 2008 came to 486 sites.
The average ARPU for broadband services in Italy amounted to EUR 30 per month, an increase compared to the average of EUR 29 for the year 2007 and in line with plan targets.

United Kingdom

Operational Income Statement – United Kingdom

EUR (mln)	31.12.2008	31.12.2007
Revenues	**683.6**	**608.7**
of which: ADSL revenues	371.8	370.6
of which: voice revenues	240.3	155.2
EBITDA	**108.1**	**98.6**
EBIT	**(88.6)**	**(54.2)**

Tiscali UK generated revenues of EUR 683.6 million during the year, an increase of 12.3% on 2007 (revenues of EUR 608.7 million). This performance is the result of growth, both organic and via external lines, via the VNL acquisition (Homechoice) in August 2006 and the Pipex Division acquisition in September 2007.
The UK operations also saw the highest growth in the ADSL and Voice segments. In fact, ADSL access services generated revenues of EUR 371.8 million (54.4% of total revenues) in 2008, compared with a figure of EUR 370.6 million in 2007. Voice services, which also include analogue products sold alongside ADSL services, generated revenues of EUR 240.3 million, an increase of 54.9% on the EUR 155.2 million in 2007. ADSL users at 31 December 2008 amounted to about 1.8 million, down slightly with respect to the previous year. These include 907 thousand direct customers (LLU), and around 818 thousand customers who subscribed to dual play services.

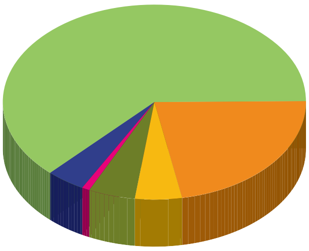
Evolution of the customer base – the United Kingdom

(000)	31.12.2008	31.12.2007
ADSL customers	**1,767.9**	**1,829.9**
of which: LLU	907.0	642.9
Narrowband and voice customers	**312.5**	**558.1**
Dual play customers	**818.6**	**787.7**

The unbundling network coverage in the United Kingdom at 31 December 2008 amounted to 951 sites. The average ARPU of the broadband services in the UK came to EUR 28 a month, down with respect to the EUR 29 in 2007 due to greater competitive pressure and the negative impact of the Euro/Sterling exchange rate.

Revenues by business segment

FIG. 4.10 - BREAKDOWN OF REVENUES BY BUSINESS LINE AND ACCESS MODE [3]



SOURCE: TISCALI

Operational Income Statement of the Group

EUR (Mln)	31.12.2008	31.12.2007
Revenues	**983.6**	**883.1**
Access revenues	547.8	550.0
of which: ADSL	*496.4*	*471.9*
Voice revenues	335.3	228.9
of which: dual play (traffic component)	*121.3*	*125.5*
Revenues from business services	44.1	40.5
Revenues from media and value added services	46.1	50.2
Other revenues	10.3	13.5
Gross Operating Margin (Gross Margin)	**454.2**	**408.4**

Internet access

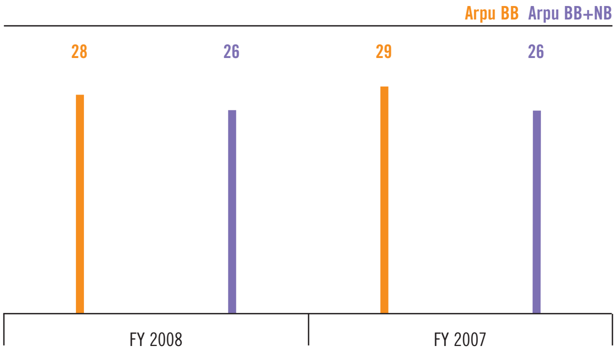
This segment, which includes revenues from broadband (ADSL) and narrowband (dial-up) internet access services and the flat component of the bundled proposals, generated revenues during the year of EUR 547.8 million, representing around 55.7% of the Group's total revenues during the year, in line with the figure for the same period in 2007 (EUR 550 million).

The customer base for ADSL services, relating to 2008, numbered more than 2.3 million users (of which over 1.2 million direct), in line with the figure for the previous year. Direct LLU users increased by 32.6% during the year, passing from EUR 974 thousand in 2007 to over 1.3 million at 31 December 2008.

Evolution of the customer base – Group

(000)	31.12.2008	31.12.2007
ADSL customers	2,354.0	2,382.7
of which: LLU	1,292.1	974.2
Narrowband and voice customers	589.9	1,085.6
Dual play customers	1,072.8	959.2

FIG. 4.11 - EVOLUTION OF THE RETAIL ARPU DURING THE YEAR (EUR)



SOURCE: TISCALI

Voice

The voice segment includes both the traditional telephone service and the component of the variable traffic generated by voice services on IP offered in joint mode with internet access. In terms of revenues, during 2008, these services generated around 47% more than in 2007. In absolute value, voice revenues during 2008 amounted to EUR 335.3 million, compared with EUR 228.9 million in 2007. Out of total voice revenues, EUR 121.2 million concerns the voice traffic components generated by VoIP services.

Business services

Revenues from business services (VPN, housing, hosting services, domains and leased lines), excluding those pertaining to access and/or voice products for the same customer base which are included in their respective business segments, amounted in 2008 to EUR 44.1 million (a 9% increase over the EUR 40.5 million of 2007).

Media and value added services

During 2008, the revenues of the media and value added services segment (deriving from direct and indirect advertising by means of commercial agreements with search engines) amounted to EUR 46.1 million, down with respect to the previous period (EUR 50.2 million) due to the reduction in the advertising market. This business line does not include the revenues deriving from the sale of contents (such as video on demand in the IPTV services) revenues classified in the 'access' line.

3. THE GRAPH DISCLOSES A BREAKDOWN BY BUSINESS LINE WHICH GROUPS TOGETHER THE DUAL PLAY REVENUES WITH BROADBAND.

Gross Operating Result (EBITDA)

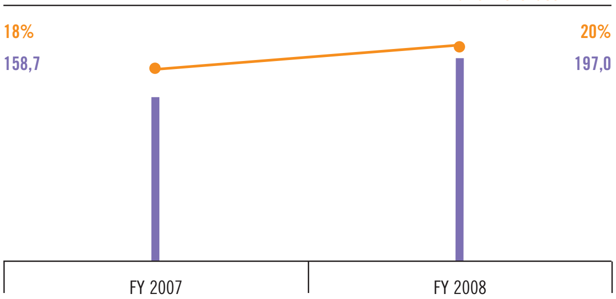
Operational Income Statement - Group

EUR (mln)	31.12.2008	31.12.2007
Revenues	**983.6**	**883.5**
Gross Operating Margin (Gross Margin)	**454.2**	**408.4**
Indirect operating costs	**276.4**	**251.2**
Marketing and sales	84.7	87.6
Payroll and related costs	91.1	90.0
Other indirect costs	100.6	73.7
Other income/charges	**(19.3)**	**(1.5)**
Gross Operating Result (adjusted EBITDA)	**197.0**	**158.7**
Writedown of receivables and other provisions	41.9	38.8
Gross Operating Result (EBITDA):	**155.1**	**119.9**
Amortisation/depreciation	176.1	155.2
Gross result (EBIT) before restructuring costs and provision for risks	**(21.0)**	**(35.2)**
Gross Result (EBIT)	**(99.9)**	**(74.9)**
Group Net Result	**(242.7)**	**(65.3)**

The Gross Operating Result (EBITDA) for the year, before provisions for risks, writedowns, depreciation and amortisation, was EUR 197 million, an increase of 24.1% compared to the EUR 158.7 million in 2007.

EBITDA net of writedowns of receivables and other provisions was EUR 155.1 million in 2008 (15.8% of revenues), an increase of 29.4% on the comparable figure in 2007 (EUR 119.9 million, 13.6% of revenues).

FIG. 4.12 - EVOLUTION OF THE GROSS OPERATING RESULT (ADJUSTED EBITDA) EUR MLN



SOURCE: TISCALI

During the year, **indirect operating costs** stood at EUR 276.4 million (28.1% of revenues), in line in terms of proportion of revenues when compared with the figure for the previous year (EUR 251.2 million, 28.4% of revenues).

Indirect operating costs include **payroll and related costs** for 2008 totalling EUR 91.1 million, slightly higher than in 2007 (EUR 90.0 million), but down by one percentage point in terms of incidence on revenues (10.2% in 2007 compared with 9.3% in 2008). The analysis of payroll and related costs is even more significant if one takes into account the increased dimensions of the Group during 2007 due to the acquisition of the Pipex broadband and voice division.

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

EUR (mln)	31.12.2008	31.12.2007
Revenues	**983.6**	**883.1**
Other revenues	12.4	5.2
Purchase of materials and services, of which:	**710.5**	**633.3**
- marketing	*84.7*	*87.6*
- indirect costs (*)	*96.3*	*71.0*
- other direct costs	*529.4*	*474.7*
Payroll and related costs	**91.1**	**90.0**
Other operating costs, of which:	**(2.5)**	**6.3**
- other indirect costs (*)	4.3	2.6
- other operating costs	(6.8)	3.7
Gross Operating Result	**197.0**	**158.7**
(*) Total Indirect Costs	**100.6**	**73.7**

Operating result (EBIT):

The operating result (EBIT) for 2008, net of provisions, writedowns and restructuring costs, was negative and totalled EUR 99.9 million, down with respect to the comparable figure in 2007, equating to EUR 74.9 million.

Provisions for risks and writedown of receivables in 2008 amounted in total to EUR 41.9 million (EUR 38.8 million in the same period in 2007). The increase is mainly attributable to reorganization costs associated with the acquisition of Pipex and the process for the corporate reorganization of the Italian subsidiaries. **Amortisation/depreciation** in 2008 amounted to EUR 176.1 million (EUR 155.1 million in 2007).

The figure was influenced by investments made during the period for the development of the unbundling network and the range of the ADSL services (modem and customer activation costs).

Operating result by country

The gross operating result (EBITDA) by country presented below is net of infraGroup costs (mainly services rendered by the parent company and Information Technology services by Italian operations to other subsidiaries).

The figure commented on also does not include receivable writedowns by country.

Operational Income Statement – Italy

EUR (mln)	31.12.2008	31.12.2007
Revenues	**313.5**	**292.0**
Gross Operating Margin (Gross Margin)	**185.8**	**169.3**
Indirect operating costs	**105.4**	**103.2**
Marketing & sales	*35.5*	*41.8*
Payroll and related costs	*41.3*	*40.6*
Other indirect operating costs	*28.5*	*20.8*
Gross operating result (adjusted EBITDA)	**76.3**	**62.9**
Operating result (EBIT)	**(17.4)**	**(2.4)**

Tiscali Italia S.p.A closed 2008 with a gross operating result (adjusted EBITDA) of EUR 76.3 million (24.3% of revenues), up with respect to the figure of EUR 62.9 million (21.5% of revenues) in 2007. The Gross Margin, indicator of the industrial performance of the Italian subsidiary, increased by around 10% on an annual basis and by one percentage point in terms of incidence on revenues. Operating costs which rose from EUR 103.2 million in 2007 to EUR 105.4 million in 2008 (+ 2.1%), include marketing costs which fell 14.9% in absolute value on an annual basis (from EUR 41.8 million in 2007 to EUR 35.5 million in 2008).

With regard to the operating result (EBIT), in 2008 Tiscali Italia S.p.A. generated a loss of EUR 17.4 million compared to the loss of EUR 2.4 million in 2007, a difference attributable to provisions and restructuring costs for around EUR 20.5 million linked to the restructuring programme and reduction on operating and indirect costs. In detail, at 31st December 2008, Tiscali Italia saw a reduction of 49 individuals, by means of incentive redundancies, and the additional outsourcing of 36 individuals.

Operational Income Statement – United Kingdom

EUR (mln)	31.12.2008	31.12.2007
Revenues	**683.6**	**608.7**
Gross Operating Margin (Gross Margin)	**276.9**	**249.6**
Indirect operating costs	**152.2**	**131.2**
Marketing & sales	*48.3*	*41.1*
Payroll and related costs	*40.0*	*40.5*
Other indirect operating costs	*63.9*	*49.6*
Gross operating result (adjusted EBITDA)	**108.1**	**98.6**
Operating result (EBIT)	**(88.6)**	**(54.2)**

The gross operating result (adjusted EBITDA) generated by the subsidiary Tiscali UK (United Kingdom) in 2008 came to EUR 108.1 million (15.8% of revenues) with respect to EUR 98.6 million (16.2% of revenues) in 2007. The result reflects the effects of the Pipex acquisition in September 2007.

At operating result level (EBIT), Tiscali UK generated a negative result of EUR 88.6 million in 2008, compared with a loss of EUR 54.2 million in 2007, attributable mainly to provisions and restructuring costs for the Pipex division.

Consolidated net result

The net result for 2008 presented a loss of EUR 242.7 million, down with respect to the net loss of EUR 65.3 million in 2007. The net result was influenced by financial charges for EUR 96.4 million and writedowns and provisions amounting to approximately EUR 86 million. These charges mainly relate to reorganization costs linked to the merger of Pipex and the corporate reorganization process of the Italian subsidiaries.

Equity and financial position

CONSOLIDATED BALANCE SHEET (in abridged form) EUR (mln)	31.12.2008	31.12.2007
Non-current assets	890.9	1,210.7
Current assets	258.1	389.2
Assets held for sale	56.8	-
Total Assets	**1.205.8**	**1.599.9**
Group shareholders' equity	10.8	169.6
Shareholders' equity pertaining to minority shareholders	(6.0)	37.3
Total Shareholders' equity	**4.8**	**207.0**
Non-current liabilities	229.7	786.6
Current liabilities	949.1	606.3
Liabilities directly related to assets held for sale	22.3	-
Total Liabilities and Shareholders' equity	**1.205.8**	**1.599.9**

Assets

Non-current assets

Non-current assets at 31 December 2008, amounting to EUR 890.9 million, are lower with respect to the figure at 31 December 2007, equating to EUR 1,210.7 million.
This is mainly attributable to the reduction in the value of the Goodwill allocated to the UK subsidiaries for EUR 76.3 million (due exclusively to the exchange effect), the reduction of the amount recorded for prepaid taxes, totalling EUR 96.7 million and the change in the consolidation area (TiNet Group).

The extension of the unbundling network and the consequent operating investments relating to the connection and activation of new ADSL customers generated new investments during the year of around EUR 174.3 million, including EUR 113 million for investments in intangible assets and around EUR 61.3 million for investments in tangible fixed assets.

Investments in Italy came to around EUR 58.2 million, while in the UK they totalled approximately EUR 116.0 million. At 31 December 2008, Tiscali's unbundling network included more than 486 sites in Italy and around 951 sites in the UK.

Current assets

Current assets at 31 December 2008 amounted to EUR 258.1 million, essentially lower with respect to 31 December 2007 (EUR 389.2 million). Receivables due from customers, at 31 December 2008, amounted to EUR 176.8 million, compared with the EUR 164.4 million at 31 December 2007. Other receivables and other current assets, amounting to EUR 46.8 million, in particular include accrued income on access services rendered, prepaid service costs, together with sundry receivables, including VAT credits.

Liabilities

Non-current liabilities

Non-current liabilities at 31 December 2008 amounted to EUR 229.7 million, compared with a figure of EUR 786.6 million at 31 December 2007.

The figure includes both the items pertaining to the financial position, in relation to which see the following section, and the other non-current liabilities, including the amount due to the former shareholders of VNIL for a total of EUR 71.3 million, the provision for risks and charges for EUR 25.4 million and payables to suppliers for the purchase of long-term usage rights on transmission capacity (IRU) for EUR 8.1 million.

Current liabilities

Current liabilities amounted to EUR 949.1 million at 31 December 2008 (compared with EUR 606.3 million at 31 December 2007). They mainly include the current portion of the financial payables, payables to suppliers, together with accrued expenses pertaining to the purchase of access services and line rentals, the provision for staff severance indemnities, the provision for risks and charges and the provision for taxation.

The change is attributable to the repayment of the bridging loan by means of the income, for EUR 150 million, emerging from the share capital increase and the reclassification at short-term, at 31 December 2008, of the long-term financial debt, as more fully explained in the following section *Financial Situation* on this page.

Reconciliation between the statutory financial statements of the parent company and the consolidated financial statements

As required by CONSOB Communication No. DEM/6064293 dated 28 July 2006, the following table links the period result and the shareholders' equity of the Group, with the corresponding values of the parent company.

EUR (000)	31 december 2008	
	Net profit (loss)	Shareholders' equity
Shareholders' equity and net profit (loss) as per Tiscali S.p.A.	**(981,324)**	**154,096**
Shareholders' equity and net profits (loss) of the consolidated companies net of minority interests	(231,333)	327,144
Book value of consolidated equity investments	-	(1,452,429)
Writedown of equity investments recorded in the Parent Company's financial statements	953,885	953,885
Elimination of the provision for the coverage of losses of investee companies recorded in the Parent Company's financial statements	17,240	36,058
Reversal of the goodwill recorded in the financial statements of consolidated investee companies	-	(422,112)
Recording of Group goodwill	-	438,824
Other	(1,192)	(4,644)
Shareholders' equity and net profit (loss) for the year pertaining to the Parent Company's shareholders	**(242,724)**	**10,823**
Shareholders' equity and net profit (loss) pertaining to minority shareholders	(28,365)	(6,046)
Shareholders' equity and net profit (loss) as per consolidated financial statements	**(271,090)**	**4,777**

Financial situation

At 31 December 2008, the Tiscali Group could count on total cash and cash equivalents totalling EUR 24.2 million, against net financial debt, at the same date, of EUR 601.1 million (EUR 636.5 million at 31 December 2007 referring to just operating activities).

EUR (mln)	31.12.2008	31.12.2007
A. Cash	24.2	134.2
B. Other cash equivalents	12.7	16.3
C. Securities held for trading	-	-
D. Cash and cash equivalents (A) + (B) + (C)	**36.9**	**150.5**
E. Current financial receivables	**5.3**	**12.1**
F. Non-current financial receivables	1.4	-
G. Current bank payables	510.0	176.2
H. Current portion of non-current debt	-	-
I. Other current financial payables (*)	21.4	19.5
J. Current financial debt (G) + (H) + (I)	**531.4**	**195.7**
K. Net current financial debt (J) – (E) – (F) – (D)	**487.7**	**33.1**
L. Non-current bank payables	-	450.1
M. Bonds issued	-	43.8
N. Other non-current payables (**)	113.4	109.5
O. Non-current financial debt (L) + (M) + (N)	**113.4**	**603.4**
P. Net financial debt (K) + (O)	**601.1**	**636.5**

(*) includes leasing payables

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

In order to ensure consistency with the data provided in former reports, the above table includes VAT receivables under current financial receivables and guarantee deposits under other cash equivalents.

The table below provides a reconciliation of the above financial position with the same statement prepared in accordance with Consob resolution n. DEM/6064293 dated 28 July 2006.

EUR (mln)	31.12.2008	31.12.2007
Consolidated net financial debt	**601.1**	**636.5**
Other cash, cash equivalents and current financial receivables	15.3	20.9
Consob consolidated net financial debt	**616.4**	**657.4**

As indicated in the comments on the business continuity, please note that the Group finalized a suspension period (so-called standstill agreement) with the lending institutions until June 2009. In this period, the parties agreed the suspension of the payment of interest and the principal portion of the financial debt (with the exception of leasing on machinery). This agreement also concerns short-term bank facilities and envisages the freezing of the financial covenants (present in senior bank debt for EUR 100 million and not observed at 31 December 2008).

The main changes in the debt situation during the year are attributable to the following factors:

1) The use of an additional EUR 50 million relating to the RCF Banca Intesa & JP Morgan loan;

2) Reclassification of the Senior Term Loan Banca Intesa & JP Morgan from medium-term to short-term debt, on a consistent basis with the standstill request with the process for the renegotiation of the debt under way, in relation to which reference should be made to the sections “Events subsequent to the end of the year” on page 45 and “Assessment of the business as a going-concern and business outlook and prospects” on page 46. Note that the reclassification of the debt complies with the approach required by IAS 1, section 64.;

3) The conversion into equity of the convertible bond subscribed by Management&Capitali in December 2007 for EUR 60 million at a nominal rate of 6.75% per annum.

4) Repayment of the Banca Intesa & JP Morgan bridging loan for EUR 150 million following the share capital increase in February 2008.

The change in operating cash for the year, before interest on the debt, is negative for a total of EUR 12.5 million. The overall change is negative for around EUR 110 million, a figure which reflects investments for around EUR 174 million and charges for interest and other costs on debt amounting to approximately EUR 76 million.

4.6 Events subsequent to the end of the year

Appointment of Luca Scano as General Manager of Tiscali Italia

On 19 January 2009, the Company announced the appointment of Luca Scano as General Manager of Tiscali Italia S.p.A., reporting directly to Mario Rosso, Chief Executive Officer of Tiscali Italia and the parent company Tiscali S.p.A.. Luca Scano is also responsible for the role of Finance Director of the Italian subsidiary.

Reduction of the interest holding by Management & Capitali

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

Renewal of the voluntary incentive redundancy programme

On 27 January 2009, the Trade Union Organizations SLC-CGIL, FISTel-CISL and UILCOM-UIL renewed the agreement signed with the Company at the end of December, with the aim of achieving a further 60 incentive redundancies by the end of 2009.

Furthermore, as a result of transactions for internalizing activities, the Company has planned the re-location of 70 workers by means of professional mobility processes.

As of the date of approval of the financial statements, the initiative had led to the termination of another 47 permanent employment contracts (by means of voluntary incentive redundancy) for a total of 96 terminations and 36 collaboration agreements.

Inclusion of Renato Soru once again on the Board of Directors

On 19 March 2009, Tiscali Spa’s Board of Directors resolved the return of Mr. Renato Soru, Company founder and shareholder, to the Board of Directors.

Agreement for the disposal of Tiscali International Network (TiNet)

On 3 February 2009, Tiscali, BS Private Equity SpA and BS Investimenti SGR announced that they had agreed the sale of the activities held by Tiscali International Network BV, a company controlled by Tiscali S.p.A., for a total Enterprise Value of around EUR 47 million inclusive of a potential earn-out of EUR 7 million. Also subsequent to the acquisition, TiNet will continue to be the IP services supplier for the Tiscali Group.

Request for suspension of the payment of interest and principal (standstill), drawing up of a new business plan and launch of the financial debt renegotiation process

Following examination of the main preliminary results for 2008 and the Group's financial position, as well as in light of the deterioration of the macro-economic conditions and the worsening of the competitive context in the sector, the Board of Directors assessed the need to prepare a new Business Plan and an associated Financial Plan which will permit the Group to launch a process aimed at restructuring the debt and guaranteeing financial balance over the long-term. In consideration of this and for the purpose of being able to avail of the timescale necessary for the preparation of said Plans, the Company requested the leading financing institutions to grant of period of suspension for the payment of interest, principal and financial covenants (standstill). In light of this request, on 10 March 2009, the Company suspended said payments, including those falling due in the same month. The Company has also specified that the route taken has the aim of renegotiating the financial debt with leading lending institutions, who are willing to negotiate, and that the business activities in Italy and the UK are proceeding regularly vis-à-vis both customers and suppliers.

The 2009-2013 Business Plan is based on the guidelines aspiring to the maximization of the operating efficiency, the reduction of costs and investments and the generation of short/medium-term cash. The structure of the guidelines is differentiated for each operating unit in relation to the particular features of the related context/market.

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

Events and uncertainties regarding the business continuity

The Tiscali Group ended the year with a loss of EUR 271.1 million and total net shareholders' equity of EUR 4.8 million. Furthermore, at 31 December 2008 the Group disclosed gross financial debt of EUR 644.8 million and, as of the same date, the levels of the financial covenants envisaged by certain loan agreements were not observed. This circumstance led to the reclassification under current liabilities of the medium/long-term loans for EUR 439.6 million, in accordance with the reference accounting standards.

The afore-mentioned result for the year was influenced by a series of factors, including the change in the competitive and market context, involving a sharpening in competition and a slowdown in demand for telecommunications services, and the weakening of the UK sterling against the Euro, with consequences on the ability to service the long-term bank debt, denominated in Euro.

Among events subsequent to the end of the year, it is necessary to mention both the afore-mentioned agreements for the disposal of Tiscali International Network BV and the fact that the Group has also decided to suspend the payments envisaged within the sphere of the outstanding loan agreements and therefore has not reimbursed portions of principal and interest for EUR 35 million falling due in March 2009.

The occurrence of these events, together with the failed observance of certain financial covenants as described previously, on the basis of the corresponding loan agreements, permits the majority of the financial institutions the faculty to request the early repayment of said loans.

As a result of all the circumstances indicated above, as of the date the financial statements were drawn up uncertainty exists with regard to the Company's business continuity; however, the Board of Directors has drawn up the consolidated financial statements at 31 December 2008 on the basis of the assumption of the business as a going-concern, in light of the considerations which follow.

Action taken

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

The plan proposed by the Board of Directors is based on the following principle action, partly launched as of today's date:

a) stipulation with senior financial institutions of a suspension agreement (so-called standstill agreement) expiring on 5 June 2009, concerning the suspension of the payment of principal and interest instalments due in accordance with the medium/long-term loan agreements as well as the related covenants. The senior financial institutions also manifested their willingness in good faith, where necessary, to consider an extension of the afore-mentioned standstill agreement until 31 December 2009;

b) request to the banks and leasing companies for a suspension agreement falling due on 30 June 2009 relating to the short-term debt and the financial property leasing;

c) the appointment of advisors to support the Group in relation to industrial, financial and legal aspects;

d) the definition of the new Business Plan, whose guidelines were approved by the Board of Directors on 27 March;

e) the definition of the financial manoeuvre aimed at rendering the Tiscali Group's financial debt compatible with the related income-related and financial prospects, also in light of the matters envisaged in the guidelines of the Business Plan;

f) the launch of negotiation for the definition of an agreement with the financial institutions, aimed at restructuring the Group's financial debt. The Board of Directors discloses that negotiations have been started with the afore-mentioned institutes for the definition of a new structure of the debt on a consistent basis with the expected cash flows;

g) the definition of agreements with the main suppliers so as to ensure the regular continuation of operating activities; in this connection, the Directors have disclosed that the Group's business activities in Italy and the UK are proceeding on a regular basis vis-à-vis the customers and the suppliers.

Final assessment of the Board of Directors

In light of the above comments, the Board of Directors believes that as things stand, reasonable probability exists of being able to achieve the restructuring of the Tiscali Group's financial debt on a consistent basis with the cash flows and suitable for supporting the new Business Plan.

As a point of fact, the attention and interest demonstrated by the financial institutions in relation to the Company, the signing of a waiver and standstill agreement (with the aim of permitting the finalization of the restructuring agreement), the willingness to extend the standstill period until 31 December 2009 expressed, the start of negotiations, and the fact that both the Business Plan and the related Financial Plan have been prepared in accordance with maximum prudence and seriousness, converge in the sense of the afore-mentioned positive assessment made by this Board.

In light of the above, the business continuity is therefore considered to exist, since this Board believes that as things stand there is reasonable probability of finalizing an agreement with the financial institutions.

Milan, Italy, 27 March 2009

The Chief Executive Officer

Mario Rosso

The Executive appointed to draw up the Company accounting documents

Romano Fischetti

5. Corporate Governance Report

5.1 Foreword

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

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

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

5.2 Part I: Corporate Governance structure

General principles

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

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

Adopted model

In relation to the system of management and control, the Company has adopted the traditional model, which envisages the presence of the Board of Directors and the Board of Statutory Auditors. Notwithstanding the fact that recent company law reforms have given public limited companies the right to adopt models that depart from the traditional structure, the company has decided to keep its system of corporate governance unchanged in order to guarantee continuity and consistency with the consolidated structure, allowing a distinct division of roles and powers assigned to corporate bodies, in consideration of the provisions of the Code.

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

The governing bodies comprise the Board of Directors, the Board of Statutory Auditors and the Shareholders' Meeting.

Board of Directors

Up until the meeting held on 27 and 28 February 2008, the Board of Directors was made up as follows: Vittorio Serafino (Chairman), Tommaso Pompei (Chief Executive Officer), Francesco Bizzarri, Arnaldo Borghesi, Massimo Cristofori, Gabriele Racugno, Mario Rosso, and Rocco Sabelli (Directors).

During the Board Meeting held on 27 and 28 February 2008, Mr. Tommaso Pompei relinquished the powers received on 11 January 2006 to the Board. During the same meeting, the Board delegated said powers to Mr. Mario Rosso.

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

Following the shareholders' meeting held on 29 April 2008, the Board of Directors was thus: Mario Rosso (Chairman and Chief Executive Officer), Francesco Bizzarri, Arnaldo Borghesi, Massimo Cristofori, and Umberto De Iulio (Directors)

Following the resignation of the Director Mr. Arnaldo Borghesi on 25 February 2009 and following the co-opting of the Director Renato Soru on 19 March 2009, the Board is currently made up as follows:

Chairman and Chief Executive Officer	Mario Rosso
Directors	Francesco Bizzarri Massimo Cristofori Umberto De Iulio Renato Soru
Company Secretary	Luca Naccarato

The mandate of the current Directors will expire with the approval of the 2010 financial statements.

Board of Statutory Auditors

Until 12 June 2008, the Board of Statutory Auditors comprised: Aldo Pavan (Chairman), Massimo Giaconia, Piero Maccioni (Statutory Auditors), Andrea Zini, Rita Casu (Deputy Auditors). Following the resignation of the Statutory Auditor Massimo Giaconia, the Board of Statutory Auditors currently comprises:

Chairman	Aldo Pavan
Statutory Auditors	Piero Maccioni Andrea Zini
Deputy Auditors	Rita Casu

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

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

As envisaged by Article 14 of the Articles of Association, in pursuance of the provisions of Italian Law No. 262/2005, on 7 August 2008 the Board of Directors took steps to appoint Romano Fischetti, currently Planning, Reporting & Control manager, as executive in charge of drawing up the Company's accounting documents.

Independent Auditing Firm

The shareholders' meeting held on 29 April 2008 granted the appointment to audit the accounts, formerly covered by Deloitte & Touche S.p.A., to Reconta Ernst & Young S.p.A.. This appointment will expire with the approval of the 2016 annual financial statements by said shareholders' meeting.

Committees

During the meeting held on 12 May 2008, the Board of Directors took steps to establish the following committees internally: the Internal Audit Committee, comprising Umberto De Iulio and Arnaldo Borghesi, the Remuneration Committee, comprising Francesco Bizzarri, Umberto De Iulio and Arnaldo Borghesi and the Supervisory Body, made up of Pasquale Lionetti, Vittorio Serafino and Annarita Succi.

Following the resignation of the Director Arnaldo Borghesi on 25 February 2009, the committees are currently made up as follows:

- Internal Audit Committee Umberto De Iulio;
- Remuneration Committee Francesco Bizzarri, Umberto De Iulio;
- Supervisory Body: Pasquale Lionetti.

Shareholding structure

As at the date of this Report, the authorized share capital came to EUR 310,445,745, while that subscribed and paid-in totalled EUR 308,272,742.50; it is represented by 616,545,485 ordinary shares with a par value of Euro 0.50 each.

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

Shareholder	Shares held	Percentage
Renato Soru	**123,883,719**	**20.09%**
directly (*)	92,272,200	14.97%
via Andalas Ltd	14,831,091	2.40%
via Monteverdi S.p.A. (*)	5,825,898	0.94%
via Cuccureddus S.r.l. unip. (*)	10,954,530	1.78%
Sandoz Family Foundation	**39,742,103**	**6.44%**
directly	1,525,025	0.24%
via Haselbeech Holding NV	32,742,664	5.31%
via Mallowdale Corporation NV	5,474,414	0.88%

(*) Mr. Renato Soru, on 19 December 2008, entered into a deed with Mr. Gabriele Racugno involving fiduciary transfer for administrative purposes. By virtue of this deed, the fiduciary party will have to exercise all the rights, including the voting right, and the prerogatives associated with the shares without any instruction from the other party. The equity investment subject to fiduciary negotiation equated to 17.69% of the entire share capital. On 20 March 2009, an amendment was made to the transfer deed with re-registration in the name of the other party of the shares he originally held directly; as a result of said re-registration, the equity investment subject to fiduciary negotiation currently equates to 2.72% of the entire share capital.

The remaining 73.47% of the share capital is held by the market. The Company is not aware of the existence of any shareholders' agreements.

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

Board of Directors

Role

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

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

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

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

Composition

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

As of the date of this Report, the Board of Directors was made up of five members.

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

Chairman of the Board of Directors and Chief Executive Officer

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

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

The Board of Directors has granted executive powers to the Chief Executive Officer. The powers of the Chief Executive Officer can be exercised up to a maximum value of EUR 25 million.

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

Non-executive, minority and independent directors

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

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

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

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

Mario Rosso, Chief Executive Officer and Chairman, is the only Director with executive powers.

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

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

As from the appointment of the new Board of Directors which took place on 29 April 2008, Umberto De Iulio is an independent director, whose independence requisites are consistent with the matters indicated by the principles and applications criteria pursuant to Article 3 of the Code and pursuant to Article 148 of the Consolidated Finance Law.

The offices covered by the Board members in their capacity as directors of other listed companies, banks or insurance companies or businesses of a significant size, are listed below. None of the Directors cover roles in boards of statutory auditors of other listed companies, banks or insurance companies or businesses of a significant size.

Even in consideration of the offices covered elsewhere and the part they play in Company life, the Company believes that the Directors are in a position to dedicate the necessary time for the diligent performance of their duties as Company directors.

Roles in boards of directors of other listed companies, banks and insurance companies and businesses of a significant size	
Mario Rosso	*Chairman of Consorzio Distretto ICT – Rome*
Francesco Bizzarri	*Freelance professional, Studio Bizzarri*
Massimo Cristofori	*Board Director of SEAT Pagine Gialle S.p.A.*
Umberto De Iulio	*Chief Executive Officer of Italtel S.p.A.*
Renato Soru(*)	

(*) Office covered as from 19 March 2009

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

Board meetings

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

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

As can be seen in the tables below, during 2008 the Board of Directors met nine times, mainly so as to discuss and approve the periodic accounting figures and significant transactions implemented by the Company. During 2009, and up until the date of this Report, the Board met five times. On average, nearly all the Directors and the members of the Board of Statutory Auditors took part in the afore-mentioned meetings.

Meetings during first half of 2008

	10.01.08	27/28.02.08	19.03.08	29.04.07	12.05.08	Average
Directors present	8	8	5	5	5	6.2
Percentage	100%	100%	83.3%	100%	100%	96.6%
Statutory Auditors present	3	3	3	3	3	3
Percentage	100%	100%	100%	100%	100%	100%

Meetings during second half of 2008

	07.08.08	10.10.08	12.11.08	22.12.08	Average
Directors present	4	5	5	5	4.75
Percentage	80%	100%	100%	100%	95%
Statutory Auditors present	3	3	3	3	3
Percentage	100%	100%	100%	100%	100%

Meetings during first half of 2009

	06.03.09	19.03.09	24.03.09	27.03.09	Average
Directors present	4	4	4	4	4
Percentage	100%	100%	80%	80%	90%
Statutory Auditors present	3	3	3	3	3
Percentage	100%	100%	100%	100%	100%

On 22 December 2008, the Board of Directors approved the calendar of its meeting for 2009.

The next meetings scheduled are for:

- 12 May 2009 (Approval of the Quarterly Report at 31 March 2009)
- 6 August 2009 (Approval of the Half-year Report at 30 June 2009)
- 12 November 2009 (Approval of the Quarterly Report at 30 September 2009)

Appointment of Directors

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

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

The election of Directors proceeds as follows: (a) five sevenths of Directors are appointed from the list receiving the majority of votes expressed by Shareholders; (b) the remaining Directors are appointed from the other lists. For this purpose, the votes obtained by the lists are successively divided by one, due, three, four, five, etc, according to the number of Directors to be elected. The quotients obtained thus are then progressively assigned to candidates on each list, in accordance with their respective order. The quotients assigned to candidates on the various lists are compiled into a single list in descending order. Those elected are the candidates with the highest quotients, in any event after appointment of the candidate first on the list receiving the second highest number of votes, and who is in no way connected with that first list, and after the appointment of one or two independent directors, depending on whether the Board comprises more or less than seven members, in accordance with the provisions of Italian Law No. 262/2005, as amended by Italian Legislative Decree No. 303/2006.

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

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

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

The report on operations attached to the financial statements at 31 December 2008 contains an overview of the Board Members' remuneration system (see Section 8.5, *Remuneration of Directors, Statutory Auditors and Executives with strategic responsibility*, page 103).

Shareholders' meetings

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

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

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

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

In pursuance of Article 2370 of the Italian Civil Code and Article 8 (Participation in Shareholders' Meetings) of the Articles of Association, shareholders are entitled to attend shareholders' meetings if, at least two days before the date set for the meeting in first calling, they have sent the Company the communication via the authorized broker pursuant to the current provisions, bearing witness to ownership of the shares and the right to vote, along with any voting proxy.

Board of Statutory Auditors

Appointment and composition

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

Shareholders are only entitled to present lists if, alone or together with other shareholders, they can prove that they hold at least the percentage of the share capital envisaged by applicable legislation (currently 4.5% of the ordinary shares). Each list must indicate five candidates in descending order of professional seniority. Each Shareholder may submit, or jointly submit, one list only and each candidate may be listed in one list only or be disqualified. The list of nominations must be filed at the Company's registered offices at least ten days prior to the date of the next Shareholders' Meeting in first calling, together with the professional CVs of individuals appearing on the lists and a declaration from each accepting the candidature and declaring the inexistence of reasons for ineligibility or incompatibility and that the honourable and professional qualifications required under applicable law and by the Articles of Association are met.

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

On 18 May 2006, the ordinary shareholders' meeting applied the list voting mechanism described above to appoint the current Board of Statutory Auditors, which will remain in office until the date of the shareholders' meeting called to approve the annual financial statements at 31 December 2008. During these meetings, a total of two lists were presented.

The first list, presented by the shareholder Renato Soru (holder at the time of a 25% equity investment), proposed the following candidates:

- Massimo Giaconia
- Piero Maccioni
- Andrea Zini
- Rita Casu
- Giuseppe Biondo

The second list, presented jointly by the shareholders Haselbeech Holdings N.V. (together holders of a 6.9% equity investment) and Mallowdale Corporation N.V., proposed the following candidates:

- Aldo Pavan
- Alberto Pregaglia
- Paolo Tamponi
- Simonetta Fadda
- Riccardo Delisa

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

The Statutory Auditor Massimo Giaconia handed in his resignation during the first half of 2008 and was replaced by the Deputy Auditor Andrea Zini; therefore, the Board of Statutory Auditors is currently made up of Aldo Pavan (Chairman), Piero Maccioni and Andrea Zini (Statutory Auditors), and Rita Casu (Deputy Auditor).

Requisites

Article 18 (Board of Statutory Auditors) of the Articles of Association envisages that at least one of the Statutory Auditors and at least one Deputy Auditor, must be chosen from those listed in the official register of auditors with at least three years' experience in the auditing of accounts. Auditors failing to meet the aforementioned condition must have a total of at least three total years of experience in specific company purpose-related duties and, in any event, in the telecommunications sector. The aforementioned article also states that Auditors who are already Statutory Auditors for more than five listed companies may not be appointed.

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

Activities

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

Board of Directors internal committees

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

Internal Audit Committee (see reference)

With regard to the Internal Audit Committee, reference should be made to the subsequent Section on page 50 of this Report.

Remuneration Committee

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

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

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

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

Following the appointment of Mr. Mario Rosso as Chief Executive Officer, which took place during the Board meeting held on 27 and 28 February 2008, the Remuneration Committee fell from office and was not re-established until the appointment of the new Board of Directors on 29 April 2008. During the meeting held on 12 May 2008, the Board of Directors took steps to establish its own internal Remuneration Committee comprising Francesco Bizzarri (Chairman), Umberto De Iulio and Arnaldo Borghesi.

The Committee expressed an opinion on the fairness of the management agreement for Mr. Mario Rosso, resolved by the Board on 12 November 2008.

Following the resignation of the Director Arnaldo Borghesi on 25 February 2009, the Committee currently comprises Francesco Bizzarri (Chairman) and Umberto De Iulio.

Appointments Committee

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

Internal auditing

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

Internal audit system

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

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

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

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

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

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

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

- use of a qualified expert for the review of the "Organization, management and control model" for the main Group subsidiaries (Italian Legislative Decree No. 231/2001), for the purposes of assimilating the new offences introduced by Italian Law No. 146/2006 (transactional offences) and Italian Law No. 123/2007 (violations of accident-prevention norms).;

- upon appointment received by the Executive for the drawing up of the accounting documents, the Internal Audit Division took steps to check the adequacy of the administrative and accounting procedures for the formation of the 2008 financial statements for the purpose of assessing the related efficacy. These activities also had the aim of obtaining the issue of the certification pursuant to Article 154 bis of the Italian Finance Consolidation Act, introduced by Italian Legislative Decree No. 262/2005 as amended by Italian Legislative Decree No. 303/2006 et seq.;

- during 2008, the test period continued for the checks pursuant to Article 154 bis of the Italian Finance Consolidation Act, introduced by Italian Legislative Decree No. 262/2005 relating to the 2008 financial statements, which were carried out on the Group's most important subsidiaries.

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

Internal Audit Committee

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

In particular, the Internal Audit Committee is responsible for:

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

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

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

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

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

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

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

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

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

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

One of the members is qualified as independent; in fact, should it not be possible to guarantee that the composition of the Internal Audit Committee has a majority of non-executive and independent Directors, the Committee will have just two members, including at least one who is independent. This solution is preferable to having a majority of non-independent Directors, albeit temporary. If for a certain period the Internal Audit Committee is composed of two members only, the entire Board of Statutory Auditors is always invited to attend committee meetings. In addition, during the period the Committee membership is reduced to two members only, if the number of votes cast is equal, then the independent Director has the casting vote.

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

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

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

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

Following the resignation of the Director, Gabriele Racugno, during the Board meeting held on 27 and 28 February 2008, the Internal Audit Committee was temporarily wound-up. As a result of the meeting of the new Board of Directors held on 12 May 2008, the Internal Audit Committee was re-established with the directors Umberto De Iulio and Arnaldo Borghesi, the latter resigning on 25 February 2009.

At present on a temporary basis the Internal Audit Committee comprises the sole director Umberto De Iulio, since the composition of the new board is currently being established.

During 2008, the Internal Audit Committee met four times on the following dates: 10 January, 27 February, 10 October, and 12 November 2008.

The Board of Statutory Auditors attended all these meetings.

5.4 Organization, management and control model pursuant to Italian Legislative Decree No. 231/2001

The Company adopted the "Organization, management and control model pursuant to Italian Legislative Decree No. 231/2001", up-dated last by means of the resolution of the Board of Directors dated 21 December 2005, in force as from 1 March 2006; the Supervisory Body operates without interruption with regard to its supervisory activities on the functioning and observance of said Model.

Legislative innovations over the last few years, which introduced new offences presumed within the sphere of the administrative liability of the bodies, have been considered within the sphere of periodic risk assessments, which have not highlighted any significant criticalities for the specific classes of offences, such that the Model would require immediate up-dating. At the end of 2008, in consideration of the numerousness of the new types of offences and taking into account the intrinsic benefit deriving from the greater organizational stability, a project was therefore launched for the overall review of the Model, with the support of a consulting firm specialized in this subject matter, with the aim of being concluded by the end of the first half of 2009.

Note that, in consideration of its specificities and its particular exposure to risk, the main Italian subsidiary, Tiscali Italia S.p.A., has also adopted its own "Organization, management and control model", by means of resolution of the Board of Directors dated 28 March 2006, taking steps at the same time to appoint the Supervisory Body envisaged therein. The afore-mentioned review project underway also envisages the necessary up-dating of the Tiscali Italia S.p.A. Model.

Related Parties

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

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

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

Handling of confidential information and market communications. Investor Relations office

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

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

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

- the press releases pertaining to the so-called periodic information (financial statements, half-year reports, quarterly reports, etc.) are approved by the Chief Executive Officer, having consulted the Board of Directors, where possible;
- the press releases relating to extraordinary transactions (mergers, buy-outs, share capital increases, etc.) are approved by the Chief Executive Officer, having consulted the head of the Legal and Corporate Affairs Division;
- in all other cases, the handling of the financial disclosure to the public is taken care of by the head of the Investor Relations office. If this is information considered to be price sensitive, the related publication is approved by the CEO and by the head of the Legal and Corporate Affairs Division.

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

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

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

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

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

5.5 Security Programme Document

Pursuant to attachment B, point 26, of Italian Legislative Decree No. 196/2003 containing the Code concerning the protection of personal details, the Directors formally acknowledge that the Company has adapted to the measures concerning the protection of personal details, in light of the provisions introduced by Italian Legislative Decree No. 196/2003 in accordance with the terms and formalities indicated therein. Specifically, please note the review of the Security Programme Document, filed at the registered offices.

5.6 Shares held by Directors and Statutory Auditors

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

Board of Directors

Name - Surname	Position	No. of shares held at 31.12.07	No. of shares/ purchased/subscribed	No. of shares sold	No. of shares held at 31.12.08
Vittorio Serafino	Chairman (c)	22,200	7,830	20,000	10,030
Tommaso Pompei	Chief Executive Officer (a)	366,000		366,000	
Arnaldo Borghesi	Director (e)	-			
Rocco Sabelli	Director (a)	-			
Mario Rosso	Director (b)(d)	-			
Massimo Cristofori	Director	80,000		80,000	
Francesco Bizzarri	Director	-			
Umberto De Iulio	Director				

((a) Until 29 February 2008

(b) Appointed CEO as from 29 February 2008

(c) Until 29 April 2008

(d) Appointed Chief Executive Officer and Chairman as from 29 April 2008

(e) Until 25 February 2009

Board of Statutory Auditors

Name - Surname	Position	No. of shares held at 31.12.07	No. of shares/ purchased/subscribed	No. of shares sold	No. of shares held at 31.12.08
Aldo Pavan	Chairman				
Massimo Giaconia	Statutory Auditor (a)				
Piero Maccioni	Statutory Auditor				
Rita Casu	Deputy Auditor	50			50
Andrea Zini	Deputy Auditor(a) Statutory Auditor (b)				

(a) Until 12 June 2008

(b) As from 12 June 2008

6. Consolidated Financial Statements and Explanatory Notes

6.1 Consolidated income statement

EUR (000)

	NOTES	31.12.2008	31.12.2007
Revenues	1	983,623	883,115
Other income	2	12,448	5,192
Purchase of materials and outsourced services	3	710,484	633,287
Payroll and related costs	4	91,090	89,965
Stock option plan costs	5	7,607	11,697
Other operating (income) charges	6	(2,529)	6,316
Writedowns of receivables from customers	7	34,327	27,144
Restructuring costs and other writedowns	8	78,853	39,686
Amortisation/depreciation	15-16	176,146	155,152
Operating result		**(99,905)**	**(74,939)**
Share of results of equity investments valued using the equity method		(101)	(10)
Net financial income (charges)	**9**	(96,468)	(72,638)
Other net financial income (charges)	**10**	-	(17,881)
Pre-tax result		**(196,474)**	**(165,468)**
Income taxes	11	(64,884)	17,525
Net result from operating activities (on-going)		**(261,358)**	**(147,944)**
Result from assets disposed of and/or destined to be disposed of	12	(9,732)	72,619
Net result	**13**	**(271,090)**	**(75,324)**
Attributable to:			
- Result pertaining to the parent company		**(242,724)**	**(65,308)**
- Minority interests		(28,365)	(10,016)
From operating activities and those disposed of:			
- Basic		**-0.43**	**-0.15**
- Diluted		**-0.43**	**-0.14**
From operating activities:			
- Basic		**-0.42**	**-0.32**
- Diluted		**-0.42**	**-0.30**

6.2 Consolidated Balance Sheet

EUR (000)

	NOTES	31.12.2008	31.12.2007
Non-current assets			
Goodwill	14	438,824	515,022
Intangible assets	15	191,931	286,042
Properties, plant and machinery	16	232,288	272,260
Equity investments	17	33	2,465
Other financial assets	18	17,313	28,269
Deferred tax assets	19	10,507	106,634
		890,896	**1,210,692**
Current assets			
Inventories	20	6,880	10,756
Receivables from customers	21	176,819	164,452
Other receivables and other current assets	22	46,794	71,652
Other current financial assets	23	3,430	8,158
Cash and cash equivalents	24	24,202	134,231
		258,125	**389,249**
Assets held for sale		56,795	-
Total Assets		**1,205,817**	**1,599,941**
Share Capital and reserves			
Share Capital		308,273	212,207
Share premium reserve		990,857	902,492
Stock option reserve		3,840	9,969
Equity Bond reserve		-	22,053
Accumulated losses and Other reserves		(1,049,424)	(911,765)
Loss for the period		(242,724)	(65,308)
Group shareholders' equity	25	**10,823**	**169,647**
Minority interests		(6,046)	37,322
Shareholders' equity pertaining to minority shareholders	26	**(6,046)**	**37,322**
Total Shareholders' equity		**4,777**	**206,970**
Non-current liabilities	27		
Bonds	27 bis	-	43,842
Payables to banks and other lenders	28	30,743	480,139
Payables for finance leases	29	73,118	79,467
Other non-current liabilities	30	95,444	120,807
Liabilities for pension obligations and staff severance indemnities	31	5,001	5,852
Provisions for risks and charges	32	25,384	28,624
Provision for deferred taxation	33	-	27,891
		229,690	**786,623**
Current liabilities	34		
Payables to banks and other lenders	34 bis	510,012	176,204
Payables for finance leases	35	21,399	19,502
Payables to suppliers	36	268,899	239,127
Other current liabilities	37	148,765	171,515
		949,076	**606,348**
Liabilities directly related to assets held for sale		22,274	-
Total Liabilities and Shareholders' equity		**1,205,817**	**1,599,941**

6.3 Consolidated Cash Flow Statement

EUR (000)

	31.12.2008	31.12.2007
OPERATING ACTIVITIES		
Net result from operating activities	**(261,358)**	**(153,835)**
Adjustments for:		
Portion of results of equity investments carried at equity	**101**	10
Depreciation of tangible assets	**61,551**	58,377
Amortization of intangible fixed assets	**114,595**	104,367
Provisions to inventory writedown allowance	**1,446**	-
Writedown of intangible fixed assets	**19,727**	-
Writedown of tangible fixed assets	**3,121**	-
Writedown of goodwill	**-**	68,262
Capital gains (Losses) on disposal of non-current assets – tangible	**(2,109)**	(1,485)
Capital gains (Losses) on disposal of non-current assets – intangible	**3**	-
Increases in provisions for risks and restructuring charges	**18,957**	-
Increases in provisions for receivable writedowns	**34,327**	27,332
Fair value of financial instruments	**24,819**	-
Personnel costs relating to stock options	**7,607**	9,969
Current income taxes	**792**	(890)
Deferred income taxes	**64,092**	(17.305)
Financial income	**2,604**	90,683
Financial charges	**74,978**	-
Gains/Losses deriving from the disposal of subsidiaries net of taxation	**-**	(120,716)
Cash flows generated by operating activities before changes in working capital	**165,252**	**64,769**
(Increase)/Decrease in trade and sundry assets	**(23,336)**	(53,570)
(Increase)/Decrease in inventories	**221**	(6,672)
Increase/(Decrease) in trade and sundry liabilities	**42,703**	1,560
Cash flows generated by operating activities	**184,839**	**6,087**
Net change in risk provisions	**(1)**	(9,435)
Payment of risk and other provisions	**(19,151)**	-
Net change in provision for staff severance indemnities	**8**	(342)
Use of receivable writedown allowance	**(22,255)**	-
CASH FLOWS GENERATED BY OPERATING ACTIVITIES	**143.441**	**(3,690)**
INVESTMENT ACTIVITIES		
Purchases of property, plant and machinery	**(61,308)**	(103,311)
Net increases in other intangible fixed assets	**(112,994)**	(90,183)
Change in Goodwill	**-**	(392)
Change in tangible fixed assets	**(1,237)**	7,587
Change in intangible fixed assets	**5,415**	2,887
Change in financial assets and equity investments carried at equity	**5,392**	(6,110)
Purchases of subsidiaries	**-**	(269,403)
Payments deriving from the disposal of subsidiaries	**-**	282,140
CASH FLOWS USED IN OPERATING ACTIVITIES	**(164,733)**	**(176,785)**

EUR (000)

	31.12.2008	31.12.2007
FINANCIAL ACTIVITIES		
Repayments of loans	**(150,000)**	(625,230)
New loans obtained	-	940,000
Interest paid (including upfront fees)	**(51,144)**	(85,943)
Interest received	**4,133**	4,443
Increase (decrease) in bank overdrafts (short-term banks)	**37,884**	-
Change in financial liabilities (leasing)	**(24,971)**	70,748
Change in medium-term financial liabilities	**658**	-
Increases in capital and share premium reserve	**145,314**	-
Purchase of own shares	**(6,187)**	-
Minority interests	**(28,365)**	18,427
Payments for share issue costs and convertible bond issues	-	(2,250)
Payments for debt issue costs	-	(14,342)
CASH FLOWS GEENRATED BY/USED IN FINANCAL ACTIVITIES	**(72,679)**	**305,853**
Assets held for sale	-	-
Liabilities held for sale	-	-
Result from assets disposed of and held for sale	-	-
CASH FLOWS FROM ASSETS DISPOSED OF/ AVAILABLE FOR SALE	-	-
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	**(93,972)**	**125,378**
Cash and cash equivalents of operating assets at the beginning of the year	**129,822**	3,824
Cash and cash equivalents of assets disposed of and destined to be disposed of at the beginning of the year	**4,409**	5,029
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**134,231**	**8,853**
Effect of changes in foreign currency exchange rates	**(11,649)**	
Cash Flow generated from discontinued operations:		
Cash Flow generated from operating activities	**(18,235)**	-
Cash Flow generated from investing activities	**4,460**	-
Cash Flow generated from financing activities	**10,800**	-
Net Cash Flow discontinuing operations	**(2,975)**	-
Cash and cash equivalents of operating assets at the end of the financial year	**24,202**	134.231
Cash and cash equivalents of assets disposed of and destined to be disposed of at the end of the year	**1,435**	-
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**25,636**	**134,231**

6.4 Statement of changes in consolidated shareholders' equity

EUR (000)

	Share Capital	Share premium reserve	Stock option reserve	Equity bond reserve	Accumulated losses and other reserves	Group shareholders' equity	Minority interests	Total
Balance at 01.01.2008	**212,207**	**902,492**	**9,969**	**22,053**	**(977,074)**	**169,647**	**37,322**	**206,970**
Share capital increase	96,066	112,207	-	-	-	**208,273**	-	**208,273**
Increases/(Decreases)	-	-	(6,129)	(22,053)	(5,933)	**(22,249)**	-	**(22,249)**
Purchase of treasury stock	-	-	-	-	(6,187)	**(6,187)**	-	**(6,187)**
Transfers covering losses	-	(23,842)	-	-	23,842	-	-	-
Exchange differences arising on the translation of the financial statements of foreign companies	-	-	-	-	(95,937)	**(95,937)**	(15,002)	**(110,939)**
Changes in the consolidation area	-	-	-	-	-	-	-	-
Net profit (loss) for the period	-	-	-	-	(242,724)	(242,724)	(28,365)	(271,090)
Balance at 31.12.2008	**308,273**	**990,857**	**3,840**	**-**	**(1,292,147)**	**(10,823)**	**(6,046)**	**4,777**

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

6.5 Consolidated Income Statement pursuant to Consob Resolution No. 15519 dated 27 July 2006

EUR (000)

	31.12.2008	of which: related parties	31.12.2007	of which: related parties
Revenues	983,623	245	883,115	401
Other income	12,448	-	5,192	-
Purchase of materials and outsourced services	710,484	1,867	633,287	958
Payroll and related costs	91,090	-	89,965	-
Stock option plan costs	7,607	-	11,697	-
Other net operating (income) charges	(2,529)	69	6,316	898
Writedowns of receivables from customers	34,327	-	27,144	-
Restructuring costs and other writedowns	78,853	-	39,686	-
Amortisation/depreciation	176,146	-	155,152	-
Operating result	**(99,905)**	**(1,691)**	**(74,939)**	**(1,455)**
Share of results of equity investments carried at equity	(101)	-	(10)	-
Net financial income (charges)	(96,468)	(2,747)	(72,638)	(1,934)
Other net financial income (charges)	-	-	(17,881)	-
Pre-tax result	**(196,474)**	**(4,438)**	**(165,468)**	**(3,389)**
Income taxes	(64,884)	-	17,525	-
Net result from operating activities (on-going)	**(261,358)**	**(4,438)**	**(147,944)**	**(3,389)**
Result from assets disposed of and/or destined to be disposed of	(9,732)	(100)	72,619	(620)
Net result	**(271,090)**	**(4,538)**	**(75,324)**	**(4,009)**
Attributable to:				
- Result pertaining to the parent company	**(242,724)**		**(65,308)**	
- Minority interests	(28,365)		(10,016)	
Earnings (Losses) per share				
From operating activities and those disposed of:				
- Basic	**-0.43**		**-0.15**	
- Diluted	**-0.43**		**-0.14**	
From operating activities:				
- Basic	**-0.42**		**-0.32**	
- Diluted	**-0.42**		**-0.30**	

6.6 Consolidated Balance Sheet pursuant to Consob Resolution No. 15519 dated 27 July 2006

EUR (000)

	31.12.2008	*of which: related parties*	31.12.2007	*of which: related parties*
Non-current assets				
Goodwill	438,824	-	515,022	-
Intangible assets	191,931	-	286,042	-
Properties, plant and machinery	232,288	-	272,260	-
Equity investments	33	-	2,465	-
Other financial assets	17,313	-	28,269	-
Deferred tax assets	10,507	-	106,634	-
	890,896	**-**	**1,210,692**	**-**
Current assets				
Inventories	6,880	-	10,756	-
Receivables from customers	176,819	559	164,452	360
Other receivables and other current assets	46,794	-	71,652	-
Other current financial assets	3,430	-	8,158	-
Cash and cash equivalents	24,202	-	134,231	-
	258,125	**-**	**389,249**	
Assets held for sale	56,795	-	-	
Total Assets	**1,205,817**	**559**	**1,599,941**	**360**
Share Capital and reserves				
Share Capital	308,273	-	212,207	-
Share premium reserve	990,857	-	902,492	-
Stock option reserve	3,840	-	9,969	-
Equity bond reserve	-	-	22,053	-
Accumulated losses and Other reserves	(1,049,424)	-	(911,765)	-
Loss for the period	(242,724)	-	(65,308)	-
Group shareholders' equity	**10,823**	**-**	**169,647**	**-**
Minority interests	(6,046)	-	37,322	-
Shareholders' equity pertaining to minority shareholders	**(6,046)**	**-**	**37,322**	**-**
Total Shareholders' equity	**4,777**	**-**	**206,970**	**-**
Non-current liabilities				
Bonds	-	-	43,842	-
Payables to banks and other lenders	30,743	30,288	480,139	30,086-
Payables for finance leases	73,118	-	79,467	-
Other non-current liabilities	95,444	-	120,807	-
Liabilities for pension obligations and staff severance indemnities	5,001	-	5,852	-
Provisions for risks and charges	25,384	-	28,624	-
Provision for deferred taxation	-	-	27,891	-
	229,690	**30,288**	**786,623**	**30,086**
Current liabilities				
Payables to banks and other lenders	510,012	-	176,204	-
Payables for finance leases	21,399	-	19,502	-
Payables to suppliers	268,899	1,241	239,127	430
Other current liabilities	148,765	-	171,515	-
	949,076		**606,348**	
Liabilities directly related to assets held for sale	**22,274**		**-**	
Total Liabilities and Shareholders' equity	**1,205,817**	**31,529**	**1,599,941**	**30,516**

Investments

174

EUR (mln)

6.7 Explanatory notes to the Financial Statements

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

The Tiscali Group provides telecommunications services on the fixed network in the UK and Italy. Tiscali offers integrated internet access, telephone and multimedia services and in particular is positioned in the IP technology services sector which makes it possible to provide voice, internet and video services via the same technological platform.

Tiscali avails of a network which mainly comprises fibre optics (the "Network") which extends through various countries in the world and is locally connected to the national networks in the countries where the Tiscali Group is present. The Tiscali Group avails of the network, both national and supranational, by virtue of indefeasible usage rights (IRU) or rental agreements. The supranational IP network infrastructure is managed by the subsidiary Tiscali International Network ("TiNet"), which offers connectivity services to the Tiscali Group and, on a wholesale basis, also to other telephone operators.

The main activities of Tiscali and its subsidiaries are described in the economic, equity and financial analysis section of the report on operations.

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

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

Events and uncertainties regarding the business continuity

The Tiscali Group ended the year with a loss of EUR 271.1 million and total net shareholders' equity of EUR 4.8 million. Furthermore, at 31 December 2008 the Group disclosed gross financial debt of EUR 644.8 million and, as of the same date, the levels of the financial covenants envisaged by certain loan agreements were not observed. This circumstance led to the reclassification under current liabilities of the medium/long-term loans for EUR 439.6 million, in accordance with the reference accounting standards.

The afore-mentioned result for the year was influenced by a series of factors, including the change in the competitive and market context, involving a sharpening in competition and a slowdown in demand for telecommunications services, and the weakening of the UK sterling against the Euro, with consequences on the ability to service the long-term bank debt, denominated in Euro.

Among events subsequent to the end of the year, it is necessary to mention both the afore-mentioned agreements for the disposal of Tiscali International Network BV and the fact that the Group has also decided to suspend the payments envisaged within the sphere of the outstanding loan agreements and therefore has not reimbursed portions of principal and interest for EUR 35 million falling due in March 2009. The occurrence of these events, together with the failed observance of certain financial covenants as described previously, on the basis of the corresponding loan agreements, permits the majority of the financial institutions the faculty to request the early repayment of said loans.

As a result of all the circumstances indicated above, as of the date the financial statements were drawn up uncertainty exists with regard to the Company's business continuity; however, the Board of Directors has drawn up the consolidated financial statements at 31 December 2008 on the basis of the assumption of the business as a going-concern, in light of the considerations which will follow.

Action taken

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

The plan proposed by the Board of Directors is based on the following principle action, partly launched as of today's date:

a) stipulation with senior financial institutions of a suspension agreement (so-called standstill agreement) expiring on 5 June 2009, concerning the suspension of the payment of principal and interest instalments due in accordance with the medium/long-term loan agreements as well as the related covenants. The senior financial institutions also manifested their willingness in good faith, where necessary, to consider an extension of the afore-mentioned standstill agreement until 31 December 2009;

b) request to the banks and leasing companies for a suspension agreement falling due on 30 June 2009 relating to the short-term debt and the financial property leasing;

c) the appointment of advisors to support the Group in relation to industrial, financial and legal aspects;

d) the definition of the new Business Plan, whose guidelines were approved by the Board of Directors on 27 March;

e) the definition of the financial manoeuvre aimed at rendering the Tiscali Group's financial debt compatible with the related income-related and financial prospects, also in light of the matters envisaged in the guidelines of the Business Plan;

f) the launch of negotiation for the definition of an agreement with the financial institutions, aimed at restructuring the Group's financial debt. The Board of Directors discloses that negotiations have been started with the afore-mentioned institutes for the definition of a new structure of the debt on a consistent basis with the expected cash flows;

g) the definition of agreements with the main suppliers so as to ensure the regular continuation of operating activities; in this connection, the Directors have disclosed that the Group's business activities in Italy and the UK are proceeding on a regular basis vis-à-vis the customers and the suppliers.

Final assessment of the Board of Directors

In light of the above comments, the Board of Directors believes that as things stand, reasonable probability exists of being able to achieve the restructuring of the Tiscali Group's financial debt on a consistent basis with the cash flows and suitable for supporting the new Business Plan.

As a point of fact, the attention and interest demonstrated by the financial institutions in relation to the Company, the signing of a waiver and standstill agreement (with the aim of permitting the finalization of the restructuring agreement), the willingness to extend the standstill period until 31 December 2009 expressed, the start of negotiations, and the fact that both the Business Plan and the related Financial Plan have been prepared in accordance with maximum prudence and seriousness, converge in the sense of the afore-mentioned positive assessment made by the Board of Directors.

In light of the above, the business continuity is therefore considered to exist, since the Board believes that as things stand there is reasonable probability of finalizing an agreement with the financial institutions.

Form and content of accounting statements

Basis of presentation

The 2008 consolidated financial statements were drawn up by following both the International Accounting Standards ("IFRS") issued by the Accounting Standards Board ("IASB") as ratified by the European Union, and the measures issued in conformity with Article 9 of Italian Legislative Decree No. 38/2005. The IFRS also include all the reviewed international accounting standards ("IAS") and all the interpretations by the International Financial Reporting Interpretations Committee ("IFRIC") previously called the Standing Interpretations Committee ("SIC").

Preparation of the financial statements requires management to make accounting estimates and in certain cases, adopt assumptions in the application of accounting standards. The areas of the financial statements which, under the circumstances, presuppose the adoption of applicative assumptions and those more fully characterized by estimates made, are described in the note *Critical decisions in applying accounting standards and in the use of estimates* on page 73.

The annual financial statements, as required by reference legislation, have been drawn up on a consolidated basis, and have been audited by Reconta Ernst & Young S.p.A..

Please note that the income statement balances at 31 December 2008 are not comparable with the corresponding balances at 31 December 2007 further to the acquisition of the Pipex division on 13 September 2007.

Financial Statement formats

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

As from the 2007 accounting period, the intermediate "gross operating result" is no longer disclosed reflecting greater compliance with the illustrative income statement layout proposed by IAS 1. The income statement for 2007 has been consistently reclassified to ensure comparability of the data.

Please note that if the conditions apply, as envisaged by IFRS 5, the income statements of the assets destined to be disposed of, and specifically the assets of TiNet, have been recorded in the consolidated income statement item "result from assets disposed of and/or destined to be disposed of" both for 2008 and for 2007, presented for comparative purposes in these financial statements. Please also note that the income statement item "costs for stock option plans" has been introduced, and the charges associated with the "writedown of receivables from customers" and "restructuring costs and other writedowns" have been stated in separate items.

Segment reporting

The activities of the Tiscali Group and the related strategies, as well as the underlying activities linked to head office control, are structured and defined by geographic area, which therefore represents the primary segment for the purposes of information by business sector, as required by IFRS 8. The geographic areas are represented in particular by:

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

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

Assets held for sale and discontinued operations

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

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

After the sale, the residual values were reclassified in the various balance sheet items.

Revenues and costs relating to assets held for sale and/or discontinued activities are reflected in the item 'Result from assets disposed of and/or destined to be disposed of' ('discontinued operations'), if the following conditions established by IFRS 5 referring to these activities apply:

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

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

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

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

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

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

Seasonal nature of the revenues

Tiscali's activities are not affected to a significant extent by phenomena linked to the seasonal nature of the business. Such phenomena essentially linked to the trend in revenues, mainly occur in the third quarter of the year, at the same time as the Summer vacation period.

Basis of consolidation

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

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

When preparing the consolidated financial statements, the assets, liabilities, costs and revenues of the consolidated companies are consolidated line-by-line for their entire amount, allocating the minority shareholders the portion of equity and results for the year due to them in the specific balance sheet and income statement items. The book value of the equity investment in each of the subsidiaries is eliminated against the corresponding portion of shareholders' equity of each of the subsidiaries inclusive of any adjustments at fair value as of the acquisition date; the positive difference emerging is recorded as goodwill under intangible assets, as illustrated further on, while the negative difference (negative goodwill) is recorded in the income statement.

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

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

If the losses attributable to the minority shareholders of a consolidated subsidiary are greater than the shareholders' equity pertaining to the minority shareholders of the subsidiary, the excess and any other loss attributable to the minority shareholders is allocated to the shareholders' equity pertaining to the shareholders of the parent company unless the minority shareholders are subject to binding obligations and they are able to make further investments so as to cover the losses. If, subsequently, the subsidiary reports profits, the profits attributable to the minority shareholders are attributable to the shareholders' equity pertaining to the parent company's shareholders until the portion of the losses of the minority shareholders, previously covered by the parent company's shareholders, have been recovered.

Equity investments in associated companies, as well as those subject to joint control, are reflected in the consolidated financial statements among non-current assets and carried at equity, as envisaged, respectively, by IAS 28 (*Equity investments in associated companies*) and by IAS 31 (*Equity investments in Joint Ventures*).

Associated companies are those over which the Group is able to exercise significant influence, but not control or joint control, via participation in decisions on the financial and operating policies of the investee.

Under the equity method, these equity investments are initially booked to the consolidated balance sheet at acquisition cost, as adjusted for post-acquisition changes in the shareholders' equity of the associated company, net of any impairment in the value of individual equity investments. Any excess of the acquisition cost over the Group's share of the net fair value of potentially identifiable assets, liabilities and contingent liabilities of the associated company as of the date of acquisition is recognised as goodwill. The goodwill is included in the book value of the investment and is subject to impairment testing. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition of the associated company at the date of acquisition is booked to the income statement in the period of acquisition. The consolidated financial statements include the Group's share in the results of the associated companies as well as those jointly controlled as from the date when significant influence commenced until the moment this influence ceases to exist. If the Group's share of the losses of the associated company exceed the book value of the equity investment, steps are taken to write off the value of the equity investment and the portion of the additional losses is only recorded if the Group is obliged to be responsible for the same.

Unrealized profits and losses deriving from transactions with associated companies or those jointly controlled, are eliminated against the value of the Group's investment in said companies.

With regard to transactions which concern interests in companies which are already subsidiaries, in the absence of a specific Standard or interpretation on the subject and referring to the provisions contained in IAS 8 "Accounting standards, changes in accounting estimates and errors", the Group has applied the following accounting approaches, identifying two types of transactions:

- acquisitions/disposals of interests in companies which are already subsidiaries: in the event of acquisitions the Group pays the minority shareholders a cash amount or a consideration in new shares, thereby determining the simultaneous elimination of the related minority interests and the recording of Goodwill equating to the difference between the purchase cost of the interests and the book value of the assets and liabilities acquired proportionally; in the event of disposal, the difference between the transfer value and the corresponding book value in the consolidated financial statements is recorded in the income statement (so-called Parent company extension method);

- infraGroup transfer of interests in subsidiary companies which lead to a change in the shareholding: the interests transferred remained recorded at historic cost and the gain or loss emerging from the transfer is reversed in full. The shareholders' equity pertaining to minority shareholders who do not directly participate in the transaction, is adjusted to reflect the change with a corresponding opposite effect on the shareholders' equity pertaining to the shareholders of the Parent Company without the recording of any goodwill and without what is more producing any effect on the result and the total shareholders' equity.

Consolidation area

The companies consolidated line-by-line are indicated in the note "List of subsidiaries included in the consolidation area" on page 104. Changes in the consolidation area during 2008, when compared with the consolidated financial statements at 31 December 2007, are illustrated as follows:

During November 2008, the disposal of Quinary S.p.A.'s activities took place.

On 3 February 2009, Tiscali announced that it had received a binding offer from BS Private Equity for the purchase of the assets held by Tiscali International Network BV, a subsidiary of Tiscali International BV. The offer included the purchase of the net assets of TiNet Bv, as well as the equity investments of the companies in the entire TiNet Group (TiNet spa, TiNet Ltd, TiNet Gmbh, TiNet Inc, TiNet Hong Kong)

In order to provide comprehensive information, please note the merger by absorption of Tiscali Services S.p.A. within Tiscali Italia S.p.A. as from 1 January 2008

Business combinations and Goodwill

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

The acquiree's recognisable and acquired assets, liabilities and contingent liabilities (including the respective shares of the minority shareholders), that meet the conditions for recognition under IFRS 3, are recognised at their fair values at the acquisition date.

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

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

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

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

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

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

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

Foreign currency transactions

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

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

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

The exchange differences arising from intra-group receivable/payable relationships of a financial nature are recorded as equity in the special translation Reserve.

The main exchange rates used for the translation of the 2008 and 2007 financial statements of the foreign companies into Euro were:

	31.12.2008		31.12.2007	
	Average	Final	Average	Final
GB pound	0.90448	0.95250	0.6994	0.7334

Other intangible assets

Computer software – Development costs

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

Internally-generated intangible assets arising from costs incurred for the development of applications software under Group control and directly associated with the production of services, in particular with regard to 'technological platforms' for access and management of the Tiscali network, are recognised if the following conditions are met:

- the following general conditions indicated by IAS 38 are observed for the capitalization of the intangible assets: (a) the asset created can be identified; (b) it is likely that the asset created will generate future economic benefits; (c) the development cost of the asset can be reliably gauged;
- the Group can demonstrate the technical possibility of completing the intangible asset so as to make it available for use or for sale, its intention to complete said asset so as to use or sell it, the ways in which it will generate probable future economic benefits, the availability of technical, financial or other resources for completing its development and its ability to reliably assess the cost attributable to the asset during its development

During the development period, the asset is reviewed annually for the purpose of revealing any impairment losses. Subsequent to initial statement, the development costs are valued at the decreased cost of the amortisation and any other accumulated loss. Amortisation of the asset commences when the development has been completed and the asset is available for use. The cost is amortised with reference to the period when it is envisaged that the related project will generate revenues for the Group.

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

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

The IRU are classified in the category "concessions and similar rights" and comprise costs sustained for the purchase of long-term rights of use for the fibre optics network, i.e. the 'transmission capacity' and related charges. Amortisation is calculated using the straight-line method, either over the duration of the concession agreed contractually or the estimated utilisation period of the right, whichever is the shorter. The amortisation period varies on average between 12 and 15 years.

Broadband service activation costs

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

Properties, plant and machinery

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

Depreciation is calculated using the straight-line method on the cost of each asset less the related residual value, if any, over its estimated useful life. Land, including that pertaining to buildings, is not depreciated.

The depreciation rates are reviewed annually and are amended if the current estimated useful life differs from that estimated previously. The effects of these changes are reflected in the income statement on a forecast basis.

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

The minimum and maximum depreciation rates applied during 2007 and 2008 are those indicated below:

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

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

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

Gains and losses arising on disposals or sales of assets are calculated as the difference between sales revenue and net book value and are booked to the income statement for the year.

Assets held under finance lease

Lease agreements are classified as finance leases if all the risks and benefits of ownership are transferred to the lessee. All other leases are considered operating leases.
Assets held under finance leases are recognised as Group assets at their fair value at the time of stipulation of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet in the item payables for finance leases, under financial payables. Lease payments are divided into their capital and interest elements. Financial charges are directly booked to the income statement for the year.

Assets held under finance leases are depreciated using the straight-line method based on their estimated useful life, in the same manner as owned assets, or over the lease term if shorter and only if there is no reasonable certainty of redeeming the asset considering the lease expiry terms.
Moreover, as for asset disposal and backdating operations on the basis of financial lease contracts, the realized capital gains are deferred for the duration of the contracts or the residual life of the asset (if lower).

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

Impairment of assets

Goodwill, intangible assets with an unspecified useful life and assets in process of formation are subject to an impairment test each year or more frequently if there is indication of impairment. The book value of intangible assets with an unspecified useful life and of property, plant and machinery, is checked each time there is indication that the asset has suffered impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the writedown. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash Generating Unit (CGU) to which the asset belongs. The recoverable amount is the higher between the fair value less sales costs and its utilisation value. When assessing the utilisation value, the estimated future cash flows are discounted back to their present value using a pre-tax discount rate that reflects current market assessments on the value of money and the risks specific to the asset.

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Considering the circumstances and characteristics of the Group's assets, the cost refers to direct materials. The cost is calculated by using the average cost method. The net realisable value is the selling price less the costs considered necessary for achieving the sale.

Financial instruments

Loans and receivables
Group receivables are stated in the items "other non-current financial assets", "receivables from customers", "other receivables and other current assets" and "other current financial assets", and include guarantee deposits, trade receivables, and receivables from third parties generated as part of core business activities.

If they have a fixed maturity, they are stated at amortised cost, using the effective interest rate method. When financial assets have no fixed maturity, they are stated at acquisition cost. Receivables maturing beyond one year, interest-free receivables, and receivables accruing interest at lower rates with respect to the market, are discounted back by using market rates.

Appraisals are regularly carried out with the aim of checking whether there is objective evidence that a financial asset or a group of assets have been subject impairment. If there is objective evidence, the impairment must be recorded as cost in the income statement on the period.

Cash and cash equivalents
Cash and cash equivalents include cash on hand, on-demand and short-term deposits, in the latter case with an original maturity envisaged of no more than three months.

Payables and financial liabilities
The Group's payables and financial liabilities are stated in the items", "payables to banks and other lenders", "payables for finance leases", "other non-current liabilities", "payables to suppliers", and include trade payables, payables to third parties, financial payables, inclusive of payables for loans received for advances on the factoring of receivables and for finance lease transactions.

Trade and other payables are stated at face value. Financial payables are initially stated at cost, equating to the fair value of the amount received, net of related charges. Subsequently, these payables are stated at amortised cost using the effective interest rate method, calculated considering the issue costs and any other premium or discount envisaged on settlement.

Convertible bonds
Convertible bonds are financial instruments made up of a

liability component and a shareholders' equity component. At the date of issue, the fair value of the liability component is estimated by using the current interest rate on the market, for similar non-convertible bonds. The difference between the net amount obtained from the issue and the fair value assigned to the liability component (representing the implicit option of converting bonds into shares of the Group) is included in the shareholders' equity as a capital reserve.

Issue costs are subdivided into the liability component and the shareholders' equity component, on the basis of their respective book values at the date of issue. The part relating to the shareholders' equity is booked directly to reduce the same.

The interest expense relating to the liability component is calculated by using the current interest rate on the market for similar non-convertible bonds.

The difference between this amount and the interest really paid is recorded as an increase to the book value of convertible bonds.

Reduction in value of financial assets

As of each balance sheet date (annual or half-year), appraisals are made for the purpose of checking whether objective evidence exists that a financial asset or group of assets has suffered impairment. If there is objective evidence, the impairment must be recorded in the income statement for financial assets valued at cost or at amortized cost while for "financial assets available for sale", reference should be made to the matters already illustrated previously.

Derivative financial instruments

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

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

Cash flow hedges

These are hedging instruments which aim to hedge the exposure to fluctuations in future cash flows arising in particular from risks relating to changing interest rates on loans. Changes in the fair value of the derivative are booked to equity, for the effective portion of the hedge, while they are booked to the income statement if the hedge is not effective. Hedge effectiveness, i.e. its ability to adequately offset fluctuations caused by the hedged risk, is periodically tested, in particular analysing correlation between the fair value or the cash flows of the hedged item and those of the hedging instrument.

Fair value hedges

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

On a consistent basis with the matters established by IAS 39, financial hedging derivatives are stated according to the methods established for hedge accounting only when:

- on commencement of the hedge, formal designation and the documentation of the hedging relationship itself exist;
- it is envisaged that the hedge will be highly effective;
- the effectiveness can be reliably gauged;
- the hedge itself is highly effective during the various accounting periods for which it is designated.

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

At present, the Group does not apply Hedge accounting to outstanding financial derivatives.

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Liabilities for pension obligations and staff severance indemnities

Defined benefit schemes (as classified by IAS 19), in particular the Staff Severance indemnities relating to employees of the parent company and the subsidiaries with registered offices in Italy, are stated on the basis of valuations made at the end of each financial year by independent actuaries. The liability recognised in the balance sheet is the current value of the obligation payable on termination of the employment relationship which the employees have accrued at the balance sheet date. It should be specified that no assets are held in support of the above scheme.

As permitted by IFRS 1 and IAS 19, the Tiscali Group has not adopted the corridor method but uses the Projected Unit Credit method and, therefore, the actuarial gains and losses are stated in full in the period in which they arise and are booked directly to the income statement.

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

As from 1 January 2007, the 2007 Finance Act and the related implementing decrees introduced significant amendments to the regulation of staff severance indemnities (TFR), including the worker's choice regarding the allocation of their accruing TFR to supplementary welfare funds or to the " Treasury Fund" managed by INPS (national insurance institute for social security).

Therefore, as a consequence, pursuant to IAS 19, the obligation with respect to the social security institute and the contribution to supplementary pension funds acquire the nature of "Plans with defined contributions", while the quotas assigned to the staff severance indemnity provision acquire the nature of "Plans with defined benefits".

Furthermore, the legislative changes which took place as from 2007 led to a new calculation of actuarial assumptions, and of the consequent methods used to calculate staff severance indemnities, whose effects were directly booked to the income statement.

Remunerative schemes involving interests in the share capital

The Group has assigned certain members of senior management and certain employees additional benefits via plans for interests in the share capital (stock option plans). These plans are a component of the beneficiaries' remuneration.

The cost is the fair value of the stock options at the date of allocation, and for accounting purposes, it follows the rules fixed by IFRS 2 – Payments based on shares; the cost is reported in the income statement with a matching balance booked directly to the shareholders' equity.

Provisions for risks and charges

Provisions for risks and charges relating to potential legal and tax-related liabilities are established following estimates made by the Directors on the basis of appraisals expressed by the Group's legal and tax advisors, concerning the charges that are reasonably deemed will be incurred in order to settle the obligation. If in relation to the final result of such appraisals, the Group is called upon to fulfil an obligation for a sum other than that envisaged, the related effects are subsequently reflected in the income statement.

Treasury shares

Treasury shares are booked to reduce the shareholders' equity.

Revenue recognition

Revenues are stated to the extent that it is probable that the Group will receive the economic benefits and their amount can be determined reliably; they are stated net of discounts, allowances and returns.

Revenues for the provision of services are stated in the income statement with reference to the stage of completion of the service and only when the result of the service can be reliably estimated.

In particular, recognition in the income statement for revenues from internet access services (narrowband and broadband) and voice services, is based on the actual traffic produced at the reference date and/or the periodic service fee payable at that date.

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

The revenues originating from the sale of IRU (Indefeasible Rights of Use) are acknowledged proportionally, depending on the duration of the concession, while any components which may be identified separately, whose fair value may be calculated, are recorded under revenues on the basis of the nature of the service or sale.

Financial income and charges

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

Research and advertising costs

Research and advertising costs are expensed directly in the income statement in the period they are incurred.

Taxes

Income taxes include all the taxation calculated on the taxable income of the Group companies.

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

Deferred taxation comprises taxes which are expected to be paid or recovered on timing differences between the book value of the balance sheet assets and liabilities and the corresponding value for tax purposes used to calculate the taxable amounts, as well as on those items which, despite not being allocated in the balance sheet, lead to potential future tax credits, such as for example the losses for the years which can be used for tax purposes in the future, and are calculated according to the balance sheet liability method.

Deferred tax liabilities are generally recognised for all taxable timing differences relating to the Group companies and to equity investments in associated companies, except where the Group is able to control reversal of these timing differences and it is unlikely that the timing difference will reverse in the foreseeable future.

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

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

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

Earnings per share

The basic result per ordinary share is calculated by dividing the portion of the Group's economic result attributable to ordinary shares by the weighted average of the ordinary shares in circulation during the financial year, excluding treasury shares.

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

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

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

Assumptions for the application of accounting standards

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

Accounting estimates and relevant assumptions

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

Note that also the ability to achieve the new 2009/2013 Business Plan and, therefore the forecasts and cash flows on the basis of which the impairment test has been proposed, is subordinate to the occurrence of the conditions described in the section *Assessment of the business as a going-concern and business outlook and prospects* on page 39.

Income taxes
The determination of income tax, in particular with reference to deferred taxes, involves the use of estimates and the adoption of assumptions to a significant extent. Deferred tax assets, arising from timing differences and/or prior tax losses, are recognised to the extent that it is probable that taxable profits will be available in the future against which deductible timing differences and/or prior tax losses can be utilised. The forecasts

are based on taxable income likely to be generated in light of the approved business plans. Such assets and liabilities are not recognised if the timing differences derive from goodwill or from the initial recognition (other than in business combination transactions) of other assets and liabilities in transactions that affect neither the accounting result nor taxable income. The book value of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer likely that sufficient taxable income will be available to allow all or part of the asset to be recovered.

The recoverability of the deferred taxes recorded in the financial statements is therefore also assessed on the basis of the forecasts included in the new Business Plan. These forecasts are subordinate to the occurrence of the conditions described in the section *Assessment of the business as a going-concern and business outlook and prospects* on page 76.

Provisions relating to employees
The provisions associated with employees, and in particular the Provisions for staff severance indemnities, are determined on the basis of actuarial assumptions; the changes in these assumptions could have significant effects on these provisions.

Receivable writedown provisions
The recoverability of the writedowns is assessed taking into account the risk of non-collection on the same, their ageing and the significant losses on receivables in the past for types of similar receivables.

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

Fair value calculation
Depending on the instrument or financial statements item to be estimated, the Directors identify the most suitable method, by taking into consideration objective market data as much as possible. In the absence of market values, in other words quotations, estimating techniques are used, with reference to those which are most commonly used.

Accounting standards, amendments and interpretations not yet applicable or not adopted in advance by the Group

As required by section 28 of IAS 8 - *Accounting standards, changes in accounting estimates and errors* - the IFRS in force as from 1 January 2008 are indicated hereunder and briefly illustrated:

- IFRIC 11 (IFRS 2 – Transactions involving own and Group shares). On 1 June 2007, EC Regulation No. 611-2007 was published, acknowledging interpretative document IFRIC 11 (IFRS 2 of the Group) at EU level. This interpretation also confirms that the payment plans based on shares via which the Company receives services (for example, from employees) in exchange for own shares, must be recorded as capital instruments, irrespective of the fact that the entity chooses to purchase, or is obliged to purchase, these instruments representative of capital from a third party so as to meet obligations vis-à-vis its employees. The application of this interpretation has not had any effect on the consolidated financial statements at 31 December 2008.

- IFRIC 14 (IAS 19 – The limit relating to an asset serving a defined-benefits plan, the minimum contribution forecasts and their interaction). As of 16 December 2008, EC Regulation No. 1263-2008 was published, acknowledging interpretative document IFRIC 14 (IAS 19 - The limit relating to an asset serving a defined-benefits plan, the minimum contribution forecasts and their interaction) at EU level. This interpretation provides the general guidelines on how to determine the limit established by IAS 19 for the recognition of an asset serving a defined-benefit plan and provides indications regarding the accounting effects deriving from the existence of a minimum coverage clause of the plan. This interpretation is not applied by the Group at present.

- Amendments to IAS 39 (*Financial instruments: statement and valuation*) and to IFRS 7 (Financial instruments: supplementary information). On 15 October 2008, EC Regulation No. 1004-2008 was published, acknowledging a number of amendments to IAS 39 (Financial instruments: statement and valuation) and to IFRS 7 (Financial instruments: supplementary information) which permits, under particular circumstances, the reclassification of certain financial assets outside the categories "financial assets at fair value through the income statement" and "financial assets available for sale". The changes to IFRS 7 introduced new disclosure requirements in relation to the reclassifications permitted by the amended IAS 39. These changes did not have any effect on the consolidated financial statements at 31 December 2008 since the Tiscali Group has not made any of the permitted reclassifications.

New standards and Interpretations acknowledged by the EU but not yet in force

As required by section 30 of IAS 8 (*Accounting standards, changes in accounting estimates and errors*) the IFRS in force as from 1 January 2009 are indicated hereunder and briefly illustrated:

- IFRS 8 (Business segments). On 21 November 2007, EC Regulation No. 1358-2007 was published, acknowledging

IFRS 8 (*Business segments*) at EU level. This standard requires that an entity prepare information (quantitative and qualitative) regarding the related sectors subject to disclosure (reportable segments). The reportable segments are components of an entity (business segments or combinations of business segments) in relation to which distinct financial information is available, periodically assessed by the so-called Chief Operating Decision Maker (CODM) for the purpose of allocating the resources to the sector and assessing the results. The financial disclosure must be represented by means of the same methods and with the same criteria used in the internal reporting for the CODM. IFRS 8 comes into force as from 2009 and replaces IAS 14 (*Segment reporting*). The adoption of the standard has not had any effect with regard to valuation of the financial statement items.

- Amendments to IAS 23 (Financial charges) On 10 December 2008, EC Regulation No. 1260-2008 was published, acknowledging the amendments made to IAS 23 (*Financial charges*) at EU level. The main amendment made to IAS 23 concerns the elimination of the option present in the previous version of the standard which envisaged, for financial charges, the possibility of registration in the income statement in the period they are incurred instead of their capitalization (*permitted treatment*). Therefore, in the revised version of IAS 23, financial charges which are directly attributable to the acquisition, construction or production of an asset which requires a significant period of time before being ready for its envisaged use or sale (so-called qualifying assets), must be capitalized as part of the cost of said asset. The new version of IAS 23 comes into force as from 1 January 2009.

- IFRIC 13 (Customer loyalty ritention schemes). On 16 December 2008 EC Regulation No. 1262-2008 was published, acknowledging the interpretative document IFRIC 13 (*Customer loyalty ritention schemes*) at EU level, which provides the general guidelines for the recording of customer loyalty ritention schemes. This interpretation is characterized by the following elements:

1) the reward points offered to customers are considered to be an element identifiable separately from the original sale of the product or service with which they are associated and therefore they represent a right which the customer has implicitly paid for;

2) the portion of the price allocated to the reward points must be valued with reference to their fair value (in other words at the value at which the reward points could be sold separately) and recorded as a revenue to be differed until the moment the company fulfils its obligation.

IFRIC 13 comes into force as from 1 January 2009, using the retrospective method envisaged by IAS 8. The adoption of the principle is not applicable to the Tiscali Group since customer loyalty ritention schemes are not used.

- Amendments to IAS 1 (Financial statement presentation). On 17 December 2008, EC Regulation No. 1274-2008 was published, acknowledging the amendments made to IAS 1 (*Financial statement presentation*) at EU level. The main changes introduced envisage: the presentation in the statement of changes in shareholders' equity of all the changes deriving from transactions with shareholders; and the statement of the other changes in shareholders' equity (other than those with the shareholders) as follows:

1) in a single "Total income statement" schedule, which shows the revenues, income, costs and charges recorded directly in the income statement, the profit (loss) for the period, as well as the analysis of the income and costs recorded directly under shareholders' equity (Other components of the total income statement); or

2) in two statements: one statement which shows the components of the profit (loss) for the period (separate income statement Schedule) and a second statement which starts off from the profit (loss) for the period and shows the items of the statement of the other components of the total income statement (Total income statement schedule).

The revised version of IAS 1 comes into force as from 1° January 2009. The adoption of the standard has not had any effect with regard to the valuation of the financial statement items.

- Amendments to IFRS 2 (Payments based on shares). On 16 December 2008, EC Regulation No. 1261-2008 was published, acknowledging the changes made to IFRS 2 (*Payments based on shares*) at EU level. The standard specifies the definition of "accrual conditions" and specifies the cases when the failure to achieve a condition leads to the registration of cancellation of the assigned right. The revised standard comes into force as from 1 January 2009. It is envisaged that the application of these provisions will not have any effect on the Group's consolidated financial statements.

- Amendments to IAS 32 (Financial instruments: Statement in the accounts) and to IAS 1 (Financial statement presentation). On 21 January 2009, EC Regulation No. 53-2009 was published, acknowledging certain amendments made to the standards IAS 32 (*Financial instruments: Statement in the accounts*) and IAS 1 (*Financial statement presentation*) at EU level. The changes to IAS 32 require, in the presence of certain conditions, the classification under shareholders' equity of certain financial instruments with the option to sell (*puttable instruments*) or which oblige the entity in the event of winding up of the same. The amendments to IAS 1 require that specific disclosure be provided regarding said instruments. The new version of IAS 32 and IAS 1 will come into force as from 1° January 2009. It is not envisaged that the amendments made will have significant effects on the Group's consolidated financial statements.

Improvements to the IFRS

On 23 January 2009, EC Regulation No. 70-2009 was published, acknowledging a number of changes made to the International Financial Reporting Standards (IFRS) at EU level. The changes to the standards which come into force as from 1 January 2009 are indicated below:

- IAS 1 (*Financial statement presentation*): the assets and liabilities relating to derivative instruments not held for trading purposes and which do not take on the form of financial guarantee contracts or hedging instruments, must be classified in the financial statements, making distinction between current and non-current assets and liabilities in relation to their maturity;
- IAS 16 (*Properties, plant and machinery*): the amendment provides a number of specifications on the classification and accounting treatment to be adopted by an entity which during its normal business activities as a rule sells elements of properties, plant and machinery held for lease to third parties;
- IAS 19 (*Employee benefits*): the amendment introduced, to be applied perspectively, clarifies the conduct to be adopted in the event of changes in employee benefits, defines the methods for recording the cost/income relating to the past work services precisely defines the short-term benefits and the long-term benefits;
- IAS 20 (*Statement of public grants and disclosure on public assistance*): the amendment, to be applied in perspective, establishes that the benefit of a public loan at an interest rate lower than the market one is treated as a public grant;
- IAS 23 (*Financial charges*): the amendment revises the definition of financial charges;
- IAS 28 (*Equity investments in associated companies*): the change establishes that, in the event of equity investments carried at equity, any impairment must not be allocated to the individual assets (and in particular to any goodwill) which makes up the book value of the investment, but to the value of the investee company in its entirety. Therefore, in the presence of conditions for a subsequent value writeback, this writeback must be recognized fully;
- IAS 29 (*Accounting in hyperinflationary economies*): these are changes to a standard not applied by the Group at present;
- IAS 36 (*Asset impairment*): the amendment envisages that additional information be provided if the fair value less the sales costs, is determined using discounted back cash flow projections;
- IAS 38 (*Intangible assets*): the amendment envisages the recognition in the income statement of promotional and advertising costs. It establishes that in the event a company incurs charges which have future economic benefits without recording intangible fixed assets, these must be charged to the income statement when the company itself has the right to gain access to the asset, if this involves the purchase of assets, or when a service is rendered, if this involves the purchase of services. Furthermore, the standard has been amended to clarify in which cases it is possible to adopt "produced units method" for the amortization of intangible fixed assets with a specified useful life;
- IAS 39 (*Financial instruments: statement and valuation*): the amendment clarifies how the calculation of the new effective rate of return of a financial instrument must be calculated on conclusion of a fair value hedge; it also specifies the cases when it is possible to reclassify a derivative instrument in and outside the category *"fair value through the income statement"*;
- IAS 40 (*Property investments*): these are changes to a standard not applied by the Group at present.

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Furthermore, IFRS 5 (*Non-current assets held for sale and operating assets disposed of*) was amended: the amendment envisages that if an entity undertakes a sales programme which involves the loss of control over a subsidiary, it must classify all the assets and liabilities of said subsidiary as held for sale, leaving aside the fact that, after the sale, it maintains a minority interest in the former subsidiary. The new version of IFRS 5 will come into force as from 1 January 2010.
It is envisaged that the application of the "improvements to the IFRS" as indicated above, does not have any significant effects on the Group's consolidated financial statements.

Revenues (note 1)

An analysis of the revenues by country is presented below:

Revenues by country (EUR 000) (*)	31.12.2008	31.12.2007
IItaly	295,734	273,355
United Kingdom	672,256	593,481
Other	15,633	16,279
Total	**983,623**	**883,115**

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

The increase in revenues is mainly determined by the development of services in the broadband access segment and voice revenues. In detail, the increase in revenues in the UK is essentially attributable to the merger of the Pipex division on 13 September 2007.

Other income (note 2)

EUR (000)	31.12.2008	31.12.2007
Other income	12,448	5,192
Total	**12,448**	**5,192**

Other income totals EUR 12.4 million and is mainly attributable to the re-calculation of the debit for former VNL shareholders amounting to EUR 6 million, the freeing up of a provision for legal disputes on Pipex totalling EUR 1.6 million and the freeing up of the portion of the capital gain on the disposal of Sa Illetta building for EUR 2.1 million.

Purchase of materials and outsourced services (note 3)

EUR (000)	31.12.2008	31.12.2007
Purchase of raw materials and goods for resale	1,000	(996)
Line/traffic rental and interconnection costs	459,203	413,484
Costs for use of third party assets	17,777	16,126
Portal services	70,053	46,874
Marketing costs	84,674	87,572
Other services	77,778	70,228
Total	**710,484**	**633,287**

The increase in costs with respect to the previous year reflects the rise in revenues, as well as the acquisition of the Pipex broadband and voice activities in September 2007.

In detail, the item Costs for portal services, which rose by around 50% with respect to the previous year, includes costs for the acquisition of contents for EUR 21.7 million, portal costs for EUR 6.4 million and costs for the call centre totalling EUR 41.9 million (EUR 30.1 million attributable to the UK subsidiaries and EUR 11.8 million to Tiscali Italia S.p.A).

Both the increase in costs for line rentals/traffic and interconnection (+ 11%), and the rise in the item Other services (+ 10.7%), reflect the increase in the volume of sales revenues.

Payroll and related costs (note 4)

EUR (000)	31.12.2008	31.12.2007
Wages and salaries	59,547	68,838
Other personnel costs	31,544	21,127
Total	**91,090**	**89,965**

The total of this item does not disclose any significant changes with respect to 2007, despite the increase due to the Pipex acquisition and the effects of the reorganization process started in 2007.

The items Wages and salaries and Other personnel costs were affected by the reclassifications made in order to improve the representation with respect to the same items last year.

At 31 December 2008, Tiscali S.p.A. had 1,561 employees. The breakdown by category and the corresponding balance at 31 December 2007 are presented below.

Number of employees	2008	2007
Executives	80	100
Middle managers	278	311
Office workers	1,203	1,521
Blue collar workers	-	3
Total	**1,561**	**1,935**

Stock option plan cost (note 5)

EUR (000)	31.12.2008	31.12.2007
Stock option plan cost	7,607	11,697
Total	**7,607**	**11,697**

The amount reflects the provision made for charges relating to the stock option plan of the UK (EUR 4.8 million) and Italian subsidiaries (EUR 2.9 million) and includes the effects of the acceleration of the plan reserved for the former Chief Executive Officer and the former Administration and Finance Director who maintained their assigned rights even after leaving the Group.

Other operating charges (income) (note 6)

The table below shows a breakdown of these costs:

EUR (000)	31.12.2008	31.12.2007
Other operating expenses	4,276	2,622
Contingencies, capital losses and other non-recurrent costs	(6,805)	3,694
Total	**(2,529)**	**6,316**

The item Contingencies, capital losses and other non-recurrent costs mainly includes the release of the risk provision provided in relation to the German subsidiaries at 31 December 2007 which is partially in excess with respect to the estimates made at the time of registration, along with amounts not receivable on liabilities recorded by the same companies.

Writedown of receivables from customers (note 7)

EUR (000)	31.12.2008	31.12.2007
Writedowns of receivables from customers	34,327	27,144
Total	**34,327**	**27,144**

The writedown of receivables from customers represents around 3.5% of revenues, up with respect to the percentage in the same period of 2007 (3%).

Restructuring costs and other writedowns (note 8)

EUR (000)	31.12.2008	31.12.2007
Restructuring costs and other writedowns	78,853	39,686
Total	**78,853**	**39,686**

Restructuring costs and other writedowns, amounting to EUR 78.8 million, are mainly attributable to the following factors:

- restructuring charges of the UK subsidiaries for EUR 42.1 million, essentially relating to the restructuring of the Pipex division business, as well as the reversal of the Pipex Internet and Bulldog brands for EUR 7.9 million;
- restructuring charges of the Italian and Parent Company activities for a total of EUR 11.5 million, which reflect the corporate reorganization plan in agreement with the Trade Union Organizations;
- the writedown of tangible assets (EUR 3.1 million) and intangible assets (EUR 8.8 million) carried out by the subsidiary Tiscali Italia S.p.A (see the notes relating to changes in assets: *Intangible assets (note 15)* on page 81 and *Properties, plant and machinery (note 16)* on page 82.

Other atypical (income) Charges (note 10)

No other atypical income or charges were recorded during the year.

Financial income (Charges) (note 9)

Net financial income (charges)

A breakdown of net financial income (charges) for the year, presenting a negative balance of EUR 96.5 million, is provided below.

EUR (000)	31.12.2008	31.12.2007
Financial income		
Interest on bank deposits	4,993	2,823
Interest income	1,792	1,403
Other financial income	721	13
Total	**7,506**	**4,239**
Financial charges		
Interest on bonds	2,997	59
Interest and other charges due to banks	57,884	77,245
Other financial charges	43,093	(427)
Total	**103,974**	**76,877**
Net financial income (charges)	**(96,468)**	**(72,638)**

The item Financial income mainly includes interest income on bank deposits for EUR 4.9 million.
The item financial charges totalling EUR 103.9 million essentially comprises the following elements:

- impact of the conversion of the convertible bond, on 15 September 2008, amounting in total to EUR 11 million, of which EUR 8 million deriving from the reversal of the fair value of the early conversion options and EUR 3 million attributable to interest expense on the loan.
- bank interest expense on the Banca Intesa San Paolo & JP Morgan loan for around EUR 54 million, plus other interest and bank charges totalling EUR 8 million;
- interest expense on finance leases for EUR 6.3 million, of which EUR 1.5 million attributable to the UK subsidiaries and EUR 4.8 million attributable to Tiscali Italia S.p.A.;
- interest expense on the shareholders' loan (Andalas) for EUR 2.7 million;
- effects of the valuation at fair value of the IRS relating to the Banca Intesa San Paolo & JPMorgan debt, which presents a negative balance of EUR 10.8 million;
- interest expense on the residual debt due to the former shareholders of VNL for EUR 6.4 million;
- interest expense on trade payables totalling EUR 4.7 million.

Other net financial income (charges)

The item Other net financial income (charges) presented a zero balance in the period, while at 31 December 2007 the balance came to EUR 17.9 million and included the refinancing costs linked to the transactions with Silver Point (EUR 13.3 million, essentially relating to the early paying off of the loan) and with Banca Intesa SanPaolo (EUR 4.5 million) relating to the bridging loan on the sale in the Netherlands.

EUR (000)	31.12.2008	31.12.2007
Other net financial income (charges)	-	(17,881)
Total	**-**	**(17,881)**

Income taxes (note 11)

EUR (000)	31.12.2008	31.12.2007
Current taxes	792	2,272
Deferred taxes	64,092	(19,796)
Net taxes for the year	**(64,884)**	**17,525**

Current taxes are mainly represented by IRAP (regional business tax) payable by the Italian companies, while the tax liability referring to deferred taxation represents the reversal of the portion of the same not considered recoverable on the basis of updated estimates.

The item Deferred taxes includes the following elements:

- partial reversal of the prepaid taxes recorded at 31 December 2007 on Tiscali International BV for EUR 23.8 million;
- reversal of net deferred taxes recorded in the UK subsidiaries for EUR 40.3 million.

Operating assets disposed of and/or assets held for sale (note 12)

On 3 February 2009, the Tiscali Group announced the decision to enter into a purchase/sale agreement with BS Private Equity S.p.A. and BS Investimenti SGR, relating to the assets of the Tiscali International BV Group, a Tiscali S.p.A. subsidiary which offers customers worldwide wholesale IP-MPLS connectivity services via a global network which covers 3 continents and has more than 100 points of presence.

On 15 November 2008, the assets of Quinary S.p.A. were disposed of.

The Result for the period from assets disposed of and/or destined to be disposed of includes the period result and the capital gains/losses on disposal relating to the assets disposed of and/or held for sale (Quinary and TiNet).

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

(EUR 000)	31.12.2008	31.12.2007
Gross capital gains (Losses) deriving from disposal of subsidiaries and/or asset disposals	(700)	199,227
Cancellation of goodwill and writedown of other assets destined to be disposed of	(3,691)	(101,969)
Other charges/release of provisions relating to disposals		(13,794)
Period result of subsidiaries disposed of and/or destined to be disposed of	(5,342)	(10,844)
Result from assets disposed of and/or destined to be disposed of	**(9,732)**	**72,619**

Gross capital gains (losses) deriving from disposals amount to EUR 0.7 million and refer to the disposal of Quinary S.p.A., which took place on 19 November 2008.

The cancellation of goodwill and writedowns of other assets destined to be disposed of include the registration of the writedown of the assets of Tiscali International Network for EUR 3.7 million.

This writedown was made in order to reflect the impact on the income statement of the disposal of the Group, envisaged during the second quarter of 2009.

Just the Period result of assets disposed of and/or destined to be disposed of, presenting a negative balance of EUR 5.3 million, is indicated below.

INCOME STATEMENT OF THE OPERATING ASSETS HELD FOR SALE AND SOLD		
EUR (000)	31.12.2008	31.12.2007
Revenues	31,361	94,281
Operating result	(4,270)	(8,398)
Pre-tax result	(5,231)	(10,023)
Net result	(5,342)	(10,844)

At 31 December 2008, assets held for sale were represented by TiNet. The comparative figure at 31 December 2007 did not by contrast include assets held for sale.

ASSETS		
EUR (000)	31.12.2008	31.12.2007
Non-current assets	38,326	-
Current assets	18,469	-
Assets held for sale	**56,795**	**-**

LIABILITIES		
EUR (000)	31.12.2008	31.12.2007
Non-current liabilities	3,203	-
Current liabilities	19,071	-
Liabilities directly related to assets held for sale	**22,274**	**-**

Earnings (Losses) per share (note 13)

The earnings per share from operating assets and those disposed of amount to EUR (0.43); this amount was calculated by dividing the net earnings for the year attributable to the ordinary shareholders of the Parent Company, equating to EUR (242,724,450), by the average weighted number of ordinary shares in circulation during the year, equating to 560,984,490.

The earnings per share from operating assets amounts to EUR (0.42), calculated by dividing the operating assets, amounting to EUR (232,992,355) by the average weighted number of ordinary shares in circulation during the year, equating to 560,984,490.

The potential shares deriving from the stock option conversions had an anti-diluting effect and therefore have not been considered in the calculation of the result per share.

The diluted earnings per share, from operating assets and those disposed of, has been calculated by dividing the net earnings attributable to the ordinary shareholders of the Parent Company and the result from operating activities, by the average weighted number of ordinary shares in circulation during the year.

Goodwill (note 14)

(EUR 000)	31.12.2007	Increases	Decreases	Exchange differences	31.12.2008
Italy	-	-	-	-	-
UK	515,022	-	-	(76,198)	438,824
	515,022	**-**	**-**	**(76,198)**	**438,824**

Other changes amounting to EUR 76.2 million reflect the exchange effect between GBP and EUR.

Verification of impairment of goodwill

The recoverable amount of the Cash Generating Units (CGU) has been determined on the basis of the value in use calculated using the projection of the cash flows deriving from the new 2009/2013 Business Plan drawn up according to the assumptions indicated in the note *Assessment of the business as a going-concern and business outlook and prospects* on page 39.

The Business Plan is based on the guidelines aspiring to the maximization of the operating efficiency, the reduction of costs and investments and the generation of short/medium-term cash. The structure of the guidelines is differentiated for each operating unit in relation to the particular features of the related context/market.

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

- Explicit forecast period equating to the plan duration (five years);
- EBITDA/EBITDA percentage, emerging from the hypotheses of market and business development in the first five years of the plan (2009-2013);
- Investments for maintaining the envisaged evolution of the business and the pre-established level of profitability, in particular for activation of customers vis-à-vis the incumbent, for the supply of modems to end customer and for maintaining the company assets;
- Exchange rate between EUR and GBP;
- Cost of Capital;
- Determination of the terminal value calculated as the perpetuity based on the projection of the last year of the plan;
- Terminal growth rate (Long Term Growth - LTG) beyond the five years of the Plan;

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

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

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

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

The final WACC values, checked with the Company's advisors and used for the value checks, are indicated in the following table.

%	WACC
Italy	9,88
UK	9,79
Tiscali Group	**9,86**

The terminal growth rate has been set at 2%, in line with the forecasts of the analysts, also following the announcement of the stand-still request (*See note Assessment of the business as a going-concern and business outlook and prospects* on page 39).

Increases of a percentage point in the WACC and reductions of a percentage point in the LTG do not disclose a loss in value.

Intangible assets (note 15)

Changes in intangible asset for 2008 were as follows:

Intangible assets EUR (000)	Computers software and development costs	Concessions and similar rights	Broadband service activation costs	Other	Total
HISTORIC COST					
1 January 2008	**11,888**	**221,155**	**82,251**	**109,006**	**424,300**
Increases	245	14,418	76,368	21,964	112,994
Decreases	(896)	-	(7,479)	-	(8,375)
Assets destined to be disposed of	(135)	(50,789)	-	(353)	(51,277)
Revaluations/Writedowns	-	(6,083)	(238)	(10,720)	(17,042)
Reclassifications	(266)	1,578	(3,141)	(1,277)	(3,106)
Exchange differences	(1,528)	(31,346)	(23,876)	(20,425)	(77,174)
Other	(896)	-	-	-	-
31 December 2008	**9,308**	**148,933**	**123,884**	**98,194**	**380,319**
ACCUMULATED AMORTISATION					
1 January 2008	**6,014**	**76,549**	**53,098**	**2,596**	**138,258**
Increases in amortisation	3,127	21,481	54,512	35,475	114,595
Decreases	-	(1,951)	(6,694)	-	(8,645)
Assets destined to be disposed of	(46)	(21,686)	-	(239)	(21,971)
Revaluations/Writedowns	-	-	-	(1,411)	(1,411)
Reclassifications	(86)	856	(1,056)	(853)	(1,139)
Exchange differences	(2,068)	(11,175)	(9,714)	(8,342)	(31,298)
Other	-	-	-	-	-
31 December 2008	**6,941**	**64,074**	**90,147**	**27,226**	**188,388**
NET VALUE					
31 December 2007	**5,874**	**144,606**	**29,153**	**106,409**	**286,042**
31 December 2008	**2,366**	**84,859**	**33,737**	**70,969**	**191,931**

The item “Computers, software and development costs”, whose balance amounts to EUR 2.4 million, includes the capitalisation of development costs for applications software customized for the exclusive use of the company. These costs are mainly costs for dedicated internal staff.

The balance of “Concessions and similar rights”, amounting to EUR 84.8 million, includes about EUR 43.5 million relating to rights and costs connected with the acquisition of transmission capacity on a long-term basis, in the shape of concession agreements for the use of the same (IRU -Indefeasible Rights of Use), and around EUR 40 million relating to licences and software.

On the whole, the increase in this item, amounting to EUR 14.4 million, mainly reflected the creation of new IRU contracts, in relation to the investments made for the development of the unbundling network.

The item Broadband service activation costs, totalling EUR 33.7 million, relates to the capitalisation of the activation costs for the ADSL service. Such costs are amortised in relation to the minimum duration of the contracts with customers, currently equating to twelve months.

Total increases in this category amounting to EUR 76.4 million, include EUR 10.5 million relating to the Italian subsidiary and EUR 65.9 million relating to the UK subsidiaries.

Other fixed assets , amounting to EUR 71 million include EUR 23.3 million in intangible assets of the Italian subsidiary, including costs for the development of the new UNIT2 platform for EUR 19 million, EUR 4.4 million in intangible assets of Tiscali Uk Ltd (IPTV contents, technology, relationship custody), and EUR 43.1 million in intangible assets relating to the Pipex’s broadband and voice division, concerning the development of the customer database and the competition restriction agreements respectively for EUR 41.1 million and around EUR 2 million.

The increases in this item, EUR 22 million, are essentially attributable to the Italian subsidiary and include improvements in the management of the customer database (UNIT2), and to technical equipment for the expansion of internal networks and the launch of the new mobile telephone project.

In addition, the item other fixed assets includes around EUR 7 million in intangible assets in process of formation and advance payments pertaining to the Italian subsidiary Tiscali Italia S.p.A. mainly representing costs for the development of the mobile telephone management platform for EUR 2 million and EUR 4.4 million relating to the purchase of transmission capacity (IRU).

Total writedowns, with a net value of EUR 15.6 million (of which EUR 17 million on the historic cost and EUR 1.4 million on the accumulated amortisation) mainly concern the assets of Tiscali Italia S.p.A. and were carried out following the decision to interrupt the IPTV service. Specifically, software has been written down for EUR 0.4 million, development costs for EUR 5.8 million, set top boxes for EUR 0.1 million, feasibility studies for EUR 1.9 million and other intangible assets for a value of EUR 3 million; the balance also includes EUR 5.8 million deriving from the recalculation, as per IFRS 39, of the fair value of the IRU contracts – Indefeasible rights of use – in the initial measurement stage.

The decreases during 2008 in the various categories of fixed assets reflect the normal amortisation process and disposals of fixed assets.

Assets destined to be disposed of include the intangible assets of the TiNet Group under disposal at 31 December 2008.

The item Exchange differences includes the changes deriving from the GBP/EURO exchange differences at the time of conversion of the UK assets from local currency to the reporting currency for the consolidated financial statements.

Properties, plant and machinery (note 16)

Changes during the year are shown in the following table:

Tangible assets EUR (000)	Properties	Plant and machinery	Other assets	Total
HISTORIC COST				
1 January 2008	**64,230**	**514,368**	**22,263**	**600,862**
Increases	5	53,976	7,326	61,308
Decreases	-	(42)	(249)	(291)
Assets destined to be disposed of	-	(30,173)	(36)	(30,209)
Revaluations/Writedowns	-	(2,202)	(819)	(3,021)
Reclassifications	-	(4,271)	(6,380)	(2,109)
Exchange differences	-	(68,651)	(2,971)	(2,109)
Other	-	-	-	-
31 December 2008	**64,235**	**471,548**	**19,134**	**554,917**
ACCUMULATED DEPRECIATION				
1 January 2008	**4.344**	**317.703**	**6.554**	**328.601**
Increases in depreciation	1,899	58,178	1,474	61,551
Decreases	-	(55)	(244)	(299)
Assets destined to be disposed of		(16,768)	(35)	(16,804)
Revaluations/Writedowns	-	(412)	(44)	(455)
Reclassifications	-	(1,596)	(5,672)	(4,076)
Exchange differences	-	(50,226)	(4,338)	(45,888)
Other	-	-	-	-
31 December 2008	**6,243**	**310,016**	**6,371**	**322,629**
NET VALUE				
31 December 2007	**59,886**	**196,665**	**15,709**	**272,260**
31 December 2008	**57,993**	**161,532**	**12,763**	**232,288**

The item Properties, amounting to EUR 58 million, mainly relates to the value of the SA Illetta investment, headquarters of the parent company in Cagliari.

The net book value of "Plant and Machinery" (EUR 161.5 million) comprises, in particular, specific and network equipment such as routers, servers, optical devices and telephone systems for the core management of the business.

The EUR 53.9 million increase reflects the significant investments concerning the development of the infrastructure which is necessary to support the ADSL service range in unbundling mode. The "Other assets", whose balance amounts to EUR 12.8 million, include furniture and furnishings, electronic and electromechanical office equipment as well as motor vehicles.

In addition, the item other fixed assets includes around EUR 9.5 million mainly relating to intangible assets in process of formation and advance payments pertaining to the Italian subsidiary Tiscali Italia S.p.A. essentially attributable to transmission apparatus purchased but not yet in use at the end of the year within the sphere of the LLU network for EUR 6.1 million and to modems in inventories destined to be loaned to customers for the connection of broadband (ADSL) lines.

Total writedowns, for a net value of EUR 2.6 million (of which EUR 3 million on the historic cost and EUR 0.4 million on accumulated depreciation) mainly concern the assets of Tiscali Italia S.p.A. and were made following the decision to interrupt the IPTV service. In particular, the writedown includes: servers and specific systems for EUR 1.7 million, routers for around EUR 0.6 million, other IPTV equipment for EUR 0.1 million and set top boxes for approximately EUR 0.6 million.

Decreases during 2008 in the various categories of fixed assets reflect the normal depreciation process and disposals of fixed assets

Assets destined to be sold include the intangible assets of the TiNet Group.

The item Exchange differences includes the changes deriving from the GBP/EURO exchange differences at the time of conversion of the UK assets from local currency to the reporting currency of the consolidated financial statements.

Equity investments (note 17)

Equity investments, carried at equity, recorded in the financial statements for a total value of EUR 33 thousand, refer to minority interests held by the parent company and the operating subsidiary Tiscali Italia S.p.A..
The list of these investments is presented in the specific section (see note List of subsidiaries included in the consolidation area).

Other non-current financial assets (note 18)

EUR (000)	31.12.2008	31.12.2007
Guarantee deposits	12,725	16,290
Other receivables	2,256	11,958
Equity investments in other companies	2,332	20
Total	**17,313**	**28,269**

Guarantee Deposits amounting to EUR 12.7 million, include EUR 6.2 million in deposits recorded in relation to the Italian subsidiary relating to the sale and lease back transaction on the SA Illetta property, EUR 6.3 million in deposits relating to lease agreements of the UK subsidiaries, and EUR 0.2 million in deposits relating to the German subsidiaries. The change with respect to the previous year is essentially due to the reduction in the deposits relating to the UK subsidiaries (from EUR 8.8 million in 2007 to EUR 6.3 million in 2008) and to the German subsidiaries (from EUR 1.2 million in 2007 to EUR 0.2 million in 2008).

Other receivables include EUR 1.4 million in receivables from the TiNet Group and receivables from other companies for EUR 0.8 million.

The change of EUR 9.7 million with respect to the previous year is attributable to the reversal of the fair value of the early conversion options contained in the regulations of the convertible bond for EUR 8 million, further to the conversion of the same to capital on 15 September 2008. Furthermore, the balance at 31 December 2007 included the positive balance of the fair value of the swap (IRS) recorded on Tiscali International BV for EUR 1.3 million, whose value at 31 December 2008 was recorded under financial liabilities, since it presented a negative balance of EUR 9.5 million.

The item equity investments in other companies includes just the equity investments held by Tiscali Italia S.p.A. in Janna, recorded in the previous year in the item equity investments.

Deferred tax assets (note 19)

At 31 December 2008, tax assets for prepaid taxes amounting to EUR 10.5 million in total were recorded in the financial statements (EUR 106.6 million at 31 December 2007).

EUR (000)	31.12.2008	31.12.2007
Deferred tax assets	10,507	106,634
Total	**10,507**	**106,634**

Deferred tax assets recorded in the financial statements relate to tax losses carried forward by Tiscali Group companies. The prepaid taxes have been provided for on the basis of forecasts on the taxable income which can be generated reasonably in light of the business plans, accompanied by the related tax plans, and the current performance of the Group companies to whom the tax losses refer.

The balance at 31 December 2008 refers to the prepaid taxes recorded by the subsidiary Tiscali International BV parent company of the Dutch tax consolidation system. These taxes are entirely generated by prior tax losses, whose recoverability is possible to correlate to future income generated by interest income accrued by the Dutch subsidiaries.

Prepaid taxes pertaining to the UK subsidiaries, amounting to EUR 72.2 million at 31 December 2007 have been reversed in full. The Company decided not to record deferred taxation in the financial statements, in light of the matters envisaged in the new 2009/2013 Business Plan.

Prior tax losses of the subsidiaries with headquarters in the UK are carried forward without limit while those relating to the Netherlands expire between 2011 and 2013.

In relation to the Dutch tax losses, shareholders are informed that the deferred tax assets already prudently take into account the adjustments to the prior losses in previous years deriving from the tax assessment carried out by the Dutch tax authorities, described in note Tax assessments on page 98, which also contains illustration of the outstanding tax disputes.

The following table shows the change in the balance of prepaid taxes, which took place in 2008, broken down in relation to the various Group companies falling within the perimeter of continuing operations.

EUR (000)	31.12.2007	Uses	Increase	Assets held for sale	Other changes	31.12.2008
Tiscali International BV	34,347	(23,840)	-	-	-	10,507
Tiscali UK Ltd	72,268	(72,268)	-	-	-	-
Tiscali International Network S.p.A.	18	-	-	(18)	-	-
Total	**106,633**	**(96,108)**	**-**	**(18)**	**-**	**10,507**

The tax benefit relating to previous losses brought forward with respect to which assets for prepaid taxes (deferred tax assets) have been recorded, represents only a very limited part of the tax benefit linked to previous losses which can be carried forward by the Tiscali Group companies which, at 31 December 2008 amounted in total to EUR 600 million.

It is emphasised that the amount of the prepaid taxes recorded in total is within the limits of the book balance of EUR 10.5 million, since Tiscali S.p.A.'s directors prudently considered that, on the basis of the current business plan, at present there is no reasonable certainty of the conditions for the recording of an additional amount, taking into account the envisable timescales.

The following table shows the total prior losses deductible for tax purposes at Tiscali Group level broken down by year of maturity, together with the deductible timing differences. The same table shows the prepaid taxes with separate indication of those which, for the aforesaid reasons, have not been recorded.

EUR (000)	Total at 31.12.2008	Year of maturity 2009	2010	2011	Beyond 2011	Unlimited
Total prior tax losses	1,661,369	122,557	16,584	241,515	112,711	1,168,002
Deductible timing differences	492,209					
Total tax losses and deductible timing differences	**2,153,578**					
Total prepaid taxes (at theoretic average tax rate of 27.9%)	600,051					
Prepaid taxes recorded	10,507					
Prepaid taxes not recorded	**589,543**					

The tax losses correspond to those emerging from the tax declarations and, for 2008 to the calculations of the taxable results. These losses amount to EUR 1,661.4 million at 31 December 2008 and refer to the Parent Company and the Italian subsidiaries (EUR 321.4 million), to Tiscali International BV and subsidiaries (Netherlands) (EUR 182.6 million less the adjustments deriving from assessments), and to the subsidiaries operating in the UK (EUR 933.2 million). The tax losses at 31 December 2008 also include the accumulated losses of the German companies in liquidation, amounting to EUR 224.2 million.

The tax losses relating to 2009 concern the Italian companies, those relating to 2010-2013 concern the Italian companies and the Dutch tax consolidation system, while the tax losses with an unlimited maturity concern the UK companies.

Inventories (note 20)

At 31 December 2008, inventories totalled EUR 6.9 million and mainly relate to network equipment, consumables, telephone cards, goods for resale for merchandising activities and modems.

The change with respect to 2007 is influenced by the writedown of EUR 2.1 million relating to set-up boxes for iPTV.

Receivables from customers (note 21)

EUR (000)	31.12.2008	31.12.2007
Receivables from customers	259,395	244,787
Writedown provision	82,576)	(80,335)
Total	**176,819**	**164,452**

At 31 December 2008, Receivables from customers totalled EUR 176.8 million, after writedowns of EUR 82.6 million. These receivables accrued from the sale of internet services, billing of network access services, inverse interconnection traffic, advertising revenues and business customer and telephone services provided by the Group. The book value of trade receivables, in view of the maturities mentioned below and of conditions regulating the supply of services by the Group, is approximate to their fair value.

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

The policy applied in the UK envisages the total writedown of the receivables due over 90 days, while the policy applied by the Italian subsidiaries envisages the total writedown of the receivables due by more than 2 years.

In general, default interest is not applied, unless envisaged contractually, in the event of the recovery of receivables by debt collection companies.

With the aim of appraising potential new customers, of defining receivable limits, of checking the risk level of customers, outside specialized sources are used.

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

The following table illustrates the ageing (gross of the receivable writedown provision) at 31 December 2008 and 31 December 2007, respectively:

EUR (000)	31.12.2008	31.12.2007
not due	53,077	49,517
1 – 180 days	106,632	108,231
181 – 360 days	27,982	20,129
over 360 days	71,704	66,910
Total	**259,395**	**244,787**

The following table illustrates the changes in the receivable writedown provision during the respective accounting periods.

EUR (000)	31.12.2008	31.12.2007
Writedown provision at start of period	**(80,335)**	**(35,040)**
Exchange differences	10,485	930
Acquisitions/Consolidation area change	-	(31,189)
Disposals/Consolidation area change	437	-
Provision	(35,418)	(27,332)
Utilisation	22,255	12,296
Writedown provision at end of period	**(82,576)**	**(80,335)**

The change during 2008, amounting to EUR 2.2 million, was determined by provisions for EUR 35.4 million, used for EUR 22.2 million, by the effect of the change in the exchange rates for EUR 10.5 million and by the change in the consolidation area (reclassification of the TiNet Group among assets destined to be disposed of) for EUR 0.4 million.

Other receivables and other Current Assets (note 22)

EUR (000)	31.12.2008	31.12.2007
Other receivables	15,690	16,349
Accrued income	15,343	18,849
Prepaid expenses	15,761	36,454
Total	**46,794**	**71,652**

Other Receivables, amounting to EUR 15.7 million, mainly include VAT receivables for EUR 6.8 million, advances to suppliers amounting to approximately EUR 3.4 million and other receivables due from the tax authorities for EUR 1.5 million.

Accrued income (EUR 15.3 million) mainly relates to accrued revenues pertaining to the period for services in the access segment. These are mainly accruals on marketing campaigns and leasing costs.

Prepaid expenses of EUR 15.8 million relate to prepaid costs associated with long-term rental of lines, international circuit agreements as well as hardware and software maintenance costs.

The book value of the items included in the balance is approximate to their fair value.

Other current financial assets (note 23)

EUR (000)	31.12.2008	31.12.2007
Guarantee deposits	2,709	7,511
Other receivables	721	647
Total	**3,430**	**8,158**

Other current financial assets mainly include deposits *recorded for Tiscali S.p.A. totalling EUR 2.7 million* whose release is envisaged over the short-term and other receivables pertaining to the UK companies. The reduction with respect to the previous year is fully attributable to the UK subsidiaries.

Cash and cash equivalents (note 24)

Cash and cash equivalents at 31 December 2008 amounted to EUR 24.2 million and include the Group's cash, essentially held in bank current accounts.

For the comments relating to the change in cash and cash equivalents, please refer to the Consolidated Cash Flow Statement (page 58).

Shareholders' equity (note 25)

(EUR 000)	31.12.2008	31.12.2007
Share capital	308,273	212,207
Share premium reserve	990,857	902,492
Stock Options reserve	3,840	9,969
Equity bond reserve	-	22,053
Accumulated losses and other reserves	(1,292,148)	(977,073)
Minority interests	(6,046)	37,322
Total	**4,777**	**206,970**

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

At 31 December 2008, the share capital amounted to EUR 308.3 million corresponding to 616,545,485 ordinary shares with a par value of EUR 0.50 each.

On 31 August 2007, a share capital increase was resolved for a total of EUR 150 million, equating to 149,792,880 shares; this capital increase was carried out and fully subscribed in February 2008. Net of the related costs, the capital increase led to a rise in the equity for a total of EUR 145.3 million, of which EUR 74.9 million attributable to the share capital and EUR 70.4 million to the share premium reserve.

On 15 September 2008, since the conditions for the conversion of the convertible bond applied, said bond was automatically converted into shares.

The bond's regulations, in fact, envisaged that if prior to the maturity of the bonds, the average of the official prices (calculated with reference to the previous 20 days) was for five consecutive stock market days equal to or less than the value of the share capital and the accrued interest divided by 42.4 million shares, the bond would be automatically converted into the full amount of shares indicated.

The total of the share capital and the interest accrued as of the conversion date (15 September 2008) came to EUR 62,958,750 million. This amount, divided by the unit price of EUR 1,487 per share led to the issue of 42,339,442 shares.

The share capital increased by EUR 21,169,721, and the difference, amounting to EUR 41,789,029, was booked to increase the Share premium reserve.

The conversion of the convertible bond led to the cancellation of the equity component of the same.

The item Other reserves includes the net effect of the bond conversion transaction, for EUR 5.9 million.

The share premium reserve underwent a change of EUR 88.4 million due to the share capital increase transactions indicated above and as a result of utilisation to cover the loss reported by the parent company in 2007.

Shareholders' equity pertaining to minority shareholders (note 26)

The shareholders' equity pertaining to minority shareholders changed due to the allocation to minority shareholders of the period result and due to exchange rate changes.

Non-current financial liabilities (note 27)

(EUR 000)	31.12.2008	31.12.2007
Payables to bondholders	-	43,842
Payables to banks and other lenders		
Payables to banks	-	450,053
Payables to other lenders	30,743	30,086
	30,743	**480,139**
Payables for finance leases (m/l-term)	**73,118**	**79,467**
Total	**103,861**	**603,449**

The financial position is shown in the table below:

(EUR 000)	31.12.2008	31.12.2007
A. Cash	24,202	134,231
B. Other cash equivalents	-	-
C. Securities held for trading	-	-
D. Cash and cash equivalents (A) + (B) + (C)	**24,202**	**134,231**
E. Current financial receivables	**2,709**	**7,511**
F. Non-current financial receivables	1,436	-
G. Current bank payables	510,012	171,276
H. Current portion of non-current debt	-	-
I. Other current financial payables (*)	21,399	24,430
J. Current financial debt (G) + (H) + (I)	**531,411**	**195,706**
K. Net current financial debt (J) – (E) – (F) – (D)	**503,065**	**53,964**
L. Non-current bank payables	-	450,053
M. Bonds issued	-	43,842
N. Other non-current payables (**)	113,387	109,553
O. Non-current financial debt (L) + (M) + (N)	**113,387**	**603,449**
P. Net financial debt (K) + (O)	**616,452**	**657,413**

(*) includes leasing payables

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

The above table has been drawn up in light of the Consob Communication n. DEM/6064293 dated 28 July 2006.

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

The standstill period obtained from the banks until June 2009 concerns the payment of interest and principal instalments on the medium/long-term financial debt (except for leasing on machinery) and the freezing of the calculation of the covenants (present in the senior bank debt for EUR 100 million, not observed at 31 December 2008) and the short-term bank credit facilities.

On a consistent basis with the standstill agreement and the process for the renegotiation of the debt underway, steps were taken to reclassify the medium/long-term financial debt as short-term debt.

The debt ratio at year end was as follows:

(EUR 000)	31.12.2008	31.12.2007
Net debt (*)	(616,452)	(657,413)
Shareholders' equity (**)	4,777	206,970
Debt ratio	**129.0**	**3.2**

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

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

Payables to bondholders (note 27 bis)

As described in the previous note 25 Shareholders' Equity, the liability for the convertible bond subscribed by Management&Capitali in December 2007 for a nominal EUR 60 million at an annual rate of 6.75%, was fully converted into capital on 15 September 2008.

Payables to banks and other lenders (note 28)

Payables to other lenders (EUR 30.7 millions) refer to the loan bearing interest at market rates, granted in 2004 by the shareholder Andalas Limited, for EUR 30.2 million. The loan was raised to support the investments necessary for aiding growth and in particular the implementation of an unbundling network infrastructure. On 13 September 2007, this loan was subordinated with respect to the new loan granted by Banca Intesa SanPaolo and JP Morgan. That loan expires on 12 March 2015 (180 days after the expiry of the senior debt fixed on 13 September 2014).

Payables for finance leases (m/l-term) (note 29)

The item Liabilities for finance leases (EUR 73.1 million) includes payables to leasing companies for finance lease agreements.

Finance leases

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

EUR (000)	Minimum payments due		Current value of minimum payments due	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Less than 1 year	25,067	24,971	19,708	19,502
Between 1 and 5 years	52,966	49,858	30, 080	79,467
More than 5 years	44,540	55,242	44,729	-
	122,573	**130,071**	**94,517**	**98,969**
Less future financial charges	(28,056)	(31,102)	-	-
Current value of minimum payments	**94,517**	**98,969**	**94,517**	**98,969**
Included in the balance sheet				
Payables for current finance leases			21,399	19,502
Payables for non-current finance leases			73,118	79,467
			94,517	**98,969**

Operating leases

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

EUR (000)	31.12.2008	31.12.2007
Minimum payments due for leasing	45,102	68,238
Subleasing payments	(1,059)	589
	44,043	**69,827**

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

EUR (000)	31.12.2008	31.12.2007
Less than 1 year	45,625	33,821
Between 1 and 5 years	36,002	41,988
More than 5 years	16.,176	22,625
	97,803	**98,433**

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

Leasing included in Intangible assets EUR (000)	Computers software and development costs	Concessions and similar rights	Broadband service activation costs	Other	Total
NET VALUE					
31 december 2007	-	431	-	-	**431**
31 december 2008	-	515	-	-	**515**

Leasing included in Tangible assets EUR (000)	Properties	Plant and machinery	Other assets	Total
NET VALUE				
31 december 2007	59,711	48,473	-	**108,145**
31 december 2008	57,869	48,892	-	**106,761**

Other non-current liabilities (note 30)

EUR (000)	31.12.2008	31.12.2007
Payables to suppliers	13,011	24,923
Other payables	82,434	95,885
Total	**95,444**	**120,807**

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

- the amount due to the former shareholders of Video Network Ltd for the portion of the deferred price, totalling EUR 71.2 million at 31 December 2008;
- the valorisation at fair value of the swap (IRS) recorded by Tiscali UK Holding for EUR 9.5 million.

Liabilities for pension obligations and staff severance indemnities (note 31)

The table below shows the period changes:

EUR (000)	31.12.2007	HFS/ Discontinued	Exchange difference	Provisions	Uses	31.12.2008
Staff severance indemnities	5,852	(830)	(29)	2,565	(2,557)	5,001
Total	**5,852**	**(830)**	**(29)**	**2,565**	**(2,557)**	**5,001**

The staff severance provision, which comprises the indemnities accrued in favour of employees, refers to the Parent Company and the subsidiaries operating in Italy and amounted to EUR 5 million at 31 December 2008. In accordance with Italian Law No. 297/1982, the amount due to each employee accrues depending on the service provided, and has to be immediately disbursed when the employee leaves the company. At the end of the employment relationship, the amount due is calculated on the basis of its duration and the taxable remuneration of each employee. The liability is annually adjusted in compliance with the official cost-of-living index and the interest envisaged by law. It is not associated with any condition or period of accrual, or with any obligation of financial borrowing; therefore, there are no assets serving the provision. In compliance with IAS 19, the provision was recorded under Plans with defined benefits.

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

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

- on the basis of a series of financial hypotheses (increase in cost of living, remuneration, etc.), the possible future benefits which might be disbursed in favour of each employee enrolled in the scheme in the event of retirement, decease, disability, resignation, etc. were projected. The estimate of future benefits includes any foreseeable increases relating to a further length of service, and to the presumable growth of the remuneration received as of the date of estimation, only for the employees of companies with less than 50 employees;
- *the current average value of future benefits* was calculated as of the date of estimation, on the basis of the adopted annual interest rate and the probability that each benefit has of being really disbursed;

- the liability has been established for each company concerned, to an extent equating to the *average current value of the future benefits* which will be generated by the provision existing as of the valuation date, without considering any future provision (for companies with at least 50 employees) or identifying the portion of the current average value of the future benefits which refer to the service already accrued by the employee in-house as of the value date (for the other companies).

Financial assumptions	
Inflation rate:	2.25%
Discount rate:	6%
Demographic assumptions	
Mortality:	ISTAT 2002 M/F mortality tables with reference also to SIM 2002 and SIF 2002
Disability:	INPS 1998 M/F disability tables
Resignation:	3.5% for Tiscali Italia S.p.A. and 4% for Tiscali Spa between 20 and 65
Advance payments:	2% according to age
Retirement:	*65 for men and 60 for women, with maximum length of service of 40 years*

Provisions for risks and charges (note 32)

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

EUR (000)	31.12.2007	HFS/Discontinued operations	Exchange difference	Provisions	Utilisation	31.12.2008
Provisions for risks and charges	28,624	(22)	(3,023)	18,957	(19,151)	25,384
Total	**28,624**	**(22)**	**(3,023)**	**18,957**	**(19,151)**	**25,384**

The balance includes the provision for Pipex and VNL restructuring charges totalling EUR 9 million, charges relating to properties leased by the German subsidiaries for EUR 4.3 million, the provision of EUR 8.4 million for restructuring charges of the Italian subsidiaries and corporate activities, EUR 1.4 million for tax risks on a company in liquidation held by Tiscali International BV, along with EUR 1.8 million pertaining to Tiscali spa relating to disputes with employees.
Use during the period was mainly attributable to the coverage of the Pipex restructuring charges for around EUR 10 million, as well as the turning to income of a number of provisions recorded previously on the German subsidiaries which were in excess for EUR 7.5 million.

Provision for deferred taxation (note 33)

The item Provision for deferred taxation presented a zero balance at 31 December 2008.

The amount was recorded in the financial statements at 31 December 2007 against the fair value of the intangible fixed assets relating to the Pipex business combination, totalling EUR 27.9 million, and was released in full to the income statement in 2008. The Company considered it advisable to write-off the total net tax assets on the UK subsidiaries.

The composition of the provision for deferred taxation is as follows:

EUR (000)	31.12.2007	HFS/ Discontinues operation	Exchange difference	Provisions	Utilisation	31.12.2008
Provision for deferred taxation	27,891	-	(6,416)	-	(19,151)	(21.475)
Total	**27,891**	-	**(6,416)**	-	**(19,151)**	**(21.475)**

Current financial liabilities (note 34)

EUR (000)	31.12.2008	31.12.2007
Payables to banks and other lenders:		
Payables to banks	510,012	176,204
Payables for finance leases (short-term)	21,399	19,502
	531,411	**195,706**

Payables to banks and to other lenders (note 34 bis)

Payables to banks and other lenders include EUR 490.7 million relating to the Banca Intesa San Paolo loan recorded on the basis of the IAS "amortised costs" approach, in addition to EUR 18.6 million of bank payables pertaining to the Italian subsidiary (including EUR 5.5 million of financial payables to factoring companies for the factoring, by some suppliers, of their receivables to Tiscali) and EUR 0.6 million of bank payables of the holding company Tiscali S.p.A..

The increase of EUR 333.8 million in payables to banks was attributable to the following changes:

1) reclassification of the entire amount of the "Secured Bridge facility" and "Credit Facility" loans for EUR 439.6 million (nominal EUR 450 million) at 31 December 2008 from medium/long-term payables to short-term payables, on a consistent basis with the standstill request until and with the process for re-negotiating the debt underway, in relation to which please see the sections *Events subsequent to the end of the year* on page 38 and *Assessment of the business as a going-concern and business outlook and prospects* on page 39;

2) use of an additional EUR 51.1 million relating to the RCF loan (nominal EUR 50 million);

3) reimbursement of the right issuance bridge facility for EUR 150.2 million (nominal EUR 150 million) using the proceeds deriving from the share capital increase carried out in February 2008;

4) decrease in other short-term bank payables for EUR 6.7 million.

With respect to the original EUR 650 million loan from Banca Intesa JP Morgan, the following is indicated:

a) EUR 150 million ("Right Issuance Bridge Facility") was repaid using the proceeds from the share capital increase concluded in February 2008;

b) EUR 400 million ("Senior Secured Bridge Facility"), as envisaged by the contractual clauses, was transformed from a bridging loan into a long-term payable maturing on 13 September 2014.

c) the credit facility of EUR 50 million already disbursed falls due in September 2011, while the additional EUR 50 million ("Revolving Credit Facility"), falls due in 2009.

The loans have a floating rate linked to the Euribor and a cost, taking into account the spreads and the commission, which varies according to the structural features of said loan and, therefore, the various tranches indicated previously. The margin with respect to the Euribor for said loan is currently estimable in 500 base points, with the exclusion of the tranche relating to the envisaged share capital increase, already reimbursed.

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

The loan also envisages positive and negative type commitments (so-called general covenants), usual in this type of funding, including the following which are of significance: the limits placed on the further financial indebtedness of the Tiscali Group, the disbursement of dividends, the granting of secured guarantees and the extraordinary activities, such as acquisitions and disposals.

The afore-mentioned limits are such that they do not involve significant restrictions to the Group's ordinary operations. The loan agreement is also assisted by a pledge on the shares of Tiscali Group operating subsidiaries and on the Tiscali brand name.

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

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

Loan	Amount and use	Duration	Financial backer	Borrower	Obligatory early repayment	Financial and non-financial covenants	Guarantees
Senior Secured Bridge Facility Agreement	EUR 400 million to be used for financing the acquisition of Pipex, the associated costs and for the repayment of Tiscali's debt and that of certain of its subsidiaries	13 September 2007- 13 September 2014.	JP Morgan Chase Bank N.A. Intesa Sanpaolo S.p.A. – London Branch	Tiscali UK Holdings Ltd, wholly-owned subsidiary of Tiscali SpA	In the event of change of control In the event of extraordinary or compensation transactions In the event of notification of unlawfulness of contractual obligations	These include limitations such as the payments, asset disposals, intercompany payables, the payment of dividends, on the transfer of assets (also infraGroup) to the payment of other payables in Financial covenants (Debt Service Cover Ratio, Net debt/Adjusted EBITDA and Adjusted EBITDA/Net interest	On the assets and on the shares of the Group companies which are also guarantors of the loan
Credit Facility	EUR 50 million	13 September 2009 – 31 December 2011	Intesa Sanpaolo S.p.A. – London Branch	Tiscali UK Holdings Ltd, wholly-owned subsidiary of Tiscali SpA	In the event of change of control In the event of extraordinary or compensation transactions In the event of notification of unlawfulness of contractual obligations	These include limitations such as the payments, asset disposals, intercompany payables, the payment of dividends, on the transfer of assets (also infraGroup) to the payment of other payables in Financial covenants (Debt Service Cover Ratio, Net debt/Adjusted EBITDA and Adjusted EBITDA/Net interest	On the assets and on the shares of the Group companies which are also guarantors of the loan
Revolving Credit Facility	EUR 50 million to be used for financing the working capital in Italy / UK	December 2011	JP Morgan Chase Bank N.A. Intesa Sanpaolo S.p.A. – London Branch	Tiscali UK Holdings Ltd, wholly-owned subsidiary of Tiscali SpA	In the event of change of control In the event of extraordinary or compensation transactions In the event of notification of unlawfulness of contractual obligations	These include limitations such as the payments, asset disposals, intercompany payables, the payment of dividends, on the transfer of assets (also infraGroup) to the payment of other payables in Financial covenants (Debt Service Cover Ratio, Net debt/Adjusted EBITDA and Adjusted EBITDA/Net interest	On the assets and on the shares of the Group companies which are also guarantors of the loan

ADSL subscribers

2.3

(mln)

Payables for finance leases (note 35)

Payables for finance leases refer to the short-term portion of payables due to leasing companies for finance lease agreements. For further details, see the related note.

Payables to suppliers (note 36)

EUR (000)	31.12.2008	31.12.2007
Payables to suppliers	268,899	239,127
Total	**268,899**	**239,127**

Payables to suppliers refer to trade payables for the supply of services such as contents, telephone traffic and data traffic. The increase when compared with the previous six-month period is mainly attributable to payables for the acquisition of sites for the unbundling network of the Italian and UK subsidiaries

The balance also includes EUR 10.4 million for the purchase of IRU (Indefeasible Rights of Use) concerning investments for the unbundling project.

As indicated in the commentary on business continuity on page 76, the Group is renegotiating a repayment plan with its main suppliers both in the UK and in Italy aimed at guaranteeing the financial balance of the Company. These plans, still being defined, fall within the process for the suspension of the payments already started with the Group's main financial institutions.

Other current liabilities (note 37)

EUR (000)	31.12.2008	31.12.2007
Accrued expenses	45,984	76,927
Deferred income	61,215	65,269
Other payables	41,567	29,319
Total	**148,765**	**171,515**

Accrued expenses include EUR 41.4 million relating to operating expenses, such as costs for contents, costs for network access, costs for professional consulting and costs for line rentals.

Deferred income mainly refers to the deferral of the capital gain on disposal relating to the sale & lease back transaction on the Sa Illetta property, amounting to around EUR 27.6 million (which will be released in portions over 15 years corresponding to the duration of the lease agreement), deferrals on IRU sales contracts for around EUR 16.8 million and other deferrals on portions of revenues, not pertaining to the period, for the activation of broadband (ADSL) services (deferred over a time span of 12 months) mainly relating to the Italian subsidiary.

The item other payables mainly includes payables due to the tax authorities (VAT in the first instance) and due to social security and welfare institutions for a total of EUR 18.7 million, together with payables due to employees totalling EUR 21.1 million and other payables for the residual balance. Payables to employees include around EUR 11 million in payables due to directors of the UK subsidiaries following the conversion of the stock options into a cash bonus during 2008.

Financial instruments

Financial risk management objectives

The Group's Corporate Treasury division provides business services, co-ordinates access to the local and international financial markets, and monitors and handles the financial risk associated with Group operations by means of internal risk reports which analyze the exposures by degree and magnitude of the risk. These risks include market risks (inclusive of currency risks, fair value interest rate risks and price risks), credit risks and risks in cash flow interest rates.

The use of financial derivatives is disciplined by policies approved by the Board of Directors, which provides written principles on foreign exchange risks, interest rate risks, credit risks, on the use of financial derivatives and non-derivative financial instruments, and the investment of surplus liquidity.

Market risk

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

Handling of the foreign exchange risk

Analysis of foreign currency sensitivity
The currency of the Group's consolidated financial statements is Euro. Furthermore, it concludes and will continue to conclude transactions in currencies other than Euro, mainly GBP, and is therefore exposed to the risk of fluctuations in exchange rates between the various currencies. At 31 December 2008, the sales revenues of the Group expressed in GBP and converted into Euro generated by activities in the UK came to 69% of total sales revenues. Changes in the value of the exchange rate between the Euro and GBP could reveal a change in the conversion reserve on the consolidated shareholders' equity of Tiscali S.p.A.. At 31 December 2008, the Company had no transactions hedging the exchange rate risk outstanding.

The following table shows the sensitivity to changes - reasonably possible in the GBP exchange rate, maintaining all the other variables the same - of the pre-tax profit (due to changes in the fair value of the current assets and liabilities) and the Group's shareholders' equity (due to changes in the fair value of the forward agreement on exchange rates and in the hedging of net investment in foreign operations):

(EUR 000)	Increase/decrease in percentage points GBP	Effect on profit net of taxes	Effect on equity
2008	+5%	20	59
	-5%	(15)	(58)
2007	+5%	3	47
	-5%	(3)	(52)

Risk management linked with interest rates

The Tiscali Group is exposed to the risk of fluctuations in the interest rate since its outstanding financial debt is mainly floating rate. At 31 December 2008, the net financial debt came to EUR 616.4 million, entirely floating rate. The Tiscali Group puts together transactions hedging the interest rate risk by means of interest rate swap contracts. At 31 December 2008, such hedging concerned EUR 262.5 million in medium/long-term floating rate bank debt. The net debt at 31 December 2008 amounted to EUR 490.7 million.

In the event of a rise in the interest rates, the following could increase: (i) the financial charges payable by the Company relating to part of the debt not hedged and (ii) the costs of any refinancing of the debt, with possible negative effects on the assets and on the economic, equity and financial situation of the Group companies.

If the interest rates changed by more or less 50 basis points, and all the other variables remained the same, interest for the Group for the year ended 31 December 2008 would have increased/decreased by around EUR 0.8 million. The analysis is carried out on the portion of debt not hedged by IRS agreements.

Handling of the liquidity risk

The following tables consider the maturity of the financial investments for the next five years with indication in particular of the amounts to be paid to the leading banks during 2009.

31 December 2008 EUR (000)	Book value	Outgoing cash flows	Less than 1 year	Between 1 and 5 years	More than 5 years
Secured bank loans	490,767	719,221	109,286	186,623	427,312
Convertible notes	-	-	-	-	-
Unsecured bank facility	30,743	44,522	515		44,007
Trade and other payables	396,384	418,949	312,097	87,817-	19,034-
Bank overdraft	19,245	19,245	19,245	-	-

31 December 2007 EUR (000)	Book value	Outgoing cash flows	Less than 1 year	Between 1 and 5 years	More than 5 years
Secured bank loans	596,700	906,031	203,509	227,283	475,238-
Convertible notes	43,842	80,250		80,250	
Unsecured bank facility	33,669	33,669	-	3,583	30,085
Trade and other payables	389,253	389,253	389,253	-	-
Bank overdraft	25,973	25,974	25,974	-	-

Financial instruments

Fair Value
The following tables show the valuations respectively at 31 December 2008 and at 31 December 2007, of the fair value relating to the financial instruments present as of the balance sheet date:

31.12.2008 (EUR 000)	Book value	Fair Value
Secured Bank Loans	590,623	458,533
Convertible bond	-	-
Unsecured Bank Facility	30,743	32,463
Finance Lease Liabilities	94,516	60,440
IRS	9,527	9,527
VNL deferred consideration	71,275	71,275

31.12.2007 (EUR 000)	Book value	Fair Value
Secured Bank Loans	596,700	607,231
Convertible bond	43,842	43,842
Unsecured Bank Facility	33,669	28,300
Finance Lease Liabilities	98,969	95,525
IRS	-	-
VNL deferred consideration	93,904	93,904

The fair value of the financial instruments as indicated above has been determined using the discounted cash flow method and taking as reference the market interest rates, uplifted by the contractual spreads (where applicable)

Derivative instruments

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

At 31 December 2008, the value of the IRS presented a negative balance of EUR 9.5 million. This amount was recorded in the income statement under financial income and charges. In accordance with the accounting nature of trading instruments pertaining to the IRS lacking the preparation of the formal documentation envisaged by IAS 39 for its accounting classification as a hedging instrument.

Stock Options

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

The plan envisaged the allocation:

- to the Chief Executive Officer, of 3,593,143 options for the purchase of the same amount of ordinary shares in the Company, deriving from purchases of treasury shares which the Company purchased on the market in compliance with Article 2357 of the Italian Civil Code and on the basis of the authorization granted by the shareholders' meeting. The exercise of these options was dependent on the achievement of the performance objectives linked to the budget established by the Board of Directors, involving 40% with reference to the objectives established for 2006, which are understood to have been achieved, and the remaining 60% with reference to the objectives established for 2007. Please note that, as a consequence of the resignation of the Chief Executive Officer, Tommaso Pompei, on 28 February 2008 the afore-mentioned options have been considered as exercisable for the entire amount in accordance with the terms envisaged by the regulations. As envisaged by IFRS 2, section 28 this transaction was considered as an early accrual;

- to the employees, of up to a maximum of 4,244,131 options for the subscription of the same amount of newly-issued ordinary shares in the Company, deriving from the share capital increase reserved in accordance with Article 2441.8 of the Italian Civil Code resolved by the shareholders' meeting.

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

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

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

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

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

The plan described above, intended for the Italian management of the Tiscali Group, runs alongside the plan of payments based on shares resolved in October 2007 for the UK management of the Group. This plan envisages the allocation to 20 UK managers of a number of options, convertible into shares of the subsidiary Tiscali UK Ltd., not exceeding 5% of the share capital of said company, net of dilution. The exercise price of the options has been established on the basis of the equity value of the UK subsidiary. During August, the options assigned to UK management have been converted into a cash bonus recorded under other payables at 31 December 2008.

Ongoing disputes, contingent liabilities and commitments

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

On-going disputes

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

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

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

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

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

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

KPNQWest Bankruptcy dispute
The subsidiary Tiscali International Network BV is involved in a dispute furthered by the receivership of the company KPNQWest Bankruptcy, a joint venture formed between the Dutch KPN and the US Qwest, currently in liquidation. The dispute, which arose in previous years, concerns a 5-year IRU agreement entered into between Tiscali International Network BV and KPNQWest, which envisaged the payment by the former of an amount of EUR 3.1 million for the performance of services by the second. Following the liquidation of KPNQWest, the provision of services was interrupted after only 5 months and Tiscali International Network BV received and recorded invoices for the sum of EUR 1.5 million. KPNQWest has demanded payment of the entire amount stipulated in the agreement.

Tiscali in turn objected to a demand for payment of this amount given the damages sustained from interruption of the service. On 17 March 2006, Citybank (acting as liquidator of KPNQwest) filed a precautionary attachment request for a value of around EUR 5 million on the bank current accounts of Tiscali International Network BV which did not bring about any significant result.

By means of provision in August 2008, the Rotterdam Court ordered Tiscali to pay an amount of US$ 1,318,720.80 plus interest and related charges. This amount reflects the first of the three instalments envisaged in the IRU agreement. Given the essentially positive outcome of the trial, Tiscali complied with the ruling which became final in November 2008 further to failure by the parties to appeal. The main dispute has therefore definitively concluded.

Mobistar dispute
The indirect subsidiary, Tiscali International BV, is involved in a dispute furthered by the company Mobistar NV (a Wanadoo Group company) in June 2006. The dispute concerns the termination by Wanadoo Belgium of a dial-in traffic termination agreement with Mobistar NV, following the acquisition in Spring 2003 by Tiscali Belgium of 100% of Wanadoo Belgium's shares. The contract for the sale of the Wanadoo Belgium shares between Wanadoo SA and Tiscali Belgium envisaged the possibility of early termination of the Contract, a circumstance also confirmed by Tiscali's legal advisors. Mobistar however opposed this early termination. Subsequently, Tiscali Belgium sold Wanadoo Belgium to Scarlet. On the basis of the contract for the sale of the Wanadoo Belgium shares by Tiscali Belgium to Scarlet, Tiscali is responsible vis-à-vis Scarlet for Mobistar claims with reference to the termination of the Contract. Tiscali has brought before the courts (i) Wanadoo SA – responsible in accordance with the contract for the sale of the Wanadoo Belgium shares to Tiscali Belgium, (ii) the legal advisors for the purchase transaction – who issued an erroneous opinion on the possibility of terminating the Contract - and (iii) the respective insurance company.

The *petitum* amounts to €4 million, nevertheless the Tiscali believes that the same should be reduced (i) by around €1 million on the basis of the correct interpretation of the Contract, (ii) by a further amount, since the summons before the court of Wanadoo and the legal advisors by Tiscali should at least minimize the profile of responsibility of the latter. During this initial stage of the proceedings, Tiscali believes that it is in no way responsible; however, given the complexity of the dispute and the number of parties involved, a forecast with regards to the possible outcome emerges as complex. Despite the fact that the possibility of reaching an agreement on the dispute has been outlined, involving the payment of approximately EUR 400.000, Tiscali intends to hold out in the court case, unless the negotiations currently underway conclude favourably. In the financial statements at 31 December 2008, Tiscali International BV had not set aside provisions.

Ecotel Communication AG/Tiscali
On 19 October 2007, Ecotel Communication AG (Ecotel) - the company to which the Tiscali Group during the first half of 2007 transferred its German B2B activities for around EUR 18.5 million - sent Tiscali a letter by means of which – in relation to the purchase/sale contract stipulated with Tiscali Business GmbH on 3 February 2007 and signed by Tiscali in its capacity as guarantor – it challenged the company that certain income values pertaining to the activities acquired were not correctly represented during the negotiations and in the related purchase agreement and requested the Company to launch an independent appraisal into these values. Therefore, as a consequence of the alleged deviation from the real values, Ecotel assumes that it has suffered a loss during its activities, whose effective total it estimates as coming to at least EUR 15 million. The Company has fully disputed the contents of the letters. In agreement with the arbitration clause present in the contract for the sale of the German activities, on 21 April 2008 Ecotel launched arbitration proceedings, summoning Tiscali Business Gmbh and Tiscali as jointly and severally bound. Ecotel requests compensation for the damages suffered estimated as totalling EUR 15.2 million plus any additional damages and other related charges. Tiscali and Tiscali Business Gmbh have made their statement of action, disputing the charges. The arbitration proceedings will take place in Frankfurt (Germany) and are estimated to last around 24 months.
The Company deems Ecotel Communication AG's requests to be lacking grounds, therefore the Company has not made any provision in the financial statements for this dispute.

Tax assessments

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

Segment reporting (by country and business segment)

The activities of the Tiscali Group and the related strategies, as well as the underlying activities linked to head office control, are structured and defined by geographic area, which therefore represents the primary segment for the purposes of information by business sector, as required by IAS 14. The geographic areas are represented in particular by:

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

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

Double play Clients

1,073,000

Income statement

31.12 2008 EUR (000)	Italy	United Kingdom	Other	Corporate	HFS/ Discontinued	Cancellation adjustments	Total
Revenues							
From third parties	295,734	672,256	1,684	13,949	31,361	(31,361)	983,623
Intra-group	17,769	11,376	-	16,733	7,042	(52,920)	-
Total revenues	**313,504**	**683,632**	**1,684**	**30,682**	**38,403**	**(84,282)**	**983,623**
Operating result	**(17,362)**	**(88,614)**	**3,200**	**(3,297)**	**(4,453)**	**10,622**	**(99,905)**
Portion of results of equity investments carried at equity							**(101)**
Net financial income (charges)							(96,468)
Pre-tax result							(196,474)
Income taxes							(64,884)
Net result from operating activities (on-going)							(261,358)
Result from assets disposed of and/or destined to be disposed of							(9,732)
Net result							(271,090)

31.12 2007 EUR (000)	Italy	United Kingdom	Other	Corporate	HFS/ Discontinued	Cancellation adjustments	Total
Revenues							
From third parties	273,355	593,481	-	16,279	94,281	(94,281)	883,115
Intra-group	18,659	15,266	-	15,654	5,742	(55,321)	-
Total revenues	**292,014**	**608,748**	**-**	**31,932**	**100,023**	**(149,602)**	**883,115**
Operating result	**(2,369)**	**(54,238)**	**15**	**(17,277)**	**4,177**	**(5,247)**	**(74,939)**
Portion of results of equity investments carried at equity							**(10)**
Net financial income (charges)							(90,519)
Pre-tax result							(165,468)
Income taxes							17,525
Net result from operating activities (on-going)							(147,944)
Result from assets disposed of and/or destined to be disposed of							72,619
Net result							(75,324)

Balance Sheet

31.12 2008 EUR (000)	Italy	United Kingdom	Other	Corporate	HFS/ Discontinued	Cancellation adjustments	Total
Activities							
Segment assets	384,098	293,835	5,781	24,115	60,472	(60,472)	764,624
Equity investments carried at equity	33	-	-	-	-	-	33
Equity investments in other companies	2,332	-	-	-	14	(14)	2,332
Goodwill	-	438,824	-	-	-	-	438,824
Total consolidated assets	**386,463**	**732,660**	**5,781**	**24,115**	**60,486**	**(60,486)**	**1,205,817**
Liabilities							
Segment liabilities	347,951	762,929	12,192	55,268	22,274	(22,274)	1,178,340
Total consolidated liabilities	**347,951**	**762,929**	**12,192**	**55,268**	**22,274**	**(22,274)**	**1,178,340**

31.12 2007 EUR (000)	Italy	United Kingdom	Other	Corporate	HFS/ Discontinued	Cancellation adjustments	Total
Activities							
Segment assets	369,264	530,588	72,839	109,744	-	-	1,082,434
Equity investments carried at equity	2,465	-	-	-	-	-	2,465
Equity investments in other companies	-	-	-	20	-	-	20
Goodwill	-	515,022	-	-	-	-	515,022
Total consolidated assets	**371,729**	**1,045,610**	**72,839**	**109,764**	**-**	**-**	**1,599,941**
Liabilities							
Segment liabilities	332,673	887,405	43,650	129,175	-	-	1,392,902
Total consolidated liabilities	**332,673**	**887,405**	**43,650**	**129,175**	**-**	**-**	**1,392,902**

Assets by business segment

31.12 2008	Access		Voice	Business	Media & Vas	Unallocated	Total
EUR (000)	Broadband	Narrowband		services			
Goodwill	-	-	-	-	-	438,824	438,824
Intangible assets	119,028	1,392	44,446	67	1,130	73,045	191,931
Properties, plant and machinery	189,512	3,989	3,779	1,426	37	33,545	232,288
Equity investments	-	-	-	-	-	33	33
Other financial assets	-	-	-	-	-	17,313	17,313
Deferred tax assets	-	-	-	-	-	10,507	10,507
	308,540	**5,381**	**48,225**	**1,492**	**1,167**	**573,268**	**890,896**
Current assets							
Inventories	4,872	-	-	1,727	-	281	6,880
Receivables from customers	84,607	10,261	61,321	5,613	8,670	6,348	176,819
Other receivables and other current assets	23,440	824	8,190	-	-	14,341	46,794
Other current financial assets	-	-	-	-	-	3,430	3,430
Cash and cash equivalents	-	-	-	-	-	24,202	24,202
	112,919	**11,084**	**69,510**	**7,340**	**8,670**	**48,602**	**258,125**
Assets held for sale	-	-	-	-	-	56,795	56,795
Total Assets	**421.459**	**16.4659**	**117.736**	**8,832**	**9,837**	**631,488**	**1,205,817**

31.12 2007	Access		Voice	Business	Media & Vas	Unallocated	Total
EUR (000)	Broadband	Narrowband		services			
Goodwill	-	-	-	4,390	-	510,632	515,022
Intangible assets	129,511	44	10,479	29,276	23	116,711	286,042
Properties, plant and machinery	215,299	2,180	19,022	13,746	-	22,014	272,260
Equity investments	-	-	-	780	-	1,685	2,465
Other financial assets	-	-	-	76	-	28,193	28,269
Deferred tax assets	-	-	-	-	-	106,634	106,634
	344,809	**2,223**	**29,500**	**48,267**	**23**	**785,869**	**1,210,692**
Current assets							
Inventories	-	-	-	-	-	10,756	10,756
Receivables from customers	75,668	8,715	44,888	15,306	9,962	9,912	164,452
Other receivables and other current assets	26,679	1,987	10,872	2,411	2,190	27,514	71,652
Other current financial assets	-	-	-	-	-	8,158	8,158
Cash and cash equivalents	-	-	-	4,210	-	130,022	134,231
	102,347	**10,702**	**55,759**	**21,927**	**12,152**	**186,361**	**389,249**
Assets held for sale							
Total Assets	**447,156**	**12,925**	**85,260**	**70,194**	**12,175**	**972,230**	**1,599,941**

Investments in fixed assets by business segment

31.12 2008	Access		Voice	Business	Media & Vas	Unallocated	Total
EUR (000)	Broadband	Narrowband		services			
Intangible assets	73,169	1,408	25,256	30	511	12,621	112,994
Properties, plant and machinery	49,156	1,859	542	205	5	9,540	61,308
	122,325	**3,267**	**25,798**	**235**	**516**	**22,161**	**174,302**

31.12 2007	Access		Voice	Business	Media & Vas	Unallocated	Total
EUR (000)	Broadband	Narrowband		services			
Intangible assets	79,222	645	5,630	7,954	-	9,860	103,311
Properties, plant and machinery	70,687	23	5,464	908	12	13,088	90,183
	149,909	**668**	**11,094**	**8,862**	**12**	**22,949**	**193,494**

Commitments and other guarantees

A breakdown of guarantees given during 2008 is shown in the table below.

EUR (000)	31.12.2008	31.12.2007
GUARANTEES GIVEN TO THIRD PARTIES		
Sureties	687,527	802,127
	687,527	**802,127**
OTHER MEMORANDUM ACCOUNTS		
Commitments	6,964	8,376
	6,964	**8,376**
Total	**694,491**	**810,503**

Transactions with related parties

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

Dealings with other related parties
During the year, the Tiscali Group had a number of dealings with related parties, under conditions considered normal on the respective reference markets, taking into account the characteristics of the goods and services provided
The table below summarises the balance sheet and income statement values recorded in the Tiscali Group's consolidated financial statements at 31 December 2008 arising from transactions with related parties.
The most significant balances, at 31 December 2008, summarized by supplier of the services, are as follows:

INCOME STATEMENT VALUES	Notes	31.12.2008	31.12.2007
EUR (000)		Group	Group
Shardna	1	0	0
Interoute	2	(1,621)	(557)
Leadsatz GmbH	3	(100)	(620)
Bizzarri Francesco	4	0	(69)
Borghesi e Colombo Associati Srl	5	0	(770)
Studio Racugno	6	(69)	(59)
TOTAL SUPPLIERS OF MATERIALS AND SERVICES		**(1,790)**	**(2,075)**
Andalas SA	7	(2,747)	(1,934)
TOTAL		**(4,538)**	**(4,009)**

BALANCE SHEET VALUES	Notes	31.12.2008	31.12.2007
EUR (000)		Group	Group
Shardna	1	331	331
Interoute	2	(948)	(76)
Leadsatz GmbH	3	(60)	(7)
Bizzarri Francesco	4	(37)	(25)
Borghesi e Colombo Associati Srl	5	0	(270)
Studio Racugno	6	(27)	(23)
TOTAL SUPPLIERS OF MATERIALS AND SERVICES		**(741)**	**(70)**
Andalas SA	7	(30,228)	(30,086)
TOTAL		**(30,970)**	**(30,156)**

1) *Shardna S.p.A.* company invested in by the majority shareholder Renato Soru. The dealings, maintained by the Parent Company, relate to the sub-letting of the Tiscali offices in the suburbs of Cagliari.
2) *Interoute*: group entirely owned by the Sandoz Family Foundation, a Tiscali shareholder. The costs incurred during the year refer to purchases made by Tiscali Italia S.p.A. in relation to dark fibre and related maintenance.
3) *Leadsatz GmbH*: a company with whom an outsourcing agreement has been entered into for the Portal area of the German companies sold off. Mr. J. Maghin, director of Leadsatz GmbH was also, during 2007, a minority shareholder of Ishtari Gmbh (a company invested in by Tiscali Deutschland Gmbh).
4) *Mr. F. Bizzarri*: member of Tiscali Spa's Board of Directors, has stipulated an IPTV consultancy contract with the Parent Company and with the subsidiary Tiscali Italia S.p.A..
5) *Studio Borghesi e Colombo Associati Srl*: the director Arnaldo Borghesi, member of Tiscali S.p.A.'s Board of Directors, up until 25 February 2009 provided Tiscali S.p.A. with consultancy services as part of extraordinary finance transactions.
6) *Studio Racugno*: the director Gabriele Racugno, member of Tiscali S.p.A.'s Board of Directors, up until 29 February 2008 provided Tiscali Italia S.p.A. and Tiscali Service S.p.A. with legal and out-of-court assistance mainly concerning financial and intellectual property contractual matters.
7) As indicated in the explanatory notes, the shareholder *Andalas Limited* granted a loan in 2004 bearing interest at market rates. The loan agreement explicitly envisages subordination with respect to the other debts of the Tiscali Group.

Remuneration of the Directors, Statutory Auditors and Executives with strategic responsibility

The 2008 remuneration due to the directors and statutory auditors of Tiscali SpA in relation to the performance of their functions, in the Parent Company and in other consolidated companies, is presented below:

EUR (000)	2008	2007
Directors	5,994	1,977
Board of Statutory Auditors	188	202
Total remuneration	**6,182**	**2,179**

The total value of the cost incurred in 2008 for the remuneration due to executives with strategic responsibility amounted to EUR 5.8 million. This liability includes the following amounts:

- the figurative cost of the stock option plans granted to a number of Group executives for EUR 2 million;
- the Group's contributions to public and corporate welfare funds for EUR 0.4 million.

List of subsidiaries included in the consolidation area

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

Company name	Country	Investment%
Tiscali S.p.A. Italia		
Quinary S.p.A.	Italy	85.0%
Tiscali Italia S.p.A.	Italy	100.0%
Tiscali Media S.r.l.	Italy	100.0%
Energy Byte S.r.l. (in liquidation)	Italy	100.0%
Tiscali Motoring S.r.l. (in liquidation)	Italy	60.0%
Tiscali Finance Sa	Luxemburg	100.0%
Tiscali Finance Service SA	Luxemburg	100.0%
Tiscali Deutschland Gmb	Germany	100.0%
Tiscali GmbH	Germany	100.0%
Tiscali Verwaltungs Gmbh	Germany	100.0%
Tiscali Business Solution GmbH & Co KG	Germany	100.0%
World Online International Nv	The Neterlands	99.5%
Tiscali International Bv	The Neterlands	99.5%
Tiscali B.V.	The Neterlands	99.5%
World Online Portal BV.	The Neterlands	99.5%
Myt Vision Bv	The Neterlands	99.5%
Xoip BV	The Neterlands	99.5%
Tiscali Media Service BV	The Neterlands	99.5%
Wolstar B.V. in liq.	The Neterlands	49.7%
Tiscali Partner B.V.	The Neterlands	99.5%
12 Move Vof	The Neterlands	99.5%
Tiscali Finance BV	The Neterlands	99.5%
Tiscali International Network B.V.	The Neterlands	99.5%
Tiscali International Network S.p.A	Italy	99.8%
Tiscali International Network SA (in liquidation)	France	99.5%
Tiscali International Network SAU (in liquidation)	Spain	99.5%
Tiscali International Network GmbH	Germany	99.5%
Tiscali International Network Ltd	UK	99.5%
Tiscali International Network USA	USA	99.5%
Green Dot Property Man Ltd	UK	99.5%
World Online Ltd.	UK	99.5%
World Online Telecom Ltd.	UK	99.5%
Tiscali Holdings UK Ltd	UK	99.5%
Tiscali Uk Ltd	UK	86.3%
Tiscali Network Distribution Ltd	UK	86.3%
Video Network Ltd	UK	86.3%
VNL Sports Ltd	UK	86.3%
Pipex UK Holdings Ltd	UK	86.3%
Switch 2 Telecom Ltd	UK	86.3%
Toucan Residential Ireland Ltd	UK	86.3%
Toucan Residential Ltd	UK	86.3%
Pipex UK Ltd	UK	86.3%
Homecall Payment Serv Ltd	UK	86.3%
Pipex InternetLtd	UK	86.3%
Freedom 2 Surf Ltd	UK	86.3%
Freedom 2 Surf Registr Serv Ltd	UK	86.3%
Pipex Broatband Ltd	UK	86.3%
Higwai One Ltd	UK	86.3%
Pipex Networks Ltd	UK	86.3%
Freedom 2 Serf Cons. Serv. Ltd	UK	86.3%
Accent UK Ltd	UK	86.3%
Nildram Ltd	UK	86.3%
Trinite Ltd	UK	86.3%
Trinite Services Ltd	UK	86.3%
Pipex Comm. Serv. Ltd	UK	86.3%
GX Network Twelve Ltd	UK	86.3%
Homecall (UK) Ltd	UK	86.3%
Tiscali Business UK Ltd	UK	99.5%
Tiscali Business GmbH	Germany	99.5%
Tiscali Espana SA (in liquidation)	Spain	99.5%

List of equity investments carried at equity

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

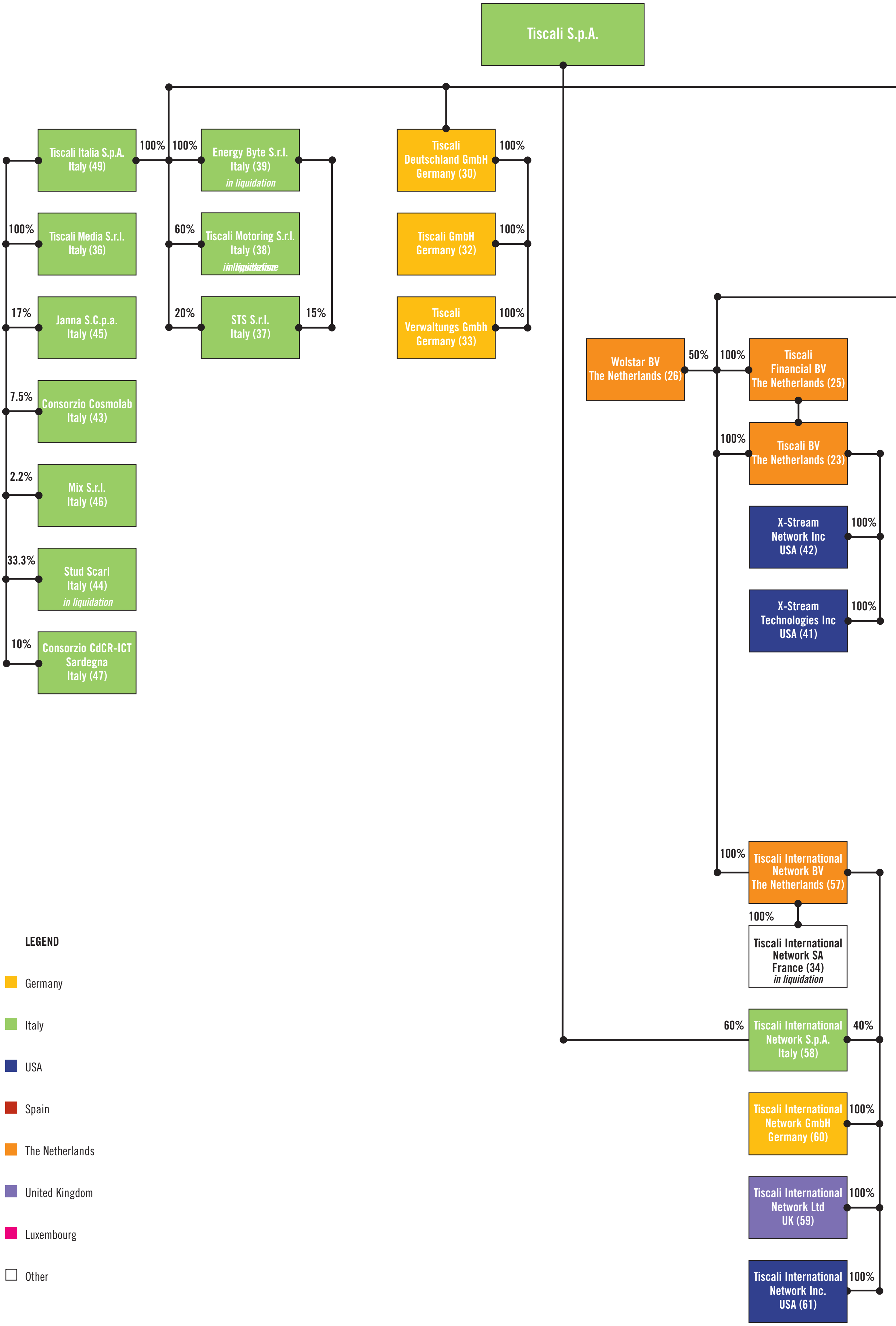
List of equity investments in other companies carried at cost

Company name	Country
Mix S.r.l.	Italy
Janna S.c.p.a.	Italy
Consorzio CdCR-ICT	Italy
Consorzio Cosmolab	Italy
X-Stream Netwok Inc	USA
X-Stream Netwok Tecnologies Inc	USA
World Online Poland Sp Z.O.O.	Poland

Double play revenues

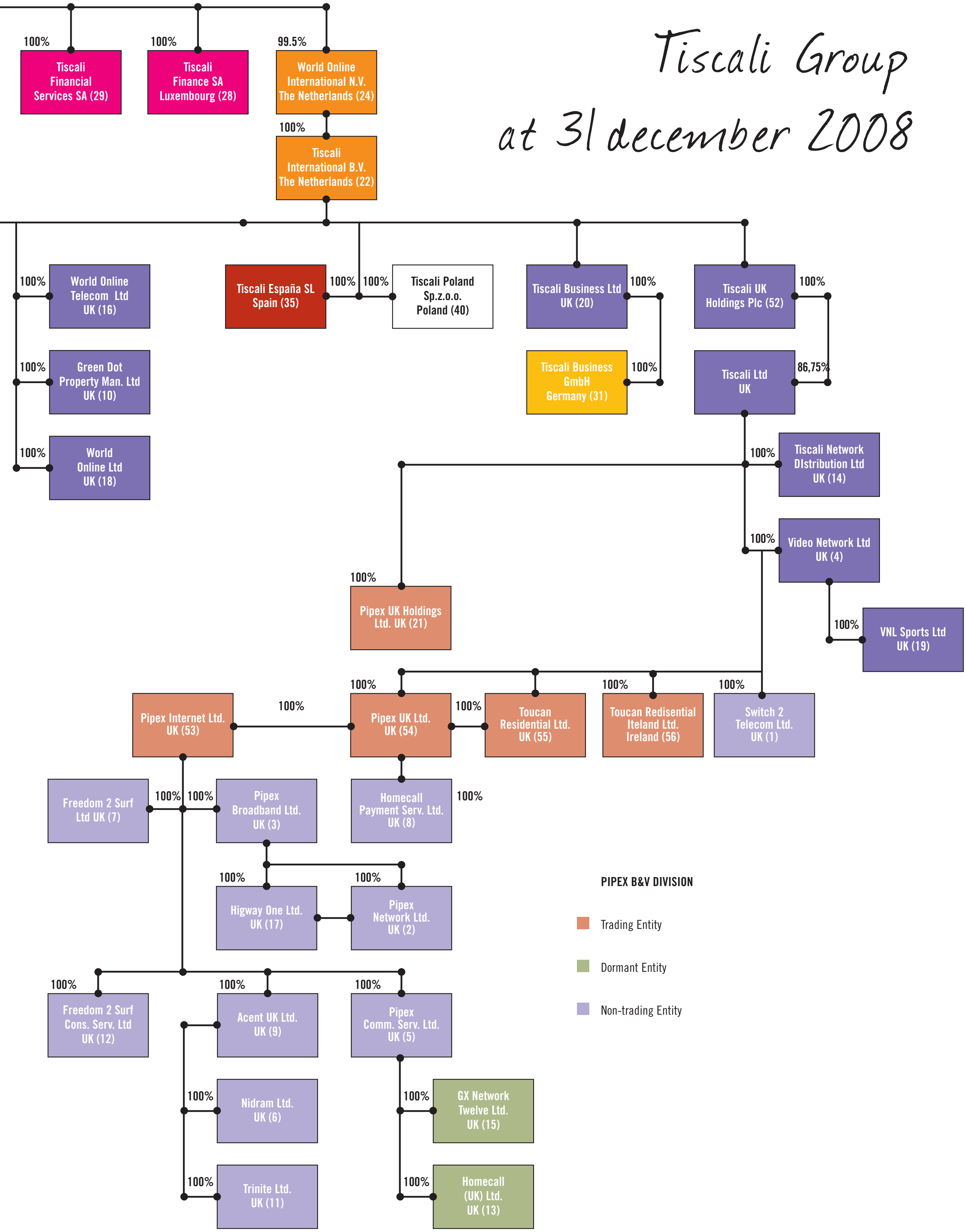
121.2

EUR (mln)



Tiscali S.p.A.
Tiscali Italia S.p.A. Italy (49)
100%
100%
Energy Byte S.r.l. Italy (39) in liquidation
100%
Tiscali Media S.r.l. Italy (36)
60%
Tiscali Motoring S.r.l. Italy (38)
17%
Janna S.C.p.a. Italy (45)
20%
STS S.r.l. Italy (37)
15%
7.5%
Consorzio Cosmolab Italy (43)
2.2%
Mix S.r.l. Italy (46)
33.3%
Stud Scarl Italy (44) in liquidation
10%
Consorzio CdCR-ICT Sardegna Italy (47)
Tiscali Deutschland GmbH Germany (30)
100%
Tiscali GmbH Germany (32)
100%
Tiscali Verwaltungs Gmbh Germany (33)
100%
Wolstar BV The Netherlands (26)
50%
100%
Tiscali Financial BV The Netherlands (25)
100%
Tiscali BV The Netherlands (23)
X-Stream Network Inc USA (42)
100%
X-Stream Technologies Inc USA (41)
100%
100%
Tiscali International Network BV The Netherlands (57)
100%
Tiscali International Network SA France (34) in liquidation
60%
Tiscali International Network S.p.A. Italy (58)
40%
Tiscali International Network GmbH Germany (60)
100%
Tiscali International Network Ltd UK (59)
100%
Tiscali International Network Inc. USA (61)
100%
LEGEND
Germany
Italy
USA
Spain
The Netherlands
United Kingdom
Luxembourg
Other

Tiscali Group at 31 december 2008



Non-recurrent significant events and transactions

2008 saw the continuation of the integration and reorganization of the Pipex division acquired in September 2007. Business restructuring activities involved costs of around EUR 32 million

Furthermore, on 22 December 2008 the Board of Directors approved the restructuring plan for the Italian companies.

Positions and transactions deriving from atypical and/or unusual operations

There were no positions or transactions deriving from atypical and/or unusual operations during 2008.

Significant events to be reported after the end of the year

Luca Scano appointed as General Manager of Tiscali Italia

On 19 January 2009, the Company announced the appointment of Luca Scano as General Manager of Tiscali Italia S.p.A, reporting directly to Mario Rosso, Chief Executive Officer of Tiscali Italia and the parent company Tiscali S.p.A.. Luca Scano is also responsible for the role of Finance Director of the Italian subsidiary.

Reduction of the interest holding by Management & Capitali

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

Renewal of the voluntary incentive redundancy programme

On 27 January 2009, the Trade Union Organizations SLC-CGIL, FISTel-CISL and UILCOM-UIL renewed the agreement signed with the Company at the end of December, with the aim of achieving a further 60 incentive redundancies by the end of 2009.

Furthermore, as a result of transactions for internalizing activities, the Company has planned the re-location of 70 workers by means of professional mobility processes.

As of the date of approval of the financial statements, the initiative had led to the termination of another 47 permanent employment contracts (by means of voluntary incentive redundancy) for a total of 96 terminations and 36 collaboration agreements.

Agreement for the disposal of Tiscali International Network (TiNet)

On 3 February 2009, Tiscali, BS Private Equity SpA and BS Investimenti SGR announced that they had agreed the sale of the activities held by Tiscali International Network BV, a company controlled by Tiscali S.p.A., for a total Enterprise Value of around EUR 47 million, inclusive of a potential earn-out of EUR 7 million. Also subsequent to the acquisition, TiNet will continue to be the IP services supplier for the Tiscali Group.

Launch of the financial debt renegotiation process

Following examination of the main preliminary results for 2008 and the Group's financial position, as well as in light of the deterioration of the macro-economic conditions and the worsening of the competitive context in the sector, the Board of Directors assessed the need to prepare a new Business Plan and an associated Financial Plan which will permit the Group to launch a process aimed at restructuring the debt and guaranteeing financial balance over the long-term. In consideration of this and for the purpose of being able to avail of the timescale necessary for the preparation of said Plans, the Company requested the leading financing institutions to grant of period of suspension for the payment of interest, principal and financial covenants (standstill). In light of this request, on 10 March 2009, the Company suspended said payments, including those falling due in the same month. The Company has also specified that the route taken has the aim of renegotiating the financial debt with leading lending institutions, who are willing to negotiate, and that the business activities in Italy and the UK are proceeding regularly vis-à-vis both customers and suppliers.

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

The following table, drawn up in accordance with Article 149 *duodecies* of the Consob Issuers' Regulations, indicates the fees for 2008 for auditing services and those for other services provided by the independent auditing firm. There were no services provided by bodies belonging to its network.

EUR 000	Party providing the services	Beneficiary	Fees for 2008
Accounts auditing	Ernst & Young S.p.A.	Tiscali Spa	450
		Subsidiary companies	530
Certification services	Ernst & Young S.p.A.	Tiscali Spa	-
		Subsidiary companies	332
Other services*	Ernst & Young.	Tiscali Spa	-
		Subsidiary companies	46
Total			**1,358**

* Accounting support for the disposal of the UK subsidiaries

Milan, Italy, 27 March 2009

The Chief Executive Officer

Mario Rosso

The Executive appointed to draw up the Corporate Accounting Documents

Romano Fischetti

6.8 Consolidated financial statements certification in accordance with Article 81 ter of Consob Regulation No. 11971 dated 14 May 1999 and subsequent amendments and additions

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

- the adequacy in relation to the Company's characteristics;
- the effective application of the administrative and accounting procedures for the formation of the financial statements during 2008.

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

It is also hereby certified that the financial statements at 31 December 2008:

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

Milan, Italy, 27 March 2009

The Chief Executive Officer

Mario Rosso

The Executive appointed to draw up the corporate accounting documents

Romano Fischetti

7. Tiscali S.p.A.
2008 Financial Statements

7.1 Analysis of Tiscali S.p.A.'s economic, equity and financial position

Foreword

The statements presented below have been drawn up on the basis of the statutory financial statements at 31 December 2008, to which reference should be made. In this connection, note that the 2008 statutory financial statements represent the separate financial statements of the Parent Company Tiscali S.p.A. and have been prepared in observance of the International Accounting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as approved by the European Union, as well as the instructions issued by way of implementation of Article 9 of Italian Legislative Decree No. 38/2005. The IFRS are understood to include all the reviewed international accounting standards (IAS) and all the interpretations of the International Financial Reporting Interpretations Committee (IFRIC), previously known as the Standing Interpretations Committee (SIC).

Economic position

EUR (000)	31.12.2008	31.12.2007
Capital gains (losses) from equity investments	-	(156)
Value adjustments on equity investments (Other writedowns)	(954,696)	(15,423)
Net financial charges	(1,915)	(310)
Revenues from services and other income	17,425	15,462
Payroll and related costs, services and other operating costs	(24,275)	(20,540)
Other writedowns	(17,351)	(2,797)
Taxes	(263)	(77)
Result from assets disposed of and/or destined to be disposed of	(250)	-
Net result	**(981,324)**	**(23,842)**

Value adjustments on equity investments mainly comprise the writedown of the equity investment held in the company World Online International N.V equating to EUR 954 million.

Revenues from services mainly comprise (EUR 15.6 million) the fees contractually agreed deriving from 'Corporate' services to subsidiaries including the payments for licences to use the Tiscali trademark calculated as a percentage of the sales revenues generated by the Group companies using said trademark.

The item also includes revenues from third parties for EUR 12 million deriving from the partnership agreement with the search engine Google which flows in and is invoiced to the customer by the parent company. The portions of revenues pertaining to the Group companies are then remitted by the same with simultaneous recognition in the financial statement of the parent company of infraGroup costs amounting to EUR 12 million. Note that, in accordance with the matters laid down by the international accounting standards (IFRS), the value of these infraGroup costs is deducted from the pertinent revenues since they are adjusting items and for this reason the content of the item was reclassified in the previous year as well.

The most significant cost component was represented by payroll and related costs, which amounted to EUR 14 million, while other operating costs included management consultancy services and professional fees pertaining to current operations.

Other writedowns include the provisions to risk reserves for EUR 17 million.

Taxes payable for the year amounting to EUR 0.3 million are classified in the item taxes.

The result from assets disposed of and/or destined to be disposed of, presented a loss of EUR 0.2 million and refers to the capital loss generated on the sale of 100% of the equity investment held in the company Quinary S.p.A., which took place in November 2008.

7.2 Equity and financial position

BALANCE (000)	31.12.2008	31.12.2007
Non-current assets	241,616	1,187,779
Current assets	30,181	51,288
Assets held for sale	-	-
Total Assets	**271,797**	**1,239,067**
	-	
Shareholders' equity	154,096	930,201
Total Shareholders' equity	**154,096**	**930,201**
Non-current liabilities	44,115	24,199
Current liabilities	73,587	284,667
Liabilities directly related to assets held for sale	-	-
Total Liabilities and Shareholders' equity	**271,797**	**1,239,067**

Following the loss reported in 2008 equating to EUR 981.324 million, accumulated losses at 31 December 2008 amounted to EUR 1,142,688 million.

The shareholders' equity at 31 December 2008 was therefore reduced to EUR 154.096 million, compared with the EUR 930.021 million at 31 December 2007; therefore the case envisaged by Article 2446 of the Italian Civil Code arose, involving a reduction in the share capital by more than a third. The Directors called the General Shareholders' Meeting for the appropriate measures.

Assets

Non-current assets

Non-current assets mainly represent controlling equity investments in the more important Group companies for a total of EUR 236 million.

Tangible assets (property, plant and machinery) and other intangible assets total, respectively EUR 0.07 million and EUR 0.3 million, while other financial assets total EUR 5.5 million.

Current assets

Current assets mainly include Receivables from customers for EUR 24 million (of which EUR 20 million due from Group companies), compared with EUR 45 million last year (of which EUR 43.5 million due from Group companies).

The same item also includes "Other receivables and other current assets" totalling EUR 2.4 million, disclosing an increase of EUR 1.1 million with respect to last year, due to the payment of advances to suppliers.

Liabilities

Non-current liabilities

Non-current liabilities, in addition to the items relating to the financial position in relation to which reference should be made to the following note, include provisions for risks and charges of EUR 40 million generated from provisions set aside for disputes and contingent liabilities.

Current liabilities

Current liabilities not relating to the financial position are represented mainly by payables to suppliers totalling EUR 22 million (of which EUR 11 million due to Group companies) compared with EUR 44 million last year (of which EUR 32 million due to Group companies).

The Parent Company's financial position is shown in the table below:

(EUR 000)	31.12.2008	31.12.2007
A. Cash	1	171
B. Other cash equivalents	1,372	2,012
C. Securities held for trading	-	-
D. Cash and cash equivalents (A) + (B) + (C)	**1,373**	**2,183**
E. Current financial receivables (*)	**5,025**	**4,082**
F. Current bank payables	(627)	(2,169)
G. Current portion of non-current debt	-	-
H. Other current financial payables	(45,753)	(234,270)
I. Current financial debt (F) + (G) + (H)	**(46,379)**	**(236,439)**
J. Net current financial debt (I) – (E) – (D)	**(39.982)**	**(230.174)**
K. Non-current bank payables	-	-
L. Bonds issued	-	-
M. Other non-current payables to Group companies	(3,108)	(1,792)
N. Other non-current payables to third parties	(515)	-
O. Non-current financial debt (K) + (L) + (M) + (N)	**(3,623)**	**(1,792)**
P. Net financial debt (J) + (O)	**(43,605)**	**(231,966)**

(*) The table presented in note 29, Net financial position, does not include Current financial receivables

"Other current payables" are represented by financial payables to the subsidiary Tiscali International BV, a sub-holding company of the Tiscali Group.

8. Tiscali S.p.A.
Financial Statements and Explanatory Notes

8.1 Income Statement

EUR

	NOTES	31.12.2008	31.12.2007
Revenues	1	17,424,709	15,455,110
Other income	2	-	367,643
Purchase of materials and outsourced services	3	(7,883,497)	(7,589,143)
Payroll and related costs	4	(14,247,742)	(10,391,624)
Other operating costs	5	(1,769,006)	(2,685,916)
Writedowns of receivables from customers	6	-	(873,410)
Other writedowns		(972,045,889)	(17,346,862)
Amortisation/depreciation		(375,112)	(390,457)
Operating result		**(978,896,537)**	**(23,454,660)**
Portion of result of equity investments carried at equity			
Net financial income (charges)	7	(1,915,079)	(310,351)
Pre-tax result		**(980,811,616)**	**(23,765,011)**
Income taxes	8	(262,604)	(76,588)
Net result from operating activities (on-going)		**(981,074,220)**	**(23,841,599)**
Result from assets disposed of and/or destined to be disposed of	9	(250,00)	-
Net result		**(981,324,220)**	**(23,841,599)**

8.2 Balance Sheet

EUR

	NOTE	31.12.2008	31.12.2007
Non-current assets			
Intangible assets10		306,966	611,584
Properties, plant and machinery	11	68,557	141,150
Equity investments	12	235,743,924	1,133,882,694
Other financial assets	13	5,496,440	53,143,805
		241,615,887	**1,187,779,233**
Current assets			
Receivables from customers	14	23,782,983	45,022,880
Other receivables and other current assets	15	2,421,118	1,548,815
Other current financial assets	16	2,604,475	2,533,366
Cash and cash equivalents	17	1,373,247	2,182,977
		30,181,823	**51,288,039**
Assets held for sale		-	-
Total Assets		**271,797,710**	**1,239,067,271**
Share Capital and reserves			
Share Capital		308,272,743	212,206,582
Share premium reserve		990,857,353	902,491,676
Stock option reserve		3,840,707	885,707
Reserve for treasury shares		(6,186,581)	
Accumulated losses and losses for the period		(1,142,687,751)	(185,382,601)
Total Shareholders' equity	**18**	**154,096,471**	**930,201,364**
Non-current liabilities			
Other non-current liabilities	19	3,622,967	1,792,328
Liabilities for pension obligations and staff severance indemnities	20	271,188	344,796
Provisions for risks and charges	21	40,220,386	22,061,890
		44,114,541	**24,199,014**
Current liabilities			
Payables to banks and other lenders	22	626,825	2,168,660
Payables to suppliers	23	22,077,214	43,999,361
Other current liabilities	24	50,882,660	238,498,873
		73,586,699	**284,666,894**
Liabilities directly related to assets held for sale			
Total Liabilities and Shareholders' equity		**271,797,710**	**1,239,067,271**

8.3 Statement of changes in shareholders' equity

EUR

	Share Capital	Share premium reserve	Accumulated losses and losses for the period	Stock option reserve	Reserve for treasury shares	Total
Balance at 01.01.2007	**212,206,582**	**948,016,541**	**(207,065,867)**	**-**	**-**	**953,157,256**
Increases				885,707		885,707
Transfers covering losses		(45,524,865)	45,524,865			-
Net profit (loss) for the period			(23,841,599)			(23,841,599)
Balance at 01.01.2008	**212,206,582**	**902,491,676**	**(185,382,601)**	**885,707**	**-**	**930,201,364**
Increases/decreases	96,066,161	112,207,277	177,471	2,955,00	(6,186,581)	205,219,327
Transfers covering losses		(23,841,599)	23,841,599	-	-	-
Net profit (loss) for the period			(981,324,220)			(981,324,220)
Balance at 31.12.2008	**308,272,743**	**990,857,353**	**(1,142,687,751)**	**3,840,707**	**(6,186,581)**	**154,096,471**

8.4 Cash Flow Statement

EUR

	31.12.2008	31.12.2007
OPERATIONS		
Net result for the period	**(981,324,220)**	**(23,841,599)**
Adjustments for:		
Depreciation of tangible assets	70,494	85,839
Amortisation of intangible assets	304,618	304,618
Writedown of equity investments	954,694,587	15,423,432
Accumulated losses on investee companies	19,639,918	-
Release of provisions previously set aside	(1,481,422)	-
Capital gains (losses) on the disposal of equity investments	250,000	156,000
Stock Option costs	2,481,207	885,707
	(5,364,818)	**(6,986,003)**
(Increase)/Decrease in receivables	(217,923)	(2,801,555)
Increase/(Decrease) in payables to suppliers	4,730,196	17,151,932
Net changes in the provisions for risks and charges	-	(4,284,902)
Net changes in the staff severance indemnity provision	(73,608)	(55,710)
Changes in other liabilities	(128,021,345)	27,880,229
Changes in other assets	(872,303)	11,548,237
	(124,454,983)	**49,438,231**
NET CASH FROM OPERATIONS	**(129,819,801)**	**42,452,228**
INVESTMENT ACTIVITIES		
- Changes in other financial assets	(8,235,744)	(30,643,367)
- Purchases of tangible fixed assets	2,099	(8,763)
- Purchases of intangible fixed assets	-	(5,176)
- Payments for the sale of financial fixed assets	(342,508)	486,017
NET CASH USED IN INVESTING ACTIVITIES	**(8,576,153)**	**(30,171,289)**
FINANCIAL ACTIVITIES		
Changes in financial assets	-	-
Increase (decrease) in other non-current liabilities	(1,541,835)	-
Changes in shareholders' equity	139,128,061	-
NET CASH ARISING FROM /(USED IN) FINANCIAL ACTIVITIES	**137,586,226**	**-**
Changes in assets disposed of and held for sale		
NET INCREASE/(DECREASE) IN NET CASH AND CASH EQUIVALENTS	**(809,730)**	**12,280,939**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE FINANCIAL YEAR	**2,182,977**	**(12,266,622)**
CASH AND CASH EQUIVALENTS	**1,373,247**	**14,317**

8.5 Explanatory notes

Tiscali S.p.A. is a limited company incorporated under the laws of the Republic of Italy at the Cagliari Companies' Register. The Tiscali Group provides telecommunications services on the fixed network in the UK and Italy. Tiscali offers integrated internet access, telephone and multimedia services and in particular is positioned in the IP technology services sector which makes it possible to provide voice, internet and video services via the same technological platform.

These financial statements are presented in euro (EUR) which is the currency used to conduct most of the parent company's operations.

The income statement and balance sheet, cash flow statement, statement of changes in shareholders' equity and values indicated in the notes to the financial statements are presented in Euro.

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

Events and uncertainties regarding the business continuity

The statutory financial statements of Tiscali S.p.A. at 31 December 2008 closed with a loss of EUR 981.324 million. Further to the loss reported in 2008, the share capital at 31 December 2008 was reduced by more than a third, the case envisaged by Article 2446 of the Italian Civil Code therefore emerging.

The Tiscali Group ended the year with a loss of EUR 271.1 million and total shareholders' equity of EUR 4.8 million. Furthermore, at 31 December 2008 the Group disclosed gross financial debt of EUR 644.8 million and, as of the same date, the levels of the financial covenants envisaged by certain loan agreements were not observed. This circumstance led to the reclassification under current liabilities of the medium/long-term loans for EUR 439.6 million, in accordance with the reference accounting standards.

The afore-mentioned result for the year was influenced by a series of factors, including the change in the competitive and market context, involving a sharpening in competition and a slowdown in demand for telecommunications services, and the weakening of the UK sterling against the Euro, with consequences on the ability to service the long-term bank debt, denominated in Euro.

Among events subsequent to the end of the year, it is necessary to mention both the afore-mentioned agreements for the disposal of Tiscali International Network BV and the fact that the Group has also decided to suspend the payments envisaged within the sphere of the outstanding loan agreements and therefore has not reimbursed portions of principal and interest for EUR 35 million falling due in March 2009. The occurrence of these events, together with the failed observance of certain financial covenants as described previously, on the basis of the corresponding loan agreements, permits the majority of the financial institutions the faculty to request the early repayment of said loans.

As a result of all the circumstances indicated above, as of the date the financial statements were drawn up uncertainty exists with regard to the Company's business continuity; however, the Board of Directors has drawn up the consolidated financial statements at 31 December 2008 on the basis of the assumption of the business as a going-concern, in light of the considerations which follow.

Action taken

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

The plan proposed by the Board of Directors is based on the following principle action, partly launched as of today's date:

a) stipulation with senior financial institutions of a suspension agreement (so-called standstill agreement) expiring on 5 June 2009, concerning the suspension of the payment of principal and interest instalments due in accordance with the medium/long-term loan agreements as well as the related covenants. The senior financial institutions also manifested their willingness in good faith, where necessary, to consider an extension of the afore-mentioned standstill agreement until 31 December 2009;

b) request to the banks and leasing companies for a suspension agreement falling due on 30 June 2009 relating to the short-term debt and the financial property leasing;

c) the appointment of advisors to support the Group in relation to industrial, financial and legal aspects;

d) the definition of the new Business Plan, whose guidelines were approved by the Board of Directors on 27 March;

e) the definition of the financial manoeuvre aimed at rendering the Tiscali Group's financial debt compatible with the related income-related and financial prospects, also in light of the matters envisaged in the guidelines of the Business Plan;

f) the launch of negotiation for the definition of an agreement with the financial institutions, aimed at restructuring the Group's financial debt. The Board of Directors discloses that negotiations have been started with the afore-mentioned institutes for the definition of a new structure of the debt on a consistent basis with the expected cash flows;

g) the definition of agreements with the main suppliers so as to ensure the regular continuation of operating activities; in this connection, the Directors have disclosed that the Group's business activities in Italy and the UK are proceeding on a regular basis vis-à-vis the customers and the suppliers.

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Final assessment of the Board of Directors

In light of the above comments, the Board of Directors believes that as things stand, reasonable probability exists of being able to achieve the restructuring of the Tiscali Group's financial debt on a consistent basis with the cash flows and suitable for supporting the new Business Plan.

As a point of fact, the attention and interest demonstrated by the financial institutions in relation to the Company, the signing of a waiver and standstill agreement (with the aim of permitting the finalization of the restructuring agreement), the willingness to extend the standstill period until 31 December 2009 expressed, the start of negotiations, and the fact that both the Business Plan and the related Financial Plan have been prepared in accordance with maximum prudence and seriousness, converge in the sense of the afore-mentioned positive assessment made by this Board.

In light of the above, the business continuity is therefore considered to exist, since this Board believes that as things stand there is reasonable probability of finalizing an agreement with the financial institutions.

Form and content of accounting statements

Basis of presentation

The 2008 statutory financial statements represent the separate financial statements of the Parent Company Tiscali S.p.A. and have been prepared in observance of the International Accounting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") as approved by the European Union, as well as the instructions issued by way of implementation of Article 9 of Italian Legislative Decree No. 38/2005. The IFRS are understood to include all the reviewed international accounting standards ("IAS") and all the interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), previously known as the Standing Interpretations Committee ("SIC").

Preparation of the financial statements requires management to make accounting estimates and in certain cases, adopt assumptions in the application of accounting standards. The areas of the financial statements which, under the circumstances, presuppose the adoption of applicative assumptions and those more fully characterized by estimates made, are described in the note *Critical decisions in applying accounting standards and in the use of estimates* on page 73.

Financial statement formats

The financial statements comprise the accounting statements (Income Statement, Balance Sheet, Statement of changes in shareholders' equity, and Cash Flow Statement), with explanatory notes. The Income Statement was drawn up in line with the minimum contents envisaged by IAS 1 – Presentation of Financial Statements – with costs assignment by nature; the Balance Sheet was drawn up by following the scheme pointing out division of "current/non-current" assets and liabilities; the Cash Flow Statement was drawn up by following the indirect method.

Accounting standards

General principles

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

Preparation of the financial statements requires management to make accounting estimates and in certain cases, to adopt assumptions in the application of accounting standards. The areas of the financial statements which, under the circumstances, presuppose the adoption of applicative assumptions and those more fully characterized by estimates made are described in note 7.5.3 of this section.

Equity investments in subsidiaries

Equity investments in subsidiaries and associated companies are recognised at cost, as adjusted for any impairment.

In application of IAS 36, the value of equity investments recognised at cost is reduced if there is impairment or if circumstances emerge that indicate that said cost is irrecoverable. If the impairment is discovered to no longer apply or is reduced, the book value is increased to the new estimated recoverable value, up to a maximum of the value recognised initially.

Impairment of assets

The book value of Equity investments, Other intangible assets and Properties, plant and machinery is tested for impairment whenever events or changes in circumstance indicate that the book value may be impaired. The assets in question are tested annually or more frequently if there is any indication that those assets have suffered impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the writedown. Where it is not possible to estimate the recoverable amount of an asset individually, the Company estimates the recoverable amount of the Cash Generating Unit (CGU) to which the asset belongs. The recoverable amount is the higher between the fair value less sales costs and its utilisation value. When assessing the utilisation value, the estimated future cash flows are discounted back to their present value using a pre-tax discount rate that reflects current market assessments on the value of money and the risks specific to the asset.

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

Other financial assets

Other financial assets are valued, consistently with IAS 39 provisions for financial assets 'available for sale', at fair value or alternatively at cost whenever fair value cannot be reliably calculated. Gains and losses from changes in fair value are directly booked to equity until the asset is disposed of or is impaired, at which time the cumulative gain or loss previously booked to equity is included in the income statement for the period. The original value is reinstated in the following financial year if the reasons for the writedown are considered to no longer apply.

Foreign currency transactions

Foreign currency transactions are recorded at the exchange rate in force as of the date of the transaction.

Amounts receivable and payable in foreign currency are recorded at the exchange rate valid as of the balance sheet reference date. Exchange differences generated by the settlement of monetary items or their conversion at rates other than those used to record them initially during the year or those in force at the end of the previous year, are recorded in the income statement.

Receivables and loans

Tiscali S.p.A. receivables are stated in the items Other non-current financial assets, Receivables from customers, Other receivables and other current assets and Other current financial assets. If they have a fixed maturity, they are stated at amortised cost, using the effective interest rate method. When financial assets have no fixed maturity, they are stated at acquisition cost. Appraisals are regularly carried out with the aim of checking whether there is objective evidence that a financial asset or a group of assets have been subject impairment. If there is objective evidence, the impairment must be recorded as cost in the income statement for the period.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, on-demand and short-term deposits, in the latter case with an original maturity envisaged of no more than three months.

Payables and financial liabilities

Tiscali S.p.A.'s payables and financial liabilities are stated in the items", "payables to banks and other lenders", "other non-current liabilities", "payables to suppliers", and are stated at face value. Financial payables are initially stated at cost, equating to the fair value of the amount received, net of related charges. Subsequently, these payables are stated at amortised cost using the effective interest rate method, calculated considering the issue costs and any other premium or discount envisaged on settlement.

Liabilities for pension obligations and staff severance indemnities

Defined benefit schemes (as classified by IAS 19), in particular the Staff Severance indemnities relating to employees of the parent company and the subsidiaries with registered offices in Italy, are stated on the basis of valuations made at the end of each financial year by independent actuaries. The liability recognised in the balance sheet is the current value of the obligation payable on termination of the employment relationship which the employees have accrued at the balance sheet date. It should be specified that no assets are held in support of the above scheme.

As permitted by IFRS 1 and IAS 19, the Tiscali Group has not adopted the corridor method but uses the Projected Unit Credit method and, therefore, the actuarial gains and losses are stated in full in the period in which they arise and are booked directly to the income statement.

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

As from 1 January 2007, the 2007 Finance Act and the related implementing decrees introduced significant amendments to the regulation of staff severance indemnities (TFR), including the worker's choice regarding the allocation of their accruing TFR to supplementary welfare funds or to the Treasury Fund managed by INPS (national insurance institute for social security).

Therefore, as a consequence, pursuant to IAS 19, the obligation with respect to the social security institute and the contribution to supplementary pension funds acquire the nature of Plans with defined contributions, while the quotas assigned to the staff severance indemnity provision acquire the nature of Plans with defined benefits.

Furthermore, the legislative changes which took place as from 2007 led to a new calculation of actuarial assumptions, and of the consequent methods used to calculate staff severance indemnities, whose effects were directly booked to the income statement.

Remunerative schemes involving interests in the share capital

The Group has assigned certain members of senior management and employees additional benefits via plans for interests in the share capital (stock option plans). These plans are a component of the beneficiaries' remuneration.

The cost is the fair value of the stock options at the date of allocation, and for accounting purposes, it follows the rules fixed by "IFRS 2 – Payments based on shares"; the cost is reported in the income statement with a matching balance booked directly to the shareholders' equity.

Provisions for risks and charges

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

Treasury shares

Treasury shares are booked to reduce the shareholders' equity.

Revenue recognition

Revenues are stated to the extent that it is probable that Tiscali S.p.A. will receive economic benefits and their amount can be determined reliably; they are stated net of discounts, allowances and returns.

Revenues for the provision of services are recorded in the income statement with reference to the state of completion of the service and only when the result of the service can be reliably estimated.

Financial income and charges

Interest income and expense is recognised using the effective interest rate method.

Taxes

Income taxes for the year include the taxation currently payable and deferred tax.

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

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

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

Accounting estimates and relevant assumptions

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

Equity investments
Impairment testing, with particular regard to equity investments, is performed annually as indicated under point 7.5.2.7 Impairment of assets. The ability of each unit (investment) to produce cash flows sufficient to recover the value recorded in the financial statements is determined on the basis of forecast economic and financial data of the company concerned or any subsidiaries. The

development of such forecast data, as well as the determination of an appropriate discount rate, requires a significant use of estimates. Note that also the ability to achieve the new 2009/2013 Business Plan and, therefore the forecasts and cash flows on the basis of which the impairment test has been proposed, is subordinate to the occurrence of the conditions described in the section *Assessment of the business as a going-concern and business outlook and prospects* on page 156.

Fair value calculation

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

Accounting standards, amendments and interpretations not yet applicable or not adopted in advance

As required by section 28 of IAS 8 (*Accounting standards, changes in accounting estimates and errors*), the IFRS in force as from 1 January 2008 are indicated hereunder and briefly illustrated:

- IFRIC 11 (IFRS 2 – Transactions involving own and Group shares). On 1 June 2007, EC Regulation No. 611-2007 was published, acknowledging interpretative document IFRIC 11 (IFRS 2 of the Group) at EU level. This interpretation also confirms that the payment plans based on shares via which the Company receives services (for example, from employees) in exchange for own shares, must be recorded as capital instruments, irrespective of the fact that the entity chooses to purchase, or is obliged to purchase, these instruments representative of capital from a third party so as to meet obligations vis-à-vis its employees. The application of this interpretation has not had any effect on the statutory financial statements at 31 December 2008.

- IFRIC 14 (IAS 19 – The limit relating to an asset serving a defined-benefits plan, the minimum contribution forecasts and their interaction). As of 16 December 2008, EC Regulation No. 1263-2008 was published, acknowledging interpretative document IFRIC 14 (IAS 19 - The limit relating to an asset serving a defined-benefits plan, the minimum contribution forecasts and their interaction) at EU level. This interpretation provides the general guidelines on how to determine the limit established by IAS 19 for the recognition of an asset serving a defined-benefit plan and provides indications regarding the accounting effects deriving from the existence of a minimum coverage clause of the plan. This interpretation is not applied by the Group at present.

- Amendments to IAS 39 (Financial instruments: statement and valuation) and to IFRS 7 (Financial instruments: supplementary information). On 15 October 2008, EC Regulation No. 1004-2008 was published, acknowledging a number of amendments to IAS 39 (Financial instruments: statement and valuation) and to IFRS 7 (Financial instruments: supplementary information) which permits, under particular circumstances, the reclassification of certain financial assets outside the categories “financial assets at fair value through the income statement” and “financial assets available for sale”. The changes to IFRS 7 introduced new disclosure requirements in relation to the reclassifications permitted by the amended IAS 39. These changes did not have any effect on the statutory financial statements at 31 December 2008 since the Tiscali Group has not made any of the permitted reclassifications.

New standards and Interpretations acknowledged by the EU but not yet in force

As required by section 30 of IAS 8 (Accounting standards, *changes in accounting estimates and errors*) the IFRS in force as from 1 January 2009 or subsequently are indicated hereunder and briefly illustrated:

- Amendments to IAS 23 (Financial charges) On 10 December 2008, EC Regulation No. 1260-2008 was published, acknowledging the amendments made to IAS 23 (*Financial charges*) at EU level. The main amendment made to IAS 23 concerns the elimination of the option present in the previous version of the standard which envisaged, for financial charges, the possibility of registration in the income statement in the period they are incurred instead of their capitalization (*permitted treatment*). Therefore, in the revised version of IAS 23, financial charges which are directly attributable to the acquisition, construction or production of an asset which requires a significant period of time before being ready for its envisaged use or sale (so-called qualifying assets), must be capitalized as part of the cost of said asset. The new version of IAS 23 comes into force as from 1 January 2009.

- Amendments to IAS 1 (*Financial statement presentation*). On 17 December 2008, EC Regulation No. 1274-2008 was published, acknowledging the amendments made to IAS 1 (*Financial statement presentation*) at EU level. The main changes introduced envisage: the presentation in the statement of changes in shareholders’ equity of all the changes deriving from transactions with shareholders; and the statement of the other changes in shareholders’ equity (other than those with the shareholders) as follows:

  1) in a single Total income statement schedule, which shows the revenues, income, costs and charges recorded directly in the income statement, the profit (loss) for the period, as well as the analysis of the income and costs recorded directly under shareholders’ equity (Other components of the total income statement); or

Active users

2,948,000

2) in two statements: one statement which shows the components of the profit (loss) for the period (separate income statement Schedule) and a second statement which starts off from the profit (loss) for the period and shows the items of the statement of the other components of the total income statement (Total income statement schedule).

The revised version of IAS 1 comes into force as from 1° January 2009. The adoption of the standard has not had any effect with regard to the valuation of the financial statement items.

- Amendments to IFRS 2 (Payments based on shares). On 16 December 2008, EC Regulation No. 1261-2008 was published, acknowledging the changes made to IFRS 2 (*Payments based on shares*) at EU level. The standard specifies the definition of "accrual conditions" and specifies the cases when the failure to achieve a condition leads to the registration of cancellation of the assigned right. The revised standards comes into force as from 1 January 2009. It is envisaged that the application of these provisions will not have any effect on the Company's individual financial statements.

- Amendments to IAS 32 (Financial instruments: Statement in the accounts) and to IAS 1 (Financial statement presentation). On 21 January 2009, EC Regulation No. 53-2009 was published, acknowledging certain amendments made to the standards IAS 32 (*Financial instruments: Statement in the accounts*) and IAS 1 (*Financial statement presentation*) at EU level. The changes to IAS 32 require, in the presence of certain conditions, the classification under shareholders' equity of certain financial instruments with the option to sell (puttable instruments) or which oblige the entity in the event of winding up of the same. The amendments to IAS 1 require that specific disclosure be provided regarding said instruments. The new version of IAS 32 and IAS 1 will come into force as from 1° January 2009. It is not envisaged that the amendments made will have significant effects on the Company's statutory financial statements;

- Amendments to IAS 27 (Consolidated and statutory financial statements: Cost of equity investments in subsidiaries, in jointly controlled bodies and in associated companies). The amendments to IAS 27 introduce the obligation for a body to record the dividend on a subsidiary, a jointly controlled or body or an associated company in the income statement of its statutory financial statements, once the right to receive it has been ascertained. The new version of IFRS 1 and IAS 27 will come into force as from 1° January 2009. It is not envisaged that the amendments made will have significant effects on the Company's statutory financial statements

Improvements to the IFRS

On 23 January 2009, EC Regulation No. 70-2009 was published, acknowledging a number of changes made to the International Financial Reporting Standards (IFRS) at EU level. The changes to the standards which come into force as from 1 January 2009 are indicated below:

- IAS 1 (*Financial statement presentation*): the assets and liabilities relating to derivative instruments not held for trading purposes and which do not take on the form of financial guarantee contracts or hedging instruments, must be classified in the financial statements, making distinction between current and non-current assets and liabilities in relation to their maturity;

- IAS 16 (*Properties, plant and machinery*): the amendment provides a number of specifications on the classification and accounting treatment to be adopted by an entity which during its normal business activities as a rule sells elements of properties, plant and machinery held for lease to third parties;

- IAS 19 (*Employee benefits*): the amendment introduced, to be applied perspectively, clarifies the conduct to be adopted in the event of changes in employee benefits, defines the methods for recording the cost/income relating to the past work services and precisely defines the short-term benefits and the long-term benefits;

- IAS 20 (*Statement of public grants and disclosure on public assistance*): the amendment, to be applied in perspective, establishes that the benefit of a public loan at an interest rate lower than the market one is treated as a public grant;

- IAS 23 (*Financial charges*): the amendment revises the definition of financial charges;

- IAS 28 (*Equity investments in associated companies*): the change establishes that, in the event of equity investments carried at equity, any impairment must not be allocated to the individual assets (and in particular to any goodwill) which makes up the book value of the investment, but to the value of the investee company in its entirety. Therefore, in the presence of conditions for a subsequent value writeback, this writeback must be recognized fully;

- IAS 29 (*Accounting in hyperinflationary economies*): these are changes to a standard not applied by the Group at present;

- IAS 36 (*Asset impairment*): the amendment envisages that additional information be provided if the fair value less the sales costs is determined using discounted back cash flow projections;

- IAS 38 (*Intangible assets*): the amendment envisages the recognition in the income statement of promotional and advertising costs. It establishes that in the event a company incurs charges which have future economic benefits without recording intangible fixed assets, these must be charged to the income statement when the company itself has the right to gain access to the asset, if this involves the purchase of assets, or when a service is rendered, if this involves the purchase of services. Furthermore, the standard has been amended to clarify in which cases it is possible to adopt "produced units method" for the amortization of intangible fixed assets with a specified useful life;

- IAS 39 (*Financial instruments: statement and valuation*): the amendment clarifies how the calculation of the new effective rate of return of a financial instrument must be calculated on conclusion of a fair value hedge; it also specifies the cases when it is possible to reclassify a derivative instrument in and outside the category "fair value through the income statement";

- IAS 40 (*Property investments*): these are changes to a standard not applied by the Group at present.

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Furthermore, IFRS 5 (*Non-current assets held for sale and operating assets disposed of*) was amended: the amendment envisages that if an entity undertakes a sales programme which involves the loss of control over a subsidiary, it must classify all the assets and liabilities of said subsidiary as held for sale, leaving aside the fact that, after the sale, it maintains a minority interest in the former subsidiary. The new version of IFRS 5 will come into force as from 1 January 2010.

It is envisaged that the application of the "improvements to the IFRS" as indicated above, does not have any significant effects on the Company's statutory financial statements.

Revenues (note 1)

Operating revenues are represented by:

Revenues EUR (000)	31.12.2008	31.12.2007
Revenues from services provided to Group companies	15,981	14,681
Revenues from services to third parties	1,444	774
	17,425	**15,455**

Revenues from services provided to Group companies mainly refer to the invoicing of services provided by the Company in favour of Group companies.

This item also includes charges for rights of use on the Tiscali brand name calculated as a percentage of sums invoiced by Group companies using the brand name.

Revenues from services provided to third parties include EUR 12 million relating to revenues deriving from the partnership agreement with the search engine Google which flows in and is invoiced to the customer by the parent company.

In accordance with the international accounting standards ("IFRS"), these revenues are stated net of infraGroup costs generated by remitting the portions of revenue pertaining to the Group companies, for an identical amount. A similar approach was used for 2007 with a revenue value of EUR 16 million fully adjusted by infraGroup's costs for an identical amount.

The residual balance of EUR 1.4 million in 2008 (EUR 0.8 million in 2007) is represented by sundry income, expenses recharged and out-of-period expense (the latter classified last year under other income).

The following table shows the effect of the reclassifications made with respect to the previous year's values:

Revenues EUR (000)	31.12.2008	31.12.2007
Revenues from services provided to Group companies	15,981	14,681
Revenues from services to third parties	13,921	16,221
Costs from Group companies (Google Search)	(12,477)	(15,977)
Reclassification of out-of-period income		529
Revenues from services to third parties (net)	1,444	774
	17,425	**15,455**

Revenues by country EUR (000)		31.12.2008		31.12.2007
Revenues from services provided to Group companies		15,981		14,681
- Italy	*6,149*		*4,720*	
- Netherlands	*75*		*1,471*	
- Germany	*259*		*1,886*	
- UK	*8,898*		*6,605*	
Revenues from services to third parties		1,444		774
- Italy	*1,444*		*774*	
		17,425		**15,455**

Other income (note 2)

Other income, presenting a zero balance in 2008, besides the out-of-period amounts reclassified under revenues (see note 7.5.4) also essentially included capital gains on the sale of the equity investments in 2007.

Purchase of materials and outsourced services (note 3)

Costs for purchases of materials and outsourced services amounted in total to EUR 7.9 million, compared with EUR 7.6 million in 2007, and are stated net of the infraGroup costs generated by the partnership agreement with the search engine Google for a total of EUR 12.5 million (EUR 15.9 million in 2007). For greater details on this reclassification, see the comments to the item Revenues.

Costs for services provided by third parties include costs for professional consulting with regard to legal, administrative and financial matters for EUR 5 million, marketing costs for EUR 0.8 million, and insurance costs for EUR 0.3 million and other general expenses for EUR 0.9 million.

Costs for services acquired from Group companies, net of the above adjustment, amounted to EUR 1.8 million and entirely refer to the Italian subsidiary Tiscali Italia S.p.A. for general costs, travel expenses and those linked to personnel management.

Payroll and related costs (note 4)

Payroll and related costs refer in detail to:

EUR (000)	31.12.2008	31.12.2007
Wages and salaries	6,950	4,319
Remunerative component from Stock Option plans	2,481	886
Other personnel costs	4,817	5,186
Total	**14,248**	**10,392**

The increase in costs for wages and salaries with respect to the previous year, totalling EUR 3.8 million, is essentially justified by the economic effect of the resignation of the Group's Chief Executive Officer, Tommaso Pompei, in February 2008, as well as the resignation of the Finance Director, Massimo Cristofori, in June 2008.

The remunerative component deriving from the Stock Option plans totalling EUR 2.5 million, refers to the figurative charge accrued in 2008 deriving from the plans assigned to the Company's managers, with a matching balance in a specific equity reserve and includes the effects of the acceleration of the plan reserves for the former Chief Executive Officer and the former Finance Director, who maintained their assigned rights after leaving the Group.

For further information on the Stock Option plans assigned, reference should be made to the commentary on shareholders' equity in Note 7.5.21.

Also note that the remunerative component deriving from the Stock Option plans relating to managers who are employees of other Group companies is not booked to the income statement of the parent company Tiscali S.p.A. but is booked to increase the book value of the equity investments in the Group companies on which the management benefiting from the Stock Option plans depend (representing a capital grant in their favour) with a matching balance in the form of an increase in the specific equity reserve.

Other payroll and related costs include the provision of EUR 2.4 million for Restructuring charges intended to cover the process for overhauling the organizational structures, launched in November 2008 and now near to completion.

At 31 December 2008, Tiscali S.p.A. had 22 employees.

The breakdown by category is disclosed below together with the corresponding figure at 31 December 2007.

Category	31.12.2008	31.12.2007
Senior managers	11	15
Middle managers	-	6
Office staff	11	11
Total	**22**	**32**

Other operating costs (note 5)

The table below shows a breakdown of these costs:

EUR (000)	31.12.2008	31.12.2007
Other operating expenses	1,769	2,169
Capital losses on disposal of equity investments	-	517
Total	**1,769**	**2,686**

Other operating costs include sundry operating charges totalling EUR 1.6 million. In the previous year, the capital loss of EUR 0.5 million reflected the disposal of 100% of the equity investment held in the company Tiscali Services S.p.A., which took place in December 2007.

Writedowns of receivables from customers and other writedowns (note 6)

EUR (000)	31.12.2008	31.12.2007
Writedowns of receivables from customers	-	873
Restructuring costs and other writedowns	954,695	15 423
Provisions for risks and charges	17,350	1 923
Total	**972,046**	**18,220**

The item restructuring costs and other writedowns amounting to EUR 955 million (EUR 15.4 million in 2007) essentially included the writedown of the equity investment in the company World Online International N.V. for EUR 954 million in addition to the writedown of other minor equity investments.

The balance relating to 2007 included the writedown relating to the subsidiary Tiscali Deutschland Gmbh amounting to EUR 6.4 million and the partial waiver of the receivables due from the subsidiary Tiscali Services S.p.A. intended to cover the losses accrued in 2006 for EUR 8.3 million.

Provisions for risks and charges amounting to EUR 17 million refer to the adjustment of the Provisions for the coverage of losses on investee companies.

Financial Income (Charges) (note 7)

A breakdown of net financial charges for the year of EUR 1.9 million is provided below.

EUR (000)	31.12.2008	31.12.2007
Financial income		
Interest on bank deposits	202	90
Other	5	11
	206	**101**
Financial charges		
Interest on bonds		-
Interest and other charges due to banks	(135)	(343)
Other financial charges	(1,986)	(68)
	(2,121)	**(411)**
Net financial charges	**(1,915)**	**(310)**

Income taxes (note 8)

EUR (000)	31.12.2008	31.12.2007
Current taxes	263	76
Net taxes for the year	**263**	**76**

The balance of current taxes includes IRAP (regional business tax) for 2008.

The following table illustrates total previous tax losses deductible in total for tax purposes by Tiscali S.p.A. and divided by year of maturity, together with deductible timing differences.

EUR (000)	Total at	Year of maturity (*)				
	31.12.2008	2009	2010	2011	beyond 2011	Indefinited
Total previous tax losses	10,639	-	-	-	-	10,639
Deductible timing differences	25,523	-	-	-	-	-
Total tax losses and deductible timing differences	**36,162**	**-**	**-**	**-**	**-**	**10,639**
Total prepaid taxes (at the theoretical average tax rate of 27.5%)	9,945					
Prepaid taxes recognised	-					
Prepaid taxes not recognised	**9,945**					

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

Result of assets disposed of and/or assets held for sale (note 9)

EUR 000	31.12.2008	31.12.2007
Capital gains (Losses) deriving from disposal of subsidiaries and/or net asset disposals	(250)	-
Result from assets disposed of and/or destined to be disposed of	**(250)**	**-**

The amount shown in the result from assets disposed of and/or held for sale represents the capital loss generated at the time of disposal of the company Quinary S.p.A., a wholly-owned subsidiary, to Linklab S.r.l. in November 2008.

Intangible assets with a definite useful life (note 10)

Changes in intangible asset for the year were as follows:

INTANGIBLE ASSETS EUR (000)	31.12.2007	Increases	Ammortisation	(Decreases) and other changes	31.12.2008
Concessions, licenses and similar rights	612	-	(305)	-	307
Total	**612**	**-**	**(305)**	**-**	**307**

Concessions, licenses and similar rights totalling EUR 0.3 million include a software license purchased at the end of 2004 for the management of territorial information via a system based on vectorial mapping and a geo-referencing database.

Properties, plant and machinery (note 11)

The table below shows the changes which occurred during the year:

EUR (000)	31.12.2007	Increase	Depreciation	(Decreases) and other changes	31.12.2008
HISTORIC COST					
Land and buildings	1,966	-	-	-	1,966
Plant and machinery	65	-	-	-	65
Other assets	699	5	-	(234)	470
	2,730	**5**	**-**	**(234)**	**2,501**
ACCUMULATED DEPRECIATION					
Land and buildings	1,962	-	2	-	1,963
Plant and machinery	53	-	4	-	57
Other assets	574	-	65	(227)	413
	2,589	**-**	**70**	**(227)**	**2,432**
NET VALUE					
Land and buildings	4	-	(2)	-	3
Plant and machinery	12	-	(4)	-	9
Other assets	124	5	(65)	(7)	57
Total	**141**	**5**	**(70)**	**(7)**	**69**

Equity investments (note 12)

At 31 December 2008, this item comprised equity investments in subsidiaries for a total of EUR 236 million.

Equity investments - Changes during the year

The tables below provide a detailed breakdown of the balances and changes during the year.

SUBSIDIARIES	31.12.2008			31.12.2007		
EUR (000)	Cost	Reval/(write-down)	Book value	Cost	Reval/(write-down)	Book value
Connect Software Inc.	-	-	-	1,027	(1,027)	-
Energy Byte S.r.l. in liquidazione	677	(677)	-	677	(677)	-
Quinary S.p.A.	-	-	-	30,773	(30,416)	357
Tiscali Czech Republic a.s.	-	-	-	39	(39)	-
Tiscali Deutschland Gmbh	283,475	(283,475)	-	283,475	(283,475)	-
Tiscali Finance SA	125	(125)	-	125	(125)	-
Tiscali Italia S.p.A.	111,817	-	111,817	55,439	-	55,439
Tiscali Motoring S.r.l. in liquidazione	500	(500)	-	500	(500)	-
World Online International N.V.	1,811,995	(1,689,390)	122,605	1,811,994	(735,724)	1,076,270
Tiscali Int.l Network S.p.A.	1,391	(119)	1,272	1,306	-	1,306
Tiscali Financial Services Sa	31	-	31	31	-	31
	2,210,011	**(1,974,286)**	**235,725**	**2,185,387**	**(1,051,984)**	**1,133,403**

ASSOCIATED COMPANIES	31.12.2008			31.12.2007		
EUR (000)	Cost	Reval/(write-down)	Book value	Cost	Reval/(write-down)	Book value
STS Studi Tecnologie e Sistemi S.r.l.	1,291	(1,272)	19	1,291	(811)	480
	1,291	**(1,272)**	**19**	**1,291**	**(811)**	**480**

The table below indicates the changes during the year for each equity investment.

SUBSIDIARIES EUR (000)	Balance 31.12.2007	Increases	(Disposals)	Reval/ (write-down)	Other changes	Balance 31.12.2008
Connect Software Inc.	-	-	-	-	-	-
Energy Byte S.r.l. in liquidazione	-	-	-	-	-	-
Quinary S.p.A.	357	1,160	(751)	(766)		-
Tiscali Czech Republic a.s.	-	-	-	-	-	-
Tiscali Deutschland Gmbh	-	-	-	-	-	-
Tiscali Finance SA	-	-	-	-	-	-
Tiscali Italia S.p.A.	55,439	56,378	-	-	-	111,817
Tiscali Motoring S.r.l . *in liquidazione*	-	-	-	-	-	-
World Online International N.V.	1,076,270	-	-	(953,665)	-	122,605
Tiscali Int.l Network S.p.A.	1,306	85	-	(119)	-	1,272
Tiscali Financial Services Sa	31	-		-	-	31
	1,133,403	**57,623**	**(751)**	**(954,550)**	**-**	**235,725**

Disposals during the year concerned the equity investment in the company Quinary S.p.A. which took place in November 2008 to the company Linklab S.r.l. for a total of EUR 0.05 million. The disposal of the same generated a capital loss of EUR 0.25 million. As indicated in the table contained in note 7.5.7 (Payroll and related costs), the figurative component linked to the Stock Option plans outstanding assigned to managers who are employees of the Group companies, is not booked to the income statement of the parent company Tiscali S.p.A but is booked to increase the book value of the equity investments in the companies on which the management benefiting from the plans depend, in accordance with the matters laid down by the international accounting standards relating to Stock Option plans (IFRS2) and their interpretations (IFRIC 11).

In the case in question, the amount increasing the value of the equity investment in Tiscali Italia S.p.A comes to EUR 0.5 million, while that relating to the subsidiary Tiscali International Network S.p.A. comes to EUR 0.08 million.

As indicated in the section on accounting policies in these notes to the financial statements, equity investments are recognised at cost, with the writedown of any permanent loss in value determined via impairment testing. It is considered that the book value of equity investments at 31 December 2008 is valid, given the significant amount of goodwill intrinsic to the equity investments. For direct or indirect equity investments of a strategic nature, verification of the book value for the equity investments was performed in a similar manner to the previous year, by development of a specific impairment test based on discounting back of expected cash flows as indicated in the Tiscali Group business plan.

Equity investments - Verification of impairment

The Company has carried out an impairment test on equity investments in subsidiary companies, as indicated below.

The recoverable amount of the Cash Generating Units (CGU) has been determined on the basis of the value in use calculated using the projection of the cash flows deriving from the new 2009/2013 Business Plan drawn up according to the assumptions indicated in the note *Assessment of the business as a going-concern and business outlook and prospects* on page 156.

The Business Plan is based on the guidelines aspiring to the maximization of the operating efficiency, the reduction of costs and investments and the generation of short/medium-term cash. The structure of the guidelines is differentiated for each operating unit in relation to the particular features of the related context/market

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

- Explicit forecast period equating to the plan duration (5 years);
- EBITDA/EBITDA percentage, emerging from the hypotheses of market and business development in the first five years of the plan (2009-2013);
- Investments for maintaining the envisaged evolution of the business and the pre-established level of profitability, in particular for activation of customers vis-à-vis the incumbent, for the supply of modems to end customer and for maintaining the company assets;
- Exchange rate between EUR and GBP;
- Cost of Capital;
- Determination of the terminal value calculated as the perpetuity based on the projection of the last year of the plan;
- Terminal growth rate (Long Term Growth - LTG) beyond the five years of the Plan;

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

a) the beta factor has been valued considering both the value of Tiscali over various timescales for a period of more than 12 months, and a panel of alternative telecommunications operators in Europe adjusted to take into account Tiscali's financial structure;

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

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

The final WACC values, checked with the Company's advisors and used for the value checks, are indicated in the following table.

%	WACC
Italy	9.88
UK	9.79
Tiscali Group	**9.86**

The terminal growth rate has been set at 2%, in line with the forecasts of the analysts, also following the announcement of the stand-still request (*See note Events subsequent to the end of the year*).

Increases of a percentage point in the WACC and reductions of a percentage point in the LTG do not disclose a loss in value, capable of significantly influencing the representation of the financial statement balances.

Considerations emerging from the analysis of the book values of equity investments held in the portfolio, together with related effects on the Tiscali S.p.A. financial statements at 31 December 2008, and a brief comment on changes in the period, are provided below.

Connect Software Inc.

The company, acquired in December 2000, was wound up during the year. The equity investment was written down in full during 2004.

Energy Byte Srl in liquidation

During 2004, as per the resolution adopted by the general shareholders' meeting on 11 March, the company was placed in liquidation. This equity investment was written down in full in previous years. An amount of EUR 38 thousand has been recorded in the financial statements, under the provision for the coverage of losses on investee companies, so as to cover any losses which may arise on liquidation of the same.

Quinary S.p.A.

The company, operative in the field of the development and production of systems integration software, was sold off to Linklab S.r.l. in November 2008 at a price of EUR 0.05 million, generating a capital loss of EUR 0.25 million booked to the income statement. Net changes during the year include EUR 0.7 million reflecting the waiver by the parent company of receivables due from said subsidiary booked to the income statement for EUR 0.3 million and using the provision for covering losses set aside last year for EUR 0.4 million. In addition, EUR 0.3 million is represented by the share capital increase subscribed in October 2008.

Tiscali Czech Republic S.r.o.

The winding-up procedure for the dormant company in the Czech Republic concluded during the year.

Tiscali Deutschland Gmbh

Tiscali Deutschland held a significant part of the operating activities of the Tiscali Group in Germany, headed up by Tiscali GmbH, sold during the first few months of 2007. The results of the impairment test, developed taking into account the effects of the afore-mentioned events, led in the previous year to the complete writedown of the equity investment. During 2008, steps were taken to set aside a sum of EUR 5.8 million to the provision for the coverage of losses on investee companies, intended to cover the equity deficit generated by the subsidiary.

Tiscali Finance SA

The book value for this investment, a Tiscali Group "vehicle" which managed the Equity Linked Bonds of EUR 209.5 million repaid in September 2006, is indirectly adjusted by the sum of EUR 30.2 million recognised as a provision for the coverage of losses on investee companies, established in order to cover the residual equity deficit of this subsidiary. During 2008, the equity investment was written down in full by means of booking to the income statement.

Tiscali Italia S.p.A.

Changes during the year include EUR 55.8 million in relation to the allocation of the financial receivables due from the parent company Tiscali S.p.A. to cover losses relating to the previous year, as well as the booking of the figurative charge of the Stock Option plans assigned to managers who are employees of the subsidiary.

The impairment test on the book value at 31 December 2008, carried out by means of discounting back the expected cash flows, as emerging from the Tiscali Group's business plan, did not lead to any writedown.

Tiscali Motoring S.r.l

The book value of the equity investment, which is reaching the final stages of the winding-up procedure started on 11 July 2003, was written down in full during the previous year.

An amount of EUR 38 thousand has been recorded in the financial statements, under the provision for the coverage of losses, so as to cover any losses which may arise on liquidation of the same.

World Online International N.V.

This is a sub-holding company based in the Netherlands which, at 31 December 2008, controlled Tiscali Group companies operating, in particular, in the UK.

The impairment test on the book value of the equity investment at 31 December 2008 was performed by means of discounting back the expected cash flows (DCF), as per the Tiscali Group's business plan, as described in the section Verification of impairment of equity investments on page 132.

This test led to a writedown of the equity investment for a total of EUR 954 million.

Tiscali International Network S.p.A.

Tiscali International Network S.p.A is 60% owned by Tiscali S.p.A. and 40% owned by the Dutch company Tiscali International Network B.V, in turn indirectly controlled by Tiscali S.p.A..

On 3 February 2009, a preliminary purchase/sale agreement was announced for the activities held by Tiscali International Network B.V. with BS Private Equity S.p.A. and BC Investimenti SGR; finalization of the agreement is subordinate to signing of the deed of sale as well as approval of the transaction by the competent anti-trust authorities.

ASSOCIATED COMPANIES EUR (000)	Balance 31.12.2007	Increases	(Disposals)	Reval/ (Write-down)	Decrease	Balance 31.12.2008
STS Studi Tecnologie e Sistemi S.r.l.	480	-	-	(461)	-	19
Total	**480**	**-**	**-**	**(461)**	**-**	**19**

The item equity investments in associated companies includes the equity investment in STS Studi Tecnologie e Sistemi S.r.l., a company active in the sector involved in the production and development of software and information technology, written down during 2008 so as to align the book value to the company's equity value.

SUBSIDIARIES EUR (000)	Head Offices	Share Capital	Shareholders' equity	Result	% holding	Book Value
Energy Byte S.r.l. in liquidation	Milan	68	50	(4)	100%	-
Tiscali Deutschland Gmbh (ex Nikoma)	Munich	555	(32,650)	(23,550)	100%	-
Tiscali Finance SA	Luxemburg	125	(21,047)	(1,857)	100%	-
Tiscali Italia S.p.A.(Ex Andaledda S.p.A.)	Cagliari	185,000	131,395	(43,428)	100%	111,817
Tiscali Motoring S.r.l. in liquidation	Cagliari	100	26	73	60%	-
World Online International N.V.(***)	Maarsen (NL)	(115,519)	122,935	(957,160)	100%	122,605
Tiscali Int.l Network S.p.A.	Cagliari	350	759	(40)	60%	1,272
Tiscali Financial Services Sa	Luxemburg	31	(3,041)	(8,953)	100%	31
Total						**235,725**

(***) Forecast balance sheet data at 31 December 2008

ASSOCIATED COMPANIES	Head Offices	Share Capital	Shareholders' equity	Result	% holding	Book Value
STS Studi Tecnologie e Sistemi S.r.l.	Rome	100	(534)	(657)	20%	19
						19

Equity investments – Other information

With regard to STS S.r.l. it should be mentioned that 15% of the share capital is held by Energy Byte S.r.l. (in liquidation), which is 100% controlled by Tiscali S.p.A.

Other non-current financial assets (note 13)

EUR (000)	31.12.2008	31.12.2007
Receivables from Group companies	4,061	53,144
Other receivables	1,435	-
Total	**5,496**	**53,144**

Other non-current financial assets include financial receivables from Group companies for EUR 4 million and financial receivables from Tiscali International Network S.p.A. for EUR 1.4 million.
Note that the receivable due from Tiscali International Network S.p.A is considered as a receivable from third parties since in February 2009 a preliminary agreement was announced for the sale of the activities held by Tiscali International Network B.V. to BS Private Equity S.p.A. and BC Investimenti SGR despite the fact that at 31 December 2008 the company was 60% owned by Tiscali S.p.A. and 40% owned by the Dutch company Tiscali International Network B.V (in turn indirectly controlled by Tiscali S.p.A).

The decrease with respect to the end of the previous year is essentially justified by the fact that, in June 2008, part of the receivables due in relation to the subsidiary Tiscali Italia S.p.A, having increased in the meantime with the receivables first of all due from Tiscali Services S.p.A. subsequently merged within Tiscali Italia S.p.A., were allocated to cover the losses of the subsidiary and booked to increase the value of the equity investment The total of this transaction came to EUR 55.8 million.

The financial receivables due from Group companies are detailed below:

EUR (000)	31.12.2008	31.12.2007
Energy Byte S.r.l	112	112
Quinary S.p.A.	-	328
Tiscali International Network S.p.A.	-	663
Tiscali Motoring S.r.l	-	351
Tiscali Italia S.p.A.	3,484	31,948
Tiscali Services S.p.A.	-	19,421
Tiscali Media S.r.l	465	321
	4,061	**53,144**

Receivables from customers (note 14)

EUR (000)	31.12.2008	31.12.2007
Receivables from customers	24,283	45,523
Writedown provision for losses	(500)	(500)
Total	**23,783**	**45,023**

At 31 December 2008, receivables from customers totalled EUR 24 million, including receivables from Group companies of EUR 19.5 million and from third party customers for EUR 4.7 million.

Trade receivables due from Group companies are detailed below:

EUR (000)	31.12.2008	31.12.2007
Quinary SpA	-	122
Tiscali Deutschland Gmbh	-	4,151
Tiscali Business Gmbh	-	505
Tiscali Gmbh	-	10,405
Tiscali Espana SLU	314	315
Tiscali UK Ltd	9,382	22,185
Tiscali UK Holdings Ltd	774	774
Tiscali International Network BV	-	1,715
Tiscali International Network SpA	-	137
Tiscali Italia S.p.A.	9,113	2,733
Tiscali Services S.p.A.	-	526
Total	**19,583**	**43,568**

Note that trade receivables due from Tiscali International Network B.V. (EUR 2.4 million) and Tiscali International Network S.p.A. (EUR 0.1 million) have been reclassified as receivables from third parties due to the preliminary agreement for the disposal of the activities reached in February 2009. Please see the comments to note 7.5.16 for greater details.
The book value of trade receivables, in view of conditions regulating services provided by the Group, is approximate to their fair value. Please also note that the Receivables from customers will be due within 12 months and do not present overdue balances for significant amounts.

The Breakdown of Receivables from customers by maturity is as follows:

EUR (000)	31.12.2008	31.12.2007
Within 12 months	23,783	45,023
Between 1 and 5 years	-	-
Beyond 5 years	-	-
Total	**23,783**	**45,023**

Other Receivables and other Current Assets (note 15)

EUR (000)	31.12.2008	31.12.2007
Other receivables	2,349	1,291
Accrued income	9	25
Prepaid expense	63	233
Total	**2,421**	**1,549**

Other receivables at 31 December 2008 amounted to EUR 2.3 million and include advance payments to suppliers for EUR 1.1 million as well as receivables from the tax authorities falling due within twelve months.

Prepaid expense of EUR 0.06 million includes prepaid insurance and leasing costs.

Other current financial assets (note 16)

Other current financial assets at 31 December 2008 totalled EUR 2.6 million and refer to the amounts restricted in order to support the guarantees given within the sphere of the disposal of the Group's German assets in 2007.

Cash and cash equivalents (note 17)

At the end of 2008, cash and cash equivalents totalled EUR 1.3 million and include the company's liquidity, essentially held in bank current accounts. Reference should be made to the report on operations for a detailed analysis of the financial position.

Shareholders' equity (note 18)

EUR (000)	31.12.2008	31.12.2007
Share capital	308,273	212,207
Share premium reserve	990,857	902,492
Stock option reserve	3,841	886
Reserve for purchase of treasury shares	(6,187)	-
Accumulated losses and losses for the period	(1,142,688)	(185,383)
Total	**154,096**	**930,201**

Following the loss reported in 2008 equating to EUR 981.324 million, accumulated losses at 31 December 2008 amounted to EUR 1,142,688 million.

The shareholders' equity at 31 December 2008 was therefore reduced to EUR 154.096 million, compared with the EUR 930.021 million at 31 December 2007; therefore the case envisaged by Article 2446 of the Italian Civil Code arose, involving a reduction in the share capital by more than a third. The Directors called the General Shareholders' Meeting for the appropriate measures.
Changes in shareholders' equity items are detailed in the relevant table, to which reference should be made.

The number of shares representative of the Group's share capital rose from 424,413,163 at 31 December 2007 to 616,545,485 at 31 December 2008, due to:

- the issue of 149,792,880 ordinary shares with a par value of EUR 0.50 each for the share capital increase resolved in August 2007, carried out in February 2008 with the aim of repaying the bridging loan granted by Intesa San Paolo and JPMorgan in July 2007 to the UK subsidiary Tiscali Uk Holding Ltd. As a result of said issue, the share premium reserve rose by EUR 74.89 million.

- the issue of 42,339,442 ordinary shares with a par value of EUR 0.50 each for the share capital increase carried out in September 2008 with the aim of converting the bond issued by the Luxembourg-based subsidiary Tiscali Financial Services S.A. subscribed by Management & Capitali (M&C) on 27 December 2007. As a result of said issue, the share premium reserve rose by EUR 41.79 million

The share premium reserve also underwent a decrease of EUR 23.8 million, deriving from use of the same to cover the loss accrued in the previous year resolved by the shareholders' meeting held on 29 April 2008, along with a net decrease of EUR 4.4 million consequent to the expenditure linked to the share capital increases carried out during the year.

The Reserve for the purchase of treasury shares, amounting to EUR 6.2 million, was established on 18 April 2008 following the purchase of 2,600,000 treasury shares at an average unit price of EUR 2.379 to serve the Stock Option plan assigned to the former Chief Executive Officer Tommaso Pompei. The purchase transactions were carried out in compliance with the provisions as per Articles 2357 et seq. of the Italian Civil Code and the limits indicated by the authorization of the shareholders' meeting.

The Reserve for Stock Options, totalling EUR 3.8 million, underwent an increase of EUR 2.9 million when compared with the previous year, represented by the matching balance of the remunerative component accrued in 2008 further to the stock option plans allocated to the managers of the company, and includes the effects of the acceleration of the plan reserved for the former Chief Executive Officer and the former Finance Director who maintained their assigned rights after leaving the Group.

Shareholders are also informed that the remunerative component deriving from the Stock Option plans relating to managers who are employees of other Group companies is not booked to the income statement of the parent company Tiscali S.p.A. but is booked to increase the book value of the equity investments in the Group companies on which the management benefiting from the Stock Option plans depend (representing a capital grant in their favour).

The amount allocated to the equity investment in the subsidiary Tiscali Italia S.p.A. comes to EUR 0.5 million (of which EUR 0.15 million booked to decrease the retained profits because it supplements the value recorded last year) while the amount allocated to the equity investment in Tiscali International Network S.p.A. came to EUR 0.08 million (of which EUR 0.02 million booked to decrease the retained profits because it supplements the value recorded last year).

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

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

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

Furthermore, on the basis of the agreements between the Company and Tommaso Pompei as a consequence of the latter relinquishing his powers, the options assigned to Tommaso Pompei are understood to be exercisable for the full amount resolved (including the second tranche) according to the terms established in the regulations. As a result of the above-mentioned adjustment mechanism, the exercise price for the options allocated to Tommaso Pompei currently stands at EUR 2.477 per share.

DETAILED STATEMENT OF SHAREHOLDERS' EQUITY ITEMS EUR (000)	Amount	Utilisation options	Available portion	Available portion with no tax effect	Available portion with tax effect	Summary of uses in the last 3 accounting periods: Loss coverage	Other
Share capital	308,273		-	-	-	-	-
Share premium reserve	990,857	A,B	990,857	-	-	123,775	-
Stock option reserve	3,841						
Reserve for treasury shares	(6,187)						
Accumulated losses and losses for the period	(1,142,687)		-	-	-	-	-
Total	**154,096**		**990,857**	**-**	**-**	**123,775**	**-**

Utilisation options – Key:

A For share capital increases

B For loss coverage

C For distribution to shareholders

Other non-current liabilities (note 19)

EUR (000)	31.12.2008	31.12.2007
Payables to Group companies	3,108	1,792
Other payables	515	
Total	**3,623**	**1,792**

The balance of Other non-current liabilities concerns financial payables to Group companies for EUR 3 million, represented by Tiscali Italia S.p.A..

The analysis of financial payables to Group companies is as follows:

EUR 000	31.12.2008	31.12.2007
Tiscali Motoring S.r.l.	-	69
Tiscali Italia S.p.A.	3,092	509
Tiscali Services S.p.A.	-	927
Quinary S.p.A.	-	268
Tiscali International Network S.p.A.	-	3
Tiscali International Network BV	-	-
Tiscali International Network SA	16	16
Total	**3,108**	**1,792**

Note that financial payables to Tiscali International Network B.V. (EUR 0.5 million) have been reclassified as payables to third parties due to the preliminary agreement of the purchase/sale of the activities reached in February 2009. Please see the comments to note 7.5.16 for greater details.

The break down by maturity of Other non-current liabilities is as follows:

EUR 000	31.12.2008	31.12.2007
1-5 years	3,623	1,792
beyond 5 years	-	-
Total	**3,623**	**1,792**

Liabilities for pension obligations and staff severance indemnities (note 20)

The table below shows the period movements:

EUR (000)	31.12.2007	Increases	Decreases	Other changes	31.12.2007
Staff severance indemnity	345	261	(318)	(17)	271
Total	**345**	**261**	**(318)**	**(17)**	**271**

The staff severance fund, which includes the indemnities accrued chiefly in favour of employees, amounts to EUR 0.3 million.

In accordance with national regulations and laws, the amount due to each employee is accrued depending on the service provided and has to be immediately disbursed when the employee leaves the company. At the end of the work relationship, the amount due is calculated pursuant to Italian statutory and employment legislation, on the basis of the duration of the employment relationship itself and the taxable remuneration of each employee. The liability is annually adjusted in compliance with the official cost-of-living index, and with the interest envisaged by law. It is not associated with any condition or period of accrual, or with any obligation of financial borrowing; therefore, there are no assets serving the provision. In compliance with IAS 19, the provision was recorded under "Plans with defined benefits".
The main actuarial hypotheses used for the valuation are presented below:

Financial assumptions	
Inflation rate:	*2.25%*
Discount rate	*6%*

Demographic assumptions:	
Mortality:	ISTAT 2002 M/F mortality tables with reference also to SIM 2002 and SIF 2002

Disability:	INPS 1998 M/F disability tables
Resignation:	*4% from 20-65 years*
Advance payments:	2% from 18-65 years
Retirement:	65 for men and 60 for women, with maximum length of service of 40 years

Provisions for risks and charges (note 21)

The table below shows the period changes:

EUR (000)	31.12.2007	Increases	Decrease	31.12.2008
Provision for risks and charges				
regarding employees disputes	1,835	110	(184)	1,762
Provision for coverage				
of losses on investee companies	20,118	17,240	(1,299)	36,059
Provision for restructuring charges	-	2,400	.	2,400
Other minor provisions	109	-	(109)	-
Total	**22,062**	**19,750**	**(1,591)**	**40,220**

The Provision for coverage of losses on investee companies comprises:

EUR (000)	31.12.2007	Increases	Decrease	31.12.2008
Quinary S.p.A.	1,299	-	(1,299)	-
Tiscali Finance SA	18,744	11,397	-	30,141
Tiscali Deutschland Gmbh	-	5,843		5,843
Energy Byte S.r.l. in liquidation	38		-	38
Tiscali Motoring S.r.l. in liquidation	38	-	-	38
Total	**20,118**	**17,240**	**(1,299)**	**36,059**

The provision for restructuring charges was established during the year to cover the process for the overhaul of the organizational structure launched in December 2008, now close to completion.

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Payables to banks and other lenders (note 22)

EUR (000)	31.12.2008	31.12.2007
Payables to banks and other lenders:		
Payables to banks	627	2,169
Total	**627**	**2,169**

The item only refers to bank overdrafts necessary for covering operating cash requirements.

Payables to suppliers (note 23)

EUR (000)	31.12.2008	31.12.2007
Trade payables to third parties	10,929	11,818
Trade payables to Group companies for materials and services	11,148	32,182
Total	**22,077**	**43,999**

Trade payables to third party suppliers relate mainly to payables for professional consulting services provided.

It should be mentioned that Trade payables are payable within twelve months and it is considered that their book value is approximate to their fair value as of the balance sheet date.

Trade payables to Group companies are detailed below:

EUR (000)	31.12.2008	31.12.2007
Tiscali International BV	-	7,960
Tiscali Business Gmbh	-	546
Tiscali Gmbh	-	109
Tiscali Espana SL	5	5
Tiscali UK Ltd	7,956	18,362
Tiscali Italia S.p.A.	3,187	2,179
Tiscali Services S.p.A.	-	2,140
Quinary S.p.A.	-	7
Tiscali International Network BV	-	873
Total	**11,148**	**32,182**

Note that trade payables to Tiscali International Network B.V. (EUR 0.8 million) have been reclassified as payables to third parties due to the preliminary agreement for the sale of the activities reach in February 2009.

Other current liabilities (note 24)

EUR (000)	31.12.2008	31.12.2007
Accrued expenses	15	36
Deferred income	2	308
Other payables to Group companies	45,753	234,270
Other payables to third parties	5,112	3,885
Total	**50,883**	**238,499**

The item Other payables to Group companies refers to the financial payable to the company Tiscali International B.V., a sub-holding company of the Tiscali Group, due during the year. The outstanding loan agreement does not envisage the charging of interest expense (interest-free loan).

The item Other payables mainly includes payables to the tax authorities for VAT totalling EUR 1.8 million, for withholdings on employee wages and due to welfare and social security institutions for approximately EUR 1 million, payables to employees for EUR 1.3 million and other payables for a total of EUR 1 million, of which EUR 0.8 million due to Directors for emoluments.

Guarantees issued and commitments

Guarantees issued are detailed as follows:

EUR (000)	31.12.2007	31.12.2006
GUARANTEES ISSUED TO THIRD PARTIES		
Sureties	687,527	802,127
	687,527	**802,127**
OTHER MEMORANDUM ACCOUNTS		
Commitments	6,964	8,376
	6,964	8,376
Total	**694,491**	**810,503**

Sureties given include EUR 500 million in relation to the guarantee given by the Parent Company for the loans granted by Banca Intesa San Paolo and JP Morgan as part of the acquisition of certain Group companies.

The same item includes the surety given by Tiscali S.p.A. to guarantee the amount of the loan granted for the sale & lease back transaction on the Sa Illetta property, totalling EUR 95 million, achieved by the subsidiary Tiscali Italian S.p.a..

The item commitments includes EUR 6.6 million for the maintenance of credit facilities granted to the subsidiary Tiscali Italia S.p.A..

Net financial position

As required by Consob Communication n. DEM/6064293 dated 28 July 2006, the Company's net financial position at 31 December 2008 is as follows:

EUR (000)	31.12.2008	31.12.2007
A. Cash	1	171
B. Other cash equivalents	1,372	2,012
C. Securities held for trading	-	-
D. Cash and cash equivalents (A) + (B) + (C)	**1,373**	**2,183**
E. Current financial payables	**-**	**-**
F. Current bank payables	(627)	(2,169)
G. Current portion of non-current debt		
H. Other current financial payables to Group companies	(45,753)	(234,270)
I. Current financial debt (F) + (G) + (H)	**(46,379)**	**(236,439)**
J. Net current financial debt (I) – (E) – (D)	**(45,006)**	**(234,256)**
K. Non-current bank payables	-	-
L. Bonds issued	-	-
M. Other non-current payables to Group companies	(3,108)	(1,792)
N. Other non-current payables to third parties	(515)	-
O. Non-current financial debt (K) + (L) + (M) + (N)	**(3,623)**	**(1,792)**
P. Net financial debt (J) + (O)	**(48,630)**	**(236,048)**

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

EUR (000)	31.12.2008	31.12.2007
Net debt as per the Report on operations	**(43,605)**	**(231,966)**
Current financial receivables	(5,025)	(4,082)
Net financial position	**(48,630)**	**(236,048)**

Financial risk management

Financial risk management objectives

The Group's Corporate Treasury division provides business services, co-ordinates access to the local and international financial markets, and monitors and handles the financial risk associated with Group operations by means of internal risk reports which analyze the exposures by degree and magnitude of the risk. These risks include market risks (inclusive of currency risks, fair value interest rate risks and price risks), credit risks and risks in cash flow interest rates.

The use of financial derivatives is disciplined by policies approved by the Board of Directors, which provides written principles on foreign exchange risks, interest rate risks, credit risks, on the use of financial derivatives and non-derivative financial instruments, and the investment of surplus liquidity. Consensus regarding the policies and exposure limits is reviewed by the internal auditor on an on-going basis.

Market risks

The Company's activities do not expose it primarily to the financial risk of changes in exchange rates for foreign currency and to the interest rate.

Transactions with related parties

During 2008, Tiscali S.p.A. had a number of dealings with related parties.

These were transactions regulated on an arms'-length basis; the table below summarises the balance sheet and income statement values recorded in the Parent Company's financial statements at 31 December 2008 arising from transactions with related parties.

The effects on the income statement are indicated as follows:

INCOME STATEMENT	31.12.2008	of which:	change %
EUR (000)		related parties	
Revenues	17,425	15,981	92%
Other income	-		
Purchase of materials and outsourced services	(7,883)	(1,835)	23%
Payroll and related costs	(14,248)	(2,481)	17%
Other operating costs	(1,769)		
Writedowns of receivables from customers	-		
Other writedowns	(972,046)		
Amortisation/depreciation	(375)		
Operating result	**(978,897)**	**11,665**	
Portion of result of equity investments carried at equity	-		
Net financial income (charges)	(1,915)		
Pre-tax result	**(980,812)**	**11,665**	
Income taxes	(263)		
Net result from operating activities (on-going)	**(981,074)**	**11,665**	
Result from assets disposed of and/or destined to be disposed of	(250)		
Net result	**(981,324)**	**11,665**	

INCOME STATEMENT	31.12.2007	of which:	change %
EUR (000)		related parties	
Revenues	15,455	14,681	95%
Other income	368		
Purchase of materials and outsourced services	(7,589)	(2,775)	37%
Payroll and related costs	(10,392)	(886)	9%
Other operating costs	(2,686)		
Writedowns of receivables from customers	(873)		
Other writedowns	(17,347)		
Amortisation/depreciation	(390)		
Operating result	**(23,455)**	**11,020**	
Portion of result of equity investments carried at equity	-		
Net financial income (charges)	(310)		
Pre-tax result	**(23,765)**	**11,020**	
Income taxes	(77)		
Net result from operating activities (on-going)	**(23,842)**	**11,020**	
Result from assets disposed of and/or destined to be disposed of	-		
Net result	**(23,842)**	**11,020**	

The effects on the balance sheet were as follows:

BALANCE SHEET EUR (000)	31.12.2008	of which: related parties	change %
Non-current assets	241,616	4,061	1.7%
Current assets	30,181	19,583	64.9%
Assets held for sale	-		
Total Assets	**271,797**	**23,644**	
	-		
Shareholders' equity	154,096	3,841	2.5%
Total Shareholders' equity	**154,096**	**3,841**	
Non-current liabilities	44,115	3,108	7.0%
Current liabilities	73,587	56,938	77.4%
Liabilities directly related to assets held for sale	-		
Total Liabilities and Shareholders' equity	**271,797**	**63,887**	

BALANCE SHEET EUR (000)	31.12.2007	of which: related parties	change %
Non-current assets	1,187,779	53,144	4.5%
Current assets	51,288	43,568	84.9%
Assets held for sale	-		
Total Assets	**1,239,067**	**96,712**	
Shareholders' equity	930,201	886	0.1%
Total Shareholders' equity	**930,201**	**886**	
Non-current liabilities	24,199	1,792	7.4%
Current liabilities	284,667	266,747	93.7%
Liabilities directly related to assets held for sale	-		
Total Liabilities and Shareholders' equity	**1,239,067**	**269,425**	

The most significant balances, at 31 December 2008, summarized by supplier of the services, are as follows:

INCOME STATEMENT VALUES	Notes	31.12.2008		31.12.2007	
EUR (000)		Costs	Revenues	Costs	Revenues
Quinary S.p.A.	1	-	90	-	98
Tiscali International Network B.V.	1	-	675	-	741
Tiscali B.V.	1	-	-	-	730
Tiscali Deutschland Gmbh	1	-	259	-	806
Tiscali GmbH	1	-		-	
Tiscali Espana SLU	1	-	-	-	-
Tiscali Telecomunicaciones Sa	1	-	-	-	-
Tiscali Telekomunikace Sro	1	-	-	-	-
Tiscali Uk Ltd	1	-	8,898	(138)	7,635
Tiscali Business GmbH	1	-	-	-	50
Tiscali Italia S.p.A.	1	(1,835)	6,059	(1,061)	4,401
Tiscali Services S.p.A.	1	-	-	(737)	221
Total Group companies		**(1,835)**	**15,981**	**(1,936)**	**14,681**
Bizzarri Francesco	2	-		(69)	
Borghesi e Colombo Associati S.r.l	3	-		(770)	
Stock options - CEO and employees	4	(2,481)		(886)	
Other related parties		**(2,481)**		**(1,725)**	**-**
Total Group companies and other related parties		**(4,316)**	**15,981**	**(3,661)**	**14,681**

BALANCE SHEET VALUES	Notes	31 december 2008					
EUR (000)		Trade receivables	Financial receivables	Trade payables	Trade payables (within 12 months)	Trade payables (beyond 12 months)	Stock Option reserve reserve
Energy Byte S.r.l	1	-	112	-	-	-	-
Quinary SpA	1	-	-	-	-	-	-
Tiscali B.V.	1	-	-	-	-	-	-
Tiscali Business Gmbh	1	-	-	-	-	-	-
Tiscali Deutschland Gmbh	1	-	-	-	-	-	-
Tiscali Gmbh	1	-	-	-	-	-	-
Tiscali Espana SLU	1	314	-	5	-	-	-
Tiscali International BV	1	-	-	-	45,753	-	-
Tiscali International Network BV	1	-	-	-	-	-	-
Tiscali International Network SA	1	-	-	-	-	16	-
Tiscali International Network SpA	1	-	-	-	-	-	-
Tiscali Italia S.p.A.	1	9,113	3,484	3,187		3,092	
Tiscali Media Srl	1	-	465				
Tiscali Motoring Srl	1	-	-	-	-	-	-
Tiscali Services S.p.A.	1	-	-	-	-	-	-
Tiscali Telecomunicaciones SA	1	-	-	-	-	-	-
Tiscali UK Holdings Ltd	1	774	-	-	-	-	-
Tiscali UK Ltd	1	9,382	-	7,957	-	-	-
Total Group companies		**19,583**	**4,061**	**11,149**	**45,753**	**3,108**	
Francesco Bizzarri	2			37			
Stock options	3						3.841
Other related parties		**-**	**-**	**37**	**-**		**3.841**
Total Group companies and other related parties		**19.583**	**4,061**	**11,186**	**45,753**	**3,108**	**3,841**

BALANCE SHEET VALUES	Notes	31 december 2007					
EUR (000)		Trade receivables	Financial receivables	Trade payables	Trade payables (within 12 mont.)	Trade payables (beyond 12 mont.)	Stock Option reserve
Energy Byte S.r.l	1		112				
Quinary S.p.A.	1	122	328	7		268	
Tiscali B.V.	1	-		-			
Tiscali Business Gmbh	1	505		546			
Tiscali Deutschland Gmbh	1	4,151		-			
Tiscali Gmbh	1	10,405		109			
Tiscali Espana SLU	1	315		5			
Tiscali International BV	1	-		7,960	234,270		
Tiscali International Network BV	1	1,715		873			
Tiscali International Network SA	1					16	
Tiscali International Network S.p.A.	1	137	663			3	
Tiscali Italia S.p.A.	1	2,733	31,948	2,179		509	
Tiscali Media S.r.l	1		321				
Tiscali Motoring S.r.l	1		351			69	
Tiscali Services S.p.A.	1	526	19,421	2,140		927	
Tiscali Telecomunicaciones SA	1		-				
Tiscali UK Holdings Ltd	1	774		18,362			
Tiscali UK Ltd	1	22,185					
Total Group companies		**43,568**	**53,144**	**32,182**	**234,270**	**1,792**	
Francesco Bizzarri	2			25			
Borghesi e Colombo Associati S.r.l	3			270			
Stock options	4						886
Other related parties		**-**	**-**	**295**	**-**		**886**
Total Group companies and other related parties		**43.568**	**53,144**	**32,477**	**234,270**	**1,792**	**886**

(1) Group companies

(2) Mr.. F. Bizzarri, member of Tiscali S.p.A.'s Board of Directors, stipulated an IPTV consultancy contract with the parent company, which concluded in June 2008. The entire cost was reversed to the subsidiary Tiscali Italia S.p.A., because the service pertained to it, and therefore has been adjusted by the related revenue.

(3) Studio Borghesi e Colombo Associati S.r.l.: the director Arnaldo Borghesi, member of Tiscali S.p.A.'s Board of Directors, in the previous year provided Tiscali S.p.A. with consultancy services as part of extraordinary finance transactions.

(4) Stock option – CEO and employees. Cost recorded in the item Payroll and related costs in the parent company's financial statements

Stock Options

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

The plan envisages the allocation:

- to the Chief Executive Officer, of 3,593,143 options for the purchase of the same amount of ordinary shares in the Company, deriving from purchases of treasury shares which the Company will carry out on the market in compliance with Article 2357 of the Italian Civil Code and on the basis of the authorization of the shareholders' meeting. The exercise of these options is dependent on the achievement of the performance objectives linked to the budget established by the Board of Directors, involving 40% with reference to the objectives established for 2006, which are understood to have been achieved, and the remaining 60% with reference to the objectives established for 2007.

- to the employees, of up to a maximum of 4,244,131 options for the subscription of the same amount of newly-issued ordinary shares in the Company, deriving from a share capital increase reserved in accordance with Article 2441.8 of the Italian Civil Code resolved by the shareholders' meeting.

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

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

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

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

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

The plan described above, intended for the Italian management of the Tiscali Group, runs alongside the plan of payments based on shares resolved last October for the UK management of the Group. This plan envisages the allocation to 20 UK managers of a number of options, convertible into shares of the subsidiary Tiscali UK Ltd., not exceeding 5% of the share capital of said company, net of dilution. The exercise price of the options has been established on the basis of the equity value of the UK subsidiary at the time of their allocation. Such options mature over a three-year period from allocation, and may be exercised for 10 years, again as from the date of allocation.

The Board Meeting held on 28 February 2008 resolved to adjust the exercise price of the options assigned to the employees by means of applying a ratio of 0.896756, identical to that published by the Italian Stock Exchange on 11 January 2008 and used to adjust the option contracts and the futures on Tiscali shares as a consequence of the share capital increase for around EUR 150 million concluded on 22 February 2008. Consequently, the exercise price of the options assigned to the employees was fixed at EUR 2.132 per share.

Furthermore, on the basis of the agreements between the Company and Tommaso Pompei as a consequence of the relinquishing of his powers, the options assigned to Tommaso Pompei are understood to be exercisable for the full amount resolved (including the second tranche) according to the terms established in the regulations. As a result of the above-mentioned adjustment mechanism, the exercise price for the options allocated to Tommaso Pompei therefore comes to EUR 2.477 per share.

Ongoing disputes and contingent liabilities

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

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

Disputes

Vereniging van Effectenbezitters/ Stichting Van der Goen WOL Claims dispute

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

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

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

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

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

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

KPNQWest Bankruptcy dispute

The subsidiary Tiscali International Network BV is involved in a dispute furthered by the receivership of the company KPNQWest Bankruptcy, a joint venture formed between the Dutch KPN and the US Qwest, currently in liquidation. The dispute, which arose in previous years, concerns a 5-year IRU agreement entered into between Tiscali International Network BV and KPNQWest, which envisaged the payment by the former of an amount of EUR 3.1 million for the performance of services by the second. Following the liquidation of KPNQWest, the provision of services was interrupted after only 5 months and Tiscali International Network BV received and recognised invoices for the sum of EUR 1.5 million. KPNQWest has demanded payment of the entire amount stipulated in the agreement.

Tiscali in turn objected to a demand for payment of this amount given the damages sustained from interruption of the service. On 17 March 2006, Citybank (acting as liquidator of KPNQwest) filed a precautionary attachment request for a value of around EUR 5 million on the bank current accounts of Tiscali International Network BV which did not bring about any significant result.

By means of provision in August 2008, the Rotterdam Court ordered Tiscali to pay an amount of US$ 1,318,720.80 plus interest and related charges. This amount reflects the first of the three instalments envisaged in the IRU agreement. Given the essentially positive outcome of the trial, Tiscali complied with the ruling which became final in November 2008 further to failure by the parties to appeal. The main dispute has therefore definitively concluded.

Mobistar dispute

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

Mobistar however opposed this early termination.

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

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

The *petitum* amounts to €4 million, nevertheless Tiscali believes that the same should be reduced (i) by around €1 million on the basis of the correct interpretation of the Contract, (ii) by a further amount, since the summons before the court of Wanadoo and the legal advisors by Tiscali should at least minimize the profile of responsibility of the latter. During this initial stage of the proceedings, Tiscali believes that it is in no way responsible; however, given the complexity of the dispute and the number of parties involved, a forecast with regards to the possible outcome emerges as complex. Despite the fact that the possibility of reaching an agreement on the dispute has been outlined, involving the payment of approximately EUR 400,000, Tiscali intends to hold out in the court case, unless the negotiations currently underway conclude favourably. In the financial statements at 30 September 2007, Tiscali International BV had not set aside provisions.

Ecotel communication AG/Tiscali

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

In agreement with the arbitration clause present in the contract for the sale of the German activities, on 21 April 2008 Ecotel launched arbitration proceedings, summoning Tiscali Business Gmbh and Tiscali as jointly and severally bound. Ecotel requests compensation for the damages suffered estimated as totalling EUR 15.2 million plus any additional damages and other related charges. Tiscali and Tiscali Business Gmbh have made their statement of action, disputing the charges. The arbitration proceedings will take place in Frankfurt (Germany) and are estimated to last around 24 months. The Company deems Ecotel Communication AG's requests to be lacking grounds, therefore the Company has not made any provision in the financial statements for this dispute.

Tax assessments

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

Remuneration of Directors, Statutory Auditors and Executives with strategic responsibility

In accordance with Article 78 of regulations enforcing Italian Legislative Decree No. 58/1998, issued by CONSOB under Resolution No. 11971/99, the following tables indicate the fees paid to Directors and Statutory Auditors.

Name and Surname	Position	Term of office	Emoluments for office (EUR)	Non-monetary benefits	Other forms of remuneration (EUR)
Board of Directors					
Vittorio Serafino	Chairman	Until 29 April 2008	60,000		
Tommaso Pompei	Chief Executive Officer	Until 29 February 2008	150,000	1,852,464	2,850,000
Mario Rosso	Director (a)(b)	Approval of financial statements as 31 December 2010	4,167		833,333
Massimo Cristofori	Director	Approval of financial statements as 31 December 2010	14,063	155,000	167,366
Francesco Bizzarri	Director	Approval of financial statements as 31 December 2010	25,000		
Arnaldo Borghesi	Director	Until 25 February 2009	25,000		
Gabriele Racugno	Director	Until 29 February 2008	4,167		
Rocco Sabelli	Director	Until 29 February 2008	4,167		
Umberto De Iulio	Director	Approval of financial statements as 31 December 2010	16,667		

(a) Appointed CEO as from 29 February 2008

(b) Appointed CEO and Chairman as from 29 April 2008

Name and Surname	Position	Term of office	Emoluments for office	Non-monetary benefits	Other forms of remuneration (EUR)
Board of Statutory Auditors					
Aldo Pavan	Chairman	Approval of financial statements as 31 December 2008	64,500		
Massimo Giaconia	Statutory Auditor	(a) Until 12 June 2008	16,640		
Piero Maccioni	Statutory Auditor	Approval of financial statements as 31 December 2008	43,000		
Rita Casu	Deputy Auditor	Approval of financial statements as 31 December 2008	-		
Andrea Zini	Deputy Auditor (a)	Approval of financial statements as 31 December 2008			
	Statutory Auditor (b)	Approval of financial statements as 31 December 2008	24,200		

(a) Until 12 June 2008

(b) As from 12 June 2008

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

The following table, drawn up in accordance with Article 149 *duodecies* of the Consob Issuers' Regulations, indicates the fees for 2008 for auditing services and those for other services provided by the independent auditing firm. There were no services provided by bodies belonging to its network.

Type of service	Party providing the services	Fee (EUR 000)
Accounts auditing	Reconta Ernst & Young S.p.A.	450
		450

(1) Signing of tax declaration form

(2) Assistance in the process for the sale of the UK subsidiary

(3) Assistance for preparation of the Floating Rate Note Offering Circular

Milan, Italy, 27 March 2009

The Chief Executive Officer

Mario Rosso

The Executive appointed to draw up the Corporate Accounting Documents

Romano Fischetti

8.6 Statutory financial statements certification in accordance with Article 81 ter of CONSOB Regulation No. 11971 dated 14 May 1999 and subsequent amendments and additions.

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

- the adequacy in relation to the Company's characteristics;
- the effective application of the administrative and accounting procedures for the formation of the financial statements during 2008.

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

It is also hereby certified that the financial statements at 31 December 2008:

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

Milan, Italy, 27 March 2009

The Chief Executive Officer

Mario Rosso

The Executive appointed to draw up the corporate accounting documents

Romano Fischetti

9. Independent Auditors' Report to the Consolidated Financial Statements

ERNST & YOUNG

Reconta Ernst & Young S.p.A.
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Independent Auditors' Report
pursuant to Article 156 of Italian Legislative Decree No. 58 dated 24 February 1998

To the Shareholders of
Tiscali S.p.A.

1. We have audited the consolidated financial statements, comprising the balance sheet, income statement, statement of changes in shareholders' equity, cash flow statement and the related explanatory notes, of Tiscali S.p.A. and its subsidiaries (the Tiscali Group) as of and for the year ended 31 December 2008. The Company's directors are responsible for drawing up the consolidated financial statements in compliance with the International Financial Reporting Standards adopted by the European Union, as well as the instructions issued by way of implementation of Article 9 of Italian Legislative Decree No. 38/2005. Our responsibility is to express an opinion on these financial statements based on our audit.

2. Our audit was made in accordance with the auditing standards and principles recommended by CONSOB for accounts auditing. In accordance with such standards, we planned and performed our audit to obtain the information necessary in order to determine whether the consolidated financial statements are materially misstated and if such financial statements, taken as a whole, may be relied upon. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, as well as assessing the appropriateness and correctness of the accounting policies applied and the reasonableness of the estimates made by the directors. We believe that our audit provides a reasonable basis for our opinion.

   For the opinion on the previous year's financial statements, whose balances presented for comparative purposes have been reclassified mainly as a result of the representation of the result of the operating assets sold off, as described in the section "Form and content of the accounting statements" in the explanatory notes , reference should be made to the report issued by another auditor dated 11 April 2008. The reclassification methods and the disclosure presented in the explanatory notes have been examined by us for the purpose of expressing our opinion on the consolidated financial statements as of and for the year ended 31 December 2008.

3. The Tiscali Group ended the accounting period with a loss of EUR 271.1 million and with consolidated shareholders' equity of EUR 4.8 million. Furthermore, as of 31 December 2008 the Group disclosed gross financial debt of EUR 644.8 million and, as of the same date, the levels of the financial covenants envisaged by certain loan agreements were not observed. This circumstance led to the reclassification under current liabilities of the medium/long-term loans, in accordance with the reference accounting standards. The Group's equity and financial position was also characterized by non-current assets for a total of EUR 890.9 million, inclusive of goodwill for EUR 438.8 million and other intangible assets for EUR 191.9 million, and the balance between current assets and liabilities presented a negative balance of EUR 691.1 million. With regard to significant events after the end of the year, the Directors report that the Group has suspended the payments envisaged within the sphere of the loan agreements outstanding and has not, therefore, repaid principal and interest instalments for EUR 35 million falling due in March 2009.

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As more fully illustrated in the Report on Operations and the explanatory notes in the section "Assessment of the business as a going-concern and business outlook and prospects", please note that the Group has launched negotiations with the financial institutes with the aim of reaching an agreement for restructuring the financial debt which, in the opinion of the Directors, should make it possible to define a new structure of the current debt consistent with the cash flow projections of the 2009 – 2013 Business Plan, whose guidelines were approved by the Board of Directors on 27 March.

The Directors have indicated that uncertainty exists with regard to the assumption of the Group's business continuity, but they have adopted the assumption of the business as a going-concern in the financial statements, deeming that there is a reasonable probability of reaching an agreement with the financial institutes.

Nevertheless, the positive conclusion of these negotiations and the achievement of the afore-mentioned financial debt restructuring agreement are essential elements for overcoming the uncertainties expressed with regard to the assumption of the business continuity.

Furthermore, as referred to in the explanatory notes, in the section "Critical decisions in applying accounting standards and in the use of estimates", the Directors reveal that the capacity to achieve the new 2009 - 2013 Business Plan and, therefore the profit and cash flow forecasts on the basis of which the recoverability of the main asset items has been assessed, is subordinate to the occurrence of the conditions described under " Assessment of the business as a going-concern and business outlook and prospects ", therefore the consolidated financial statements do not include adjustments for possible future effects on the recoverability and classification of the assets and liabilities which could derive from the definition of the described uncertainties.

Therefore, significant uncertainties remain such that they do not permit us to draw conclusions on the appropriateness of the outlook of the continuation of the business activities and, consequently, on the ability of the Tiscali Group to accomplish its activities and meet its liabilities during the normal course of business.

4. In consideration of the importance of the uncertainties described in the previous section, we are not able to express an opinion on the consolidated financial statements of the Tiscali Group as of 31 December 2008.

5. For a fuller comprehension of the consolidated financial statements, the reader's attention is drawn to the matters indicated by the Directors in the explanatory notes regarding the existence of a number of potentially significant disputes brought by third parties against the Dutch subsidiary World Online International NV. In May 2007, the Amsterdam Court of Appeal passed sentence, ascertaining certain responsibility pertaining to World Online International NV, without however passing sentence with regard to any damages, which will have to form the subject matter of new and separate proceedings by the damaged third parties, as yet not started up. To-date, the appeal and the counter appeal are pending before the Dutch Supreme Court against this sentence. With regard to these disputes, the Directors believe that there are not enough sufficiently defined elements for quantifying the potential liability and therefore they have made no provision in the financial statements. The Directors also disclose the existence of additional situations of risk associated with disputes outstanding or threatened, which they do not believe will lead to liabilities of a significant amount.

2

6. Tiscali S.p.A.'s Directors are responsible for drawing up the Director's Report on Operations, in compliance with the matters envisaged by the legal provisions and regulations. We are responsible for expressing an opinion on the consistency of the Directors' Report on Operations with the financial statements, as required by Article 156.4 bis, letter d) of Italian Legislative Decree No. 53 dated 24 February 1993. Due to the significance of the effects associated with the uncertainties described in the previous paragraphs, we are unable to express an opinion on the consistency of the Directors' Report on Operations with the consolidated financial statements of the Tiscali Group at 31 December 2008.

Milan, Italy, 14 April 2009

Reconta Ernest & Young S.p.A.

Lapo Ercoli
(Partner)

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10. Independent Auditors' Report to the Statutory Financial Statements

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Independent Auditors' Report
pursuant to Article 156 of Italian Legislative Decree No. 58 dated 24 February 1998

To the Shareholders of
Tiscali S.p.A.

1. We have audited the financial statements, comprising the balance sheet, income statement, statement of changes in shareholders' equity, cash flow statement and the related explanatory notes, of Tiscali S.p.A. as of and for the year ended 31 December 2008. The Company's directors are responsible for drawing up the financial statements in compliance with the International Financial Reporting Standards adopted by the European Union, as well as the instructions issued by way of implementation of Article 9 of Italian Legislative Decree No. 38/2005. Our responsibility is to express an opinion on these financial statements based on our audit.

2. Our audit was made in accordance with the auditing standards and principles recommended by Consob for accounts auditing. In accordance with such standards, we planned and performed our audit to obtain the information necessary in order to determine whether the financial statements are materially misstated and if such financial statements, taken as a whole, may be relied upon. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, as well as assessing the appropriateness and correctness of the accounting policies applied and the reasonableness of the estimates made by the directors. We believe that our audit provides a reasonable basis for our opinion.
   For the opinion on the previous year's financial statements, whose balances have been presented for comparative purposes, reference should be made to the report issued by another auditor dated 11 April 2008.

3. Tiscali S.p.A.'s financial statements at 31 December 2008 closed with a loss of EUR 981.3 million and therefore the shareholders' equity came to EUR 154.1 million and the Company finds itself in the circumstances envisaged by Article 2446 of the Italian Civil Code. At the same date, the Tiscali Group ended the year with a loss of EUR 271.1 million and consolidated shareholders' equity of EUR 4.8 million, Furthermore, at 31 December 2008 the Group disclosed gross financial debt of EUR 644.8 million and, as of the same date, the levels of the financial covenants envisaged by certain loan agreements were not observed. This circumstance led to the reclassification in the consolidated financial statements under current liabilities of the medium/long-term loans, in accordance with the reference accounting standards. The Group's equity and financial position was also characterized by non-current assets for a total of EUR 890.9 million, inclusive of goodwill for EUR 438.8 million and other intangible assets for EUR 191.9 million, and the balance between current assets and liabilities presented a negative balance of EUR 691.1 million. With regard to significant events after the end of the year, the Directors report that the Group has suspended the payments envisaged within the sphere of the loan agreements outstanding and has not, therefore, repaid principal and interest instalments for EUR 35 million falling due in March 2009.

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As more fully illustrated in the Report on Operations and the explanatory notes in the section "Assessment of the business as a going-concern and business outlook and prospects", please note that the Company has launched negotiations with the financial institutes with the aim of reaching an agreement for restructuring the financial debt which, in the opinion of the Directors, should make it possible to define a new structure of the current debt consistent with the cash flow projections of the 2009 – 2013 Business Plan, whose guidelines were approved by the Board of Directors on 27 March.

The Directors have indicated that uncertainty exists with regard to the assumption of the Group's business continuity, but they have adopted the assumption of the business as a going-concern in the financial statements, deeming that there is a reasonable probability of reaching an agreement with the financial institutes.

Nevertheless, the positive conclusion of these negotiations and the achievement of the afore-mentioned financial debt restructuring agreement are essential elements for overcoming the uncertainties expressed with regard to the assumption of the business continuity.

Furthermore, as referred to in the explanatory notes, in the section "Critical decisions in applying accounting standards and in the use of estimates", the Directors reveal that the capacity to achieve the new 2009 - 2013 Business Plan and, therefore the profit and cash flow forecasts on the basis of which the recoverability of the main asset items has been assessed, is subordinate to the occurrence of the conditions described under " Assessment of the business as a going-concern and business outlook and prospects ". Therefore the consolidated financial statements do not include adjustments for possible future effects on the recoverability and classification of the assets and liabilities which could derive from the definition of the described uncertainties.

Therefore, significant uncertainties remain such that they do not permit us to draw conclusions on the appropriateness of the outlook of the continuation of the business activities and, consequently, on the ability of the Tiscali Group to accomplish its activities and meet its liabilities during the normal course of business

4. In consideration of the importance of the uncertainties described in the previous section, we are not able to express an opinion on the financial statement of Tiscali S.p.A. at 31 December 2008.

5. For a fuller comprehension of the financial statements, the reader's attention is drawn to the matters indicated by the Directors in the explanatory notes regarding the existence of a number of potentially significant disputes brought by third parties against the Dutch subsidiary World Online International NV. In May 2007, the Amsterdam Court of Appeal passed sentence, ascertaining certain responsibility pertaining to World Online International NV, without however passing sentence with regard to any damages, which will have to form the subject matter of new and separate proceedings by the damaged third parties, as yet not started up. To-date, the appeal and the counter appeal are pending before the Dutch Supreme Court against this sentence. With regard to these disputes, the Directors believe that there are not enough sufficiently defined elements for quantifying the potential liability and therefore they have made no provision in the financial statements. The Directors also disclose the existence of additional situations of risk associated with disputes outstanding or threatened, which they do not believe will lead to liabilities of a significant amount

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6. Tiscali S.p.A.'s Directors are responsible for drawing up the Director's Report on Operations, in compliance with the matters envisaged by the legal provisions and regulations. We are responsible for expressing an opinion on the consistency of the Directors' Report on Operations with the financial statements, as required by Article 156.4 bis, letter d) of Italian Legislative Decree No. 53 dated 24 February 1993. Due to the significance of the effects associated with the uncertainties described in the previous paragraphs, we are unable to express an opinion on the consistency of the Directors' Report on Operations with the financial statements of the Tiscali S.p.A. at 31 December 2008.

Milan, Italy, 14 April 2009

Reconta Ernst & Young S.p.A.

Lapo Ercoli
(Partner)

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II. Report of the Board of Statutory Auditors

REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE SHAREHOLDERS' MEETING IN PURSUANCE OF ARTICLE 153 OF ITALIAN LEGISLATIVE DECREE No. 58/98 AND ARTICLE 2429.3 OF THE ITALIAN CIVIL CODE

To the Shareholders' meeting of Tiscali SpA

During the year ended at 31 December 2008, we performed the supervisory activities envisaged by the law, according to the standards of conduct for Boards of Statutory Auditors recommended by the Italian Accounting Profession.
Having taken into account that the related analytical audit on the financial statement contents is not assigned to us, we hereby report that we have overseen the general layout assigned to the same in addition to the compliance of its form and structure with the law.
Also in observance of the indications provided by CONSOB under communication dated 6 April 2001, subsequently integrated by communications dated 4 April 2003 and 7 April 2006, we hereby state the following:

- We oversaw observance of the law and the memorandum of association.
- We obtained the due information from the Directors on the activities carried out and on the transactions of greatest economic, financial and equity importance entered into by the Company also via its subsidiaries and we can reasonably ensure that the action resolved and carried out is compliant with the law, the Articles of Association and the general criteria of economic rationality and that therefore such transactions are not manifestly imprudent, hazardous, in potential conflict of interest or in contrast with the resolutions adopted by the shareholders' meeting or such that they would comprise the integrity of the corporate assets,
- We acquainted ourselves with and oversaw, in as far as it is our responsibility, the adequacy of the Company's organizational structure, the observance of the principles of correct administration and the adequacy of the provisions imparted by the Company to the subsidiaries in pursuance of Article 114. 2 of Italian Legislative Decree No. 58/98, via the gathering of information from the various managers and meetings with the independent auditors for the purpose of a reciprocal exchange of significant data and information, and in this connection we have no particular observations to make.
- In relation to the matters established by Article 2 of Italian Law No. 262 dated 28 December 2005 – which introduced a series of changes to Italian Legislative Decree No. 58/98, including the provision contained in the first section of Article 151 on the basis of which the Parent Company's Board of Statutory Auditors can request information on the performance of corporate transactions or on specific business affairs directly from the management and auditing bodies of the subsidiaries – the Board has requested the six-monthly forwarding – by the Board of Statutory Auditors of the subsidiary Tiscali Italia SpA – of copies of the minutes of the meetings held in each six-month period, with the aim of obtaining information on the management and auditing systems and

the general performance of the subsidiary company. In this connection, no significant data or information emerged which must be highlighted in this report.

- We have appraised and overseen the adequacy of the internal audit system and the administrative-accounting system, as well as the reliability of the latter to correctly represent the operating events, by means of obtaining information from the heads of the respective divisions, the examination of the corporate documents and the analysis of the results of the work performed by the independent auditors, overseeing the activities of the individual tasked with the internal audit, and in this connection we have no particular observations to make. The Company has adopted the "Organization, management and control model pursuant to Italian legislative Decree No. 231/2001" and, as indicated by the Directors, during 2008 - in consideration of the numerousness of the new types of offence – a project was launched to reviewing said Model, with the support of a consulting firm specialized on this subject.
- We held meetings with the representatives of the independent auditing firm as per Article 150.2 of Italian Legislative Decree No. 58/98, and no significant data or information emerged which requires indication in this report.
- There have been no significant infraGroup transactions, which we were made aware of as per Article 150 of Italian Legislative Decree No. 58/98.
- Transactions with related parties are analytically indicated in the report on operations where the balance sheet and income statement values are summarized, in relation to which reference should be made to the specific section of the consolidated financial statements entitled "Transactions with related parties".
- The independent auditing firm Reconta Ernst & Young SpA is at present issuing its reports on the statutory financial statements and the consolidated financial statements, which contain a declaration of impossibility of expressing an opinion due to the existence of significant uncertainties regarding the supposition of the Group's business continuity. In detail, the reasons for the decision can be summarized as follows:

  - *the levels of the financial covenants envisaged by certain loan agreements have not be observed;*
  - *after the end of the year, the Group suspended the payments envisaged within the sphere of the outstanding loan agreements and did not, thereby, repay principal and interest instalments for a total of EUR 35 million falling due in March 2009;*
  - *the Group launched negotiations with the financial institutes with the aim of reaching an agreement for restructuring the financial debt which, in the opinion of the Directors, should make it possible define a new debt structure consistent with the cash flow projections of the 2009-2013 business plan.*

The Directors have indicated that uncertainty exists with regard to the assumption of the Group's business continuity, but they have adopted the assumption of the business as a going-concern in the financial statements, deeming that there is a reasonable probability of reaching an agreement with the financial institutes.

The positive conclusion of these negotiations and the achievement of the afore-mentioned financial debt restructuring agreement are essential elements for overcoming the uncertainties expressed with regard to the assumption of the business continuity.

Therefore, significant uncertainties remain such that they do not permit us to draw conclusions on the appropriateness of the outlook of the continuation of the business activities and, consequently, on the ability of the Tiscali Group to accomplish its activities and meet its liabilities during the normal course of business.

Taking due note of the motives adopted by the independent auditing firm, the Board of Statutory Auditors believes that the assessment of the existence of the business continuity formulated by the Directors is founded, based on the achievement of the Business Plan and on the reasonable probability of finalizing an agreement with the financial institutes in the suspension periods.

A complaint has been received pursuant to Article 2408 of the Italian Civil Code, relating to a delay in the presentation of corporate documents at Borsa Italiana SpA. The Board was able to ascertain the scant seriousness of the breach and its prompt solution and the up-dating of the existing procedure.

In pursuance of Article 149.1 letter e) bis of Italian Legislative Decree No. 58/98, we formally acknowledge that the Directors in their report on Corporate Governance declare that the Tiscali Group complies and follows the Code of Best Practice for listed Italian companies issued in March 2006. Compliance with the legislation envisaged by the afore-mentioned Code has been effectively verified by ourselves and has formed the subject matter, with regard to its various aspects, of the report on Corporate Governance which the Board of Directors makes available to you and to which we make reference so as to provide you with the most adequate and complete disclosure in this connection. As indicated in said report, during 2009 – following the resignation of the Director Arnaldo Borghesi – the Internal Audit Committee needs to be supplemented. We therefore point out the need for the future composition of the Board of Directors to permit the formation of several Committees, in accordance with the matters envisaged by the Code of Best Practice.

- During 2008, Reconta Ernst & Young SpA – as well as other bodies associated with its network – performed professional services other than the audit of the statutory and consolidated financial statements. Total fees for 2008 can be summarized as follows:

	Euro/000
Accounts auditing (statutory and consolidated financial statements)	980
Certification and other services	378
Total	1,358

- During the year, the Board issued its opinion pursuant to Article 2389 of the Italian Civil Code (directors' remuneration).
- The independent auditing firm, Reconta Ernst & Young SpA, has not issued any opinion required by law, with the exception of its report on the interim accounts at 30 June 2008.
- The supervisory activities described above were performed during eight meetings of the Board of Statutory Auditors, four meetings of the Internal Audit Committee and attending all nine meetings of the Board of Directors as per Article 149.2 of Italian Legislative Decree No. 58/98.

During the supervisory activities carried out and on the basis of the information obtained from the independent auditing firm, no omissions and/or events open to censure and/or irregularities were noted or in any event significant events which would require reporting to the supervisory bodies or mentioning in this report.

You are hereby reminded that due to the end of the three-year period, our mandate has come to an close and you will therefore be required to resolve on this matter.

Cagliari, 14 April 2009

ON BEHALF OF THE BOARD
OF STATUTORY AUDITORS

ALDO PAVAN

PIERO MACCIONI

ANDREA ZINI

12. Attachment - Glossary

Shared access	technique for unbundled access to the local network where the former monopolist operator rents part of the duplex cable spectrum to other operators: in this portion of spectrum, the operator can provide Broadband services, while the former monopolist operator continues to provide telephone services on the spectrum portion not rented out.
ADSL (broadband)	acronym for Asymmetric Digital Subscriber Line, an asymmetric DSL technology (the band available for receiving is greater than that available for transmission) which permits high-speed internet access.
ADSL2+	ADSL technology which extends the basic ADSL capacity, doubling the bit download flow. The band width can reach 24 Mbps in download and 1.5 Mbps in upload and depends on the distance between the DSLAM and the customer's home.
Uncovered areas	also known as "indirect access areas", they identify the geographic areas which are not served directly by Tiscali's network (also see Bitstream and Wholesale)
ARPU	average revenue from land-line and mobile telephone services per user calculated over a specific period for the average number of Tiscali Group customers or active customers (for the other operators) in the same period.
Bitstream	Bitstream (or numeric flow) service: service comprising the supply by the operator for access to the land-line based public telephone network of transmission capacity between the position of the end user and the point of presence of an operator or ISP which wishes to offer the broadband service to an end user.
Broadband	data transmission system where several data is sent simultaneously to increase the effective transmission speed with a data flow equal to or greater than 1.5 Mbps.
Broadcast	simultaneous transmission of information to all the nodes of a network.
Access Fee	this is the amount charged by the national operators for every minute of use of their network by the operators of other networks. It is also known as the 'interconnection fee'.
Capex	Acronym of Capital Expenditure. It identifies cash flows used for investments in the operating structure.
Carrier	company which physically makes the telecommunications network available.
Co-location	areas dedicated to the exchanges of the incumbent operator for the installation by Tiscali of its network equipment.
CPS	acronym for Carrier Pre Selection, the operator pre-selection system: it permits the operator/supplier of local services to automatically route the calls on the carrier network chosen by the customer who no longer has to dial special selection codes.
CS	acronym for Carrier Selection, operator selection system: it permits the customer to select, by dialling a specific code, a national and international long-distance operator, other than the one with whom they have entered into a contract with to access the network.
Business customers	the SoHo, small, medium and large companies.
Consumer customers	customers who subscribe to the range intended for households.
Dial Up	narrowband internet connection via a normal telephone call, normally subject to time-based tariffs.
Digital	this is the way of representing a physical variable by means of a language which only uses the figures 0 and 1. The figures are transmitted in binary form as a series of impulses. The digital networks,

which are rapidly replacing the old analogue networks, permit greater capacity and increased flexibility by means of the use of computerized technology for the transmission and manipulation of the calls. Digital systems offer minor interference with regard to noise and may comprise cryptography as protection from outside interference.

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

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

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

Fibre Optics thin fibres of glass, silicon or plastic which make up the base for an infrastructure for data transmission. A fibre cable contains various individual fibres, each capable of conveying the signal (light impulses) to a practically unlimited length of band. They are usually used for long-distance transmission, for the transfer of 'heavy' data so that the signal arrives protected from disturbance which it may meet along its route. The transport capacity of the fibre optic cable is considerably greater than traditional cables and the copper duplex cable.

GigaEthernet term used to describe the various technologies which implement the nominal speed of an Ethernet network (the standard protocol of boards and cables for speedy connection between computers on a local network) up to 1 gigabit per second.

Home Network local network comprising various types of terminals, apparatus, systems and user network, with related applications and services, including therein all the equipment installed at the user's.

Hosting service which involves allocating the pages of a website site on a web server, thereby making it accessible to the internet.

Incumbent former monopolist operator active in the telecommunications sector.

IP acronym for Internet Protocol, Inter-Networking Protocol, created to interconnect mixed networks with regard to technology, services, ,handling.

IPTV acronym for Internet Protocol Television, technology suitable for using the IP transport infrastructure so as to convey TV contents in digital format, using an internet connection.

IRU acronym for Indefeasible Right of Use, long-term agreements which ensure the beneficiary the possibility of use of the fibre optic network of the grantor for a long period.

ISDN acronym for Integrated Service Digital Network, Narrowband telecommunication protocol cable for transporting various types of information in an integrated manner (voice, data, text, images), coded in digital form, on the same transmission line.

Internet Service Provider or ISP a company which provides access to the Internet to individual issuers or organizations.

Leased lines lines of transmission capacity available under transmission capacity lease agreement.

MAN acronym for Metropolitan Area Network, the fibre optic network which extends within metropolitan areas and links the Core Network to the Access network.

Mbps	acronym for megabit per second, unit of measurement which indicates the capacity (therefore the speed) of transmission of the data on the IT network.
Modem	modulator/demodulator. It is a device which modulates the digital data so as to permit its transmission on analogue channels, generally comprising telephone lines.
MNO	acronym for Mobile Network Operator, the telecommunications operator who owns the mobile network which offers its services wholesale to the MVNO (Mobile Virtual Network Operator).
MPF	acronym for Metallic Path Facility, the pair of copper cables (unshielded helicoidal pair) which starts off from the permutator (MDF -Main Distribution Frame) present in the telephone exchange of the operator and arrives at the premises of the user (private individual or business). The connections can be Full or Shared. A “Full” type connection enables both the fruition of the data service (wideband) and the voice service. A “Shared” type connection only enables the fruition of the data services (broadband). In the service under “shared access”, the LLU operator (under unbundled access) provides the ADSL service to the end user, while the incumbent operator provides the analogue telephone service using the same access line.
MSAN	acronym for Multi-Service Access Node, a platform capable of transporting a combination of traditional services on an IP network and which supports a variety of access technologies such as for example the traditional telephone lines (POTS), the ADSL2+ line, the SHDSL symmetrical lines, the VDSL and the VDSL2, both via copper and fibre networks.
MVNO	acronym for Mobile Virtual Network Operators: a party who offers mobile telecommunications services to the general public, using its mobile network switching structures, its own HLR, its own mobile network code (MNC, Mobile Network Code), its own activities for customer handling (marketing, invoicing, service) and issuing its own SIM card, but which does not have assigned frequential resources and avails itself, for access purposes, of agreements on a contractual or regulatory basis with one or more licensee mobile network operators.
Narrowband	method of connection to data networks, for example Internet, established by means of a telephone call. In this type of connection, all the band width of the transmission medium is used as a single channel: a sole signal occupies all the available band. The band width of a communication channel identifies the maximum quantity of data which can be transported by the transmission medium in a unit of time. The capacity of a communication channel is limited by both the interval of the frequencies which the medium can sustain and by the distance to be travelled. A Narrowband connection example is the common Narrowband connection via modem at 56 Kbps.
OLO	acronym for Other Licensed Operators, operators other than the dominant one who operates on the national market of telecommunications services.
Opex	acronym for Operating Expenses (operating costs), these are direct and indirect costs which are recorded in the income statement.
Pay-Per-View	system via which the viewer pays to see a single programme (such as a sporting event, film or concert) at the time it is transmitted or broadcast.
Pay TV	Pay television channels. In order to receive Pay TV or Pay-Per-View channels, it is necessary to link up the television to a decoder and have a qualified access system.
Platform	all the input, including the hardware, software, running equipment and procedures, in order to produce (production platform) or manage (management platform) a specific service (service platform)
POP	acronym for Point of Presence, location where the telecommunications equipment is installed and which represents a network node.

Portal website which represents the point of departure or rather an entry port for a substantial group of Internet resources or an Intranet.

Router hardware instrument or in some cases software, which identifies the subsequent point of the network to which the bundle of data received is to be sent, routing this data bundle to its final destination.

Service Provider party which provides the end users and the content providers with a range of services, including an owned service centre, exclusive or third party.

Server IT component which provides services to other components (typically customer calls) via a network.

Set-top-box or STB equipment capable of handling and conveying the data, voice and television connection, installed at the end customer's.

Syndication the re-sale of radio and TV transmission to the wholesale trade by a media company who owns the rights and usually also the delivery platform.

SoHo acronym for Small office Home office, small offices, mainly professional studios and small businesses.

SHDSL acronym for Single-pair High-speed Digital Subscriber Line. The SHDSL is a technology for xDSL family telecommunications and is achieved by means of direct interconnection under LLU and permits a high-speed balanced data connection in both directions (transmission and receipt).

Single Play service comprising just broadband data access, not in combination with other multi-play components like the voice service and IPTV. Broadband access can be provided by means of LLU, Wholesale or Bitstream platforms.

Single Play voice comprises solely access to the voice service, not in combination with other multi-play components like broadband access and IPTV. The voice service can be provided by VoIP and CPS modes.

SMPF acronym for Shared Metallic Path Facilities, synonym of Shared Access (unbundled access).

Triple Play combined range of land-line and/or mobile telephone, Internet and/or TV services by a single operator.

Local loop unbundling or LLU unbundled access to the local network, or rather the possibility that the telephone operators have, since the telecommunications market was deregulated, of using the existing physical infrastructures created by another operator, so as to offer customers their own services, paying a fee to the operator who actually owns the infrastructures.

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

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

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

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

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

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

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

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

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

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

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