



<b>FIRST QUARTER REPORT AS AT 31 MARCH 2007</b> <b>FIRST QUARTER 2007</b>
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**TISCALI S.P.A.**

Registered Office: Cagliari, Località Sa Illetta, SS195 Km 2,3

Share Capital € 212,206,580.98

Tax Code, VAT and registration in the Companies Register in Cagliari n. 02375280928 R.E.A. - 191784

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## **DIRECTORS AND AUDITORS**

- **Composition of company bodies**
- **Board of Directors**

### **Chairman**

Vittorio Serafino

### **Chief Executive Officer (CEO)**

Tommaso Pompei

### **Chief Financial Officer (CFO)**

Massimo Cristofori

### **Directors**

Francesco Bizzarri

Arnaldo Borghesi

Gabriele Racugno

Mario Rosso

Rocco Sabelli

- **Board of Statutory Auditors**

### **Chairman**

Aldo Pavan

### **Statutory Auditors**

Piero Maccioni

Massimo Giaconia

### **Deputy Auditors**

Andrea Zini

Rita Casu

- **Independent Auditors**

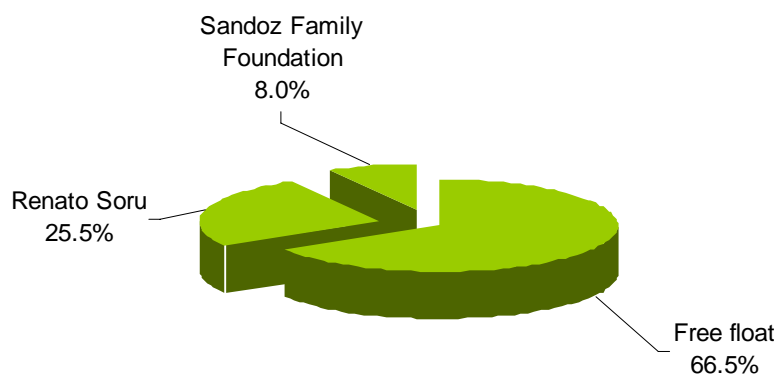
Deloitte & Touche S.p.A.

## TISCALI'S SHARES

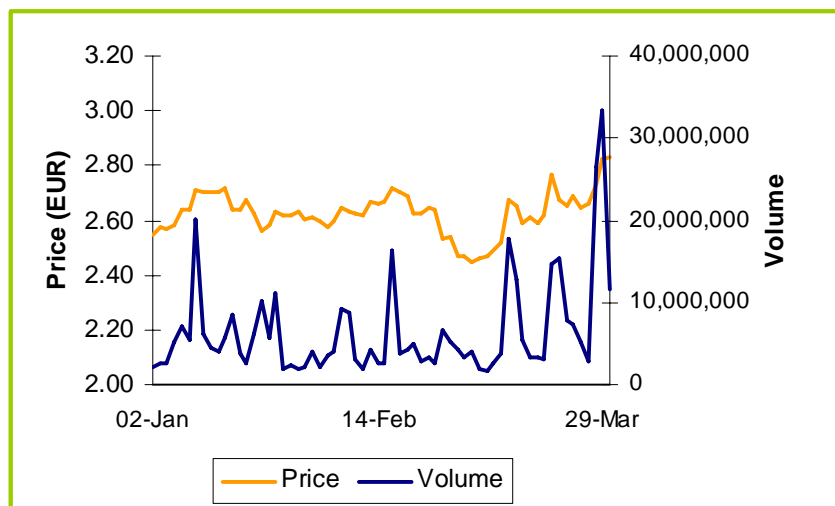
Tiscali's shares are listed on the Blue Chip segment of the Italian Stock Exchange (TIS). As of 30 March 2007, Tiscali had a market capitalization of EUR 1,201.5 million.

The share capital as of 31 March 2007 consisted of 424,413,163 ordinary shares.

The chart below illustrates Tiscali's shareholder base as of 31 March 2007:



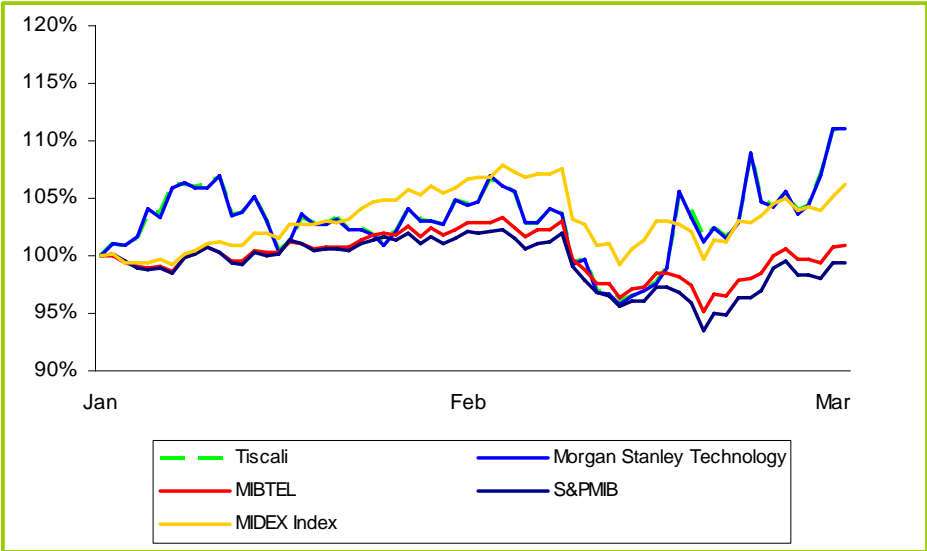
The graph below shows Tiscali stock's price performance during first quarter 2007: the performance of Tiscali's shares was positive and trading volumes strong, particularly in the month of March 2007.



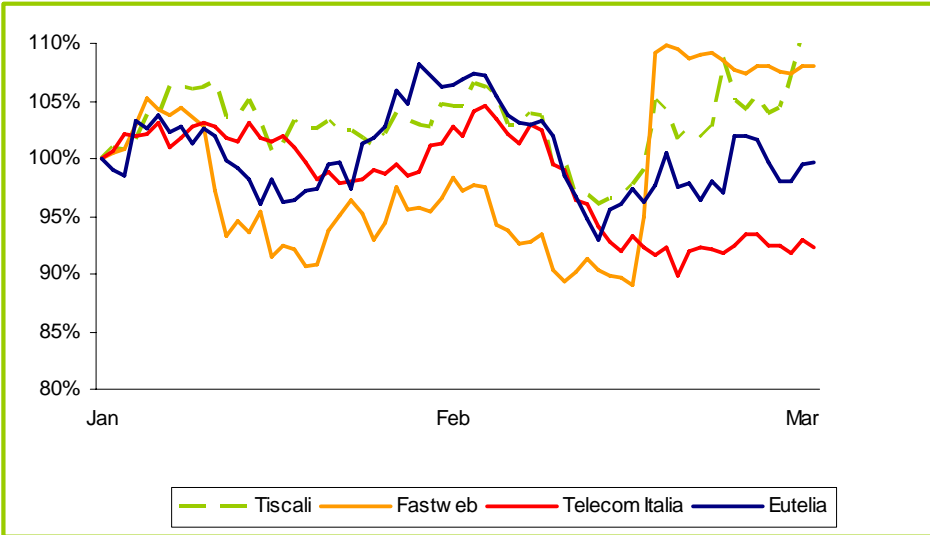
Source: Bloomberg

The average price per share in the quarter was EUR 2.626. The maximum price in the period, EUR 2.831, was registered on March 30<sup>th</sup> and the minimum price, EUR 2.445, was registered on March 5<sup>th</sup>.

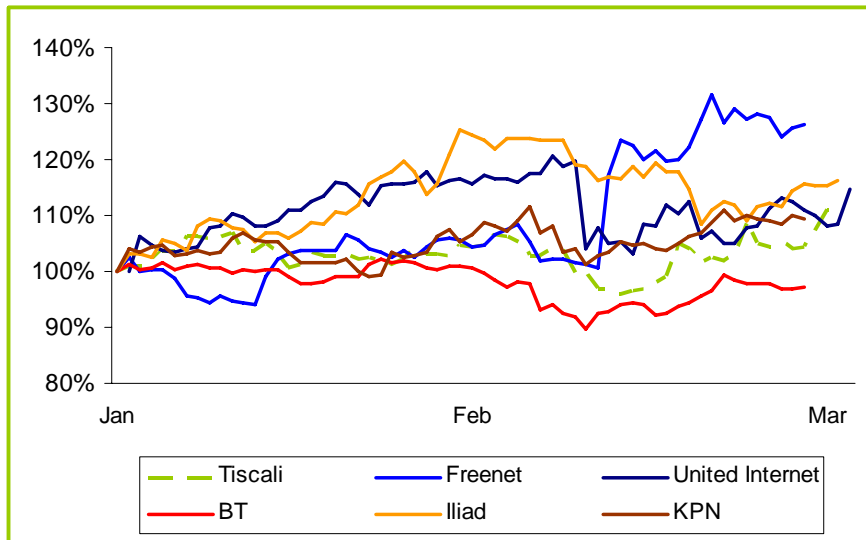
The graphs below show Tiscali stock trends vs market indexes and its main Italian and international competitors.



Source: Bloomberg



Source: Bloomberg



Source: Bloomberg

In first quarter the trading volumes stood at a daily average equal to approximately 6.4 million shares, with an increase in March.

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#### Average daily trades of Tiscali shares on the Italian Stock Exchange

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	Price (EUR)	Number of shares
January	2.633	5,545,610
February	2.630	4,811,083
March	2.615	8,745,413
<b>Average</b>	<b>2.626</b>	<b>6,367,369</b>

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## KEY FIGURES

<b>Income Statement</b> (EUR thousands)		
	<i>First quarter 2007</i>	<i>First quarter 2006</i>
• Revenues	193.2	154.7
• Gross operating result	25.2	18.5
• Operating result	(16.8)	(12.3)
<b>Balance sheet</b> (EUR thousands)		
	<i>31 March 2007</i>	<i>31 March 2006</i>
• Total assets	1298.1	1230.7
• Net Financial Debt	430.8	397.2
• Shareholder's Equity	223.4	269.6
• Capex	35.2	40
<b>Non Financial Figures</b> (000)		
	<i>31 March 2007</i>	<i>31 March 2006</i>
Access users	3,448	3,425
ADSL ( <i>broadband</i> ) subscribers	1,954	1,493
of which: ADSL unbundling subscribers	707	171

## RESULTS AND PERFORMANCE OF THE TISCALI GROUP

### RESULTS AND PERFORMANCE

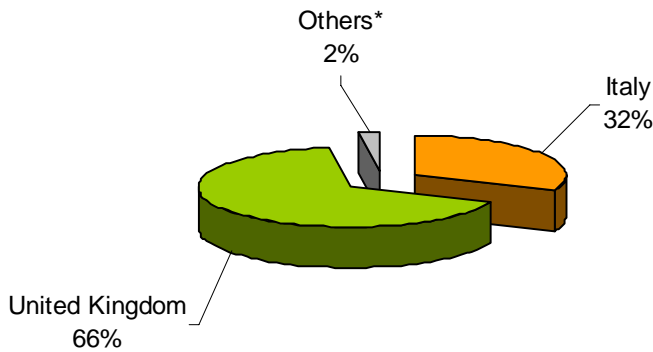
<b>CONSOLIDATED INCOME STATEMENT</b> <i>(EUR thousands)</i>	<b>First quarter 2007</b>	<b>First quarter 2006</b>
<b>Revenues</b>	<b>193,189</b>	<b>154,755</b>
Other operating income	1,216	259
Purchases of materials and external services	143,767	117,917
Personnel costs	25,181	17,674
Other operating expenses	250	898
<b>Gross Operating Result</b>	<b>25,207</b>	<b>18,524</b>
Restructuring costs, other provisions and write downs	5,943	3,209
Depreciation and amortisation expense	36,041	27,660
<b>Operating Result</b>	<b>(16,777)</b>	<b>(12,345)</b>
Share of the profit or losses of associates accounted for using the equity method	(142)	(139)
Net financial income (Expenses)	(12,657)	(6,796)
Other net financial income (Expenses)	(13,321)	-
<b>Income (loss) before taxes</b>	<b>(42,897)</b>	<b>(19,280)</b>
Taxation	44	356
<b>Income (loss) from continued operations</b>	<b>(42,941)</b>	<b>(19,636)</b>
Income (loss) from discontinued operations	(1,070)	350
<b>Net income (loss)</b>	<b>(44,012)</b>	<b>(19,286)</b>

In first quarter 2007 the Tiscali Group's revenues related to the activities in Italy and the United Kingdom and to those of certain subsidiaries (among which Tinet) stood at EUR 193.2 million, up 25% as compared on a homogeneous basis to the EUR 154.8 achieved in 1Q 2006. Such growth was due to an acceleration of ADSL revenues (+34%) and of voice revenues (+67%), thanks to the success of the double play offers, particularly in Italy. Revenues from direct access were fourfold as compared to the first quarter of financial year 2006), while revenues from media services and values-added services showed a growth exceeding the Group's average (+30%).



## REVENUES BY GEOGRAPHICAL AREA

### Geographical breakdown of revenues



\* Other includes revenues from Tinet and other minor subsidiaries.

### Italy

Tiscali Italia SpA has achieved in first quarter 2007 EUR 60.7 million revenues, as compared to EUR 51 million of the same period in 2006, thus showing a 19% increase. Within the general growth trend revenues related to ADSL access services stood at EUR 22.8 million, up 43% as compared to EUR 15.9 of 1Q 2006. Over 50% of ADSL revenues were generated by direct customers, that is customers connected to the Tiscali network infrastructure (ULL). The quarter also saw a significant increase of the voice revenues that, including the expansion of the VoIP services (over EUR 5.6 million in the period), amounted to EUR 13.9 million, up 68% as compared to the first quarter of financial year 2006.

In first quarter 2007 Tiscali's activities in Italy saw a net increase of more than 38,000 new ADSL subscribers, bringing the total number of these customers to over 470,000, up 33% as compared to the end of first quarter 2006. Of these ca 270,000 are already connected to the Tiscali network infrastructure (unbundling). Customers subscribing in the quarter the double play service offer (data and voice through the Internet) are over 30,000, bringing the total number of VoIP customers in Italia to over 111,000.

Notwithstanding the physiologic slowdown of this market segment, the user's base using dial-up (*narrowband*) access services is still significant with over 584,000 customers.

The new offers already presented in the last financial year (ADSL and voice – Tiscali Tandem), that is a series of “flat” solutions allowing to navigate and call fixed network numbers without limits, all over Italy, both in the areas covered by the unbundling network and in those not yet covered, prompted an acceleration of revenue and ARPU dynamics.

## United Kingdom

Also continuing in the growth of **Tiscali UK Ltd**, including VNL, achieved in the quarter EUR 128 million revenues, up 28% as compared to 1Q 2006 (EUR 100.3 million). Such performance is mainly due to a growth of ADSL access services achieving EUR 81.2 million revenues (63% of total revenues) in the quarter, as compared to EUR 60.5 million of 1Q 2006, up 34%. The voice services, also including analogical products sold in association to ADSL services generated EUR 24.7 million revenues (EUR 15.2 in the same period of financial year 2006).

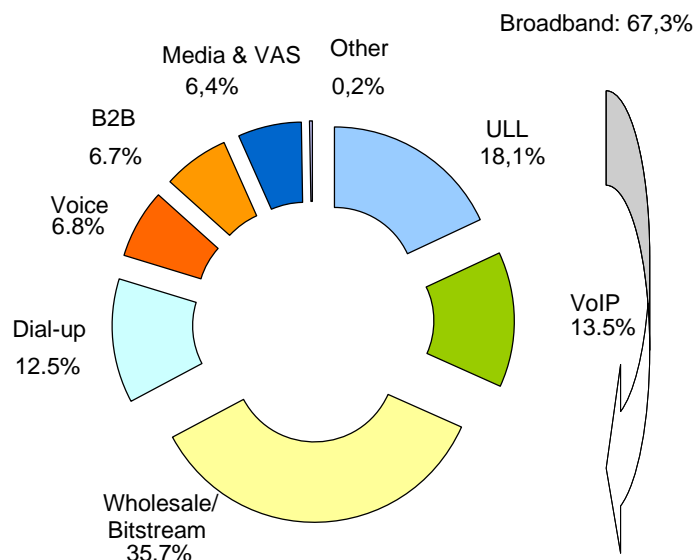
ADSL users subscribing in first quarter 2007 were approximately 62,000. As of 31 March 2007 broadband users were therefore over 1.48 million, of which about 437,000 direct customers, that is already connected to the unbundling Tiscali network whose implementation started in first half of financial year 2006.

Tiscali UK confirmed in first quarter a growth trend, despite the VNL integration process and a reference market characterised by strong competition, also in terms of service prices. A further boost to growth is also expected from the launch of the IPTV offer, started on March 1st and expected to cover the whole Tiscali ULL network within 2008.

The Tiscali television offer is proposed as a supplement to the access and voice broadband offers, allowing customers to choose premium content in addition to the basic package.

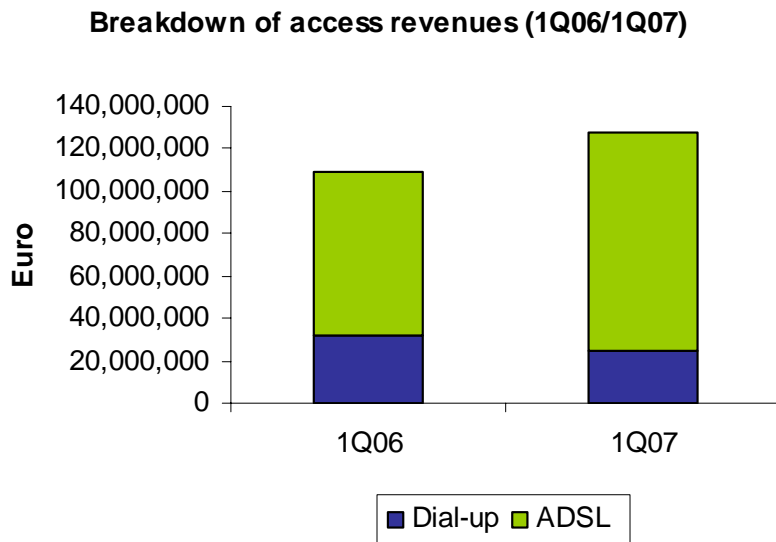
### **REVENUES BY BUSINESS SEGMENT**

#### **Breakdown of revenues by business segment and access mode**



## Access

This segment, including revenues from Internet access services through narrowband (dial-up) and broadband (ADSL), generated in the quarter EUR 128.2 million revenues, approximately accounting for 67% of the total Group's revenues in the quarter and showing a 17% growth as compared to the same period of financial year 2006 (EUR 109.3 million). The figure reflects the physiological slowdown of narrowband revenues, though the analysis of isolated ADSL revenues shows a revenue increase in 1Q 2007 amounting to 34% as compared to 1Q 2006 (EUR 103.9 million versus EUR 77.8 million). In particular, revenues from the direct access segment are more than fourfold as compared to the first quarter of the previous financial year, rising from EUR 8.3 million to over EUR 35 million.



The ADSL user base acquired in first quarter is 100,000, bringing the total of customer accessing such service to over 1.9 million of which more than 700,000 already activated as direct customers, that is connected to the Tiscali network with unbundling access (ULL).

## Voice

The development of voice services is a significant factor in the plan that sees Tiscali as a provider of integrated telecommunication services and the quarter performance shows that the Group is in line with its target. These services, proposed both in the analogical and VoIP mode in association to access services, generated a revenue growth in the first quarter of the financial year (+67%).. In absolute terms the voice revenues grew from EUR 23.5 million in first quarter 2006 to EUR 39.2 million in first quarter 2007, of which EUR 26 million related to VoIP services.

### **Business services**

Revenues generated by business services (VPN, housing, hosting, domain services and leased lines), therefore excluding revenues pertaining to access and/or voice products for business customers, which are included in the relevant business lines, stood in first quarter 2007 at EUR 13 million, up 17% as compared to EUR 11.1 million in first quarter 2006.

To this regard, it should be emphasized that, when taking into account also revenues from business users related to the access and voice services, revenues from the business services in the quarter account for EUR 32.8 million as compared to the figure of EUR 31.9 million in the first quarter 2006.

### **Media and value-added services**

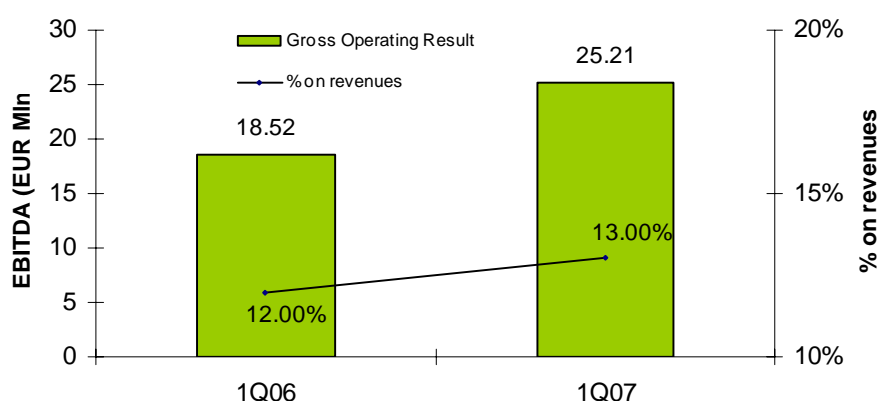
In first quarter 2007 the revenues generated by this segment amount to EUR 12.4 million, up 30% as compared to first quarter 2006 (EUR 9.6 million). This result confirms Tiscali's policy which considers this business segment as strategic.

This result highlights and confirms the upturn trend of the online advertising market for which a further significant expansion is expected, considering the remarkable penetration of Internet in the advertising market, also to the detriment of more traditional channels. From this standpoint, the Group's strategy to develop the services offered through its portals in Italy and UK and to concentrate on outstanding partnerships, has been rewarded.

## GROSS OPERATING RESULT

First quarter Gross Operating Result (EBITDA), before provisions for risks, write downs and depreciations, stood at EUR 25.2 million, therefore showing a 36% growth as compared to EUR 18.5 of 1Q 2006. In terms of percentage of revenues this result is in line with the same period of the previous financial year.

### Gross Operating Result



Concerning the Gross Margin ( a calculation which is not reported on the P&L account, as it is not required by the IAS/IFRS standards, but which is provided as additional information) Tiscali Group's performance in 1Q 2007 was stable as compared to 1Q 2006 (46% of revenues), notwithstanding the competitive pressure on prices, above all in the UK market. In absolute terms the first quarter 2007 Gross Margin reaches EUR 88.2 million, up 23% as compared to the first quarter of financial year 2006 (EUR 71.6 million).

First quarter indirect operating costs stood at EUR 64 million (33% of revenues), slightly lower in terms of percentage on revenues as compared to 1Q 2006 (EUR 53.2 million, 34% of revenues).

Within indirect operating costs, **personnel costs** in first quarter 2007 amounted to EUR 25.2 million (13% of revenues): these costs also reflect the acquisition of VNL by the British subsidiary Tiscali UK.

**Marketing costs**, including sales and distribution costs stood at EUR 24.8 million (13% of revenues).

**Other indirect operating costs** for first quarter 2007 amounted to EUR 13.9 million (7% of revenues).

## OPERATING RESULT

Operating Result for the first quarter 2007 shows a loss of EUR 16.8 million as compared to a loss of EUR 12.3 million in 1Q2006.

**Restructuring costs, provisions for risks and write-downs** totalled in first quarter 2007 EUR 5.9 million (EUR 3.2 million in the same period of 2006). Credit write-down amount in first quarter to EUR 4.9 million (EUR 3.0 million in first quarter 2006), in line with the revenue increase.

**Amortisation** amounted in 1Q 2007 to EUR 36.0 million (EUR 27.7 million in first quarter 2006). This figure reflects significant investments in the period for the development of the *unbundling* network and of the ADSL service offer (modem and customer activation costs).

#### **OPERATING RESULT BY GEOGRAPHICAL AREA**

Detailed breakdown by geographical area allows to analyze 1Q2007 performances of two main subsidiaries of Tiscali's Group in their relevant geographic areas.

Please note that reported figures refer to individual operating units, thus including the intragroup components.

Tiscali **Italia** SpA closed first quarter 2007 with a gross operating result, net of intragroup costs related in particular to *information technology* services provided by Tiscali Services SpA, equal to EUR 7.1 million (12% of revenues), showing a 34% growth as compared to EUR 5.3 million of 1Q 2006 (10% of revenues). The operating result of Tiscali Italia SpA in first quarter 2007 is negative at EUR 4.5 million which compares to the loss of EUR 1.9 million in 1Q 2006, due to higher depreciation.

The gross operating result of Tiscali UK (**United Kingdom**) in 1Q 2007, that included the quarterly results of Video Networks Ltd (VNL) and intragroup costs for *information technology* services provided by Tiscali Services SpA, stood at EUR 17.1 million (13% of revenues) (EUR 14.0 million in 1Q 2006, 14% of revenues). The gross operating result is therefore substantially stable in terms of percentage on revenues.

The operating result performance of first quarter 2007 was negative at EUR 8.5 million, as compared to the negative figure of EUR 3.8 million in first quarter 2006. The quarter results were heavily affected by depreciation (EUR 22.2 million) associated to the development of the user base as well as to that of the *unbundling* network infrastructure, started in financial year 2006.

### **RESULTS FROM CONTINUING OPERATIONS**

Excluding the results of operations held by Tiscali in the Czech Republic, Germany, The Netherlands and Spain, this figure was negative at EUR 42.9 million, as compared to the EUR 19.6 million loss in 1Q 2006. This figure includes non recurring items as described in the section "Net Income".

### **RESULTS OF ASSETS HELD FOR SALE**

In first quarter 2007 the net result of assets held for sale was negative at EUR 1.1 million versus the positive result of EUR 0.3 million in the same period of 2006. To provide better understanding of such results please see below the detailed breakdown by geographical area of the relevant operations:

<b>CONSOLIDATED PROFIT AND LOSS ACCOUNT (EUR thousands)</b>	<b>First quarter 2007</b>	<b>First quarter 2006</b>
Czech Republic	(1,033)	(592)
Germany	(1,745)	(2,116)
The Netherlands	3,775	3,699
Other operations	(2,067)	(641)
<b>Result of discontinued operations and/or assets held for sale</b>	<b>(1,070)</b>	<b>350</b>

*(Results net of intragroup revenues/costs)*

Please note that activities related to residential and business customers in Tiscali Germany were sold in January/February 2007 and the period result shows the relevant capital gain

### **NET RESULT**

The net result of first quarter 2007 was negative at EUR 44 million, as compared to the net loss of EUR 19.3 million in first quarter 2006. This result is affected by non recurring items related to the early reimbursement of financing facilities (mainly Silver Point Capital for ca EUR 13 million), and of interest costs (EUR 13 million) vs EUR 6.8 million in first quarter 2006.

## FINANCIAL SITUATION

<b>CONSOLIDATED BALANCE SHEET (synthesis) (EUR thousands)</b>	<b>31 March 2007</b>	<b>31 December 2006</b>
Non current assets	912,320	876,465
Current assets	241,111	195,641
Assets held for sale	144,730	158,642
<b>Total Assets</b>	<b>1,298,162</b>	<b>1,230,748</b>
Shareholders' Equity (Group)	196,690	242,829
Minority interests	26,733	26,733
<b>Total Equity</b>	<b>223,422</b>	<b>269,561</b>
Non current liabilities	530,077	222,299
Current liabilities	471,490	673,957
Liabilities directly associated with assets held for sale	73,171	64,932
<b>Total Equity and Liabilities</b>	<b>1,298,162</b>	<b>1,230,748</b>

### ASSETS

#### Non current assets

Non current assets mainly consist of goodwill whose value as at 31<sup>st</sup> March 2007 is equal to EUR 315 million.

Tangible assets (buildings, plants and equipment) and other intangible assets amount respectively to EUR 209.7 million and EUR 223.7 million.

#### Investments

The expansion of the *unbundling* network and other operational investments, related to the installation and activation of new ADSL customers, have generated in first quarter new investments equal to EUR 35.2 million, of which EUR 24.9 million allocated to intangible assets and approximately EUR 10.3 million to tangible assets. The intangible assets investments are mainly related to costs for the activation of ADSL customers, as well as signing of IRU (*Indefeasible rights of use*) contracts, related to the acquisition of rights to use network and bandwidth, while the tangible asset investments are mainly related to the development of the *unbundling* network, including the relevant equipment.

As at 31 March 2007 Tiscali reached and activated 445 sites in the United Kingdom and approximately 440 sites in Italy.



## **Current assets**

As of 31<sup>st</sup> March 2007 customer receivables totalled EUR 150.3 million, representing the most significant item of current assets. Other receivables and other current assets include in particular accrued income from access services, deferred charges from costs for services and other receivables among which VAT credits.

## **LIABILITIES**

### **Non current liabilities**

Together with the items of the financial position, detailed in the next paragraph, such liabilities include in particular, under item Other non current liabilities, the medium and long term debts related to the financing granted by Banca Intesa SanPaolo and debts towards suppliers for the purchase of multi-year rights for transmission capacity (IRU).

### **Current liabilities**

Current liabilities which are not related to the financial position mainly include, under item Other current liabilities, the payables to suppliers and accrued liabilities for the purchase of access services and leasing of lines.

## FINANCIAL POSITION

As of 31<sup>st</sup> March 2007, the Tiscali Group's cash and cash equivalents totalled EUR 15.1 million, while the net financial position related to continuing operations at the same date in 2006 was negative at EUR 430.8 million (EUR 397.2 million as at 31<sup>st</sup> December 2006).

The Group's financial position, concerning continued operations only, is summarised in the table below:

EUR thousands	31 March 2007	31 December 2006
A. Cash and cash equivalents	15,154	3,824
B. Other liquid assets	17,063	11,494
C. Securities held for negotiation	-	-
<b>D. Total cash and other financial assets (A) + (B) + (C)</b>	<b>32,217</b>	<b>15,318</b>
<b>E. Current financial assets</b>	<b>19,416</b>	<b>21,257</b>
F. Current bank loans	92,003	374,787
G. Current part of non current debt	-	-
H. Other current financial debts (*)	23,389	12,302
<b>I. Current financial debt (F) + (G) + (H)</b>	<b>115,392</b>	<b>387,090</b>
<b>J. Net current financial debt (I) – (E) – (D)</b>	<b>63,758</b>	<b>350,514</b>
K. M/L term bank loans	276,348	-
L. Bonds issued emeses	-	-
M. Other non current debt (**)	90,716	46,648
<b>N. Non current financial debt (K) + (L) + (M)</b>	<b>367,064</b>	<b>46,648</b>
<b>O. Net financial debt (J) + (N)</b>	<b>430,823</b>	<b>397,163</b>

(\*) includes leasing debts

(\*\*) includes leasing debts and debts towards shareholders

In order to ensure consistency with data provided in former reports the above table includes VAT credits among current financial credits and securities among Other liquid assets.

The table below reconciles the above financial position with the same statement prepared in compliance with Consob resolution of 28 July 2006.

EUR thousands	31 March 2007	31 December 2006
<b>Net consolidated net financial debt</b>	<b>(430,823)</b>	<b>(397,163)</b>
Other liquid assets and current financial assets	(18,737)	(25,114)
<b>Consob net consolidated financial debts</b>	<b>(449,560)</b>	<b>(422,277)</b>

Following the repayment of the credit line granted by Silver Point the composition of financial debts is considerably changed. At present such debt is in fact mainly related to non current bank loans with Intesa SanPaolo, EUR 276.4 million, and current bank loans with Barclays, EUR 75.6 million.

We also report the redemption of the EDC financing (EUR 13.3 million) and of the mortgage loan (EUR 29.1 million), related to a *sale and lease back* concerning headquarters in Cagliari, totalling EUR 61 million (of which EUR 11.8 million included in financial debts and EUR 48.9 million included among other non current debts).

The variation of cash and cash equivalents in first quarter 2007, including financial charges, was positive at EUR 11.3 million. These results were mainly affected by the significant investments implemented (EUR 35.2 million) for the development of the user base and of the “*unbundling*” network infrastructure as well as by financial charges paid (EUR 19 million in the quarter).

## **SIGNIFICANT EVENTS IN THE QUARTER**

### **New financing**

The Tiscali Group has signed a financing agreement with Intesa SanPaolo for EUR 280 million. The credit line, granted in February, has been mostly used to repay the existing Silver Point and Export Development Canada (EDC) facilities. The initial rate, equal to Euribor + 250 bps, and other terms of the credit line granted by Intesa Sanpaolo substantially improve the terms of the previous facility granted by Silver Point.

The Tiscali Group has moreover completed a so-called “*sale and lease back*” concerning the building located Cagliari, *headquarter* of the Group. Through such transaction the ownership of the building has been transferred, with a repurchase option at the expiry of the renting contract, to a pool of lenders including Centro Leasing, Intesa Leasing and Locat, for the equivalent of EUR 61.2 million; the Tiscali Group has then rented the building for 15 years and will pay a rent calculated at about Euribor +140 bps. After the mortgage re-payment and other costs the operation has generate approximately 26 million cash for the Group.

### **Disposals**

On 31 January 2007 Tiscali signed an agreement with Freenet AG who acquired the narrowband and broadband consumer customers of Tiscali in Germany. At 31 December 2006 Tiscali had about 380,000 active customers in Germany, of which about a third connected through indirect broadband.

On 5 February 2007 Tiscali signed an agreement with Ecotel Communication AG who acquired the Tiscali B2B operations in Germany.

The disposal of Dutch activities to KPN is currently under review of the Antitrust authority.

### **Tiscali launches the first European service of encrypted e-mail**

On 16 January 2007 Tiscali has launched, first European Internet Service Provider, a tool for email privacy: Tiscali Secure Mail. The service, now available in Italy and soon in the UK, is meant for those wishing to ensure the safety of the email messages and attachments while travelling through the web from sender to recipient.

### **Tiscali launches the Tiscali TV service in UK**

On 5 February 2007 the Tiscali Group's British subsidiary (Tiscali UK) has launched its commercial offer concerning television via internet (IPTV) in the United Kingdom. The service launched on March 1<sup>st</sup> is expected cover the whole ULL network of Tiscali UK within 2008 – at the price of 19.99 pounds per month with the triple play offer. This operation is line with Tiscali's philosophy that sees the television offer as a complement to the access and voice broadband service offer, with an option allowing users to choose premium content in addition to the access basic package.

## **SIGNIFICANT EVENTS AFTER 31<sup>ST</sup> MARCH 2007 AND MANAGEMENT PROSPECTS**

### **EVENTS AFTER QUARTER END**

#### **Stock Options Plan and relevant Shareholders' Meeting resolution on purchase of own shares and capital increase**

The Shareholders' Meeting has approved on 3 May the stock options plan for the Chief Executive Officer Tommaso Pompei and a maximum of 40 employees of the parent company and of its Italian subsidiaries.. Pursuant to this plan, the Board of Director has assigned today to the CEO 3,593,143 options for the purchase of the same number of ordinary shares of the Company. The options will be exercisable from 4<sup>th</sup> May to 3<sup>rd</sup> November 2010 at a price of EUR 2.763 per shares, which is the average of the Prezzi Ufficiali of the shares traded on the Italian Stock Exchange in the month preceding the AGM, in compliance with tax regulation.

A maximum of 4,244,131 options will be allocated to employees for the subscription of the same number of newly issued ordinary shares of the Company, from a reserved capital increase approved by the same Shareholders' Meeting. The employees stock option plan is also being implemented.

The terms and conditions of the stock option plan are the ones disclosed to the market on 20<sup>th</sup> March 2007.

#### **Appointment of two Directors**

The Tiscali Shareholders' meeting has also confirmed in its ordinary meeting the appointment of the two non executive Directors Arnaldo Borghesi and Rocco Sabelli, co-opted by the Board of Directors on 20 December 2006 following the resignation of Directors Victor Bishoff and Gabriel Pretre.

#### **Judgment of the Amsterdam Court of Appeal in relation to WOL**

After the conclusion of the Shareholders meeting Tiscali has been informed that concerning the proceedings started by VEB (a Dutch association of shareholders) against World Online with regard to the IPO of the company in March 2000, before Tiscali bought WOL - the Amsterdam Court of Appeal today, amending the decision rendered by the District Court in first instance, ruled that the IPO prospectus was in parts incomplete and that World Online should have corrected certain inaccurate views that existed in the media prior to the IPO with respect to Ms Brink's shareholding in World Online. World Online will review the full content of the judgment and consider a possible appeal to the Dutch Supreme Court.

The judgment by the Court of Appeal only concerns the question whether World Online can be held liable. The amount of damages incurred by plaintiffs as a result of the above, if any, should eventually be decided on in separate proceedings yet to be started.

### **MANAGEMENT PROSPECTS**

Consistently with the new 2007-2010 industrial plan. the Tiscali Group intends to consolidate and strengthen its position as an infrastructured provider of IP based services, through a transition

from a pure ISP model to an exclusive provider to the final customer of integrated telecommunication and media services (with the relevant expansion on the markets of physical access, voice and IPTV). This means implementing a network model entirely based on the IP protocol and a product proposition combining marketing aggressiveness and innovation through the full transfer of both traditional and innovative services on the new networks.

The disposal of the German operations and the agreement reached on the disposal of the Dutch operations enable the Tiscali Group to implement the concentration of the core business in Italy and in the United Kingdom, where the Group relies on significant points of strength, among which an overall customer base of over 3 million customers, of which approximately 50% ADSL subscribers. Tiscali is also working on the new opportunities stemming from the fixed-mobile convergence process, both from a technologic viewpoint (testing of Wi-Max networks, single mobile terminals and integrated set-up-box Wi-fi/GSM set-up-boxes), and on the basis of the new perspectives offered by the opening and development of the MVNO market. The total amount of capital expenditure stated in the industrial plan and required to complete the *unbundling* network infrastructure and to develop the new IP service offer is approximately EUR 740 million.

The prospects of the sector in which the Tiscali Group operates and the Group's competitive position are considered to be in line with the achievement of the targets set by the new industrial plan, involving a further improvement of the economic and financial dynamics of Tiscali. Quite significant is therefore the capacity of the Group to generate free cash flows, a key factor significantly affecting the development of Tiscali's financial position as well as the stability of its businesses and finances.

On the basis of the business plan, the targets afor 2007 are:

- Revenues: EUR 820 million
- EBITDA (Gross operating result): EUR 150 million
- Capex: EUR 200 million
- Free Cash Flow positive from 4Q2007

**TISCALI GROUP – FINANCIAL STATEMENTS AND EXPLANATORY NOTES AS OF 31 MARCH 2007**

<b>INCOME STATEMENT</b> <i>(EUR thousands)</i>	<b>Notes</b>	<b>First quarter 2007</b>	<b>First quarter 2006</b>
<b>Revenues</b>	(2/3)	<b>193,189</b>	<b>154,755</b>
Other income		1,216	259
Purchase of materials and external services	(4)	143,767	117,917
Personnel costs		25,181	17,674
Other operating expenses operative		250	898
<b>Gross operating result</b>		<b>25,207</b>	<b>18,524</b>
Restructuring costs, other provisions and write downs	(5)	5,943	3,209
Amortisation		36,041	27,660
<b>Operating result operative</b>		<b>(16,777)</b>	<b>(12,345)</b>
Share of the profit or losses of associates accounted for using the equity method		(142)	(139)
Net financial income (expenses)	(6)	(12,657)	(6,796)
Other net financial income (Expenses)	(7)	(13,321)	-
<b>Income (loss) before taxes</b>		<b>(42,897)</b>	<b>(19,280)</b>
Taxation		44	356
<b>Net income (loss) from continued operations</b>		<b>(42,941)</b>	<b>(19,636)</b>
Income (loss) from discontinued operations and/or assets held for sale	(8)	(1,070)	350
<b>Net income (loss)</b>		<b>(44,012)</b>	<b>(19,286)</b>

<b>BALANCE SHEET</b>	Notes	<b>31 March 2007</b>	<b>31 December 2006</b>
<i>( EUR thousands)</i>			
<i>Non current assets</i>	(9)		
Goodwill		315,036	316,646
Intangible assets		223,676	218,371
Property, plant and machinery		209,733	181,173
Equity investments		2,333	2,474
Other financial assets		17,715	13,095
Deferred tax assets		143,828	144,706
		<b>912,320</b>	<b>876,465</b>
<i>Current activities</i>	(10)		
Inventories		4,148	4,084
Receivable from customers		150,337	135,737
Other receivables and other current assets		53,471	44,135
Other current financial assets		18,001	7,862
Cash and cash equivalents		15,154	3,824
		<b>241,111</b>	<b>195,641</b>
Assets held for sale	(11)	144,730	158,642
<b>Total assets</b>		<b>1,298,162</b>	<b>1,230,748</b>
<i>Share capital and reserves</i>			
Share capital		212,207	212,207
Share premium reserve		948,017	948,017
Translation reserve		3,744	4,685
Retained earnings		(967,277)	(922,079)
<b>Shareholders' Equity (Group)</b>		<b>196,690</b>	<b>242,829</b>
Third-party interests		26,733	26,733
<b>Minority interests</b>		<b>26,733</b>	<b>26,733</b>
<b>Total Shareholders' Equity</b>		<b>223,422</b>	<b>269,561</b>
<i>Non-current liabilities</i>	(12)		
Bonds		-	-
Payables to banks and to other lenders		307,211	30,730
Obligations under finance leases		59,854	15,918
Other non-current liabilities		124,532	131,398
Liabilities for pension obligations and staff severance		5,755	6,194
Provisions for risks and charges		32,725	38,059
		<b>530,077</b>	<b>222,299</b>
<i>Current liabilities</i>	(13)		
Bonds – Current value		-	-
Payables to banks and other lenders		92,003	374,787
Obligations under finance leases		23,389	12,303
Payables to suppliers		203,079	180,147
Other current liabilities		153,019	106,720
		<b>471,490</b>	<b>673,957</b>
Liabilities directly related to assets held for sale		73,172	64,932
<b>Total liabilities and shareholders' equity</b>		<b>1,298,162</b>	<b>1,230,748</b>



**CONSOLIDATED CASH FLOW STATEMENT**

(synthesis)

EUR thousands

31 March 2007 31 March 2006

<b>Net result from continuing operations</b>	<b>(42,941)</b>	<b>(19,432)</b>
<b>NET CASH GENERATED BY OPERATING ACTIVITIES</b>	<b>(17,094)</b>	<b>26,111</b>
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(37,296)</b>	<b>(46,549)</b>
<b>NET CASH ARISING FROM(USED IN) FINANCING ACTIVITIES</b>	<b>44,636</b>	<b>6,894</b>
Result on activities disposed of and held for sale	(1,070)	146
Change of activities disposed of and held for sale net of cash	22,687	1,123
Change of liabilities related to activities held for sale	8,239	(880)
<b>NET CASH ARISING FROM /(USED IN ) FINANCING ACTIVITIES</b>	<b>74,492</b>	<b>7,283</b>
<b>INCREASE / (DECREASE) OF CASH AND CASH EQUIVALENTS</b>	<b>20,102</b>	<b>(13,155)</b>
Cash and cash equivalents of operating activities at the beginning of the financial year	3,824	30,005
Cash and cash equivalents of activities disposed of and held for sale at the beginning of the financial year	5,029	1,965
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE FINANCIAL YEAR</b>	<b>8,853</b>	<b>31,970</b>
Cash and cash equivalents of operating activities at the end of the financial year	15,154	17,147
Cash and cash equivalents of activities disposed of and held for sale at the end of the financial year	13,804	1,668
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (3 months)</b>	<b>28,958</b>	<b>18,943</b>

## STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

EUR (000)

<i>(EUR thousands)</i>	Share Capital	Share premium reserve	Translation reserve	Retained earnings	Shareholders' equity Group	Minority interests	Total
<b>Balance at 1<sup>st</sup> January 2007</b>	<b>212,207</b>	<b>948,017</b>	<b>4,685</b>	<b>(922,080)</b>	<b>242,829</b>	<b>26,733</b>	<b>269,562</b>
Increases	-	-	-	-	-	-	-
Transfers covering losses	-	-	-	-	-	-	-
Exchange differences arising on the translation of the financial statements of foreign operations	-	-	(941)	(1185)	(2126)	-	(2126)
Loss due to minority interest	-	-	-	-	-	-	-
<b>Gains (losses) taken to equity for the period</b>	<b>-</b>	<b>-</b>	<b>(941)</b>	<b>(1,185)</b>	<b>(2,126)</b>	<b>-</b>	<b>(2,216)</b>
Net profit (loss) for the year (*)	-	-	-	(44,012)	(44,012)	-	(44,012)
<b>Total recognised profit (loss) for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(44,012)</b>	<b>(44,012)</b>	<b>-</b>	<b>(44,012)</b>
<b>Balance at 31 March 2007</b>	<b>212,207</b>	<b>948,017</b>	<b>3,744</b>	<b>(967,277)</b>	<b>196,690</b>	<b>26,733</b>	<b>223,422</b>

(\*) Pertaining to the parent Company

## EXPLANATORY NOTES

### 1. FORMAT AND CONTENT OF ACCOUNTING REPORTS / ACCOUNTING PRINCIPLES

According to art. 82 of Consob Rule No. 11971/1999 and subsequent updates and integrations this first quarter report has been prepared in compliance with the international accounting principle applicable to interim financial reporting (IAS 34), adopted according to the procedure described in art. 6 of EU regulation no. 1606/2002.

Starting with the financial year 2005 and following the coming into force of the aforementioned European Regulation n.1606/2002, the Tiscali Group has adopted the International Financial Reporting Standards (IFRS – International Financial Reporting Standards and IAS – International Accounting Standards) issued by 'IASB' (International Accounting Standards Board) and approved by the European Union, as well as the interpretations included in the documents of International Financial Reporting Committee ('IFRIC'), previously defined Standing Interpretation Committee ('SIC').

#### ***Consolidation area***

In first quarter 2006 no changes occurred in the basis of consolidation with respect to the consolidated financial statements as at 31 December 2006.

#### ***Accounting principles***

This first quarter report has been prepared applying the same accounting principles adopted for the consolidated financial statements as 31 December 2006, to which reference is made.

The preparation of interim financial statements requires management to make accounting estimates and in some cases assumptions in the application of accounting principles. The directors' decisions are based on historical experience as well as on expectations associated with the realisation of future events and considered reasonable under the circumstances. Estimates concerned in particular the areas detailed below.

#### ***Impairment of goodwill***

The *impairment* test on goodwill is performed in coincidence with annual reports or more frequently during the financial year if any impairment indicator arises, requiring the immediate assessment of possible losses of value. 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 business and financial statements of the unit to which goodwill is related. The preparation of these financial statements, as well as the determination of an appropriate discount rate, require the application to a significant extent of estimates.

#### ***Income taxes***

The determination of income tax, in particular with reference to deferred taxes, involves the use of estimates to a significant extent and the adoption of assumptions as detailed below. Deferred tax assets, arising from temporary differences and/or previous losses, are recognised to the extent that it is probable that taxable profits will be available in the future against which deductible temporary differences and/or previous losses can be utilised. The provisions are based on taxable revenue which is reasonably certain in light of the approved business plans. Such assets and liabilities are not recognised if the temporary differences arise from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in transactions

that affect neither the taxable profit nor the accounting profit. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

*Provisions for risks and charges*

Provisions for risks and charges related to potential legal and fiscal liabilities are established following estimates performed by directors on the basis of judgements developed by the Group legal and fiscal advisers, concerning the charges that are reasonably deemed to be incurred in order to settle the obligation. Any effect of the difference in the final determination of the amount of such obligation will be reflected in the Group's profit and loss account.

*Seasonality*

Tiscali's activity in the first quarter period is affected by phenomena associated to business seasonality. Seasonality phenomena are basically associated to revenue performance and occur in the summer, affecting the Internet and telephone traffic volumes.

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## **2. Revenues**

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	<b>First quarter 2007</b>	<b>First quarter 2006</b>
Revenues	193,189	154,755

Please see the comments included in the section devoted to the analysis of the financial situation.

### 3. Segment information (by country)

The activities of the Tiscali Group and the relevant strategies, as well as activities of subsidiaries, are articulated and defined by geographical segment, this being therefore the primary reporting segment for the purposes on segment information, as required by IAS 14. Geographical segments are represented in particular by the two countries where the Tiscali Group operates (Italy and the United Kingdom), therefore excluding the countries whose activities have been included among assets held for sale (in particular Germany, Spain, The Netherlands and Czech Republic).

31 March 2007 <i>Euro thousands</i>	Italy	United Kingdom	Others	Segment results	Unallocated	Operating assets
<b>Revenues and other revenues</b>						
To third parties	59,535	123,217	5,791	<b>188,542</b>	4,647	193,189
Inter-group	1,187	4,789	1,480	<b>7,456</b>	(7,456)	-
<b>Total revenues</b>	<b>60,722</b>	<b>128,006</b>	<b>7,271</b>	<b>195,999</b>	<b>(2,810)</b>	<b>193,189</b>
<b>Gross operating result</b>	<b>7.125</b>	<b>17.086</b>	<b>1.321</b>	<b>25.532</b>	<b>(325)</b>	<b>25.207</b>
<b>Operating result</b>	<b>(4.547)</b>	<b>(8.511)</b>	<b>(516)</b>	<b>(13.574)</b>	<b>(3.202)</b>	<b>(16.777)</b>

31 March 2006 <i>EUR thousands</i>	Italy	United Kingdom	Others	Segment results	Unallocated	Operating assets
<b>Revenues</b>						
To third parties	50,002	97,458	3,630	151,090	3,665	154,755
Inter-group	1,013	2,893	1,849	5,755	(5,755)	-
<b>Total revenues</b>	<b>51,015</b>	<b>100,351</b>	<b>5,479</b>	<b>156,845</b>	<b>(2,090)</b>	<b>154,755</b>
<b>Gross operating result</b>	<b>5,321</b>	<b>14,085</b>	<b>1,368</b>	<b>20,775</b>	<b>(2,251)</b>	<b>18,524</b>
<b>Operating results</b>	<b>(1,866)</b>	<b>(3,853)</b>	<b>(404)</b>	<b>(6,123)</b>	<b>(6,222)</b>	<b>(12,345)</b>

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#### **4. Purchase of materials and external services, personnel costs and other operating costs**

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	<b>First quarter 2007</b>	<b>First quarter 2006</b>
Purchase of materials and external services	143,767	117,917
Personnel costs	25,181	17,674
Other operating costs operative	250	898

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The purchases of raw materials, supplies, consumables and goods include the cost of consumables and equipment for pre-paid telephone cards and goods intended for resale. The increase of costs, as compared to the preceding financial year, is related to the significant increase of revenues.

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#### **5. Restructuring costs, provisions for risks and write-downs**

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	<b>First quarter 2007</b>	<b>First quarter 2006</b>
Write-down of receivables from customers	4,935	3,010
Restructuring costs and other write-downs	872	199
Provisions for risks and charges	136	-
	<b>5,943</b>	<b>3,209</b>

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As shown in the table, the costs related to this item amount on the overall in first quarter 2007 to EUR 5.9 million. The quarter balance also includes EUR 4.9 million for credit write-down (EUR 3.0 million in first quarter 2006).

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#### **6. Financial income and charges**

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Financial charges and the relevant dynamics are related to the Group overall debt. The current first quarter figure is higher than in the corresponding period of the previous financial year. The difference is related to the changed composition of the debt and of the relevant costs. Please also see the section devoted to the analysis of the financial situation.

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#### **7. Other income and net financial charges**

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This item includes the penalty related to the early reimbursement of the credit line granted by Silver Point Capital, replaced with the more favourable credit line granted by Intesa SanPaolo.

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## 8. Result of discontinued operations and/or assets held for sale

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	First quarter 2007	First quarter 2006
Czech Republic	(1,033)	(592)
Germany	(1,745)	(2,116)
The Netherlands	3,775	3,699
Other activities	(2,067)	(641)
Total	(1,070)	350

*(Results net of revenues/intragroup costs)*

As of 31 March 2007 this item includes, as the correspondent comparative data of 2006, the net results of subsidiaries held for sale. The item balance includes in particular the results of Tiscali operations in the Czech Republic, Germany, The Netherlands and Spain. In this regard, at the end of third quarter 2006, the conditions arose for the recognition of the same as provided by the IFRS 5 principle (*non current assets held for sale e discontinued operations*).

In first quarter 2007 the net result of assets held for sale was negative at EUR 1.1 million, versus the positive figure of EUR 0.3 million in the corresponding period of 2006.

In first quarter 2007 the following operations were implemented:

- Disposal of the BTC and BTB operations pertaining to the German subsidiaries at an overall disposal price equal to EUR 42.9 million. Such disposal involved a write-down of the consolidated goodwill equal to EUR 26.3 million, besides the write-down of certain intangible assets and EUR 5 million of provisions for restructuring charges. This operation determined a capital gain equal to approximately EUR 1 million which, added to the period result of the German subsidiaries (EUR 2.7 million) gives an overall negative result for Germany (EUR 1.7 million).
- Partial disposal of Spanish operations. The disposal price is EUR 0.6 million. This operation determined a capital loss equal to EUR 1.2 million, which added to the period result of the Spanish subsidiaries, gives an overall negative result (EUR 2 million).

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## 9. Non current assets

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	31 March 2007	31 December 2006
Goodwill	315,036	316,646
Intangible assets	223,676	218,371
Property, plant and machinery	209,733	181,173
Equity investments	2,333	2,474
Other financial assets	17,715	13,095
Deferred tax assets	143,828	144,706

Non current assets include a goodwill values equal to EUR 315.0 million (EUR 316.6 million at 31 December 2006). This item is essentially related to operating activities in the United Kingdom.

Non current assets also include other intangible assets and tangible assets related to Property, plant and machinery, for an overall value as at 31 March 2007 of EUR 433.4 million (EUR 399.5 million at 31 December 2006).

Other items are included in Non current assets such as *Other financial assets* for EUR 20.0 million (EUR 15.5 million at 31 December 2006), and *Deferred tax assets* for EUR 143.8 million. The latter amount is related for EUR 76.6 million to the subsidiary operating in the United Kingdom and for the residual amount of EUR 59.4 million to Tiscali International BV (The Netherlands), sub-holding of the Group and reference entity for the purposes of the 'Dutch fiscal unit'. Please note that the reported deferred tax assets arise essentially from past losses of the involved subsidiaries and are recognised to the extent that it is probable that taxable profits will be available in the future against which these losses can be utilised. Such occurrence will be analysed in particular when recognising the effects of the disposal of the Dutch operations (Tiscali BV), once it is concluded.

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## 10. Current assets

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	31 March 2007	31 December 2006
Inventories	4,148	4,084
Customer receivables	150,337	135,737
Other receivables and other current assets	53,471	44,135
Other current financial assets	18,001	7,862
Cash and cash equivalents	15,154	3,824

Current assets mainly include Customer receivables (EUR 150.3 million at 31 March 2007, versus EUR 135.7 million at 31 December 2006). Other current assets include various receivables (among which VAT credits), accrued income and deferred charges for services. The balance also includes some financial items, among which cash and cash equivalents (EUR 15.1 million at 31 March 2007).

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## 11. Assets held for sale

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Assets held for sale amount to EUR 144.7 million as at 31 March 2007 (EUR 158.6 million at the end of the preceding financial year) and include, besides assets recorded in the balance sheets of subsidiaries held for sale, also the relevant goodwill values recorded in the consolidated financial statements.

Liabilities directly related to assets held for sale are classified under the corresponding liability item of the balance sheet.



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## 12. Non current liabilities

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	31 March 2007	31 December 2006
Bonds	-	-
Payables to banks and to other lenders	307,211	30,730
Obligations under finance leases	59,854	15,918
Other non current liabilities	124,532	131,398
Liabilities for pension obligations and staff severance	5,755	6,194
Provisions for risks and charges	32,725	38,059

---

First quarter 2007 saw a substantial change in the composition of financial debts following the repayment of the structured financing granted by Silver Point Capital and of the EDC financing, replaced by the more favourable loan granted by Banca Intesa SanPaolo, as well as the redemption of the mortgage loan granted by CIS following the *sale and lease back* operation on the Cagliari headquarter.

Non current liabilities as at 31 March 2007 amounted on the overall to EUR 530.1 million (EUR 222.3 million at 31 December 2006).

The significant increase of non current liabilities is due first of all to the financing agreement with Banca Intesa SanPaolo (EUR 276,4 million), and to the increase of long term leasing debts (EUR 59.8 as at 31 March 2007 versus EUR 15.9 million at the end of the preceding financial year). Such increase is due for EUR 48.9 million to the sale and lease back operation on the Sa Illetta – Cagliari headquarters.

Non current liabilities also include, under item *Other non current liabilities* (EUR 124.5 million as at 31 March 2007 versus EUR 131.4 million at 31 December 2006), the medium/long term debts towards suppliers for the purchase of multi-year rights for transmission capacity (IRU).

The balance of non current liabilities also includes the staff severance fund for Italian subsidiaries employees (EUR 5.79 million as at 31 March 2006) and the provisions for risks and charges (EUR 32.7 million), mainly related to the VNL restructuring costs already set aside as at 31 December 2006.

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## 13. Current liabilities

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	31 March 2007	31 December 2006
Bonds – current value	-	-
Payables to banks and other lenders	92,003	374,787
Obligations under finance leases	23,389	12,303
Payables to suppliers	203,079	180,147
Other current liabilities	153,019	106,720

---

Current liabilities amount on the overall to EUR 471.5 million as compared to EUR 674 million at 31 December 2006). Financial items include payables to banks for EUR 92 million (EUR 374.8 million at the end of the preceding financial year).

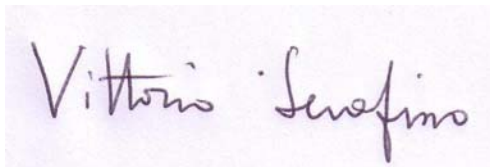
In detail, the change of current financial liabilities as compared to December 2006, equal to EUR 271.2, is therefore due to:

- repayment of the Silverpoint financing (EUR 251.2 million) and start of the financing agreement with Banca Intesa SanPaolo (EUR 276.4 million), classified among non current liabilities;
- repayment of the EDC financing (EUR 13.3 million);
- redemption of the CIS loan (Sa Illetta) (EUR 29.1 million), related to a *lease back* operation for the overall amount of EUR 61 million (of which EUR 11.8 million included in short-term leasing debts and EUR 48.9 million included in long-term leasing debts);
- increase of the Barclays financing concerning the British subsidiaries, amounting to EUR 75.6 million at 31 March 2007, with an increase equal to EUR 23 million in first quarter 2007;
- this aggregate also includes EUR 23.4 million related to financial leasing debt operations.

Non financial figures items refer in particular to payables to suppliers (EUR 203.1 million at 31 March 2007, versus a balance of EUR 180.1 million at the end of the preceding financial year), and other current liabilities among which accrued expenses related to the purchase of access services, line renting and other operating debits.

#### **14. ONGOING DISPUTES, CONTINGENT LIABILITIES AND COMMITMENTS**

The Tiscali group is involved in a number of legal disputes. The group's management does not believe that these disputes will give rise to significant liabilities, or that an unfavourable outcome will have a significant negative impact on its financial position, assets, or economic position, or on future income from operations. We further specify that, unless explicitly indicated, no provisions have been set aside in the absence of certain and objective elements or if the negative outcome of the litigation is not considered likely.

A handwritten signature in dark ink on a light-colored background. The signature reads "Vittorio Serafino" in a cursive script.

For the Board of Directors  
The Chairman  
Vittorio Serafino