



tiscali.

Tiscali S.p.A was founded by Renato Soru in January 1998 following the liberalization of the telecommunication market in Italy. Thanks to its strategy based on the philosophy "One Brand, One Technology, One Company", Tiscali has become one of the leading International telecommunication companies in Europe with an integrated business model.

"Independence" is the element that has mostly distinguished Tiscali since its creation and a key to its success.

Tiscali owns and controls one of the largest and most interconnected IP and VoIP networks in Europe. Through its network infrastructure, Tiscali is able to supply its customers residential and business with a full range of services, from Internet access - dial-up and ADSL - to more specific and technologically advanced products in order to satisfy all market needs.

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**Tiscali S.p.A.
Financial Statements
of the Parent Company
as of 31st December 2005**

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Management



Vittorio Serafino
Chairman



Tommaso Pompei
CEO



Massimo Cristofori
CFO



Sergio Cellini
CEO Tiscali Italy



Mary Turner
CEO Tiscali UK



Luca Scano
CEO Tiscali Netherlands



Carl Muehlner
CEO Tiscali Germany



Naveed Gill
CEO Tiscali Czech Republic



Mario Mariani
SVP Business Development



Salvatore Pulvirenti
CIO



Paolo Susnik
CTO

Directors and Auditors

BOARD OF DIRECTORS

Chairman

Vittorio Serafino

Chief Executive Officer

Tommaso Pompei *

Chief Financial Officer

Massimo Cristofori

Directors

Victor Bischoff

Francesco Bizzarri

Gabriel Prêtre

Gabriele Racugno

Mario Rosso

**Appointed on 11.01.2006*

BOARD OF STATUTORY AUDITORS

Chairman

Aldo Pavan

Statutory Auditors

Massimo Giaconia

Piero Maccioni

Deputy Auditors

Rita Casu

Andrea Zini

INDEPENDENT AUDITORS

Deloitte & Touche S.p.A.

Milestones

January 1998

INCORPORATION: LAUNCH OF TELEPHONE SERVICES AT REGIONAL LEVEL IN SARDINIA

March 1999

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

October 1999

IPO ON NUOVO MERCATO

December 1999

EUROPEAN EXPANSION PLANS WITH THE ACQUISITION OF TWO FRENCH COMPANIES

January 2000

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

January 2001

ACQUISITION OF LIBERTY SURF

Aprile 2001

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

NARROWBAND (DIAL-UP)

Pan European Strategy

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

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

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

October 2001
LAUNCH OF ADSL PRODUCT

December 2002
ACHIEVED EBITDA BREAK-EVEN

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

BROADBAND (DSL)

Core Countries focus

Following the implementation of its 2004 strategic plan, Tiscali has focused its activities in the European markets with the highest growth and value creation potential: Italy, UK, The Netherlands, Germany and Czech Republic.

United Kingdom

	2005	2004	Change
Revenues (EUR ml)	325	255	28%
EBITDA (EUR ml)	69	48	44%
ADSL subscribers (000)	934	387	141%
Market share	10%	7%	43%
ULL subscribers (000)	-	-	-
Number of Colocations	25	-	-
Coverage on households	3%	-	-
ULL Investments (EUR ml)	9	-	-

The Netherlands

	2005	2004	Change
Revenues (EUR ml)	109	93	17%
EBITDA (EUR ml)	39	21	85%
ADSL subscribers (000)	250	165	52%
Market share	7%	6%	17%
ULL subscribers (000)	250	165	52%
Number of Colocations	250	231	8%
Coverage on households	60%	58%	3%
ULL Investments (EUR ml)	19	16	19%

Note: The EBITDA per country is before the allocation of Corporate costs.

Core Countries' Snapshot



Germany

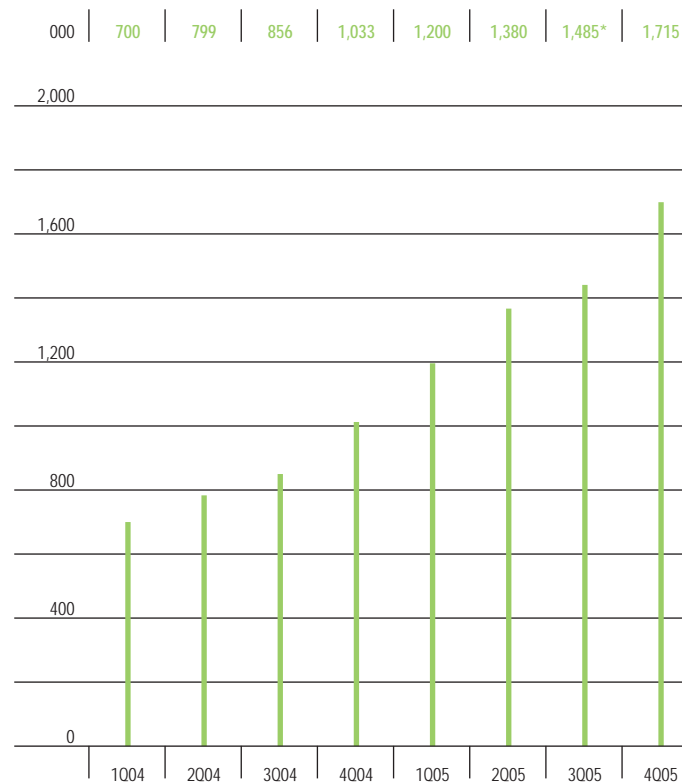
	2005	2004	Change
Revenues (EUR ml)	89	95	-6%
EBITDA (EUR ml)	4	-5	180%
ADSL subscribers (000)	215	225	-4%
Market share	2%	3%	-33%
Number of Colocations	Launched trial phase in the Frankfurt area		
Coverage on households	-	-	-
ULL Investments (EUR ml)	-	-	-

Italy

	2005	2004	Change
Revenues (EUR ml)	196	181	9%
EBITDA (EUR ml)	27	15	80%
ADSL subscribers (000)	303	170	78%
Market share	5%	4%	25%
ULL subscribers (000)	104	40	160%
Number of Colocations	367	240	53%
Coverage on households	35%	23%	52%
ULL Investments (EUR ml)	29	60	-52%

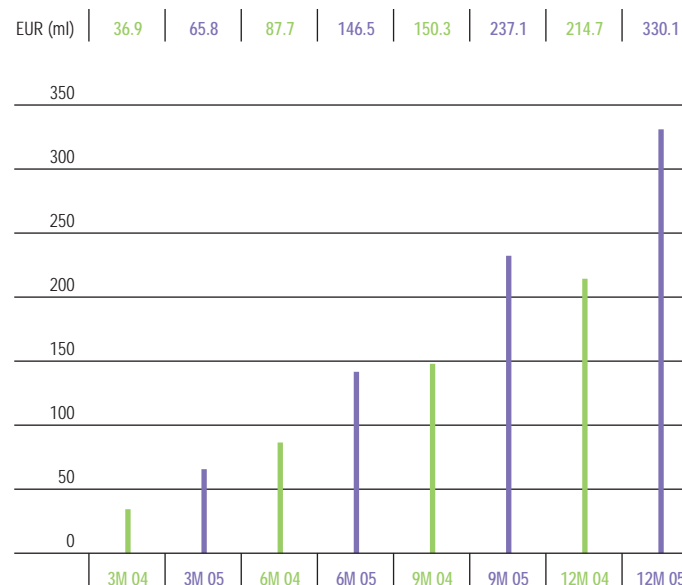
Broadband Growth

ADSL SUBSCRIBERS



*Net of 60k subscribers in resell wholesale model disposed to KPN.

ADSL REVENUES

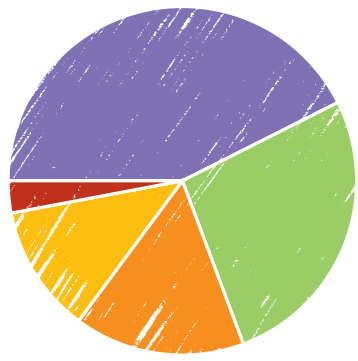


Key Figures

Income Statement (EUR ml)	31 / 12 / 2005 12 months	31 / 12 / 2004 12 months	Change (%)
Revenues	736.2	655.1	12%
Gross Operating Result (EBITDA)	117.1	77.5	51%
Operating Result (EBIT)	(74.3)	(120.8)	38%
Net result	(12.8)	(134.2)	90%
Balance Sheet (EUR ml)	31 / 12 / 2005	31 / 12 / 2004	
Total Assets	1,043	1,468	
Net Financial Debt	290	421	
Shareholders' Equity	311	318	
Capex	169	130	
Non Financial Figures (000)	31 / 12 / 2005	31 / 12 / 2004	Net additions
Access users	4,723	5,229	(505)
ADSL (broadband) subscribers	1,715	1,033	682
of which ADSL (unbundling) subscribers	362	205	157

Results by segment

Revenues
by country

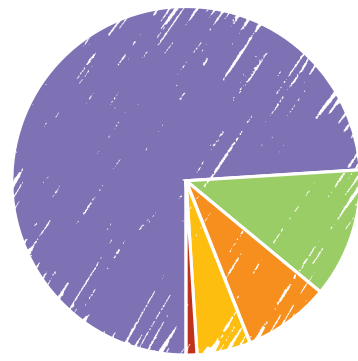


- United Kingdom 44%
- Italy 26%
- The Netherlands 14%
- Germany 12%
- Others 4%

Group Total Revenues
(EUR ml)

736.2

Revenues
by business line

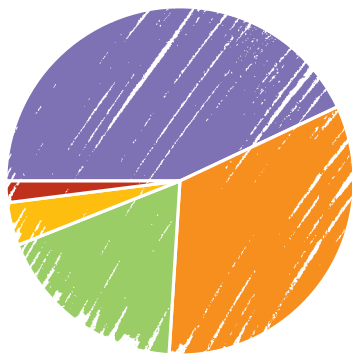


- Access 74%
- Voice 12%
- B2B 8%
- Media and Value Added Services (VAS) 5%
- Others 1%

Group Total Revenues
(EUR ml)

736.2

EBITDA
by country

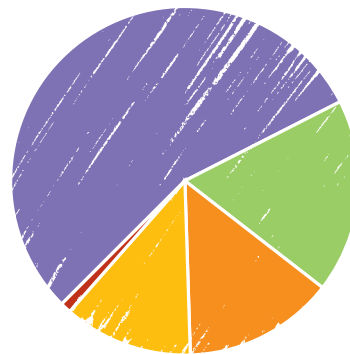


- United Kingdom 48%
- The Netherlands 27%
- Italy 19%
- Germany 3%
- Others 3%

Group EBITDA
(EUR ml)

117.1

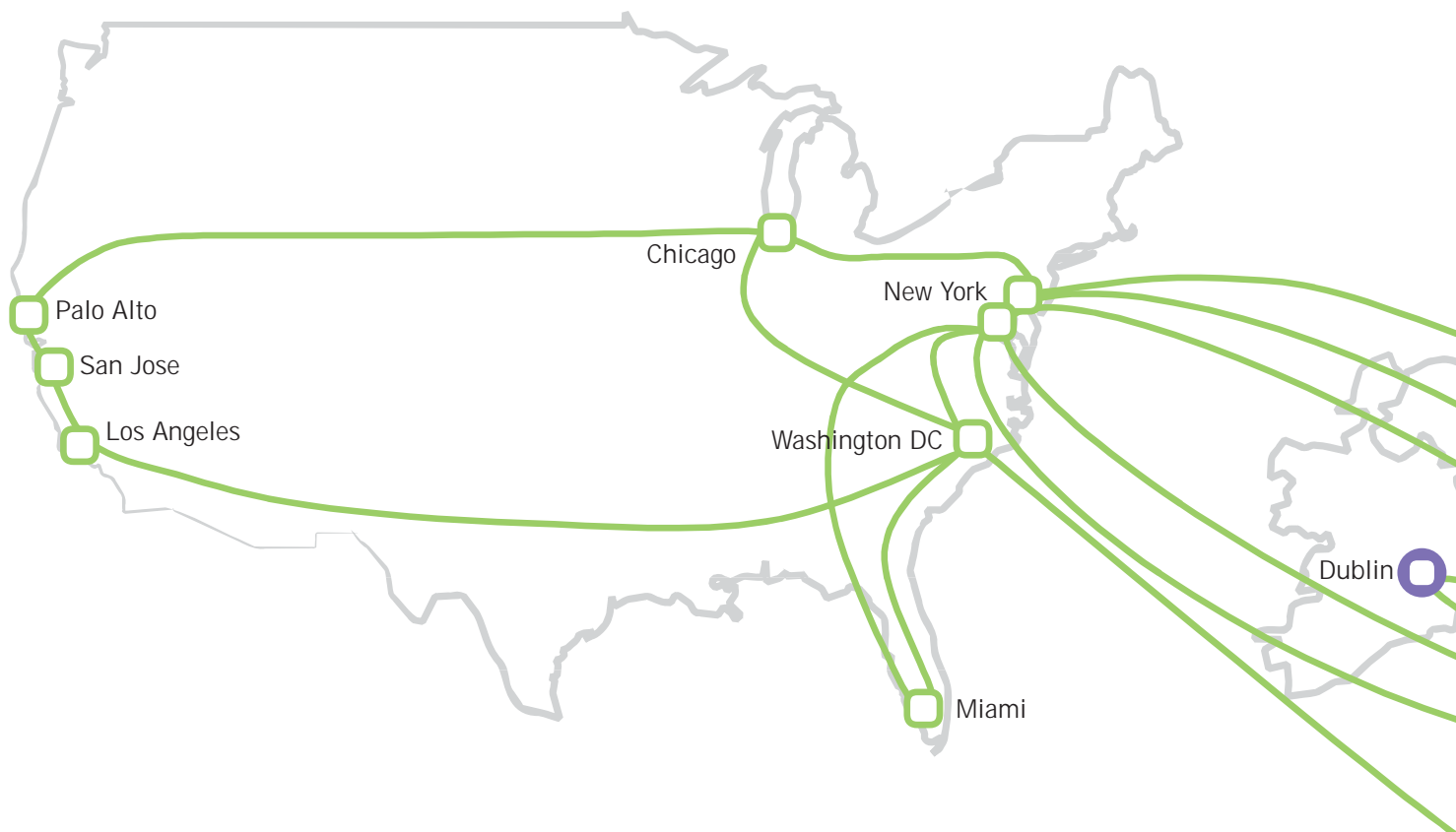
ADSL subscribers
by country



- United Kingdom 54%
- Italy 18%
- The Netherlands 15%
- Germany 13%
- Others nm

Group ADSL subscribers
(ml)

1.7



A strategic asset: the International Network Infrastructure

Fully IP network technology

Consolidated experience in the realization and management of IP network

Integrated technology

Proprietary network infrastructure through Indefeasible Rights of Use (IRU) agreements

THE NETWORK IN FIGURES:

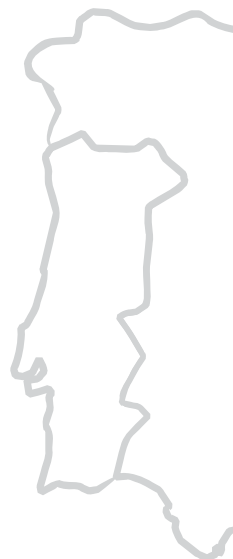
More than 15,000 km of IP network

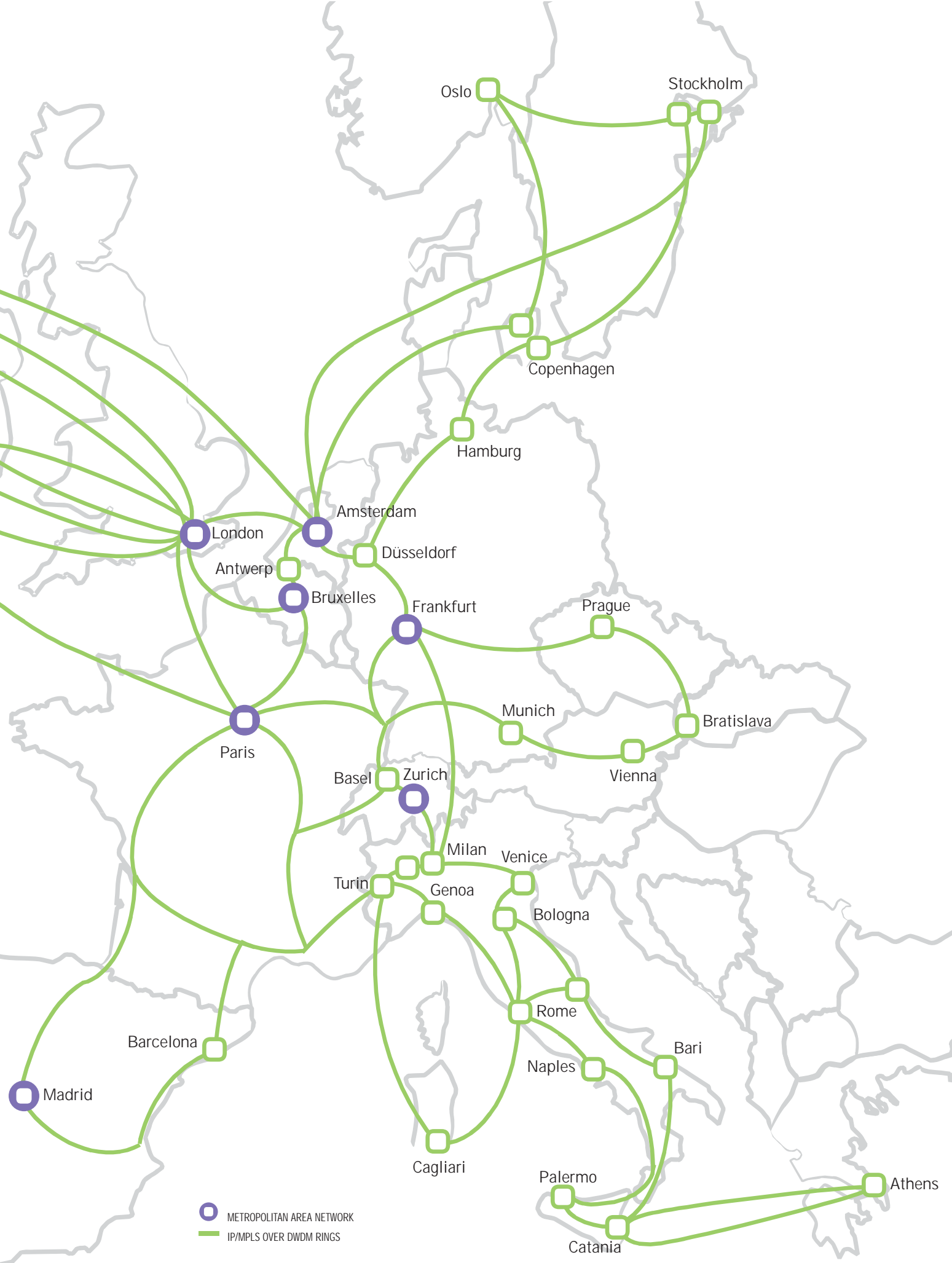
15 countries – Over 70 Points of Presence (POP) IP/MPLS in Europe and US

Interconnected to 14 Public Exchanges in Europe and 5 in the US

30 Metropolitan Points of Presence

150 peering agreements with over than 90% of traffic exchanged through a high quality private interconnection





Broadband: 2005, focus on organic growth

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

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

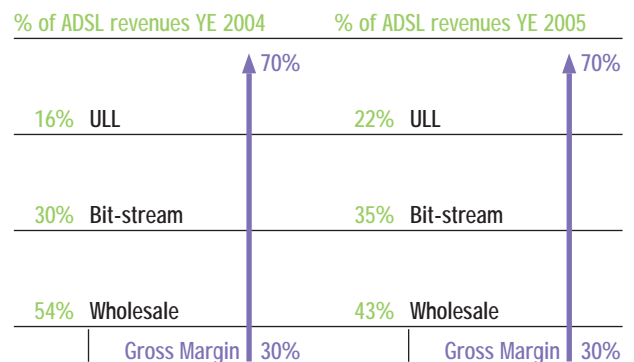
Unbundling model: OLOs can access the local loop by investing in local networks. Unbundled services allow operators to expand their margins to over 70% and to control the quality of the service provided to final customers.

ULL: A SUSTAINABLE STRATEGY

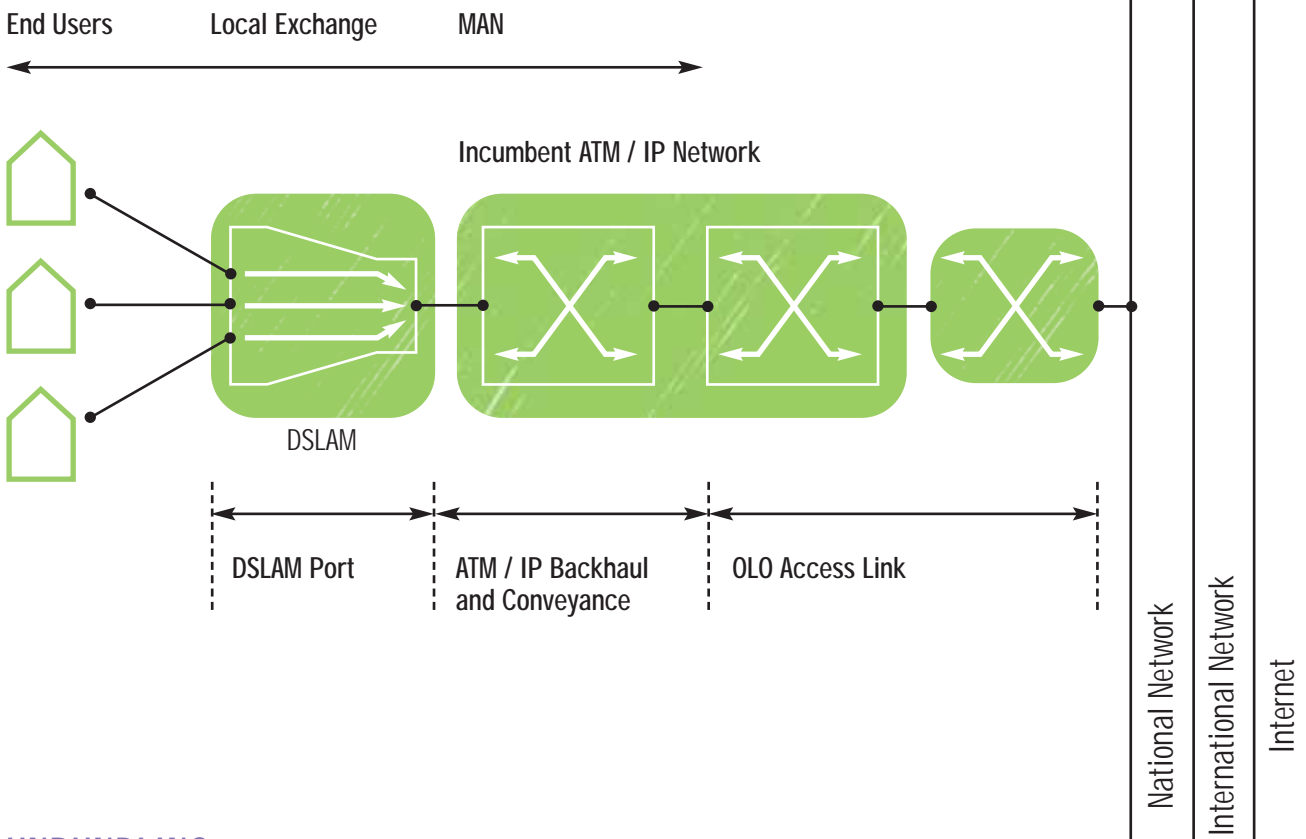
As of 31 December 2005, Tiscali reached:

- ▶ 367 colocations in Italy, covering over 35% of the ADSL addressable market
- ▶ 250 colocations in The Netherlands, with a coverage of over 60% of the population
- ▶ 25 colocations in the London area
- ▶ ULL testing phase in the Frankfurt area

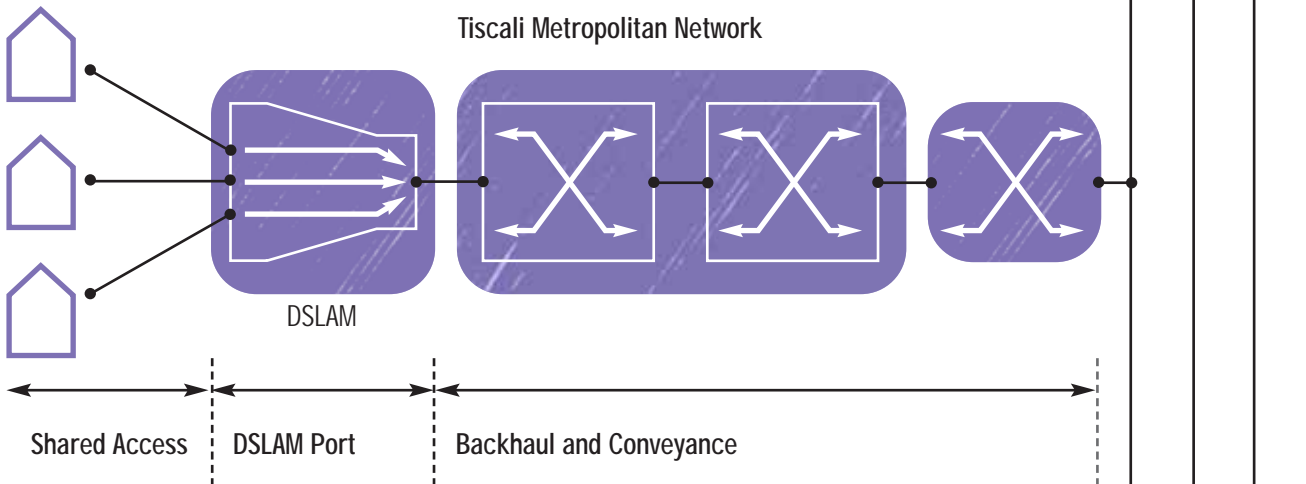
GROSS MARGIN IMPROVEMENT



BIT-STREAM



UNBUNDLING



A strong brand



In a global and extremely dynamic market, it's crucial to differentiate product offering. In the current competitive landscape, key pillars to Tiscali are: quality, convenience and simplicity of use.

The Customer is fundamental for Tiscali's value creation strategy. For this reason, in the last year Tiscali has followed a strategy based on the development of an advanced technology. The adoption of a state of the art technology enables the Group to introduce adequate and convenient commercial offers.

In 2005, investments in advertising campaigns were fundamental to achieve Tiscali's objectives: advertising, diffuse company's values, spread its brand and increase its positive image as an innovative, solid and creative firm in 3 simple words: Get, Satisfy and Retain customers.

Here below three successful marketing campaigns that contributed to strengthen Tiscali brand in each country.

"Tiscali makes your life easier"

(VoIP campaign launched by Tiscali Italy)

"If between too many offers you don't know where to go, choose the simplicity of Tiscali"

"Tiscali makes your life easier" is the key concept of the whole campaign launched to promote the Tiscali Voice and ADSL 1.25 Mega Flat services at 19.95 Euro per month.

The TV spot was on air from the 4th to the 18th of June 2005. The plot deals with an imaginary labyrinth in which customers are, lost between numerous offers available on the ADSL market. Following a path with little green stones, a boy finds the exit and arrives in a villa where on a big monitor appears the brand with the clearest and most convenient offer on the market: Tiscali.

The media mix chosen, TV, Radio-Online guaranteed a shorter production time for the spot, reaching also a large target. Thanks to this offer Tiscali enables its ADSL users to make calls using the standard telephone set at competitive call rates. In addition Tiscali ADSL users living in areas covered by the unbundling network do not pay the Telecom Italia fixed fee.

From a brand equity research, in May 2005 Tiscali was recognized from the 64% of the target range of Internet users, as one of the most known ISPs with a top of mind of 11%. The research, undertaken using the same target range in January 2006, revealed an increase in the top of mind to 14% (+27%).



"It's a Miracle"

(ADSL campaign launched by Tiscali UK)

"It's a Miracle" was a very successful campaign. The TV advertisement was on air from 17 September to 31 October 2005. It was directed by the award-winning Steve Bendelak, best known for his direction of leading UK TV comedy such as "The League of Gentlemen" and "The Royal Family". The advertising campaign evidences the "Miracle" of the new offer: Unlimited Broadband for £14.99.

The media mix chosen, TV, Radio and press was decisive in the success of the campaign that took Tiscali's spontaneous brand awareness to 20% and prompted brand awareness to 54%.

Thanks to this campaign, Tiscali UK achieved a total of 118 thousands new broadband customers and a voice bundle attachment rate of 28% exceeding the original acquisition target by 68% for this period.

"With free telephony within Holland"

(VoIP campaign launched by Tiscali NL)

The advertising campaign of major success in The Netherlands was "With free telephony within Holland".

The selected media mix includes main TV, Radio and online networks with the advantage of a big national reach, high frequency, good combination radio and internet generates traffic to the site. In addition Direct mail and leaflets have guaranteed a direct contact with prospects.

The advertising campaign focused on the convenience and quality of the Tiscali offer: Tiscali ADSL including VoIP, 4Mb at Euro 29.95 per month with free national calls and a saving of 60% on international calls and an higher bandwidth.

Spontaneous Brand Awareness on "Tiscali" name in September 2005 was 22%, instead Aided Brand Awareness on "Tiscali, known as name" was 73%.

Market Background

The telecommunications market has evolved extensively during these last few years. Historically, this market has been characterized by a monopolistic regime and it is only during the last ten years that it has become liberalized and appropriately regulated. These are the basic elements supporting the far-reaching changes in the sector which include the mobile telephone explosion and the strong evolution of the Internet market.

The large-scale distribution of broadband access services has transformed Internet access into a very high volume consumer good.

The consolidation phase that has involved the providers that have been active in the Internet market since its inception, has contributed to the creation of new opportunities in the broadband sector. A dynamic market characterized by growing competition has in fact pushed providers to widen their ranges of products and services. These dynamics have created significant opportunities for alternative operators. The sector is more and more characterised by the diffusion of multimedia applications.

The strategic role covered by broadband access is fundamental and is leading to an important change in the service by positioning it as a spawning ground for other services.

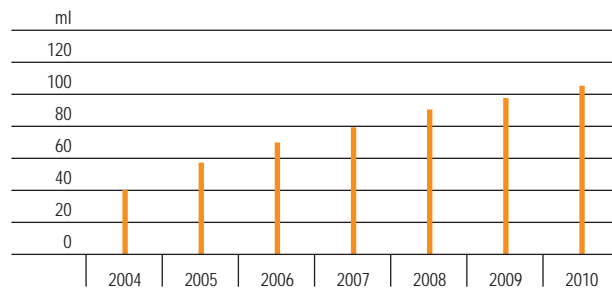
In parallel to the evolution of the European regulatory framework, the various players in the market are more and more willing to invest in technologically advanced network infrastructures. These investments allow providers to improve their profitability and position themselves in a rapidly changing market with strong growth potential. Today broadband market leaders dispose of a much larger portfolio of services, with multiple combinations offering internet access, VoIP (Voice on IP) and audiovisual content to attract and retain customers.

Internet services offering

At the end of 2005, the Western European internet market had over 110 million users (Gartner estimate). During the year, there was a significant reduction of the dial-up market which was offset by a strong expansion of the broadband market. Gartner estimates that in 2006 users of broadband services will exceed the number of dial-up users. The latter are expected to decrease to approximately 25 million by the end of 2009.

At the end of 2005, broadband connections in Western Europe had reached 57 million lines (IDC estimates), or an increase of over 17 million lines compared to the data as at the end of December 2004. The rapid expansion of broadband should continue into 2006, to exceed 70 million lines. The most significant growth will be in the United Kingdom, Italy and Germany. Other important markets, including Holland, are nearing maturity and display a decreasing rate of growth.

BROADBAND CONNECTIONS IN WESTERN EUROPE, 2004-2010

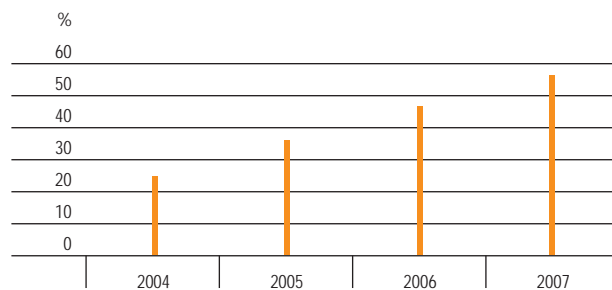


SOURCE: IDC

One of the main drivers of broadband products is also the growing availability of DSL which is accompanied by a decrease in the monthly fee. Market trend shows a reduction in the ARPU ("Average revenues per user") due to increased bandwidth availability. This effect is also due to the greater investments in marketing, which increase customer awareness and contribute to the greater dissemination of the product.

In Western Europe, the penetration rate of broadband has gone from 24.7% in 2004 to 35.9% in 2005, while the growth estimates for 2006 and 2007 are 46.6% and 56.4% respectively.

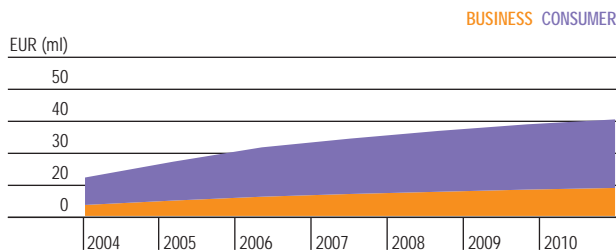
PENETRATION ON HOUSEHOLDS OF BROADBAND IN THE EUROPEAN UNION



SOURCE: JP MORGAN ESTIMATES, COMPANY DATA.

According to IDC, by 2010 the revenues deriving purely from access to broadband should represent a EUR 40 billion market in Western Europe as compared to EUR 16 billion in 2004. 70% of this amount will be from the residential market.

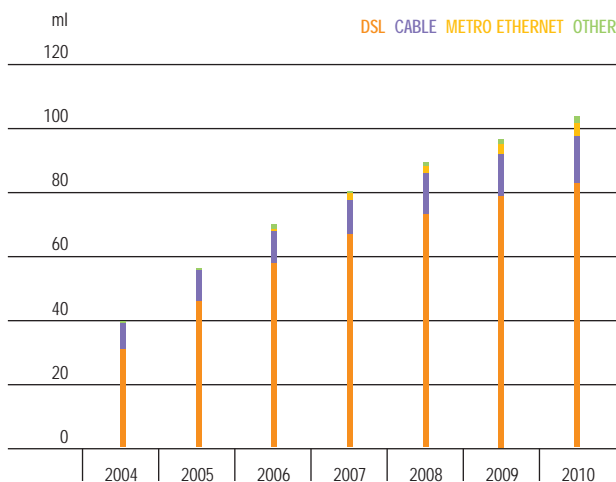
BROADBAND REVENUES BY CUSTOMER SEGMENT 2004-2010



SOURCE: IDC, 2006

The importance of DSL technology in the broadband market is ever growing. IDC estimates that in 2010, 80% of the anticipated 100 million broadband lines will be ADSL lines.

BROADBAND CONNECTIONS BY TECHNOLOGY IN WESTERN EUROPE, 2004-2009



SOURCE: IDC, 2006

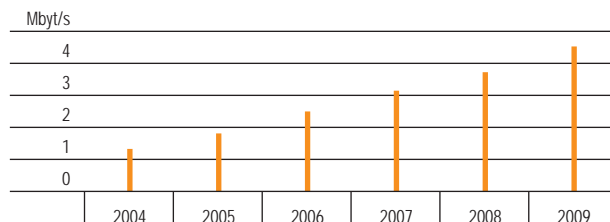
An analysis commissioned by the European Union showed that internal competition has grown considerably in every single country. In fact, around 50% of the total market is held by alternative operators that have increased their shares significantly.

In effect, the historically dominant position of the former monopolists will be balanced against the development of proprietary unbundling networks by alternative operators with the opening of the regulatory framework imposed by the European Union.

The medium term should see somewhat contained prices. To this effect, it is important to note that this trend of pure access service prices will be offset by the sale of voice services (both CPS and VoIP) and content (Triple Play – IPTV) offered within the same solution (bundled services).

IDC expects the average per broadband connection will grow from 1.2 Mbps in 2004 to more than 4 Mbps in 2009.

WESTERN EUROPE - AVERAGE CONNECTION BANDWIDTH 2004-2009



SOURCE: IDC, 2005

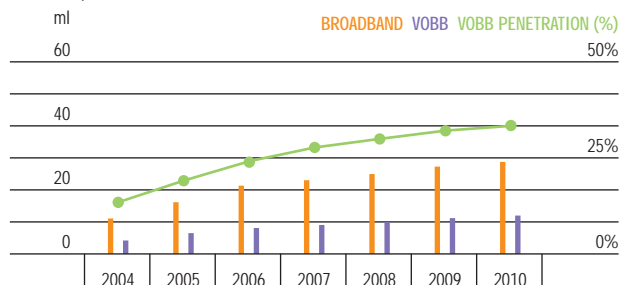
VoIP and Triple Play – value-added services as the differentiating element:

The broadband market is characterized by an increasingly significant presence of operators that are equipped with an unbundling network to allow them to adequately compete against the former monopolists. The service offers are continually made more attractive with features such as increased band availability, voice services (VoIP), music, video, content and a sophisticated interrelationship with the customers.

Providers differentiate their offers through such services in order to increase the ARPU and customer loyalty. Even though access will remain the most important application in the medium term, the operators are adapting their strategies to an orientation of access services focused on multiplay.

In 2005, the number of broadband voice connections in Western Europe grew from 2.5 to 6.2 million (IDC estimate). At the end of 2006, this number should reach 11 million.

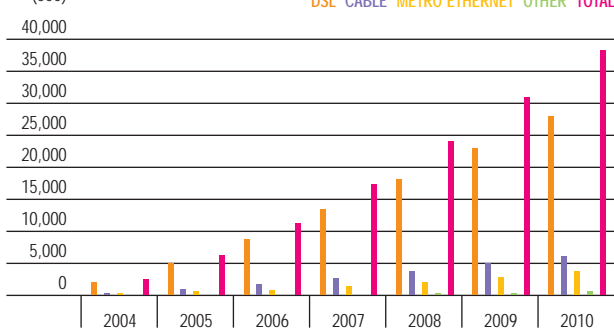
WESTERN EUROPE - BROADBAND CONNECTIONS AND PENETRATION OF VOBB, 2004 - 2010



SOURCE: IDC, 2005

DSL is the technology that is used most widely in voice services offering.

VOBB CONNECTIONS BY TECHNOLOGY IN WESTERN EUROPE, 2004-2010
(000)



SOURCE: IDC, 2006

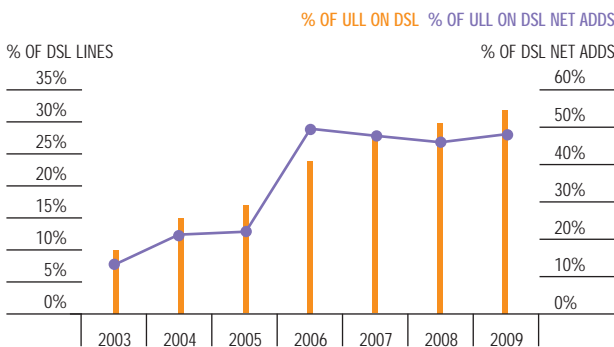
Triple Play (IPTV) services should grow substantially after 2006, a year in which these services are still in their initial development stage. According to IDC, the IPTV services market was worth approximately 62 million dollars in 2004, or approximately 1% of households (Western Europe). Estimates show that the maximum expansion of this market will take place over the next 5 years, to go from 262 million dollars in 2005 to 2.5 billion dollars in 2009. In 2006, it is estimated that 6% of Western European households will use IPTV services.

In the second generation broadband market, featuring a strong growth of Triple play, it will be critical for providers to differentiate their offers.

Unbundling of the Local Loop (ULL)

Alternative operators need to reduce their costs in order to deal with ever increasing volumes and price reductions. To this end 2005 saw a strong development of the unbundling network, to the detriment of wholesale and bit stream offers. The EU estimated that 24% of the new contracts for the first nine months of 2005 involved unbundling connections. This figure is expected to rise to 39% at the end of 2006 while wholesale is expected

GROWTH OF ULL IN WESTERN EUROPE



SOURCE: TISCALI ESTIMATES, NRA, EU 10TH IMPLEMENTATION REPORT

to decrease significantly by that time.

Developing their own unbundling network allows providers to increase their margins, offer more bandwidth and increase their flexibility in differentiating their offers. In particular, greater control of the value chain becomes a key factor for all who wish to compete against incumbents and position themselves on the market as telecommunications providers.

In the next few years, ex monopolists will need to deal with the erosion of traditional voice services and the ensuing contraction in revenues and profits. This will be due to the increasing pressure from competition following the diffusion of new technologies and further regulation of the broadband market.

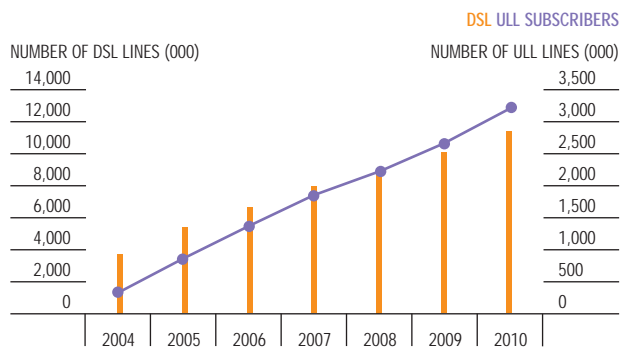
This market dynamic foretells an exposure of the ex monopolists that could suffer negative effects due to the diffusion of broadband and the related services. Some market analyses forecast a significant customer churn rate during 2005-2008.

Recent evolution of the market by geographic area

Italy

Broadband penetration reached over 31% of Italian households during the 2005 financial year. This percentage should grow to over 41% within 2006.

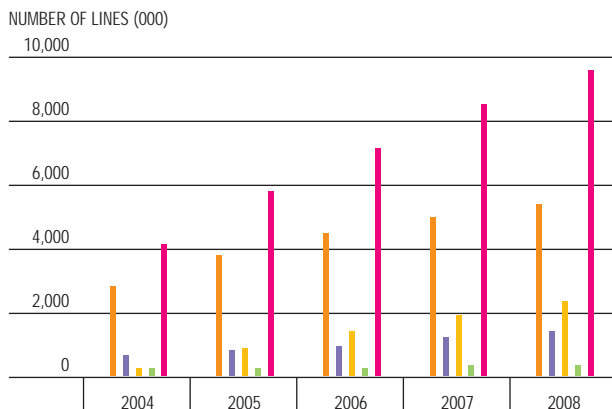
ITALY



SOURCE: TISCALI ESTIMATES

ACCESS TO BROADBAND - ITALY

INCUMBENT (RETAIL) WHOLESAL ULL CABLE, POWERLINE & SAT TOTAL ACCESS (B2C)

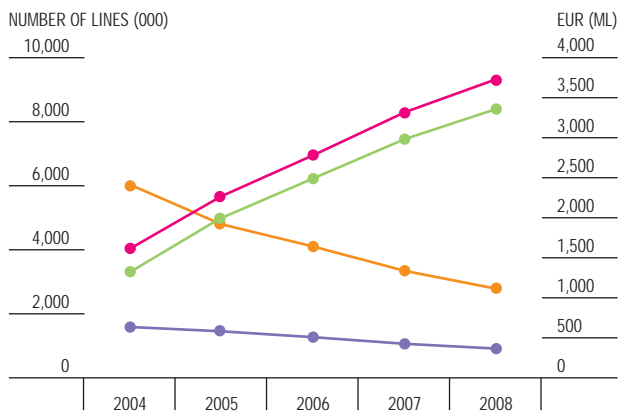


SOURCE: TISCALI ESTIMATES ON GARTNER, IDC AND DATAxis DATA

In the 2005 financial year, the DSL market in Italy grew at a steady rate of 44%, from 3.7 to 5.4 million lines. In 2006, DSL lines are expected to grow to 6.7 million, while they are forecasted to reach 11 million by 2010. DSL technology is the most widely diffused. It represented 96% of the broadband market in 2005. On the other hand, unbundling access continually grows as compared to wholesale, the former reaching 16% of DSL lines during the period.

INTERNET ACCESS MARKET - ITALY

DIAL-UP LINES DIAL-UP REVENUES BROADBAND LINES BROADBAND REVENUES

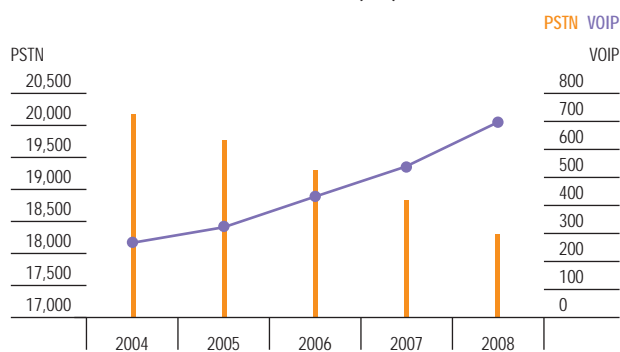


SOURCE: TISCALI ESTIMATES ON GARTNER, IDC, AT KEARNEY AND DATAxis DATA

At the competition level, Italy distinguishes itself from other European countries by to the strong position held by Telecom Italia. However, for the first time in 2005, the ex monopolist's market share contracted and new ADSL subscriptions decreased in favour of alternative operators. Telecom Italia's offer for broadband connections is characterized by a higher average price than that which is applied by competitive alternative competitors, including Tiscali and Wind. The further

diffusion of DSL unbundling technology by OLO's (alternative operators) will inevitably result in the contraction of Telecom Italia's market share. At the end of 2005, the Tiscali Group held approximately 5% of the broadband market share, while new subscribers have grown by 8%, an increased percentage over the end of 2004.

TELEPHONY MARKET IN NUMBER OF LINES (000) - ITALY

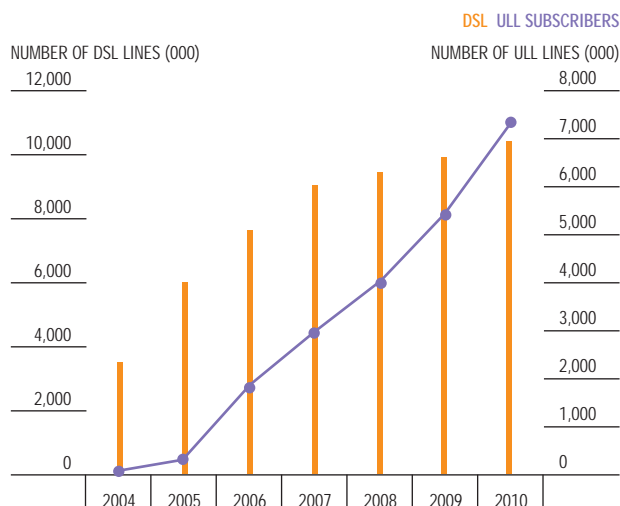


SOURCE: TISCALI ESTIMATES ON GARTNER, IDC AND DATAxis DATA

United Kingdom

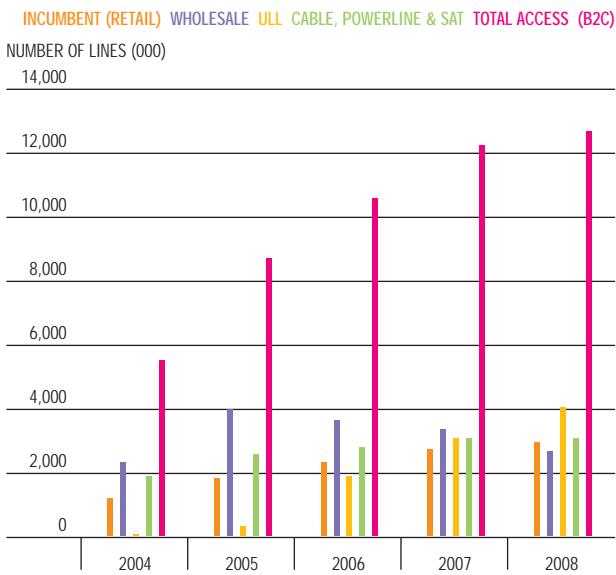
The United Kingdom was one of the most dynamic European markets in 2005, with an households penetration rate that increased over 14 percent to reach 38% overall. The growth is forecasted to continue at a steady rate into 2006 (to exceed 50%).

UNITED KINGDOM



SOURCE: TISCALI ESTIMATES

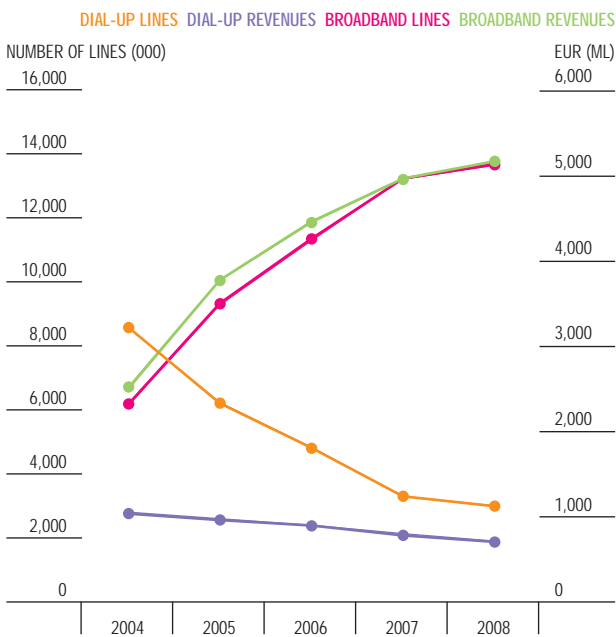
BROADBAND ACCESS – UNITED KINGDOM



SOURCE: TISCALI ESTIMATES ON GARTNER, IDC AND DATAxis DATA

In the 2005 period, the DSL market in the United Kingdom grew at a very steady rate of over 72%, growing from 3.5 million to 6.1 million lines. DSL lines are expected to reach over 7.7 million in 2006, to exceed 10 million lines in 2010. Despite the presence of cable operators, DSL technology was significantly diffused and represented over 72% of the broadband market in 2005. Unbundling should grow very significantly in 2006 to represent 42% of the lines in 2010 (in 2005, it was still in its initial development stage with a

INTERNET ACCESS MARKET - UNITED KINGDOM



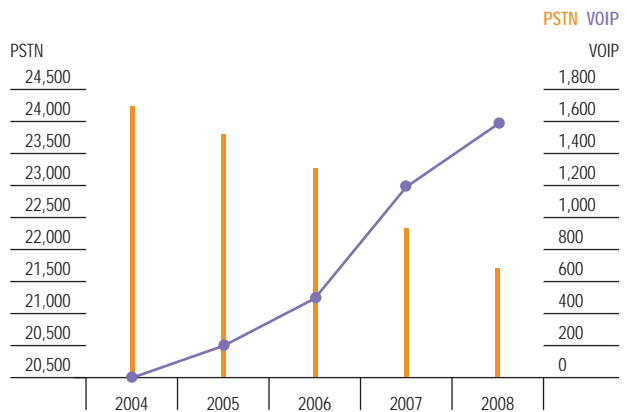
SOURCE: TISCALI ESTIMATES ON GARTNER, IDC, AT KEARNEY AND DATAxis DATA

penetration rate that was lower than 5% of DSL lines).

The English market is characterized by strong competition that influences the price levels. The positive particularity of this competitive scenario lies in the fact that BT is the European incumbent with the lowest market share on its own national territory. In upcoming years, BT is expected to lose further market share to alternative operators, including Tiscali.

At the end of 2005, the Tiscali market share was higher than 10%, while the percentage of new subscribers for the 2005 period was equal to 21%, strongly accelerated with respect to the data registered in 2004 (7%).

TELEPHONY MARKET IN NUMBER OF LINES (000) - UNITED KINGDOM

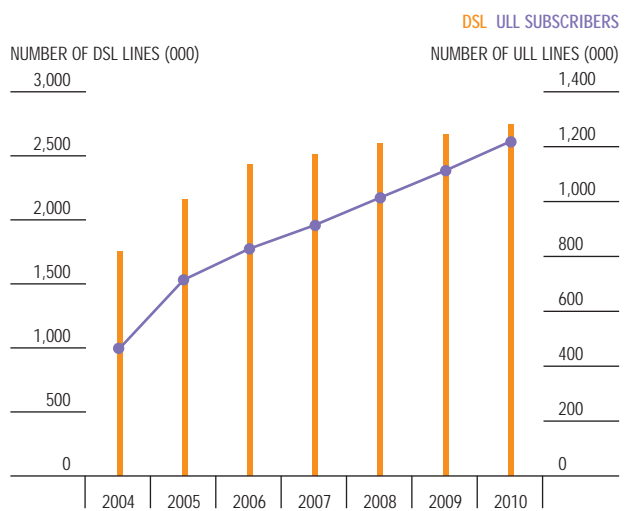


SOURCE: TISCALI ESTIMATES ON GARTNER, IDC AND DATAxis DATA

The Netherlands

The Dutch market has the highest broadband penetration in Europe. The household's penetration rate as at 31 December 2005 was 60%.

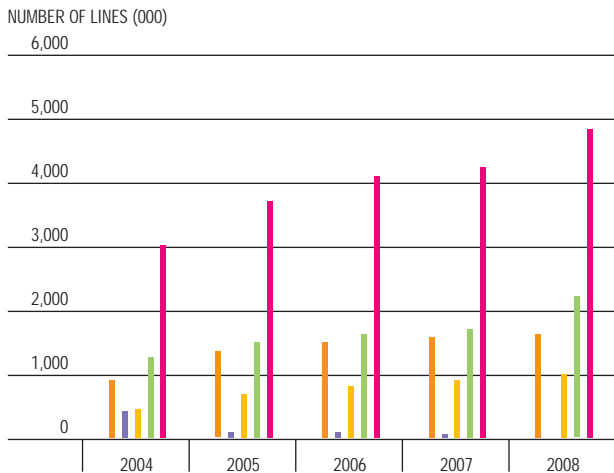
THE NETHERLANDS



SOURCE: TISCALI ESTIMATES

ACCESS TO BROADBAND - THE NETHERLANDS

INCUMBENT (RETAIL) WHOLESALE ULL CABLE, POWERLINE & SAT TOTAL ACCESS (B2C+B2C)

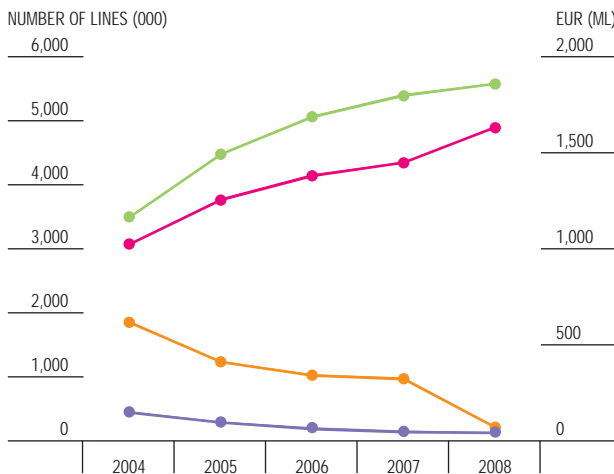


SOURCE: TISCALI ESTIMATES ON GARTNER, IDC AND DATAxis DATA

The Dutch market's evolution into the broadband market was very significant between 2003 and 2005. Estimates forecast a slowing down of the growth rates for broadband due to the already high market penetration. There were 2.2 million DSL lines in 2005 and this number is expected to reach 2.4 million in 2006.

INTERNET ACCESS MARKET- HOLLAND

DIAL-UP LINES DIAL-UP REVENUES BROADBAND LINES BROADBAND REVENUES



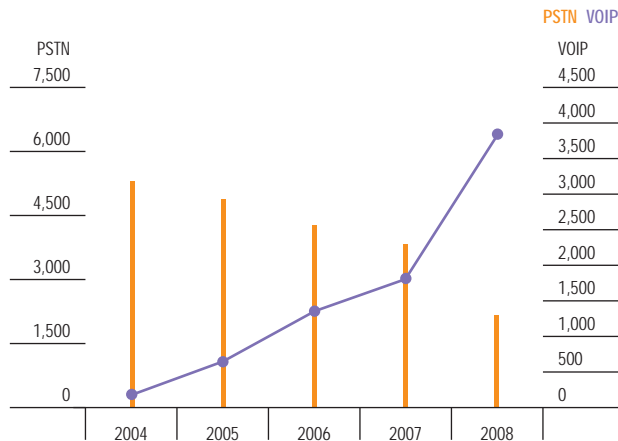
SOURCE: TISCALI ESTIMATES ON GARTNER, IDC, AT KEARNEY AND DATAxis DATA

In The Netherlands, DSL providers have a 60% share and therefore dominate the market, while cable operators have an essentially stable market share. In terms of competitiveness KPN, the incumbent, continues to maintain a dominant position. The growing

diffusion of ULL should allow alternative operators to increment their own market shares. The prices which are anticipated show that a contraction of the ARPU could be expected due to the intensification of competition by cable operators.

Tiscali's share of the Dutch market is 7%, while Tiscali's share in the net additions was 21% during the period, which is on the upswing as compared to the 6% increase recorded at the end of the 2004 period.

TELEPHONY MARKET IN NUMBER OF LINES (000) - THE NETHERLANDS

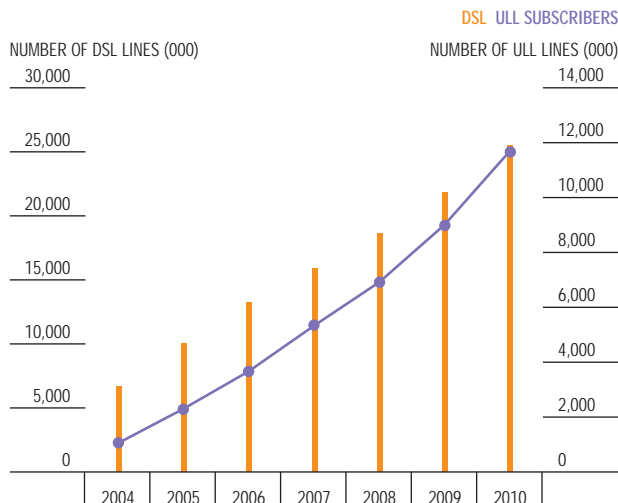


TISCALI ESTIMATES ON GARTNER, IDC AND DATAxis DATA

Germany

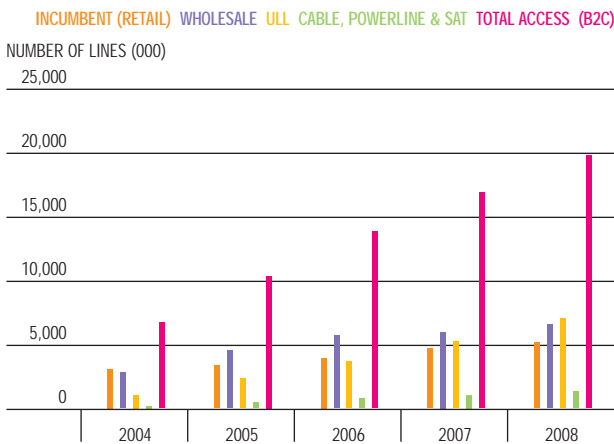
As it has one of the lowest penetrations of broadband in Western Europe, Germany is a market that has significant growth potential. Between 2003 and 2005, the penetration rate more than doubled. For 2005, this rate was at approximately 30%. It is expected to reach 41% in 2006.

GERMANY



SOURCE: TISCALI ESTIMATES

INTERNET ACCESS- GERMANY

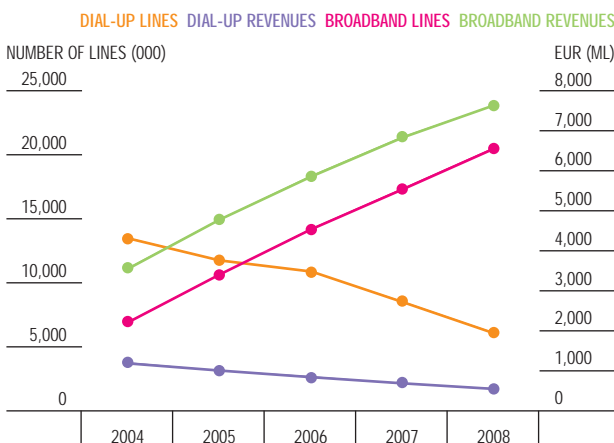


TISCALI ESTIMATES ON GARTNER, IDC AND DATAXIS DATA

At the end of 2005, DSL technology dominated the German market, with a market share that exceeded 97%. ULL access is quite well diffused in parallel to the diffusion of DSL representing 20% of the market in 2005.

The significant increase in users during 2005 is a consequence of the strong decrease in prices. This decrease in prices mainly benefited alternative operators. With a view to restraining the development of the ULL network, Deutsche Telekom may further lower its own wholesale rates.

INTERNET ACCESS MARKET- GERMANY

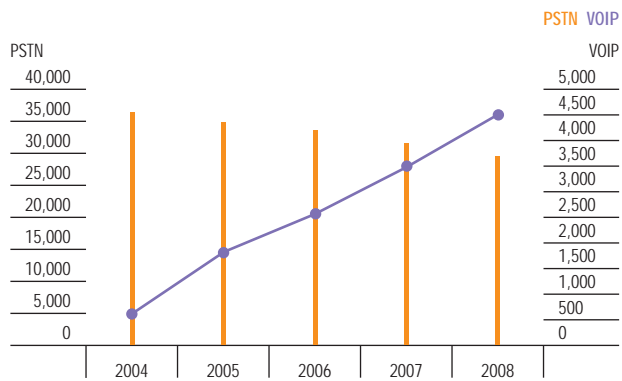


SOURCE: TISCALI ESTIMATED ON GARTNER, IDC, DATAXIS AND AT KEARNEY DATA.

The German market is particularly fragmented and could therefore lead to various consolidations during 2006.

Tiscali's share of the German market (2%) at the end of the period was basically unchanged as compared to 2004.

TELEPHONY MARKET IN NUMBER OF LINES (000) - GERMANY



SOURCE: TISCALI ESTIMATES ON GARTNER, IDC AND DATAXIS DATA

Regulatory Framework

European regulation

In the first half 2005 the official implementation process of the new EU regulatory framework for the electronic communications sector¹ was completed by all Member States, except Greece.

The European Commission has identified many substantial legislative problems at national level in the adoption of the European Law leading to violation procedures against the 18 Member States.

With regard to countries in which Tiscali Group operates the Commission's observations relate to: for Italy, the definition of the criteria for a cost based interconnection formula; for Germany, some restrictions of the powers of the Regulatory Authorities to deal with remedies, universal service obligations and privacy; and for The Netherlands, the lack of an obligation to negotiate interconnection.

Furthermore, it should be noted that the implementation of the new regulatory framework will take place in two phases: National Regulatory Authorities will analyse the markets identified by the Commission² and, in the case of dominant market operators, suitable measures necessary to enhance competition must be defined.

Concerning VoIP (Voice over IP), the position of the National Regulatory Authorities will be crucial insofar as the inclusion of such services in the market of traditional voice. In fact, if such services are recognised in a category that is different from traditional voice, the incumbents will not be considered as dominant players on their markets, thereby excluding the possibility of regulating the financial offers.

Following is a brief presentation of the regulatory situation concerning wholesale markets for broadband services (the so called wholesale / bit-stream market 12, ULL, market 11) and VoIP telephony in the main markets in which Tiscali operates.

- ① Directives of 7th March 2002: "Framework" 2001/21 ; "Access" 2002/19 ; "Authorisations" 2002/20; "Universal service" 2002/22; Electronic Communication Privacy Framework" 2002/58 of 12th July 2002.
- ② "Recommendation 11th February 2003, on relevant product and service market within the electronic communication sector susceptible to ex-ante regulation in accordance with directive 2002/21/CE", GUCE L 114, 8th May 2003.

	Italy	United Kingdom
WHOLESALE	<p>The price is based on the "retail minus" formula which allows very low margins of around 20%. In the first quarter of 2006, AGCOM approved a provision that introduced a wholesale offer orientated at cost.</p>	<p>Wholesale model allows alternative operators margins of approximately 35%. The price that the alternative operators pay the former monopolists is based on the "retail minus" formula.</p> <p>In 2005, BT decreased the costs of migration substantially for wholesale as well as for data stream.</p> <p>OFCOM (the Regulatory Authority), had concluded the analysis of the market in 2004, much ahead of the rest of the EU. An initial review of the results had been set for 2005 but was postponed to 2006. A premature deregulation would force the issue, resulting in quicker adoption of unbundling by alternative operators.</p>
BIT-STREAM	<p>Together with the provision mentioned above, AGCOM has also introduced a bit stream offer.</p>	<p>Authorized in 2002.</p> <p>The margins are regulated by OFCOM.</p> <p>This model allows for reasonable margins (approximately 40%) and the flexibility to offer specific tailor made services to retail.</p>
ULL	<p>ULL tariffs are among the lowest in Europe even though the initial investment required continues to be onerous.</p> <p>The so-called override mechanism has been authorized for "shared access," that is the ability to activate an ADSL service as "shared access" for a client that has already concluded an ADSL subscription with another provider without requiring this previous subscription to be cancelled. The mechanism was already in existence for full unbundling and will lessen migration and activation times for customers.</p>	<p>OFCOM has decreased the activation costs and the recurring costs. Investments in ULL began in the first quarter of 2005.</p> <p>OFCOM has pushed the incumbent (BT) to maintain fixed prices for unbundling until 1.5 million lines are reached. Furthermore, BT has announced further price reductions for the migration as of 1st July 2006. These initial moves have created ideal conditions for investments by alternative operators.</p>
VoIP	<p>In the initial months of 2006, AGCOM will publish a resolution that will divide VoIP into two categories: roaming and semi-roaming services. The first can be used anywhere in the world where there is an Internet connection, will have special numbers (in 5 decimals) while the second can be used only within a specific telephone district and will have geographic numbers, with the area code of the city they belong to. The semi-roaming service will be equivalent to the Pats (Publicly available telephony service): the regular fixed telephony services. Only operators that have a Pats license will therefore be able to provide geographical numbers. In the quarter following the publication of the resolution, AGCOM will also introduce rules for interoperability of VoIP services.</p>	<p>Recent analyses of the market have not taken VoIP into account, due to the limited diffusion of the service at this time. However, OFCOM does not seem to be ready to intervene in this segment in the short term.</p>

** With the "retail minus" approach, the network price is determined by applying a price discount for retail customers; with "cost plus", the price depends on the costs incurred by the incumbent using the best technology available, plus a return on the investm*

The Netherlands

The wholesale offer allows margins of about 30% and does not include the last mile. The customer receives two invoices: one from the ISP for the service and one from the incumbent for the ADSL line.

The wholesale offer for the entire territory published at the beginning of the year by KPN is not very convenient as an alternative for the areas not covered by ULL.

Germany

The available wholesale offer allows margins that exceed 30% even in cases in which the last mile is managed by the incumbent.

As of August 2004, the last mile was also liberalized.

The market has been divided into two segments: High quality (overbooking ratio of 1.20 or more), for business customers and low quality (overbooking ratio lower than 1.20) for residential customers. OPTA (the Dutch Regulatory Authority) has assigned SMP (Significant Market Power) to the incumbent KPN for the first, while – despite the doubts expressed by the European Commission to this effect – it has concluded that there are no dominant providers in the residential market.

The absence of a bit stream offer for the residential customer base creates difficulties in ranking the investments, as the move is directly from wholesale reselling to ULL, while the same holds true for consolidation of the client base. The European Commission has however asked the regulator to repeat the analysis after one year and has been able to introduce a test to verify the actual availability of KPN to conclude business agreements for residential bit-stream.

The market analysis completed in December 2005 has identified DTAG as a dominant operator in the two segments in which the market has been divided into (ATM and IP).

An offer for bit-stream should be finalized by the end of 2006.

The analysis of this market has confirmed that KPN is the dominant provider and has upheld the regulatory obligations already defined through the previous regulatory framework, in addition to introducing new methods for the determination of tariffs.

The market analysis has recognised DTAG as the incumbent and as a provider with significant market power. Negotiations continue for improvement of the provisioning and collocation terms.

No decreases in the prices offered by the incumbent are anticipated and the unbundling prices continue to be very high.

OPTA has decided to include VoIP in the fixed telephony market, making it mandatory to offer the service at prices that are not inferior to cost.

VoIP is considered as part of the voice market, but Bnetza has not yet decided on the treatment that it will be accorded.

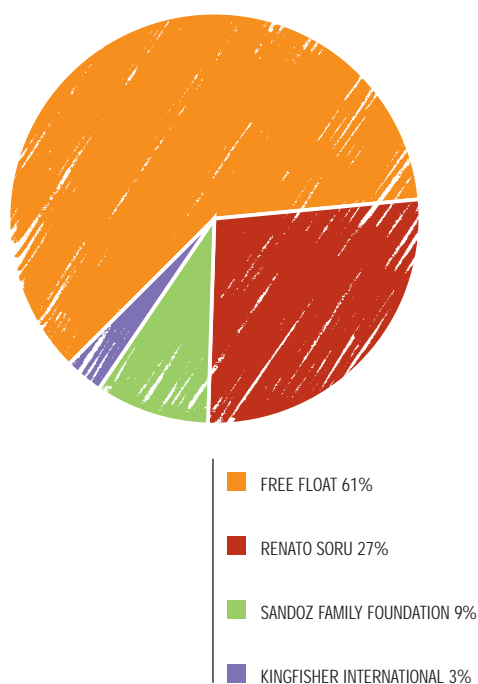
Tiscali Stock

Tiscali shares are listed on the Italian Stock Exchange (Tis). Until December 23rd 2005, closing date of the delisting process from the French Stock Exchange, Tiscali shares were also listed on Euronext in Paris.

As of December 31st 2005, the Company had a market capitalization of EUR 1,061 million. The number of shares comprising the share capital increased from 393.238.142 as of December 31st 2004 to 396.738.142 as of 31st December 2005, consequence of the capital increase detailed below.

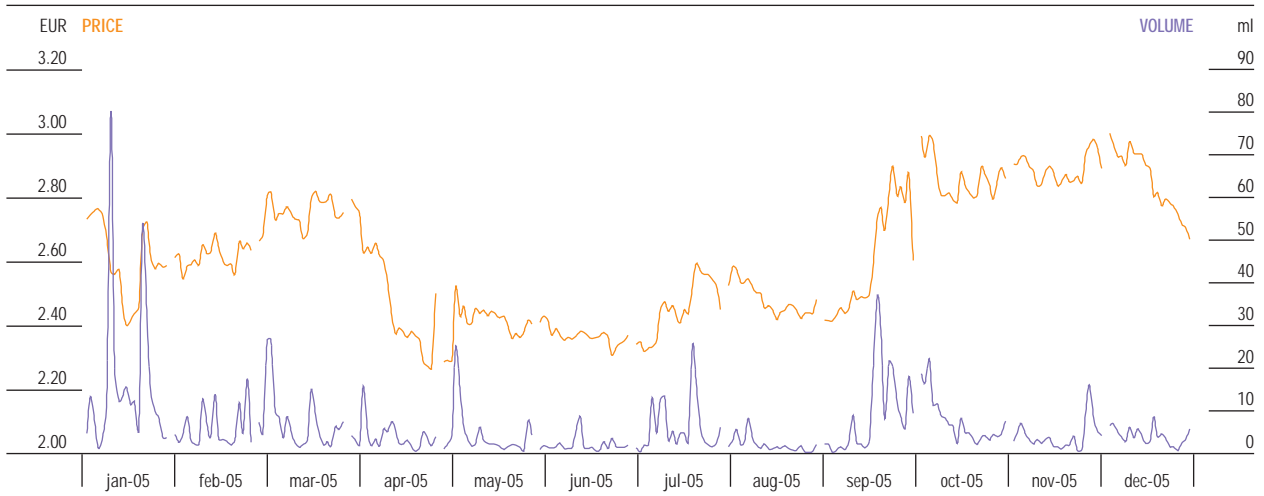
DATE	DESCRIPTION	NUMBER OF SHARES ISSUED	SHARE CAPITAL
22.06.05	CAPITAL INCREASED SUBSCRIBED BY NEUE MEDIEN ULM HOLDING GMBH	3,500,000	396,738,142

The chart below illustrates Tiscali's shareholder base as of 31st December, 2005, substantially stable compared to 31st December 2004.



In stock market terms, it's possible to identify three main phases in Tiscali stock evolution during the 2005 financial year. During the first part of the year, until mid March, the stock daily average was EUR 2.64. The period after was characterized by significant drop in price due to speculative dynamics whereas the stock registered an inversion trend at the beginning of July, corresponding to the reimbursement at maturity of the bond. At the end of August, a positive trend started which characterized the last semester.

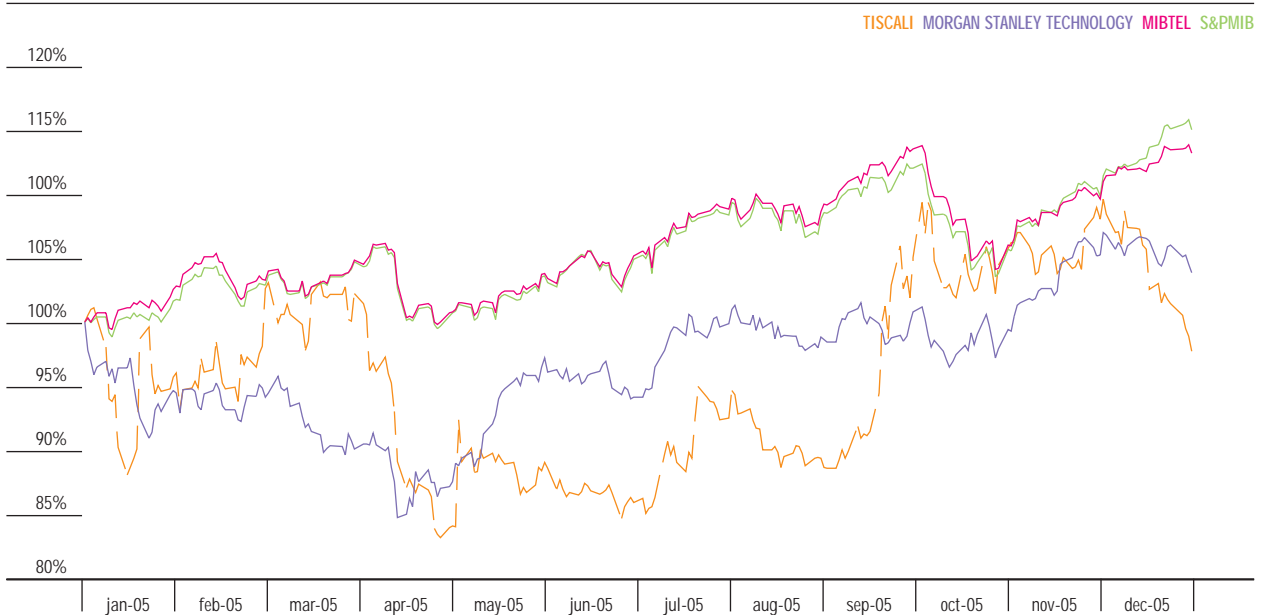
The graph below illustrates Tiscali stock trend in 2005.



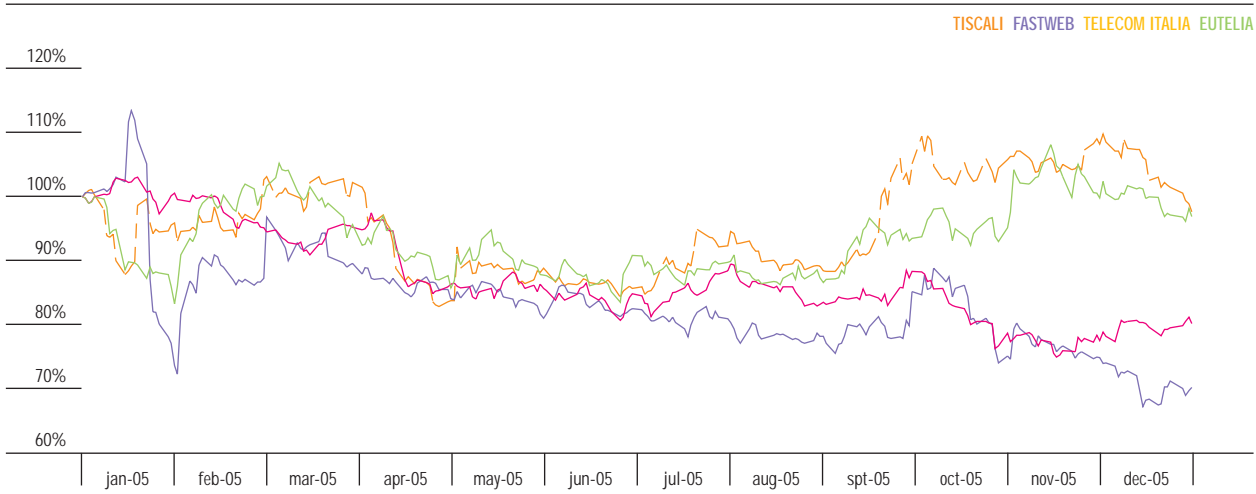
In 2005, the average price was EUR 2.62. The maximum price in the period, EUR 3.00, was registered on December 1st while the minimum price, EUR 2.27, on 29th April 2005.

Compared to market indexes, Tiscali stock registers a trend in line with the three market references, S&PMIB, MIBTEL and Morgan Stanley Technology Index in the first and last months of the year whereas the stock underperformed such indexes from April to September.

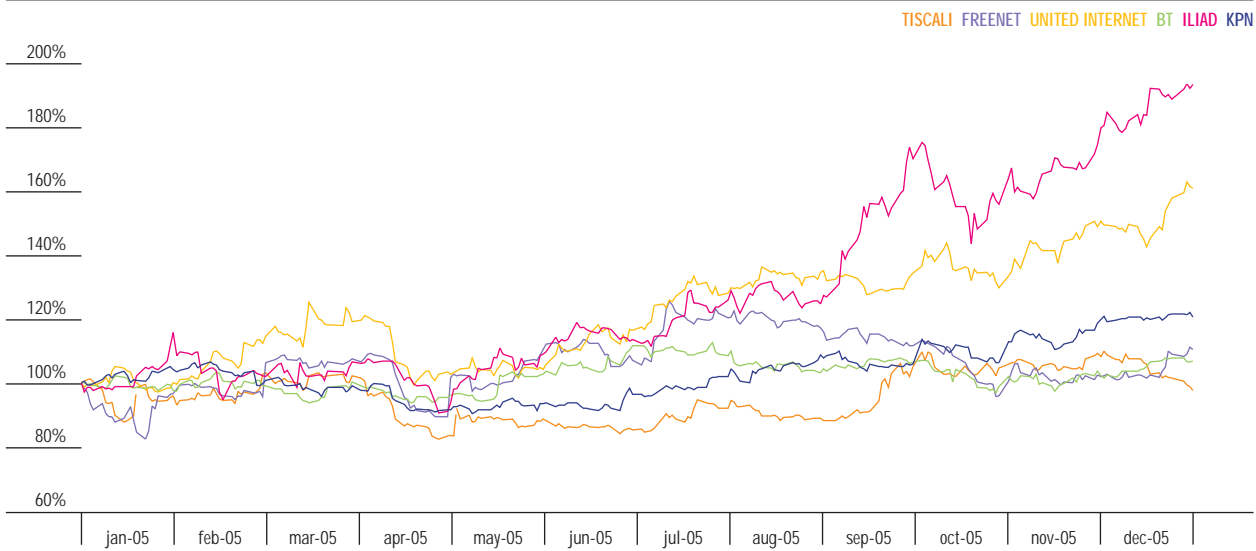
The graph below describes Tiscali stock performance vs market indexes.



Tiscali stock was in line with the performance registered by its Italian competitors. During the first quarter, Tiscali registered a performance significantly higher to Eutelia and Telecom Italia but slightly less significant vs Fastweb. Such evolution is illustrated in the following graph.



At European level, Tiscali stock performance is in line with the one of BT and Freenet, lower than Iliad, KPN and United Internet. See the graph below.



Trading volumes stood at a daily average of 6.6 million shares for an average daily value of EUR 17.2 million. In the year, the average value of trades was EUR 4.6 billion.

The trading volumes of the stock and their dynamic with a 99.8% concentration on the Italian market confirm the choice of the delisting from Euronext Paris.

AVERAGE DAILY TRADES OF TISCALI SHARES ON ITS TWO MARKETS

NUMBER OF SHARES DATE	BORSA ITALIANA		EURONEXT		TOTAL	
	SHARES	IN %	SHARES	IN %	SHARES	IN %
January-05	16,590,441	99.81%	32,095	0.19%	16,622,535	100%
February-05	6,304,920	99.69%	19,670	0.31%	6,324,589	100%
March-05	7,988,921	99.74%	20,590	0.26%	8,009,510	100%
April-05	4,436,070	99.71%	12,972	0.29%	4,449,041	100%
May-05	4,831,894	99.82%	8,717	0.18%	4,840,611	100%
June-05	2,537,520	99.83%	4,220	0.17%	2,541,740	100%
July-05	6,622,638	99.92%	5,572	0.08%	6,628,209	100%
August-05	2,558,677	99.88%	3,012	0.12%	2,561,689	100%
September-05	9,891,339	99.89%	11,060	0.11%	9,902,399	100%
October-05	8,111,137	99.89%	8,728	0.11%	8,119,865	100%
November-05	4,625,452	99.38%	28,965	0.62%	4,654,417	100%
December-05	4,611,398	99.71%	13,478	0.29%	4,624,875	100%
DAILY AVERAGE	6,569,129	99.79%	13,983	0.21%	6,583,112	100%

SOURCE: BLOOMBERG

Revenues

736.2

EUR (ml)

Analysis of the Group's Economic and Financial Position

Introduction

The financial year ended 31st December 2005 was a year of great importance for the Tiscali Group. During this period it was implemented the plan of concentration of the Group's activities in the markets with high value creating potential, along with the advancement of the unbundling network infrastructure. During the financial year, the Group posted further significant growth in terms of ADSL users, revenues and profitability. With revenues at EUR 736 million (12% growth as compared to 2004), the number of ADSL subscribers on 31st December 2005 reached the significant 1.7 million threshold. Of these, a continually increasing share was migrated into unbundling (over 360 thousand users) with a consequent improvement in profitability.

The strategic repositioning allowed the Group to focus its available resources in strengthening its position in the broadband market, taking advantage of the growth that is currently taking place in Western Europe. In this light, the financial resources freed through the disposals and the proceeds from the financing transaction concluded with Silverpoint Finance LLC, were earmarked for investments aimed at developing the unbundling network in Italy, The Netherlands and the United Kingdom, in addition to the repayment of the bond that matured in July.

In the second half of the year, Tiscali carried on the focus on its core markets and on the refinancing. It was at this time that Tommaso Pompei was appointed as the Group's Chief Executive

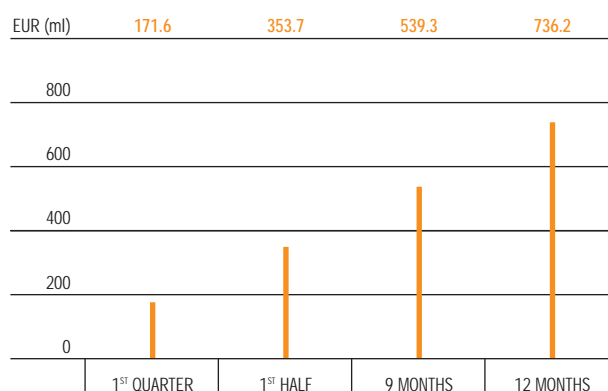
Officer. With its new structure, the Tiscali Group is currently in a new phase of development, during which it will have to benefit from the opportunities offered by a dynamic and rapidly evolving market, of which bundled services are a characterising feature.

The economic and financial results of the Group and the comparative data analysed below have been determined according to the International Accounting Standards and International Financial Reporting Standards and on the basis of a Group perimeter that is necessarily homogeneous and which includes operative investments in Italy, United Kingdom, Germany, The Netherlands, Czech Republic and TiNet IP.

During 2005 financial year, Tiscali Group had **Revenues** of approximately EUR 736.2 million, increased over 12% compared to the same period of the previous year (approximately EUR 655.1 million).

The increase in revenues derives mainly from the significant

2005 - REVENUE TREND



RESULTS AND PERFORMANCE

CONSOLIDATED INCOME STATEMENT	2005	2004	CHANGE	CHANGE %
EUR (000)				
Revenues	736,199	655,133	81,066	12%
Other operating income	8,936	9,009	(73)	-1%
Purchases of materials and external services	503,399	446,437	56,962	13%
Personnel costs	106,393	106,305	88	0%
Other operating expenses	18,235	33,945	(15,710)	-46%
Gross operating result	117,108	77,455	39,653	51%
Restructuring costs, other provisions and write downs	55,880	69,053	(13,173)	-19%
Depreciation and amortisation expense	135,573	129,217	6,356	5%
Operating result	(74,345)	(120,815)	46,470	38%
Share of the profit or losses of associates accounted for using the equity method	(74)	640	(714)	
Net financial income (expenses)	(28,412)	(37,175)	8,763	-24%
Income (loss) before taxes	(102,831)	(157,350)	54,519	35%
Taxation	(24,795)	110,614	135,409	
Income (loss) from continued operations	(127,626)	(46,736)	(80,890)	
Income (loss) from discontinued operations	114,818	(87,449)	202,267	
Net Income (loss)	(12,808)	(134,185)	121,377	90%

performance of the ADSL users (+66%) and the consequent growth of the revenues from the access line of business (+14%), mainly due to the ADSL segment (+54%). The concentration on key countries brought about an optimization of the infrastructural resources and a more efficient management of the minor business lines. The optimisation process of the infrastructure resources in tandem with a more effective and focused management has generated a significant growth of sales for the Group's other activities as well (business services +21%, media and value-added services +17%, traditional voice services have substantially been stable).

As part of the segmentation by geographic area, the major contribution to the increase in sales was the strong evolution of the revenues generated by the UK subsidiary (+28%), which also posted the highest increase in terms of new subscribers to ADSL services (+141%) during the year. The performances were also excellent in Italy and The Netherlands. The former posted sales growth of 9% while the latter posted a positive change of 17% (which takes into account the disposal to KPN described below).

The upward dynamics of the revenues which is mainly due to the growth of the ADSL customer base (including "unbundling"), accompanied by greater efficiency levels, were the contributing forces behind the **Gross Margin** of EUR 387.4 million (53% of revenues), which is significantly improved (+17%) with respect to the result posted in the prior year (EUR 331.6 million Euro, 51% of revenues).

The **Indirect Operating Costs** amounted to EUR 265.8 million in 2005, an increase in absolute terms of 12% with respect to the same period in 2004 (EUR 236.5 million) and with a stable percentage on revenue of 36%, but which derives from the different, more positive weight of its own components. To this effect, there was an increase in marketing and sales costs and a reduction in personnel and general expenses, in line with the objectives announced to the market.

The **Gross Operating Result (EBITDA)**, before provisions for risks, write downs, depreciation and amortisation posted a significant performance (+51%) to reach EUR 117.1 million (16% of revenues) against a result of EUR 77.5 million (12% of revenues) for 2004. This improvement is due to the optimisation of operating costs, in addition to the increased revenues.

The **Operating Result (EBIT)** for the period is negative at EUR 74.3 million. This loss has decreased significantly (-38%) as compared to the EUR 120.8 million loss of the previous period, despite the significant weight of the amortisation arising from investments, in particular for the development of the unbundling network and the investments connected with the increase in ADSL customers.

The dynamics above show a marked improvement (+35%) in the **Pre-tax result** which for the 2005 financial year was a loss of EUR 102.8 million, as compared to the EUR 157.4 million loss of the 2004 financial year.

The EUR 114.8 million profit deriving from discontinuing operations and the taxes for the period (which however do not involve a cash payment, due to the utilisation of the declared tax losses), net of the prepaid taxes recognised at the end of the period, resulted in a negative **Net Result** for the year of EUR 12.8 million, a significant improvement with respect to the net negative result of EUR 134.2 million for the previous year.

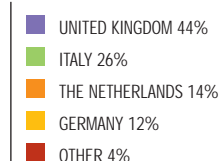
The **Investments** made by the Group, which were mainly applied to the extension of the unbundling network and to the consequent operating investments relating to the connection and activation of new ADSL clients for the period, were EUR 169.2 million, against investments of approximately EUR 130 million during the 2004 period.

On 31st December 2005, Tiscali Group's **cash and cash equivalents** totalled EUR 30 million, while the **net financial position** was negative at EUR 290 million (as compared to EUR 421 million on 31st December 2004).

Revenues

Revenues by geographical area

BREAKDOWN OF REVENUES BY GEOGRAPHICAL AREA



* THE ITEM INCLUDES THE REVENUES FROM SUBSIDIARIES IN THE CZECH REPUBLIC AND TINET IP.

The revenues of the operating companies in **Italy** amounted to EUR 196.5 million, or 26% of the Group's total revenues. These revenues basically derive from Tiscali Italia S.r.l.. Growth

compared with 2004 (EUR 180.8 million, 28% of the Group's total revenues) was 9%. The turnover from the sale of broadband services during the financial year posted a positive performance (+29%), led by the growth in active users (+78%), which exceeded the growth of the market (active lines) which was approximately 55%. The net activations during the period exceeded 133,000 bringing the number of ADSL users to approximately 303,000 on 31st December 2005, with revenues from ADSL during the period of EUR 52.1 million (EUR 40.3 million during the previous financial year). The number of ULL users grew to 104,000 in December. The important growth of the users' base registered by the Italian subsidiary during the course of the financial year was made possible due to the implementation of its own unbundling network. The development of the ADSL network in conjunction with the dual play strategy (data and Voice over IP), resulted in the launching of the VoIP offer in May. The success of this product resides in that all ADSL customers can make phone calls using their regular telephone device at particularly advantageous rates, in addition to the option provided to clients residing in areas covered by the unbundling network to no longer pay the Telecom Italia fee while maintaining their telephone number due to number portability. During the financial year, this product evolved in terms of its offer and bandwidth, by moving from a guaranteed bandwidth of 1Mb/s to 2 Mb/s and VoIP at 19.95 Euro to the launch at the end of the financial year of a 4 Mb/s and VoIP, still offered at 19.95 Euro. During the fourth quarter, the diffusion of the ULL network that was developed with ADSL2+ technology allowed additional 24 Mb/s products to be launched.

The operating subsidiary in the **United Kingdom** (Tiscali UK) ended the 2005 financial year with a 28% increase in revenues over 2004 (EUR 254.5 million, 39% of Group revenues). Revenues for the entire financial year 2005 were EUR 324.9 million or 44% of Group revenues. The sales generated by broadband services in the amount of EUR 170.5 million posted a very strong performance (+89% as compared to revenues of EUR 90.4 million in 2004), which was supported by the approximately 141% growth of active lines in a market that grew by 52%. There were 934,400 ADSL users at the end of the year, with net activations of 547,000 for the year. This increase in the number of users registered during the financial year is due to the appropriate product offer (optimal price-speed ratio) and to the marketing investments that were targeted and narrowly focused on the ADSL product. Specifically, the introduction of 1Mb/s and 2 Mb/s products and the offer of bundled services (data and voice) are the drivers of future sales growth. Within this context, the retention percentage of both ADSL and dial-up customers exceeds the average for the English market. These results were made possible thanks to the implementation of bit-stream technology (data-stream) which allows the quality of offered services to be monitored. At the end of the year, over 70% of the user base in the United Kingdom used data stream, with gross profitability exceeding 40%. During the second semester of 2005, the United Kingdom subsidiary activated the first 25 collocations in the London area where the

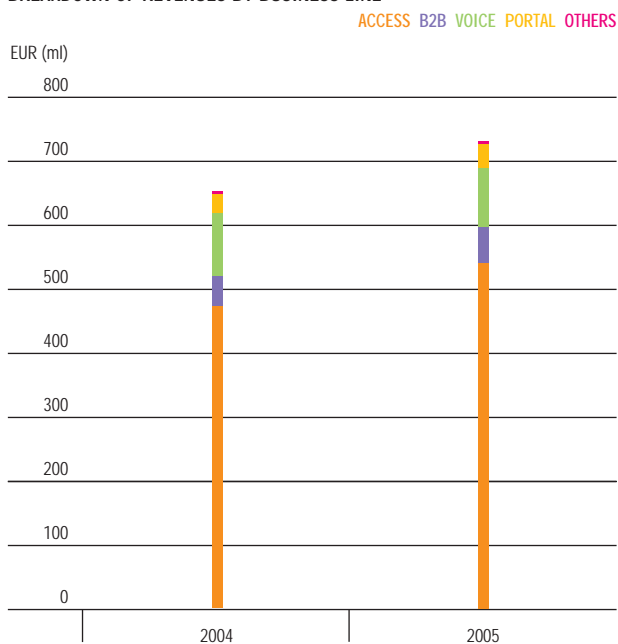
first 15,000 users of unbundling services registered on 31st December 2005.

For the 2005 financial year, the subsidiary operating in **The Netherlands** (Tiscali B.V.) posted revenues of approximately EUR 109.3 million (14% of the Group's revenues), an increase of 17% as compared to the previous year (EUR 93.1 million, 14% of the Group's revenues). There are 249,600 ADSL unbundling users, a number which has grown by 85,000 since the end of 2004. The ADSL revenues during the same period amount to EUR 78.9 million, up 59% with respect to the result registered in 2004 (EUR 49.7 million). The Dutch Internet market is one of the most mature in Europe, particularly with regard to broadband technology. The performance of ADSL users must therefore be analysed in this context and the organic growth of 51% achieved by the Dutch subsidiary becomes especially significant when compared to the 23% growth of the relevant market. The introduction of bundled services (data and voice) met with success in The Netherlands as well. This offer was made possible by the existence of a diffused unbundling network. The transferral of approximately 60,000 "resell-wholesale" ADSL users to the local incumbent KPN was completed during the third quarter of 2005 and resulted in a net positive effect on revenues of approximately EUR 7 million. This transferral was in line with the Group's strategy which focuses on ULL clients.

The results in terms of revenues as at 31st December 2005 from operating subsidiaries in **Germany**, amounted to EUR 88.8 million (12% of Group revenues), which was down 6% from 2004 for which EUR 94.8 million (14% of Group revenues) were posted. At the end of the year, there were 215,000 ADSL users, which is a slight drop from the end of 2004. Revenues from ADSL were EUR 26.8 million (EUR 29.4 million in 2004). The reasons for this negative performance are to a great extent due to the characteristics of the German market which mainly allows wholesale ADSL services to be offered. This has therefore led the Group to curtail marketing expenses. Furthermore, the dynamics of the German market resulted in a significant reduction of the ARPU during the first semester, which had a negative influence on sales. Initial investments in the ULL network began in the last part of the financial year. These are expected to revive the assets held in Germany through a local and selective approach.

Revenues by business area

BREAKDOWN OF REVENUES BY BUSINESS LINE

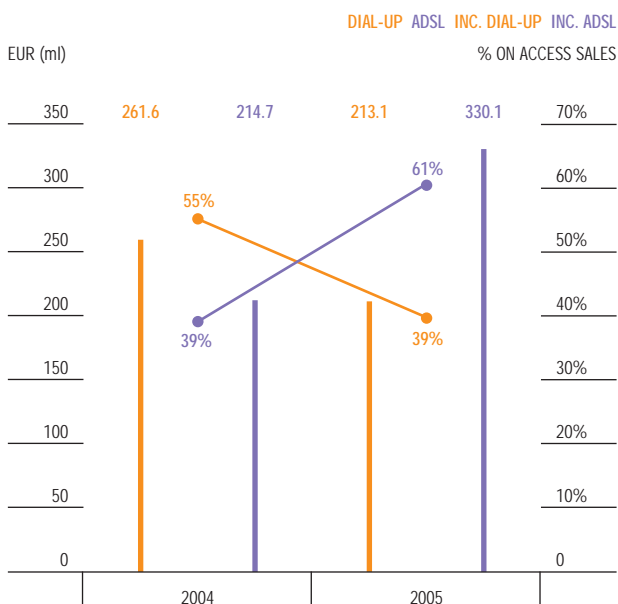


Access

Access revenues in 2005 financial year amounted to 74% of the Group's total revenues and were the main drivers behind the growth achieved. These revenues amounted to EUR 543.2 million in 2005, up 14% compared to the previous year (EUR 476.3 million, 73% of revenues).

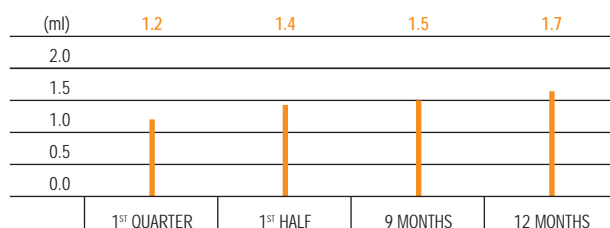
The weight of the **ADSL** segment prevails within this business line

ACCESS REVENUES



as it represents 61% of the access revenues for the year. In fact, ADSL revenues were EUR 330.1 million, a strong growth (+54%) compared to the 2004 result (EUR 214.7 million, 45% of access revenues). ULL ADSL revenues amounted to 22%, bit stream (UK) to 33% and wholesale 45%.

2005 CUSTOMER BASE EVOLUTION



With over 682,000 net additions during the year, the total number of ADSL subscribers as of 31st December 2005 exceeded 1.7 million (+66% over 31st December 2004), of which over 360,000 have unbundling access. The performance of the ADSL users is particularly influenced by the user base of the subsidiaries operating in the United Kingdom and Italy.

Tiscali offer is different for each market, thanks to its highly innovative products and the excellent ratio of quality and price. At country level, we underline that the success in Italy of double play product (data and VoIP) in the different bandwidth offers (1Mb/s, 2Mb/s, 4Mb/s) at EUR 19.95 per month, which allows users to eliminate the Telecom fixed monthly fee. In the United Kingdom, Tiscali is considered a "first mover" in the introduction of products with greater bandwidths and value-added services. In The Netherlands, the advanced infrastructure of the unbundling network and the widespread offer of bundled services (data and VoIP) allowed to start a trial phase for Triple Play offering in the fourth quarter of 2005. In Germany, though competitive market with significant growth potential, is a market dominated by the incumbent. That competition led to a strong decrease in sales prices following the introduction of low bandwidth products by competitors. Tiscali had adjusted its own offer in order not to lose market share and this has resulted in decreased turnover.

The **dial-up** revenues for the period were EUR 213.1 million, or 39% of the access revenues, due to the evolution of technology which has resulted in extraordinary growth of broadband products, which has had a negative impact on dial-up revenues. These revenues dropped by 19% compared to 2004 (EUR 261.6 million, 55% of access revenues). Active dial-up customers amounted to 3 million, a slowdown that is in part attributable to the migration towards ADSL products.

Market trend was offset by the improvement of value-added service offers for dial-up customers, which contributed in containing the decrease in revenues and in retaining a significant

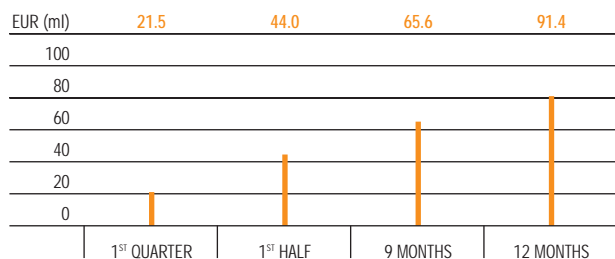
customer portfolio. In particular, the subsidiaries in the United Kingdom and Italy each number approximately 1 million users. Dial-up customers are still one of Tiscali's key strengths, mainly due to the fact that a significant number of them choose to improve access to the Internet by switching to an ADSL offer.

Voice

The voice revenues for the year amounted to EUR 91.4 million (12% of total revenues), a 5% decrease compared to the previous year when these revenues were EUR 96.2 million (15% of total revenues). The performance of this business area is mainly due to the refocusing of traditional voice services towards services developed on IP technology (VoIP) which guarantees better profitability and the switch from "wholesale" offer (a product which has low profitability). It is important to note that the shrinking of the revenues from analogical telephony is in part compensated by the growing diffusion of VoIP services, which generated revenues of approximately EUR 3.5 million in 2005 (included in access revenues).

The segment dynamics will be influenced by the Group strategy which focuses on bundled products directed to residential customers rather than wholesale products directed to businesses. Voice products (CPS) are available in Italy (over 100,000 active users), the United Kingdom (over 300,000 active users) and Germany, where bundled product offers were quite successful.

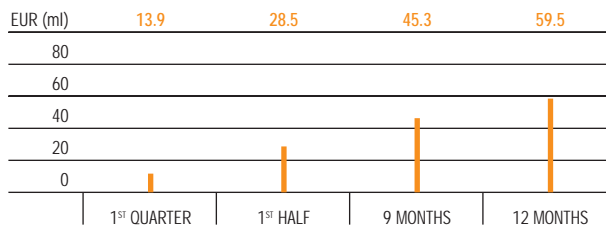
2005 VOICE REVENUE TREND



Business Services

In 2005, revenues from **business services** evenly distributed among the various geographical areas where the Group is present, were EUR 59.5 million (8% of total revenues), a 21% increase compared to EUR 49.1 million (7% of revenues) for 2004. The change in revenues from the previous year is exclusively due to organic growth, which was supported by a new commercial focus. We highlight that business service revenues include only services such as VPNs, housing, hosting, domain names and leased lines while Internet access revenues (both dial-up and ADSL) of EUR 70 million generated by business users have been classified in access revenues.

2005 BUSINESS SERVICES REVENUE TREND



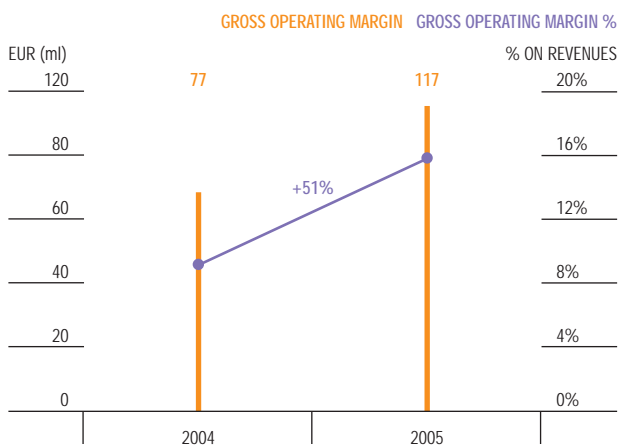
Media and VAS (Value-Added Services)

On 31ST December 2005, revenues from **media and value-added services** were EUR 33.8 million (5% of revenues), an improvement (+17%) compared to EUR 28.8 million (4% of revenues) for the same period of the previous year. The trend for revenues was positively influenced mainly by the growing number of partnerships with distribution channels such as search engines. In particular, the new agreement concluded last May with Google in relation to the search engine generated approximately EUR 5 million in revenue. Revenue growth is also due to the increase in advertising. On 31ST December 2005, Tiscali's portal attracted over 13 million unique visitors.

The Group's strategy will focus more on value-added services (VAS) and content offers. The launch of "Tiscali Games" on the Italian portal during the fourth quarter was part of this strategy as was the improved music downloads offer. During the year, the Group's focus on value-added services produced good results both in terms of revenues and commercial returns, particularly in the United Kingdom and Italy.

Over 2.5 million Tiscali users use security software purchased online from the portal. Of these, 2.1 million purchased security software (Antivirus and Antispam) from Tiscali portals and approximately 420 million users have purchased Norton Antivirus, thanks to the partnership with Symantec.

Gross Operating Result

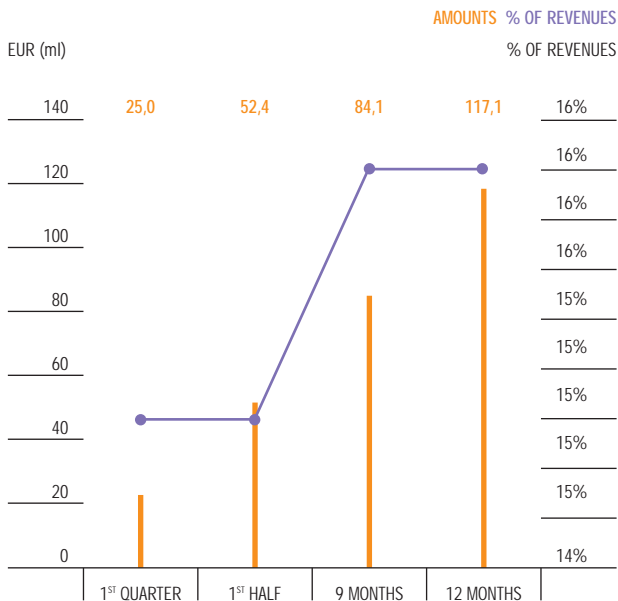


During the financial year, the **Gross Operating Result (EBITDA)** before provisions for risks, write downs and depreciation, was EUR 117.1 million, or 16% of revenues. This was a +51% increase over the performance for the same period in 2004 (EUR 77.5 million, 12% of revenues).

In addition to the revenue dynamics, cost downsizing and efficiencies have played a role in the achievement of these results. The trend exhibited by variable costs, thanks mainly to the increase of ADSL unbundling customers which permitted better control of service offers while also providing the ability to offer a larger portfolio of products and services (which positively influenced average revenues), resulted in the improvement of the Gross Margin (a calculation which is not reported in the Income Statement, as it is not required by IFRS, but which is provided as additional information). The improvement has been influenced to a great extent by the additional number of ADSL - ULL users in the access segment.

During the fiscal year, the Gross Margin was EUR 387.4 million (53% of revenues) which significantly improved (+17%) with respect to the EUR 331.6 million and 51% of revenues of the previous year.

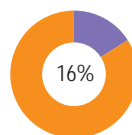
2005 GROSS OPERATING MARGIN TREND



The **indirect operating costs** amounted to EUR 265.8 million in 2005, a growth in absolute terms of 12% compared to the same period in 2004 (EUR 236.5 million) and with a stable percentage on revenues of 36%, though the dynamics and weights are differentiated across the different components.

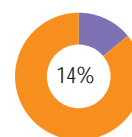
More specifically:

Marketing costs as a % of sales



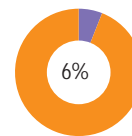
Marketing costs for the 2005 financial year amounted to EUR 118.3 million overall, 16% of revenues, with significant growth (41%) as compared to the EUR 83.7 million (13% of revenues) of the previous year. These costs also include selling, distribution and retention costs. The significant commercial effort during the year led to a successful result, as shown by the dynamics of users and revenues.

Personnel costs as a % of sales



Personnel costs were approximately EUR 106.4 million, and were substantially unchanged in absolute terms with respect to the EUR 106.3 million for the previous period, though there was an improvement in terms of these costs as a percentage of revenues (from 16% to 14%). Employees as of 31st December 2005 were 1,906 of which 300 in the United Kingdom, 270 in the Netherlands, 279 in Germany, 174 in the Czech Republic and 873 at the Italian subsidiaries (Tiscali Italia S.r.l. and Tiscali Services) and the holding company.

General costs as a % of sales



Other indirect costs for the year amounted to EUR 41.1 million, which is a decrease of 12% as compared to 2004, when the comparative figure was EUR 46.5 million. The dynamics illustrated by the operating costs show that they have been kept under control, not only in terms of these costs as a percentage of revenues but in absolute terms as well.

Operating Result



In 2005 financial year, **Operating Result** was negative at EUR 74.3 million, which was a marked improvement (38%) compared to the negative result of EUR 120.8 million of the previous year and which brings Tiscali closer to the break even point, despite the increased depreciation and amortisation resulting from the significant investments that have been made. The performance was the result of the significant increase in gross operating profitability that was described above.

Depreciation and amortisation expenses for tangible and intangible fixed assets stood at EUR 135.6 million, as compared to EUR 129.2 million at the end of December 2004. This amount, which is increasing, is the result of significant investments made during 2005 for the development of the unbundling network and it has been influenced by a significant increase in users and the investments for activation of ADSL services (activation and modem costs).

Provisions for risks and write downs (as well as restructuring costs) stood at EUR 55.9 million, compared to the EUR 69.1 million recorded for 2004. This amount mainly refers to bad debt provisions (for EUR 24 million) as well as some provisions for risks and expenses related to disputes and activities connected to the reorganization.

Operating result by geographical area for 2005 financial year

Details regarding the operating result by geographic area allow for an analysis of the performances of the Group's operating subsidiaries in the different geographic areas. The information provided below shows a significant improvement in the performances of the major subsidiaries, both insofar as the gross operating level and the operating results, as a consequence of the growth, improvement of profitability and the containment of indirect costs.

Italy ended the year with a Gross operating result, before write downs, depreciation and amortizations (EBITDA) of EUR 26.6 million (14% of revenues), which was a net improvement over the amount posted for the previous year (EUR 15.1 million or 8% of revenues). The Operating result is in line with an amount which, though negative at EUR 17.6 million, is an improvement compared to EUR 30.7 million in 2004.

The Gross operating result (EBITDA) achieved in 2005 by Tiscali UK (**United Kingdom**) is positive at EUR 68.5 million and equal to 21% of revenues (compared to EUR 47.7 million in 2004). The Operating result, net of depreciation / amortisation and write downs, is positive at EUR 7.6 million (EUR -4.6 million in 2004). The subsidiary was able to achieve a meaningful operating performance, despite the significant marketing expenditures and increased amortisation, supporting the extremely significant increase in the number of ADSL customers and revenues during the period.

On 31st December 2005, **the Netherlands** had a Gross operating result (EBITDA) of EUR 39.3 million (36% of revenues) and an Operating result which was also positive for EUR 2 million. In the previous period the gross operating result was EUR 20.5 million, while the operating result was negative by EUR 10.2 million.

The decrease of revenues in **Germany** together with a reduction in operating costs, allowed to improve profitability. At the end of December the Gross operating result (EBITDA) was positive at EUR 4.4 million (5% of revenues) as compared to a negative result of EUR 5.2 million on 31st December 2004. The Operating result, influenced by non recurrent issues, remained negative at EUR 29.2 million, as compared to EUR 19.5 million for the corresponding 2004 period.

Pre-tax Profit (loss)

The **pre-tax profit (loss)** for continuing operations in 2005 financial year, after financial charges, was negative at EUR 102.8 million, an improvement with a performance that was up +35% compared to a loss at operating result for EUR 157.4 million registered in 2004 financial year. This improvement is the result of a significant reduction in gross debt, with finance charges of EUR 28.4 million for the 2005 financial year (-24%) against EUR 37.2 million in 2004.

If the result as at 31st December 2005 included the non-taxable profit of EUR 114.8 million from discontinuing operations which mainly originated from the profit on disposal of EUR 144 million generated by the sale of the French subsidiary Liberty Surf Group SA, net of the results for the period deriving from the Group's investments and the expenses of the disposal, the Tiscali Group's **pre-tax profit** at the end of the 2005 financial year would be approximately EUR 12 million.

Net Profit (loss)

The consolidated Income Statement as at 31st December 2005 ended with a net loss of EUR 12.8 million, as compared to a net loss of EUR 134.2 million for 2004 financial year.

The net result for the period includes net taxes for the period of approximately EUR 24.8 million, as determined by tax expenses for the period of EUR 54.9 million, net of deferred tax credit of EUR 30.1 million determined at the end of the financial year. In particular, the cost for current taxes has been determined by taxable results generated by the Parent Company Tiscali S.p.A., the Dutch subsidiary Tiscali International B.V. and Tiscali UK, which resulted in the partial utilisation of the deferred tax asset on tax losses declared in previous periods). It should be noted that the tax charge does not involve any cash being paid, as it is offset against tax losses incurred in previous financial years. The deferred tax asset accounted for at the end

of the financial year takes into account the results achieved by Group companies as well as those set forth by the relative business plans, refer to the subsidiaries in the Netherlands and the United Kingdom.

Balance Sheet and Financial Position

CONSOLIDATED BALANCE SHEET EUR (000)	31.12.2005	31.12.2004
Non-current assets	808,644	802,437
Current assets	217,764	270,226
Assets held for sale	16,707	395,597
Total Assets	1,043,115	1,468,260
Shareholders' Equity (Group)	308,767	313,847
Minority interests	2,553	3,948
Total Shareholders' equity	311,320	317,795
Non-current liabilities	186,375	340,125
Current liabilities	533,698	599,157
Liabilities directly related to assets held for sale	11,722	211,183
Total Shareholders' equity and liabilities	1,043,115	1,468,260

Assets

Non current assets

Non current assets basically includes goodwill, the value of which remained unchanged at EUR 313.5 million compared to the value at 31st December 2004, as the result of the impairment test did not require the balance sheet values to be written down.

Tangible assets (property, plant and machinery) and other intangible assets amount to EUR 166 million and EUR 164 million respectively.

Investments

The total investments for the period amount to approximately EUR 169.2 (23% of revenues), up compared to the investments of the previous period (EUR 129.9 million, 20% of revenues). The investments in intangible assets amounted to EUR 110.3 million and mainly involve the conclusion of new IRU (*Indefeasible Rights of Use*) contracts that is licenses for the use of capacity and activation costs related to ADSL services. The investments in tangible assets of approximately EUR 58.9 million are mainly attributable to the development of the unbundling network and to the purchase of the relative equipment (servers, routers and dslam) which is necessary for implementation and maintenance of the infrastructure.

The information below refers to the investments during the period by geographical area.

In Italy, the investments in the infrastructure of the unbundling network amounted to EUR 34.7 million approximately. This allowed 367 collocations as opposed to 240 at the end of 2004 financial year, with 40% coverage of ADSL addressable market.

In the United Kingdom, total investments stood at EUR 75.8 million, of which approximately EUR 9.1 million were for the infrastructure of the unbundling network. A great part of the investments that were made in the United Kingdom are attributable to the significant growth in the number of ADSL users registered during the period. During the last quarter and according to the business plan, the UK commenced investments to develop the unbundling network. As of 31st December 2005, 25 collocations were activated in the London area, with a coverage of 3% of households.

In The Netherlands, total investments were EUR 33.6 million, mainly for the updating of the network infrastructure with ADSL2+ technology and the expansion of the unbundling network. At year end Tiscali reached 250 collocations covering over 60% of households, an increase compared to the 231 collocations at end 2004.

During the last quarter, as planned, the first selected investments in the ULL network in Germany began. These are expected to increase performances of the German subsidiary.

Current assets

Receivables from customers as at 31st December 2005 stood at EUR 128.2 million and were the most important item under current assets. Other receivables and current assets also includes accrued income on access services provided, prepayments for service costs and various receivables, including VAT credits.

Liabilities

Non-current liabilities

In addition to the items applying to the financial positions listed under the next note, these liabilities include in particular, under non-current liabilities, the medium and long term payables to 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 the payables to suppliers and accrued liabilities for the purchase of access services and leasing of lines under other current liabilities.

Financial Position

As of 31st December 2005, the Tiscali Group's cash and cash equivalents totalled EUR 30 million, while the net financial position was negative at EUR 290.1 million (compared to EUR 420.9 million at 31st December 2004).

The financial position is shown in the table below.

CASH AND CASH EQUIVALENTS EUR (ml)	31.12.2005	31.12.2004
CASH	30.0	83.1
Other financial assets	34.3	53.9
of which:		
Escrow accounts	18.0	15.8
Tax receivables and other financial assets	16.2	38.1
TOTAL CASH AND OTHER FINANCIAL ASSETS	64.3	137.0
Bonds matured in July 2005	-	250.0
Equity Linked bonds maturing in September 2006 (a)	211.0	209.5
Telinco bonds	-	0.4
Total bonds	211.0	459.9
Long and medium term loans	89.2	35.6
Bank overdraft and short term loans	19.6	24.6
Total bank debts	108.8	60.2
Payables to other lenders (leasing)	34.5	37.8
TOTAL GROSS DEBT (b)	354.3	557.9
TOTAL NET DEBT	290.0	420.9

(a) The value as at 31st December 2005 includes the interest due at that date and includes measurement of the debt according to the amortised cost methodology set forth by IAS/IFRS

(b) Does not include shareholders loans (EUR 28.2 million at 31st December 2005)

Operating cash flow in 2005 financial year, excluding the effects from the disposal of non-strategic assets but including financial charges, was negative at approximately EUR 105 million but improved compared to the previous financial year. This result was mainly due to financial charges (relating to the bond maturing in September 2006, the bond which was redeemed in July 2005 and the Silverpoint financing) for approximately EUR 28.4 million and the investments which were made, that resulted in a EUR 162 million change in cash for the activation of the unbundling network and the costs for the activation of the customers.

Significant Events in 2005

Significant events that took place during the 2005 financial year are mainly related to the disposal of non core countries, following the restructuring plan approved in the second half of 2004.

Disposals of non strategic assets

South Africa

On 17th January 2005, the South African competition Authority approved the sale of the subsidiary Tiscali Pty Limited to MBWEB Holdings (Pty) announced on 20th August 2004, for a total amount of around Euro 40 million. On 12th January the South African competition Authority approved also the disposal of the South African mobile business to Vodacom Service Provider Company Ltd, announced on 19th October 2004, for a total amount of around Euro 5.3 million. These were completed during first half year, realizing a total profit of EUR 17 million.

Denmark

On 1st February 2005, Tiscali disposed its Danish subsidiary Tiscali Denmark A/S to Tele2 A/S a subsidiary of Tele2 AB for a total consideration of EUR 20.7 million. This amount was received on completion of the sale and generated a profit of EUR 5 million.

Liberty Surf

On 5th April 2005, Tiscali and Telecom Italia signed an agreement for the disposal of the French subsidiary (Liberty Surf Group), finalized in June following to the approval of the French Antitrust Authority. The price agreed for the stake held directly by Tiscali amounted to EUR 248.2 million of which 90% was received at the closing, realizing a profit of EUR 144 million.

Excite

On 20th May 2005, Tiscali disposed Excite Italia B.V. to Ask Jeeves Inc. for a total cash consideration of EUR 6.1 million corresponding to book value. The divesture of Excite Italia B.V., which owns the Excite brand in key European countries, ratifies Tiscali's focus of its portal activities under the Tiscali brand.

Focus on unbundled ADSL services in the Netherlands

On 26th July, Dutch subsidiary Tiscali B.V. reached an agreement to transfer around 60,000 broadband users to KPN for approximately EUR 13 million. The agreement concerns only Tiscali B.V. customers receiving "resell" broadband services, and who, therefore, were connected to Tiscali through KPN's network. The transaction is part of Tiscali's strategy to focus on growing unbundled ADSL services, which allow the Group to offer its customers competitive and innovative products and access services.

Sale of international optic fibre network to Telecom Italia

On 2nd August, Telecom Italia S.p.A. and Tiscali S.p.A. announced an agreement for the purchase by Telecom Italia Sparkle of Tiscali's fiber optic network, Tiscali International Network SAS (TINet SAS),

for a total consideration of EUR 8 million. The transaction does not include the sale of IP and Voice over IP national and international networks, which are owned by Tiscali International Network B.V. The Tiscali Group will maintain ownership and control of these networks so that it may continue to offer high-quality IP and VoIP services to its own customers. The agreement was finalized on 1st November following the approval of the Authority, confirming the initial price.

Sale of investment in H3G Italia

In September, the subsidiary Tiscali Finance SA sold its non-strategic investment of less than 0.3% in 3G mobile operator Hutchison 3G Italia S.p.A. to Hutchison 3G Italy Investment Sarl for a value substantially in line with the book value and with a perspective of a future co-operation.

Disposal of certain activities in Spain

In December 2005 with efficacy from first months of 2006, Tiscali signed agreements for the disposals of part of its activities in Spain. In particular it has sold to Deutsche Telekom and to France Telecom its consumer ADSL customer base for a total consideration of approximately EUR 3 million.

Financial and organizational structure

Rationalisation of Group structure via separation of Italian businesses from holding company activities

Tiscali S.p.A. transferred of all businesses operating in Italy to Tiscali Italia S.r.l., with effect from 1st January 2005. All head office functions and services carried out on behalf of the Group were transferred to Tiscali Service S.r.l., which will manage the information technology and media development activities relating to new products for the entire Tiscali Group.

Both companies are wholly owned and directly controlled by Tiscali S.p.A.

These transactions aimed at rationalising Tiscali Group's structure and businesses and optimising performance.

The transaction realized a capital gain of EUR 160 million, corresponding to a net book value of the assets transferred, valued on the basis of an independent report prepared as provided for by Art.2465 (Italian Civil Code), of EUR 217.2 million, of which EUR 184.9 millions related to the activities transferred in Tiscali Italia S.r.l., including goodwill.

We remind that such capital gain was written off in the consolidated financial statements of the Group (intercompany).

Repayment of EUR 250 million bond issue

On 7th July 2005 Tiscali reimbursed the EUR 250 million bond issued by its subsidiary Tiscali Finance SA.

EUR 150 million facilities agreement from Silver Point

On 8th August Tiscali reached an agreement for a facility worth a

total EUR 150 million. The credit line was structured and provided by Silver Point Finance LLC (USA), a company providing tailor made financing to large and medium-sized companies operating in different sectors. The facility comprises two tranches, each with a three-year duration, and offers a rate of EURIBOR +600 bps. The first tranche of EUR 50 million was advanced in August 2005, while the second EUR 100 million tranche will be made available from September 2006, subject to certain standard terms and conditions, including certain financial and business covenants.

Proceeds of the first and second tranches will be used for general corporate purposes and to refinance the Equity Linked Bonds due September 2006, respectively.

Financial covenants concern in particular the pledge of UK and Dutch shares held by Tiscali S.p.A. held in Tiscali UK Ltd and Tiscali B.V. (Netherlands). Furthermore some covenants are related to Gross Operating Result (EBITDA) and Investments (CAPEX) and ADSL subscribers.

Other significant events

Agreement with Neue Medien Ulm Holding

On 24th May 2005, was closed the capital increase subscribed by Neue Medien Ulm Holding GmbH, resolved by the Extraordinary Shareholders Meeting held on 16th May 2005. By consequence, 3,500,000 shares were issued, at the price of EUR 2.436, for a total consideration of EUR 8,526,000. Neue Medien is a German Publishing Group specialized in the Consumer Information Technology and commercial partner of Tiscali.

Tommaso Pompei new CEO of Tiscali Group

On 31th October 2005, the Board of Directors of Tiscali S.p.A., appointed Tommaso Pompei Director General of the Group. On 11st January 2006 he was appointed CEO of the Group. Ruud Huisman, who quit his managing role on 31st October 2005, has resigned from the Board of Directors and from all his other responsibilities within the Group.

Delisting from Euronext Paris

On 23rd December, was finalized the process of delisting of Tiscali S.p.A. shares from Eurolist of Euronext Paris. The voluntary delisting, occurred after the approval of Euronext Board of Directors was motivated by the low trading volumes of Tiscali in the French market, which accounted for less than 1% of total.

Luca Scano, Managing Director of Tiscali B.V.

On 23rd December 2005, Luca Scano was appointed Managing Director of Tiscali B.V., the Dutch subsidiary of the Group, replacing Patricia Spuijbroek.

Significant events since 31st December 2005

No particular event took place since 31st December 2005.

EBITDA

117.1

EUR (ml)

Corporate Governance

The Company has adopted a traditional Corporate Governance model consisting in a Board of Directors and a Board of Auditors. Notwithstanding the fact that the Company law reforms have given public limited companies the right to adopt models that deviate from the traditional structure, the Company has, at the present time, decided to keep its own system of administration and control unchanged in order to guarantee continuity and consistency with the consolidated structure, enabling roles and powers to be clearly divided between governing bodies, in consideration of the provisions of the Italian Stock Exchange Code.

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

The Board of Directors comprises the following committees Internal Audit Committee and the Remuneration Committee.

The Board of Directors

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 achievement of same.

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

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

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

Within the end of the current financial year, if required, the provisions of the Company's Articles of Association concerning appointment, composition and requirements of the members of the Board of Directors will be amended in compliance with provisions contained in Law 262/2005.

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

As at the date of this Report, the Board of Directors has eight members, seven of which were appointed during the Shareholders' Meeting of 5th May 2005.

Following the termination of powers of the preceding Chief Executive Officer Rudolf Derk Huisman by the Board on 31st October 2005, Tommaso Pompei has been appointed General Manager. Following the resignation of Director Rudolf Derk Huisman, the Board of Directors held on 11st January 2006 has co-opted Tommaso Pompei amongst its members, appointing him at the same time Chief Executive Officer.

The Board of Directors has set up an Internal Audit Committee and a Remuneration Committee from amongst its members.

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 meeting of the Board and coordinates its activities. When Board meetings are held, the Chairman ensures that documentation required for the Board to be able to discuss knowledgeably the subjects under examination is prepared and distributed to Directors well in advance.

The Articles of Association also state that the Board of Directors, within the limits set by current legislation, may appoint one or more Chief Executives and decide upon the powers to be granted to him/them.

The Board of Directors has conferred executive powers on the Chief Executive Officer and orientation and control powers on the Chairman. The powers of the Executive Chief may be exercised up to a maximum value of EUR 25 million and without any limit in the case of joint signature with the Chairman.

The Chairman and the Chief Executive report to the other Directors and to the Board of Auditors at Board meetings held at least once a quarter, on the most significant economic, financial and balance sheet-related operations carried out by the Company or its subsidiaries. In addition, they supply the Board of Directors with appropriate and up-to-date information at Board meetings, regarding atypical or unusual operations for which approval is not reserved to the Board, as well as on activities of major significance occurring within the scope of the powers and duties conferred on the Chief Executive Officer.

Except in the event of necessity and emergency, it is normal procedure for such activities to be submitted for examination by the Board beforehand so that they can decide upon the same in a knowledgeable and considered manner.

Non-executive and independent Directors

The Board of Directors currently comprises eight Directors, of whom two are executive and six non executive; among the latter one is independent Director.

Directors with executive powers are the Chief Executive Officer Tommaso Pompei and Director and Chief Financial Officer Massimo Cristofori.

As indicated in article 3.2 of the Code, the Board evaluates Directors' independence every year when this Report is prepared, on the basis of information provided by the Directors themselves, and provides the market with appropriate information in this respect by publishing said Report.

Gabriele Racugno is an independent Director whose qualification as such is consistent with the principles and application criteria stated by art. 3 of the Code. For the sake of completeness of information please note that in the 2005 financial year the law firm of Director Gabriele Racugno has provided consultancy services to Tiscali Group under market terms for an overall sum equal to EUR 38,160.75.

Within the end of the current financial year the provisions of the Company's Articles of Association concerning the requirements of the members of the Board of Directors and the presence of an independent Director will be amended in compliance with provisions contained in Law 262/2005.

In order to facilitate the disclosure of information to the market regarding the professional qualities of individual Directors, the Company has published on the "Investor Relations" page of its website www.tiscali.com the professional *curricula* of its Directors, thus enabling Shareholders and Investors to assess the professional experience and authority of members of the Board of Directors.

The Board of Directors meets on a regular basis, at least once every three months, to approve the quarterly reports, the half-yearly report and the draft annual financial results.

It is normal procedure for managers and external advisors to be regularly called upon to attend Board meetings, depending on the specific nature of the subjects to be dealt with. The Board of Directors avails itself, where necessary, of fairness opinions or legal opinions issued by advisors and experts, so as to facilitate the informed and knowledgeable adoption of resolutions proposed at meetings.

Ten Board meetings were held in the financial year 2005, chiefly to discuss and approve periodic accounts data and significant operations carried out by the Company. The Board of Directors has met three times in 2006, up to the date of this Report.

Appointment of Directors

Article 11 (Board of Directors) of the Company's Articles of Association

specifies a voting list for the appointment of Directors, under which the appointment of a certain number of Directors on the lists that have not obtained the majority of votes is ensured, guaranteeing the transparency and correctness of the appointed procedure.

Only Shareholders who alone, or together with other Shareholders, represent at least 2% of the voting rights at the Ordinary Shareholders' Meeting are entitled to submit lists. 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.

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 first Shareholders' meeting, together with professional *curricula* for individuals appearing on the lists, in compliance with the principles and application criteria contained in article 6 of the Code.

Within the end of the current financial year, if required, the provisions of the Company's Articles of Association concerning the mechanism of appointment of the members of the Board of Directors will be amended in compliance with provisions contained in Law 262/2005.

Shareholders' meetings

Consistently with the principles and application criteria contained in art. 11 of the Code, the Company encourages and facilitates the participation of Shareholders' in meetings, supplying any Company-related information requested by Shareholders in accordance with regulations governing *price-sensitive* communications.

To make it easier for Shareholders to receive information and attend meetings, and to facilitate access to documentation which, in accordance with the law, must be made available to them at the registered office when meetings are being held, the Company has made said documentation available in electronic format on the "*Investor Relations*" page of its website www.tiscali.com.

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

Board of Auditors

Consistently with the first principle of art. 10 of the Code, concerning the appointment of Auditors, article 18 of the Company's Article of Association (Board of Auditors) specifies a voting list system which guarantees the transparency and correctness of the appointment procedure and protects minority Shareholders' rights.

Only Shareholders, who alone, or together with other Shareholders, own a total of at least 2% of ordinary shares, are entitled to submit lists. Five candidates must be listed from one to five, starting with the one with the greatest professional seniority. Each Shareholder may submit, or join in submitting one list and each candidate may be listed in only one list or be disqualified. Lists of nominations must be filed at the registered office at least ten days prior to the date of the first Shareholders' meeting, together with professional *curricula* for the individuals listed.

Each Shareholder may vote for one list. Two Statutory Auditors and two Deputy Auditors are elected, in the order in which they appear on the list, from the list obtaining the most votes; the third Statutory Auditor is the first candidate of the list that obtained the second-largest number of votes. The person appearing first on the list that obtained the most votes is nominated Chairman of the Board of Auditors.

On 29th April 2003 the Ordinary Shareholders' meeting appointed the current Board of Auditors, which will remain in office until approval of the balance sheet as at 31st December 2005. Aldo Pavan, Piero Maccioni and Massimo Giaconia were elected as Statutory Auditors. Andrea Zini and Rita Casu were elected as Deputy Auditors. Aldo Pavan was elected Chairman of the Board of Auditors.

The members of the Board of Auditors were elected from names appearing on two lists, which were filed at the Company's registered office within the deadlines, by Shareholder Renato Soru and by Shareholders Haselbeech Holdings N.V. and Mallowdale Corporation N.V.

Article 18 (Board of Auditors) of the Company's Articles of Association states that at least one of the Statutory Auditors, and at least one of the Deputy Auditors, must be chosen from those listed on the official register of auditors, and must have at least three years' experience in the auditing of accounts. Auditors who fail to meet the aforementioned condition must have a total of at least three years' experience in performing specific activities that do, however, relate to the Company aims and, in any event, relate to the telecommunications. The aforementioned Article also states that Auditors who are already Statutory Auditors for more than five listed companies may not be appointed as Auditors.

Within the end of the current financial year, if required, the provisions of the Company's Articles of Association concerning the mechanism of appointment of Auditors and of the Chairman of the Board of Auditors will be amended in compliance with provisions contained in Law 262/2005.

The members of the Board of Auditors operate independently, constantly liaising with the Internal Audit Committee and regularly attending its meetings, and with the *Internal Audit Office*, in accordance with the principles and application criteria set forth by art. 10 of the Code.

Committees

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

Remuneration Committee

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

The Remuneration Committee currently comprises Director Mario Rosso (Chairman) and Directors Victor Bischoff and Francesco Bizzarri.

Appointment Committee

The Board of Directors, as highlighted in section 1.6 of this Corporate Governance Report, has not deemed it necessary to set up an Appointments Committee in so far as the voting list system as defined in Article 11 (Board of Directors) of the Company's Articles of Association ensures the protection of minority Shareholders' rights. In addition, the voting list system requires proposals for the appointment of Directors to be submitted by Shareholders subject to Candidates' suitability.

Internal Audit Committee

The internal audit system is the set of processes serving to monitor the efficiency of the Company's operations, the reliability of its financial data, the observance of laws and Regulations and the safeguarding of the Company's assets.

The internal audit system is the responsibility of the Board of Directors, which sets guidelines for the system and periodically confirms that it is satisfactory and functioning properly, ensuring that the main business risks are identified and appropriately managed.

The Director responsible identifies the main business risks, submits them to 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 a Coordinator, appointed by the Chief Executive on the proposal of the Internal Audit Committee. The Co-ordinator is equipped with all the means necessary to carry out this support role.

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

The Board of Directors appointed the person with operational responsibility for coordinating activities within the *Internal Audit* department as Internal Audit Coordinator, since that person has no direct line manager and is in possession of the professional abilities required to carry out the necessary duties as recommended by the Code.

To ensure even greater independence, the Internal Audit Coordinator (and thus the Internal Audit department) reports to the Chairman of the Internal Audit Committee. From an administrative standpoint, the Internal Audit Coordinator (and thus the Internal Audit department) reports to the Chief Executive. This is because the Chief Executive has the executive authority to provide the Internal Audit Coordinator (and thus the Internal Audit department) with the means necessary to carry out its functions. The Internal Audit Committee, in reviewing the plan of work submitted by the Internal Audit Coordinator, decides whether the means that the Chief Executive has granted to the Internal Audit Coordinator are sufficient, on the basis of the number of *Internal Auditors*, and their responsibilities and qualifications in relation to the plan of work.

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

Specifically, the Internal Audit Committee is responsible for:

- A)** (a) helping the Board of Directors set guidelines for the internal audit system and periodically confirm its appropriateness and proper functioning, ensuring that the main business risks are identified and adequately managed;
- B)** evaluating the plan of work devised by the Internal Audit Coordinator and receiving the Coordinator's periodic reports;
- C)** verifying, together with the Company's Directors and external auditors, the appropriateness of the accounting principles and their uniformity for purposes of drafting the consolidated financial statements;
- D)** evaluating accounting firms' bids for the role of external auditor, the plan of work, and the results expressed in the report and the letter of recommendations, as well as managing day-to-day contact with the external auditor;
- E)** evaluating bids for consulting assignments presented by the external auditor—or by its affiliates—with regard to companies in the Tiscali Group;
- F)** evaluating all bids of significant amounts for consulting assignments at Group companies;
- G)** reporting to the Board of Directors on the work performed and the adequacy of the internal audit system; this report should be made at least every six months, upon approval of the annual and half-yearly reports;
- H)** operating as a Supervisory Body pursuant to Legislative Decree 231/2001;
- I)** performing additional tasks as assigned by the Board of Directors.

The Internal Audit Committee is a sub-group of the Board of Directors, its sole functions 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.

The model adopted by the Company involves an Internal Audit Committee with three members. They are all non-executive Directors, and as such are qualified to provide autonomous, unconditioned opinions regarding the subject matter for which they are responsible, since they have no first-hand involvement in running the Company.

The majority of members is qualified as independent, in accordance with the current Instructions for the Regulation of Markets, organised and managed by Borsa Italiana S.p.A. If it is not possible to ensure that the majority of Committee members are non-executive and independent Directors, the number of members is reduced to two (including one independent Director) until the Committee can be re-formed with a new member who fulfils the independence requirement. That solution is preferable to having a majority of non independent Directors on the Committee even as a temporary measure. During any period in which the Internal Audit Committee operates with two members only, the entire Board of Auditors shall be invited to attend all its meetings. If, during a period in which the Internal Audit Committee operates with only two members, the number of votes is equal, then the independent Director has the casting vote.

The Chairman of the Internal Audit Committee may invite the Chief Executives to the Committee meetings, as well as other parties such as external auditors, the Chief Operating Officer or the Chief Financial Officer, but only in relation to specific items of the agenda for which their input may be useful.

The meetings of the Internal Audit Committee are generally held before the Board of Directors' meetings scheduled for the approval of the quarterly, half-year and annual results, 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, except where necessity and urgency prevail. The meetings are in any case summarised in written form.

It has not been possible in the current financial year to form an Internal Audit Committee comprising three members including two independent Directors. Therefore, at present, the Internal Audit Committee is made up of two members, Vittorio Serafino (Chairman of the Internal Audit Committee), Chairman of the Board of Directors and non-executive Director, and Gabriele Racugno, non-executive and independent Director. The Company anticipates that within the first-half of the current financial year it will be possible to re-establish the Internal Audit Committee with three members, including at least two non-executive, independent Directors.

In 2005 the Committee met 8 times, on 14 February, 29 March, 10th June, 27 July, 8th September, 22nd September, 26th October and 21st December. The Board of Auditors attended all these meetings.

Adaptation to Legislative Decree 231/2001

The Board of Directors approved on 21st December 2005 the new enlarged and reviewed version of the "Organisation, management and control model in compliance with Legislative Decree 231/2001", made up by a general section and two special sections, in force from 1st March 2006; as mentioned above the new version of the model, replacing the current one, has been updated in view of the regulatory changes regarding offences such as "market abuse" and of the changes concerning the structure of the Company. Following the completion of the project involving the spin-off of Italian operations and of the Group "information technology" services, since 1 January 2005 the Company has a real "holding" role,"

Besides updating the parent Company's "Organisation, management and control model", the Company proceeded, with the assistance of a major consulting firm with proven expertise in the field, to complete the assessment of risks and the definition of protocols and procedures in accordance with Legislative Decree 231/2001, in order to draw an "Organisation, management and control model" also for Italian subsidiaries Tiscali Italia S.r.l. and Tiscali Services S.r.l. These models are under approval by the relevant administrative bodies.

It has been judged appropriate that the Internal Audit Committee act as a Supervisory Body pursuant to Legislative Decree 231/2001. The Committee is now, therefore, also responsible for ensuring that the protocols and procedures adopted are observed.

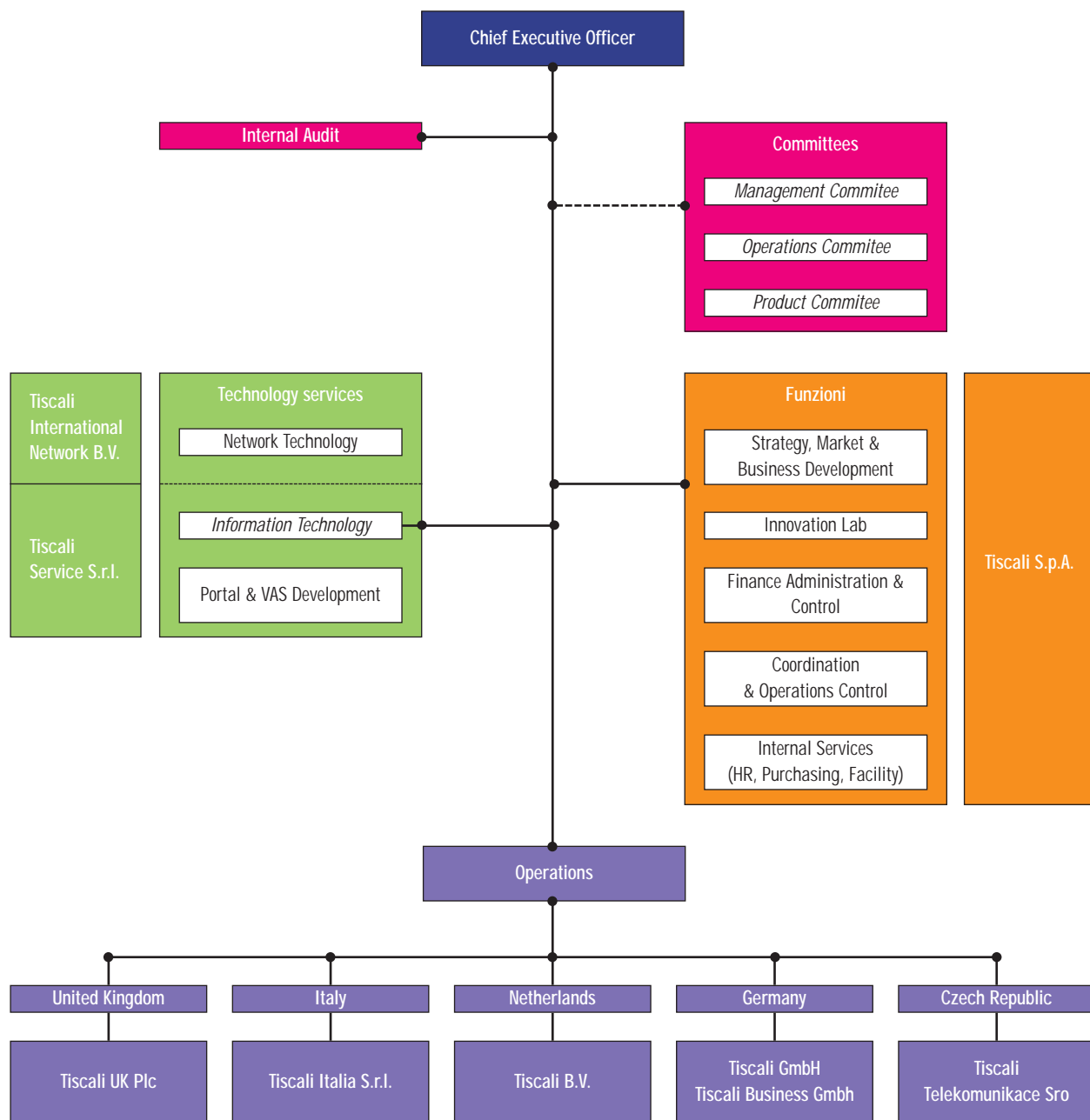
Governance and interfunctional committees

During the Shareholders' meeting held on 13rd February 2006 the Chief Executive Officer has submitted to the Board of Directors the main guidelines of the new organization and governance model adopted by the Company and by Tiscali Group. Management Committee and International Committee appointed the 22 September 2005 were dismissed and substituted by *Management Committee*, *Product Committee*, *Operations Committee*

- ▶ A *Management Committee*, focused on economic and business decisions, in charge of reviewing the economic *performance* both at Group level and in each single country, of making crucial operational, strategic and technological choices, of controlling the intra-Group key projects.
- ▶ A *Product Committee*, focused on medium term decisions on product portfolio and in charge of analysing portfolio development and making crucial choices regarding product priority.

- ▶ An *Operations Committee*, focused on key *performance* indicators and on processes, is in charge of reviewing critical issues and defining improvement actions; it acts as a first analysis level with respect to the *Management Committee*.

The organisational model is described on the next page:



Related Parties

It is Company practice to keep transactions with related parties (i.e. operations considered as such pursuant to Consob communication 2064231 of 30th September 2002) to a minimum. Any transactions of this nature that are carried out are conducted in such a way as to ensure compliance with legal and procedural standards pursuant to art. 9 of the Code.

When transactions with related parties that may involve a direct or indirect interest of Directors are approved, the Directors concerned must inform the Board of Directors of their interest and leave the meeting room during the vote.

Lastly, pursuant to Article 14 of the Company's Articles of Association (Powers of the Board of Directors), the Board of Directors must report in writing, either by post or by electronic mail, to the Board of Auditors, any transactions that constitute potential conflicts of interest.

Handling of confidential information and communications with the market, Investor Relations Office

As part of the corporate governance model adopted pursuant to Legislative Decree 231/2001, the Company has codified a number of procedures for supervising the management of confidential information. In this, it follows national and international best practices and the principles contained in the Guidelines for Disclosing Information to the Market. To ensure that information is properly disclosed, the Company acts in accordance with the principles set forth in the Guidelines, undertaking to communicate with the market in a way that ensures fairness, clarity, equality

and timeliness of access to information.

The Company has an *Investor Relations* Office in charge of communicating with Shareholders and Institutional Investors.

Among its other duties, the *Investor Relations* Office—which reports directly to the Chief Financial Officer—writes press releases and takes charge of their publication, including via a network of companies that carry out these activities professionally.

The Company adopted on 12nd November 2002 an *Internal Dealing Code* according to article 2.6.4, (replaced starting from 1 April 2006) of the Nuovo Mercato Regulation organized and managed by Borsa Italiana S.p.A. and promptly informed the market of this fact. The Internal Dealing Code, which can be consulted on the "*Investor Relations*" page of the Company website (www.tiscali.com) identifies the persons with disclosure obligations, defines the transactions that must be disclosed and sets out the related disclosure obligations of interested parties and the Company itself, as well as the penalties that apply if the Company breaches the code.

Shares held by Directors and Auditors

As required by law, and specifically by Article 79 of CONSOB Regulation 11971/99 implementing Legislative Decree 58/1998, the table below shows the number of shares held by Directors and Auditors.

NAME AND SURNAME	POSITION	NO. OF SHARES HELD AS OF 31.12.05	NO. OF SHARES PURCHASED	NO. OF SHARES SOLD	NO. OF SHARES HELD AS OF 31.12.04
BOARD OF DIRECTORS					
VITTORIO SERAFINO	CHAIRMAN	22,200	-	-	22,200
TOMMASO POMPEI*	CHIEF EXECUTIVE OFFICER	-	-	-	-
MASSIMO CRISTOFORI	DIRECTOR	1,000	-	-	1,000
FRANCESCO BIZZARRI	DIRECTOR	-	-	-	-
GABRIELE RACUGNO	DIRECTOR	-	-	-	-
VICTOR BISCHOFF	DIRECTOR	-	-	-	-
MARIO ROSSO	DIRECTOR	-	-	-	-
GABRIEL PRETRE	DIRECTOR	489	-	-	489
* 366,000 ACQUIRED ON 19 JANUARY 2006					
BOARD OF STATUTORY AUDITORS					
ALDO PAVAN	CHAIRMAN	-	-	-	-
MASSIMO GIACONIA	STATUTORY AUDITOR	-	-	-	-
PIERO MACCIONI	STATUTORY AUDITOR	-	-	-	-
RITA CASU	DEPUTY AUDITOR	50	-	-	50
ANDREA ZINI	DEPUTY AUDITOR	2,054	-	-	2,054

Outlook and prospects

Financial year 2006 sees Tiscali focusing further its activities in the main markets. This process is designed to drive the growth of ADSL users through the development of its *unbundling* network infrastructure and to improve profitability as well as effective management and control of service and content offers. Thanks to the changed economic conditions and improved regulations, the investments already started in financial year 2005, both in Italy and the Netherlands, are being expanded with development projects for *unbundling* network infrastructure in the United Kingdom and selectively also in Germany. These will continue in 2006, together with the initiatives for further expansion and strengthening of the Tiscali network in the Netherlands and Italy.

In the recently closed financial year the market development led Tiscali to qualify its offer also as a provider of voice services through the IP (VoIP), a business line representing one of the most significant growth factors and a pillar in the Group's strategic plan. The current expansion of VoIP services is however linked to the development of unbundling infrastructures, in view of providing customers the widest range of services. After an experimental phase, Tiscali also foresees to launch in FY2006 the IPTV services with the aim of offering "Triple Play" services that is the contemporary delivery of voice, data and video over the Internet Protocol.

The market context in which Tiscali operates being characterised by significant growth rates and high competitiveness requires the strategic planning by Directors of sustainable actions focused on the acquisition of wider market shares and on the expansion of services offered, thus allowing the optimisation of sizes and of the relevant "critical mass" of subsidiaries operating in the various geographic areas.

Concerning financial positioning and perspective the significant investments carried out in financial year 2005, both in terms of infrastructures for the expansion of the *"unbundling"* network with the relevant costs for customer connection, and in terms of marketing costs, determined negative cash flows that were however consistent with the business plan projections. The disposal of subsidiaries held in *"non strategic countries"* and the refinancing plan, started in financial year 2004 and continued in 2005, enabled however Tiscali Group to raise financial resources amounting altogether to approximately EUR 400 million, that were used to repay the EUR 250 bond loan due July 2005 as well as for operational investments in the Tiscali markets. The completion of the financing operation for EUR 150 million, structured and provided by Silver Point Finance LLC (see section "Significant events") enabled Tiscali to devote the first EUR 50 million advance to further support its business plan.

With regard to the competitive scene and the characteristics of the market in which Tiscali operates, the availability of appropriate financial resources to support development plans and to meet financial obligations is obviously an essential issue for corporate

continuity. We refer in particular to the Equity Linked Bond amounting to EUR 209.5 million, maturing in September 2006. The repayment of the bond – in respect of which it is significant the so-called conversion provision (more appropriately "soft mandatory clause") executable by Tiscali S.p.A. at the conditions stated in the notes to the accounts and requiring the approval of the extraordinary shareholder's meeting – currently involve using the second instalment (EUR 100 million) of the Silver Point Finance LLC financing, available at the maturity of the bond loan on condition that it respects some contractual covenants associated to operational and financial results. New financing negotiations are currently being analysed by Tiscali in order to identify the most appropriate, considering the Group's business strategic choices. It is reasonably to foresee that the definition of such negotiations, and relevant procedures, will occur in a short period and however coherent with the obligation to repay the above mentioned bond loan.

The prospects of the telecommunication sector and the competitive positioning of Tiscali Group, strengthened in FY2005 with a significant improvement of the financial and economic performances, following the disposal process and the Group's reorganisation, are considered consistent with the achievement of targets related to the improvement of the economic and financial dynamics of Tiscali. The company also anticipates in financial year 2006 a further development of results already achieved in FY2005. Within such context the Group's ability to achieve the goals set out in the business plan is of primary importance, including the generation of the expected cash flows, as a condition significantly affecting the development of Tiscali's financial position and therefore its cash flow, balance sheet and income statement stability.



For the Board of Directors
The Chairman
Vittorio Serafino

*Tiscali Group
Consolidated Financial Statements as of
31st December 2005*

Consolidated Income Statement

EUR (000)

	NOTES	31.12.2005	31.12.2004
Revenues	(4)	736,199	655,133
Other income	(6)	8,936	9,009
Purchase of materials and outsource services	(7)	503,399	446,437
Personnel costs	(8)	106,393	106,305
Other operating costs	(9)	18,235	33,945
Gross operating result		117,108	77,455
Restructuring costs, provisions for risks and write-downs	(10)	55,880	69,053
Depreciation and amortisation		135,573	129,217
Operating result		(74,345)	(120,815)
Share of profit or losses of associates with equity method		(74)	640
Net financial income (Charges)	(11)	(28,412)	(37,175)
Profit (loss) before tax		(102,831)	(157,350)
Income taxes	(12)	(24,795)	110,614
Profit (loss) from continuing operations		(127,626)	(46,736)
Profit (Loss) from discontinued and/or discontinuing operations	(13)	114,818	(87,449)
Net profit		(12,808)	(134,185)
Attributable to:			
- Equity holders of the parent		(12,948)	(131,844)
- Minority interests		140	(2,341)
Earnings (losses) per share			
From continuing and discontinued operations:			
- Basic		(0.03)	(0.35)
- Diluted		(0.03)	(0.35)
From continuing operations:			
- Basic		(0.33)	(0.21)
- Diluted		(0.33)	(0.21)

Consolidated Balance Sheet

EUR (000)

	NOTES	31.12.2005	31.12.2004
<i>Non-current assets</i>			
Goodwill	(14)	313,462	313,462
Intangible assets	(15)	163,950	126,351
Property, plant and machinery	(16)	165,955	177,307
Equity investments	(17)	1,114	2,642
Other financial assets	(18)	28,747	25,374
Deferred tax assets	(19)	135,416	157,301
		808,644	802,437
<i>Current assets</i>			
Inventories	(20)	4,535	2,000
Receivables from customers	(21)	128,244	102,464
Other receivables and other current assets	(22)	47,974	77,729
Other current financial assets	(23)	7,006	4,913
Cash and cash equivalents	(24)	30,005	83,120
		217,764	270,226
Assets held for sale	(13)	16,707	395,597
Total Assets		1,043,115	1,468,260
<i>Share capital and reserves</i>			
Share capital		198,369	196,619
Share premium reserve		953,717	1,440,874
Translation reserve		3,975	(1,763)
Retained earnings		(847,294)	(1,321,883)
Shareholders' Equity (Group)		308,767	313,847
Third-party interests		2,553	3,948
Minority interests		2,553	3,948
Total shareholders' equity	(25)	311,320	317,795
<i>Non current liabilities</i>			
Bonds		-	209,500
Payable to banks and to other lenders	(26)	117,389	68,113
Obligations under finance leases	(26)	17,789	18,591
Other non current liabilities	(27)	28,214	27,369
Liabilities for pension obligations and staff severance	(28)	6,108	5,875
Provisions for risks and charges	(29)	16,875	10,677
		186,375	340,125
<i>Current liabilities</i>			
Bonds – current value	(30)	211,044	250,387
Payables to banks and other lenders	(30)	19,679	25,324
Obligations under finance leases	(30)	16,711	19,220
Payables to suppliers	(31)	160,418	182,720
Other current liabilities	(32)	125,846	121,506
		533,698	599,157
Liabilities directly related to assets held for sale	(13)	11,722	211,183
Total liabilities and shareholders' equity		1,043,115	1,468,260

Statement of Changes in Equity

EUR (000)

	Share capital	Share premium reserve	Translation reserve	Retained earnings	Shareholders' equity (Group)	Minority interest	Total
Balance at 1 January 2005	196,619	1,436,719	(1,763)	(1,321,773)	309,802	3,948	313,750
Increases	1,750	6,776	-	-	8,526	-	8,526
Transfers covering losses	-	(489,778)	-	489,778	-	-	-
Exchange differences arising on the translation of the financial statements of foreign operations	-	-	5,738	396	6,134	-	6,134
Changes in the basis of consolidation	-	-	-	-	-	-	-
Effects due to changes in consolidation following disposals	-	-	-	-	-	(1,535)	(1,535)
Loss due to minority interest	-	-	-	(2,747)	(2,747)	-	(2,747)
Gains/(losses) taken to equity for the period	1,750	(483,002)	5,738	487,427	11,913	(1,535)	10,378
Profit (loss) for the year	-	-	-	(12,948)	(12,948)	140	(12,808)
Total recognised profit (loss) for the period	1,750	(483,002)	5,738	474,479	(1,035)	(1,395)	(2,430)
Balance at 31 December 2005	198,369	953,717	3,975	(847,294)	308,767	2,553	311,320

Consolidated Cash Flow Statement

EUR (000)

	31.12.2005	31.12.2004
Operating Activities		
Net result for the Group from continuing operations	(127,766)	(44,395)
<i>Adjustments for:</i>		
Depreciation of property, plant and equipment	55,494	58,167
Amortisation of intangible assets	80,079	71,050
Share of profit or losses of associates with equity method	38	1,165
Provision increases	3,611	-
Current income taxes	48,508	93
Deferred income taxes	(23,713)	(110,708)
Staff severance and pension obligations	3,043	3,240
Financial charges	40,331	60,001
Cash flows from operating activities before changes in working capital	79,625	38,613
(Increase)/Decrease in commercial and other activities	13,743	128,785
(Increase)/Decrease in inventories	(2,534)	7,905
(Increase)/Decrease in commercial and other liabilities	(65,633)	(206,723)
Cash generated by operating activities	25,201	(31,420)
Decreases of provisions for risks and charges	2,589	(16,124)
Decreases of staff severance provisions	(2,810)	(7,452)
Changes in prepaid taxes	45,598	5,628
Interest paid	(27,934)	(27,096)
NET CASH GENERATED BY OPERATING ACTIVITIES	42,644	(76,464)
INVESTING ACTIVITIES		
Acquisition of property, plant and machinery	(60,960)	(72,031)
Net increases from other intangible assets	(108,218)	(57,899)
Changes in tangible assets, including those disposed and held for sale:		
- Tangible assets	16,822	90,729
- Intangible assets	(9,458)	258,253
NET CASH USED IN INVESTING ACTIVITIES	(161,814)	219,052
FINANCING ACTIVITIES		
Increases of share capital	1,750	12,159
Decreases and write-down of financing fixed assets	7,258	57,646
Changes in financial assets	(21,000)	-
Payments of bond issues	(237,908)	(80,797)
Changes in bond issues due to application of IAS 39	(10,935)	-
Increases/Decrease in bank overdrafts	(18,042)	(45,573)
Change of short-term financing liabilities	(2,509)	4,026
Change of medium/long-term financing liabilities	53,473	24,845
Payables to shareholders for financing	(5,000)	-
Changes in shareholders' equity	378	38,833
Change of shareholders' equity pertaining to minorities	(1,395)	(525)
Effect of changes on foreign currency exchange rates	5,738	(1,763)
NET CASH ARISING FROM /(USED IN) FINANCING ACTIVITIES	(228,192)	8,851
Result on activities disposed of and held for sale	114,818	(87,449)
Change of activities disposed of and held for sale net of cash	335,562	(350,304)
Change of liabilities related to activities held for sale	(199,461)	211,183
NET CASH FROM DISCONTINUED OR HELD FOR SALE OPERATIONS	250,919	(226,570)
INCREASE / (DECREASE) OF CASH AND CASH EQUIVALENTS	(96,443)	(75,131)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE FINANCIAL YEAR:		
Cash and cash equivalents of operating activities at the beginning of the financial year	83,120	203,544
Cash and cash equivalents of activities disposed of and held for sale at the beginning of the financial year	45,293	-
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE FINANCIAL YEAR:	128,413	203,544
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR:		
Cash and cash equivalents of operating activities at the end of the financial year	30,005	83,120
Cash and cash equivalents of activities disposed of and held for sale at the end of the financial year	1,965	45,293
CASH AND CASH EQUIVALENTS	31,970	128,413
	(96,443)	(75,131)

Vittorio Serafino

Notes to the Consolidated Financial Statements

Tiscali S.p.A. is a limited company incorporated under the laws of the Republic of Italy at the Company Registry of Cagliari. The addresses of the registered office and of the principal places of business of the Group are disclosed in the introduction to the financial statements. The principal activities of Tiscali and of its subsidiaries are described within the income statement, financial and balance sheet analyses in the management report.

These financial statements are presented in Euro (€) 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 in these notes.

These financial statements have been prepared on the assumption that the company is a going concern and is operating normally. The implementation of the disposal plan of investments held in "non strategic" countries and the refinancing plan which began in 2004 and continued in 2005 enabled the Tiscali Group to collect financial resources amounting to a total of EUR 400 million. This amount was used to pay back the EUR 250 million bond that matured in July 2005 and for investments in the company's core markets.

The completion of the EUR 150 million financing operation structured and arranged by Silver Point Finance LLC (described in the "Significant Events" section) allowed Tiscali to sustain its business plan by drawing the first tranche of EUR 50 million.

Referring to the competitive landscape and to the sector characteristics, appropriate cash resources are fundamental in order to support the business plan and to repay expiring debts.

With regard to the competitive scene and the characteristics of the market in which Tiscali operates, the availability of appropriate financial resources to support development plans and to meet financial obligations is obviously an essential issue for corporate continuity. We refer in particular to the Equity Linked Bond amounting to EUR 209.5 million, maturing in September 2006. The repayment of the bond – in respect of which it is significant the so-called conversion provision (more appropriately "soft mandatory clause") executable by Tiscali S.p.A. at the conditions stated in the notes to the accounts and requiring the approval of the extraordinary shareholder's meeting – currently involve using the second installment (EUR 100 million) of the Silver Point Finance LLC financing, available at the maturity of the bond loan on condition that it respects some contractual covenants associated to operational and financial results. New financing negotiations are currently being analysed by Tiscali in order to identify the most appropriate, considering the Group's business strategic choices. It is reasonably to foresee that the definition of such negotiations, and relevant procedures, will occur in a short period and however coherent with the obligation to repay the above mentioned bond loan.

The prospects of the telecommunication sector and the

competitive positioning of Tiscali Group, strengthened in FY2005 with a significant improvement of the financial and economic performances, following the disposal process and the Group's reorganisation, are considered consistent with the achievement of targets related to the improvement of the economic and financial dynamics of Tiscali. The company also anticipates in financial year 2006 a further development of results already achieved in FY2005. Within such context the Group's ability to achieve the goals set out in the business plan is of primary importance, including the generation of the expected cash flows, as a condition significantly affecting the development of Tiscali's financial position and therefore its cash flow, balance sheet and income statement stability.

1. Format and content of accounting statements / adoption of the new accounting standards

The financial statements as at 31 December 2005 were prepared by applying IFRS – International Financial Reporting Standards applicable on that date, according to art. 81 of Consob Rule No. 11971/1999, and the subsequent updates and integrations, as well as by Consob decree No.14990 dated 14 April 2005. In particular, these financial statements fall under the application of IFRS 1 – "First Time Adoption of IFRSs", as financial statements prepared for the first time according to IFRS.

The consolidated financial statements consist of the income statement, balance sheet, statement of changes in shareholders' equity and cash flow statement, completed by the notes to the accounts. The income statement has been prepared in accordance with the requirements established by IAS 1 – Presentation of Financial Statements – classifying expenses by nature the balance sheet has been prepared according to the format that makes a distinction between current and non current assets and liabilities, while the cash flow statement has been prepared according to the indirect method.

Starting with the financial year 2005 and following the application 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") that are considered applicable to operations performed by Tiscali Group from the current financial year.

The Appendix "Transition to International Financial Reporting Standards includes the reconciliation statements provided by the IFRS 1 principle, together with the necessary explanatory notes relating to the effects deriving from the adoption of such standards. The financial statements of the previous financial year were prepared according to Italian accounting standards. Therefore,

as required by current regulations, the items from last year's financial statements, presented for comparison purposes, have been restated according with the International Financial Reporting Standards (IFRS).

2. Accounting Principles

2.1 General principles

The consolidated financial statements have been prepared for the first time in compliance with the International Financial Reporting Standards (IFRS). The main accounting principles are detailed below.

These principles have been consistently applied to all the periods presented, except for those relating to the classification and measurement of financial instruments. This is in consideration of the fact that the Group has made use of the exemption available under IFRS 1 to apply IAS 32 and IAS 39 as from 1 January 2005. The accounting principles adopted for financial instruments are described following this section.

The preparation of the financial statements requires Directors to make accounting estimates and in some cases assumptions in the application of accounting principles. The areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 3 of this section.

2.2 Basis of consolidation

The basis of consolidation 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 in view of the economic benefits derived from their activities. In the specific circumstances relative to Tiscali control involves the majority of voting rights exercisable at ordinary shareholders' meetings of companies included in the basis of consolidation.

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 of the Group ceases.

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

Minority interests and net profit attributable to minority shareholders are listed separately from the Group's equity, on the basis of the percent they own of the activities of the Group.

2.3 Business combinations and goodwill

The acquisition of subsidiaries is accounted for using the acquisition method, as provided by 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 given, liabilities incurred or assumed concerning the

acquired company, and the equity instruments possibly issued by the Group in exchange for control of the acquiree, plus any cost directly attributable to the business combination.

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

The excess of the cost of the *business combination* over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised represents the goodwill arising on acquisition that is recognised as an asset and initially measured at cost. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities, exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

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

Following the initial recognition, goodwill is measured at cost less any accumulated impairment losses. In conformance to IFRS 3, goodwill will not be amortised but tested for impairment to identify any reductions in value. As provided by IFRS 3 the Group has therefore elected, starting on January 1, 2004 (the date established for the transition to the IFRS) to discontinue the amortisation of goodwill and to proceed to impairment testing in order to identify any decrease in value.

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

The loss of value, if any, is identified by means of measurements referring to 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. The recoverable amount is the higher between the "fair value" less costs to sell and its useful life. The future expected cash flows are discounted using a discount rate that reflects the current market estimate of the cost of money, the cost of capital and the specific risks of the unit. If the estimated recoverable amount of the unit under examination is lower than the relevant carrying value, it is decreased to the least recoverable value. The impairment losses are recognised in the profit and loss account among write-down costs and are not subsequently reversible.

On first time adoption of the IFRS and according to the exemptions allowed by IFRS 1, no use was made of the option to "reconsider" the acquisitions that took place prior to 1 January 2004. Consequently the goodwill deriving from company acquisitions preceding that date has been recorded as in the last accounts complying with the previous accounting standards (1 January 2004, date of transition to IFRS), upon testing for possible impairment at the date of preparation of this report.

On disposal of a subsidiary, the amount of goodwill which is attributable is included in the determination of the profit or loss on disposal.

2.4 Investments in affiliated companies

Affiliated companies are those over which the Group has significant influence which consists of the power to participate in the financial and operating policy decisions of the investee, but which does not include the control or joint control over those policies.

Investments in affiliated companies are entered on balance sheet as Non current assets and are measured according the equity method. Under the equity method investments in associates are carried in the consolidated balance sheet at the acquisition cost, as adjusted for post-acquisition changes in the net assets of the associate, less any impairment in the value of individual investments.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment. 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 at the date of acquisition is recognised after reassessment in profit or loss in the financial year of acquisition.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless it has assumed hedging obligations.

2.5 Assets held for sale and discontinued operations

Assets and/or disposal groups, related to investments in non-strategic subsidiaries held for sale ("Assets Held for Sale and Discontinued Operations"), as required by IFRS 5 (applicable as allowed from 1 January 2004), are specifically classified in the balance sheet and are measured at the lower of the assets' previous carrying amount and fair value, less costs to sell. The assets (related to investments) are thus classified if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable, the asset (or disposal group) is available for immediate sale in its present condition and the Board of Directors of the parent company is committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

For the purposes of classification in the income statement the gains and losses related to assets held for sale and/or discontinued operations are listed under the "Results of discontinued operations" item in the occurrence of the conditions listed below and established by IFRS 5 with reference to such operations:

- A) Operations representing a major line of business or geographical area of operations;
- B) Operations that are part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or;
- C) Subsidiaries acquired exclusively with a view to resale.

The components disclosed below are presented as a single amount in the income statement under "Results of disposed or held for sale assets":

- ▶ the period results achieved by subsidiaries held for sale, including the adjustment of the relevant net asset at fair value;
- ▶ the result of the "discontinued" operations, including the period result achieved by subsidiaries up to the date of sale to third parties, together with profits and/or losses deriving from disposal.

The analysis of the components of the overall results for the operations under review is reported in the explanatory notes.

2.6 Foreign currency transactions

The financial statements of foreign subsidiaries are presented in the currency of the primary economic environment in which they operate (functional currency). For the purpose of the consolidated financial statements the results and financial position are presented in Euro, which is the Company's functional currency and the presentation currency for the consolidated financial statements. In preparing the financial statements of the individual entities, transactions in currencies other than the Euro are initially recorded at the rates of exchange prevailing on the dates of the transactions. At the reference date the monetary assets and liabilities denominated in the above mentioned foreign currencies are retranslated at the rates prevailing at such date. Non-monetary items carried at "fair value" that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items and on the retranslation of monetary items, are included on profit or loss for the period.

For the purpose of presenting the consolidated financial statements the assets and liabilities of foreign subsidiaries, having functional currencies other than the Euro, are translated into Euro at the rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. The exchange differences arising from the application of such methodology are classified as equity under Translation Reserve. Such reserve is recognised in profit or loss in the period in which the relative subsidiary is disposed of.

2.7 Other intangible assets

Computer software – Development costs

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

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

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

The costs associated with the development and the ordinary maintenance of computer software programs, not meeting the above mentioned requirements, and costs supported for research purposes are entirely charged to the profit and loss account in the period in which they are incurred.

Multi-year rights of use (IRU – “Indefeasible Right of Use”)

The IRU mainly refer to costs supported for the purchase of multi-year rights of use of the fibre optics network, i.e. of the “transmission capacity” and the related fees; the relevant amortisation is calculated using the straight-line method, either over the remaining life of the agreement or the estimated period of use of the right, whichever is the shorter. The average amortisation period varies between 12 and 15 financial years.

Costs of activation of broadband service

This refers to investments incurred for the activation of broadband (ADSL) services, such as contributions for connection to the Tiscali network to “networks managers” in the various geographic areas and relevant user equipment. These capitalised costs are amortised on a straight-line basis in relation to the minimum legal duration of the customer contract, currently of 12 months, after which the contract is tacitly renewed, though the client is granted the option to terminate without owing penalties to Tiscali.

For amortisation purposes the reference period is significantly shorter as compared to the expected duration of the contract, usually of 36 months on the average, taking into account the relevant company statistics and the conditions of the market. The criteria adopted comply with the provisions of IAS 38 – Intangible Assets, considering that customers are allowed not to renew contracts once the minimum period of twelve months has elapsed.

2.8 Property, plant and equipment

All property, plant and equipment is shown at acquisition or production cost, including expenditure directly attributable to the acquisition of the items, less subsequent depreciation and impairment. No revaluation is provided for such tangible assets.

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

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

The depreciation rates adopted for network equipment associated with the IP and Ethernet technologies (such as routers and L3/L2 switches), representing the most significant plant category, have been determined on the basis of a report of an independent consultant.

Routine maintenance expenses are charged to the profit and loss account in full, in the financial year in which the costs were incurred, while maintenance expenses of an incremental nature are attributed to the asset to which they refer and are depreciated over the estimated residual life of the asset.

Upgrade costs on third-party assets under operating lease agreements are capitalised, posted under the relevant line of tangible assets and are amortised over either the estimated useful life of the asset or the remaining term of the lease, whichever is shorter.

Gains and losses arising on disposals of items of property, plant and equipment are determined as the difference between sales proceeds and their carrying amounts and are recognised in profit and loss for the year.

Assets on finance lease

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

Assets held under finance leases are recognised as asset of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation. Financial charges are directly charged to the income statement of the year.

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

Operating lease payments are recognised in the income statement as costs and are posted on the basis of pro-tempore accounting principle.

2.9 Impairment of tangible and intangible assets

The carrying amounts of Other Intangible Assets and of Property, Plant and Equipment are tested for impairment whenever events or changes in circumstance indicate that the carrying amount maybe impaired. Intangible assets with an unlimited useful life

(goodwill) are tested annually or more frequently if there is any indication that those assets have undergone an impairment loss. If any such indication exists the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. 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 costs to sell and its useful life. In assessing value in use the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment on the time-value of money and the risk specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset, is reduced to its recoverable amount. The relevant impairment loss is recognised in income statement under write-downs. If the reasons for the loss of value are considered to no longer apply in the current year the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in previous years. A reversal of an impairment loss is charged to profit or loss.

2.10 Inventories

Inventories are stated at the lower of cost and net realisable value. Considering the circumstances and characteristics of the Group's activities, cost refers to direct materials. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated cost of completion and costs necessary to make the sale.

2.11 Financial instruments

Financial instruments, i.e. contracts giving rise to financial assets and financial liabilities or equity instruments of another entity, as defined in IAS 32 (*Financial Instruments: Disclosure and Presentation*) and IAS 39 (*Financial Instruments: Recognition and Measurement*), are recognised at their "fair value" when the Group becomes a party to the contractual provisions of the instrument (trade date). Liabilities are classified in accordance with the substance of the contractual arrangement from which they arise and the relevant definitions of a financial liability.

Concerning contracts negotiated at market price, the fair value of the instrument is equivalent to purchase cost (nominal value of the transaction). The external costs and profits from transactions directly attributable to the negotiation, such as intermediation costs, are considered when initially recognising the instrument, unless the same is measured at fair value.

The measurement of *financial assets* is performed, depending on the characteristics of the instrument, at fair value or on the

basis of amortised cost. As to *financial liabilities*, taking into account the terms of adoption of IAS 32 and IAS 39, respectively established by Regulation (EC) n. 2237 of December 29, 2004 and by Regulation n. 2086 of November 19, 2004, and of the "carve-outs" included in the same, these are measured on the basis of amortised cost. The measurement at fair value is applied limitedly to those financial liabilities possibly held for trading and to the derivative financial instruments.

The "fair value" is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction'.

The measurement on the basis of amortised cost involves the recognition of the asset or liability at the measurement value initially recognised, deducting any redemption of equity, increased or decreased, applying the effective interest method, of the total depreciation of any difference between the initial value and that at maturity. These amounts shall in any case be adjusted following a decrease of value or an irretrievability condition. The effective interest rate is the rate that reduces at source the future contractual cash flows to the net amount of the financial asset or liability. The calculation also includes the external expenses and income directly assigned during the initial recognition of the financial instrument. As to instruments regarding which no expense or income to be capitalized have been identified, the amortised cost is equal to the cost, as the effective interest rate is represented by the nominal interest rate.

The accounting standards adopted for specific assets and liabilities are set out below. As specified in Appendix "Transition to IFRS", Tiscali made use of the option provided by IFRS 1 to adopt the measuring principles for financial instruments established by IAS 32 and IAS 39 starting with the consolidated balance sheet as at 1 January 2005. The information relating to the 2004 period which is presented for purposes of comparison has been recognised according to Italian accounting standards.

Other financial assets

Financial assets such as *Term Deposits* and *Surety deposits* that the Group has the express intention and ability to hold to maturity and that do not meet the requirements for classification as cash or cash equivalents, are recognised and derecognised on a trade date basis. These assets are initially recorded at fair value and subsequently measured at amortised cost, less any impairment loss recognised to reflect irrecoverable amounts.

Investments, other than those in affiliated companies, are included in non-current assets under "Other financial assets" and are measured, consistently with IAS 39 provisions for financial assets "available for sale" at fair value or alternatively at cost whenever fair value cannot be determined reliably. Gains and losses arising from changes in fair value are directly recognised in equity until the security is disposed of or is

determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the income statement for the period. The original value is reversed in the following financial year if the reasons for the loss of value are considered to no longer apply.

Trade receivables and other receivables

Trade receivables are initially measured at their nominal value (representative of the "fair value" of the operation) and are subsequently measured at amortised cost, less provisions for impairment, that are recognised in income statement when there is objective evidence that the asset is impaired.

The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. As far as short-term trade receivables, considering the scarce significance of the period of time, the measurement at amortised cost is equivalent to the nominal value, less provision for impairment.

Cash and cash equivalents

Cash and cash equivalent include cash in hand, deposits held at call with banks, demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Cash and cash equivalents are measured at fair value, corresponding to their nominal value, or at cost plus interest charges, if any.

Bonds

Bonds are initially recognised at their fair value that is on the basis of the proceeds, less the additional charges directly attributable to the operation. Bond issues are subsequently measured at amortised cost, net of capital redemption, adjusted on the basis of amortisation of any differences between the proceeds at the date of issuance of the instrument and the redemption value at maturity (arising from discounts, premiums, issue costs and redemption premiums), recognised in the profit and loss account over the period of the operation, using the effective interest method.

Due to banks

Interest-bearing bank loans and overdrafts are recorded on the basis of the amounts received net of transaction costs and are subsequently measured at amortised cost, using the effective interest rate method.

Payables to suppliers and other payables

Trade payables and other payables are measured at amortised cost which, considering the characteristics and maturity of such payables, is generally equivalent to the nominal value.

Derivatives

Periodically the Group uses derivative financial instruments mainly to cover its financial risks associated with fluctuations of interest rates on long/medium term debt. In accordance with treasury

management policies the Group does not use derivative financial instruments for trading purposes.

Derivative instruments are recorded and subsequently measured at fair value. For hedging instruments, the Group adopts the rules established by IAS 39 on "Hedge Accounting", as follows:

Cash flow hedge

These derivative instruments aim at hedging exposure to fluctuations in future cash flows arising in particular from risks associated to the variability of interest rates on loans. The changes in the fair value of derivative financial instruments that are effective as hedges are recognised in equity while the ineffective portion is recognised in profit or loss. The effectiveness of hedging, that is the ability to adequately offset the fluctuations caused by the hedged risk, is periodically tested analysing in particular the correlation level between the "fair value" or the cash flows of the hedged issue and those of the hedging instrument.

Fair value hedge

Hedging instruments fall within this classification when aimed at hedging changes of the fair value of an asset or liability that are attributable to the hedged risk. Hedging is recognised through recording in profit and loss of changes of value related both to the hedged item, as far as changes caused by the underlying risk, and to the hedging instrument. Any difference, representing the partial ineffectiveness of hedging, corresponds therefore to the net financial effect.

Concerning financial instruments that do not qualify for hedge accounting the changes arising from the evaluation at fair value of the derivative financial instrument are recognised in profit and loss.

2.12 Liabilities associated with pension obligations and staff severance indemnities

The defined benefit plans (as classified by IAS 19), as in particular the Staff Severance indemnities relating to employees of the parent company and of other subsidiaries registered in Italy, are based on valuations performed at the end of each financial year by independent actuaries. The liability recognised in the balance sheet is the present value of the obligation payable on retirement and accrued by employees at balance sheet date. Please note that no activity is supporting the above plan. The Group did not adopt the "corridor approach" therefore the actuarial gains and losses are entirely recognised in the period in which they arise and are directly recognised in profit and loss.

Payments effected with reference to pension plans and defined contributions plans managed by third parties are recognised in profit or loss in the period in which they are due. The Group does not recognise post-employment benefit obligations: periodic contributions do not therefore involve further liabilities or obligations to be recognised on balance sheet as such.

2.13 Provisions for risks and charges

Provisions for risks and charges are recognised when the Group has a present obligation as a result of a past event and it is probable that the Group will be required to settle that obligation. Provisions are measured at the director's best estimate of the expenditure required to settle the obligation at the balance sheet date and are discounted to present values where the effect is material.

2.14 Revenue recognition

Revenues from sales of services are recognised net of discounts, rebates and bonuses in the period in which the services are rendered by reference to completion of the specific transaction. In particular for revenues from internet access services ("narrowband" and "broadband") and voice services, recognition in profit and loss occurs on the basis of the actual traffic at the reference date and/or periodic service rental payable at the same date.

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

2.15 Financial income and charges

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

2.16 Taxation

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

The *tax currently payable* is based on taxable profit for the year. Taxable profit differs from profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using the tax rates that are applicable by the balance sheet date.

Deferred taxes are taxes possibly to be paid or recovered on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and are accounted for using the balance sheet and liability method.

Deferred tax liabilities are generally recognised for all taxable temporary differences arising on the Group's companies and subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets, arising from temporary differences and/or previous losses, are recognised to the extent that it is probable that taxable profits will be available in the future against which deductible temporary differences and/or previous losses can be utilised.

The provisions are based on the taxable revenue which is reasonably certain in the 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.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset recognised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

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

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

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

3.1 Assumptions for the application of accounting principles

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 appropriate to differ the recognition of these revenues (consistently with the corresponding activation costs that have been capitalised among intangible assets) for a period of twelve months notwithstanding a significantly longer expected duration of the customer contract. The assumption adopted in applying IAS 18 "Revenue Recognition" reflects a cautious interpretation of such principle considering that the customer may not renew his contract once the minimum period of twelve months has elapsed.

3.2 Accounting estimates and relevant assumptions

Impairment of Goodwill

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

Income taxes

The determination of income tax, in particular with reference to deferred taxes, involves the use of estimates and assumptions to a significant extent. Deferred tax assets, arising from temporary differences and/or previous losses, are recognised to the extent that it is probable that taxable profits will be available in the future against which deductible temporary differences and/or previous losses can be utilised. The provisions are based on taxable 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 differences in the final determination of such obligation amounts differs from the recognised provision will be reflected in the Group's profit and loss account.

4. Revenues

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

Revenues by country (EUR 000) (*)	2005	2004
Italy	190,488	175,440
United Kingdom	319,435	253,007
The Netherlands	108,758	93,069
Germany	79,810	91,968
Other	37,708	41,469
Total	736,199	655,133

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

Revenues by business segment (EUR 000)	2005	2004
Dial up access revenues	213,095	261,580
Broadband ADSL access revenues	330,107	214,705
Access revenues	543,202	476,285
Voice revenues	91,429	96,232
Business revenues	59,475	49,115
Media revenues (portal and others)	33,771	28,764
Other revenues	8,322	4,737
Total	736,199	655,133

The increase in revenues is mainly determined by the development of broadband services in the segment access. The detailed analysis on the year's profit and loss performance is included in the management report.

We note that revenues from VoIP services (Voice over Internet Protocol) which were introduced during the 2005 financial year and which amount to approximately EUR 3.5 million are included in the revenues from broadband access.

5. Segment information (by geographical segment and line of business)

The activities of the Tiscali Group and the relevant strategies, as well as activities of subsidiaries, are presented and defined by geographical segment, this being therefore the primary reporting segment for the purposes on segment information, as required by IAS 14. The geographical segments are represented by the four main countries in which the Tiscali Group operates (Italy, Germany, Holland, United Kingdom). The main results of these business segments are presented in these notes, together with the balance sheet data of the various geographical segments and other information required by the principles of reference.

Lines of business (Access, Voice, Business services / Business, Media) represent the secondary segment of reporting. The information relative to revenues has already been reported in note 4 above.

Results by geographical segment

INCOME STATEMENT

31.12.2005	Italy	United Kingdom	The Netherlands	Germany	Other	Segment results	Unallocated	Operating assets
EUR (000)								
Revenues and other income								
To third parties	190,550	319,434	109,296	87,110	27,511	733,901	11,234	745,135
Inter-group	5,988	5,462	-	1,643	7,034	20,127	(20,127)	-
Total revenue	196,538	324,896	109,296	88,753	34,545	754,028	(8,893)	745,135
Gross operating result	26,649	68,451	39,289	4,418	4,460	143,267	(26,159)	117,108
Operating result	(17,580)	7,582	2,014	(29,165)	(5,650)	(42,799)	(31,546)	(74,345)

Other income amounts to EUR 8.9 million in total.

31.12.2004	Italy	United Kingdom	The Netherlands	Germany	Other	Segment results	Unallocated	Operating assets
EUR (000)								
Revenues and other income								
To third parties	177,126	253,007	93,069	92,660	29,600	645,462	18,680	664,142
Inter-segment	3,663	1,524	-	2,151	11,393	18,731	(18,731)	-
Total revenue	180,789	254,531	93,069	94,811	40,993	664,193	(51)	664,142
Gross operating result	15,099	47,674	20,517	(5,163)	9,456	87,583	(10,129)	77,454
Operating result	(30,679)	(4,553)	(10,207)	(19,462)	(586)	(65,487)	(55,329)	(120,816)

Non allocated components include the values which relate to corporate assets.

OTHER SEGMENT DATA AND FINANCIAL POSITIONS

31.12.2005	Italy	United	The	Germany	Other	Segments	Unallocated	Continuing
EUR (000)		Kingdom	Netherlands					operations
Assets								
Segment assets	214,036	216,998	71,639	29,818	55,396	587,887	123,950	711,837
Investments – equity method	1,099	-	-	-	-	1,099	-	1,099
Investments in other companies	15	-	-	-	-	15	-	15
Goodwill	3,406	181,333	35,518	91,395	1,810	313,462	-	313,462
Total consolidated assets	218,556	398,331	107,157	121,213	57,206	902,463	123,950	1,026,413
Liabilities								
Segment liabilities	154,235	103,280	50,333	25,526	15,525	348,899	371,179	720,078
Total consolidated liabilities	154,235	103,280	50,333	25,526	15,525	348,899	371,179	720,078
OTHER INFORMATION								
Investments (Capex)	34,672	75,773	33,580	9,968	6,807	160,800	8,378	169,178
Amortisation	26,094	46,718	29,614	6,659	8,684	117,769	17,804	135,573
Provisions and write-downs	5,292	7,698	2,518	7,652	729	23,889	3,328	27,217

31.12.2004	Italy	United	The	Germany	Other	Segments	Unallocated	Continuing
EUR (000)		Kingdom	Netherlands					operations
Assets								
Segment assets	177,906	161,234	74,473	42,832	51,134	507,580	236,272	743,851
Investments measured using the equity method	2,642	-	-	-	-	2,642	-	2,642
Investments in other companies	162	-	-	-	-	162	12,546	12,708
Goodwill	3,406	181,333	35,518	91,396	1,809	313,462	-	313,462
Total consolidated assets	184,116	342,567	109,991	134,228	52,943	823,846	248,818	1,072,663
Liabilities								
Segment liabilities	152,308	68,417	57,270	24,188	18,711	320,894	618,388	939,282
Total consolidated liabilities	152,308	68,417	57,270	24,188	18,711	320,894	618,388	939,282
OTHER INFORMATION								
Investments (Capex)	66,976	6,707	37,497	2,708	11,586	125,474	-	125,474
Amortisation	47,696	36,908	25,494	9,400	7,458	126,957	2,261	129,217
Provisions and write-downs	5,706	6,163	1,653	4,685	244	18,452	-	18,452

ASSETS PER BUSINESS LINE

31.12.2005	ACCESS	ACCESS	VOICE	BUSINESS	MEDIA	NON	Total
EUR (000)	Broadband	Narrowband		SERVICES		ALLOCATED	
Goodwill	-	-	-	-	-	313,462	313,462
Intangible assets	79,942	18,100	1,934	42,159	1,617	20,193	163,946
Property, plant and machinery	84,770	15,601	3,476	15,159	1,266	45,683	165,955
Equity Investments	-	-	-	-	-	1,114	1,114
Other financial assets	-	-	-	-	-	28,747	28,747
Deferred tax assets	-	-	-	-	-	135,416	135,416
	164,713	33,701	5,410	57,318	2,883	544,615	808,640
<i>Current assets</i>							
Inventories	-	-	-	-	-	4,535	4,535
Receivables from customers	39,023	28,642	16,608	13,673	8,328	21,970	128,244
Other receivables and other current assets	11,774	4,748	3,760	1,807	818	25,067	47,974
Other current financial assets	-	-	-	-	-	7,006	7,006
Cash and cash equivalents	-	-	-	-	-	30,005	30,005
	50,797	33,390	20,368	15,479	9,146	88,583	217,764
Assets held for sale							-
Total Assets	215,510	67,091	25,778	72,798	12,029	633,199	1,026,404

31.12.2004	ACCESS	ACCESS	VOICE	BUSINESS	MEDIA	NON	Total
EUR (000)	Broadband	Narrowband		SERVICES		ALLOCATED	
Goodwill	-	-	-	-	-	313,462	313,462
Intangible assets	61,611	13,949	1,491	32,492	1,246	15,563	126,351
Property, plant and machinery	90,569	16,668	3,713	16,196	1,353	48,808	177,307
Equity Investments	-	-	-	-	-	2,642	2,642
Other financial assets	-	-	-	-	-	25,374	25,374
Deferred tax assets	-	-	-	-	-	157,301	157,301
	152,179	30,617	5,204	48,688	2,599	563,149	802,437
<i>Current assets</i>							
Inventories	-	-	-	-	-	2,000	2,000
Receivables from customers	31,179	22,885	13,270	10,924	6,654	17,554	102,464
Other receivables and other current assets	19,076	7,692	6,092	2,927	1,326	40,615	77,729
Other current financial assets	-	-	-	-	-	4,913	4,913
Cash and cash equivalents	-	-	-	-	-	83,120	83,120
	50,255	30,577	19,362	13,852	7,979	148,201	270,226
Assets held for sale							-
Total Assets	202,434	61,194	24,566	62,539	10,579	711,350	1,072,662

6. Other income

Other income includes contributions for operating expenses received by the Parent company and some contingent assets and non-recurring income, including that which arises from the release of unused risk provisions.

7. Purchase of materials and outsourcing services

EUR (000)	2005	2004
Purchase of raw materials and goods for resale	1,763	2,727
Line/traffic rental costs	252,160	223,135
Interconnection costs	43,479	43,200
Costs for use of third party assets	15,970	17,219
Costs for portal services	25,557	17,610
Marketing costs	118,317	83,653
Other services	46,153	58,893
Total	503,399	446,437

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 in comparison to the previous year is related to the significant increase in revenues. The cost figures, in particular those relative to the line/traffic rental costs, show the reduced impact of these on revenues, thanks to the efficiency arising from the progressive development of the "unbundling" ADSL network.

8. Personnel costs

EUR (000)	2005	2004
Wages and salaries	81,269	83,324
Other personnel costs	25,124	22,981
Total	106,393	106,305

Personnel costs are in line with the same period in 2004.

At 31.12.05 the Tiscali Group had 1,906 employees. The relevant categories are disclosed below together with the corresponding figure as at 31 December 2004.

	2005	2004
Senior managers	67	85
Middle managers	360	370
Office staff	1,464	1,471
Manual workers	15	13
Total	1,906	1,939

9. Other operating costs

The table below shows a breakdown of these costs:

EUR (ml)	2005	2004
Other operating expenses	4,773	7,279
Contingencies, capital losses and other non recurrent costs	13,462	26,666
Total	18,235	33,945

The decrease is due to the absence of non-recurrent issues that had affected the preceding financial year. The balance of the contingencies, losses and other non recurrent costs item for the 2005 financial year includes, in particular, fees related to the VAT situation of the German subsidiaries (EUR 4.2 million), which in the preceding year had resulted in a charge of over EUR 8 million. This item also includes consulting costs relating to refinancing operations and extraordinary expenditures. The decrease in comparison to the previous year is due to the lower, non-recurrent charges for the current period.

10. Restructuring costs, provisions for risks and write-downs

EUR (000)	2005	2004
Write-downs of receivables from customers	23,606	18,452
Restructuring costs and other write-downs	28,663	50,601
Provisions for risks and charges	3,611	-
Total	55,880	69,053

Restructuring costs chiefly relate to charges for operating activities in Germany (EUR 8.7 million), charges which relate to the termination of some lease agreements pertaining to buildings in the amount of EUR 1.1 million, as well as to charges related to the reorganization of assets and functions pertaining to the sub-holding Tiscali International BV (EUR 5.3 million) which were determined by the disposal of investments controlled by the latter, which resulted in the redefinition of the role of this company within the Group. The balance as at 31 December 2005 also includes write-downs of machinery and other assets totalling approximately EUR 10.6 million.

The provisions for risks and charges refer to litigation in progress of a fiscal or other nature.

11. Financial income and charges

Below the breakdown of net financial charges amounting to EUR 28.4 million.

EUR (000)	2005	2004
Financial income		
Interest on bank deposits	6,619	3,845
Other interest	3,444	13,550
Other financial income	1,856	5,430
Total	11,919	22,825
Financial charges		
Interest on bonds	22,574	43,064
Interest and other charges due to banks	9,650	5,764

1,715,000

ADSL subscribers

Interest due to affiliated companies	8	1,455
Other financial charges	8,099	9,717
	40,331	60,000
Net financial charges	(28,412)	(37,175)

Financial income is mainly due to gains from swap contracts (IRS) related to the bond maturing in July 2005, while financial charges are related to the Group's overall debt. In particular, interest on bonds also includes losses from the above mentioned swap contracts (respectively equal to EUR 5.6 million as at 31 December 2005 and EUR 18.1 million as at 31 December 2004). Other financial charges include interests on financial lease contracts.

12. Income taxes

EUR (000)	2005	2004
Corporate tax	(1,082)	(94)
Deferred tax (utilisation)	(53,800)	-
Deferred tax assets	30,087	110,708
Net taxes for the financial year	(24,795)	110,614

The current tax figure also includes an amount of approximately EUR 1 million for the IRAP (Regional Business Tax) applicable to the Italian companies within the Tiscali Group.

The deferred taxes utilised as at 31 December 2005 are primarily attributable to the Parent Company (EUR 45 million) and arise from the usage of deferred tax assets carried in the accounts as at 31 December 2004. The charge was calculated on the basis of the taxable result for the period, which arose mainly from the capital gain of EUR 163 million from the transfer of the operations of Tiscali S.p.A. to 100% owned subsidiaries Tiscali Italia S.r.l. and Tiscali Services S.r.l., which took place at the beginning of the year. Accounting for taxes does not however involve any payment in this case, as the amount is offset against tax losses of previous years, based on which the deferred taxes were recorded for the 2004 period.

In addition to the taxes pertaining to the Parent company, the item also includes EUR 4.2 million which relates to Tiscali International BV and other Dutch subsidiaries included in the relative tax consolidation and EUR 4.6 million relating to Tiscali UK. These subsidiaries have taxable income for the 2005 period. Similarly to the Parent company, accounting of the tax is offset against the utilisation of "deferred tax assets" recognised in previous years, without warranting usage of financial resources.

Deferred taxes accounted for at the end of the year amounted to EUR 30.1 million and relate to the Dutch subsidiaries (EUR 14.6 million) and TISCALI UK (EUR 15.4 million). These deferred tax assets take account of the results realized by Group companies and those set forth within the relative business plans. See the tax assets deferred within the period as presented in the corresponding note within this paragraph.

Deferred tax assets

The deferred tax assets amount to a total of EUR 135.4 million on 31 December 2005.

EUR (000)	31.12.2005	31.12.2004
Deferred tax assets	135,416	157,301

The deferred tax assets mainly relate to prior period tax losses carried forward by Tiscali Group companies. As provided by the accounting principles of reference, these deferred taxes have been accounted as it was considered probable that there would be taxable income in the upcoming years such that would allow, through usage against future period taxes, the recuperation of the amount recorded under assets as at 31 December 2005. The provisions are based on taxable income that it is reasonable to assume will be generated in the light of the approved business plans and the current progress of the Groups companies to which the tax losses apply.

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

- ▶ Deferred tax assets relating to Tiscali International NV and subsidiaries, falling within the Dutch tax consolidation entity (in particular the operating subsidiary Tiscali BV) for EUR 59.4 million (EUR 49.1 million as at 31 December 2004), arising exclusively from tax losses carried forward.
- ▶ Deferred taxes relating to subsidiary Tiscali UK, amounting to a total of EUR 75.9 million (EUR 63.2 million at the end of the 2004 period) of which EUR 60.5 million pertain to tax benefits arising from the tax losses carried forward and EUR 15.5 million arise from deferred taxes on taxable temporary differences for which utilisation is forecasted over future periods against expected taxable income.

Tax losses of subsidiaries operating in The Netherlands and in the United Kingdom can be carried forward indefinitely. The deferred tax assets take account adjustments to losses carried forward from previous years arising from assessments carried out by Dutch tax authorities. Please see also the following note n. 34 in which the tax litigation in process is described.

The table below shows the movements of deferred taxes during the 2005 fiscal year, among the various Group entities.

EUR (000)	31.12.2004	Amounts used	Recognition	Other changes	31.12.2005
				(*)	
Tiscali S.p.A.	45,000	(45,000)	-	-	-
Tiscali International Bv	49,064	(4,242)	14,536	-	59,358
Tiscali UK Ltd	63,237	(4,558)	15,450	1,827	75,956
Tiscali International Network B.V.	-	-	102	-	102
Total	157,301	(53,800)	30,088	1,827	135,416

(*) Changes in the exchange reserve (effect of exchange rate changes)

The tax benefit which is relative to the losses carried forward as compared to the assets accounted for as deferred tax assets is only a part of the tax benefit linked to the Tiscali Group tax losses carried forward; the latter amounted to a total of EUR 1,955.9 million on 31 December 2005.

It should be noted that the total amount of deferred taxes has been limited to the amount of EUR 135.4 million as in the opinion of Tiscali S.p.A. directors and on the basis of the current business plan there are no reasonable assumptions justifying a higher amount, in particular considering the time factor. Therefore, only the benefits for the Group companies already capable of generating taxable income, which are those operating in the Netherlands and the United Kingdom, for a reasonably anticipated time span have been recognised.

The following table illustrates the total tax losses carried forward that are deductible at the Tiscali Group level, according to their year of maturity, together with deductible temporary differences. Deferred taxes are also illustrated in the same table, while those that have not yet been accounted for are indicated accordingly.

EUR (000)	Total as of 31.12.2005	Year of expiry (*)					
		2006	2007	2008	2009	Beyond 2009	No expiry
Total tax losses	1,924,100	404,277	53,052	186,132	126,986	17,012	1,136,643
Deductible temporary differences	233,531	115,402	89,897	-	28,233	-	-
Total tax losses and deductible temporary differences	2,157,631	519,678	142,948	186,132	155,218	17,012	1,136,643
Total deferred taxes (at the average rate of 30%)	647,289						
Deferred taxes recognised	135,416						
Deferred taxes not recorded	511,874						

(*) For temporary differences the year of utilisation/deduction is used to indicate expiry.

The fiscal losses correspond to those arising from the income tax returns and, for the 2005 period, from the estimate of taxable income. These losses pertain to the Parent Company and the Italian subsidiaries (EUR 783.7 million, of which EUR 139.6 million included in the Italian tax consolidation), Tiscali International BV and subsidiaries (Holland) (EUR 684.4 million reduced from adjustments arising from assessments), subsidiaries operating in the UK (EUR 245.9 million), as well as German subsidiaries (EUR 217.1 million).

Tax losses that do not have unlimited maturities pertain to the Italian companies and in particular with regard to those maturing during the next financial year 2006, tax losses usable only against taxable income of the Parent company.

13. Assets held for sale and/or discontinued operations

This note provides information on the result of disposed operations and of those held for sale, mainly consisting of non strategic investments in subsidiaries, as well as detail on assets of assets held for sale and of the relevant existing liabilities at the reference date.

13.1 Assets held for sale and transferred assets

Assets transferred during the period

South Africa

In January 2005 the sale of the subsidiary Tiscali Pty Limited to MBWEB Holdings (Pty) which had been announced on 20 August 2004, was finalized for a total amount of approximately EUR 40 million. Also in January, the South African competition authority approved the disposal of the South African cellular business to Vodacom Service Provider Company Ltd, which had been announced on 19 October 2004, for a total amount of approximately EUR 5.3 million. These were completed during first half of the year, realizing a total capital gain of EUR 17 million.

Denmark

On 1 February 2005, Tiscali disposed its Danish subsidiary Tiscali Denmark A/S to Tele2 A/S a subsidiary of Tele2 AB for a total consideration of EUR 20.7 million. This amount was received on completion of the sale and generated capital gains of EUR 5 million.

Excite

On 20 May 2005, Tiscali transferred Excite Italia BV to Ask Jeeves Inc. for a total cash consideration of EUR 6.1 million which equalled its book value. The disposal of Excite Italia BV, which owns the Excite brand in key European countries, was part of Tiscali's focusing of its portal activities under the Tiscali brand.

Liberty Surf

The transferral of the French subsidiary (Liberty Surf Group SA) to Telecom Italia was concluded in the month of June 2005. The price agreed between the parties for the shares held by Tiscali was approximately EUR 248.2 million, 90% of which was collected upon closing. The transaction generated a significant capital gain of EUR 144 million at the consolidated level.

Sale of the international fibre optic network to Telecom Italia

On 2 August 2005, Telecom Italia SpA and Tiscali SpA announced an agreement for the purchase by Telecom Italia Sparkle of Tiscali's fibre optic network, Tiscali International Network SAS (TINet SAS), for a total consideration of EUR 8 million. The agreement did not include the transferral of the national and international IP and Voice Over IP networks, which belong to Tiscali International Network B.V. The Tiscali Group maintains ownership and control of these networks in order to continue to provide its own clients

with high quality IP and VoIP services. The agreement was finalized last November 1 following the approval of the competent authorities at the initially agreed price.

Disposal of operations held in Spain

Agreements for the disposal of several operations held in Spain were made in the month of December 2005, effective as of the first months of the 2006 financial year. In particular, the ADSL clients of the Consumer division were transferred to Deutsche Telekom and France Telecom for a consideration of approximately EUR 3 million.

Assets held for sale:

The Tiscali Group assets having these characteristics refer to the residual activities which are a part of the investments held in Tiscali Telecomunicaciones SA and Tiscali Espana SA (Spain), following the sale of the "client base" described above. This item also includes other assets belonging to Tiscali International Network S.A. (Tinet Link - France), and subsidiaries Tiscali International Network SAU (Spain) and Tiscali International Network Ltd (United Kingdom), after execution of the contract with Telecom Italia Sparkle, which are to be put into liquidation.

EUR (000)	31.12.2005	31.12.2004
Capital gains (losses) arising from disposal of subsidiaries and/or the disposal of net assets)	169,467	7,740
Period result of subsidiaries disposed of and/or held for sale	(17,822)	(63,290)
Write-down of goodwill and of other assets	(13,988)	(31,899)
Charges related to disposals	(22,839)	-
Profit (Loss) from discontinued and/or discontinuing operations	114,818	(87,449)

The capital gains realized in 2005 refer to disposals concluded in the first-half of the current financial year, concerning Liberty Surf Group SA (EUR 143.8 million), Tiscali Pty Limited – South Africa – (EUR 17.7 million) and Tiscali Denmark A/S (EUR 4.6 million), net of a negligible capital loss of approximately EUR 0.5 million related to the disposal of Excite. The disposal of the Tiscali International Network SA and Tiscali International Network assets to third parties resulted in a positive economic effect of EUR 3.9 million in the fourth quarter.

The write-downs of goodwill and of other assets held for sale include in particular the write-down of EUR 5 million for goodwill of Spanish subsidiaries classified as held for sale, the adjustment of these assets with respect to market value, as well as write-downs of receivables and payables related to companies disposed of (approximately EUR 6 million net). The balance also includes the write down of approximately EUR 1 million relating to the investment in H3G Italia S.p.A., which was held by Tiscali Finance S.A., determined by the agreement regarding the sale of approximately 0.3% of its capital, to Hutchinson 3G Italy Investment Sarl. The disposal took place for a consideration of EUR 11.3 million.

Charges related to disposals consist of fees paid to financial and legal advisors with reference to shareholding disposal procedures.

This item also includes an amount of approximately EUR 11 million relating to the charges due to Hutchinson 3G Italy Investment Sarl following an agreement with the latter, relating to the disposal of the investment in H3G Italia S.p.A.. The agreement defined and resolved the pre-existing relationship with Hutchinson 3G relating to the financial support of H3G Italia S.p.A. which was provided by the shareholders in previous periods. In consideration of the fact that the investment in H3G Italia served business, rather than financial purposes, Tiscali's directors deemed appropriate to give priority to the commercial aspects over the strictly financial ones in the relationship with H3G. The agreement also involves future collaborations and synergies between the two groups, in view of the development of joints offers, in particular for the UK and Italian markets. The balance at 31 December 2005 also includes a provision of EUR 5 million for litigation pertaining to Tiscali España which is described in note 34, below.

13.2 Discontinued operations

In the first half of 2005, the Group concluded the agreements for disposal of subsidiaries Tiscali Denmark S/A, Tiscali Proprietary Ltd., (South Africa), Liberty Surf Group S.A. (France), together with the agreements for smaller subsidiaries Excite Italy and Best Engineering S.p.A. and the net assets of Tinnet Link. These disposals involved a total profit of EUR 169.5 million, as follows:

EUR (000)	
Disposal price	319,405
Shareholders' equity of the Group at disposal date (proquota) including goodwill	149,938
Profit from disposal	169,467
<i>Disposal price paid in:</i>	319,405
Cash	280,427
Deferred payment	38,978
<i>Net cash flow derived from disposal:</i>	247,868
Cashed amount	280,427
Cash and bank deposits of companies disposed of	(32,599)

The deferred consideration of the disposal price (with respect to 31 December 2005) refers to the disposal of the Liberty Surf Group S.A. to Telecom Italia S.p.A..

Shareholders' equity representative of the carrying value of the operations disposed of, which equals EUR 149.9 million, was determined as follows:

EUR (000)	
Shareholders' equity of the Group at the disposal date (*)	63,051
Result of the period (loss)	9,390
Consolidation dilutions	(35,714)
Shareholders' equity adjusted at disposal date	36,727
(A) Shareholders' equity adjusted at disposal date (proquota)	35,399
(B) Goodwill	114,539
(A)+(B) Shareholders' equity of the group on the disposal date (pre-quota)	149,938

Balance Sheet - Discontinued Operations	
EUR (000)	
Non current assets	127,973
Current assets	132,606
Total Assets	260,579
Shareholders' Equity (Group)	63,051
Minority interests	97
Shareholders' equity	63,148
Non current liabilities	20,229
Current liabilities	177,202
Total Shareholders' equity and liabilities	260,579

The following table shows the breakdown of results for the period of discontinued operations up to the date of disposal:

Income Statement - Discontinued Operations	
EUR (000)	
Revenue	97,197
Gross operating result	674
Operating result	(12,809)
Profit (loss) before tax	(10,869)
Net profit	(9,390)

13.3 Assets held for sale

The results for the period arising from assets held for sale of controlling interests in the residual assets in Spain and of Tinnet Link are shown below:

Income Statement - Discontinued Operations		
	31.12.2005	31.12.2004
Assets Held For Sale - EUR (000)		
Revenue	22,040	38,422
Gross operating result	(1,265)	(10,212)
Operating result	(16,682)	(39,797)
Profit (loss) before tax	(17,822)	(41,014)
Net profit (loss)	(17,822)	(41,096)

Details of assets held for sale, equal to EUR 16.7 million are as follows:

Activity		
	31.12.2005	31.12.2004
EUR (000)		
Non current assets	10,312	253,037
Current assets	6,395	142,560
Assets held for sale	16,707	395,597

Total liabilities directly related to assets held for sale, equal to EUR 11.7 million is as follows:

Passivity		
	31.12.2005	31.12.2004
EUR (000)		
Non current liabilities	5,169	19,390
Current liabilities	6,553	191,792
Liabilities directly related to assets held for sale	11,722	211,183

14. Goodwill

Goodwill arises from acquisitions carried out by Tiscali in the preceding financial years, in particular from the acquisition of the World Online Group. In consideration of the fact that business strategies are mainly defined by geographical areas and that these represent a “strategic business unit”, the goodwill values – analytically recorded for each subsidiary (“legal entity”), have been re-aggregated by “country” as appropriate. In particular this has determined the allocation to the single countries of the goodwill of World Online International NV. The table below summarises the movements of the period.

EUR (000)	31.12.2004	Increases	Decreases	31.12.2005
Italy	3,406	-	-	3,406
United Kingdom	181,332	-	-	181,332
The Netherlands	35,518	-	-	35,518
Germany	91,396	-	-	91,396
Czech Republic	1,810	-	-	1,810
Total	313,462	-	-	313,462

The book value as at 31 December 2005 has no changes with respect to the final balance at the end of the previous period.

There were no cases involving impairment for the period of reference. As detailed in the section on accounting principles, the impairment test on goodwill is applied at least annually or more frequently, if there is any indication that assets may have undergone an impairment loss. Any loss in value is identified by means of measurements that refer to the ability of each “unit”, identifiable in this case with the subsidiary operating in the specific geographic segment, to generate cash flows such as to recover the goodwill allocated to the unit. The recoverable amount is the higher between the “fair value” less costs to sell and its useful life. The future expected cash flows are discounted using a discount rate that reflects the current market estimate of the cost of money, the cost of capital and the specific risks of the unit. If the estimated recoverable amount of the unit under examination is lower than the relevant carrying value, it is decreased to the least recoverable value. The impairment losses are recognised in the income statement among write-down costs and are not subsequently reversible.

In particular, the impairment test was developed by discounting future cash flows established by the Tiscali business plan for the various business units for a specified time period, while taking into account the disposal value. The results arising from the application of the stated method (DCF – Discounted Cash Flow) did not provide any indication of impairment and therefore there were no write-downs for impairment.

Goodwill related to assets held for sale is not included here, as it has been classified as indicated in the preceding note.

15. Intangible assets

Intangible asset movements for the period are as follows:

Intangible assets EUR (000)	31.12.2004	Increases	Other changes	Depreciation	31.12.2005
Computer software and development costs	16,558	3,121	(1,734)	(7,570)	10,375
Licenses and similar rights	91,395	26,163	11,627	(19,623)	109,562
Broadband service activation costs	13,473	74,197	(8,178)	(47,047)	32,445
Other	4,926	6,784	5,697	(5,839)	11,568
Total	126,351	110,265	7,412	(80,079)	163,950

The item "Computer software and development costs" includes application software that has been acquired indefinitely and customised for exclusive use by the company.

The item "*Licenses and similar rights*", equal to EUR 109.6 million, includes approximately EUR 76.6 million of rights to purchase transmission capacity on a multi-year basis, implemented through the purchase of rights of use (license-IRU/*Indefeasible right of use*). The EUR 26.1 million increase recorded for the period mainly refers to the conclusion of new IRU contracts (EUR 12.8 million), related to investments for the development of the *unbundling* network.

The item "*Broadband service activation costs*", equal to EUR 32.4 million, refers to the capitalisation of activation costs related to the ADSL service. These costs are amortised over twelve months. The increases refer in particular to the costs incurred in the financial year 2005 by subsidiaries operating in the United Kingdom and in The Netherlands.

Other movements includes decreases, reclassifications, conversion differences and changes in consolidation. The amount under the "*Broadband service activation costs*" is mainly attributable to the reversal of activation cost capitalisations for those clients that have

cancelled their contracts under normal conditions, in relation to the "churn rate" of the client base.

16. Property, plant and equipment

The table below shows the movements which occurred during the financial year.

"*Land and buildings*" mainly refers to the investment carried out in the preceding financial years for the building of the parent company headquarters in Cagliari. The building is mortgaged for about EUR 70 million through Banca CIS, as a guarantee for the financing provided to realise the entire investment.

The net carrying value of "*Plant and machinery*", (EUR 117.8 million) includes in particular dedicated equipment and networks, such as routers, servers, optical equipment and telephone exchanges that make up most of the tangible assets. The increase of EUR 55.9 million reflects the significant investments aimed at supporting the development of unbundling ADSL services.

"*Other tangible assets*" include furnishings, IT and office equipment and vehicles.

EUR (000)	31.12.2004	Increases	Other changes	Depreciation (*)	31.12.2005
Historical cost					
Land and buildings	31,052	1,267	(2,103)	-	30,216
Plant and machinery	304,277	55,890	(58,262)	-	301,905
Other tangible assets	108,482	1,755	(32,986)	-	77,251
	443,811	58,912	(93,351)	-	409,372
Allowance for depreciation					
Land and buildings	3,274	-	(204)	1,438	4,508
Plant and machinery	176,499	-	(43,064)	50,676	184,111
Other tangible assets	86,728	-	(35,310)	3,380	54,798
	266,501	-	(78,578)	55,494	243,417
Net value					
Land and buildings	27,778	1,267	(1,899)	(1,438)	25,708
Plant and machinery	127,778	55,890	(15,198)	(50,676)	117,794
Other tangible assets	21,754	1,755	2,324	(3,380)	22,453
Total	177,307	58,912	(14,773)	(55,494)	165,955

(*) Other movements includes decreases, reclassifications, conversion differences and changes in consolidation.

17. Equity Investments

Investments are valued according to the equity method for an amount of EUR 1.1 million, refer to minor investments held by the parent company and by its operative subsidiary Tiscali Italia S.r.l.. A list of these investments is provided in the appropriate section (List of Investments).

18. Other non current financial assets

EUR (000)	31.12.2005	31.12.2004
Surety deposits	11,167	11,039
Other receivables	17,579	1,627
Investments in other companies	1	12,708
Total	28,747	25,374

"Other non current financial assets" include financial instruments that the Group has the expressed intention and ability to hold to maturity ("Held to maturity") and that do not meet the requirements for classification as cash or cash equivalents.

Surety deposits mainly refer to lease contracts.

The other receivables refer to the medium term deferred receivable portion of Telecom Italia S.p.A. arising from the sale of the subsidiary Liberty Surf Group SA (EUR 10 million), as well as VAT receivable reimbursement request by the parent company, which are not expected within the next financial year. The balance also includes a receivable of EUR 2 million towards Eurolight Associates Ltd, to which at the beginning of 2003 the investment held in CD Telekomunikace Sro (Czech Republic) had been sold and which, at the time of the acquisition, has taken over the pre-existing debt of the sold company towards Tiscali S.p.A.. The recovery of the receivable is tied to an agreement signed by Tiscali and CD Telekomunikace for the purchase of services (capacity/ fibre optics) by the Tiscali subsidiary operating in that country. The book value takes into account the time needed to purchase the services, as this is related to the investments required by the Tiscali Czech subsidiary for the development of the unbundling network.

"Investments in other companies" included at 31 December 2004 the 0.3% stake by Luxemburg-based *Tiscali Finance* in H3G S.p.A., a 3G mobile telephony company operating under the "3" brand in Italy in the third generation mobile telephony segment (UMTS), which was disposed of during the year. Please see note 13 for further information.

19. Deferred tax assets

EUR (000)	31.12.2005	31.12.2004
Deferred tax assets	135,416	157,301

Please see note 12 above for the analysis of this item.

20. Inventories

At 31 December 2005 inventories totalled EUR 4.5 million: they are mainly related to *network* equipment, consumables, telephone cards, goods for resale as part of the company's *merchandising* and *modems*.

21. Receivables from customers

EUR (000)	31.12.2005	31.12.2004
Receivables from customers	170,112	144,413
Write-down provisions for losses	(41,868)	(41,949)
Total	128,244	102,464

At 31 December 2005 customer receivables totalled EUR 128.2 million, after write-down provisions of EUR 41.8 million. These receivables accrued from the sale of internet services, billing of internet access services, billing of usage-based fees for traffic generated by Tiscali subsidiaries on third-party fixed lines, advertising revenues and business and telephone services provided by the Group.

The book value of trade receivables, in view of the maturities mentioned below and of conditions regulating the supply of services by the Group, approximates their "fair value".

The Group's credit exposure being spread over a rather large group of customers, there is no particular credit concentration risk.

22. Other Receivables and other current assets

EUR (000)	31.12.2005	31.12.2004
Other receivables	21,266	41,307
Accrued income	18,696	24,214
Deferred charges	8,012	12,208
Total	47,974	77,729

Other receivables totalling EUR 21.3 millions are related to VAT receivable of EUR 13.1 million of which EUR 3.9 million of VAT receivable requested reimbursement by the parent company.

Accrued income (EUR 18.7 million) chiefly relates to revenues due from services in the access segment.

Deferred charges, EUR 8 million, relate to costs associated with multi-year rental of lines, international circuit agreements as well as hardware and software maintenance costs.

The book value of records included in this item approximates their "fair value".

23. Other current financial assets

EUR (000)	31.12.2005	31.12.2004
Term deposits	6,880	4,834
Other receivables	126	79
Total	7,006	4,913

Term deposits refers to term deposits and/or guarantees of EUR 1.8 million, pertaining to the sub-holding Tiscali International BV, Netherlands, which are expected to be released in the short-term and EUR 5 million in deposits accounted for by the English subsidiary.

24. Cash and cash equivalents

At the end of 2005, cash and cash equivalents amounted to EUR 30 million and include the Group liquid resources, essentially held in current accounts. Please see the appropriate section of the management report for a detailed analysis of the financial position.

25. Shareholders' equity

EUR (000)	31.12.2005	31.12.2004
Share capital	198,369	196,619
Share premium reserve	953,717	1,440,874
Translation reserve	3,975	(1,763)
Retained earnings	(847,294)	(1,321,883)
Total	308,767	313,847

Changes which occurred in the various shareholders' equity items are detailed in the relevant statement.

At 31 December 2005 share capital amounted to EUR 198.3 million corresponding to n° 396,738,142 ordinary shares having a face value of 50 EUR cents each. During the year the share capital increased by EUR 1.75 million following the issuance of 3,500,000 shares supporting the capital increase by Neue Medien Ulm Holding GmbH.

The share premium reserve shows a drop of EUR 487,157 million chiefly consisting of cover charges relating to losses in the preceding financial year by the parent company.

26. Non current financial liabilities

EUR (000)	31.12.2005	31.12.2004
Bonds	-	209,500
Payables to banks and other lenders		
Due to banks	89,163	35,613
Payables to other lenders	28,226	32,500
	117,389	68,113
Obligations under finance leases (m/l term)	17,789	18,591
Total	135,178	296,204

26.1 Payable to banks and other lenders

The item includes the medium/long term portion of the loan granted by Banca CIS of Cagliari for the company headquarters in "Sa Illetta" (Cagliari), equal to EUR 27.6 million. The total amount of the loan amounts to EUR 32 million, the short-term portion of which is EUR 4.4 million and is included in current liabilities. The loan, repayable in six-month instalments and falling due in 2014, is backed, as mentioned in the note related to buildings, by a EUR 70 million guarantee in respect of the property.

The item payables to banks also includes a loan granted by EDC (Export Development Canada) an export financing Canadian bank, for EUR 12.9 million, in addition to the medium-long term portion of the loan. The loan has been granted for a maximum amount of EUR 20 million for 3 years, and its purpose is the purchase of NORTEL equipment used in Italy for the ULL project. Please note that the contract related to the grant of this recently renewed loan provides for a "covenant" linked to a relation between shareholders' equity and total assets which must not be lower than 0.27. On 31 December 2005 this relation was equal to 0.298 and therefore it conformed to the contractual provisions. Total debt as at 31 December 2005 was equal to EUR 15.9 million.

This item also includes an amount of EUR 48.6 million for the loan granted by Silver Point Finance LLC (USA) in August 2005. This transaction consists of two instalments, each with a three year duration. The interest rate is Euribor + 600 basis points. The first instalment of EUR 50 million was advanced in August 2005, while the second EUR 100 million instalment will be made available from September 2006, subject to certain contractual terms and conditions, which pertain mainly to conformance to the business plan insofar as some operating and financial ratios, including the number of ADSL users and the relation between net profit and investments carried out in various quarters within 2006. The loan is also secured by a pledge of the shares of subsidiaries owned by Tiscali UK Ltd. and Tiscali BV (NL).

Payables to other lenders (EUR 28.2 million) refer to the interest-bearing loan granted in the financial year 2004 by Andalas Limited. The loan was taken to support the investments that are necessary to sustain growth and notably the implementation of a network unbundling structure. We note that the facility agreement expressly provides for subordination with respect to the Equity Linked Bond maturing in September 2006.

26.2 Obligations under finance leases (m/l term)

This item totalling EUR 17.8 million includes payables to leasing companies based on finance lease contracts. These contracts chiefly relate to network equipment, servers and other equipment directly involved in the production process.

To this effect there exists a framework financing contract concluded with Cisco Capital for the purchase of Cisco System equipment,

as part of the investment projects undertaken by Group companies. The total credit facility is for EUR 25 million, of which EUR 20 million had been used as at 31 December 2005. The contract with Cisco is currently being redefined to include also any covenants relating to future periods.

27. Other non current liabilities

EUR (000)	31.12.2005	31.12.2004
Payables to suppliers	26,350	26,395
Other payables	1,864	974
Total	28,214	27,369

The balance of Other non current liabilities chiefly relates to medium-long term trade payables to suppliers related to the purchase of equipment which are tied to IRU (*Indefeasible Right of Use*) contracts, arising from the investments for the ULL project.

28. Liabilities for pension obligations and staff severance

The table shows the movements for the period:

EUR (000)	31.12.2004	Provisions	Amounts	31.12.2005
Staff severance	5,875	3,043	(2,810)	6,108
Total	5,875	3,043	(2,810)	6,108

The staff severance fund, chiefly covering amounts payable to employees, is equal to EUR 6.1 million and refers to the Parent Company and subsidiaries operating in Italy.

In compliance with the IAS 19 accounting principle, the "Projected Unit Credit Cost" method has been applied to the valuation of severance indemnities, included in the defined benefit plans, as follows:

- Future benefits that will be potentially payable to each employee in case of retirement, resignation, death or disability have been calculated. These benefits were calculated on the basis of the "financial assumptions" shown in the table below.
- At each measurement date the average present value of future payable indemnities has been calculated, applying the discount rate which is stated in the "Financial assumptions" table, thus determining the liability to be recorded on financial statements in relation to the average present value of future benefits as at the measurement date.

Financial assumptions

Inflation rate:	2%
Wage increase rate:	4%
Discount rate:	4.6%

Demographic assumptions:

Mortality:	Mortality tables RG 48 published by the Ragioneria Generale dello Stato (General Accounting Office)
Disability:	Same tables used for mortality
Resignation:	5% for all ages
Anticipated payments:	From 28 to 50 years of age, with at least 5 but no more than 14 years of service: 3% From 51 to 60 (F) / 65(M) years, with at least 5 but no more than 14 years of service: 1%
Retirement:	65 years (M) and 60 years (F)

29. Provisions for risks and charges

A breakdown of the provision covering risks and charges is presented in the table below:

EUR (000)	31.12.2004	Provisions	Amount	31.12.2005
Provisions for risks and charges	10,677	9,312	(3,114)	16,875
Total	10,677	9,312	(3,114)	16,875

The fund for risks and charges as at 30 June 2005 is EUR 16.9 million and includes provisions against potential liabilities and disputes.

30. Current financial liabilities

EUR (000)	31.12.2005	31.12.2004
Bonds	211,044	250,387
Payables to banks and other lenders: Due to banks	19,678	25,324
Obligations under finance leases (short-term)	16,711	19,220
Total	247,434	294,931

30.1 Bonds

The item concerns the "Equity linked Bonds" falling due at the end of September 2006 and recognised in accordance with the "Amortised cost" (IAS 32) principle. This loan has the following characteristics:

Issuer	Tiscali Finance S.A.
Nominal value (€ml)	209.5
Issue date	September 2003
Coupon	4.25%
Maturity	September 2006
Guarantor	Tiscali S.p.A.

The "Equity linked Bond" issue is a bond with a soft mandatory clause. This means that the issuer may assign shares, even if, at maturity, Tiscali's market price is lower than the issue price of EUR 7.57. In this case, but only at maturity, the difference between the issue price and the market price would have to be made up by the issuer in cash. This clause, the fair value of which cannot be determined, can be exercised by bondholders from September 2004, unless a settlement in cash for any difference between the issue price above and the share's market price has been provided.

On 31 December 2004, this loan was still carried at par value, as the company opted to apply IAS 32 as of 1 January 2005. This measurement involved the recognition of interest accruing on 31 December 2005, which directly increased the loan.

30.2 Payable to banks and other lenders

The item only refers to bank overdrafts necessary for operational cash requirements. These debts also include EUR 4.4 million, i.e. the short-term portion of the loan granted to Tiscali Italia Srl for the new headquarters of "Sa Illetta" in Cagliari, together with the short term amount of the EDC loan (approximately EUR 3 million).

30.3 Debiti per locazioni finanziarie

This item refers to the short-term portion of obligations to leasing companies for finance lease contracts.

31. Payables to suppliers

EUR (000)	31.12.2005	31.12.2004
Payables to suppliers	160,418	182,720

Payable to suppliers refer to trade payables for the supply of services such as content, telephone traffic and data traffic. The figure also includes EUR 9.5 million for the purchase of IRU (*Indefeasible Right of Use*) related to the development of the unbundling project.

32. Other current liabilities

EUR (000)	31.12.2005	31.12.2004
Accrued liabilities	76,163	62,481
Deferred income	22,021	23,723
Other payables	27,662	35,302
Total	125,846	121,506

Accrued liabilities are EUR 69.5 million and consist mainly of operating expenses, such as payments for content, network access costs, consultancy fees and line rental costs and EUR 6.5 million related to personnel (vacation pay/14th salary).

Deferred income concerns the deferral of income relating to subsequent periods, from the activation of ADSL services, which

are spread over a time span of 12 months, i.e. the minimum legal duration of the contract with the customer. This mainly concerns the Dutch subsidiary Tiscali BV and Italian subsidiary Tiscali Italia S.r.l.

Other liabilities mainly refer to payables to the tax authorities (employee withholding tax and VAT) and to social security agencies, totalling EUR 16.5 million, as well as payables to employees for EUR 2.7 million and other payable of EUR 8.3 million.

33. Derivatives

There were no transactions involving derivatives on 31 December 2005. Please see note 30.1 above insofar as the clauses underlying the Equity linked Bond.

34. Ongoing disputes, contingent liabilities and commitments

34.1 Disputes

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, net 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. Below is a summary of the main disputes pending as of June 2005.

In July 2001 the Dutch foundation Vereniging van Effectenbezitters, which represents a group of former minority shareholders of World Online International NV, made a claim for unquantified damages against World Ondine (currently 99.5% owned by Tiscali) and the financial institutions involved in its stock market listing, alleging, in particular, that some of the information provided in the IPO prospectus and in public statements issued by the company and its chairman at the time was incomplete and inaccurate. The Dutch court ruled on 17 December 2003 that the IPO prospectus did not contain any misleading information and that many other claims were groundless. In the same ruling, however, the Dutch judges upheld the claim that a press release issued by World Online did not sufficiently clarify comments made by its former chairman at the time of the listing regarding the latter's own shareholding. World Online appealed against this decision, claiming that it did not need to provide any further clarification, given that the IPO prospectus was not deemed to be inaccurate. Furthermore, any damages to be paid will have to be established in a new court case, with the onus on the shareholders' association to substantiate the causal link and the amount of damages claimed. A similar dispute was initiated by another

362,000

Unbundling subscribers

Dutch foundation, Stichting Van der Goen WOL Claims, in August 2001. Following this, letters were received from other subjects stating that similar actions could be taken if prerequisites apply. No provisions have been set aside in the group's accounts for this dispute, given the low probability of a liability being incurred, the unknown nature of the potential amount, and the legal opinions of our consultants.

In May 2005 the Spanish company Promotora De Informaciones S.A., belonging to the media group Prisa, filed a claim against Tiscali S.p.A before the International Court of Arbitration of the International Chamber of Commerce, alleging the breach of an advertising agreement concluded on 31 July 2001 for the provision to Tiscali of advertising space on Prisa's media platforms for five years, with a yearly minimum guaranteed payment of EUR 1.6 million. Currently the value of the claim amounts to approx. EUR 3.2 million, not including interest on arrears and other sums that will become due, given the duration of the agreement. With regard to this dispute and in consideration of its foreseeable outcome, a provision of EUR 6 million has been made and appears in the balance sheet as liabilities related to the Spanish held for sale subsidiaries.

Subsidiaries Tiscali International Network BV and Tiscali International Network SA are involved in a dispute initiated by KPNQWest Bankruptcy, a joint venture constituted of Dutch company KPN and U.S. company Qwest, currently under liquidation. The dispute began in previous financial years and involves a 5 year IRU agreement concluded between Tiscali International Network BV and KPNQWest, which provided for the payment by the former of EUR 3.1 million for services provided by the latter. Following the liquidation of KPNQWest, the provision of services was interrupted after only 5 months and Tiscali International Network BV received and recognised invoices in the amount of EUR 1.5 million. KPNQWest has demanded payment of the entire amount stipulated in the agreement. Tiscali has objected to a demand for payment of this amount because of damages sustained on account of the service interruption. On 17 March 2006 Citibank (the liquidator for KPNQwest) put forth a request for precautionary seizure for an amount of approximately EUR 5 million in the current bank accounts of Tiscali International Network BV, which did not result in any significant outcome. The dispute is not expected to be resolved in the short term, though no significant liabilities are expected to result from it.

In July 2004, Tiscali Espana SA filed a claim before the Civil Courts of Madrid against the company Airtel Movil SA – a Spanish subsidiary of the Vodafone Group – demanding payment of the approximately EUR 4.7 million, as a reduction for the price paid for the purchase of the Spanish internet assets of the Vodafone Group which took place in January 2003. According to Tiscali, the price paid for such purchase (approximately EUR 9.8 million paid in newly issued Tiscali S.p.A. shares) had been wrongfully determined due to an inexact representation by Vodafone of the value of the revenues of such business. Vodafone has fully

rejected Tiscali's claim. The first instance civil proceedings are currently in their conclusive phase. It is hereby specified that, given that at this stage it can only be considered as a potential asset, no receivables for such amount have been recorded in the financial statements.

34.2 Tax assessments

On 27 December 2005, the Dutch tax authorities continued the investigation they had begun in the 2005 financial years regarding the suspected non-payment of wage taxes on payments made and Tiscali S.p.A. shares provided to James Kinsella, the former CEO of World Online International BV. The tax authorities claimed that what had been received by Mr. Kinsella during the 2002 financial year was a taxable bonus in return for Mr Kinsella waiving his subscription right to World Online International BV (WOL) shares, at the time when WOL was listed and acquired by Tiscali. The Dutch tax authorities set the amount of the assessment at EUR 51.3 million, including EUR 7.3 million as a penalty and EUR 5 million as interest. The liability was determined on the basis of the price of Tiscali shares on the stock exchange during the WOL IPO.

Tiscali's position, which is set forth in the appeal submitted to the competent authorities has already been described in the notes to the financial statements of previous years and is based on the absolute lack of involvement of the company in any transactions that took place between shareholders and Mr. Kinsella. Tiscali can therefore be under no obligation to pay the withholding taxes. Furthermore, it must be noted that if the amount of the taxes had been determined on the basis of Tiscali shares in the year 2002, the year in which they were allegedly delivered to Mr. Kinsella, or otherwise the pertinent year insofar as the taxation, the amount of the assessment would have been quite significantly lower. The correctness of this position and of Tiscali's actions are further confirmed and supported by the opinion of the tax consultants. Consequently, as the time required for the final outcome of this dispute is expected to be long, it was determined that the details required for consideration of the risk associated with the probable potential liability and recording of the relative provision to be recorded were not available.

The Dutch tax authorities have filed several assessment notices for World On Line International NV (and its direct subsidiary Tiscali International BV) concerning the alleged failure to pay withholding tax on remuneration and stock options provided to "group" managers recognised in previous periods. The total amount of these disputes is EUR 2 million, against which Tiscali International BV has made payments amounting to approximately EUR 0.3 million. The remaining amount (EUR 1.7 million) mainly concerns stock options that have allegedly been provided to individuals that do not physically reside in the Netherlands and consequently are not subject to taxation in Holland, according to Tiscali's tax consultants. Given this and taking account of the fact that this dispute is at an initial

stage, the liability was not considered as probable and therefore no provision was made.

Two notices of assessment have been issued by Dutch tax authorities in relation to the investigations undertaken by the latter concerning VAT for the 1999 and 2000 financial years. Notably, the disputes involve services for the listing of World Online International NV and are based on the premise that Tiscali International BV (a direct subsidiary of the legal entity that was listed) did not have the right to deduct these costs for VAT purposes as it is attributable to World Online International NV, a legal entity that does not dispose of a VAT number. The total disputed amounts are EUR 4.4 million. In January 2006, an appeal was filed with the competent authorities, which focuses on the full right of the “Dutch fiscal unit” to deduct costs for VAT purposes, regardless of whether the listed legal entity was the Dutch pure holding company. A provision for risks and charges of EUR 1.9 million has been recognised as a precaution for the VAT risk. This amount is considered appropriate with respect to the dispute in question.

In May 2005, the Dutch tax authorities issued a statement of assessment concerning the income declared by World Online International NV and Tiscali International BV, according to which the tax losses recognised during that period had been reduced from EUR 254.5 million to EUR 186.1 million for Tiscali International BV. The difference of EUR 68.4 million mainly concerns costs arising from waivers of loans to other Group companies, which are considered to be non deductible. The tax losses of World Online International NV (EUR 24.9 million) have not been adjusted. An appeal was filed against this assessment in September 2005. The decision is currently pending. The risk profile linked to this dispute is limited to the remeasurement of losses carried forward and carries no legal problems related to the estimate of a potential liability or risks of a financial nature. To this effect, we further specify that, as a precaution, the amount of the losses carried forward as presented in section 12 of the notes to the financial statements is net of the adjustments requested by the Dutch tax authorities.

During the 2004 financial year, a tax investigation for VAT began for the Tiscali's Group's German subsidiaries. This investigation, which to date covered only the financial years up to 2003, resulted in the payment of approximately EUR 8 million in 2004 and a provision in the financial statements as at 31 December 2005 for a further liability of approximately EUR 4 million, which is connected to probable outcomes resulting from the definition of the overall VAT position. The investigations carried out by the German tax authorities may also involve the 2004 and 2005 financial years, though according to the data currently in our possession, these are not expected to result in significant contingent liabilities. In the first months of 2006, the German tax authorities also began investigations focusing on direct taxes. We note that no significant contingent liabilities are expected to result from this investigation. This takes into account the significant

amount of declared tax losses that have been carried forward. In July 2005, Tiscali International BV received a notice of claim sent by the legal advisors of the Scarlet Group (buyer of Tiscali Belgium NV) which made reference to a tax dispute against the former Tiscali Belgium NV (now Scarlet Extended NV) focusing mainly on the deductibility for tax purposes of an extraordinary write-down of a provision in the 2002 financial statements. Within this context, the company was asked by Belgian authorities to pay EUR 5.9 million in December 2005. This was the result of the restatement of the taxable results for 2002. For this dispute and on the basis of the guarantees provided by Tiscali International BV to Scarlet in the transfer agreement for Tiscali Belgium NV, on 23 January 2006 Scarlet requested Tiscali to place an amount of EUR 6 million in escrow, which also includes the remarks made by tax authorities regarding VAT. On 3 February 2006, Scarlet notified the Tiscali Group of an “attachment” on shares, bank accounts, Personal and real estate and Tiscali BV and Tiscali International BV receivables for an amount of EUR 7.5 million. However, on 1 March 2006, Scarlet revoked the attachment in return for a pledge of Tiscali International BV shares. In the month of March Scarlet filed a timely appeal against the assessment, which was drafted on the basis of the information and relative documentation produced. At the present time, given that we consider that the write down of the provision was justified at the time, this dispute is not expected to result in significant liabilities.

34.3 Commitments and other guarantees

Commitments

The Tiscali Group has no obligations which are outstanding or not included in the normal operating cycle.

Guarantees

At 31 December 2005 the following guarantees are in force:

- ▶ To tax authorities for the settlement of EUR 1.3 million for settlement of the Group's VAT, as well as other guarantees of various types, issued to third parties in favour of Group companies, totalling EUR 0.6 million.
- ▶ Other guarantees for minor disputes, for a total of approximately EUR 2 million.

35. Transactions with Related parties

During the financial year the Tiscali Group had several relations with related parties. In particular, this involves relations with subjects in which the shareholders or members of the Board of Directors directly or indirectly hold investments. These operations were dealt with at market conditions. The table below summarises the balance sheet and economic values recorded in the consolidated financial statements of Tiscali Group as at 31 December 2005 arising from transactions with related parties.

EUR (000)	Interoute Group	Shardna SpA	Andalas Ltd	Total
Trade receivables	17	372		389
Trade payables	1,021			1,021
Financial receivables				-
Financial payables			28,691	28,691
Revenue	29	93		122
Costs	2,073			2,073
Financial income				-
Financial charges			1,541	1,541

Interoute is a Group fully owned by the Sandoz Family Foundation, a Tiscali shareholder. The costs incurred in the financial year refer to purchases by the Parent Company Tiscali S.p.A. for dark fibre and the relevant maintenance.

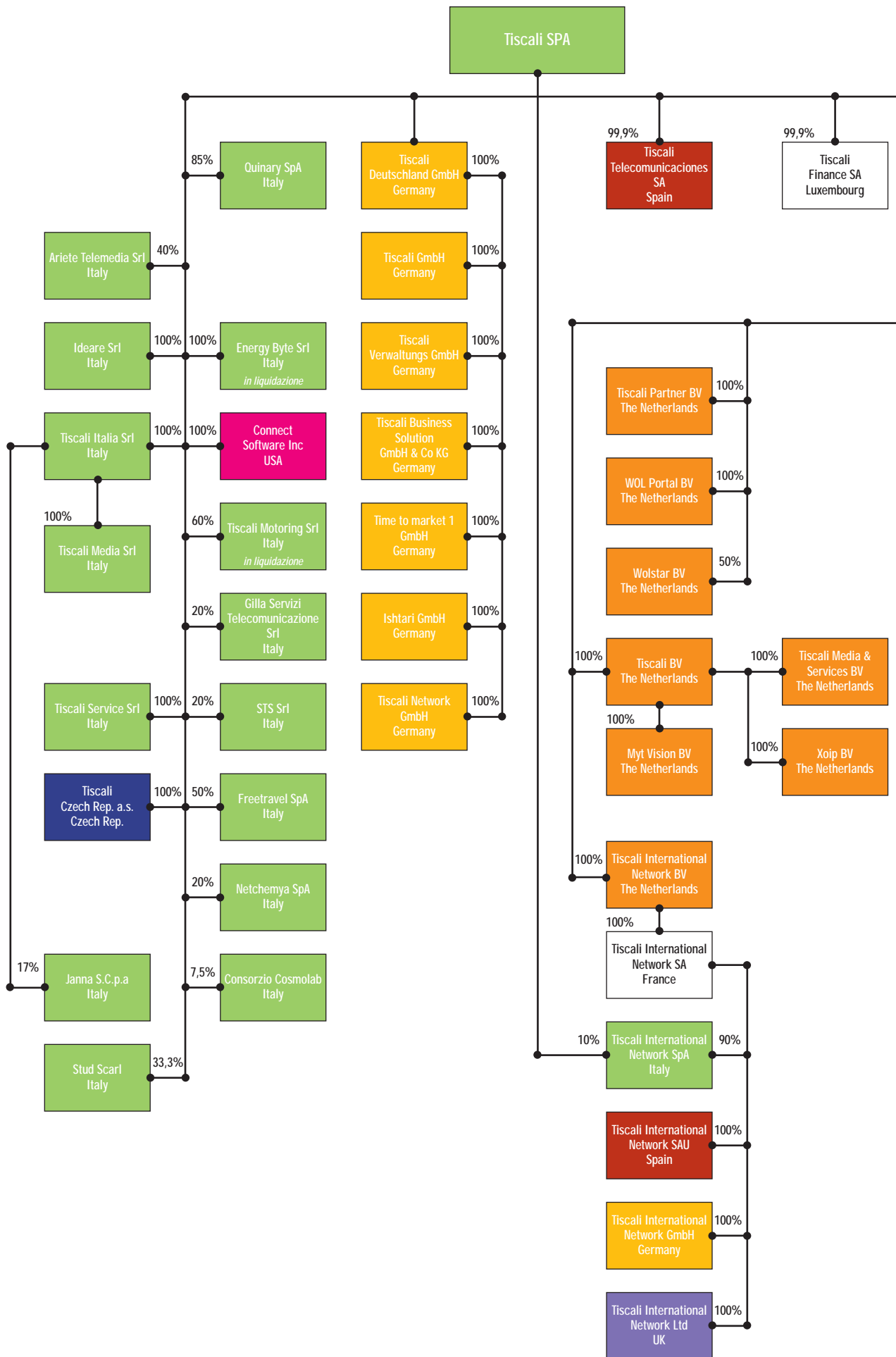
Shardna S.p.A. is controlled by majority shareholder Renato Soru. The relations with the Parent Company involve the sub-leasing of a Tiscali office in the suburbs of Cagliari.

As mentioned in the notes to the financial statements, during 2004 *Andalas Limited* granted an interest-bearing loan at market rates. Please note that the loan agreement explicitly provides for subordination, with respect to other debts of the Tiscali Group, up to the settlement of the bond loan in September 2006.

36. List of subsidiaries included in the consolidation area

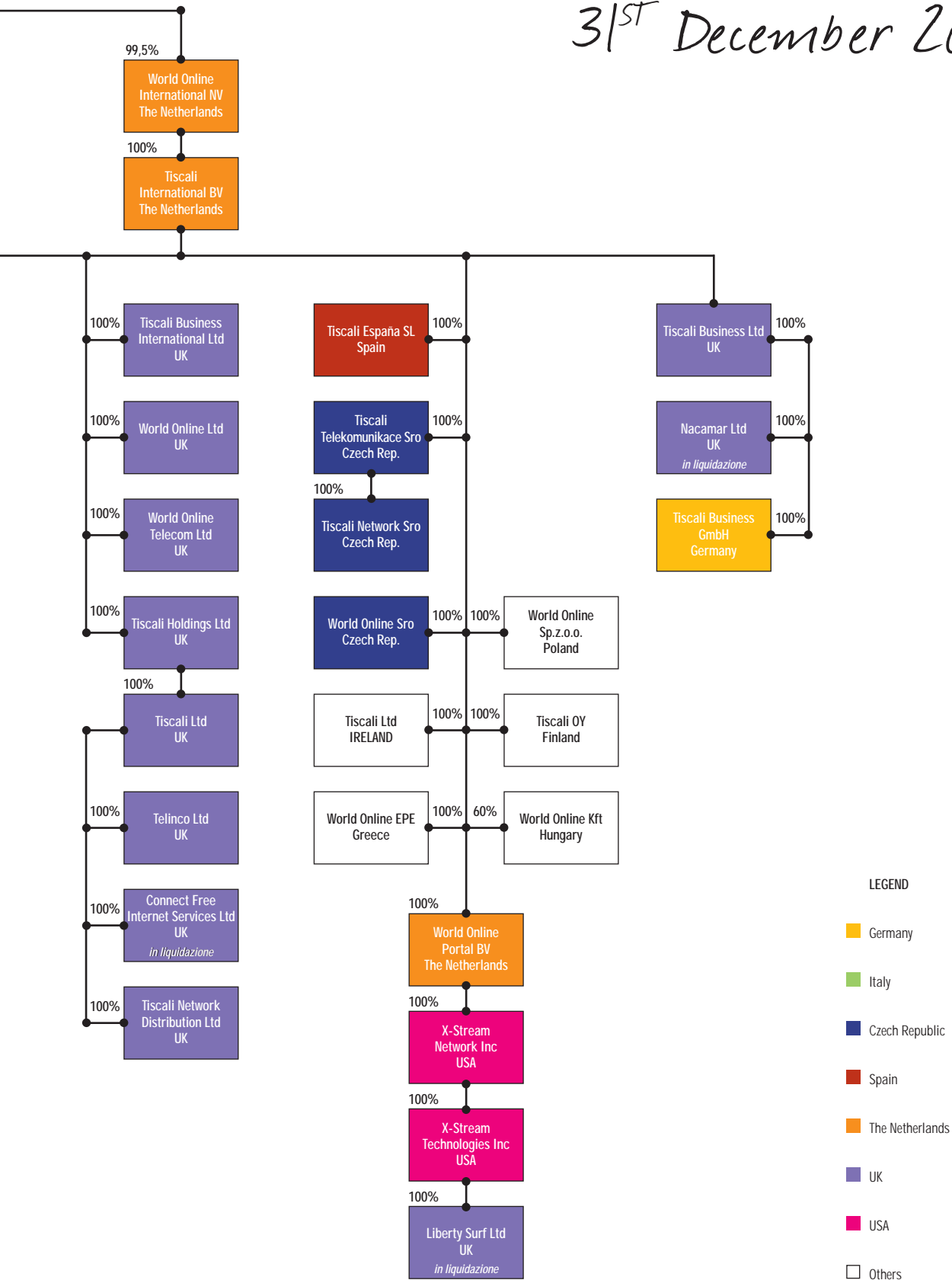
Following are the details of the subsidiaries which are included in the consolidation area:

Company name	Country	% Held
Tiscali S.p.A.	Italia	
Ideare S.p.A.	Italy	100.0%
Quinary S.p.A.	Italy	85.0%
Tiscali Telecomunicaciones Sa	Spain	99.99%
Tiscali Services srl (ex TITS srl)	Italy	100.0%
Tiscali Italia srl (ex Andaledda Spa)	Italy	100.0%
Tiscali Finance Sa	Luxemburg	100.0%
Tiscali Deutschland Gmbh	Germany	100.0%
Tiscali GmbH	Germany	100.0%
Tiscali Verwaltungs Gmbh (ex Nextra D. V. Gmbh)	Germany	100.0%
Tiscali Business Solution GmbH & Co KG (ex Nextra D. GmbH)	Germany	100.0%
Time to market 1 Gmbh (ex Brandgate Gmbh)	Germany	100.0%
Tiscali Network Gmbh	Germany	100.0%
Ishtari GmbH	Germany	51.0%
World Online International Nv	The Netherlands	99.5%
Tiscali International Bv	The Netherlands	99.5%
Tiscali B.V.	The Netherlands	99.5%
World Online Portal BV.	The Netherlands	99.5%
Myt Vision Bv	The Netherlands	99.5%
Wolstar B.V. in liq.	The Netherlands	49.7%
Tiscali Media Service BV (ex Sonera Plaza)	The Netherlands	99.5%
Xoip BV	The Netherlands	99.5%
Tiscali Partner B.V.	The Netherlands	99.5%
12 Move Vof	The Netherlands	79.6%
Tiscali International Network B.V.	The Netherlands	99.5%
Tiscali International Network SpA (2)	Italy	99.5%
Tiscali International Network SA	France	99.5%
Tiscali International Network SAU	Spain	99.5%
Tiscali International Network GmbH	Germany	99.5%
Tiscali International Network Ltd	UK	99.5%
Tiscali Business International 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	99.5%
Telinc UK Ltd	UK	99.5%
Connect Free Internet Services Ltd	UK	99.5%
Tiscali Network Distribution Ltd	UK	99.5%
Tiscali Business UK Ltd	UK	99.5%
Tiscali Business GmbH	Germany	99.5%
Nacamar Ltd (in liquidazione)	UK	99.5%
Tiscali España SA	Spain	99.5%
Tiscali Oy (ex Surfeu Oy)	Finlandia	99.5%
TISCALI Telekomunikace Česká republika s.r.o.	Czech Republic	99.5%
Tiscali Network s.r.o.	Czech Republic	99.5%
Tiscali Ireland Ltd	UK	99.5%



Tiscali Group

31ST December 2005



In 2006 Tiscali International BV will carry out a transfer of 440,973 shares of World Online International NV to Tiscali S.p.A. after which the ownership percentage of Tiscali S.p.A. in World Online International NV will increase by 0.146%, from 95.5% to 99.646%.

List of holdings in affiliated companies measured according to the equity method

Company name	Country	% of investments
Ariete Telemedia S.r.l.	Italy	40%
Energy Byte Srl (in liquidazione)	Italy	100%
Connect Software Inc.	USA	100%
Tiscali Motoring Srl (in liquidazione)	Italy	60%
Gilla Servizi Telecomunicaz. S.r.l.	Italy	20%
STS S.r.l.	Italy	35%
Tiscali Media Srl	Italy	100%
Janna S.c.p.a.	Italy	17%
STUD Soc. Consortile a.r.l.	Italy	33.33%
FreeTravel S.p.A.(in liquidazione)	Italy	50%
Netchemya S.p.A. (in liquidazione)	Italy	20%

List of holdings in other companies

Company name	Country
Green Management Consortium	Italy
Mix S.r.l.	Italy
World Online s.r.o.	Czech Republic
Tiscali Czech Republic a.s.	Czech Republic
X-Stream Network Inc	USA
X-Stream Network Technologies Inc	USA
Liberty Surf UK (in liquidation)	UK
World Online Kft	Hungary
World Online Epe	Greece
World Online Poland Sp Z.O.O.	Poland

37. Transition to International Financial Reporting Standards (IFRS)

1. Foreword

Starting with the financial year 2005 and following the coming into force of the European Regulation n.1606/2002, the Tiscali Group 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”) that are considered applicable to operations performed by Tiscali Group from the current financial year.

The date of transition to the IFRS is 1 January 2004, while the adoption date is 1 January 2005. This section shows the

reconciliation tables provided by the IFRS 1 principle (First time adoption of International Financial Reporting Standards), together with the relevant explanatory notes concerning the effects arising from the adoption of the principles

The Group has applied the IFRS standards with retroactive effect. In particular, concerning IFRS 1 requirements, at the date of transition to the new standards (1 January 2004) the Group prepared its consolidated financial statements according to IFRS and the latter reflect the application of the following general accounting criteria:

- ▶ Assets and liabilities have been recognised whenever recordable according to IFRS and have been measured in compliance with such principles;
- ▶ Balance sheet items have been classified according to the IFRS procedures and are consequently reclassified with respect to the financial statements prepared in accordance with the Italian accounting standards previously in force.

The effect of adjustment to the new standards on the initial figures relative to assets and liabilities has been recorded in the appropriate reserve item of shareholders' equity.

2. Presentation, optional exemptions and accounting options adopted

The adjustment of the consolidated financial position at the transition date (1 January 2004) and of the financial and economic statements as at 30 December 2004 required some preliminary decisions concerning the presentation format, the optional exemptions and the accounting options provided by IFRS and summarised below:

2.1 Presentation format

The adopted balance sheet format reflects the classification of items according to the current/non current principle while on the income statement the cost classification by “nature of expense” has been adopted.

2.2 Optional exemptions and accounting options provided by IFRS 1

Tiscali has decided to make use of the exemptions listed below and provided by IFRS for first time adopters:

Business combinations and Goodwill

The Group did not deem appropriate to make use of the option involving the “reconsideration” of acquisition operations performed before 1 January 2004, through the application of the acquisition method provided by IFRS 3 – Business Combinations. Consequently the goodwill arising from company acquisitions preceding such date has been recorded as in the last balance sheet prepared on the basis of the previous accounting standards (1 January 2004, date of transition to IFRS). Starting from 1 January 2004 (date of transition to the new standards) the Group began to use impairment testing in lieu of amortising goodwill.

Recognition of Other intangible assets and property, plant and machinery

Other intangible assets and Property, plant and machinery have been recognised at cost. No asset has been subject to revaluation. The cost principle has been applied (instead of fair value) as measurement standard for tangible and intangible assets even subsequently to the initial recording.

Financial instruments

Tiscali has made use of the option provided by IFRS 1 to adopt the measurement principles for financial instruments established by IAS 32 (Financial Instruments: Disclosure and Presentation) and IAS 39 (Financial Instruments: Recognition and Measurement) starting from the consolidated balance sheet as at 1 January 2005, without preparation of comparative statements for 2004, the data for which were prepared in compliance with Italian accounting standards.

Translation reserve

On first adoption of IFRS, as allowed by IFRS 1, the cumulative conversion differences arising from the consolidation of foreign companies outside the Euro area have been presumed to be equal to zero.

Liabilities for pension obligations and staff severance

The Group has elected to record all gains and losses accrued and existing at 1 January 2004, arising from actuarial valuations, and to waive the so called "corridor approach", allowing to defer from such date the accounting of gains and losses, that can be recognised only for the part exceeding a pre-established percent threshold.

3. Effects of the adoption of IFRS – Reconciliations required by IFRS 1

3.1 Effects of transition to IFRS at 31st December 2004

The effects of the adoption of IFRS on the data of 31 December 2004 are described in these notes. These effects, as provided by IFRS 1, are presented and explained with the relevant reconciliation as compared to the corresponding published values measured according to Italian accounting standards. Please note that, in consideration of the type of adjustment and of the fiscal characteristics of the Tiscali Group, no fiscal effect arising from adjustments to IFRS have been detected.

The table below summarises the effects at 31st December 2004:

EUR (000)	Shareholders' equity	Net profit
In compliance with Italian accounting standards	315,772	(161,372)
IAS 38 Intangible assets	(5,781)	6,773
IAS 38 ADSL activation costs	(65,313)	(47,972)
IAS 38 Consolidation difference	51,259	51,259
IAS 16 Property, plant and machinery	2	2
IAS 37 Provisions, contingent liabilities and assets	614	293
IAS 19 Employee benefits	643	(14)
IAS 18 Revenue	20,599	16,825
Third-party interests	-	20
IFRS	317,795	(134,185)

The effects of adjustments to the IFRS accounting standards in relation to the income statement and balance sheet statements are detailed in the tables below:

Consolidated Income Statement as at 31 st December 2004	In compliance with Italian accounting standards	Effect of conversion to IFRS	Profit (Loss) from discontinued and/or discontinuing	IFRS
Revenue	1,080,561	16,825	(442,254)	655,133
Other income	51,046	(2,877)	(39,161)	9,009
Purchase of materials and outsource services	807,380	(24,086)	(336,858)	446,437
Personnel costs	156,641	20,809	(71,145)	106,305
Other operating costs	133,560	(24,902)	(74,713)	33,945
Gross operating result	34,026	42,127	1,301	77,455
Restructuring costs, provisions for risks and write-downs	60,961	(21,753)	(13,662)	69,053
Amortisation	205,135	(6,793)	(69,126)	129,217
Operating result	(232,070)	27,167	84,088	(120,815)
Share of profit or losses of associates with equity method	640	-	-	640
Net financial income (Charges)	(37,662)	-	487	(37,175)
Profit (loss) before tax	(269,092)	27,167	84,575	(157,350)
income taxes	(107,720)	-	(2,894)	(110,614)
Profit (Loss) from continuing operations	(161,372)	27,167	87,469	(46,736)
Profit (Loss) from discontinued and/or discontinuing operations	-	-	(87,449)	(87,449)
Net profit	(161,372)	27,167	20	(134,185)
Attributable to:				
- Equity holders of the parent	(159,466)	27,622	-	(131,844)
- Minority interest	(1,906)	(455)	20	(2,341)

Gross margin

387.4

EUR (ml)

Consolidated Balance Sheet at 31 st December 2004	In compliance with Italian accounting principles	Effect of conversion to IFRS	Assets and related liabilities disposed of and/or held for sale	IFRS
EUR (000)				
<i>Non current assets</i>				
Goodwill	393,124	51,259	(130,921)	313,462
Other intangible assets	186,049	12,653	(72,349)	126,351
Property, plant and machinery	217,829	5,983	(46,506)	177,307
Equity Investments	2,642	-	-	2,642
Other financial assets	16,077	11,365	(2,068)	25,374
Deferred tax assets	158,495	-	(1,194)	157,301
	974,216	81,260	(253,038)	802,437
<i>Current assets</i>				
Inventories	2,712	-	(711)	2,000
Receivables from customers	150,418	-	(47,954)	102,464
Other receivables and other current assets	226,315	(108,450)	(40,136)	77,729
Other current financial assets	25,925	(12,545)	(8,465)	4,913
Cash and cash equivalents	128,413	-	(45,293)	83,120
	533,783	(120,995)	(142,559)	270,226
Assets held for sale	-	-	395,597	395,597
Total Assets	1,507,999	(39,735)	-	1,468,260
<i>Share Capital and reserves</i>				
Share Capital	196,619	-	-	196,619
Share premium reserve	1,440,874	-	-	1,440,874
Translation reserve	(33,600)	31,837	-	(1,763)
Retained earnings	(1,292,714)	(29,168)	-	(1,321,883)
Shareholders' Equity (Group)	311,179	2,669	-	313,847
Minority interests	4,593	(645)	-	3,948
Total Shareholders' equity	315,772	2,024	-	317,795
<i>Non current liabilities</i>				
Bonds	209,500	-	-	209,500
Payables to banks and other lenders	46,093	22,881	(862)	68,113
Obligations under finance leases	9,532	9,619	(559)	18,591
Other non current liabilities	62,801	(32,500)	(2,932)	27,369
Liabilities for pension obligations and staff severance	10,810	(749)	(4,185)	5,875
Provisions for risks and charges	22,141	(614)	(10,851)	10,677
	360,877	(1,363)	(19,389)	340,125
<i>Current liabilities</i>				
Bonds	250,387	-	-	250,387
Payables to banks and other lenders	25,747	-	(423)	25,324
Obligations under finance leases	22,523	-	(3,303)	19,220
Payables to suppliers	291,810	-	(109,089)	182,720
Other current liabilities	240,883	(40,396)	(78,979)	121,506
	831,350	(40,396)	(191,794)	599,157
<i>Liabilities directly related to assets held for sale</i>	-	-	211,183	211,183
Total liabilities	1,192,227	(41,759)	-	1,150,465
Total Shareholders' Equity and Liabilities	1,507,999	(39,735)	-	1,468,260

The tables below show in detail the effects of IFRS adjustments:

CONSOLIDATED INCOME STATEMENT AT 31 ST DECEMBER 2004					
	Effect of conversion to IFRS	Reclassifications	NOTE 1 IAS 38 Intangible assets	NOTE 2 IAS 38 ADSL activation costs	NOTE 3 IAS 38 Goodwill
EUR (000)					
Revenue	16,825	-	-	-	-
Other income	(2,877)	-	-	-	(3,054)
Purchase of materials and outsource services	(24,086)	(20,774)	3,196	(6,508)	-
Personnel costs	20,809	20,774	78	-	-
Other operating costs	(24,902)	(21,813)	34	-	(3,123)
Gross operating result	42,127	21,813	(3,308)	6,508	69
Restructuring costs, provisions for risks and write-downs	21,753	21,813	-	-	-
Amortisation	(6,793)	-	(10,081)	54,480	(51,190)
Operating result	27,167	-	6,773	(47,972)	51,259
Share of profit or losses of associates with equity method	-	-	-	-	-
Net financial income (Charges)	-	-	-	-	-
Profit (loss) before tax	27,167	-	6,773	(47,972)	51,259
Income taxes	-	-	-	-	-
Profit (Loss) from continuing operations	27,167	-	6,773	(47,972)	51,259
Profit (Loss) from discontinued and/or discontinuing operations	-	-	-	-	-
Net profit	27,167	-	6,773	(47,972)	51,259
Attributable to:					
- Equity holders of the parent	27,622	-	6,773	(47,972)	51,259
- Minority interest	(455)	-	-	-	-

Notes

Notes pertaining to the income statements are reported consistently with the detailed table listing, pointing out the item subject to adjustment.

1. IAS 38 / Intangible assets– Purchase of materials and outsource services

Adjustments reflect the effect on the accounts for the period following (a) cancellation of net carrying amounts of some types of multi-year costs (start-up and expansion costs, advertising costs) capitalised in compliance with the Italian accounting standards, while IFRS do not recognise capitalisation of these costs. Amortisation recorded in the first-half 2004, complying with Italian accounting standards, has therefore been reversed; (b) reclassification of upgrades on third-party assets concerning property, plant and machinery.

2. IAS 38 / Intangible assets – Purchase of materials and outsourced services

Activation costs for broadband (ADSL) services have been capitalised and amortised on a straight-line basis in relation to the minimum legal duration of customer contracts, currently equal to 12 months, while the "bounty costs" are reimbursed. The activation cost amortisation adjustment is recorded in profit and loss and the "bounty costs" are also fully charged to profit and loss.

3. IAS 38 / IAS 38 / Goodwill – Amortisation

Goodwill is no longer amortised as of 1 January 2004. The adjustment relates to the reversal of the amortisation expense for the period.

NOTE 4 IAS 16 Property, plant and machinery	NOTE 5 IAS 37 Provisions, contingent liabilities and assets	NOTE 6 IAS 19 Employee benefits	NOTE 7 IAS 18 Revenue	IAS 32 Financial instruments: Presentation and disclosure	IAS 39 Financial instruments: Recognition and measurement	IFRS 1 First adoption of IAS	Other
-	-	-	16,825	-	-	-	-
-	177	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	(43)	-	-	-	-	-
-	-	-	-	-	-	-	-
-	177	43	16,825	-	-	-	-
-	(117)	57	-	-	-	-	-
(2)	-	-	-	-	-	-	-
2	294	(14)	16,825	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
2	294	(14)	16,825	-	-	-	-
-	-	-	-	-	-	-	-
2	294	(14)	16,825	-	-	-	-
-	-	-	-	-	-	-	-
2	294	(14)	16,825	-	-	-	-
2	294	(14)	16,825	-	-	-	455
-	-	-	-	-	-	-	(455)

4. IAS 16 / Property, plant and machinery– Depreciation

The adjustment is insignificant.

5. IAS 37 / Provisions, contingent liabilities and contingent assets– Provisions for risks

Provisions for contingent liabilities, i.e. the part of these involving expenditure expected to occur after the end of the financial year, have been discounted with the consequent economic effects.

6. IAS 19 / Employee benefits– Personnel costs

The liability related to staff severance (TFR) of the Italian companies of the Group has been restated according to the actuarial method. Adjustment is recorded in income statement.

7. IAS 18 / Revenue Recognition– Revenue

As for ADSL activation costs, for the IFRS purposes, revenue from broadband service activation has also been deferred over 12 months.

CONSOLIDATED BALANCE SHEET AT 31 ST DECEMBER 2004					
EUR (000)	Effect of conversion to IFRS	Reclassifications	NOTE 1 IAS 38 Intangible assets	NOTE 2 IAS 38 ADSL activation costs	NOTE 3 IAS 38 Goodwill
<i>Non current assets</i>					
Goodwill	51,259	-	-	-	51,259
Intangible assets	12,653	415	7,916	23,233	-
Property, plant and machinery	5,983	(415)	(1,225)	-	-
Equity Investments	-	-	-	-	-
Other financial assets	11,365	12,545	-	-	-
Deferred tax assets	-	-	-	-	-
	81,260	12,545	6,691	23,233	51,259
<i>Current assets</i>					
Inventories	-	-	-	-	-
Receivables from customers	-	-	-	-	-
Other receivables and other current assets	(108,450)	(19,905)	-	(71,677)	-
Other current financial assets	(12,545)	(12,545)	-	-	-
Cash and cash equivalents	-	-	-	-	-
	(120,995)	(32,450)	-	(71,677)	-
<i>Assets held for sale</i>					
	-	-	-	-	-
Total Assets	(39,735)	(19,905)	6,691	(48,444)	51,259
<i>Share Capital and reserves</i>					
Share Capital	-	-	-	-	-
Share premium reserve	-	-	-	-	-
Translation reserve	31,837	-	-	(391)	-
Retained earnings	(29,168)	-	6,691	(48,053)	51,259
Shareholders' Equity (Group)	2,669	-	6,691	(48,444)	51,259
Minority interests	(645)	-	-	-	-
Total Shareholders' equity	2,024	-	6,691	(48,444)	51,259
<i>Non current liabilities</i>					
Bonds	-	-	-	-	-
Payables to banks and other lenders	22,881	22,881	-	-	-
Obligations under finance leases	9,619	9,619	-	-	-
Other non current liabilities	(32,500)	(32,500)	-	-	-
Liabilities for pension obligations and staff severance	(749)	-	-	-	-
Provisions for risks and charges	(614)	-	-	-	-
	(1,363)	-	-	-	-
<i>Current liabilities</i>					
Bonds	-	-	-	-	-
Payables to banks and other lenders	-	-	-	-	-
Obligations under finance leases	-	-	-	-	-
Payables to suppliers	-	-	-	-	-
Other current liabilities	(40,396)	(19,905)	-	-	-
	(40,396)	(19,905)	-	-	-
Liabilities directly related to assets held for sale	-	-	-	-	-
Total liabilities	(41,759)	(19,905)	-	-	-
Total Shareholders' equity and liabilities	(39,735)	(19,905)	6,691	(48,444)	51,259

NOTE 4 IAS 16 Property, plant and machinery	NOTE 5 IAS 37 Provisions, contingent liabilities and assets	NOTE 6 IAS 19 Employee benefits	NOTE 7 IAS 18 Revenue	IAS 32 Financial instruments: Presentation and disclosure	IAS 39 Financial instruments: Recognition and measurement	NOTE 8 IFRS 1 First adoption of IAS	NOTE 9 Other
-	-	-	-	-	-	-	-
-	-	-	-	-	-	(18,911)	-
-	-	-	-	-	-	7,621	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	(1,180)	-
-	-	-	-	-	-	-	-
2	-	-	-	-	-	(12,470)	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	(16,868)	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	(16,868)	-
-	-	-	-	-	-	-	-
2	-	-	-	-	-	(29,338)	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	45	-	-	32,183	-
2	294	(13)	16,812	-	-	(56,805)	645
2	294	(13)	16,857	-	-	(24,622)	645
-	-	-	-	-	-	-	(645)
2	294	(13)	16,857	-	-	(24,622)	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	(94)	-	-	-	(655)	-
-	(294)	-	-	-	-	(320)	-
-	(294)	(94)	-	-	-	(975)	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	107	(16,857)	-	-	(3,741)	-
-	-	107	(16,857)	-	-	(3,741)	-
-	-	-	-	-	-	-	-
-	(294)	13	(16,857)	-	-	(4,716)	-
2	-	-	-	-	-	(29,338)	-

Notes**1. IAS 38 / Intangible assets**

Adjustments refer to the following:

- A) cancellation of net carrying values of some types of multi-year costs (start-up and expansion costs, advertising costs) capitalised in compliance with the Italian accounting standards, while IAS/IFRS do not recognise capitalisation of these costs.
- B) reclassification of upgrades on third-party assets concerning property, plant and machinery.

2. IAS 38 / Intangible assets - broadband (ADSL) service activation costs

Activation costs have been capitalised and amortised on a straight-line basis in relation to the minimum legal duration of the customer contract, currently equal to 12 months. Conversely, the so-called "bounty costs" (accessory costs for customer acquisition) are considered costs of the financial year in which they are sustained. For the purposes of the balance sheet prepared on the basis of Italian accounting standards these costs were deferred in relation to the expected duration of the customer account (36 months, taking into account the company statistics on the subject and the conditions of the reference market). The deferred portion of cost was previously recorded under prepayments.

3. IAS 38 / Goodwill – Amortisation

Goodwill is no longer amortised as of 1 January 2004. The adjustment relates to reversal of goodwill as a consequence of the reversal of the amortisation charge for the period.

4. IAS 16 / Property, plant and machinery – Depreciation

The adjustment is insignificant.

5. IAS 37 / Provisions, contingent liabilities and contingent assets

Provisions for contingent liabilities, i.e. the part thereof involving expenditure that is expected to occur later than the end of the financial year, have been actualised, consequently impacting on the balance sheet value at item Provisions for risks and charges.

6. IAS 19 / Employee benefits

The liability related to staff severance (TFR) of the Italian companies of the Group has been restated according to the actuarial method.

7. IAS 18 / Revenue Recognition

As for ADSL activation costs, revenue from broadband service activation has also been deferred over 12 months according to IFRS, as compared to the 36-month period used for the preparation of the financial statements according to Italian accounting standards. The adjustment has involved the partial reversal of the deferred revenue portion and the recording under Other liabilities (deferred income).

3.2 Effects of transition to IFRS at 1 January 2005 – Adoption IAS 32 and 39

Tiscali has made use of the option provided by IFRS 1 to adopt the measurement principles for financial instruments established by IAS 32 (Financial Instruments: Disclosure and Presentation) and IAS 39 (Financial Instruments: Recognition and Measurement) starting from the consolidated balance sheet as at 1 January 2005, without preparation of comparative statements for 2004, the data for which have been prepared in compliance with Italian accounting standards. The tables below summarise the effects on the consolidated balance sheet and shareholders' equity as at 1 January 2005 arising from the application of IAS 32 and 39.

Total Shareholders' equity	EUR (000)
IFRS 31.12.04	317,795
Effect of IAS 39 adoption	110
Effect of IAS 32 adoption	(4,155)
IFRS 1 January 2005	313,750

CONSOLIDATED BALANCE SHEET	IAS/IFRS	Effect of adoption	Effect of adoption	IFRS
EUR (000)	31.12.2004	IAS 39	IAS 32	31.12.2004
<i>Non current assets</i>				
Goodwill	313,462	-	-	313,462
Intangible assets	126,353	(2,117)	(4,155)	120,081
Property, plant and machinery	177,307	-	-	177,307
Equity Investments	2,642	-	-	2,642
Other financial assets	25,375	-	-	25,375
Deferred tax assets	157,301	-	-	157,301
	802,440	(2,117)	(4,155)	796,168
<i>Current assets</i>				
Inventories	2,001	-	-	2,001
Receivables from customers	102,464	-	-	102,464
Other receivables and other current assets	77,730	-	-	77,730
Other current financial assets	4,913	-	-	4,913
Cash and cash equivalents	83,120	-	-	83,120
Total current assets	270,228	-	-	270,228
Assets held for sale	395,597	-	-	395,597
Total Assets	1,468,265	(2,117)	(4,155)	1,461,993
<i>Share Capital and reserves</i>				
Share Capital	196,619	-	-	196,619
Share premium reserve	1,440,874	-	(4,155)	1,436,719
Translation reserve	(1,763)	-	-	(1,763)
Retained earnings	(1,321,884)	110	-	(1,321,774)
Shareholders' Equity (Group)	313,847	110	(4,155)	309,802
Shareholders' equity of third parties/Minority interests	3,948	-	-	3,948
Total Shareholders' equity	317,795	110	(4,155)	313,750
<i>Non current liabilities</i>				
Bonds	209,500	3,276	-	212,776
Payables to banks and other lenders	68,112	-	-	68,112
Obligations under finance leases	18,591	-	-	18,591
Other non current liabilities	27,369	-	-	27,369
Liabilities for pension obligations and staff severance	5,875	-	-	5,875
Provisions for risks and charges	10,676	-	-	10,676
	340,124	3,276	-	343,400
<i>Current liabilities</i>				
Bonds	250,387	-	-	250,387
Payables to banks and other lenders	25,324	-	-	25,324
Obligations under finance leases	19,220	-	-	19,220
Payables to suppliers	182,720	(5,503)	-	177,217
Other current liabilities	121,513	-	-	121,513
	599,164	(5,503)	-	593,661
Liabilities directly related to assets held for sale	211,183	-	-	211,183
Total liabilities	1,150,470	(2,227)	-	1,148,243
Total Shareholders' equity and liabilities	1,468,265	(2,117)	(4,155)	1,461,993

Notes

The adoption of IAS 32 and 39 determined in particular the following adjustments:

- ▶ Bonds are measured at amortised cost and the effective interest method is applied to financial charges (increase of shareholders' equity equal to EUR 0.1 million).
- ▶ Accounting of additional charges following capital increase by the parent company at the end of 2004, with contextual cancellation of the same to reduce the Share Premium Reserve (decrease of shareholders' equity equal to EUR 4.2 million).

No significant reclassifications of the financial position were required as compared to data at 31 December 2004 and there are no significant effects on the financial position on the same date.

Comparative data and information related to the financial instruments recorded on the consolidated financial statements at 1 January 2004 and at 31 December 2004 and on the consolidated income statement for the financial year ended at 31 December 2004 have been recognised and measured according to Italian accounting standards. Please see the notes to the Tiscali Group balance sheet at 31 December 2004.

Vittorio Serafino

For the Board of Directors
The Chairman
Vittorio Serafino

Tiscali S.p.A.
Financial Statements as of
31st December 2005

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

Foreword

As mentioned in the Report on Operations of the Tiscali Group, effective 1st January 2005, the Parent Company Tiscali S.p.A. has transferred to Tiscali Italia S.r.l. the operations relating to the Italian territory. The 'corporate' activities and services included in the Information Technology systems and media development and new Tiscali products ('Media & VAS' - Value Added Services) carried out for the Group were transferred, on the same date, to Tiscali Services S.r.l. Both companies are entirely and directly controlled by Tiscali S.p.A.

These transferrals were aimed at streamlining and optimising the Group's structure and activities. The transaction generated a profit of EUR 162.5 million, corresponding to a net book value of the assets transferred, valued on the basis of an independent report prepared as provided for by Art. 2465 (Italian Civil Code), of EUR 217.2 million, of which EUR 184.9 million related to the activities transferred to Tiscali Italia S.r.l., including goodwill. As of 1st January 2005 Tiscali S.p.A. is exclusively a holding company.

The statements presented below were prepared on the basis of the annual accounts as at 31st December 2005, which were prepared in conformance to the provisions of the Italian Civil Code. We note that as of the 2006 financial year, the Parent Company Tiscali S.p.A. will also prepare its annual accounts according to IAS/IFRS. Please see the relative section on the transition to these accounting standards.

Due to the transferrals of operations which took place, it was considered appropriate to provide pro forma data for the 2004 financial year, for purposes of comparison.

Results and performance

EUR (000)	2005	2004 Pro-forma
Capital gains / losses from investments	143,650	-
Value adjustments of investments	(131,158)	(468,859)
Net financial charges	(972)	(455)
Revenue from services and other income	9,284	8,620
Personnel, service and other operating costs	(24,836)	(16,944)
Net charges and extraordinary charges	(5,042)	(7,890)
Tax	(45,000)	45,000
Net profit (loss)	(54,409)	(440,528)

Tiscali S.p.A.'s income statement for the 2005 financial year is characterised by the capital gain of EUR 162.5 million resulting

from the transferral of operations to Tiscali Italia S.r.l. and Tiscali Services S.r.l.. The net balance of the capital gains item also includes losses of EUR 18.8 million that relate to the disposal of French subsidiary company Liberty Surf Group, following an adjustment of the originally agreed upon price that was issued at the closing of the transaction.

The value adjustments of investments relate to the EUR 130 million write down of the investment in World Online International N.V., due to the results of the impairment test described in detail in the Notes to the Accounts. The balance relating to the 2004 period included write downs for the same subsidiary and Liberty Surf Group, on the assumed realisable value that was estimated at the time.

As a pure holding company, the revenues from services follow the contractually defined considerations deriving from the provision of corporate services to the subsidiaries. The performance as compared to 2004 has felt the effects of the changes within the Tiscali Group.

Personnel costs are most significant cost element. These amount to EUR 6.3 million for the 2005 period, which are lower than the 2004 period (EUR 6.6 million). Other operating costs include management consulting services and expenses related to professional services for ongoing activities, as well as provisions for risks (EUR 7.6 million) deriving from disputes in progress. This last item explains the difference with respect to the previous year.

Net extraordinary charges mainly include ancillary costs arising from non-recurrent disposal transactions.

The taxes for the year arising from the capital gains on disposals are classified under taxes. Deferred taxes of the same amount had been accounted for in the 2004 accounts, in anticipation of the taxable amount of the successive period.

Balance sheet and financial position

Balance sheet

ASSETS	31.12.2005	31.12.2004
EUR (000)		Pro-forma
<i>Non current assets</i>		
Intangible assets	4,775	6,842
Tangible assets	237	304
Financial fixed assets	1,337,963	1,625,338
	1,342,974	1,632,484
<i>Current assets</i>		
Inventories		
Receivables	89,955	134,912
Short-term financial assets	10	10
Cash and cash equivalents	994	48,923
	90,959	183,845
Accruals and deferrals	118	111,611
Total Assets	1,434,052	1,816,441
LIABILITIES AND SHAREHOLDERS' EQUITY		
Total Shareholders' equity	1,101,832	1,196,965
Total for risks and charges	26,764	20,029
Staff severance indemnity	655	665
Payables	303,557	597,829
Accruals and deferrals	1,244	953
Total Liabilities	1,434,052	1,816,441

(Note that the pro-forma data as at 31st December 2004 reflect the effects of the transferral transactions which took place on 1st January 2005).

Total long-term assets were influenced by the disposal of the investment in Liberty Surf Group and the reporting of the investments in Tiscali Italia S.r.l. and Tiscali Services S.r.l. following their transferral in January 2005.

With reference to current assets, the decrease in loans as compared with the previous period was mainly the result of the utilisation of assets for deferred taxes (EUR 45 million) and to decrease loans to Group companies.

The structure of Tiscali S.p.A.'s liabilities is mainly determined by the debts to subsidiaries (EUR 275.2 million on 31st December 2005) and in particular by the net debt from previous financial years towards Tiscali International B.V., the Group's Dutch sub-holding company and reference companies within the Group's treasury management. The debt exposure to this subsidiary was reduced significantly during the year as a result of the consideration received for the transferral of ownership of the Liberty Surf Group.

The net financial position of the Parent Company, not including intra-group relations, is illustrated below.

NET FINANCIAL POSITION	31.12.2005	31.12.2004
EUR (000)		Pro-forma
Cash and cash equivalents	994	48,926
Short-term bank debt	(8,006)	(21,290)
Net short-term financial position	(7,012)	27,636
Long and medium term debt	-	-
Net financial position	(7,012)	27,636

The net financial position as at 31st December 2004 included the liquidity generated by the capital increase which was concluded at the end of the period. This liquidity was then used during 2005 to sustain growth (and investments in particular) of operating subsidiaries. The bank exposure has decreased with respect to the residual balance following the transferral of a significant portion of the credit lines to subsidiary Tiscali Italia S.r.l. and the settlement of an advance against a VAT receivable of approximately EUR 3 million, which was repaid during the period.

Transition to International Financial Reporting Standards (IFRS) by the Parent Company Tiscali S.p.A.

1. Foreword

In compliance with European Regulation n. 1606 of July 19 2002, the Tiscali Group adopted the International Financial Reporting Standards (IFRS) for the preparation of the consolidated financial statements beginning from the 2005 financial year. In conformance with the national law implementing the aforementioned regulation, the financial statements of the Parent Company Tiscali S.p.A. will be prepared according to the aforementioned standards beginning from 2006. To this effect, we note that Tiscali S.p.A. is currently in the transition process and will present data for the first semester of 2006 and the comparative data for previous year which will be IFRS compliant.

The opening balance sheet as at 1st January 2005 will be prepared according to the provisions of IFRS 1 - *First-time Adoption of International Financial Reporting Standards*, on the basis of the IFRS standards applicable as of 1 January 2006, as published by 31st December 2005.

The standards that Tiscali S.p.A. is adopting for the preparation of the opening balance sheet as at 1st January 2005 according to IFRS are described in this section, as are the main differences with respect to the Italian accounting standards used to prepare the financial statements for the year ending on 31st December 2005.

2. First time application of IFRS - Presentation, optional exemptions and accounting options adopted

2.1 General principles

The opening balance sheet as at 1st January 2005 will reflect the application of IFRS standards. More specifically:

- ▶ All assets and liabilities required by IFRS standards to be reported will be measured according to the IFRS;
- ▶ All assets and liabilities which must be recorded according to Italian accounting standards but which are not acceptable by the IFRS will be eliminated;
- ▶ Certain line items will be reclassified as provided by the IFRS.

The effects of these adjustments will be recognized directly in opening net assets on the date of the first application of IFRS (1st January 2005). We note that the assets and liabilities of the financial statements of Tiscali S.p.A. that have been prepared according to IFRS will be exposed to the same values resulting from the accounting statement prepared for the preparation of the Group's consolidated financial statements, except for consolidation entries. The adopted balance sheet format reflects the classification of items according to the current/non current principle while on the income statement the cost classification by 'nature of expense' has been adopted.

2.2 Optional exemptions and accounting options provided by IFRS 1

Tiscali has decided to make use of the exemptions listed below and allowed by IFRS for first time adopters:

Recognition of Other intangible assets and property, plant and machinery

Other intangible assets and Property, plant and machinery have been recognised at cost. No asset has been subject to revaluation. The cost principle has been applied (instead of fair value) as measurement standard for tangible and intangible assets even subsequently to the initial recording.

Liabilities for pension obligations and staff severance

The Group has elected to record all gains and losses accrued and existing at 1st January 2004, arising from actuarial valuations, and to waive the so called 'corridor approach', allowing to defer from such date the accounting of gains and losses, that can be recognised only for the part exceeding a pre-established percent threshold.

3. Description of the main differences between the Italian accounting standards and the IFRS (Effects of adopting the IFRS)

Following is a summary of the main differences between the Italian accounting standards and the IFRS as these affect the financial statements of Tiscali S.p.A..

Intangible assets / Intangible assets – reversal of capitalised costs

The adoption of IFRS will result in the charging of the net book value of formation costs recorded under intangible fixed assets to shareholders' equity. This is because IFRS provide that these charges are to be recognised in profit and loss in the period during which they are incurred. In particular the cost of share capital increases is noted within these types of costs.

Equity Investments

The investments recorded under long-term investments are measured in the financial statements of Tiscali S.p.A. that were prepared in conformance with Italian accounting standards according to the cost criterion, which is reduced due to impairment losses and reversed in following periods if the reasons for the write down cease to exist. IAS 27 states that in individual financial statements, investments in subsidiaries and associates which are not classified as held for sale are accounted for at cost or as provided for financial instruments in IAS 39 (fair value in this case). In application of IAS 36, the value of the investments recorded at cost must also be reduced if impairment exists, or if circumstances indicate that this cost is non-recoverable. If such a loss ceases to exist or decreases, the book value is increased up to the new estimate of recoverable value, within the limits of the reversal of the originally recorded value. On the basis of testing carried out, given the impairment test carried out upon completion of the financial statements, the adoption of the cost method as provided by IAS 27, should not result in the recognition of differences upon preparation of the opening balance sheet as at 1st January 2005.

Employee benefits / benefit plan treatments

The TFR fund is accounted for according to applicable law in the financial statements prepared on the basis of Italian accounting standards. According to IAS 19 – Employee Benefits – this liability is considered a "Defined benefit plan treatment" and therefore must be subjected to an actuarial valuation periodically. As stated in the preceding paragraph, Tiscali S.p.A. has decided to record all profits and losses accumulated and existing on 1st January 2005 from actuarial valuations.

Recognition and measurement of financial assets and financial liabilities

The financial assets and liabilities consist of short-term loans granted to / from subsidiaries and banks, which are managed, insofar as intra-group relations are concerned, through reciprocal treasury current accounts. These assets and liabilities do not carry a significant risk of changes in value upon conversion into cash. The transition to IFRS will therefore not affect them.

Balance Sheet – Assets

EUR

		31.12.2005	31.12.2004		
A)	Capital contributions due from shareholders	-	-		
B)	Non current assets:				
I	Intangible assets:				
1)	Start-up and expansion costs	3,370,640	4,550,649		
3)	Industrial patent rights and intellectual property rights	-	15,210,808		
4)	Concessions, licenses, trademarks and similar rights	1,216,786	40,581,163		
6)	Payments on account and tangible assets in course of acquisition	-	1,785,500		
7)	Other	187,155	17,277,945		
	Total	4,774,581	79,406,065		
II	Tangible assets:				
1)	Land and buildings	-	24,506,973		
2)	Plant and machinery	12,114	36,283,582		
3)	Industrial and commercial equipment	4,237	1,616,464		
4)	Other tangible assets	220,410	3,297,986		
5)	Payments on account and tangible assets in course of acquisition	-	1,779,872		
	Total	236,761	67,484,877		
III	Long-term investments:				
1)	Investments in:				
a)	subsidiaries	1,335,395,416	1,521,051,688		
b)	affiliated companies	495,000	529,000		
d)	other companies	34,834	160,484		
2)	Receivables:				
d)	from others	2,037,927	2,037,927		
	Total	1,337,963,177	1,523,779,099		
	Total assets	1,342,974,519	1,670,670,041		
C)	Current assets				
I	Inventories	-	1,113,926		
II	Receivables				
		<i>Receivable after one year</i>			
		31.12.2005	31.12.2004		
1)	Receivable from customers	-	-	1,174,276	46,262,116
2)	Receivable from subsidiaries	-	17,328,067	69,522,972	78,228,044
4 bis)	Tax receivables	-	-	17,994,694	27,148,754
4 ter)	Deferred tax assets	-	-	-	45,000,000
5)	From others	9,877	172,353	1,263,695	4,232,667
	Total	9,877	17,500,420	89,955,637	200,871,581
III	Investments other than non-current assets				
1)	Holdings in subsidiaries			10,000	10,464
	Total			10,000	10,464
IV	Cash and cash equivalents				
1)	Bank and post-office deposits			984,027	48,873,222
3)	Cash and other negotiable instruments			10,081	52,783
	Cash and cash equivalents			994,108	48,926,005
	Total current assets			90,959,745	250,921,976
D)	Accrued income and deferred charges				
	Accrued income and deferred charges			117,674	13,292,591
	Total			117,674	13,292,591
	Total Assets			1,434,051,938	1,934,884,608

Balance Sheet – Liabilities And Shareholders' Equity

EUR

		31.12.2005	31.12.2004
A)	Shareholders' equity		
I	Share capital	198,369,071	196,619,071
II	Share premium reserve	957,871,960	1,440,874,031
III	Revaluation reserve	-	-
IV	Legal reserve	-	-
V	Reserve for own shares held	-	-
VI	Statutory reserves	-	-
VII	<i>Other reserves:</i>		
	Reserve for rounding differences	1	(1)
VIII	Retained earning (losses carried forward)	-	-
IX	Profit (loss) for the year	(54,408,718)	(489,778,071)
	Total	1,101,832,314	1,147,715,030
B)	Provisions for risks and future liabilities		
3)	Others	26,763,515	20,204,867
	Total provisions for risks and future liabilities	26,763,515	20,204,867
C)	Staff severance fund	655,347	5,462,954
D)	Payables:		
		<i>Receivable after one year</i>	
		31.12.2005	31.12.2004
4)	Due to banks	-	30,620,437
5)	Due to other financial institutions	-	369,755
7)	Payables to suppliers	-	32,765,310
9)	Due to subsidiaries	-	-
12)	Taxes payable	-	-
13)	Due to social security authorities	-	-
14)	Other payables	-	-
	Total	63,755,502	303,556,607
E)	Accrued liabilities and deferred income		
	Accrued liabilities and deferred income	1,244,155	10,035,307
	Accrued liabilities and deferred income	1,244,155	10,035,307
	Total liabilities and shareholders' equity	1,434,051,938	1,934,884,608

Memorandum Accounts

EUR

		31.12.2005	31.12.2004
A)	GUARANTEES GIVEN		
1)	By third parties and subsidiaries		
a)	Sureties	304,203,702	500,930,708
	Total guarantees given	304,203,702	500,930,708
B)	OTHER MEMORANDUM ACCOUNTS		
-	Leasing payments falling due	1,366,732	19,287,304
-	Commitments	33,961,583	4,428,883
	OTHER MEMORANDUM ACCOUNTS	35,328,315	23,716,187
C)	GUARANTEES RECEIVED:		
1)	From third parties and group companies:		
a)	Sureties	694,975	857,975
	Total guarantees received	694,975	857,975
	TOTAL MEMORANDUM ACCOUNTS	340,226,992	525,504,870

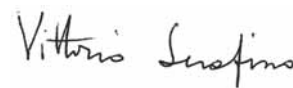
Income Statement

EUR

	2005	2004
A) Value of production		
1) Revenues from sales and services	7,461,951	197,058,230
3) Changes in contract work in progress	-	854,019
4) Increases in assets for work in progress (internal)	-	1,938,097
5) Other income		
Other revenues and income	1,118	121,770
Contributions to the operating account	1,820,561	2,623,833
Total	9,283,630	202,595,949
B) Production costs		
6) Raw materials, supplies and consumables	(825)	(2,591,269)
7) Service costs	(7,856,851)	(146,742,373)
8) Lease and rental expense	(683,388)	(19,952,003)
9) <i>Personnel costs</i>		
a) Wages and salaries	(4,529,755)	(28,166,568)
b) Social security contributions	(1,566,709)	(7,302,479)
c) Staff severance pay	(175,434)	(1,705,453)
e) Other costs	(41,638)	(445,913)
10) <i>Depreciation, amortisation and write-downs</i>		
a) Amortisation of intangible assets	(2,084,344)	(20,572,472)
b) Depreciation of tangible assets	(85,927)	(11,844,609)
d) Write-downs of receivables included in current assets and cash and cash equivalents	-	(5,618,010)
11) Changes in inventories of raw materials, supplies and consumables	-	(364,534)
12) Risk provisions	(7,627,739)	-
14) Other operating expenses	(183,714)	(2,110,494)
Total	(24,836,324)	(247,416,177)
(A - B) Difference between value of production and costs	(15,552,694)	(44,820,228)
C) Financial income and charges		
15) Income from equity investments:		
b) In affiliated companies	-	300,000
16) Other financial income:		
d) <i>Earnings other than the above</i>		
From third parties	333,426	278,661
From subsidiaries	8,697	28,063
17) Interest and other financial charges		
a) To third parties	(1,344,566)	(2,979,301)
b) To subsidiaries	(75,383)	(542,795)
17bis) Exchange rate gains and losses	106,316	510,404
Total	(971,510)	(2,404,968)
D) Adjustments to the value of financial assets		
19) Write-downs:		
a) of equity investments	(131,158,290)	(468,866,731)
Total	(131,158,290)	(468,866,731)
E) Extraordinary income and charges		
20) Extraordinary income:		
a) Income	2,434,867	2,354,085
b) Capital gains on disposals of non-current assets	376,426	3,686
c) Others	162,546,452	-
21) Extraordinary charges:		
a) Charges	(7,843,875)	(21,043,915)

EUR

	2005	2004
b) Capital losses on disposals of non-current assets	(18,896,757)	-
c) Taxes related to prior periods	(9,125)	-
Total	138,607,988	(18,686,144)
Pre-tax profit (loss)	(9,074,506)	(534,778,071)
22) Corporate income tax for the financial year		
a) Current taxes	(334,212)	-
b) Deferred taxes	(45,000,000)	-
c) Deferred tax assets	-	45,000,000
Total	(45,334,212)	45,000,000
Profit (loss) for the year	(54,408,718)	(489,778,071)



For the Board of Directors
The Chairman
Vittorio Serafino

Notes to the Financial Statements

Form and content of the Financial Statements

Basis of preparation

These financial statements comply with the articles 2423 et seq. of the Italian Civil Code. They are composed of a balance sheet, income statement and the notes to the accounts which were prepared in conformance to article 2427 of the Civil Code and are an integral part of the financial statements pursuant to and for the intents and purposes of article 2423.

The prior year data refer to the accounts of the Parent Company, as published and prior to the contribution transaction of operating activities described in the section on the analysis of the economic, asset and financial status. This section contains the pro forma data for purposes of comparison.

As provided by Legislative Decree 127 / 1991 the consolidated financial statements have been prepared according to international accounting standards and are presented together with the year end financial statements of Tiscali S.p.A.

General Accounting Criteria

Going concern basis

These financial statements have been prepared on the assumption that the company is a going concern and is operating normally. The implementation of the disposal plan of investments held in "non strategic" countries and the refinancing plan which began in 2004 and continued in 2005 enabled the Tiscali Group to collect financial resources amounting to a total of EUR 400 million. This amount was used to pay back the EUR 250 million bond that matured in July 2005 and for investments in the company's core markets.

The completion of the EUR 150 million financing operation structured and arranged by Silver Point Finance LLC (described in the "Significant Events" section) allowed Tiscali to sustain its industrial plan through usage of the first EUR 50 million instalment.

With regard to the competitive scene and the characteristics of the market in which Tiscali operates, the availability of appropriate financial resources to support development plans and to meet financial obligations is obviously an essential issue for corporate continuity. We refer in particular to the Equity Linked Bond amounting to EUR 209.5 million, maturing in September 2006. The repayment of the bond – in respect of which it is significant the so-called conversion provision (more appropriately "soft mandatory clause") executable by Tiscali S.p.A. at the conditions stated in the notes to the accounts and requiring the approval of the extraordinary shareholder's meeting – currently involve using the second instalment (EUR 100 million) of the Silver Point Finance LLC financing, available at the maturity of the bond loan on condition that it respects some contractual

covenants associated to operational and financial results. New financing negotiations are currently being analysed by Tiscali in order to identify the most appropriate, considering the Group's business strategic choices. It is reasonably to foresee that the definition of such negotiations, and relevant procedures, will occur in a short period and however coherent with the obligation to repay the above mentioned bond loan.

The prospects of the telecommunication sector and the competitive positioning of Tiscali Group, strengthened in FY2005 with a significant improvement of the financial and economic performances, following the disposal process and the Group's reorganisation, are considered consistent with the achievement of targets related to the improvement of the economic and financial dynamics of Tiscali. The company also anticipates in financial year 2006 a further development of results already achieved in FY2005. Within such context the Group's ability to achieve the goals set out in the business plan is of primary importance, including the generation of the expected cash flows, as a condition significantly affecting the development of Tiscali's financial position and therefore its cash flow, balance sheet and income statement stability.

Other general principles

The same criteria are used as in previous years, particularly with regard to valuations and continuity in applying the same principles. The valuation of balance sheet items was performed based on general criteria of prudence and the accruals principle, on the assumption that the group is a going concern (as noted above), and taking into account the economic function of the asset and liability items concerned.

For the purposes of accounting entries, the economic substance of transactions prevails over their legal form. Investments are therefore booked at the time of payment.

Profits are included only if they are recorded within the period under review, while provision is made for risks and losses that may come to light at a later date.

Miscellaneous items included under single accounting entries have been valued separately.

Assets destined for long-term use have been listed under non-current assets.

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

No write-ups have ever been made.

Accounting policies

Intangible assets:

Intangible assets are recorded at purchase or production cost, including any additional charges. The cost of intangible assets, which have a limited use over time, is amortised on a straight-line basis based on the remaining useful life of such assets. Intangible assets are written down whenever there is a permanent

loss or reduction in their value. In occurrence of such an assumption, the notes to the accounts indicate the amount and reasons for the reductions in value, with reference to the expected contribution of the assets concerned to the generation of future profits, as well as their expected useful life, and their market value, if relevant. The original value is re-established to the extent that it is believed that the reasons for the previous reductions in value no longer apply.

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

“Industrial patent rights and intellectual property rights” are recorded at their acquisition cost and amortised using the straight-line method in accordance with the contractual period of use or for a period not to exceed five years from the year the expense was incurred if a period is not stipulated.

Other intangible assets are shown at the internal acquisition or production cost, including expenditure directly attributable to the acquisition of the items and amortized on a straight line basis.

Tangible assets

Tangible assets are shown at acquisition or production cost, including any additional charges that are directly attributable to the acquisition of the items. The cost of the tangible assets which have a limited use over time, is amortized on a straight-line basis according to the remaining useful life of such assets. Tangible assets are written down whenever there is an impairment loss or a reduction in their value. In occurrence of such an assumption, the notes to accounts indicate the amount and reasons for the reductions in value, with reference to the expected contribution of the assets concerned to the generation of future profits, as well as their expected useful life, and their market value, if relevant. The original value is re-established to the extent that it is believed that the reasons for the previous reductions in value no longer apply.

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

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

Machinery and equipment - Industrial and commercial equipment	12-20%
Other tangible assets	12-33%

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

Long-term investments

Equity Investments

Long-term equity investments are valued at cost with a downward adjustment for any permanent losses in value. These assets are reported at their acquisition or subscription price. The original value is re-established if the reasons leading to the adjustment for a permanent loss in value no longer apply.

Long-term loans

Long-term investments in the form of loans are valued at their estimated realisable value.

Receivables

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

Payables

Payables are recorded at nominal value corresponding to the repayment amount.

Provisions for risks and future liabilities

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

Staff severance fund

The staff severance fund corresponds to the accrued benefits for employees in accordance with current laws and collective bargaining agreements.

Accruals and deferrals

Accruals and deferrals include only the proportion of earnings and charges for the financial year that will be booked in subsequent financial years, and the proportion of revenues and expenses accruing or incurred before the end of the financial year but that will fall due in subsequent financial years. In any case this account includes portions of revenues and expenses common to two or more financial years, the amount of which varies over time.

Tax

Current taxes are calculated in accordance with tax laws currently in effect. Deferred taxes are calculated on the basis of temporary differences between taxable income and the profits/losses of the various companies and reported under “reserves for risks and future liabilities” (deferred tax reserve), in relation to amounts expected to be paid in future financial years. Similarly, in the case of deferred tax assets that relate to losses, the deferred tax reserve is reduced by this amount, while any surplus portion is booked in current assets under “Deferred tax assets” if there is reasonable certainty of their recovery. Deferred tax assets in respect of previous losses carried forward are only included if there is reasonable certainty that they will be recovered in subsequent financial years. Deferred tax charges

and credits are directly reflected in the income statement.

Foreign exchange transactions

Receivables and payables denominated in foreign currencies are booked at the exchange rate in force at the end of the period, and related conversion gains or losses are credited or debited to the income statement on the appropriate line under "exchange rate gains and losses." No tangible or intangible assets or equity investments were reported at cost in foreign currencies. After the end of the financial year, there were no significant changes in the reference exchange rates for the purposes of these accounts.

Derivatives

The company has no outstanding derivatives.

Memorandum accounts

Commitments and guarantees, along with other memorandum accounts, are shown at their contractual value.

Recording of revenues, income, costs and charges

Revenues and income, and costs and charges are recorded in the accounts net of discounts, rebates and bonuses in accordance with the accruals principle. Financial income and expenses are posted on the basis of accrual accounting principles.

Analysis of balance sheet items

Assets

I - Intangible assets

EUR (000)	Cost	31.12.2005	Net Value	Cost	31.12.2004	Net Value
	(Amortisation and write-downs)			(Amortisation and write-downs)		
Start-up and expansion costs	23,533	(20,162)	3,371	24,145	(19,594)	4,551
R&D and advertising costs	3,516	(3,516)	-	3,516	(3,516)	-
Industrial patent rights and intellectual property rights	1,892	(1,892)	-	34,089	(18,878)	15,211
Concessions, licences, trademarks and similar rights	4,159	(2,942)	1,217	58,910	(18,329)	40,581
Goodwill	400	(400)	-	400	(400)	-
Payments on account and intangible assets in course of acquisition	-	-	-	1,785	-	1,785
Other	1,964	(1,777)	187	26,599	(9,321)	17,278
Total	35,464	(30,689)	4,775	149,444	(70,038)	79,406

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

EUR (000)	Balance	Increases	Write-ups	Other	Amortisation	Balance
	31.12.2004		(Write-downs)	changes		31.12.2005
Start-up and expansion costs	4,551	-	-	(61)	(1,119)	3,371
R&D and advertising costs	-	-	-	-	-	-
Industrial patent rights and intellectual property rights	15,211	-	-	(14,885)	(326)	-
Concessions, licences, trademarks and similar rights	40,581	1,517	-	(40,574)	(307)	1,217
Goodwill	-	-	-	-	-	-
Payments on account and intangible assets in course of acquisition	1,785	-	-	(1,785)	-	-
Other	17,278	-	-	(16,758)	(333)	187
Total	79,406	1,517	-	(74,063)	(2,085)	4,775

"Other" reflects the effects of the transferrals effective 1st January 2005, to subsidiaries Tiscali Italia S.r.l. and Tiscali Services S.r.l., of all operating activities in the Italian territory and all corporate activities and services carried out for the Group.

As at 31st December 2005, "start-up and expansion costs" were largely related to expenses (subscription charges, legal and other fees) incurred for the increase in share capital that was subscribed at the end of the preceding financial year. Decreases are due to the normal process of amortisation.

"Concessions, licences, trademarks and similar rights" include a software license purchased at the end of the preceding year for management of territorial information through a system that uses vectorial cartography and a georeferencing database. This license has been granted for a period of three years to a third party.

The "other" line mainly includes improvements to assets leased to third parties.

II – Tangible assets

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

COSTS	Balance	Increases	Write-ups	Other	(Disposals)	Balance
EUR (000)	31.12. 2004			changes		31.12.2005
Land and buildings						
- Land	4,247	-	-	(4,247)	-	-
- Industrial installations	21,194	-	-	(21,194)	-	-
	25,441	-	-	(25,441)	-	-
Land and buildings						
- Land	14,601	-	-	(14,566)	-	35
- Industrial buildings	41,854	-	-	(41,834)	-	20
- Industrial buildings	2,043	-	-	(2,043)	-	-
	58,498	-	-	(58,443)	-	55
Industrial and commercial equipment						
- Network and other specific equipment	1,909	-	-	(1,909)	-	-
- Other equipment	1,742	-	-	(1,742)	-	-
- Miscellaneous minor items	231	-	-	(220)	-	11
	3,882	-	-	(3,871)	-	11
Other tangible assets						
- Office furniture and equipment	2,839	1	-	(2,364)	-	476
- IT and electronic office equipment	2,546	18	-	(2,511)	-	53
- Other assets	1,217	-	-	(1,104)	-	113
	6,602	19	-	(5,979)	-	642
Assets in course of acquisition and on account	1,779	-	-	(1,779)	-	-
- Assets in course of acquisition	1,779	-	-	(1,779)	-	-
Total	96,202	19	-	(95,513)	-	708

Nel prospetto che segue viene esposta la movimentazione dei fondi ammortamento, avvenuta nel corso del periodo.

DEPRECIATION	Balance	Depreciation	Write-downs	Other	(Disposals)	Balance
EUR (000)	31.12. 2004	charges		charges		31.12.2005
Land and buildings						
- Land	-	-	-	-	-	-
- Industrial installations	933	-	-	(933)	-	-
	933	-	-	(933)	-	-
Plant and machinery						
- General plant and machinery	4,894	4	-	(4,872)	-	26
- Specific plant and machinery	15,437	4	-	(15,424)	-	17
- Other plant and machinery	1,885	-	-	(1,885)	-	-
	22,216	8	-	(22,181)	-	43
Industrial and commercial equipment						
- Network and other specific equipment	580	-	-	(580)	-	-
- Other equipment	1,601	-	-	(1,601)	-	-
- Miscellaneous minor items	82	3	-	(78)	-	7
	2,263	3	-	(2,259)	-	7
Other tangible assets						
- Office furniture and equipment	977	57	-	(739)	-	295
- IT and electronic office equipment	2,026	8	-	(2,015)	-	19
- Other assets	302	10	-	(204)	-	108
	3,305	75	-	(2,958)	-	422
Total	28,717	86	-	(28,331)	-	472

A summary of the changes in the net book value of tangible assets over the period is shown below:

NET VALUE	Balance	Increases	Write ups	(Depreciation,	(Disposals)	Balance
EUR (000)	31.12. 2004		and other	and		31.12.2005
			changes	writedowns)		
Land and buildings						
- Land	4,247	-	(4,247)	-	-	-
- Industrial installations	20,260	-	(20,260)	-	-	-
	24,507	-	(24,507)	-	-	-
Plant and machinery						
- General plant and machinery	9,707	-	(9,694)	(4)	-	9
- Specific plant and machinery	26,417	-	(26,410)	(4)	-	3
- Other plant and machinery	158	-	(158)	-	-	-
	36,283	-	(36,262)	(8)	-	12
Industrial and commercial equipment						
- Network and other specific equipment	1,329	-	(1,329)	-	-	-
- Other equipment	141	-	(141)	-	-	-
- Miscellaneous minor items	149	-	(142)	(3)	-	4
	1,617	-	(1,612)	(3)	-	4
Other tangible assets						
- Office furniture and equipment	1,863	-	(1,625)	(57)	-	181
- IT and electronic office equipment	520	-	(478)	(8)	-	34
- Other assets	915	-	(900)	(10)	-	5
	3,298	-	(3,003)	(75)	-	220
Payments on account and tangible assets in course of acquisition						
- Tangible assets in course of acquisition	1,779	-	(1,779)	-	-	-
	1,779	-	(1,779)	-	-	-
Total	67,485	-	(67,163)	(86)	-	236

The decrease in the net value of the tangible assets under "other charges" reflects the allocation of assets and liabilities to Tiscali Italia S.r.l. and Tiscali Services S.r.l. described above.

III – Long-term investments

Equity Investments

As at 31st December 2005, this item included holdings in subsidiaries totalling EUR 1,335 million and investments in affiliated and other companies totalling approximately EUR 0.5 million.

The tables below show the breakdown of the balance and changes with respect to the previous financial year, as well as a list of the company's holdings in group and affiliated companies pursuant to art. 2427, paragraph 5 of the Italian Civil Code.

SUBSIDIARIES	31.12. 2005			31.12. 2004		
	Cost	Write-ups/ (downs)	Book value	Cost	Write-ups/ (downs)	Book value
Long-term investments						
Connect Software Inc.	1,027	(1,027)	-	1,027	(1,027)	-
Energy Byte S.r.l. in liquidazione	677	(677)	-	677	(677)	-
Excite Italia B.V.	-	-	-	17,769	(11,769)	6,000
Ideare S.p.A.	7,695	(3,747)	3,948	6,745	(3,747)	2,998
Liberty Surf Group SA	-	-	-	599,812	(334,812)	265,000
Quinary S.p.A.	30,161	(29,935)	226	30,161	(29,474)	687
Tiscali Business Service S.p.A. (ex Nextra S.p.A.)	-	-	-	1,252	-	1,252
Tiscali Czech Republic a.s.	39	(39)	-	39	(39)	-
Tiscali Deutschland Gmbh (ex Nikoma)	283,475	(247,088)	36,387	283,475	(247,088)	36,387
Tiscali Finance SA	125	-	125	125	-	125
Tiscali Italia S.r.l. (Ex Andaledda S.p.A.)	185,000	-	185,000	103	-	103
Tiscali Media S.r.l.	-	-	-	10	-	10
Tiscali Moting S.r.l. in liquidazione	500	-	500	500	-	500
Tiscali Services S.r.l. (ex Tiscali I.T.S. S.r.l.)	32,813	-	32,813	1,593	-	1,593
Tiscali Telecomunicaciones SA	2,452	(2,327)	125	2,452	(2,327)	125
World Online International N.V.	1,811,994	(735,723)	1,076,271	1,811,994	(605,722)	1,206,272
Total	2,355,958	(1,020,563)	1,335,395	2,757,734	(1,236,682)	1,521,052

AFFILIATED COMPANIES	31.12. 2005			31.12. 2004		
	Cost	Write-ups/ (downs)	Book value	Cost	Write-ups/ (downs)	Book value
Ariete Telemedia S.r.l.	744	(744)	-	744	(744)	-
FreeTravel S.p.A. in liquidation	-	-	-	250	(250)	-
Janna S.C.p.a.	-	-	-	34	-	34
Netchemya S.p.A. in liquidation	-	-	-	4,250	(4,250)	-
STS Studi Tecnologie e Sistemi S.r.l.	1,291	(811)	480	1,291	(811)	480
STUD Soc. Consortile a r.l.	15	-	15	15	-	15
Total	2,050	(1,555)	495	6,584	(6,055)	529

OTHER COMPANIES	31.12. 2005			31.12. 2004		
	Cost	Write-ups/ (downs)	Book value	Cost	Write-ups/ (downs)	Book value
Crs4	-	-	-	126	-	126
Mix S.r.l.	1	-	1	1	-	1
Tiscali Int.l Network S.p.A.	34	-	34	34	-	34
Total	35	-	35	161	-	161

The movements in each holding over the year are shown in the table below.

SUBSIDIARIES	Balance	Increases	(Disposals)	Write-ups/ (downs)	Other changes	Balance
	31.12. 2004					31.12. 2005
Best Engineering S.p.A.	-	-	-	-	-	-
Connect Software Inc.	-	-	-	-	-	-
Excite Italia B.V.	6,000	-	(6,000)	-	-	-
Ideare S.p.A.	2,998	950	-	-	-	3,948
Liberty Surf Group SA	265,000	2,000	(267,000)	-	-	-
Quinary S.p.A.	687	697	-	-	(1,158)	226
Tiscali Business Service S.p.A.	1,252	-	(1,252)	-	-	-
Tiscali Czech Republic a.s.	-	-	-	-	-	-
Tiscali Deutschland GmbH	36,387	-	-	-	-	36,387
Tiscali Finance SA	125	-	-	-	-	125
Tiscali Italia S.r.l.	103	184,897	-	-	-	185,000
Tiscali Media S.r.l.	10	-	(10)	-	-	-
Tiscali Motoring S.r.l.	500	-	-	-	-	500
Tiscali Services S.r.l.	1,593	31,220	-	-	-	32,813
Tiscali Telecomunicaciones SA	125	-	-	-	-	125
World Online International N.V.	1,206,271	-	-	(130,000)	-	1,076,271
Total	1,521,051	219,764	(274,262)	(130,000)	(1,158)	1,335,395

Disposals during the year were carried out in execution of the divestment program that began in the second half of the previous financial year and involved certain non-strategic holdings. During the same financial year certain transfers of holdings took place within the Tiscali Group, as a part of the allocation of operations to Tiscali Italia S.r.l. and Tiscali Services S.r.l. These changes involved mainly the following holdings:

Best Engineering S.p.A.

In January 2005, 60% of the share capital of Best Engineering S.p.A. was sold to the minority shareholders who already held the remaining 40% of the company's shares. This operation had begun on December 2004. This transaction did not significantly affect the company's assets.

Excite Italia B.V.

On 20th May 2005, Excite Italia B.V. was sold to Ask Jeeves Inc. at its book value of EUR 6.1 million.

Liberty Surf Group SA

On 5th April 2005, Tiscali and Telecom Italia concluded an agreement for the disposal of the French subsidiary (Liberty Surf Group SA). This was finalized in June upon authorization by the French Antitrust Authority. The price agreed between

the parties for the shares held by Tiscali was approximately EUR 248.2 million. The transaction, which at the consolidated level generated significant earnings totalling EUR 144 million, resulted in an accounting loss of EUR 18.8 million in the financial statements, following an adjustment of the originally agreed disposal price.

Tiscali Business Services S.p.A.

The ownership interest in Tiscali Business Services S.p.A., a telecommunications company serving businesses, was transferred to Tiscali Italia S.r.l. at book value within the context of the aforementioned disposals finalized in January 2005.

Tiscali Media S.r.l.

This company was established in September 2004 with Tiscali S.p.A. as its sole partner in order to produce the journalistic content for the Tiscali portal. Holdings in this company were disposed of within the context of the aforementioned transaction to Tiscali Italia S.r.l. which was finalized in January 2005, and the company itself was transferred at book value.

As indicated in the section on accounting policies above, equity investments are recorded at cost and written down in the event of a permanent loss of value. The book values of equity investments

4,700,000

Active users

as at 31st December 2005 are still representative of their value, as they take into account the significant goodwill attached to each holding. As in the previous year, directly or indirectly held equity strategic investments were tested for impairment using a specific impairment test on the basis of the Discounted CashFlow (DCF), as reported in the Tiscali Group's business plan.

The considerations that emerged from the analysis of the balance sheet value of currently held holdings and their effect on the financial statements of Tiscali S.p.A. as at 31st December 2005 are set out below.

Connect Software Inc

This equity investment, which was acquired in December 2000, was fully written down in 2004 since the related intangible assets (software licences) are no longer used in the Tiscali Group, and no break-up and/or sale of these assets to third parties is anticipated.

Energy Byte S.r.l. *in liquidation*

By resolution of the shareholders' meeting of 11 March, this company was put into liquidation in 2004. This equity investment was fully written down in 2001.

Ideare S.r.l.

Ideare operates in the Internet sector, particularly in the development of search engines and related activities. In February 2005, Tiscali S.p.A. purchased the remaining 40% of the share capital of Ideare S.p.A. from minority shareholders for a total of EUR 950,000, thereby becoming the sole shareholder. No additional permanent losses of value were noted for the period, following those recorded in previous years. This equity investment will be transferred to subsidiary Tiscali Services S.r.l. at book value and then merged through incorporation within the first semester of 2006 as part of the streamlining of the Group's structure.

Quinary S.p.A.

This company operates in systems integration and software development. Changes during the period were and amount of 1.2 million in loans that was waived by the Parent Company while the entire amount was charged to profit and loss. This equity investment, which was written down significantly in previous years, was adjusted by an additional EUR 0.5 million in 2005 due to the company's poor performance. However, this adjustment had no impact on the income statement since it occurred by reallocating the provisions for write-downs for this equity investment that were already posted to liabilities among the reserves for risks and future liabilities. Quinary is still undergoing a reorganisation aimed at redefining its role within the Tiscali Group. The residual book value of the holding can be considered mainly to goodwill.

Tiscali Czech Republic S.r.o.

This is a small stake held in a non-operating company in the Czech Republic, which is in liquidation.

Tiscali Deutschland GmbH

Tiscali Deutschland GmbH owns a substantial proportion of the group's strategic operating assets in Germany which are managed by Tiscali GmbH. During the period under review, there were no changes in the equity investment. The results of the impairment test, which was based on the discounted cash flow methodology specified in the business plan, led to confirmation of the equity investment's book value, since there were no circumstances that would dictate a reduction in the value of the underlying operating assets. See the Report on Operations for additional details on the operating performance of Tiscali's German subsidiaries.

Tiscali Finance SA

The book value of this company, a Luxembourg-based vehicle belonging to the Tiscali Group which has issued Equity Linked Bonds in the amount of EUR 209.5 maturing in September 2006, has been indirectly adjusted by EUR 18.7 million. This amount was recorded under provisions for risks and future liabilities in the previous period and was earmarked to remedy the negative shareholders' equity position.

Tiscali Italia S.r.l.

The wholly-owned non-operating subsidiary, Andaledda S.p.A., was renamed Tiscali Italia S.r.l. in October 2004. As a part of the project to streamline the Tiscali Group's structure, effective on 1st January 2005, all the operating activities of Tiscali S.p.A. in Italy were transferred to Tiscali Italia S.r.l. including: the consumer, business, media and technology businesses; the Italian network infrastructure; staff activities; and licences and authorisations for telecommunications and internet services with a total value of EUR 184.9 million, which resulted in an increase of the same amount in the book value of the equity investment. In particular, this amount is representative of the company's goodwill, which was assessed at EUR 158.7 million.

Though the investee company ended the previous year with a net loss of EUR 32.2 million, the results of the aforementioned impairment test which was carried out on a discounted cash flow basis did not bring out any issues concerning the equity investment's book value (EUR 185 million).

Tiscali Motoring S.r.l.

The book value of this equity investment, which is currently in liquidation, is equal to the goodwill of the "auto website."

Tiscali Services S.r.l.

Tiscali I.T.S. S.r.l. changed its name to Tiscali Services S.r.l. in November 2004. Like Tiscali Italia S.r.l., it was involved in the transfer of the operating assets of Tiscali S.p.A., which was finalised on 1st January 2005. Specifically, all the IT, media development and new product assets for group-wide use by were transferred to Tiscali Services S.r.l., with a total equivalent value (and corresponding increase in the book value of the equity investment) of EUR 31.2 million. The investee company, which ended its first year with a loss of EUR 9.5 million, is

carried at a book value of EUR 32.8 million. There were no write downs were as the losses sustained in the 2005 financial year are not considered to be of a permanent nature.

Tiscali Telecomunicaciones SA

Though the value of this company, one of the group's operating companies in Spain (after write-downs booked in previous years) is EUR 0.1 million, it is classified as "held for sale."

World Online International N.V.

This is a sub-holding company based in the Netherlands, which, as at 31st December 2004, controlled Tiscali Group companies operating in several European countries, including the UK, the Netherlands, Germany, Spain and the Czech Republic. World Online also indirectly controls the companies operating the network of Tiscali International Network N.V. and related subsidiaries ("Tinet"). Until 31st December 2003, World Online International N.V. owned (through its direct subsidiary Tiscali International B.V.) a controlling interest in other equity investments that operated in countries later removed from Tiscali's strategic plan, and which were therefore sold.

Specifically, in 2004 and the initial months of 2005 Tiscali International N.V. sold Tiscali Osterreich GmbH (Austria), Tiscali AS (Norway) and Tiscali AB (Sweden), Tiscali Pty Limited (South Africa) and Tiscali Denmark A/S. The operating assets of Tiscali

International Network B.V., which owns the French and Spanish subsidiaries, were also disposed of.

The impairment test of the book value of Tiscali's equity investment in World Online International N.V. as at 31st December 2005 (net of write-downs for permanent losses of EUR 605.7 million which were posted in previous years) was carried out based on the assumptions indicated in the introduction to comments on equity investments. The value of World Online International N.V., which, in this case, was largely represented by the value of the Dutch sub-holding company's and the balance sheet items which apply to its own financial position was determined by discounting the projected cash flows reported in the Tiscali Group's business plan.

The application of the valuation method described resulted in a total write-down of EUR 130 million for the stake held in World Online International N.V.. This write down was determined by the modifications to the Group's competitive scenario and the possibility that the anticipated cash flows (according to the discounted cash flow method) will discount the effects of the necessary and significant investments forecasted for the initial years of the business plan. The net residual value of EUR 1.076 million continues to be significant, as the main underlying assets refer to operating equity investments in the Netherlands and the United Kingdom.

AFFILIATED COMPANIES	Balance	Increases	(Disposals)	Write-ups/ (downs)	Other changes	Balance
EUR (000)	31.12. 2004					31.12. 2005
Janna S.C.p.a.	34	-	(34)	-	-	-
STS Studi Technologie e Sistemi S.r.l.	480	-	-	-	-	480
STUD Soc. Consortile a. r. l.	15	-	-	-	-	15
Total	529	-	(34)	-	-	495

"Investments in affiliated companies" includes the equity investment in STS Studi Technologie e Sistemi S.r.l., which is active in the production and development of software and information technology.

OTHER COMPANIES	Balance	Increases	(Disposals)	Write-ups/ (downs)	Other changes	Balance
EUR (000)	31.12. 2004					31.12. 2005
JCrS4	126	-	(126)	-	-	-
Mix S.r.l.	1	-	-	-	-	1
Tiscali Int.I Network S.p.A.	34	-	-	-	-	34
Total	161	-	(126)	-	-	35

With regard to Tiscali International Network S.p.A., 10% is owned by Tiscali S.p.A. and the remaining 90% by Tiscali International Network SA, which is wholly-owned by Tiscali S.p.A. through the Dutch sub-holding company, Tiscali International B.V.. Thus, Tiscali has an indirect controlling interest in this subsidiary totalling 100%.

Equity investments - Other information

Subsidiaries

COMPANY NAME EUR (000)	Country	Share capital	Shareholders' equity	Net profit or (loss)	% held	Book value
Connect Software Inc. (*)	S.Francisco (USA)	48	(43)	(2)	100.00%	-
Energy Byte S.r.l.	Milan	68	61	(6)	100.00%	-
Ideare S.p.A.	Pisa	90	1,858	(193)	100.00%	3,948
Quinary S.p.A.	Milan	400	225	(809)	84.97%	226
Tiscali Czech Republic s.r.o.(**)	Prague	505	(43)	(23)	100.00%	-
Tiscali Deutschland GmbH	Hamburg	74,469	(148,830)	(20,952)	100.00%	36,387
Tiscali Finance SA	Brussels	125	(14,080)	(9,578)	100.00%	125
Tiscali Italia S.r.l.	Cagliari	185,000	152,714	(32,296)	100.00%	185,000
Tiscali Motoring S.r.l.	Cagliari	100	98	(2)	60.00%	500
Tiscali Services S.r.l.	Cagliari	32,000	23,114	(9,539)	100.00%	32,813
Tiscali Telecomunicaciones SA	Madrid	3,000	(6,909)	(2,915)	99.99%	125
World Online International N.V. (***)	Maarsen (NL)	155,519	1,224,786	(787,800)	99.49%	1,076,271
Totale						1,335,395

(*) Figures from the accounts at 31/12/2002 - (**) Figures from the accounts at 31/12/2003 - (***) Figures from the accounts at 31/12/2004

Holdings in affiliated companies

COMPANY NAME EUR (000)	Country	Share capital	Shareholders' equity	Net profit or (loss)	% held	Book value
Ariete Telemedia S.r.l.(*)	Milan	52	15	(31)	40%	-
STS S.r.l.	Roma	100	200	(315)	20%	480
STUD Soc. Consortile a.r.l.(**)	Cagliari	45	43	(5)	33.33%	15
Total						495

(*) Figures from the accounts at 31/12/2004 - (**) Figures from the accounts at 31/12/2002

Energy Byte S.r.l., which is in liquidation and 100% owned by Tiscali S.p.A., owns 15% of the share capital of STS S.r.l.

Financial receivables

Other receivables, all of which are receivable after one year, related to EUR 2 million owed by Eurolight Associates Ltd, which bought Tiscali's stake in the Czech company CD Telekomunikace Sro at the beginning of 2003. At the time of the acquisition, the stake was transferred with the pre-existing debt owed by CD Telekomunikace to Tiscali S.p.A.. The recovery of the receivable is tied to an agreement signed by Tiscali and CD Telekomunikace for the purchase of services (capacity, fibre optics) by the Tiscali subsidiary operating in that country. The book value takes into account the time needed to purchase the services, as this is related to the investments required by the Tiscali Czech subsidiary for the development of the unbundling network.

Current Assets

II – Receivables

Receivables from customers

The table below shows figures for receivables:

EUR (000)	31.12.2005	31.12.2004
Receivables from customers	1,174	63,743
less: write-down provisions	-	(17,481)
Total	1,174	46,262

Receivables from customers as at 31st December 2005 amount to EUR 1.2 million. The significant decrease with respect to the previous year is due to the aforementioned transferrals.

Receivables from subsidiaries and affiliated companies

Receivables from Group companies are detailed below:

SUBSIDIARIES EUR (000)	Financial receivables		Trade receivables		Total
	due within 1 year	due after 1 year	due within 1 year	due after 1 year	
Energy Byte S.r.l	145	-	-	-	145
Ideare S.p.A.	100	-	-	-	100
Quinary S.p.A.	-	-	-	-	-
Tiscali Deutschland GmbH	-	-	11,822	-	11,822
Tiscali Finance SA	-	-	138	-	138
Tiscali International B.V.	-	-	2,145	-	2,145
Tiscali Business GmbH	-	-	8,534	-	8,534
Tiscali B.V.	-	-	4,150	-	4,150
Tiscali Espana SLU	-	-	-	-	-
Tiscali Telekomunikace Sro	-	-	35	-	35
Tiscali UK Ltd	-	-	4,340	-	4,340
Tiscali International Network SA	40	-	35	-	75
Tiscali International Network B.V.	-	-	150	-	150
Tiscali International Network SAU	-	-	-	-	-
Tiscali International Network S.p.A.	977	-	137	-	1,114
Tiscali Motoring S.r.l.	367	-	-	-	367
Tiscali Telecomunicaciones SA	1	-	-	-	1
Tiscali Italia S.r.l.	29,849	-	1,650	-	31,499
Connect Software Inc.	56	-	-	-	56
Surfeu Finland OY	7	-	-	-	7
Tiscali Services S.r.l.	567	-	3,919	-	4,486
Tiscali Business Service S.p.A.	281	-	9	-	290
Tiscali Media S.r.l.	69	-	-	-	69
Total	32,459	-	37,064	-	69,523

Trade receivables relate to the billing of Group companies for costs incurred by Tiscali S.p.A. for activities pertaining to subsidiaries ("management fees").

Receivables from others

"Receivables from others" were for receivables with a small unit value from various entities.

Tax receivables

EUR (000)	31.12.2005	31.12.2004
Due after one year		
Tax receivables		
Tax credits	769	2,203
VAT refunds receivable	7,991	14,402
VAT receivables	7,979	9,405
Other receivables	1,256	1,139
Total	17,995	27,149

As at 31st December 2005, "VAT refunds receivable" totalled EUR 7.9 million and were the result of refund requests submitted in 2003. The EUR 6.4 million decrease with respect to the previous year resulted from a VAT refund of EUR 3 million relating to 2001 and 2002 and the reclassification to current VAT receivables in the amount of EUR 3.4 million, upon authorization by the Revenue Office in February 2006.

"Other receivables" (EUR 0.8 million) refer to interests accruing on taxes payable and payments made.

Deferred tax assets

EUR (000)	31.12.2005	31.12.2004
Deferred tax assets		
Deferred tax assets	-	45,000
Total	-	45,000

These deferred tax assets were recorded during the previous financial year based on the reasonable certainty that Tiscali S.p.A. would generate taxable income in 2005, taking into account the capital gain of about EUR 160 million from the transfer transaction carried out in January 2005 and already described in the Report on operations and comments on equity investments in this section of the notes to accounts. The decrease for the period is due to the usage of the amount recognised on 31st December 2004 in connection with the taxable income for the 2005 financial year and the income taxes for Tiscali S.p.A. which were charged to profit and loss for the 2005 financial year.

Past deductible tax losses are reported in the following table by year of occurrence:

SUBSIDIARIES	Balance at 31 st December 2005	Year of expiry (*)					
		2006	2007	2008	2009	Beyond 2009	No expiry
Total tax losses	762,201	403,998	46,543	178,463	122,557	-	10,639
Deductible temporary differences	173,795	85,501	63,665	-	24,630	-	-
Total tax losses and deductible temporary differences	935,996						
Total deferred tax assets (at the average rate of 30%)	280,799						
Deferred tax assets recognised	-						
Unrecognised deferred tax assets	280,799						

(*) The year of usage/deduction is used for temporary differences.

The rate used for calculating the tax effect on past losses and on temporary differences from taxing certain components of the income statement was 33%, the corporate income tax rate. Based on its specific nature, it was decided not to use IRAP (regional tax on manufacturing activities) for these calculations.

The tax losses for 1999 and previous financial years were finalised as a result of the definition of the terms of the tax assessment, and for 2001 and 2002 as a result of a definitive tax assessment.

It should be stressed that no deferred tax assets were recorded on 31st December 2005, as the directors of Tiscali S.p.A. took the prudent approach, based on the company's taxable anticipated results in the coming, that the requirements for reporting this amount had not been met (i.e. the recovery of this amount was not reasonably certain). This is in relation to the

nature of the Tiscali S.p.A. holding company and the structure of its profit and loss statement, the fact that the tax losses up to the 2003 period can be used only by the holding company itself and in light of the anticipated results of the business plans of the companies within the Italian "tax consolidation." To this effect we note that the tax losses presented in the table above that relate to the year ending on 31st December 2004 are those that were formed at the "Italian tax consolidation" level, as constituted by Tiscali S.p.A. and its subsidiaries Tiscali Italia S.r.l. and Tiscali Services S.r.l.. Such losses can be used against taxes levied on these companies.

To provide a more complete picture, the following table includes temporary differences for taxation purposes broken down by the main line items. These differences largely related to deferred tax assets.

EUR (000)	31.12.2005	31.12.2004
Deferred tax assets		
Write-downs of equity investments	145,225	227,488
Write-downs of receivables	17,002	16,998
Other differences	11,568	6,644
Total	173,795	251,130

Breakdown of receivables by due date

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

CURRENT ASSETS EUR (000)	31.12.2005 - Receivables falling due		
	Up to one year	Between 1 and 5 years	Over 5 years
Receivables:			
From customers	1,174	-	-
From subsidiaries	69,523	-	-
Tax receivables	17,995	-	-
Deferred tax assets	-	-	-
From others	1,264	2,048	-
Total	89,956	2,048	-

With regard to the breakdown of receivables by geographical area, all receivables relate to EU countries.

IV - Cash and cash equivalents

Cash and cash equivalents break down as follows:

Cash and cash equivalents EUR (000)	31.12.2005	31.12.2004
Bank and post-office deposits	984	48,873
Cash and other negotiable instruments	10	53
Total	994	48,926

The significant decrease in cash and cash equivalents with respect to the previous year was due to the capital increase with a nominal value of EUR 50 million in December 2004 which resulted in net proceeds of EUR 45.9 million, in addition to the aforementioned transferral transaction.

D) Accrued income and deferred charges

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

EUR (000)	31.12.2005	31.12.2004
Accrued income		
Interest from customers	-	184
ADSL revenue	-	222
Accrued deferred charges	1	4
	1	226
Deferred charges		
Circuit rental fees	-	4,199
Lease payments	-	1,481
Rentals	6	116
ADSL charges	-	5,051
Prepaid interest	-	-
Other deferred charges	110	2,220
	116	13,067
Accrued income and deferred charges	117	13,293

"Deferred charges" includes costs for lease payments and insurance services. The difference with respect to the previous year is due to the removal of the operating activities involving the rendering of services from Tiscali S.p.A. and their transferral to Tiscali Italia and Tiscali Services.

Liabilities and Shareholders' Equity

A) Shareholders' equity

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

Shareholders' equity EUR (000)	Share capital	Share premium reserve	Profit (loss) for the year	Total
Balance as at 31.12.2003	184,460	1,506,686	(114,535)	1,576,612
Distribution of profits	-	(114,535)	114,535	-
Other changes	12,159	48,723	-	60,882
Net profit (loss) for the year	-	-	(489,778)	(489,778)
Balance as at 31.12.2004	196,619	1,440,874	(489,778)	1,147,716
Distribution of profits	-	(489,778)	489,778	-
Other changes	1,750	6,776	-	8,526
Net profit (loss) for the year	-	-	(54,409)	(54,409)
Balance as at 31.12.2005	198,369	957,872	(54,409)	1,101,833

At 31st December 2005, the company's share capital was EUR 198,369,071 consisting of 396,738,142 ordinary shares with a nominal value of EUR 0.50 each.

At the extraordinary general meeting held on 5 May 2005, shareholders voted to cover losses relating to the 2004 financial year by using EUR 489,778,071 from the share premium reserve.

"Other changes" refer to capital increases. In the 2005 financial year, share capital was increased by EUR 1.75 million through the issue of 3,500,000 shares to support the capital increase underwritten by Neue Medien Ulm Holding GmbH. The "Share premium reserve" increased by EUR 6.77 million due to this stock issue.

The table below provides a breakdown of shareholders' equity to indicate how reserves can be used for tax purposes.

BREAKDOWN OF SHAREHOLDERS' EQUITY	Amount	Potential uses	Amount available	Amount distributable without tax effect	Amount distributable with tax effect	Summary of uses in 3 previous years	
						Coverage of losses	Other
EUR (000)							
I Share capital	198,369	-	-	-	-	-	-
II Share premium reserve	957,872	A,B	957,872	-	-	756,610	-
III Revaluation reserve	-	-	-	-	-	-	-
IV Legal reserve	-	-	-	-	-	-	-
V Statutory reserves	-	-	-	-	-	-	-
VI Reserve for own shares held	-	-	-	-	-	-	-
VII Other reserves	-	-	-	-	-	-	-
VIII Retained earnings (losses carried forward)	-	-	-	-	-	-	-
IX Profit (loss) for the year	(54,409)	-	-	-	-	-	-
Total	1,101,833	-	957,872	-	-	756,610	-

Potential uses - Legend

- A For capital increases
- B To cover losses
- C For distributions to shareholders

Pursuant to art. 2430 of the Italian Civil Code, no amount was considered distributable since the legal reserve had not reached the minimum level required by law.

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

	Issue date	No. of shares issued	Share capital increase	Share premium reserve
Issuance of Neue Medien Holding Ulm GmbH shares	22/06/2005	3,500,000	1,750,000	6,776,000
Total		3,500,000	1,750,000	6,776,000

SHARE CAPITAL COMPOSITION (NO. OF SHARES - 000) - NOMINAL VALUE EUR 0.50				
Category	31.12.2004	Increases	(Decreases)	31.12.2005
Ordinary shares	393,238,142	3,500,000	-	396,738,142
Total	393,238,142	3,500,000	-	396,738,142

B) Provisions for risks and future liabilities

A breakdown of the provision covering risks and charges is presented in the table below:

EUR (000)	Balance 31.12.2004	Provisions	(Amounts used)	Other changes	Balance 31.12.2005
Write-down provisions (equity investments)	19,220	-	-	(461)	18,759
Other risk provisions	985	7,628	(432)	(176)	8,005
Total	20,205	7,628	(432)	(637)	26,764

Write-down provisions" were mainly for the subsidiary Tiscali Finance SA, for the write down exceeding the book value. The decrease shown under "other changes" is linked to the restatement of the interest in subsidiary Quinary S.p.A. which reduced the value of the ownership interest.

"Other risk provisions" had a balance of EUR 8.0 million on 31st December 2005 and include provisions against potential liabilities

and disputes existing on the period closing date. The increment for the period (EUR 5 million) mainly refers to a dispute with the Spanish company Promotora De Informaciones S.A. which involves the alleged violation of an advertising agreement concluded on 31 July 2001 which is analysed in detail in the notes to the consolidated financial statements under the section on litigation. The decreases for the period are due to the settlement of some minor disputes that began in previous years.

C) Staff severance fund

EUR (000)	Balance 31.12.2004	Provisions	(Amounts used)	Other changes	Balance 31.12.2005
Manual workers	35	-	-	(35)	-
Office staff	4,857	108	(138)	(4,423)	404
Senior managers	571	67	(39)	(348)	251
Total	5,463	175	(177)	(4,805)	655

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

D) Payables

Due to banks

EUR (000)	31.12.2005	31.12.2004
Advances and overdrafts	8,006	19,932
Medium / long-term loans (CIS)	-	34,802
Total	8,006	54,734

The amounts due to banks refer to short-term lines of credit from banks (for advances and overdrafts). The decrease with respect to the previous period is due to the transferral transaction involving Tiscali Italia and the consequent transferral to the latter of several relations with banks.

Payables to suppliers

EUR (000)	31.12.2005	31.12.2004
Payables to suppliers	18,149	143,686

Payables to suppliers were for the purchase of services and/or tangible and intangible assets. The significant decrease with respect to the previous year is due to the aforementioned inter-group transferrals.

Due to subsidiaries

EUR (000)	31.12.2005	31.12.2004
Due to subsidiaries	275,182	538,759

Intragroup payables as at 31st December 2005 break down as follows:

SUBSIDIARIES	Financial payables		Trade payables		Total
	due within 1 year	due after 1 year	due within 1 year	due after 1 year	
Energy Byte S.r.l	-	-	93	-	93
Ideare S.p.A.	65	-	898	-	963
Tiscali Finance SA	-	-	6	-	6
Tiscali International B.V.	259,044	-	10,511	-	269,555
Tiscali Business GmbH	-	-	546	-	546
Tiscali B.V.	8	-	101	-	109
Tiscali Espana SL	-	-	3	-	3
Tiscali UK Ltd	-	-	350	-	350
Tiscali Motoring S.r.l.	77	-	-	-	77
Tiscali Italia S.r.l.	23	-	367	-	390
Tiscali Services S.r.l.	-	-	749	-	749
Tiscali International Network B.V.	566	-	846	-	1,412
Tiscali International Network SA	330	-	-	-	330
Tiscali Business Service S.p.A.	470	-	129	-	599
Total	260,583	-	14,599	-	275,182

Payables to the group's subsidiaries and affiliated companies mainly related to Tiscali International B.V.. We note that the loan agreement with the subsidiary (the sub-holding company of the Tiscali Group) does not call for the assessment of interest charges (interest-free loan). The debt exposure to this subsidiary was reduced significantly during the year as a result of the consideration received for the transferral of ownership of the Liberty Surf Group.

Taxes payable

EUR (000)	31.12.2005	31.12.2004
Taxes payable	512	2,473

Taxes payable are related to advance withholding tax in respect of personal income tax (IRPEF).

Due to social security agencies

EUR (000)	31.12.2005	31.12.2004
Due to social security agencies	284	3,858

Payables to social security authorities mainly related to employer contributions due and the related taxes deducted at source on behalf of employees and self-employed contractors. Like the other balance sheet items, the decrease in the balance with regard to the previous period is due to the transferrals to Tiscali Italia and Tiscali Services.

Other payables

EUR (000)	31.12.2005	31.12.2004
Payables to directors (emoluments)	740	711
Payables to employees (accrued compensation)	400	5,665
Other payables	223	994
Total	1,363	7,370

"Payables to employees" include compensation accrued through 2005 to be paid in the following year, and payables for holiday due and not taken. The decrease in the balance is due to the intragroup transferrals.

Breakdown of payables by due date

With regard to the breakdown of payables by geographical area, all payables relate to EU countries.

Commitments	33,962	4,429
	35,329	23,716
GUARANTEES RECEIVED		
Sureties	695	858
	695	858
	340,228	525,505

PAYABLES EUR (000)	Financial and other payables			Trade payables		
	Due within	1 to 5 years	Over	Due within	1 to 5 years	Over
To banks	8,006	-	-	-	-	-
To other financial institutions	62	-	-	-	-	-
To subsidiaries	275,182	-	-	-	-	-
To suppliers	-	-	-	18,149	-	-
Taxes payable	512	-	-	-	-	-
To social security authorities	284	-	-	-	-	-
To others	1,363	-	-	-	-	-
Total	285,409	-	-	18,149	-	-

Accrued liabilities and deferred income

Accrued liabilities and deferred income break down as follows:

EUR (000)	31.12.2005	31.12.2004
Accrued liabilities		
Accrued compensation	657	834
Other	4	7
	661	839
Deferred income		
ADSL revenues	-	1,006
Pre-paid internet services	-	590
Pre-paid voice services	-	1,737
Deferred income for contributions under law 388, art. 8	-	57
Long-term deferred income	583	2,833
Other	-	2,972
	583	9,196
Total	1,244	10,035

"Accrued compensation" included allocations for the fourteenth salary accrued during the year.

"Long-term deferred income" includes an amount of EUR 0.6 million which is related to the licensing of proprietary software which was pre-invoiced.

Memorandum Accounts

EUR (000)	31.12.2005	31.12.2004
GUARANTEES GIVEN		
Sureties	304,204	500,931
	304,204	500,931
OTHER MEMORANDUM ACCOUNTS		
Leasing payments falling due	1,367	19,287

EUR 209.5 million of the sureties issued to third parties relate to the guarantee provided for the issue of the Equity Linked Bond maturing in September 2006 which was issued by subsidiary Tiscali Finance S.A.. See the Report on operations and notes to the consolidated financial statements for further information on these loans, on the financial strategy for repayments upon maturity in September 2006, and on the related covenants.

The main features of this loan are presented in the table below:

Issuer	Tiscali Finance S.A.
Nominal value	209,500
Yield	4.25%
Maturity	September 2006
Guarantor	Tiscali S.p.A

The same item also includes EUR 50 million that relate to a guarantee provided to Silver Point Finance for the financing granted to subsidiary Tiscali International B.V. in August 2005 as well as EUR 20 million that relates to a guarantee provided to Export Development Canada (EDC) for the financing provided to subsidiary Tiscali International B.V. in October 2004.

The reduction in the memorandum accounts is mainly due to the maturity of the EUR 250 million bond loan that matured in July 2005.

Tiscali S.p.A. includes in its memorandum accounts leasing payments falling due as per some contracts that officially still appear as concluded with the Parent Company, but the underlying benefit of which is enjoyed by subsidiaries Tiscali Italia S.r.l. e Tiscali Services S.r.l.. It was therefore not considered necessary to show the effects deriving from the application of the manner of settlement (as provided by the

IFRS) of the contracts in question. Please consult the financial statements of the subsidiaries for this information. In this section we limit the presentation to the financial commitment of Tiscali S.p.A. The significant decrease in "Leasing payments falling due" with respect to the previous year is due to the aforementioned transferrals and was the result of the transferred contracts.

Following are the amounts and the relative years in which they will fall due.

Anno	Lease payments due
2006	1,180
2007	187
Total	1,367

EUR 32 million of the commitments relate to the residual amount of the medium-long term financing contract with CIS that was transferred to subsidiary Tiscali Italia S.r.l. Subsidiary Tiscali S.p.A. is jointly and severally liable as guarantor for the indicated amount resulting from regular amortization.

A further amount of EUR 1.3 million is included in this item and is related to the commitment undertaken on behalf of the financing administration for the settlement of the Group's VAT.

Income Statement

As described in the introduction to these notes, Tiscali S.p.A. transferred its operating activities to subsidiaries Tiscali Italia S.r.l. and Tiscali Services S.r.l. and 1st January 2005 and is now exclusively a holding company. For a comparative analysis of the previous year's items, see the section of this document preceding the notes which is dedicated to an analysis of the economic, equity and financial situation of Tiscali S.p.A. and which contains the pro-forma financial statements.

A) Value of production

Revenues from sales and services

"Revenues from sales and services" on 31st December 2005 was EUR 7.5 million and mainly involved invoicing of services to Group companies (EUR 7.1 million), as shown below.

EUR (000)	2005
Liberty Surf Group (pre discontinuation)	123
Quinary S.p.A.	108
Tiscali B.V.	1,024
Tiscali Business GmbH	750
Tiscali Deutschland GmbH	303
Tiscali Espana SLU	363
Tiscali International Network B.V.	150
Tiscali International Network S.p.A.	114

Tiscali Italia S.r.l.	1,793
Tiscali Services S.r.l.	275
Tiscali Telekomunicace Sro	158
Tiscali UK Ltd	1,977
Total	7,138

The revenues from Group companies are mainly the result of the invoicing of services provided centrally by the holding company and, to a lesser extent, the invoicing of expenses incurred by the parent for Group companies.

The revenues that are attributable to the rendering of these centralized Group services were realized from the coordination and control activities carried out within the Group by the Parent Company.

Other income

EUR (000)	2005
Contributions to the operating account	1,821
Other revenues and income	1
Total	1,822

"Other revenues and income" includes for EUR 1.8 million the contributions received on the basis of the tax incentives for investments as provided by article 8 of Italian Law 388.

B) Production costs

Service costs

"Service costs" are EUR 7.8 million. We note that as of 1st January 2005 following the transferral, Tiscali S.p.A. operates exclusively as a holding company basically incurring general and administrative costs only. Such costs include EUR 3.5 million in expenses related to consulting and professional services and EUR 1.2 million incurred on behalf of Group companies as specified in the table below.

EUR (000)	2005
<i>Company:</i>	
Liberty Surf Group SA (up to discontinuation)	20
Quinary S.p.A.	3
Tiscali B.V.	15
Tiscali Espana SLU	3
Tiscali International B.V.	50
Tiscali Italia S.r.l.	298
Tiscali Services S.r.l.	745
Tiscali UK Ltd	51
Total	1,185

The expenses invoiced by Tiscali Italia S.r.l. are related to Tiscali S.p.A.'s share of the general expenses which are connected to the administration of the operating unit. The costs charged by subsidiary Tiscali Services S.r.l. related to administration of the accounting system, invoicing, filing and data management.

Personnel costs

EUR (000)	2005
Wages and salaries	4,530
Social security contributions	1,567
Staff severance pay	175
Other costs	42
Total	6,314

C) Financial income and charges

Other financial income

The other financial income was partly accrued on VAT refunds (EUR 0.2 million) receivable and partly on interest accruing on current accounts.

Interest and other financial charges

"Interest and other financial charges" is EUR 1.3 million and mainly involves charges for the interest accruing on overdrafts (EUR 0.9 million).

D) Adjustments to the value of financial assets

This item includes write-downs and revaluations of investments (please see comments on the relevant items).

E) Extraordinary income and charges

Extraordinary income

"Extraordinary income" is EUR 165 million and composed of the following:

EUR (000)	2005
Extraordinary income	2,435
Capital gains on disposals of non-current assets	376
Other	162,546
Total	165,357

The "Extraordinary income" item includes the overall effect of the existing positions towards Excite Italia B.V. at the time of disposal, as provided by the contract.

"Capital gains on disposals of non-current assets" mainly relates to the income generated from the final liquidation of investee company Netchemya S.p.A. and the disposal of the affiliate company Freetravel S.p.A..

"Other extraordinary income" includes capital gains totalling approximately EUR 162.50 million from the transferral transaction which took place in January 2005 and is described in the introduction to the notes.

Extraordinary charges

EUR (000)	2005
Non-operating expenses	85
Other extraordinary charges	7,759
Capital losses on disposals of non-current assets	18,897
Taxes related to previous years	9
Total	26,750

"Other extraordinary charges" refers to EUR 7.2 million of recognized compensations for financial and legal advisors involved in the extraordinary operations which took place during the year.

"Capital losses on disposals of assets" includes the loss incurred from the disposal of French subsidiary Liberty Surf Group SA which was mentioned under the investments section herein, for which the initial disposal price was rectified upon closing of the transaction.

Tax

The balance shows the taxes for the period and in particular the utilisation of the deferred tax assets of EUR 45 million that were posted on 31st December 2005 with the IRAP for the period.

Other Information

Number of employees

The table below shows a breakdown of employees by category.

	AVERAGE 2005	31.12.2005	AVERAGE 2004	31.12.2004
Manual workers	3	3	7	7
Office staff	27	27	754	754
Middle managers	9	9	70	67
Senior managers	16	16	44	44
Total	55	55	875	872

Remuneration of Directors and Auditors

Pursuant to art. 78 of CONSOB resolution 11971 / 99 (the regulation implementing Italian Legislative Decree 58/1998), the table below sets out the remuneration for Directors and Auditors, and the number of shares held by each.

NAME	Position	Term in office	Emoluments	Non-monetary benefits	Other forms of remuneration
Board of Directors					
Vittorio Serafino	Chairman	(1) Until approval of 2007 results	360,000	-	-
Rudolf Derk Huisman	CEO and Director	(2)	425,000	-	-
Franco Bernabè	Director	(3) until approval of 2004 results	25,000	-	-
Tomaso Barbini	Director	(4) until approval of 2004 results	25,000	-	-
Victor Bischoff	Director	(5) until approval of 2007 results	25,000	-	-
Prêtre Gabriel	Director	(5) until approval of 2007 results	25,000	-	-
Mario Rosso	Director	(5) until approval of 2007 results	25,000	-	-
Massimo Cristofori	Director	(5) until approval of 2007 results	25,000	-	250,000
Francesco Bizzarri	Director	(6) until approval of 2007 results	25,000	-	-
Gabriele Racugno	Director	(6) until approval of 2007 results	25,000	-	-

Board of Statutory Auditors

Aldo Pavan	Chairman	(7) until approval of 2005 results	63,000	-	-
Piero Maccioni	Statutory Auditor	(7) until approval of 2005 results	42,000	-	-
Massimo Giaconia	Statutory Auditor	(7) until approval of 2005 results	42,000	-	-
Andrea Zini	Deputy Auditor	(7) until approval of 2005 results	-	-	-
Rita Casu	Deputy Auditor	(7) until approval of 2005 results	-	-	-

(1) Chairman since 23rd September 2004

(2) CEO until 31st October 2005; Director until 11st January 2006

(3) Director from 30th April 2002 until 5th May 2005

(4) Director from 27th October 2003 until 5th May 2005

(5) Appointed on 6th May 2004

(6) Appointed on 5th May 2005

(7) Appointed on 29th April 2003

We note that on 31st October 2005 Tommaso Pompei was appointed General Director of Tiscali S.p.A. and on 11st January 2006 he was coopted CEO. His remuneration for the 2005 period as General Director is EUR 200 thousand.

Cash Flow Statement

EUR (000)

	31.12.2005	31.12.2004
A) Net debt at the end of the previous year	(5,798)	(28,102)
Net (loss) for the year	(54,407)	(489,778)
Depreciation, amortisation and write-downs	2,170	32,417
Net change in provisions for risks and future liabilities	6,735	(3,232)
Net change in staff severance fund	(9)	1,230
Write-downs on long-term investments	131,158	468,867
Changes in deferred tax assets	45,000	-
Change in net working capital, of which		
- change in receivables	(1,200)	(5,486)
- change in inventories	-	1,258
- change in accrued income and deferred charges	(6)	(7,899)
- change in payables	(549,956)	32,724
- change in accrued liabilities and deferred income	291	3,621
B) Cash flow from operations	(420,222)	33,722
Changes in non-current assets		
- <i>Tangible assets</i>	(18)	(18,512)
- <i>Intangible assets</i>	(14)	(30,831)
- <i>Long term investments</i>	269,512	2,453
<i>Effect of:</i>		
Transferral to Tiscali Italia S.r.l.		
- <i>Increase in the value of the stake</i>	(184,897)	-
<i>Net assets transferred</i>	59,931	-
Transferral to Tiscali Italia S.r.l.		
- <i>Increase in the value of the stake</i>	(31,220)	-
<i>Net assets transferred</i>	27,764	-
C) Cash flow from financing operations	141,057	(46,890)
Change in financial payables from subsidiaries	269,435	-
Change in other financial debts	-	(956)
Other medium and long term financial assets	-	6,157
Capital increase	1,750	-
Changes in shareholders' equity	6,776	60,882
D) Cash flow from financing operations	277,961	66,083
E) Cash flows for the year (B + C + D)	(1,204)	52,915
F) Net short term financial position at the end of the period (A-E) of which:	(7,002)	24,813
Cash and cash equivalents and due from banks	994	48,926
Short-term investments	10	-
Short-term bank debt	(8,006)	(24,113)
Total	(7,002)	24,813

Vittorio Serafino

For the Board of Directors
The Chairman
Vittorio Serafino

Reports of the Independent Auditors



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

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

1. We have audited the financial statements of Tiscali S.p.A. as of December 31, 2005. These financial statements are the responsibility of Tiscali's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with the Auditing Standards recommended by Consob, the Italian Commission for listed Companies and Stock Exchange. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

For the opinion on the financial statements of the prior year, which are presented for comparative purposes as required by law, reference should be made to the auditor's report issued by us on April 12, 2005.

3. In our opinion, the financial statements present fairly the financial position of Tiscali S.p.A. as of December 31, 2005, and the results of its operations for the year then ended in accordance with the Italian regulations governing financial statements.
4. For a better understanding of the financial statements, we draw your attention to the following items, which have been disclosed in detail by the Directors in the report on operations and in the explanatory notes:
 - a) During 2005 the Tiscali Group has continued the process of focusing its activities on the growth of its ADSL customer base, the development of its network infrastructure and carrying out the disposal plan of subsidiaries in countries not considered strategic. In 2006, the Directors expect to continue to focus on the above mentioned sectors, defining its product offer in line with the evolution of the market (so called double and triple play services).

In this context, the raising of necessary finance resources to meet the repayment of expiring financial debt and the ability to sustain the development plans is an essential going concern condition.

Ancona Bari Bergamo Bologna Brescia Cagliari Firenze Genova Milano Napoli Padova Parma Roma
Torino Treviso Verona

Member of
Deloitte Touche Tohmatsu

Sede Legale: Via Tortona, 25 – 20144 Milano

Capitale Sociale: sottoscritto e versato Euro 10.327.940,00 – deliberato Euro 10.850.000,00

Partita IVA /Codice Fiscale/Registro delle Imprese Milano n. 03049560166 – R.E.A. Milano n. 1720239

In particular, the Equity Linked Bond issue of EUR 209.5 million expires in September 2006. With respect to the repayment terms, of particular importance is the use of the so called conversion clause (or "soft mandatory clause") exercisable by Tiscali S.p.A. in accordance with the conditions indicated in the notes to the consolidated financial statements and subject to approval of an extraordinary shareholders meeting. At the moment, the Directors foresee the usage of the second instalment (Euro 100 million) of the Silver Point Finance LLC financing, available on the expiry date of the Equity Linked Bond, on the condition that it respects certain contractual covenants associated with operational and financial results. In addition, Group management are analysing other alternative financial operations, which are in a phase of being defined, in order to identify the most appropriate taking into account the Group's business strategy. The Directors consider it reasonable to foresee that the definition of such operations will occur in conjunction with the obligation to repay the above mentioned Equity Linked Bond.

In any case, it is essential that the Group continues to attain the targets set out in the business plan, including also the capacity to generate free cash flows, a condition significantly affecting the evolution of the Group's financial position and stability.

- b) Tiscali S.p.A. has transferred its operating activities to its subsidiaries Tiscali Italia S.r.l. and Tiscali Services S.r.l., therefore, as from January 1, 2005, it now acts solely as a holding company. This change in activity affects any comparison of the amounts in 2005 with the previous year.
- c) The Tiscali Group is involved, at December 31, 2005, in certain legal disputes initiated by third parties against entities of the Group World Online International N.V., dating back to the time of the acquisition of the former World Online Group by the Tiscali Group. The Directors, based on their legal advisors' opinion, believe these claims are unfounded. Also, a tax dispute, for a total amount of Euro 51.3 million determined by the Dutch tax authorities including penalties and interest, exists with reference to World Online International NV, regarding the lack of payment of withholding taxes on emoluments that supposedly were paid in the year 2000 to the former Managing Director. The Tiscali Group, on the basis of its fiscal advisors' opinion, has made no provision against this contingency, believing the claim to be unfounded. Therefore, due to the lack of available information to be able to consider the above mentioned potential liabilities as probable and in any case to allow a reasonable estimate, no provision has been recorded in the balance sheet against such contingent liabilities. In addition there are other risk situations relating to tax inspections at other subsidiaries of the Group which the Directors believe will not result in a significant liability.

DELOITTE & TOUCHE S.p.A.

Signed by

Fabrizio Fagnola
Partner

Milan, Italy
May 2, 2006

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

**AUDITORS' REPORT PURSUANT TO ART. 156 OF
LEGISLATIVE DECREE No. 58 OF FEBRUARY 24, 1998**

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

1. We have audited the consolidated financial statements of Tiscali S.p.A. (and subsidiaries) (the "Tiscali Group"), which comprise the balance sheet as at December 31, 2005, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. These consolidated financial statements are the responsibility of the Company's Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. These consolidated financial statements represent Tiscali S.p.A.'s first annual consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.
2. We conducted our audit in accordance with the Auditing Standards recommended by CONSOB, the Italian Commission for listed Companies and the Stock Exchange. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The consolidated financial statements present, for comparative purposes, the corresponding data for the year 2004 prepared in accordance with IFRS, with exception to the effects of applying International Accounting Standards IAS 32 and IAS 39 which, in accordance with the option allowed by IFRS 1, were applied as of January 1, 2005. In addition, the Appendix to the consolidated financial statements explains the effects of transition to IFRS as adopted by the European Union and includes the reconciliation statements required by IFRS 1, previously approved by the Board of Directors and published in a Section of Tiscali S.p.A. (Tiscali Group's) interim financial information for the period ended June 30, 2005, which we have audited and on which we issued a special purpose auditors' report dated October 3, 2005.

3. In our opinion, the consolidated financial statements present fairly the financial position of Tiscali S.p.A. (the Tiscali Group) as of December 31, 2005, and the results of its operations and its cash flows for the year then ended in accordance with IFRS as adopted by the European Union.

4. For a better understanding of the consolidated financial statements, we draw your attention to the following items, which have been disclosed in detail by the Directors in the report on operations and in the notes to the consolidated financial statements:

- a) During 2005 the Tiscali Group has continued the process of focusing its activities on the growth of its ADSL customer base, the development of its network infrastructure and carrying out the disposal plan of subsidiaries in countries not considered strategic. In 2006, the Directors expect to continue to focus on the above mentioned sectors, defining its product offer in line with the evolution of the market (so called double and triple play services).

In this context, the raising of necessary finance resources to meet the repayment of expiring financial debt and the ability to sustain the development plans is an essential going concern condition.

In particular, the Equity Linked Bond issue of EUR 209.5 million expires in September 2006. With respect to the repayment terms of particular importance is the use of the so called conversion clause (or "soft mandatory clause") exercisable by Tiscali S.p.A. in accordance with the conditions indicated in the notes to the consolidated financial statements and subject to approval of an extraordinary shareholders meeting. At the moment, the Directors foresee the usage of the second instalment (Euro 100 million) of the Silver Point Finance LLC financing, available on the expiry date of the Equity Linked Bond, on the condition that it respects certain contractual covenants associated with operational and financial results. In addition, Group management are analysing other alternative financial operations, which are in a phase of being defined, in order to identify the most appropriate taking into account the Group's business strategy. The Directors consider it reasonable to foresee that the definition of such operations will occur in conjunction with the obligation to repay the above mentioned Equity Linked Bond.

In any case, it is essential that the Group continues to attain the targets set out in the business plan, including also the capacity to generate free cash flows, a condition significantly affecting the evolution of the Group's financial position and stability.

- b) During the year the income statement has benefited from the profits arising from the disposal of certain subsidiaries in the first six months of the year with a net effect of Euro 114.8 million included in the account "Profit (Loss) from discontinued and/or discontinuing operations" as described in detail in the notes to the consolidated financial statements.
- c) The Tiscali Group is involved, at December 31, 2005, in certain legal disputes initiated by third parties against entities of the Group World Online International N.V., dating back to the time of the acquisition of the former World Online Group by the Tiscali Group. The Directors, based on their legal advisors' opinion, believe these claims are unfounded. Also, a tax dispute, for a total amount of Euro 51.3 million determined by the Dutch tax authorities including penalties and interest, exists with reference to World Online International NV, regarding the lack of payment of withholding taxes on emoluments that supposedly were paid in the year 2000 to the former Managing Director. The Tiscali

Group, on the basis of its fiscal advisors' opinion, has made no provision against this contingency, believing the claim to be unfounded. Therefore, due to the lack of available information to be able to consider the above mentioned potential liabilities as probable and in any case to allow a reasonable estimate, no provision has been recorded in the balance sheet against such contingent liabilities. In addition there are other risk situations relating to tax inspections described in detail in note 34 in the notes to the consolidated financial statements which the Tiscali Group believe will not result in a significant liability, taking into account the provisions already recorded in the balance sheet.

DELOITTE & TOUCHE S.p.A.

Signed by

Fabrizio Fagnola
Partner

Milan, Italy
May 2, 2006

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

*Report of the
Statutory Auditors*

REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE
SHAREHOLDERS' MEETING PURSUANT TO ARTICLE 153 OF LEGISLATIVE
DECREE 58/98 AND TO ARTICLE 2429 SUB-SECTION 3 OF THE ITALIAN CIVIL
CODE

To the Shareholders' Meeting of the Company Tiscali S.p.A.

During the year ending as at 31st December 2005 we performed the supervisory activity required by the law, in accordance with the code of practice recommended for Statutory Auditors by the National Board of Chartered Accountants.

Considering that it is not our role to perform a full scope audit of the financial statements, we state that we monitored the general layout of the financial statements and their compliance with the law in terms of format and structure. In this regard we have nothing to report except that the international accounting standards IAS/IFRS were adopted in compliance with the transitory regime governed by CONSOB resolution no. 14990 of 14th April 2005, to which the accounting document refers.

Also in compliance with the guidelines provided by CONSOB with notice of 6th April 2001, subsequently integrated by notices of 4th April 2003 and 7th April 2006, we report that:

- We monitored compliance with the law and with the Articles of Association;
- We were duly informed by the Directors of the activities performed and of the more significant economic, financial and equity transactions effected by the Company and through its subsidiaries and we are reasonably satisfied that the actions approved and implemented comply with the law, with the Articles of Association and with general best practices and hence are not patently imprudent, risky, in potential conflict of interest or at variance with resolutions passed by Shareholders' Meeting or such as to jeopardise the integrity of company assets.
- We examined and monitored, as far as our authority permitted, the adequacy of the Company's organisational structure, compliance with the principles of fair administration and the adequacy of the instructions issued by the Company to the subsidiaries pursuant to Article 114, sub-section 2 of Legislative Decree 58/98, through information gathered from the various managers and through meetings with the independent auditors for the purposes of mutual exchange of significant data and information, and in this respect we have no observations to make.

- In relation to the provisions of Article 2 of Law 262 of 28th December 2005 - which introduced a series of amendments to Legislative Decree 58/98, amongst which the provision contained in the first sub-section of Article 151 according to which the Board of Statutory Auditors of the Parent Company is entitled to directly request the subsidiaries' administrative and control bodies to provide information on the course of corporate operations or on given business transactions – the Board requested that the Boards of Statutory Auditors of the subsidiaries Tiscali Italia S.r.l. and Tiscali Services S.r.l. forward, with half-yearly frequency, copies of the minutes of the meetings held in each year half, with a view to obtaining information on the administration and control systems and on the general performance of the subsidiaries. In this regard no significant facts or information worthy of note hereunder emerged.

- We assessed and monitored the adequacy of the internal control system and the administration/accounting system, as well as the latter's ability to present a true and fair view of operations, by obtaining information from those in charge of functions, examining corporate documents, analysing the results of the work performed by the Independent Auditors and monitoring the activity of the head of internal control and in this respect we have no particular observations to raise. We hereby acknowledge that – during the year – the Directors approved the “Organisational, Management and Control Model pursuant to Legislative Decree 231/2001”, in force with effect from 1st March 2006, which integrates and replaces the previous model adopted in 2004. The Internal Control Committee was appointed Supervisory Body and entrusted with the functions of monitoring compliance with the protocols and procedures adopted.

- We held meetings with the external auditors, pursuant to Article 150, subsection 2, of Legislative Decree 58/98, and there emerged no significant facts and information worthy of note in this report.

- The most important intergroup transactions of which we have been informed pursuant to Article 150 of Legislative Decree 58/98, essentially consist of transactions pertaining to Group reorganisation and have been implemented in the interest of the Group for the purpose of rationalising resources. Amongst these we draw attention to the assignment from Tiscali SpA to the subsidiary Tiscali Italia S.r.l. – with effect from 1st January 2005 – of the operating activities relating to the Italian territory. As described in the accounting document, said assignment generated capital gains in the region of EUR 160 million for the assignee Tiscali S.p.A.. Said capital gains were elided at the time of consolidation, insofar as generated between Group companies.

- Transactions with related parties are reported in detail in the report on operations. The key financial and economic figures can be found in the specific paragraph “Transactions with related parties”.

- The Independent Auditors Deloitte & Touche S.p.A. today issued their reports on the financial statements and on the consolidated financial statements, which highlight the following:

the ability to raise the financial resources necessary to meet the financial debt maturities and to sustain the development plans is deemed to be an essential condition to support the assumption that the company is a going-concern;
 capital gains generated further to the sale of some investees completed during the first half of 2005 (report on the consolidated financial statements);
 assignment from Tiscali S.p.A. to the subsidiaries Tiscali Italia S.r.l. and Tiscali Services S.r.l. of operating activities (report on the financial statements of Tiscali S.p.A.);
 update on pending litigation, including tax disputes.

The above remarks do not require comment of the Board of Statutory Auditors.

- No complaints pursuant to Article 2408 of the Italian Civil Code, nor third party petitions were received.

- In compliance with amended Article 149 no. 1 letter c) of Legislative Decree 58/98, we acknowledge that the Company complies with the Code of Conduct of the Committee for the Corporate Governance of listed companies, revised edition of March 2006. Information on this regard can be found in the special report which the Directors submit to the Shareholders' Meeting.

- During the 2005 Tiscali S.p.A. entrusted Deloitte & Touche S.p.A. – and some related entities – with some assignments other in addition to the audit of the financial statements and the consolidated financial statements. The total considerations invoiced for the various types of assignments received, excluding VAT, are summarised below:

	Euro/000
Audit (financial statements and consolidated financial statements) including the financial statements of investees and activities pursuant to art. 155 Legislative Decree 58/98	568
Fairness opinion pursuant to art. 2441 Italian Civil Code	42
Other assignments (including the charging of fees for the audit activity performed by other European offices of Deloitte & Touche)	840
Total	1,450

- During the year the Board of Statutory Auditors issued its opinion pursuant to Article 2389 of the Italian Civil Code (Directors' fees) and to Article 159 of Legislative Decree 58/98, in relation to the renewal of the assignment for the three year period 2005-2007 to the Independent Auditors Deloitte & Touche S.p.A., following resolution of the

Shareholders' Meeting of 5th May 2005.

- On 14th April 2005, the Independent Auditors Deloitte & Touche S.p.A. issued their opinion pursuant to Article 158, sub-section 1, Legislative Decree 58/98 and Article 2441 Italian Civil Code on the issue price of the shares in the case of share capital increase with exclusion of the right of option (Neue Medien Ulm Holding GmbH).

- The supervisory activity described above was performed through ten meetings of the Board, nine meetings of the Internal Control Committee and by attending all the ten meetings of the Board of Directors, pursuant to Article 149, sub-section 2, Legislative Decree 58/98.

In performing the supervisory activity and on the basis of the information obtained from the Independent Auditors, we observed no omissions and/or reprehensible facts and/or irregularities or any other significant facts necessitating report to the authorities or worthy of mention hereunder.

As our three three-year mandate has expired, you will be called to pass a resolution on the matter. In contrast to the specifications of the Articles of Association – but in compliance with Article 148 of Legislative Decree 58/98, as amended by Law 262/2005 – the Board of Statutory Auditors will be chaired by the Auditor elected by minority interests.

Cagliari, 2nd May 2006

THE BOARD OF STATUTORY AUDITORS

ALDO PAVAN

MASSIMO GIACONIA

PIERO MACCIONI

