ANNUAL REPORT 2006

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.

ANNUAL REPORT 2006

Tiscali Group

Management

Vittorio Serafino
Chairman

Tommaso Pompei
CEO

Massimo Cristofori
CFO

Mario Mariani
CEO Tiscali Italy

Mary Turner
CEO Tiscali UK

Paolo Susnik
CEO TINet

Salvatore Pulvirenti
CIO

Luca Scano
CEO Tiscali Netherlands

Michele Lavizzari
CEO Tiscali Germany

Directors and Auditors

BOARD OF DIRECTORS

Chairman
Vittorio Serafino

Chief Executive Officer
Tommaso Pompei

Chief Financial Officer
Massimo Cristofori

Directors
Arnaldo Borghesi
Francesco Bizzarri
Gabriele Racugno
Mario Rosso
Rocco Sabelli

BOARD OF STATUTORY AUDITORS

Chairman
Aldo Pavan

Statutory Auditors
Piero Maccioni
Massimo Giaconia

Deputy Auditors
Andrea Zini
Rita Casu

INDEPENDENT AUDITORS
Deloitte & Touche S.p.A.

Milestones

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

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

October 1999
IPO ON NUOVO MERCATO

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

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

January 2001
ACQUISITION OF LIBERTY SURF

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

NARROWBAND (DIAL-UP)

Pan European Strategy

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

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

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

October 2001
LAUNCH OF ADSL PRODUCT

December 2002
ACHIEVED EBITDA BREAKEVEN

April 2004
REACHED 1.3 MILLION ADSL CUSTOMERS

August 2004
DISPOSAL OF AUSTRIA, SWITZERLAND, SOUTH AFRICA

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

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

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

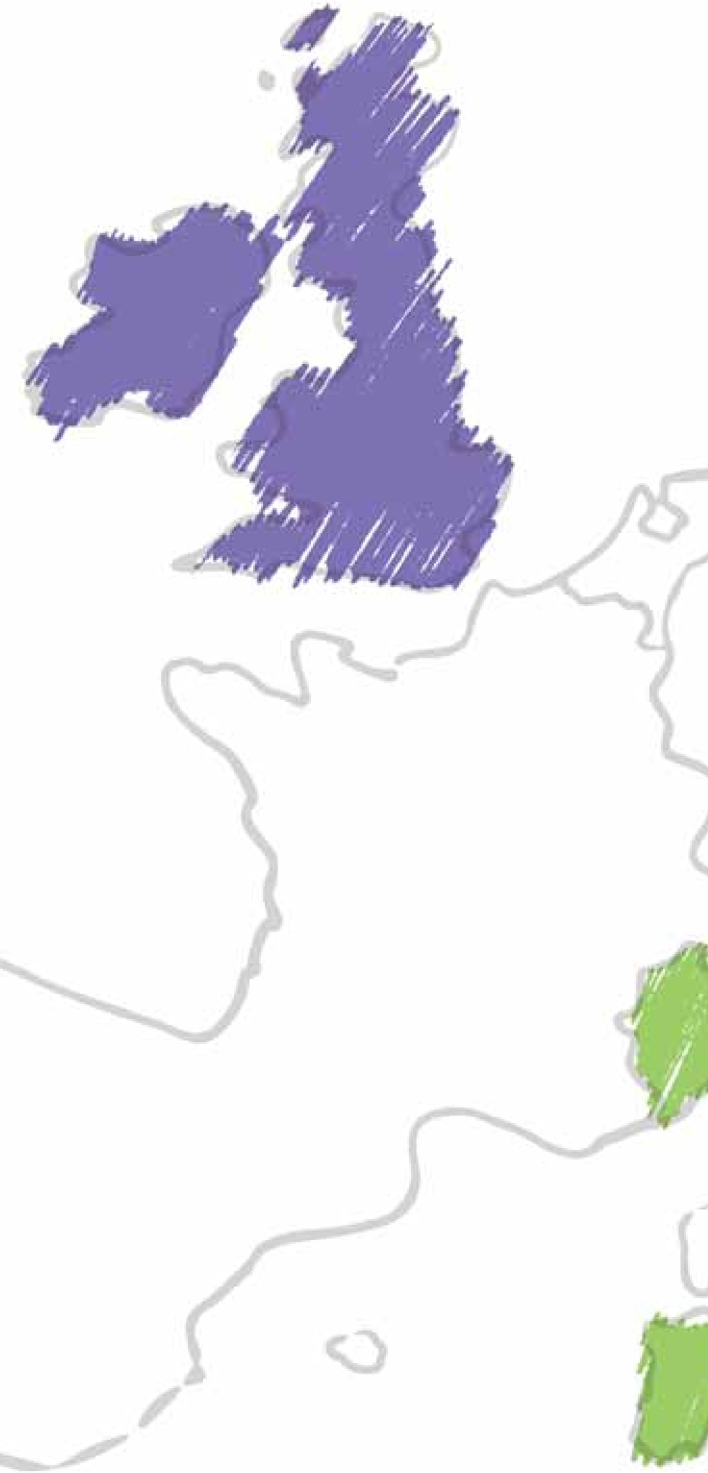
BROADBAND (DSL)

Core Countries focus

Following the implementation of its 2006 strategic plan, Tiscali has focused its activities in the European markets with the highest growth and value creation potential: Italy and the UK.

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

Tiscali's 2006 Annual Report (and on equal perimeter in 2005) concerns the operations in the United Kingdom, Italy, TINet and other minor subsidiaries.



UNITED KINGDOM

	2006	2005	Change
Revenues (EUR ml)	445	325	137%
EBITDA (EUR ml)	81	71	114%
ADSL subscribers (000)	1,424	934	141%
Market share	14%*	10%	43%
ULL subscribers (000)	350	15	-
Number of Colocations	420	25	-
Coverage on households	34%	3%	-
ULL Investments (EUR ml)	65	9	622%

* DSL market

May 2006

Tiscali Lab opens, the new R&D centre for technological innovation

May 2006

Tiscali Italia launches Tiscali Tandem, the new ADSL+Voice offer

June 2006

Tiscali UK launches the VoIP Netphone service

October 2006

Tiscali Italia brings ADSL into homes without a Telecom Italia line

Core Countries' Snapshot

ITALY

	2006	2005	Change
Revenues (EUR ml)	218	189	115%
EBITDA (EUR ml)	40	28	43%
ADSL subscribers (000)	432	303	43%
Market share	5%	5%	-
ULL subscribers (000)	234	104	125%
Number of Colocations	440	367	20%
Coverage on households	30%	35%	-
ULL Investments (EUR ml)	47	29	62%

November 2006

Tiscali is N°1
in Hosting services
(Netcraft research, November 2006)

January 2007

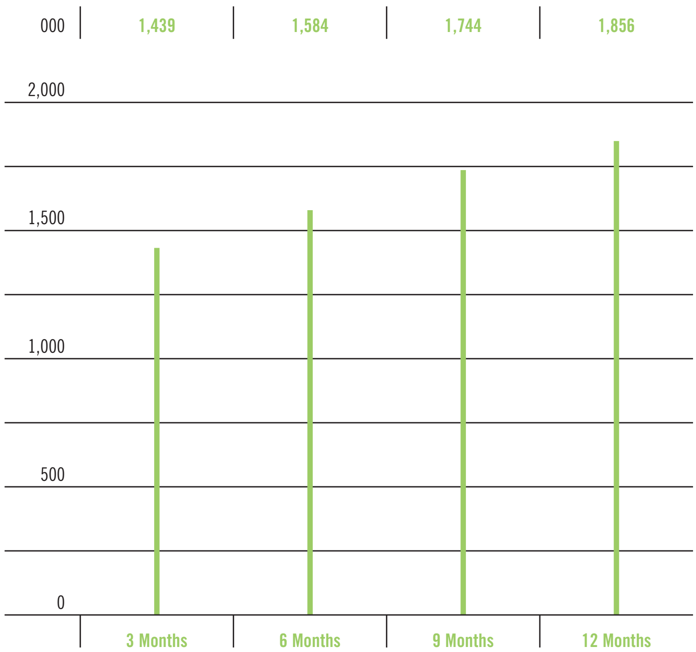
Tiscali launches
the first encrypted
e-mail service in Europe

March 2007

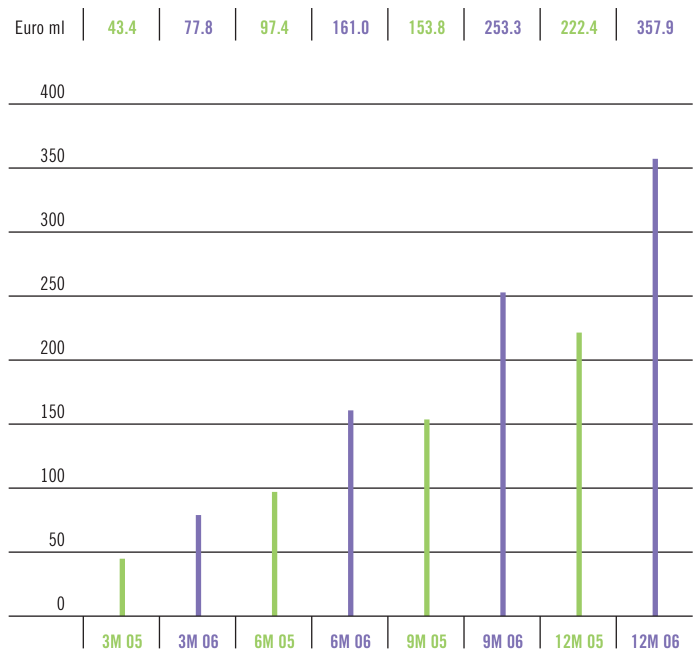
Tiscali UK launches the
Tiscali TV service
in the United Kingdom
(IPTV, March 2007)

Broadband Growth

ADSL SUBSCRIBERS



ADSL REVENUES



Key Figures

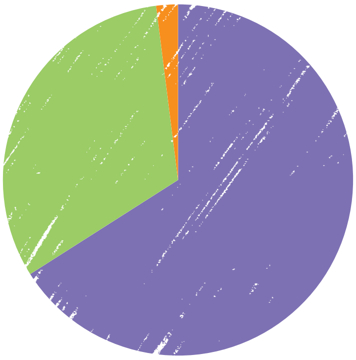
Income Statement (EUR ml)	31 / 12 / 2006 12 months	31 / 12 / 2005 12 months	Change (%)
Revenues	678.5	530.8	28%
Gross Operating Result (EBITDA)	100.4	69.7	44%
Operating Result (EBIT)	(12.8)	(55.7)	77%
Net result	(59.7)	(106.9)	44%

Balance Sheet (EUR ml)	31 / 12 / 2006	31 / 12 / 2005
Total Assets	1,231	1,043
Net Financial Debt	397	305
Shareholders' Equity	270	311
Capex	179	169

Non Financial Figures (000)	31 / 12 / 2006	31 / 12 / 2005
Access users	3,451	3,372
ADSL (broadband) subscribers	1,856	1,237
of which ADSL (unbundling) subscribers	583	119

Results by segment

Revenues by country



- United Kingdom 66%
- Italy 32%
- Others 2%

Group Total Revenues (EUR ml)

678.5

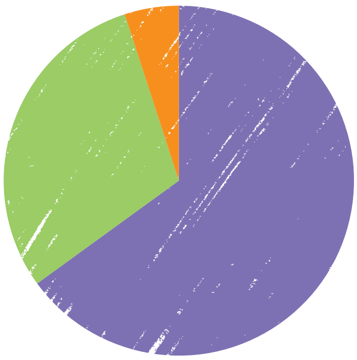
Revenues by business line

- Access 70%
- Voice 17%
- B2B 6%
- Media and Value Added Services (VAS) 6%
- Others 1%

Group Total Revenues (EUR ml)

678.5

EBITDA by country



United Kingdom 65%

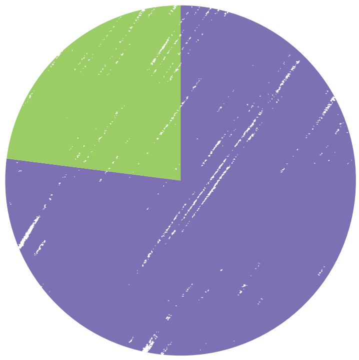
Italy 30%

Others 5%

Group EBITDA (EUR ml)

100.4

ADSL subscribers by country



United Kingdom 77%

Italy 23%

Group ADSL subscribers (ml)

1.8

TISCALI GROUP

A strategic asset: the International Network Infrastructure

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

THE NETWORK IN FIGURES:

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

Broadband: 2006, 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).

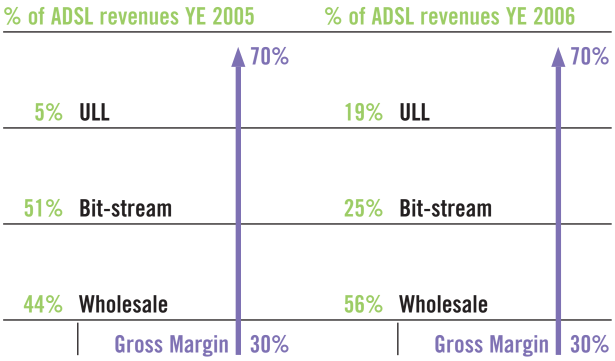
Unbundling model: OLOs can access the local loop by investing in local networks. Unbundled services allow operators to expand their margins to over 70% and to control the quality of the service provided to final customers.

ULL: A SUSTAINABLE STRATEGY

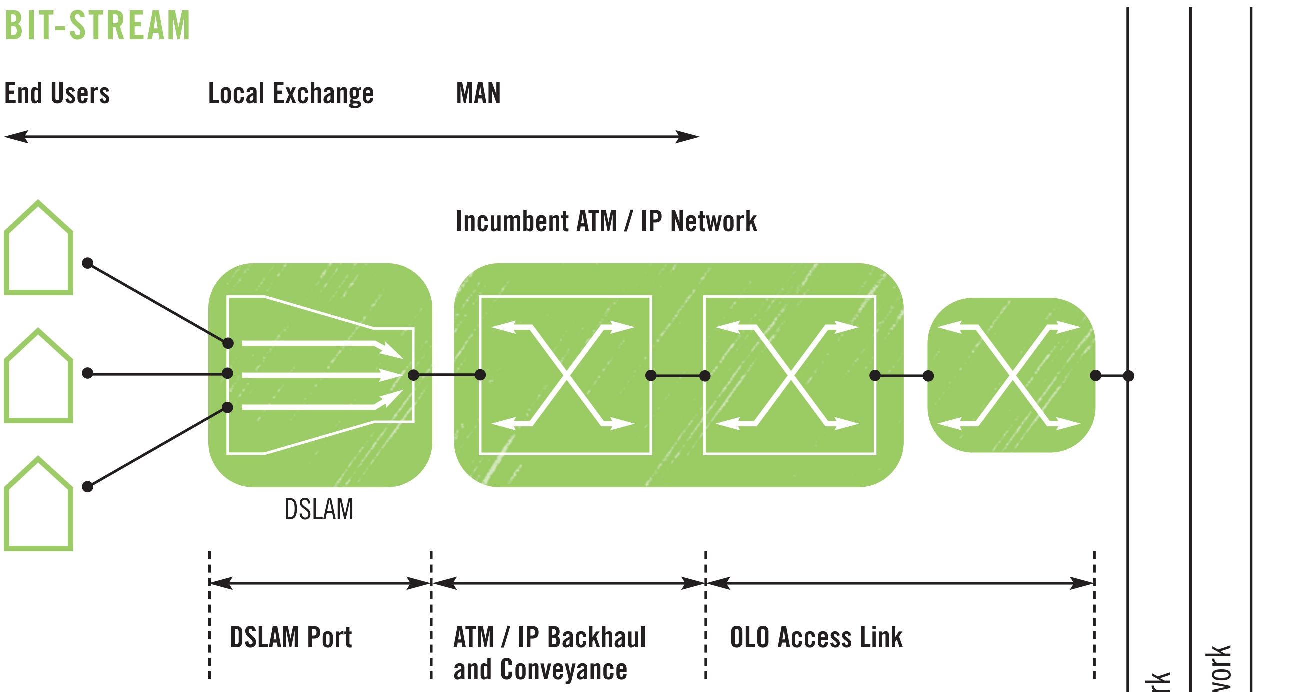
As of 31 December 2006, Tiscali had reached:

- 440 co-locations in Italy, reaching a 30% market coverage
- 420 co-locations in the UK, with a 34% market coverage

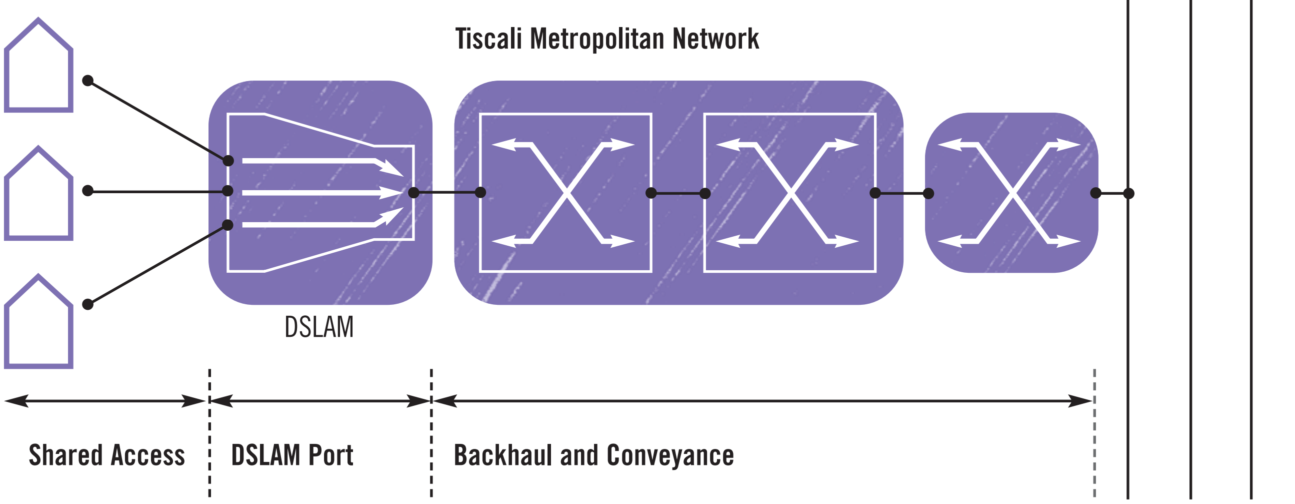
GROSS MARGIN IMPROVEMENT



BIT-STREAM



UNBUNDLING



A strong brand

ADV ITALY campaign

"Tiscali: one of us"

(ADSL+Voice, Tiscali Tandem Free campaign)

"Tiscali: one of us" is the key concept for the entire advertising campaign launched by Tiscali Italia in November 2006 produced by the Hi!Comunicazione agency.

The campaign promotes the new Double play offer – ADSL+Voice – and especially Tiscali Tandem Free, the perfect answer to all communication requirements that cancels out the need to pay Telecom Italia fixed charges.

The Tiscali offer is promoted through stories and dialogue that, reflecting everyday reality and problems, clearly reveals **Tiscali as "one of us"**, a message placing great leverage on company recognition in the eye of the customer.

The new advertisement perfectly interprets the values that have always distinguished the Tiscali brand in the market place, transmitting the company's energy and vitality, always recognizable by its innovative, simple approach.

The media mix chosen, TV-Radio-Online and Cinema circuits has allowed Tiscali to reach a 36% Brand Awareness and a 10% Top of Mind in line with its planning.

2006 was marked by a 75% increase in sales during the sales campaign period.

ADV UK campaign

"Apple"

(ADSL campaign launched by Tiscali UK)

The most successful advertising campaign in 2006, produced by subsidiary Tiscali UK in the United Kingdom, was "Apple". The key feature of **the "Apple" advertisement** is an amusing, lovable and rather exuberant elderly lady.

The advertisement, broadcast in the first quarter 2006, was directed by Steve Bendelak, best known for his direction of UK TV comedies such as "The League of Gentlemen" and "The Royal Family". The campaign promotes the Flat-rate ADSL no-limits offer at £14.99 a month, targeted primarily to new customers seeking the best Broadband package on the market. The price-value message of the campaign came across as simple and entertaining.

The media-mix chosen, Press-Radio-TV, with voice-over by well-known actor Hugh Laurie, was a key factor in the success of the campaign and in Tiscali brand recall. During the campaign, Tiscali UK reached its highest Brand Awareness yet – 66% – and 35% more subscriptions than in their first advertising campaign in 2005.

Report
on operations

Market Overview

The telecommunications market is in constant and continuous evolution. Historically monopolistic, in the last decade we have seen a gradual liberalization marked by ongoing review and development of the regulatory framework. The "convergence phenomenon" has led to the creation of a market for integrated Internet, telephone, data and video services, increasing competition in the sector.

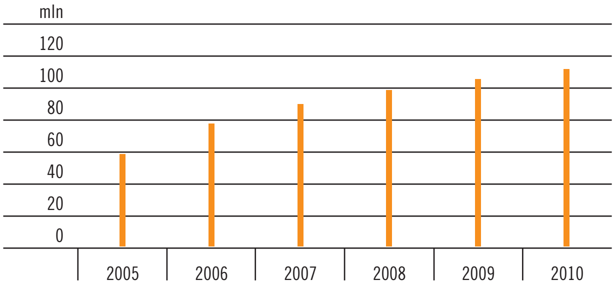
The strong broadband market has transformed Internet access into a mass consumption commodity. A dynamic market characterized by increasing competition has forced operators to expand their product/service range. These dynamics have opened up significant opportunities for alternative operators, especially in the multimedia applications sector.

In parallel with regulatory development at European level, the various players in the market are increasingly willing to invest in state-of-the-art network infrastructures. These investments allow operators to increase their profit margins and position in a rapidly changing market with a significant potential for growth. Today the broadband market leaders offer a much wider services portfolio, with numerous combinations of Internet access, VoIP and audiovisual content to attract and retain customers.

The broadband Internet services market

At the end of September 2006, the IDC research institute confirmed about 70 million broadband connections in Western Europe. Of these, Italy recorded approximately 12% (8 million) and the United Kingdom 17% (12 million). The general market trend shows a significant reduction in the dial-up market compared with a strong expansion of the broadband market. The number of suppliers on the market has increased and prices have dropped, whilst transmission speeds have increased. Broadband connections in the household market, according to IDC, were around 77 million, expected to increase to over 111 million by 2010.

BROADBAND CONNECTIONS IN WESTERN EUROPE, 2005-2010

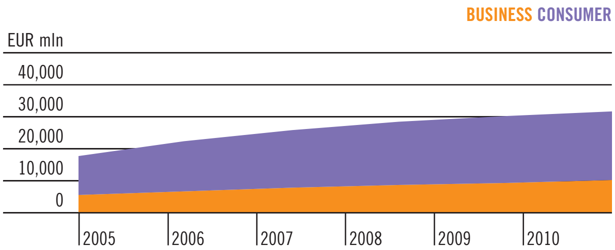


SOURCE: IDC DATA PROCESSING, 2006

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

According to IDC, by 2010 revenues solely from broadband access in Western Europe are expected to represent a market value of about EUR 32 billion, as compared with about EUR 18 billion in 2005. Of these, over 68% will be from the home-based market.

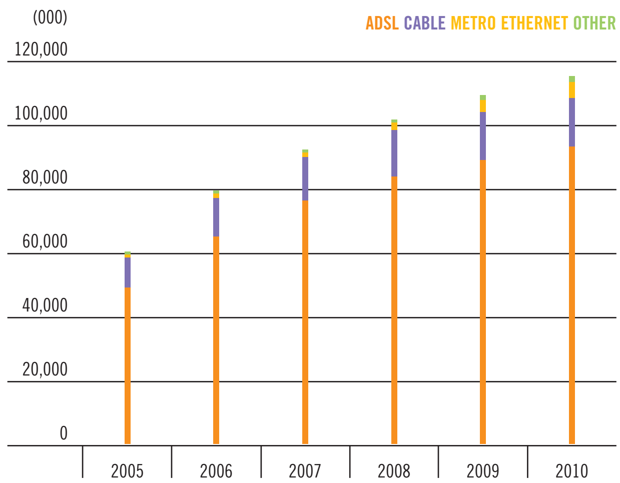
BROADBAND REVENUES BY CUSTOMER SEGMENT, 2005-2010



SOURCE: IDC DATA PROCESSING, 2006

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

BROADBAND CONNECTIONS BY TECHNOLOGY IN WESTERN EUROPE, 2005-2006



SOURCE: IDC DATA PROCESSING, 2006

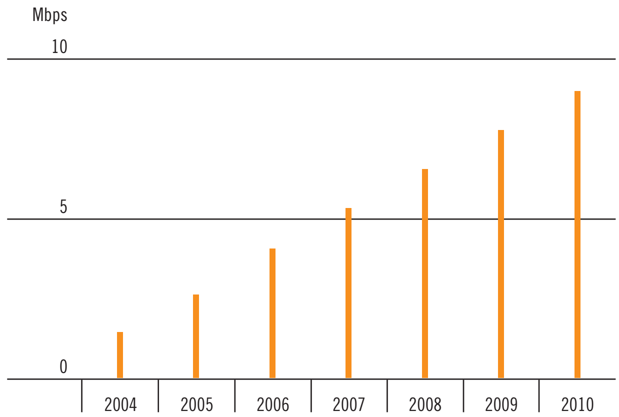
From an analysis commissioned by the European Union, it emerges that competition in each country has increased considerably. In fact, about 50% of the overall market is held by alternative operators who have significantly increased their market shares.

In effect, with the opening up of the regulatory framework imposed by the European Union, the traditionally dominant position of former monopolies has been seriously undermined, also as a result of alternative operator developments in an unbundling proprietary network.

With regard to prices, the average trend for the period should see a reduction, albeit moderate. In this respect it is important to mention that this access-only price trend will be counterbalanced by voice service sales (both CPS and VoIP) and content sales (Triple Play - IPTV) offered as bundled services.

IDC expects the bandwidth demand to grow from 2.5 Mbps in 2005 to almost 9 Mbps in 2010.

WESTERN EUROPE: AVERAGE CONNECTION BANDWIDTH 2005-2010



SOURCE: IDC, 2006

VoIP and Triple Play – added value services as a differentiating element

The broadband market is characterized by an increasingly significant presence of operators who, in order to successfully compete against the former monopolies, have adopted an unbundling network infrastructure. The services offered have become more attractive through quality aspects such as bandwidth availability, voice services (VoIP), music, video, content and a sophisticated interaction with the customer.

With a view to increasing ARPU and retaining customers, the operators differentiate their supply via these services. Even if, in the long term, access will remain the most important application, operators adapt their strategies to a service access orientation focused on multiplay.
In Europe, IPTV (Triple Play) development is expected to continue, increasingly representing a core business for incumbents and alternative operators.
In order to offer IPTV services it is important to have a network that offers high-speed bandwidth and appropriate technological skills.

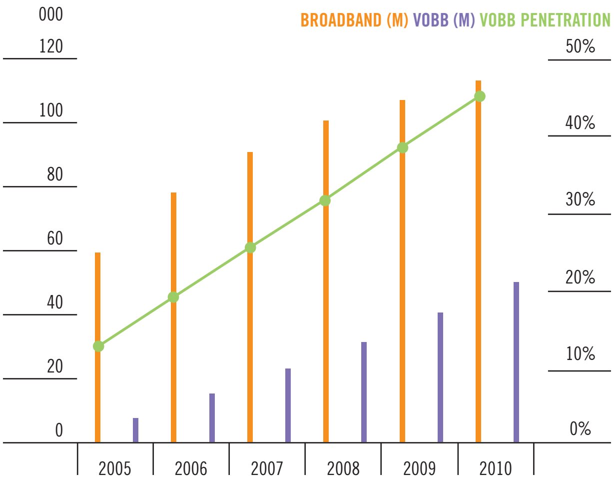
In IPTV are the content and services to be distributed, across distribution platforms accessible by the customer via PC, mobile phone, etc., are fundamental. Market trends imply focus on the user for every strategy, and that competition targeting of capturing and keeping the attention of the public will intensify in the near future.

In the UK, one of the leading IPTV service providers is Homechoice. Acquired by Tiscali in August 2006, it offers an excellent platform and extensive content portfolio achieved through local and international agreements. Tiscali launched its own-brand IPTV service in the UK in March 2007, and plans to launch the service in Italy by the end of 2007.

In order to be both productive and profitable, it is important to be up to date technologically and try to offer the customer a single package of all services available on the market or at development stage: data+voice+video. This is Tiscali's aim for its advancement to 'Full Provider' of services, one provider for all services required by the customer via an 'all-inclusive' formula, easy to use and original.

In Western Europe in the period 2005-2010 a rapid growth is expected in the number of broadband voice connections. They will increase from 7.2 million in 2005 to 14.7 million in 2006 and almost 50 million in 2010 (IDC forecasts).

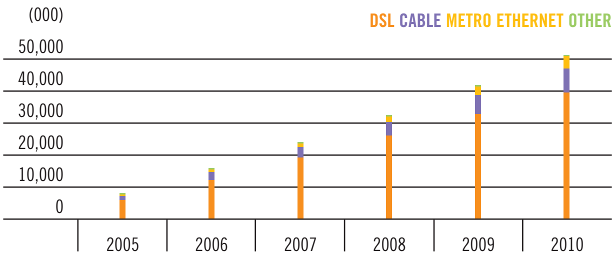
WESTERN EUROPE
BROADBAND CONNECTIONS AND PENETRATION OF VOBB, 2005-2010



SOURCE: IDC, 2005

DSL technology will prove to be the most used for voice services. VoIP services further weaken incumbent positions in the market. DSL technology voice connections will, according to IDC predictions, increase from 6 million in 2005 to over 37 million in 2010.

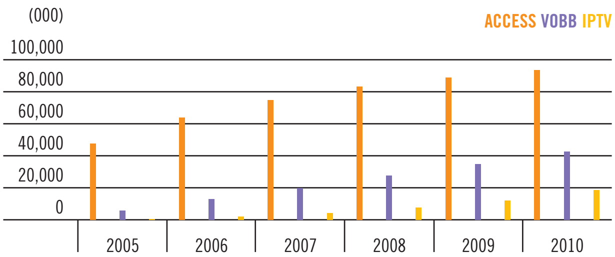
VOBB CONNECTIONS BY TECNOLOGY IN WESTERN EUROPE, 2005-2010



SOURCE: IDC DATA PROCESSING, 2006

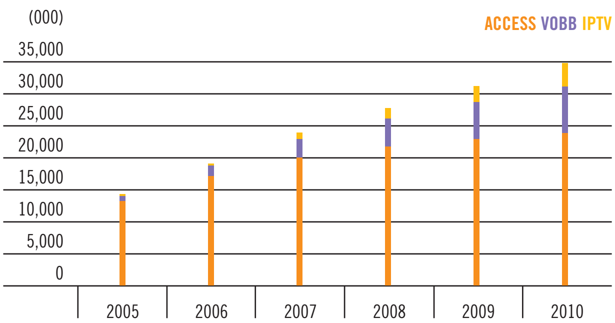
The development of Double (VoBB) and Triple Play (IPTV) services, following the growth in broadband access, is a new business opportunity for operators. According to IDC, broadband connections in the household market will increase considerably over the next 4 years, reaching over 94 million in 2010. By then there will be 43 million VoBB connections and 19 million IPTV connections. Total revenues will increase from about 13 billion euro in 2005 to over EUR 32 billion in 2010.

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



SOURCE: IDC DATA PROCESSING, 2006

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



SOURCE: IDC DATA PROCESSING, 2006

In the second generation broadband market, with a strong growth in Triple Play, the ability of operators to differentiate their product range will be decisive. Important objectives common to all operators will be:

A) greater customer loyalty to limit the 'churn rate',
B) increased ARPU via integrated services, with marketing as a single operator,
C) reduced operating costs achieved via improved after sales service efficiency.

Unbundling of the Local Loop (ULL)

To face increasing volumes and reducing prices, alternative operators need to reduce their costs. In this respect, in recent years there has been a strong development in network unbundling, to the detriment of wholesale and bitstream services. In 2006, about 1.7 million ULL connections were recorded in Italy (Tiscali estimates).

The development of proprietary network unbundling allows operators to increase margins, offer greater bandwidth and increase flexibility in differentiating the services offered. In particular, greater value chain control becomes a key factor for those intending to compete with incumbents and achieve a market placement as telecommunications operator.

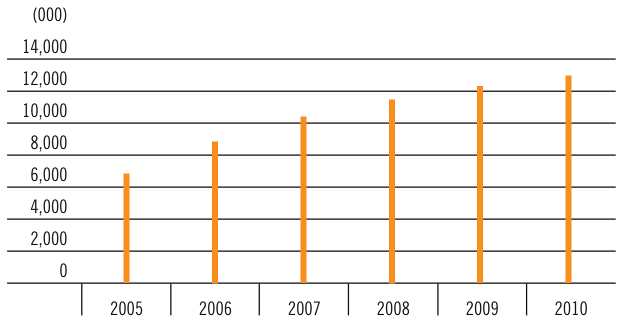
In the next few years, former monopolies will need to face the erosion of traditional voice services, and the resulting drop in revenues and margins. This effect is due to growing pressure from competition following the development of new technologies, and increased regulation of the broadband market.

Market overview: recent evolution by geographic area

Italy

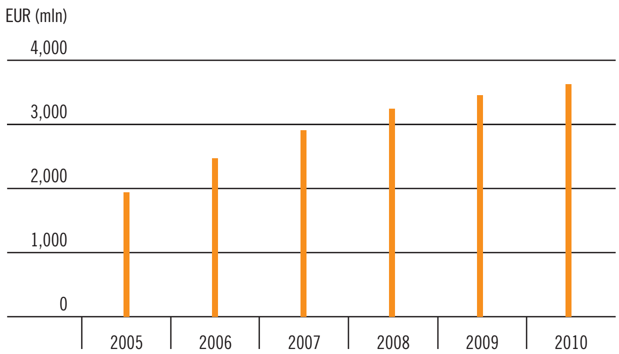
In Italy, broadband connections recorded in 2005 were about 7 million and IDC estimates that these will reach 13 million by 2010. In the same period, revenues are expected to increase by about 86%.

BROADBAND CONNECTIONS IN ITALY, 2005-2010



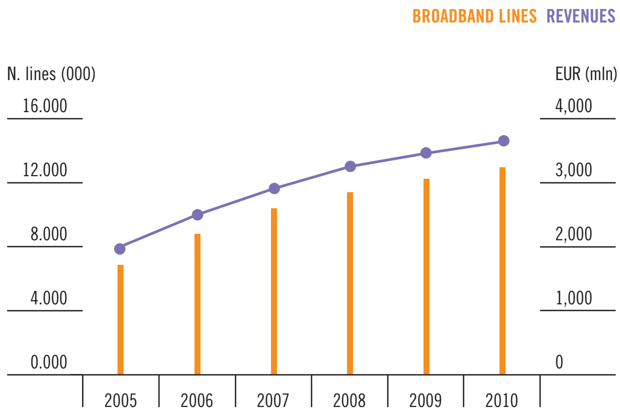
SOURCE: IDC DATA PROCESSING, 2006

BROADBAND REVENUES IN ITALY, 2005-2010



SOURCE: IDC DATA PROCESSING, 2006

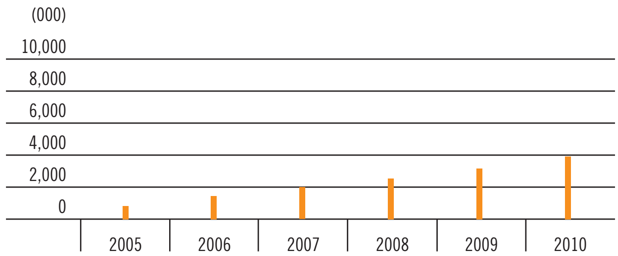
BROADMAND CONNECTIONS AND REVENUES IN ITALY, 2005-2010



SOURCE: IDC DATA PROCESSING, 2006

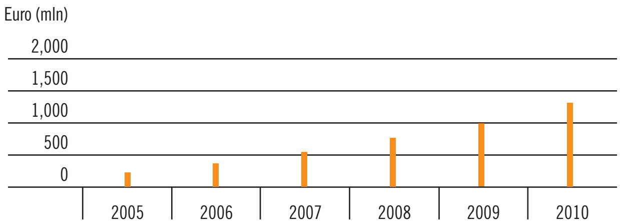
In Italy, VoBB is increasing in the broadband market, with 17% of DSL connections now used for VoBB services.

VOBB REVENUES IN ITALY, 2005-2010



SOURCE: IDC DATA PROCESSING, 2006

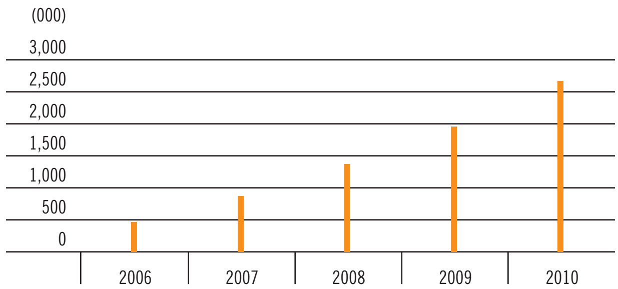
VOBB REVENUES IN ITALY, 2005-2010



SOURCE: IDC DATA PROCESSING, 2006

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

BROADBAND CONNECTIONS IN THE UK, 2006-2010



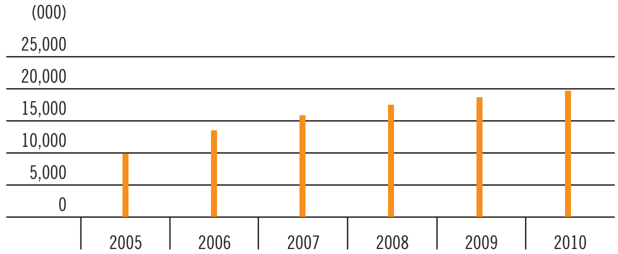
SOURCE: IDC DATA PROCESSING, 2006

At competitive level, Italy is distinguished form other European countries due to the strong position held by Telecom Italia. Telecom Italia broadband connection services are characterized by an average price higher than that applied by rival alternative operators, Tiscali included. Increased OLO development of unbundled DSL technology will lead to an unavoidable drop in Telecom Italia's market share. At the end of 2006 in Italy, the Tiscali Group held about 5% of the broadband market.

United Kingdom

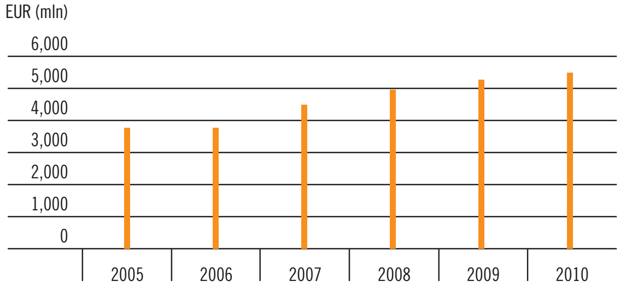
In recent years the UK has been one of the most dynamic markets in Europe. Broadband connections recorded in 2005 were about 10 million and IDC estimates that these will increase considerably by 2010, almost doubling to about 20 million. In the same period, revenues are expected to double.

BROADBAND CONNECTIONS IN THE UK, 2005-2010



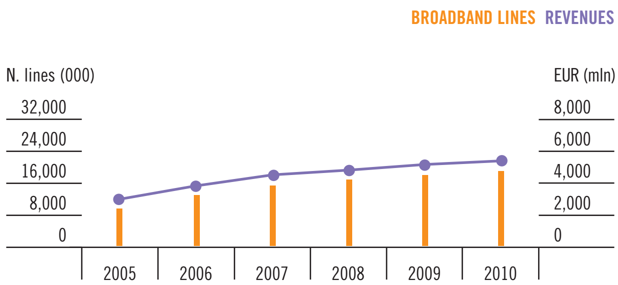
SOURCE: IDC DATA PROCESSING, 2006

BROADBAND REVENUES IN THE UK, 2005-2010



FONTE: ELABORAZIONE DATI IDC, 2006

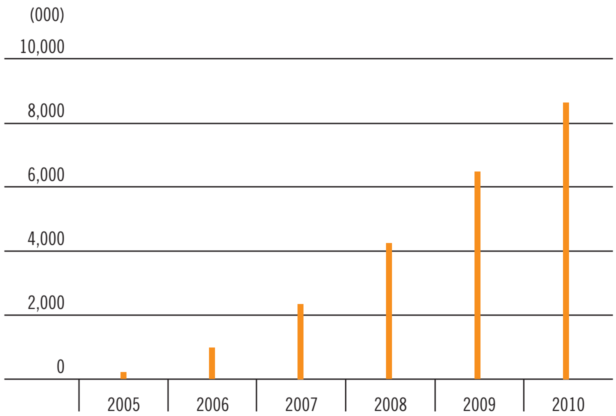
BROADBAND CONNECTIONS AND REVENUES IN THE UK, 2005-2010



FONTE: ELABORAZIONE DATI IDC, 2006

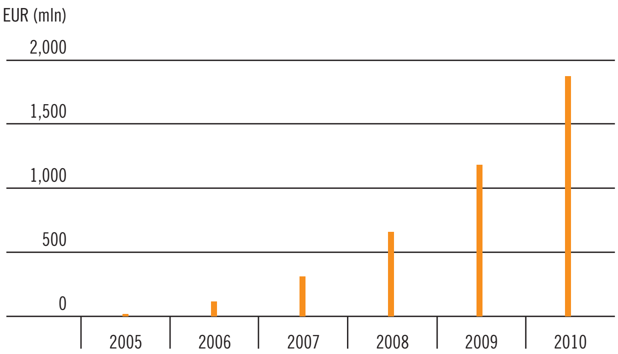
In 2006, the UK VoBB market recorded a considerable increase, with blanket estimates at the end of 2006 of over 1 million connections (8% of broadband connections).

VOBB CONNECTIONS IN THE UK, 2005-2010



SOURCE: IDC DATA PROCESSING, 2006

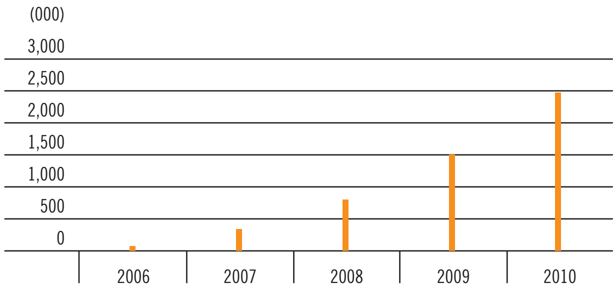
VOBB REVENUES IN THE UK, 2005-2010



SOURCE: IDC DATA PROCESSING, 2006

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

IPTV CONNECTIONS IN THE UK, 2006-2010



SOURCE: IDC DATA PROCESSING, 2006

The UK market is characterized by strong competition that influences price levels. The positive side to this competitive landscape lies in the fact that BT is the European incumbent with the lowest national market share. Over the next few years, BT is expected to lose a greater share of the market to OLOs, including to Tiscali.

Regulatory background

Continued technological innovation has led to the telecommunications regulatory regime becoming obsolete. Digital now offers endless content types via different networks. The Internet has become a global infrastructure for a range of electronic communications services. Information and communications technologies are converging, opening up significant opportunities for new businesses and services.

The *"EU Regulatory Framework for the Electronic Communications Sector"* embraces this technological convergence, extending and adapting the benefits of electronic communications liberalization in general.

Based on telecommunications liberalization experience, the policy makers believe that extending competition and guaranteeing opportunities and benefits for innovative companies is the key to promoting technological progress.

In 2006, transposition of the 2002 framework was completed in all of Europe 25. All member states, in fact, adopted a basic legislation on the subject.

The national regulatory authorities are primarily responsible for guaranteeing that framework objectives provide the tools needed to ensure effective application of the regulations throughout Europe, and that competition conditions are restricted to ex ante regulations only in markets where there is no real competition.

The regulatory structures and processes announced in the framework have been gradually implemented in the EU, and are forming the basis for increased competition, a drop in prices and wider choice and quality options for end users. However, whilst the EU regulatory landscape is focused on common aims and objectives, in the various member states the development levels differ.

The Commission has established a list of 18 "markets" for electronic communications (e.g. local and national calls), as a starting point for national regulatory authority analysis. These markets are listed in the *Commission Recommendations* "on relevant products and market services susceptible to ex ante regulation".

At the end of 2006, the Commission held a Public Consultation on the next *"Review of the Regulatory Framework for the Electronic Communications Sector"*. A new round of market analysis is planned for 2007.

Based on the European framework, the national regulatory authorities (NRAs) propose appropriate regulatory measures as guidelines for the competitive elements of local markets.

In the UK access market, the main future concern for OFCOM is the promotion of ULL and New Generation Network access (NGN). The 2006 regulatory framework can be summarized as follows:

- The 2006-07 review of the wholesale broadband access market is in progress and due for completion by the end of 2007. It is expected that the success of ULL will lead to deregulation in competitive areas and that SMP regulation will be much less prescriptive than it is now, linked to voluntary British Telecom commitment to prices.
- As British Telecom launches its 21st Century Network (21CN), new products will test regulatory approaches, including the above-mentioned review and the principles of equivalence on which British Telecom commitments are based.
- OFCOM commitment to implementation will continue and, after BT's operational separation to implement its targets, there will be further commitment to regulating the market in which OLOs also operate to facilitate direct customer migration.
- OFCOM has introduced new broadband service regulations to prevent damage to consumers and a general development project is in progress, driving companies to more flexible, quality services.
- Important changes in the television sector will have an impact on regulatory tasks, from the battles over Sky content to the impact of services on demand on networks and the implementation of TV on broadband networks.
- Discussion between companies has begun in relation to regulatory challenges that could be posed by investments in next generation access, a welcome forward planning that will force BT to consider this type of investment.

With regard to the Italian market, from a Regulatory point of view we have seen the completion of analyses of the 18 significant markets that have led to the publication of a series of AGCOM Resolutions (final measures).

These directives, included by the Incumbent in its latest offers, will best demonstrate their effects as from 2007, in that the complexity of the modifications and the impact from a technical-operational point of view will call for a lengthy implementation period.

In particular, the more relevant steps called for to enact the above-mentioned directives are summarized as follows:

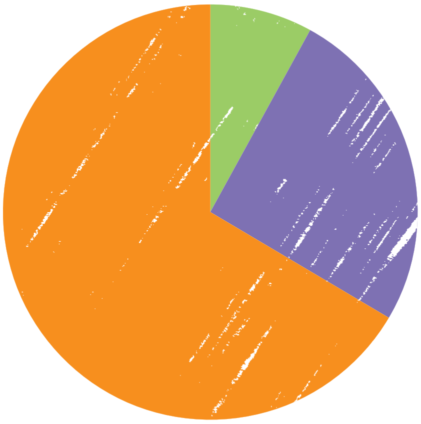
- With regard to *unbundled access* (ULL), AGCOM Directive 04/06/CONS defines the new reference market rules (Market 11 in the EC Recommendation)
- With regard to *Bitstream services*, Directive 34/06/CONS defines new principles for the provision of indirect xDSL services (Market 12 in the EC Recommendation)
- In the *fixed telephony* market, measures regarding markets 8, 9 and 10 (Directive 417/06/CONS) formalize an imbalance in the *voice termination* value, with termination tariffs for OLOs higher than those applied by the incumbent for a 4-year period.
- The Guarantor Authority will perform a market review on the mobile telephony market and on the option of introducing MVNO (Mobile Virtual Network Operator) agreements
- AGCOM faces the *fixed-mobile convergence* question by launching cognitive enquiries into integration processes between the two service types for transition to the new generation networks.
- WLR (Wholesale Line Rental) *implementation methods* are identified in accordance with Directive 33/06/CONS.
- With regard to *consumer protection*, AGCOM adopts a series of measures in favour. In particular, a directive on quality and service charter for fixed-point Internet access of interest to broadband service users. Remote contracts relating to electronic communications services are also regulated.
- Regulatory authority attention also begins to focus on wireless access technologies, particularly Wi-Max. Public consultation is held on the introduction of technologies such as the Broadband Wireless Access (BWA) in the 3.5 GHz bandwidth.

Tiscali shares

Tiscali shares have been listed on the Italian Stock Exchange (Milano:Tis) since October 1999. At 31 December 2006, market capitalization was EUR 1,074 million, calculated on a value of EUR 2.53 per share as at 29 December 2006.
The number of shares representing Group share capital increased from 396,738,142 at 31 December 2005 to 424,413,163 at 31 December 2006 as a result of the capital increase reserved for holders of "Equity Linked" securities expiring in September 2006, details of which are illustrated below.

DATE	DESCRIPTION	SHARES ISSUED	CAPITALE SOCIALE (SHARES)
26.09.06	CAPITAL INCREASE RESERVED FOR THE EQUITY LINKED 4.25% 2003-2006 BOND ISSUE	27,675,034	424,413,163

The chart below illustrates Tiscali's shareholder base at 31 December 2006:



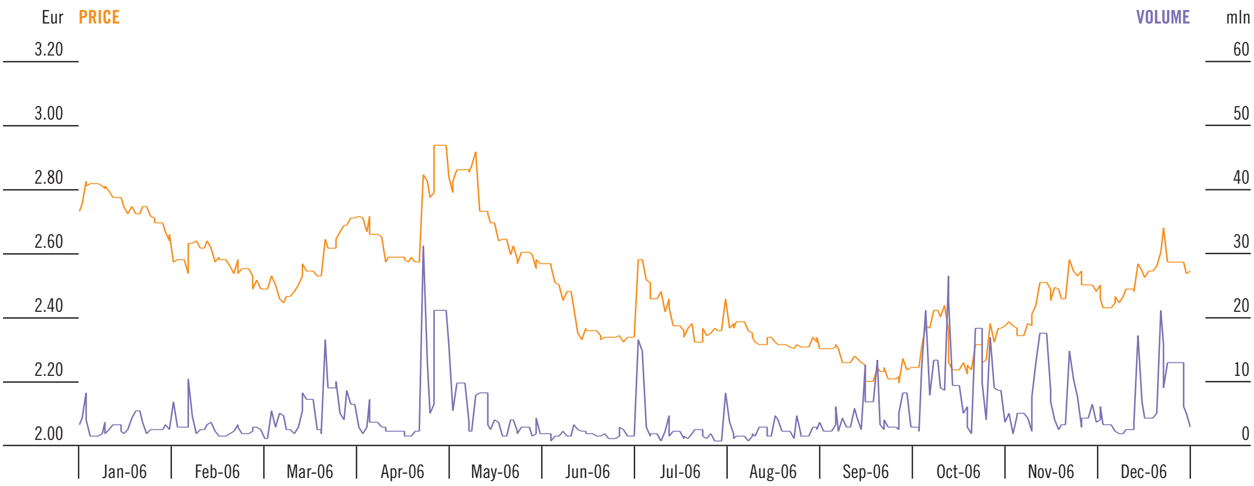
FLOATED 66.5%

RENATO SORU 25.5%

SANDOZ FAMILY FOUNDATION 8%

In stock market terms, three main phases can be identified in the Tiscali stock trend for the period ending 31 December 2006. In the first part of the year, up to the end of May, the stock recorded a daily average of EUR 2.64. The second period up to the end of October was marked by price fluctuations attributed to segment and speculative dynamics. The stock shows an inverted trend at 20 October, coinciding with market publication of the 2007-2010 industrial plan. After that period the stock again followed an upward trend to close 2006 with a value of EUR 2.53.

The graph below illustrates Tiscali stock trends and volumes negotiated in 2006:

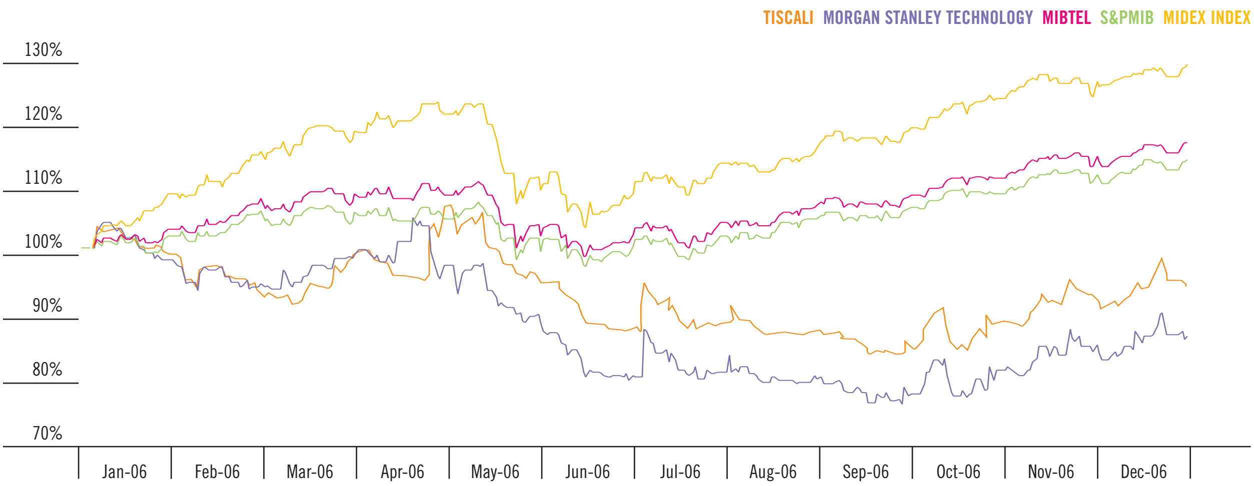


SOURCE: BLOOMBERG DATA PROCESSING

The average price for the period was EUR 2.48. The maximum price of EUR 2.91 for the period was recorded on 28 April, and the minimum of EUR 2.218 on 26 September 2006.

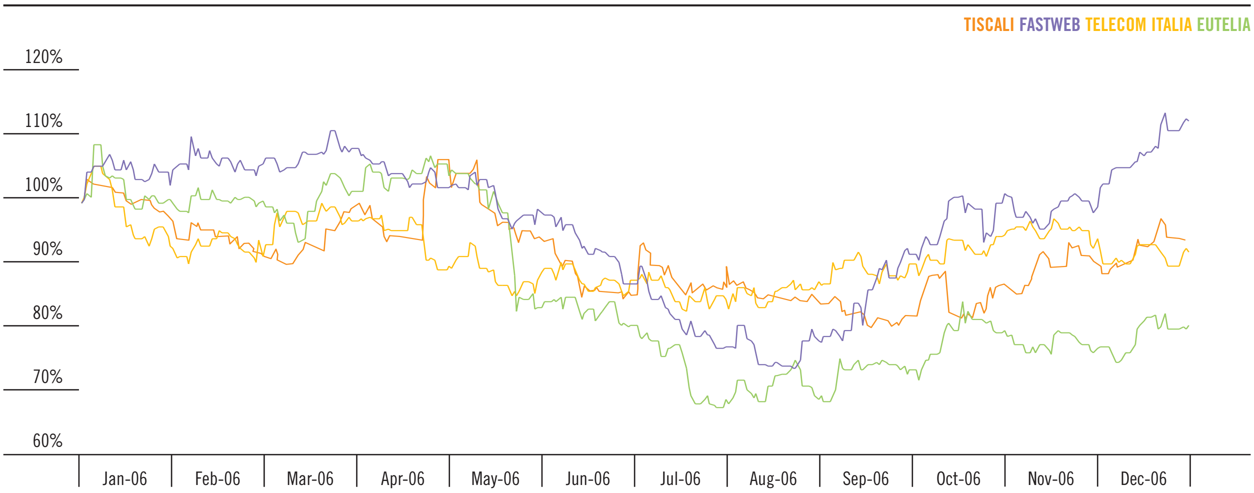
In comparison with market indexes, Tiscali stock shows a trend in line with the four reference indexes - S&PMIB, MIBTEL, MIDEX and Morgan Stanley Technology Index - in the first and last months of the year, whilst stock performance is recorded as below the performance of the four indexes in the July-October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

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



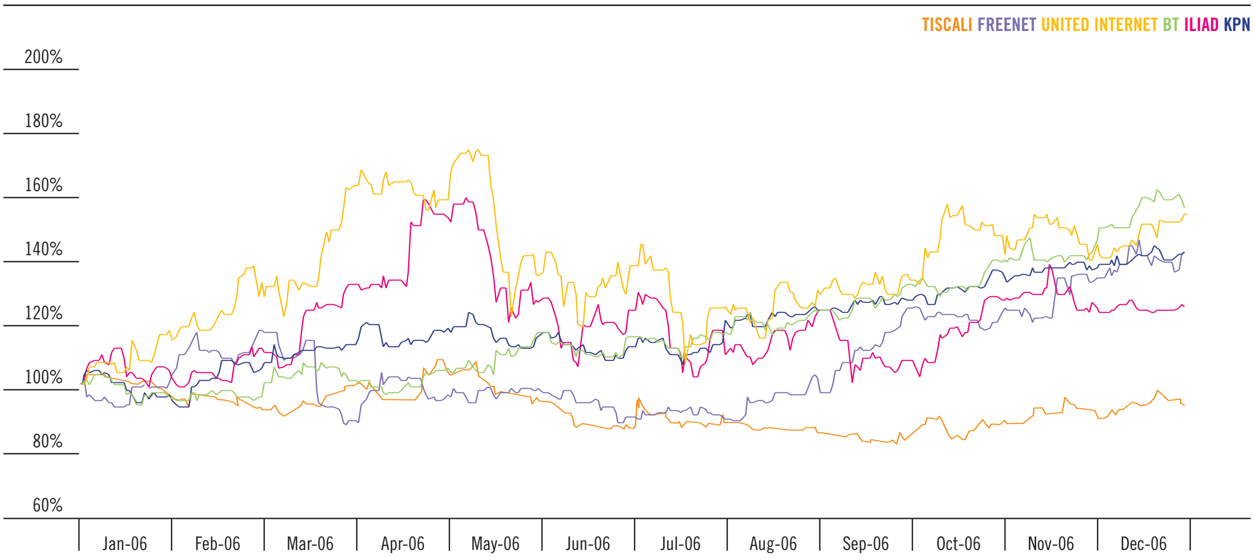
SOURCE: BLOOMBERG DATA PROCESSING

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



SOURCE: BLOOMBERG DATA PROCESSING

In Europe, Tiscali stock performance is in line with that of BT and Freenet in the first half of the year, with a fairly constant trend throughout the year. This is illustrated by the graph below.



SOURCE: BLOOMBERG DATA PROCESSING

Volumes stood at a daily average of about 4.7 million items, with a daily average trade value of EUR 11.6 million.

AVERAGE TISCALI STOCK TRADING ON THE ITALIAN STOCK EXCHANGE IN 2006

AVERAGE TISCALI STOCK TRADING ON THE ITALIAN STOCK EXCHANGE IN 2006		
DATE	PRICE (EUR)	N° OF SHARES
January	2.728	3,022,924
February	2.564	2,774,488
March	2.531	4,892,618
April	2.660	6,053,228
May	2.695	5,081,993
June	2.398	1,670,770
July	2.391	2,700,935
August	2.321	2,106,232
September	2.241	4,456,943
October	2.311	10,124,727
November	2.446	6,521,520
December	2.513	6,710,627
AVERAGE	**2.483**	**4,676,417**

Significant events during the financial year

Significant events over the course of the financial year related to the Group structure and its management, together with completion of the repayment process for all bonds issued since 2000 and the plan for disposal of non-strategic assets in line with the new 2007-2010 business plan.

Appointment of Tommaso Pompei as CEO

On 11 January 2006, Tiscali S.p.A. Board of Directors appointed Tommaso Pompei as Group CEO.

New Tiscali Italia S.r.l. management

On 28 June 2006, Mario Mariani was appointed Tiscali Italia S.r.l. CEO and member of the Board of Directors following the resignation of Sergio Cellini. In October 2006, Tiscali Italia S.r.l. also announced the appointment of new managers for the three main business areas reporting directly to CEO Mario Mariani. Roberto Lai was appointed manager of the Consumer & S.o.H.o. Division, Paolo Susnik, who continues as CEO of Tiscali International Network, was appointed manager of Tiscali Italia S.r.l. Business Services Division, and Klaus Ludemann was appointed manager of Media & VAS Division.

Tiscali and Video Networks: integration into the UK market

In August 2006, Tiscali completed the business combination of Video Networks International Ltd with its UK subsidiary (Tiscali UK) by means of a share swap. Video Networks International Ltd (VNIL) transferred 100% of its UK business – Video Networks Ltd (VNL) – to Tiscali UK Ltd, 100% controlled by Tiscali SpA, in exchange for a minority interest in Tiscali UK Ltd, initially of 11.5% but subject to increase (max 20%) on reaching certain pre-established objectives. Following the integration, of strategic importance with a view to Tiscali's position as an integrated telecommunications service provider, the Tiscali Group has assured itself , in addition to one of the best platforms currently in operation, a consolidated know-how in negotiation and the targeted development of television content. The transaction also allowed Tiscali to considerably reduce the time required to gain entry into this segment.

Disposal of Dutch assets to KPN

On 15 September 2006, Tiscali concluded an agreement to dispose of its assets in the Netherlands to KPN Telecom. The bid received places Tiscali Netherlands enterprise value at EUR 255 million, to be paid as cash on closing. The value per ADSL user, based on 30 June data, was EUR 923. Conclusion of the transaction requires approval from the Dutch antitrust authorities, and is expected by the end of the first quarter 2007 or immediately afterwards.

EUR 209.5 million repayment of the Equity Linked bond

On 26 September 2006 Tiscali repaid the Equity Linked bond issued by Luxembourg subsidiary Tiscali Finance SA for a nominal value of EUR 209.5 million plus about EUR 8.9 million interest. As announced, repayment of the Equity Linked Bond involved recourse to the 'soft mandatory clause', i.e. the issue to bond subscribers of a combined new share issue plus cash, deriving from a loan agreed with Silver Point Capital. The total repaid for Equity Linked bonds in shares was EUR 62.5 million for a total 27.7 million shares at the issue price of EUR 2.26 each, whilst the total paid in cash was about EUR 147 million. By this transaction, the Tiscali Group concluded its repayment of all bonds issued since 2000, for a grand total of over EUR 600 million.

Board of Directors: new appointments

On 20 December 2006, Tiscali S.p.A. announced its co-option of Arnaldo Borghesi and Rocco Sabelli as non-executive directors. With this new board the company consolidates its governance in line with the recent financial profile consolidation. The appointments followed the resignation of Directors Bischoff and Pretre in 2006.

Revenues

678.5

EUR (mln)

Analysis of the group economic and financial position

Foreword

The period ending 31 December 2006 saw completion of the Tiscali Group concentration in Italy and the UK, where even product and infrastructure investments are now focused. In addition, the acquisition of British company Video Networks was concluded, consolidated as from September 2006, confirming company commitment to expansion in the UK market and in the IPTV market.

The year also saw the announcement of the disposal of subsidiaries in Germany, the Netherlands and the Czech Republic, along with finalization of the exit from the Spanish market. The income statement data illustrated therefore reflect changes in the consolidation area, in particular the classification of the item "Results of discontinued operations" in relation to income statement elements of subsidiaries operating in the Czech Republic, Germany, the Netherlands and Spain. Tiscali Group revenues for 2006, which therefore relate to operations in Italy, the UK and a number of minor subsidiaries (including Tinet), totalled EUR 678.5 million, 28% up on the EUR 530.8 million recorded in 2005.

ECONOMIC POSITION

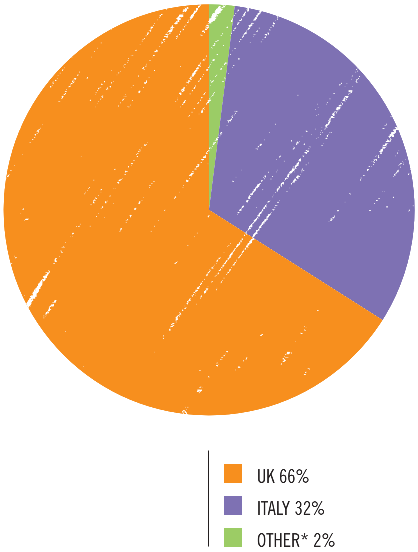
CONSOLIDATED INCOME STATEMENT EUR (000)	31.12.2006	31.12.2005	CHANGE	CHANGE %
Revenues	678,481	530,852	147,629	28%
Other income	3,685	1,021	2,664	261%
Purchase of materials and outsourced services	498,389	387,831	110,558	29%
Personnel costs	77,883	66,540	11,343	17%
Other operating costs	5,472	7,816	(2,344)	(30%)
Gross operating result	**100,422**	**69,686**	**30,736**	**44%**
Restructuring costs, provisions for risks and write-downs	60,408	28,219	32,189	114%
Depreciation and amortisation	130,095	97,122	32,973	34%
Other unusual (Income) Charges	(77,229)	-	(77,229)	-
Operating result	**(12,852)**	**(55,655)**	**42,803**	**77%**
Share of profit or losses of associates with equity method	(937)	(74)	(863)	-
Net financial income (charges)	(29,741)	(21,488)	(8,253)	38%
Other net financial income (charges)	(21,985)	(4,921)	(17,064)	347%
Profit (loss) before tax	**(65,515)**	**(82,138)**	**16,623**	**20%**
Income taxes	5,851	(24,793)	30,644	124%
Profit (Loss) from continuing operations	**(59,664)**	**(106,931)**	**47,267**	**44%**
Profit (Loss) from discontinued and/or discontinuing operations	(76,950)	94,123	(171,073)	
Net result	**(136,614)**	**(12,808)**	**(123,806)**	

It should be noted that, as permitted under the provisions of IFRS 5, the income statements of assets for disposal, in this case assets in the Netherlands, Germany and the Czech Republic, are recorded under the consolidated income statement item "Result of discontinued operations" in both 2006 and 2005, mentioned for comparison purposes in this report. Therefore, the 2005 income statement was consequently reclassified to allow comparison with 2006 figures.

Revenues by country

The pie chart relates to 2006 results.

DISTRIBUTION OF REVENUES BY COUNTRY



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

Italy

In 2006, Tiscali Italia Srl, the Italian subsidiary responsible for all Tiscali Group business operations in Italy, recorded revenues of EUR 217.5 million, compared to the EUR 188.9 million total for 2005, showing a 15% increase. In particular, revenues from broadband Internet access services (ADSL) totalled EUR 73.3 million, compared to the EUR 51 million of 2005 (an increase of around 44%). Of these, approximately 40% was generated from 'direct' customers, i.e. those linked to the Tiscali network infrastructure (ULL). 2006 also showed persistent development in the revenues item which, also driven by VoIP services (over EUR 10 million revenues in the period), exceeded EUR 40 million (EUR 40.9 million, compared to the EUR 30.8 million in 2005, with an increase of around 33%).

In 2006 the dynamics of the Tiscali customer base in Italy was characterized by a 'net' increase of over 129,000 new ADSL customers, bringing the total customers for that service to 432,000 (a 43% increase over the end of the previous year), of which around 234,000 are already active and linked to the Tiscali network infrastructure *(unbundling)*. The data regarding customers who in 2006 subscribed to the 'double play' services (data+voice via Internet) was considerable, reaching 66,000 and bringing the VoIP customers total in Italy to over 81,000. The customer base using 'dial-up' access services (narrowband), albeit in a physiologically decreasing Market overview, remains significant (around 726,000).

The new services introduced as from the second quarter 2006 (ADSL+voice – Tiscali Tandem), i.e. a series of flat-rate solutions, for areas covered or not by the unbundling network, to browse the Internet and call fixed network numbers anywhere in Italy on a no-limits basis, have led to an acceleration in the revenues volume dynamics.

United Kingdom

In 2006, Tiscali UK confirmed well-sustained growth rates, achieved despite a reference market characterized by strong competition (also in terms of service prices) and by a context involving the concentration of different operations between several telecommunications operators. Tiscali UK maintained its penetration capacity and the recent business combination with Video Networks Limited, improving the range and quality of services provided, is expected to generate further growth.

Video Networks Ltd provides TV and video services to its own broadband customers, at present operating under the brand name Homechoice, via its own latest generation IPTV platform. The Homechoice premium services, currently subject to integration with Tiscali UK services, includes all major Hollywood films with a catalogue of over 1,000 titles available, plus 5,000 interactive music videos accessed via the V:MX service, and a full pay TV channel package. Over a year, VNL revenues total around EUR 27 million.

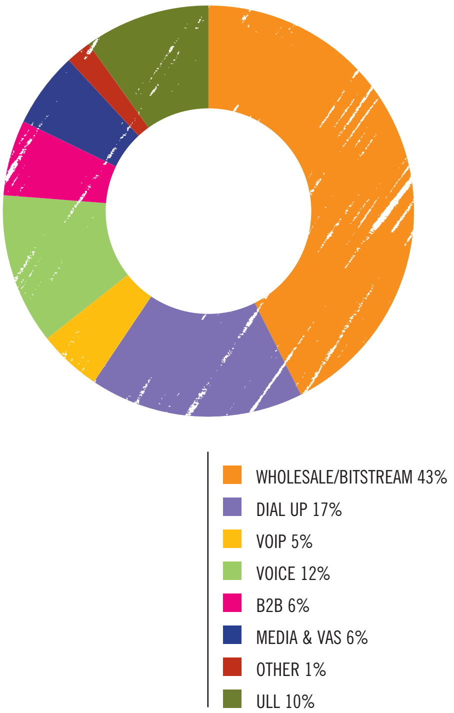
In 2006 Tiscali UK, therefore including VNL, achieved revenues of EUR 445.2 million, a 37% increase over 2005 (revenues of EUR 324.9 million). This performance is primarily the result of coherent organizational growth of the subsidiary, particularly evident in the ADSL access services segment (EUR 284.6 million in 2006, compared to EUR 170.5 million in 2005, increasing by 67%), representing around 64% of Tiscali revenues in the UK. In this context of strong revenue growth, voice services, also including analog products bundled with the ADSL services package, have generated revenues of EUR 70.5 million (a 36% increase over the EUR 51.9 million for the same period in 2005).
In 2006 the customer base recorded a significant increase: acquired ADSL users totalled over 489,000, 43,000 of which from the VNL business combination. At 31 December 2005,

broadband users exceeded 1.42 million, 350,000 of whom are direct customers linked to the Tiscali ULL network for which roll-out began in the first half year of 2006. Compared to the end of the previous year, the ADSL user base in 2006 increased by 52%.

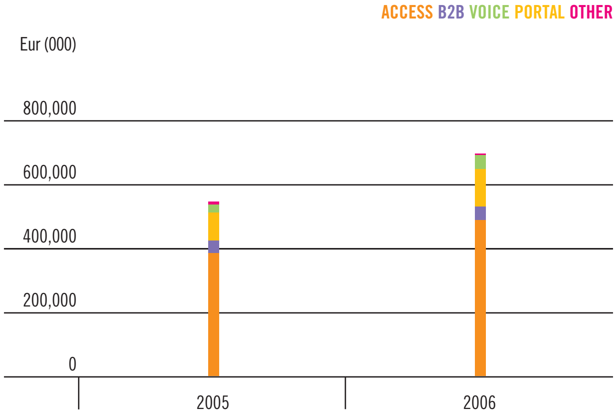
Revenues by business line

The pie chart relates to 2006 results.

DISTRIBUTION OF REVENUES BY BUSINESS LINE AND ACCESS METHOD

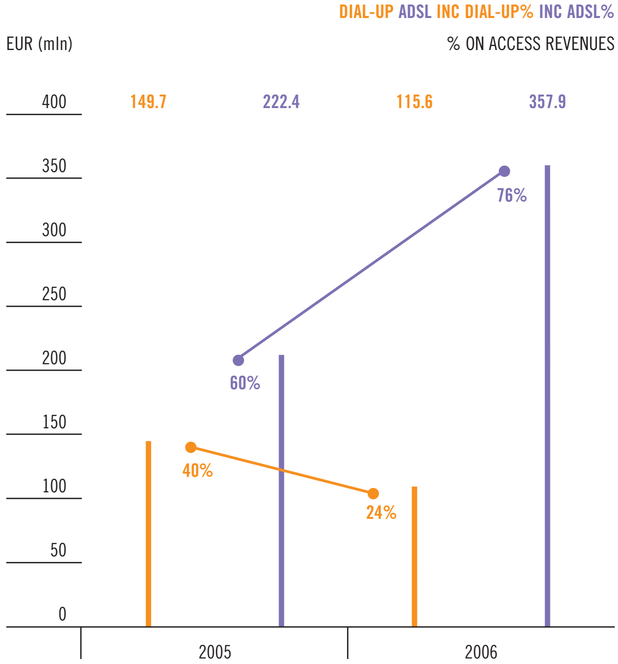


REVENUES BY BUSINESS LINE



Access

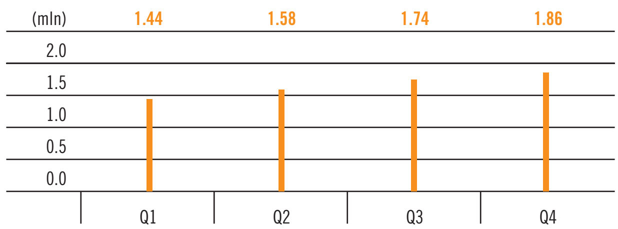
ACCESS REVENUES



The segment in question, including revenues from 'pure' Internet access services via narrowband (dial-up) and broadband (ADSL), in 2006 generated revenues of EUR 473.5 million, representing 70% of total Group revenues for the quarter and showing a 27.2% increase over the same period in 2005 (EUR 372.1 million). This data takes into account the physiological decrease in narrowband revenues. In fact, from an analysis of ADSL revenues only, it emerges that the revenues increase in 2006 as compared to 2005 was 61% (EUR 357.9 million against EUR 222.4 million).

The ADSL services customer base acquired in the period was over 618,000, bringing the total customers for this service to over 1.855 million, 583,000 of whom are already direct customers, i.e. connected via the Tiscali ULL network.

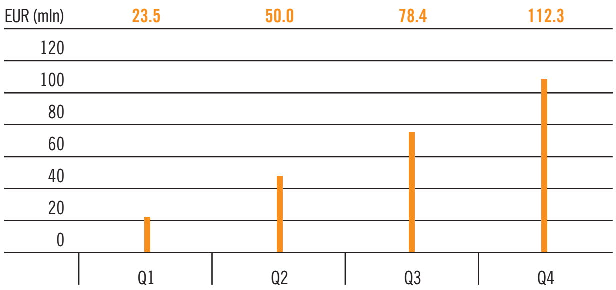
ADSL CUSTOMER BASE DEVELOPMENT IN 2006



Revenues from access services in 2006 totalled over EUR 473 million (70% of total Group revenues), increasing by 27% over 2005 (EUR 372.1 million). This includes a significant increase in ADSL services revenues (EUR 357.9 million compared to EUR 222.4 million in 2005, with an increase of almost 61%) and the parallel physiological decrease in 'dial-up/narrowband' revenues which, in line with forecasts, were EUR 115.6 million in 2006 (EUR 149.7 million in 2005).

Voice

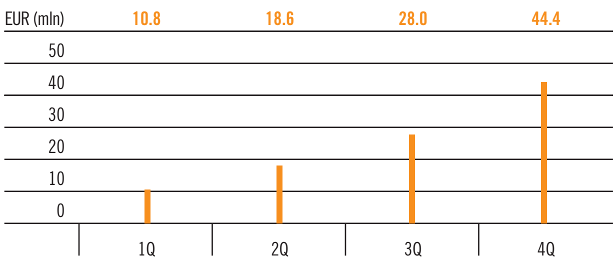
VOICE REVENUES DEVELOPMENT IN 2006



Voice services development is an integral part of the plan for Tiscali to become an integrated telecommunications service provider. These services led to a revenues growth performance of 35% in 2006, particularly due to voice products (both analog and VoIP) offered to customers in a bundled access services package. In absolute value terms, voice revenues in 2006 totalled EUR 112.2 million, an increase of 35% over the EUR 82.9 million of 2005. Of the total voice revenues, EUR 32.1 million relate to VoIP services.

Business services

BUSINESS SERVICES REVENUES DEVELOPMENT IN 2006



In 2006, revenues from business services (VPN, housing, hosting, domains and leased lines, etc.), therefore excluding those from access and/or voice products for the same customer base which are included in their respective business lines, were EUR 44.4 million (an approximate 8% increase over the EUR 41.2 million of 2005). The business segment results in part reflect a stronger strategic focus placed on access and voice products by the Tiscali Group in 2006.

In this respect, it should be specified that if business user revenues from access and voice services are also taken into account (EUR 98.8 million in 2006), the total 2006 revenues from business services would be EUR 143.2 million.

Media and VAS – Value Added Services

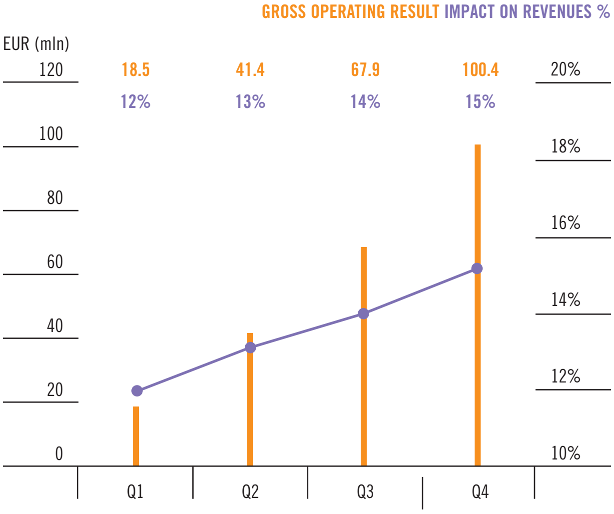
In 2006, revenues in this segment totalled EUR 42 million, recording a 69% increase over 2005 (EUR 24.9 million). These results confirm Tiscali's decision to consider this business segment as strategic.

In 2006 the upward swing of the online advertising market was confirmed and reinforced, from which it is safe to forecast a further significant expansion, in relation to the enhanced Internet penetration capacity in the reference markets and to advertising revenues, albeit to the detriment of more traditional channels. Tiscali performance in this segment rewards the Group strategy of strengthening the services provided through its own portal in Italy and the UK, focused on specific, selected key partnerships, e.g. with Google, as well as on an important user interface restyling in line with the development in usable content and new online advertising communications methods.

Gross operating result

The 2006 Gross Operating Result, before amortisation, depreciation, provisions and write-downs was EUR 100.4 million, increasing by 44% over the 2005 result of EUR 69.7 million. This result in terms of percentage impact on 2006 revenues increased to around 15%, showing a constant improvement throughout the year.

GROSS OPERATING RESULT DEVELOPMENT (2006)



With regard to *Gross Margin*, intended as revenues less direct industrial costs and therefore excluding personnel, marketing and operating costs *(not included in the income statement but provided merely for information purposes, in accordance with IAS/IFRS standards)*, Tiscali Group performance in 2006 was affected by competition pressure on pricing, mainly in the UK market. The result achieved in 2006 (affecting revenues by 45%) was 2 percentage points down on 2005. Given the significant increase in revenues, this percentage levelling is more than absorbed by absolute values, with a Gross Margin of EUR 303.8 million (EUR 251.6 million in 2005, increasing by over 20%).

In relation to **indirect operating costs** it is important to mention that the 2006 figure of EUR 205.2 million shows an absolute value increase over 2005, but with a significant reduction in impact on revenues from 34% to 30%.

It should be noted that, for comparison purposes, certain reclassifications were made to 2005 data published originally. These changes had no effect on total indirect costs and the Gross Operating Result. In particular, it should be specified that the reclassifications in question affected the exposure between personnel and other indirect costs for certain charges recorded by a number of Group companies among marketing costs, especially with regard to certain customer support, professional consultancy and collaboration services.

Among the indirect operating costs, **personnel costs** in 2006 were EUR 77.8 million, increasing in absolute value over the same period in 2005 (EUR 73.5 million). Dynamic control of personnel costs has resulted in a positive effect in terms of reducing their percentage impact on revenues, from 14% in 2005 to 12% in 2006.

Marketing costs of EUR 75.9 million, including sales and distribution expenses, were also greater in absolute value terms compared with those of the previous year (EUR 63.6 million), but with a reduced impact on revenues from 12% in 2005 to 11% in 2006.

Other indirect operating costs in 2006 totalled EUR 51.5 million, showing an increase over the EUR 42.1 million of 2005, but with impact on revenues remaining constant (8%) and attenuating dynamics in absolute terms over the period, originating primarily from customer after sales support costs which naturally reflect the customer base trend, and from operations consultancy sustained in 2006.

Operating result

The Operating Result in 2006 was negative (EUR -12.8 million), but showing a significant improvement over the 2005 figure (EUR -55.6 million). This result is affected considerably by the business combination with VNL in the UK in the third quarter 2006 and especially by restructuring plan costs and unusual income from the dilution of Group interests in Tiscali UK, explained in greater detail later in this section, the effects of which can be summarised as follows:

CONSOLIDATED INCOME STATEMENT EUR (000)	31.12.2006	31.12.2005
Operating result	**(12,852)**	**(55,655)**
Restructuring costs from VNL business combination	39,691	-
Other unusual income (VNL dilution effect)	(77,229)	-
Adjusted gross operating result	**(50,390)**	**(55,655)**

Net of non recurrent effects of the VNL business combination, the 2006 Operating Result proves negative at EUR -50.4 million, though an improvement over the previous year in spite of the significant impact of increased amortisation in 2006 - EUR 130 million compared to EUR 97 million in 2005 - linked to investments.

Overall **Restructuring costs, provisions for risks and write-downs** in 2006 totalled EUR 60.4 million (EUR 28.2 million in 2005). The 2006 performance is affected by EUR 39.6 million restructuring costs deriving from the VNL business combination. Write-downs for the period totalled EUR 15.4 million, with an improvement in the impact on revenues compared to the EUR 15 million of 2005.

Amortisation and depreciation in 2006 totalled EUR 130 million (EUR 97.1 million in 2005). As already mentioned, this figure was affected by significant investments in the period for development of the unbundling network and ADSL services (modem and user activation costs).

The **unusual income** recorded under the operating result includes EUR 77.2 million originating from the business combination with Video Networks Ltd (VNL) in the third quarter 2006. This operation, involving the business combination arrangement and subsequent consolidation of VNL, 100% controlled by Tiscali UK, concluded with a simultaneous increase in Tiscali UK capital 'in favour of third parties' in relation to their contribution to VNL assets assessed at fair value. This contribution led to a dilution of Group interests previously held in Tiscali UK, but at the same time led to in increase in absolute value of the Group's equity interests in that company. In fact, following the business combination with VNL via a 100% share swap and increasing the shareholders' equity in Tiscali UK, the Group achieved a net increase in equity value even if its control percentage was reduced. This increase, in accordance with reference accounting standards, is reflected under the relevant item of the income statement, coherent with the "parent company approach" of the current versions of IFRS 3 and IAS 27.

Operating result by geographic area

Details of the operating result by geographic area in 2006 allow performances of the Group's two main subsidiaries to be analysed in their respective geographic areas.
It should be mentioned that the data provided relates to the individual operations units, and therefore includes intra-group elements.

Tiscali Italia Srl (Italy) closed 2006 with a gross operating result, net of intra-group costs relating particularly to IT services provided by Tiscali Services Srl, of EUR 30.1 million (14% of revenues), showing a considerable improvement over the EUR 17.7 million (9% of revenues) of 2005. In operating result terms, 2006 recorded an operating loss of EUR 13 million, compared to the EUR 16.9 million loss in 2005.

The gross operating result achieved by subsidiary Tiscali UK (United Kingdom) in 2006, including Video Networks Ltd (VNL) results consolidated as of September 2006 and intra-group costs for IT services provided by Tiscali Services Srl, was EUR 65 million (EUR 61.1 million in 2005). The consolidated gross operating result is affected by the VNL gross operating result (consolidated into Tiscali UK as of September 2006), proving negative at EUR -6.2 million, primarily due to significant personnel costs, for which a considerable reduction is expected following implementation of the current restructuring plan.

The operating result performance for 2006 was negative at EUR -55.6 million, a deterioration of the positive EUR 7.3 million result of 2005, but determined mainly by provisions for restructuring costs linked to the VNL business combination, as forecast in the related plan. In 2006, amortisation and depreciation were of significant impact (EUR 72.9 million compared to EUR 46.9 million in 2005), linked to roll-out of the ULL infrastructure begun in 2006 and VNL restructuring costs as well as to customer base development.

Result for continuing operations

2006 closed with a negative net result from continuing operations of EUR -59.7 million compared to the EUR 106.9 million loss after consolidation area adjustments for 2005. In particular, this result includes financial charges of EUR 51.7 million for the period compared to EUR 26.4 million in 2005.
The increase in financial charges is essentially due to the cost of Silver Point refinancing operations and the option to settle these loans at the start of 2007, with subsequent concentration in 2006 of commission for the year and upfront costs.

Result for assets held for sale

At 31 December 2006 this item, as in 2005, includes the net results of subsidiaries held for sale. In particular, the balance of this item includes the results of Tiscali business operations in the Czech Republic, Germany and the Netherlands which at the end of the third quarter 2006 proved to meet the conditions for treatment under the terms of IFRS 5 *(non current assets held for sale and discontinued operations)*.

In 2006, the net result for assets held for sale was positive at EUR 3.5 million, compared to the negative result of EUR -38.5 million in 2005. For a clearer understanding of the result, detailed below are the relevant consolidated results by geographic area:

CONSOLIDATED INCOME STATEMENT EUR (000)	31.12.2006	31.12.2005
Czech Republic	(698)	(2,675)
Germany	(15,054)	(22,938)
The Netherlands	22,017	4,918
Other assets	(2,755)	(17,822)
Profit (Loss) from assets disposed of and/or held for sale	3,540	(38,517)

(RESULTS NET OF INTRA-GROUP REVENUES/COSTS)

In 2006, the Dutch subsidiary (Tiscali BV), despite the limited potential for further growth in the reference market which led to the decision regarding its disposal, confirmed its positive performances and fully achieved the break-even goal.

Performances of the subsidiaries in the Czech Republic and Germany, in the light of objectives in the Tiscali Group strategic plan, influenced the decision to proceed to their disposal.

It should be specified, as better explained in the notes to the financial statements, that the 2006 result relating to German business operations includes the write-down of € 65 million goodwill. The overall result at 31 December 2005 for discontinuing operations included the effects of certain non-strategic asset disposals concluded at the time, in particular capital gains from the disposal of French assets.

Net profit (loss)

At 31 December 2006 the overall result for the period was negative at EUR -136.6 million, compared to a EUR 12.8 million loss in 2005, which took account however of the related capital gains from disposal of the French assets (EUR 144 million).

Balance Sheet and Financial Position

CONSOLIDATED BALANCE SHEET	31.12.2006	31.12.2005 using 2006 consolidation area	31.12.2005 using 2005 consolidation area
Non current assets	876,465	603,877	808,644
Current assets	195,641	184,401	217,764
Assets held for sale	158,642	254,837	16,707
Total Assets	**1,230,748**	**1,043,115**	**1,043,115**
Shareholders' Equity (Group)	**242,829**	**308,767**	**308,767**
Minority interests	**26,733**	**2,553**	**2,553**
Total Shareholders' equity	**269,561**	**311,320**	**311,320**
Non current liabilities	222,299	172,339	186,375
Current liabilities	673,957	468,354	533,698
Liabilities directly related to assets held for sale	64,932	91,102	11,722
Total Shareholders' equity and liabilities	**1,230,748**	**1,043,115**	**1,043,115**

For 2006 it should be specified that, in accordance with IFRS 5, the balance sheet entries for assets held for sale in the Netherlands, Germany and the Czech Republic were recorded under the consolidated balance sheet item "assets held for sale" and "liabilities directly related to assets held for sale".

For a clearer understanding, the table above illustrates the 2005 data comparing the different consolidation areas.

Unlike the information provided in the Notes to the consolidated financial statements, in the notes below and in relation to the balance sheet, the comparison between 2006 and 2005 took into account the consolidation area in existence at 31 December 2006, and therefore includes interests in the Netherlands, Germany and the Czech Republic as assets held for sale.

Assets

Non current assets

Non current assets include a goodwill value of EUR 316.6 million (EUR 184.7 million at 31 December 2005). This item essentially relates to UK business operations, including the goodwill value attributed to Video Networks Limited. Other intangible and tangible assets relating to Property, plant and equipment are recorded with a total value at 31 December 2006 of EUR 399.5 million (EUR 256.5 million at 31 December 2006). Non current assets also include EUR 13 million other financial assets and EUR 2.4 million equity investments assessed by the equity method.

Investments

The expansion of the unbundling network and subsequent investment operations relating to the connection and activation of new ADSL customers have generated total investments in 2006 of EUR 178.8 million, EUR 101.4 million of which is attributable to investments in intangible assets of around EUR 77.4 million and investments in tangible assets. The investments in intangible assets mainly refer to costs in relation to ADSL customer activation and the stipulation of IRU (Indefeasible Rights of Use) contracts regarding the purchase of network and capacity rights, whereas those relating to tangible assets essentially refer to development of the unbundling network and related equipment.

Other investments made during 2006 led to the activation of 420 sites in the UK and around 440 in Italy.

Also included under non current assets, amongst other items, are *Deferred tax assets* of EUR 144.7 million. This amount comprises EUR 77.5 million in relation to subsidiaries operating in the UK and the remaining EUR 67.2 million to Tiscali International BV (Netherlands), a Group sub-holding subject to the 'Dutch fiscal unit' regime. Significant utilisation of this sum is forecast for 2007 in relation to the disposal of Dutch assets and subsequent capital gains realised in the Netherlands.

Current assets

Current assets mainly include "Receivables from customers" (EUR 135.7 million at 31 December 2006, compared to the EUR 108.3 million balance at 31 December 2005).

Liabilities

Non current liabilities

Total non current liabilities at 31 December 2006 were EUR 222.3 million (EUR 172.3 million at 31 December 2005). The significant increase is primarily due to the change in composition of items of a financial nature explained in the 'Financial Position' section below.

Current liabilities

Current liabilities totalling EUR 674 million (EUR 468.4 million at 31 December 2005) refer mainly to items of a financial nature (EUR 374.3 million due to banks and other lenders). These payables relate for the most part to financing, from Silver Point and the mortgage with CIS, settled after the closing of 2006 accounts as a result of refinancing, and payables to suppliers (EUR 180.1 million at 31 December 2006, compared to EUR 135.2 million at the end of 2005).

Financial position

At 31 December 2006 and in relation to continuing operations only, Tiscali Group cash and cash equivalents totalled EUR 3.8 million, whereas net financial debt stood at EUR 397.2 million (EUR 305.5 million at 31 December 2005).

The financial position relates to continuing operations only and is summarised in the following table:

EUR (mln)	31.12.2006	31.12.2005
A. Cash	3.8	26.2
B. Cash equivalents	11.5	9.2
C. Securities held for trading	-	-
D. Cash and cash equivalents (A) + (B) + (C)	**15.3**	**35.4**
E. Current financial receivables	**21.2**	**24.4**
F. Current bank payables	374.8	17.9
G. Current portion of non-current debt	-	-
H. Other current financial payables (*)	12.3	221.7
I. Current financial debt (F) + (G) + (H)	**387.1**	**239.6**
J. Net current financial debt (I) – (E) – (D)	**350.6**	**179.8**
K. Non-current bank payables	-	89.2
L. Bonds issued	-	-
M. Other non-current payables (**)	46.6	36.5
N. Non-current financial debt (K) + (L) + (M)	**46.6**	**125.7**
O. Net financial debt (J) + (N)	**397.2**	**305.5**

(*) includes leasing payables

(**) includes leasing payables and payables to shareholders

The above statement was prepared in accordance with different criteria as declared in the Notes to the Financial Statements in order to maintain continuity with information provided in previous periods and, in particular, with respect to details provided in the Notes to the Financial Statements, includes VAT receivables of around EUR 13.6 million under current financial receivables and guarantee deposits of around EUR 11.5 million under cash equivalents.

It should also be mentioned that the 2005 financial position was defined by applying the consolidation area existing at 31 December 2006, i.e. including Germany, the Netherlands and the Czech Republic among assets held for sale.

The considerable short-term payables to banks were settled in February 2007 following the stipulation of new medium-term financing agreements with Intesa Sanpaolo bank for EUR 280 million and for EUR 61 million via a sale and lease back agreement on Group property in Sa Illetta (Cagliari). Greater details of the new financing is provided under subsequent events.

Events subsequent to the year, outlook and prospects

Significant events since 31 december 2006

New financing

The Tiscali Group stipulated a financing agreement with Intesa Sanpaolo bank for EUR 280 million. Most of the financing, the terms for which were finalized in February, was used to settle existing loans from Silver Point and Export Development Canada (EUR 13.3 million). The initial rate of Euribor + 250 b.p. and other terms for the Intesa Sanpaolo line of credit are a great improvement on the previous financing received from Silver Point, which as already mentioned was settled prior to expiry in February 2007, sustaining settlement fees of around EUR 10 million.

The financing is available on request from Tiscali up to a maximum of EUR 280 million, and is repayable in sums gradually increasing from EUR 7 million to EUR 15 million in the period 30 June 2008 to 30 June 2011, with final settlement by 31 December 2011. The financing also covers a number of advance settlement options as is normal for this kind of transaction. In particular, it is expected that EUR 130 million of the financing is repaid from income achieved from the disposal of Dutch assets.

The bank financing agreement signed with Intesa Sanpaolo contains financial covenants linked mainly to respect for the following financial indicators to be verified on a quarterly basis at consolidated level from 31 March 2007: EBITDA-debt ratio, EBITDA-debt service cover ratio and EBITDA-interest cover ratio. In addition, the financing involves general positive and negative covenants, common to this type of financing, the most significant of which in information terms are the limits posed by further indebtedness of the Tiscali Group to the granting of real guarantees and extraordinary business such as acquisitions and disposals. These limits are not restrictive to normal Group operations. The financing agreement is also aided by the pledge on shares in Tiscali Group subsidiaries and on the Tiscali brand name.

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

The Tiscali Group has also concluded a “sale and lease back” operation on the property in Cagliari used as Group headquarters. By means of this transaction ownership of the property was transferred, with a repurchase option on expiry of the lease, to a pool of financiers composed of Centro Leasing, Intesa Leasing and Locat for a total EUR 61.2 million. The Tiscali Group has retained the lease on the property for the next fifteen years, with rent calculated on an annual basis at the Euribor + 140 b.p. rate. Net of settlement of the existing mortgage on the property and other accessory charges, the transaction has generated Group resources of around EUR 26 million.

Disposal of German B2C assets to Freenet

On 31 January 2007 Tiscali concluded an agreement with Freenet AG whereby Freenet acquired Tiscali narrowband and broadband consumer customers in Germany. At 31 December 2006, in Germany Tiscali had around 380,000 active customers, one third of which indirect broadband connections.

Disposal of German B2B assets to Ecotel Communication AG

On 5 February 2007, Tiscali reached an agreement with Ecotel Communication AG whereby Ecotel acquired Tiscali B2B assets in Germany.
The cash receipts from disposal of the B2C and B2B assets in Germany totalled around EUR 50 million.

Tiscali launches the first encrypted e-mail service in Europe

On 16 January 2007 Tiscali became the first Internet Service Provider in Europe to launch an important e-mail privacy service: Tiscali Secure Mail. The service, now available in Italy and soon in the UK, is for all customers wishing to guarantee the security of their own e-mails and attachments while in transit on the network between sender and receiver.

Tiscali launches the Tiscali TV service in the UK

On 5 February 2007, the British subsidiary (Tiscali UK) announced the launch of IPTV in the UK. The service, active as of 1 March, will reach the entire Tiscali UK ULL network by the end of 2008 – at GBP 19.99 per month for the triple play option – reflects Tiscali philosophy whereby TV complements the broadband access and voice services, giving users a premium content option in addition to the basic package.

Stock Option Plan

On 20 March 2007, the Tiscali S.p.A. Board of Directors (the “Company”) resolved to submit a stock option plan, reserved for the CEO and Tiscali Group management in Italy, to the Shareholders' Meeting for approval.

More specifically, intended recipients of the plan are:

- the Company CEO, Tommaso Pompei;
- a maximum 40 employees of the parent company and Italian subsidiaries of the Tiscali Group, chosen from among senior and middle managers identified by the CEO and approved by the Remuneration Committee, based on three groups depending on the role covered in the Tiscali Group (first and second levels below the CEO and "key" roles).

3,593,143 ordinary Company share purchase options will be attributed to the CEO, intended as the purchase of own shares performed by the Company on the market in accordance with art. 2357 of the Italian Civil Code and based on approval to be requested at the next Shareholders' Meeting. The exercising of these options is subject to the achievement of performance objectives linked to budgets established by the Board of Directors, 40% in reference to objectives established for 2006, intended as achieved, and the remaining 60% in reference to objectives established for 2007.

A maximum of 4,244,131 options to subscribe to a new issue of an identical number of ordinary Company shares will be attributed to employees, covered by a reserved share capital increase in accordance with art. 2441, subsection 8 of the Italian Civil Code, subject to Shareholders’ Meeting approval.

The options may be exercised in one or more instalments in the six months following the third anniversary of allocation and in any event by 3 May 2012, at an issue price equal to the arithmetic average of Official Italian Stock Exchange Prices for Company shares in the month preceding allocation, in accordance with relevant tax regulations. For a period of 5 years after issue, the beneficiary will be expected to retain a number of shares with a total value not less than the difference between the share value at allocation date and the amount paid by the subscriber. Nevertheless, should the Company change hands, beneficiaries of the stock options may immediately exercise the allocated options and freely dispose of all shares received as a result of the options exercised.

If company-beneficiary relations are terminated the plan establishes the following conditions. If the employee resigns or is unfairly dismissed, he or she will retain rights *pro rata temporis* on the allocated options. Vice versa, if the employee is fairly dismissed, the option to exercise the allocated options will lapse. With regard to the CEO, if the Company revokes his appointment or if he should resign at the request of the Company or is fairly dismissed, he will have the right to immediately exercise the allocated options and freely dispose of all shares received as a result of options exercised. If, however, the reasons for dismissal of the CEO prove unjustified, he will retain the right *pro rata temporis* on the allocated options.

Again with respect to the CEO, implementation of the plan constitutes, apart from a valid incentive tool in line with market practice, the fulfilment of a precise contractual obligation assumed by the Company on formulating the administrative appointment.

With regard to other recipients, implementation of the plan by the Company is intended as an alignment of management interests in creating value for the Tiscali Group and its Shareholders, stimulating the achievement of strategic objectives and contributing to management loyalty, encouraging them to remain with the Tiscali Group and participate in corporate 'challenges'.

The stock option plan for Italian Tiscali Group management matches the share-based remuneration plan resolved last October for UK Group management. This 3-year plan involves the allocation of a number of options to 20 UK managers, convertible in Tiscali UK Ltd shares that do not exceed 5% of share capital in that company, net of dilution.

New Company Status for Tiscali Italy and Tiscali Services

Starting from 10th January 2007, the subsidiaries Tiscali Italy S.r.l. and Tiscali Services S.r.l. have changed their corporate type from limited liability companies (S.r.l.) to joint stock companies (S.p.A.), and their trade name has consequently been changed, respectively, in Tiscali Italy S.p.A. and Tiscali Services S.p.A.

Outlook and prospect

In line with the new 2007-2010 business plan presented in October 2006, the Tiscali Group intends to consolidate and strengthen its position as IP network service provider by changeover to a pure ISP model and single provider model for the end user offering integrated telecommunications and media services (with related expansion to the physical, voice and IPTV access markets), via a network model based entirely on IP protocol and a product proposition which, by the integral transfer of traditional and new services to new networks, will combine sales aggression with innovation.
Along with the agreement to dispose of assets in the Netherlands and Germany and the decision to dispose of the Czech Republic subsidiary, strategic decisions were also made to concentrate core business in Italy and the UK, where the Group boasts significant plus points, including an overall base of over 3 million customers, 50% of which are connected via ADSL. Furthermore, Tiscali is already actively exploring several opportunities deriving from the current fixed-mobile convergence, both from a technological point of view (Wi-Max network, telephones and integrated Wi-fi/GSM set-up-box trials), and in relation to new prospects offered by the launch and development of the MVNO market. The total investments forecast in the business plan to complete the unbundling network infrastructure and for the development of new IP services is around EUR 740 million. Following completion of the disposals as planned, the current debt is expected to decrease by around EUR 150 million. By the end of 2007, this decrease will allow Tiscali to reduce its exposure of 3.6 times EBITDA (calculated on a financial position net of sums due to shareholders) to a value of 1.2, at the same time guaranteeing availability of the financial resources necessary to support the business plans and a substantial improvement in the consolidated debt-equity ratio.

In fact, in this context and in financial profile terms, 2007 will benefit from income derived from the above-mentioned disposals and a more balanced debt structure characterised by the Intesa Sanpaolo Bank financing and new property leasing agreement. In future periods, the Group's ability to sustain necessary investments by increased revenues and cash flow from operations in line with the business plans will be a key factor.

Prospects in the Tiscali Group's business sector and its competitive position are judged to be on target for the achievement of objectives to further improve Tiscali economic and financial development as forecast in the new business plan. In this context, the ability of the Group to generate positive cash flows, a condition of significant impact on the development of Tiscali's financial position as well as the stability of its businesses and finances, remains of prime importance.

Based on the new business plan, the targets set for 2007 are:

- Revenues: EUR 820 million,
- Ebitda: EUR 150 million,
- Capex: EUR 200 million,
- Positive cash flow as from the final quarter of 2007.

Corporate Governance

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

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

The Board of Directors comprises the following committees:
- Internal Audit Committee, current members Vittorio Serafino and Gabriele Racugno.
- Remuneration Committee, current members Mario Rosso and Francesco Bizzarri.

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

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

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

EBITDA

100.4

EUR (mln)

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.

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

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

Following the resignation of Board Members Victor Bischoff and Gabriel Prêtre on 19 May 2006, the Board of Directors, at the meeting held on 20 December 2006, co-opted Rocco Sabelli and Arnaldo Borghesi as new Board Members. Under the terms of art. 2386 of the Italian Civil Code, Board Members appointed in this manner remain in office until the next Shareholders' Meeting, which then resolves to confirm the appointment of such Board Members or appoint others.

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

Chairman of the Board of Directors and Chief Executive Officer

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

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

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

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

Non-executive and independent directors

In accordance with the provisions of Italian Law 262/2005, as modified by Legislative Decree 303/2006, the Articles of Association require the presence of at least one independent director if the Board of Directors comprises less than seven members, and at least two independent directors if the Board of Directors comprises more than seven members.

The Board of Directors currently comprises eight Directors, of whom two are executive and six non-executive. Of the latter, two are independent Directors.

Directors with executive powers are the CEO Tommaso Pompei and the Director and CFO Massimo Cristofori.

As indicated in the second point of article 3 of the Code, at the time of appointment and in any event once a year when this Report is prepared, the Board evaluates Directors' independence on the basis of information provided by the Directors themselves, and provides the market with appropriate information in this respect by publishing said Report.

Gabriele Racugno and Rocco Sabelli are independent Directors, whose qualifications as such are consistent with the principles and application criteria stated in art. 3 of the Code. For the sake of completeness of information, it should be specified that in the 2006 financial year, the law firm of Gabriele Racugno provided consultancy services to the Company under market terms for a total sum of EUR 70,108.00.

Appointment of Directors

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

Only Shareholders who, alone or together with other Shareholders, represent at least 2% of the voting rights at Ordinary Shareholders' Meetings 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.

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

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

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

On 18 May 2006, the Shareholders' Meeting, without application of the voting list appointment mechanism, confirmed the appointment of CEO Tommaso Pompei, co-opted to the Board on 11 January 2006.

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

The report on operations attached to the financial statements at 31 December 2006 contains an overview of the Board Members' remuneration system. Reference should be made to said report in this respect.

Shareholders' meetings

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

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

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

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

Board of Statutory Auditors

Consistent with the first principle of art. 10 of the Code, in relation to the appointment of Statutory Auditors, article 18 (Board of Statutory 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, prove to possess at least 2% of ordinary shares, are entitled to submit lists. Each list must indicate five candidates in descending order of professional seniority. Each Shareholder may submit, or jointly submit, one list only and each candidate may be listed in one list only or be disqualified. The list of nominations must be filed at the Company's registered office at least ten days prior to the date of the next Shareholders' Meeting, together with the professional CVs of individuals appearing on the lists and a declaration from each to declare the inexistence of reasons for ineligibility or incompatibility and that the honourable and professional qualifications required under applicable law and by the Articles of Association are met.

Each Shareholder may vote for one list. Two Statutory Auditors and two Deputy Auditors are elected, in the order in which they appear on the list receiving the most votes. The third Statutory Auditor is the first candidate on the list receiving the second highest number of votes. In accordance with Italian Law 262/2005, as modified by Legislative Decree 303/2006, the person appearing first on the list receiving the second highest number of votes is nominated Chairman of the Board of Statutory Auditors.

On 18 May 2006, the Ordinary Shareholders' Meeting, applying the voting list appointment mechanism described above, appointed the current Board of Statutory Auditors, which will remain in office until approval of the financial statements at 31 December 2008. Aldo Pavan, Piero Maccioni and Massimo Giaconia were elected as Statutory Auditors. Rita Casu and Andrea Zini were elected as Deputy Auditors. Aldo Pavan was elected Chairman of the Board of Auditors.

The current members of the Board of Statutory Auditors were elected from names appearing on the 2 lists filed at the Company's registered office within the set time limit, by Shareholder Renato Soru and by Shareholders Haselbeech Holdings N.V. and Mallowdale Corporation N.V. In accordance with new regulations, the Chairman of the Board of Statutory Directors was elected from the list presented by the minority shareholder.

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

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

Board of Directors internal 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 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 relevant application criteria.

The Remuneration Committee currently comprises Director Mario Rosso (Chairman) and Francesco Bizzarri. One position is vacant following the resignation of Director Victor Bischoff.

Appointments Committee

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

Internal audit

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

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

The Director appointed to this task 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 an Internal Audit Coordinator, appointed by the CEO on recommendation of the Internal Audit Committee. The Coordinator is equipped with all means necessary to perform this support role.

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

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

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

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

In particular, the Internal Audit Committee is responsible for:

- **A)** helping the Board of Directors to set guidelines for the system and periodically verify its adequacy and correct function, ensuring that the main business risks are identified and appropriately managed;
- **B)** assessing the work plan prepared by the Internal Audit Coordinator and receiving the Coordinator's periodic reports;
- **C)** together with the Company's Directors and auditing company, verifying adequacy of the accounting standards used and their uniformity for the purpose of drafting the consolidated financial statements;
- **D)** assessing bids submitted by auditing companies for the role of external auditor, and the proposed work plan for the review of results expressed in the report and letter of recommendations, along with the day-to-day contact with the external auditor;
- **E)** assessing bids of an advisory nature formulated by the external auditor - or its affiliate - in favour of Group companies;
- **F)** assessing bids of an advisory nature in favour of Group companies that are for significant amounts;
- **G)** reporting to the Board of Directors on tasks performed and on the adequacy of the internal audit system, at least once every six months on approval of the annual and half-yearly reports;
- **H)** operating as Supervisory Body pursuant to Italian Legislative Decree 231/2001;
- **I)** performing additional tasks as assigned by the Board of Directors.

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

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

The majority of members are qualified as independent, in accordance with instructions for the Regulation of Markets organized 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 Committee is reduced to two members, at least one of which must be an independent Director, until the Committee can be reformed with a new member with independent characteristics. This solution, albeit temporary, is preferable to having a majority of non-independent Directors. If for a certain period the Internal Audit Committee is composed of two members only, the entire Board of Statutory Auditors is always invited to attend committee meetings. In addition, if for a certain period the Committee membership is reduced to two members only, and the number of votes is equal, then the independent Director has the casting vote.

The Chairman of the Internal Audit Committee may invite the CEO and other parties, e.g. external auditors, Managing Director, where appointed, and the CFO, to Committee meetings in relation to specific items on the agenda for which their presence may prove useful.

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

It has not been possible during the financial year to guarantee three members for the Internal Audit Committee, including two independent Directors. At present, therefore, the Internal Audit Committee comprises two members, Vittorio Serafino (Chairman), Chairman of the Board of Directors and non-executive Director, and Gabriele Racugno, non-executive and independent Director.

In 2006 the Internal Audit Committee met four times, on 22 March, 18 May, 12 September and 10 October. The Board of Statutory Auditors attended all these meetings.

Adaptation to Italian Legislative Decree 231/2001

On 21 December 2005 the Board of Directors approved the new "Organization, management and control model in compliance with Legislative Decree 231/2001", containing a general section and two special sections, effective as of 1 March 2006. The new version has been enlarged and reviewed to take into account regulation amendments regarding the introduction of market abuse offences and the changing nature of the Company. Following completion of the project involving the spin-off of Italian operations and of Group IT services, the Company has played a true 'holding' role since 1 January 2005

Besides updating the parent company's "Organization, management and control model", the risk assessment and definition of protocols and procedures stage required under the terms of Legislative Decree 231/2001 for drafting the "Organization, management and control model" was completed with support from a consulting company specialized in this field, also for Italian subsidiaries Tiscali Italia S.r.l. and Tiscali Services S.r.l.

The Boards of Directors of Tiscali Italia S.r.l. and Tiscali Services S.r.l. adopted the "Organization, management and control model", respectively, on 28 March 2006 and 22 March 2006, at the same time appointing the required Supervisory Body. Following the resignation of members of the Supervisory Bodies of the aforementioned subsidiaries, the next Board of Directors' meetings will appoint new members based on recommendations of the Company's Internal Audit Committee issued on 15 March 2007.

Related Parties

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

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

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

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

As part of the corporate governance model adopted pursuant to Italian Legislative Decree 231/2001, the Company has drawn up a number of control procedures for the management of confidential information, in accordance with national and international best practices and with principles contained in the Market Disclosure Guidelines. In order to safeguard correct disclosure, Company conduct adheres to principles identified in said guidelines, and is committed to communicate with the market in such a way as to ensure that fairness, clarity, equality and timeliness criteria for access to information are observed.

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

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

In replacement of the Code of Conduct on Internal Dealing adopted by the Company in November 2002, and in enactment of the new art. 115(2) of Italian Legislative Decree 58/1998 on keeping a register of persons with access to privileged information, the Company established a register of persons (held by the Investor Relations Office) who, based on their business or profession in relation to duties performed, have access to such information. In accordance with the aforementioned legislation, the IT-managed register contains: the identity of each person with access to privileged information, the reason for which that person was entered on the register, that date of registration, and the date of any updates to information relating to that person.

Shares held by Directors and Auditors

As required by law, and specifically by Article 79 of CONSOB Regulation 1197/99 implementing Italian Legislative Decree 58/1998, the table below indicates the number of shares held by Directors and Auditors.

NAME – SURNAME	POSITION	N° SHARES HELD AS THE 31.12.05	N° SHARES PURCHASED	N° SHARES SOLD	N° SHARES HELD AS AT 31.12.06
BOARD OF DIRECTORS					
VITTORIO SERAFINO	CHAIRMAN	22,200	1,321	-	23,521
TOMMASO POMPEI	CEO *	-	366,000	-	366,000
RUDOLF DEREK HUISMANN **	DIRECTOR				
MASSIMO CRISTOFORI	DIRECTOR	1,000	10,000	-	11,000
FRANCESCO BIZZARRI	DIRECTOR	-	-	-	-
GABRIELE RACUGNO	DIRECTOR	-	-	-	-
VICTOR BISCHOFF ***	DIRECTOR	-	-	-	-
MARIO ROSSO	DIRECTOR	-	-	-	-
GABRIEL PRETRE ***	DIRECTOR	489	-	-	489
ROCCO SABELLI ****	DIRECTOR				
ARNALDO BORGHESI ****	DIRECTOR				

** Since 11 January 2006*

*** Till 11 January 2006*

**** Till 19 May 2006*

***** Since 20 December 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

Consolidated Financial Statements at 31 December 2006

Consolidated Income Statement

EUR (000)

	NOTES	31.12.2006	31.12.2005
Revenues	(4)	678,481	530,852
Other income	(6)	3,685	1,021
Purchase of materials and outsourced services	(7)	498,389	387,831
Personnel costs	(8)	77,883	66,540
Other operating costs	(9)	5,472	7,816
Gross operating result		**100,422**	**69,686**
Restructuring costs, provisions for risks and write-downs	(10)	60,408	28,219
Depreciation and amortisation		130,095	97,122
Other unusual (Income) Charges	(11)	(77,229)	-
Operating result		**(12,852)**	**(55,655)**
Share of profit or losses of associates with equity method		(937)	(74)
Net financial income (Charges)	(12)	(29,741)	(21,488)
Other net financial income (Charges)	(12)	(21,985)	(4,921)
Profit (loss) before tax		**(65,515)**	**(82,138)**
Income taxes	(13)	5,851	(24,793)
Profit (Loss) from continuing operations		**(59,664)**	**(106,931)**
Profit (Loss) from discontinued and/or discontinuing operations	(14)	(76,950)	94,123
Net result		**(136,614)**	**(12,808)**
Attributable to:			
- Result pertaining to the parent company		**(130,572)**	**(12,948)**
- Minority interests		(6,042)	140
Earnings (Losses) per share			
From continuing and discontinued operations:			
- Basic		**(0.32)**	**(0.03)**
- Diluited		**(0.32)**	**(0.03)**
From continuing operations:			
- Basic		**(0.13)**	**(0.27)**
- Diluited		**(0.13)**	**(0.27)**

Consolidated Balance Sheet

EUR (000)

	NOTES	31.12.2006	31.12.2005
Non current assets			
Goodwill	(15)	316,646	313,462
Intangible assets	(16)	218,371	163,950
Property, plant and equipment	(17)	181,173	165,955
Equity investments	(18)	2,474	1,114
Other financial assets	(19)	13,095	28,747
Deferred tax assets	(20)	144,706	135,416
		876,465	808,644
Current assets			
Inventories	(21)	4,084	4,535
Receivables from customers	(22)	135,737	128,244
Other receivables and other current assets	(23)	44,135	47,974
Other current financial assets	(24)	7,862	7,006
Cash and cash equivalents	(25)	3,824	30,005
		195,641	217,764
Assets held for sale	(14)	158,642	16,707
Total Assets		**1,230,748**	**1,043,115**
Share Capital and reserves			
Share Capital		212,207	198,369
Share premium reserve		948,017	953,717
Translation reserve		4,685	3,975
Retained earnings		(922,079)	(847,294)
Shareholders' Equity (Group)	(26)	**242,829**	**308,767**
Third-party interests		26,733	2,553
Minority interests		**26,733**	**2,553**
Total Shareholders' equity		**269,561**	**311,320**
Non current liabilities			
Bonds		-	-
Payable to banks and to other lenders	(27)	30,730	117,389
Obligations under finance leases	(27)	15,918	17,789
Other non current liabilities	(28)	131,398	28,214
Liabilities for pension obligations and staff severance	(29)	6,194	6,108
Provisions for risks and charges	(30)	38,059	16,875
		222,299	186,375
Current liabilities			
Bonds – Current share	(31)	-	211,044
Payables to banks and other lenders	(31)	374,787	19,679
Obligations under finance leases	(31)	12,303	16,711
Payables to suppliers	(32)	180,147	160,418
Other current liabilities	(33)	106,720	125,846
		673,957	533,698
Liabilities directly related to assets held for sale	(14)	64,932	11,722
Total Shareholders' equity and liabilities		**1,230,748**	**1,043,115**

Consolidated Statement of Changes in Shareholders' Equity

EUR (000)

	Share Capital	Share premium reserve	Translation reserve	Retained eamings	Shareholder's Equity (Group)	Minority interests	Total
Balance at 1 January 2005	**169,619**	**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 financial statements of foreign operations	-	-	5,738	396	6,134	-	6,134
Changes in the consolidation area	-	-	-	-	-	-	-
Effects due to changes in consolidation following disposals	-	-	-	-	-	(1,535)	(1,535)
Third-party interests	-	-	-	(2,747)	(2,747)	-	(2,747)
Profit (Loss) recognised to shareholders' equity in the period	**1,750**	**(483,002)**	**5,738**	**487,427**	**11,913**	**(1,535)**	**10,378**
Net profit (loss) for the period	-	-	-	(12,948)	(12,948)	140	(12,808)
Total profits (losses) 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**

	Share Capital	Share premium reserve	Translation reserve	Retained esamings	Shareholder's Equity (Group)	Minority interests	Total
Balance at 1 January 2006	**198,369**	**953,717**	**3,975**	**(847,294)**	**308,767**	**2,553**	**311,320**
Increases	13,838	48,709	-	-	62,547	-	62,547
Transfers covering losses	-	(54,409)	-	54,409	-	-	-
Exchange differences arising on the translation of the financial statements of foreign operations	-	-	710	1,377	2,087	-	2,087
Changes in the consolidation area (VNL business combination)	-	-	-	-	-	30,455	30,455
Effects due to changes in consolidation following disposals	-	-	-	-	-	-	-
Third-party interests	-	-	-	-	-	(233)	(233)
Profit (Loss) recognised to equity in the period	**13,838**	**(5,700)**	**710**	**55,786**	**64,634**	**30,222**	**94,856**
Net profit (loss) for the period	-	-	-	(130,572)	(130,572)	(6,042)	(136,614)
Total profit (loss) for the period	**13,838**	**(5,700)**	**710**	**(74,786)**	**(65,938)**	**24,180**	**(41,758)**
Balance at 31 December 2006	**212,207**	**948,017**	**4,685**	**(922,079)**	**242,829**	**26,733**	**269,561**

Consolidated cash flow statement

EUR (000)

	31.12.2006	31.12.2005
OPERATIONS		
Net result for the Group from continuing operations	**(53,622)**	**(127,766)**
Adjustments for:		
Depreciation of property, plant and equipment	44,572	55,494
Amortisation of intangible assets	85,524	80,079
Share of profit or losses of associates valued with the equity method	(30)	38
Increases in the provisions for risks and write-downs	17,072	3,611
Current income taxes	1,960	48,508
Deferred income taxes	(7,810)	(23,713)
Staff severance and pension obligations	3,646	3,043
Financial charges	53,049	40,331
Unusual income – acquisition of subsidiary	(77,229)	-
Cash flows from operations before changes in working capital	**67,132**	**79,625**
(Increase)/Decrease in commercial and other assets	(13,987)	13,743
(Increase)/Decrease in inventories	451	(2,534)
(Increase)/Decrease in commercial and other liabilities	(14,803)	(65,633)
Cash generated from operating activities	**38,791**	**25,201**
Changes in the provisions for risks and charges	3,657	2,589
Changes in staff severance fund	(3,561)	(2,810)
Changes in deferred tax assets	(1,480)	45,598
Interest paid	(37,791)	(27,934)
NET CASH GENERATED FROM OPERATIONS	**(383)**	**42,644**
INVESTING ACTIVITIES		
Increase in receivables from disposed equity investments	20,900	-
Acquisition of property, plant and equipment	(77,361)	(60,960)
Net increases from other intangible assets	(101,420)	(108,218)
Changes in intangible assets – continuing operations:		
- Tangible assets	47,387	16,822
- Intangible assets	27,171	(9,458)
- Goodwill	128,723	-
NET CASH USED IN INVESTING ACTIVITIES	**45,400**	**(161,814)**

FINANCING ACTIVITIES		
Increases of share capital	-	1,750
Decreases and write-down of financing fixed assets	99	7,258
Change in financial assets	-	(21,000)
Changes in bond issues due to application of IAS 39	-	(10,935)
Increase (decrease) in bank overdrafts	82,445	(18,042)
Change of short-term financial liabilities	(4,408)	(2,509)
Change of medium/long–term financial liabilities	(83,501)	53,473
Payables to shareholders for financing	2,505	(5,000)
Changes in shareholders' equity	1,380	378
Change of shareholders' equity pertaining to minorities	(6,124)	(1,395)
Effect of changes on foreign currency exchange rates	710	5,738
New bank loans obtained	257,405	-
Repayment of bond issues	(146,954)	(237,908)
Payments of other loans	(7,534)	-
Change in loans	(1,548)	-
NET CASH ARISING FROM /(USED IN) FINANCING ACTIVITIES	**94,475**	**(228,192)**
Result on activities disposed of and held for sale	(76,950)	114,818
Change of discontinued and held for sale operations net of cash	(138,005)	335,562
Change of liabilities related to operations held for sale	53,210	(199,461)
NET CASH FROM DISCONTINUED OR HELD FOR SALE OPERATIONS	**(67,270)**	**250,919**
INCREASE / (DECREASE) OF CASH AND CASH EQUIVALENTS	**(22,253)**	**(96,443)**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE FINANCIAL YEAR		
Cash and cash equivalents from operations at the beginning of the financial year	30,005	83,120
Cash and cash equivalents of discontinued and held for sale operations at the beginning of the financial year	1,099	45,293
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE FINANCIAL YEAR	**31,104**	**128,413**
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR		
Cash and cash equivalents from continuing operations at the end of the financial year	3,824	30,005
Cash and cash equivalents from discontinued and held for sale operations at the end of the financial year	5,029	1,965
CASH AND CASH EQUIVALENTS	**8,853**	**31,970**
	(22,253)	**(96,443)**

CAPEX

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EUR (mln)

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

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

These financial statements were prepared on the assumption that the company is an ongoing concern and is operating normally, in that the Group prospects are considered fully coherent with a balanced economic and financial position as forecast in the business plans. In reference to Tiscali's competitive landscape and sector characteristics, appropriate financial resources remain essential in supporting the development plans and to repay expiring debts. In 2007 important financing agreements were stipulated with Banca Intesa Sanpaolo and the sale & leaseback operation on the property in Cagliari was concluded, which together with income from the Netherlands, Germany and the Czech Republic will allow Tiscali to achieve a more balanced financial position by the end of 2007. In this context, the ability of the Group to generate positive cash flows, a condition of significant impact on the development of Tiscali's financial position as well as the stability of its businesses and finances, remains of prime importance.

1. Format and content of accounting statements

As from the financial year 2005, when European Regulation n.1606/2002 came into effect, the Tiscali Group adopted the new international accounting standards (IFRS – International Financial Reporting Standards e 'IAS' – International Accounting Standards) issued by 'IASB' (International Accounting Standards Board) and endorsed by the European Union, as well as the interpretations included in documents of the International Financial Reporting Committee ('IFRIC'), previously known as Standing Interpretation Committee ('SIC').

The consolidated financial statements comprise the accounting statements (income statement, balance sheet, statement of changes in shareholders' equity and cash flow statement), complete with explanatory notes. The income statement was prepared in accordance with the minimum requirements established by IAS 1 – Presentation of financial statements – classifying expenses by nature; the balance sheet was prepared in a format that illustrates the division of current and non current assets and liabilities, while the cash flow statement was prepared according to the indirect method.

It should be noted that, in accordance with IFRS 5, the income statements of assets held for sale, in this case assets in the Netherlands, Germany and the Czech Republic, are recorded under the consolidated income statement item "Result of discontinued operations" in both 2006 and 2005, mentioned for comparison purposes in this report. Therefore, the 2005 income statement was consequently reclassified to allow comparison with 2006 figures.

For 2006 it should also be specified that, in accordance with IFRS 5, the balance sheet entries for assets held for sale in the Netherlands, Germany and the Czech Republic were recorded under the consolidated balance sheet item "assets held for sale" and "liabilities directly related to assets held for sale", whereas in 2005 balance sheet entries for assets held for sale were recorded on a line-by-line in the consolidated statements.

2. Accounting standards

2.1 General standards

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

Preparation of the financial statements requires management to make accounting estimates and in certain cases assumptions in the application of accounting standards. The areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 3 to 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 relating to Tiscali, control involves the majority of voting rights exercisable at ordinary shareholders' meetings of companies included in the consolidation area.

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

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

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

Consolidation area

In the third quarter 2006, the following changes were made to the consolidation area as compared to the financial statements at 31 December 2005:

On 12 August 2006, Tiscali and Video Networks International Ltd signed a business combination agreement in relation to their respective UK assets, further to which Video Networks International swapped 100% of its UK assets (total shares in Video Networks Ltd – VNL) for a minority shareholding in Tiscali UK Ltd. As of 1 September 2006, the transaction completion date, Video Networks Ltd was therefore fully consolidated and these financial statements include accounting of the effects of this 'business combination' transaction. The process is based on assessments formulated by independent experts and on documentation of a contractual nature, leading to the calculation of 'fair value' of net assets acquired and quantifiable in EUR 206.8 million, as compared to their carrying amount of EUR 20.7 million. Of the difference totalling EUR 186.1 million, EUR 54.2 million was allocated to intangible assets regarding the VNL infrastructure and technological platform (and related content/rights), while the remaining EUR 131.9 million was recognised as goodwill, in that it is not directly attributable to other assets as currently measurable. Following initial recognition of the assets, accounting of the VNL 'business combination' in liabilities terms has led to the recording of a sum due to ex-VNL shareholders for the actual value of VNL tax losses (EUR 89 million) for which a medium-long term deferred payment has been agreed. Due to its complex nature, completion of the verification process to establish the fair value of the various asset types of the VNL subsidiary, as indicated in the quarterly report at 30 September 2006, led to certain changes in the effects of the business combination on accounts. This process is expressly provided for by IFRS 3 and the period concerned is twelve months from the date of the combination for the purposes indicated in IFRS3.

In September 2006 an agreement was reached on the disposal of Tiscali assets in the Netherlands to KPN Telecom. Conclusion of the operation calls for consultation with representatives of the works council and the approval of Dutch antitrust authorities. As of the quarterly report at 30 September 2006, the circumstances described led to conditions permitting the application of IFRS 5 (non current assets held for sale and discontinued operations) to the Dutch subsidiary (Tiscali BV). In these financial statements, assets and liabilities of the subsidiary Tiscali BV, along with the corresponding comparison data, were therefore reclassified in accordance with IFRS 5 to assets held for sale, while the overall economic result of the subsidiary was recognised to the Result of discontinued operations.

In the financial statements at 31 December 2006, the assets of Tiscali subsidiaries operating in the Czech Republic (Tiscali Telekomunikace Sro) and Germany (Tiscali Deutschland GmbH and Tiscali Business GmbH) were reclassified under assets held for sale, and their overall economic results included under Result of discontinued operations. Such accounting follows the decision made by the Tiscali Board of Directors, reflected in the business plan presented in October 2006, to no longer consider those subsidiaries as strategic and to proceed to their disposal which, at present, seems extremely likely.

Following completion of the operations assets disposal process, the residual and minor carrying values of Tiscali International Network SA and Tiscali International Network SAU were reclassified to continuing assets.

2.3 Business combinations and Goodwill

The acquisition of subsidiaries is accounted for using the purchase method, in accordance with IFRS 3 – Business combinations. The cost of the acquisition is measured as the aggregate of the fair values, at the date of the exchange, of assets 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 to the income statement.

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.

After initial recognition, goodwill is assessed at cost, net of any accumulated impairmentes. In compliance wit IFRS 3, goodwill is not amortised but subjected to impairment testing to identify any reduction in value. As from 1 January 2005 (the transition date to the new standards) and in accordance with IAS/IFRS standards, the Group discontinued the amortisation of goodwill, instead subjecting it to impairment testing.

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

The impairment, 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 sufficient to recover the goodwill allocated to the unit. The recoverable amount is the higher between the 'fair value' less costs to sell and its utilisation value. The expected future cash flows are discounted at a rate that reflects the current market estimate of the cost of money, the cost of capital and the risks specific to the unit. If the estimated recoverable amount of the unit concerned is lower than the relevant carrying value, it is decreased to the least recoverable value. Impairments are recognised to the income statement under write-down costs and are not subsequently reversible.

On first-time adoption of IFRS and in compliance with exemptions provided by IFRS 1, the Group decided not to exercise the option to 'reconsider' acquisition operations performed before 1 January 2004. Consequently, goodwill deriving from company acquisitions prior to that date were recorded at the value indicated in the last statements complying with the previous accounting standards (1 January 2004, date of transition to IFRS), subject to impairment testing as at the date of preparation of this report.

On disposal of a subsidiary, the attributable amount of goodwill is calculated as the expected capital gain or loss on disposal.

2.4 Equity investments in affiliated companies

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

Equity investments in affiliated companies are entered on the balance sheet as Non current Assets and assessed by the equity method. Under the equity method, equity investments in associates are recognised to the consolidated balance sheet at acquisition cost, as adjusted for post-acquisition changes in the net assets of the associate, less any Impairments in the value of individual equity investments.

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

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

2.5 Assets held for sale and discontinued operations

Assets and/or disposal groups, related to equity investments in non-strategic subsidiaries held for sale ('Assets Held for Sale and Discontinued Operations)', as required by IFRS 5 (applicable from 1 January 2004), are classified under a specific item in the balance sheet and are assessed at the lower of the asset's previous carrying value and fair value, less costs to sell. The assets (related to equity investments) are thus classified if it is estimated that their carrying value will be recovered by disposal rather than by continued use. This condition is observed only when the sale is highly probable, the asset (or investment) is available for immediate sale in its present condition and the Board of Directors of the parent company is committed to the sale, completion of which should be expected within one year from the date of classification.

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

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

The income statement items disclosed under 'Results of discontinued operations are recognised as a single item composed as follows:

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

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

2.6 Foreign currency transactions

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

Exchange differences arising from settlement of monetary items and retranslation of monetary items, are recognised to the income statement for that period.

For the purpose of presenting the consolidated financial statements, the assets and liabilities of foreign subsidiaries with operating currencies other than euro, are translated into euro at the rates prevailing at the financial year end date. Revenues and costs are translated at the average exchange rates for the period. Exchange differences arising from the application of this methodology are recognised to Shareholders' Equity under the Translation reserve. This reserve is recognised to the income statement in the period in which disposal of the foreign subsidiary is completed.

The main exchange rates used for translation of 2006 and 2005 financial statements for foreign companies into euro were:

	31.12.2006			31.12.2005
	average	average	closing date	closing date
	2006	2006	2005	2005
GB pound	0.6729	0.6715	0.6792	0.6853
Czech coruna	27.7780	27.4850	28.9720	29.0000

2.7 Other intangible assets

Computer software – Development costs

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

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

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

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

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

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

Costs of activation of broadband service

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

Intangible assets also include those originating from the VNL business combination in relation to software, the IPTV content and brand name agreements amortised on average over five financial years.

2.8 Property, plant and equipment

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

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

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

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

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

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

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

Assets held under finance lease

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

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

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

Operating lease payments are recognised to the income statement as costs on a straight-line basis over the lease term.

2.9 Impairment of assets

The carrying amount 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 may not be recoverable. Intangible assets with unlimited useful life (goodwill) are tested annually or more frequently if there is any indication that those assets have suffered an impairment. If any such indication exists the recoverable amount of the asset is estimated in order to determine the extent of the impairment. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash Generating Unit (CGU) to which the asset belongs. The recoverable amount is the higher between the 'fair value' less costs to sell and its utilisation value. In assessing utilisation value, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment on the 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 is recognised to the income statement under write-downs. If the reasons for impairment 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 not beyond the carrying amount that would have been determined had no impairment been recognised for the asset in previous years. An impairment reversal is recognised to the income statement.

2.10 Inventories

Inventories are stated at the lower of cost and net realisable value. Considering the circumstances and characteristics of the Group's 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 costs to sell.

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 become 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.

For contracts negotiated at market price, the fair value of the instrument is equivalent to the purchase cost (nominal value of the transaction). The external costs and income from transactions directly attributable to the negotiation, such as intermediation costs, are considered during initial recognition of the instrument, unless 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. *Financial liabilities*, taking into account the methods of adoption of IAS 32 and IAS 39, respectively established by Regulation (EC) n. 2237 of 29 December, 2004 and by Regulation n. 2086 of 19 November, 2004, and inherent "carve-outs", are measured on the basis of amortised cost. The measurement at fair value is applied only to any financial liabilities 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 by overall depreciation, applying the effective interest method, on 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 irrecoverable 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 initial recognition of the financial instrument. As to instruments for which no expense or income to be capitalized is identified, the amortised cost equals actual cost, as the effective interest rate is represented by the nominal interest rate.

The accounting standards adopted for specific assets and liabilities are disclosed below.

Other financial assets

Financial assets such as *Term Deposits* and *Guarantee deposits* 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, 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 write-downs recognised to reflect impairment.

Equity 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 reliably be calculated. Gains and losses from changes in fair value are directly recognised to equity until the security is disposed of or is impaired, at which time the cumulative gain or loss previously recognised to equity is included in the income statement for the period. The original value is re-recognised in the following financial year if the reasons for write-down are considered to no longer apply.

Receivables from customers and other receivables

Receivables are initially measured at their nominal value (representative of the 'fair value' of the transaction) and are subsequently measured at amortised cost, net of write-downs for impairment, recognised to the income statement when there is objective evidence that the asset is impaired. Such write-downs are calculated as the difference between the carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. Particularly with regard to short-term trade receivables, considering the scarce significance of the period of time, the measurement at amortised cost is equivalent to the nominal value, less write-downs for impairment.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, current accounts and deposits held on demand with banks, and other short-term highly liquid investments 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 accessory charges directly attributable to the transaction. 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 agio, disagio, issue costs and redemption premium), recognised to the income statement over the period of the operation, using the effective interest method.

Payables to banks

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

Payables to suppliers and other payables

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

Derivative instruments

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

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

Cash flow hedge

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

Fair value hedge

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

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

2.12 Liabilities associated with pension obligations and staff severance indemnities

Defined benefit schemes (as classified by IAS 19), in particular the Staff Severance indemnities relating to employees of the parent company and 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 the balance sheet date. It should be specified that no assets are held in support of the above scheme. The Group has not adopted the 'corridor approach', therefore actuarial gains and losses are entirely recognised in the period in which they arise and are directly recorded in the income statement.

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

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 likely that the Group will be required to settle that obligation. Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the balance sheet date and are discounted to present values where the effect is material.

2.14 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 to the income statement is based on the actual traffic produced at the reference date and/or periodic service rental payable at that date.

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

2.15 Financial income and charges

Interest received and paid, including interest on bond issues, is 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 income for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted by the balance sheet date.

Deferred taxes are taxes likely to become payable or recoverable on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the calculation of taxable income, and are accounted for using the balance sheet liability method.

Deferred tax liabilities are generally recognised for all taxable temporary differences arising in the Group's companies and subsidiaries, except where the Group is able to control reversal of the temporary difference and it is unlikely that the temporary difference will reverse in the foreseeable future.

Deferred tax assets, arising from temporary differences and/or previous losses, are recognised to the extent that it is probable that taxable profits will be available in the future against which deductible temporary differences and/or previous losses can be utilised. The provisions are based on taxable income likely to be generated in 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 accounting result nor taxable income. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer likely that sufficient taxable income will be available to allow all or part of the asset to be recovered.

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

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

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

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

3.1 Assumptions for the application of accounting standards

Revenue recognition criteria

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

3.2 Accounting estimates and relevant assumptions

Impairment of goodwill

Goodwill is tested for impairment annually or more frequently during the financial year, as disclosed in the preceding section, under paragraph 2.3, 'Business combinations and goodwill'. The ability of each 'unit', identifiable in this case with the subsidiary, to generate cash flows such as to recover the goodwill allocated to the unit, is determined on the basis of the 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 income likely to be generated 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 accounting result nor taxable income. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer likely that sufficient taxable income will be available to allow all or part of the asset to be recovered.

Provisions for risks and charges

Provisions for risks and charges 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 tax advisors, concerning the charges that are reasonably deemed to be incurred in order to settle the obligation. If in relation to the final result of such judgements the Group is called upon to fulfil an obligation for a sum other than that estimated, the related effects are reflected in the income statement.

3.3 New accounting standards

In December 2004, the IFRIC issued interpretational document IFRIC 4 – To determine when a contract contains a lease in order to provide guidelines to define when a contract without the legal format of a lease requires the application of IAS 17 - Leasing. In particular, the specific interpretation that a contract contains a lease is if its fulfilment depends on the use of a specific asset and confers the right of control or usage of said asset. The Group has applied this interpretation as of 1 January 2006 without noting any significant impact.

In April 2005, IASB issued an amendment to IAS 39 – Financial Instruments: recognition and assessment allowing the qualification of an intra-group transaction seen as highly likely as an item covered by a cash flow hedge against exchange rate risk, in the event that the transaction is performed in a currency other than the operating currency of the company performing the transaction, and the consolidated financial statements are exposed to exchange rate risk. The amendment also specifies that, if hedging of an intra-group transaction calls for hedge accounting, all profit or loss recognised directly to equity under the terms of IAS 39 must be reclassified to the income statement in the period in which exchange risk on the hedged transaction demonstrates its effects on the consolidated income statement.

In June 2005, IASB issued an amendment to IAS 39 – Financial Instruments: recognition and assessment limiting use of the option to designate all financial assets or liabilities assessed at fair value directly to the income statement (the "fair value option"). This review of the standard limits the use of said option to financial instruments that satisfy the following conditions:

- designation according to the fair value option eliminates or significantly reduces an imbalance in accounting;
- a group of financial assets, liabilities or both are managed and their performance is based on fair value according to a documented risk or investment management strategy; and
- an instrument contains an implicit derivative that satisfies particular conditions. The Group has applied said amendments to IAS 39 as of 1 January 2006.

The adoption of said amendments has not affected shareholders' equity and the net result for the period.

In August 2005, IASB issued a further amendment to IAS 39 and IFRS 4 regarding the accounting of guarantees issued. Based on this amendment, liabilities deriving from guarantees must be recognised to the balance sheet of the guarantor and assessed as follows:

- initial recognition at fair value;
- subsequently, at the greater between (i) the best estimate of expenditure required to settle the obligation at the reference date, based on the provisions of IAS 37.
  – Provisions, contingent liabilities and contingent assets, and (ii) the total initially recognised less any accumulated amortisation recognised in accordance with IAS 18.
  – Revenues. Application of the amendment has had no significant effect.

In August 2005, IASB issued an amendment to IAS 7 – Financial Instruments: integrative information and a complementary amendment to IAS 1 – Presentation of financial statements: integrative information in relation to capital. IFRS 7 requires integrative information regarding the recognition of financial instruments as related to performance and the financial position of a company. Such information incorporates certain requisites previously included in the accounting standard IAS 32 – Financial instruments: balance sheet exposure and integrative information. The new accounting standard also requires information regarding the level of exposure to risk deriving from the use of financial instruments, and a description of the objectives, policies and procedures implemented by management to handle such risks. The amendment to IAS 1 introduces requirements relating to information to be provided on company capital. IFRS 7 and the amendment to IAS 1 became effective on 1 January 2007. The Group did not adopt IFRS 7 in advance.

On 2 November 2006, IFRIC issued the interpretational document IFRIC 11 – *IFRS 2 – Group and Treasury Shares Transaction*. This interpretation establishes that payment plans based on transactions by which the company receives services in exchange for own shares, must be accounted for as capital instruments. The interpretation in question becomes effective as of 1 January 2008. The Group has not adopted the interpretation in advance.

On 3 March 2006, the IFRIC issued interpretational document IFRIC 9 – *Subsequent assessment of underlying derivatives* to specify that a company must assess whether underlying derivatives must be separated from the primary contract and recognised as derivative instruments as of the moment that the company becomes party to the contract. Subsequently, unless contractual conditions are modified to produce significant effects on cash flows that would otherwise be required under contract, said assessment may not be implemented again. This interpretation became effective as of 1 January 2007. The Group does not consider that the adoption of this interpretation will demonstrate any significant impact.

On 30 November 2006, IASB issued accounting standard IFRS 8 – Business Segments, applicable as of 1 January 2009 in replacement of IAS 14 Segment Reporting. The new accounting standard requires that the company bases information given in the Segment Report on elements used by management to make their business decisions, and therefore requires identification of the business segments based on internal reporting regularly reviewed by management for resource allocation purposes to the various segments and for performance analysis purposes. At the date of issue of these financial statements, the Group is assessing the effects deriving from the adoption of this standard. Lastly, it should be mentioned that in 2006 the following standards and interpretations were issued that not applicable to the Group: IFRIC 8 – Scope of IFRS 2 (Effective from 1 January 2007); IFRIC 12 – Service Concession Arrangements (Effective from 1 January 2008).

Lastly we notify that, during 2006, the following interpretation has been published:

- 'IFRIC 7 – *Applying the Restatement Approach under IAS 29* Financial Reporting in Hyperinflationary Economies' (not applicable to the Group);
- 'IFRIC 8 – *Scope of IFRS 2'* (Ambito di applicazione dell'IFRS 2), applicable starting from 1st January 2007;
- 'IFRIC 10 – *Interim Financial Reporting and Impairment*'. (Intermediate Reports and Impairment). The document clarifies certain aspects related to the registration and write off of losses for value reduction related to goodwill and and to certain financial activities in the Intermediate Reports. The interpretation is applicable for financial years started after 1st November 2006.
- 'IFRIC 11 – IFRS 2 – *Group and Treasury Shares Transaction'*. This interpretation establish that payments plan based on shares in which the company receives services for its shares should be booked as capital instruments. This interpretation is applicable starting from 1st January 2008; the Group has not yet adopted this interpretation.
- 'IFRIC 12 – *Service Concession Arrangements*' (applicable from 1st January 2008).

For the sake of completeness, the IASB will not require the application neither of the new IFRSs currently being developed, nor of the any relevant modification (convergence IFRS/US Gaap) to those already existing, until 1st January 2009.

Those companies that wish to apply the new principles published, will be allowed to apply them before the abovementioned date.

4. Revenues

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

Revenues by country - EUR (000) (*)	31.12.2006	31.12.2005
Iltaly	213,414	184,497
United Kingdom	430,313	319,435
Others	34,754	26,920
	678.481	**530.852**

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

It should be specified that 2005 data does not include the revenues of certain minority interests, reclassified under Others

Revenues by business segment - EUR (000)	31.12.2006	31.12.2005
Dial up access revenues	115,580	149,694
Broadband ADSL access revenues	357,920	222,416
Access revenues	473,500	372,110
VoIP revenues	32,172	-
Voice revenues	80,078	82,924
Business revenues	44,390	41,180
Media revenues (portal and others)	42,053	24,925
Other revenues	6,288	9,713
	678,481	**530,852**

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

5. Segment reporting (by country and line of business)

The activities of the Tiscali Group and the relevant strategies, as well as activities of subsidiaries, are articulated and defined by geographic segment, this therefore being the primary segment for segment reporting purposes, as required by IAS 14. The geographic segments are represented mainly by two countries in which the Tiscali Group operates (Italy and the UK), excluding therefore those geographic segments in which the related assets, as of this annual report, are recognised as held for sale (i.e. Germany, the Netherlands and the Czech Republic). This note reports the main results of these business segments, together with the balance sheet data of the various geographic segments and other information required by the reference standards.

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

Segment reporting by geographic segment

INCOME STATEMENT

31 december 2006 EUR 000	Italy	United Kingdom	Others	Segment report	Unallocated	Operating assets
Revenues						
From third parties	213,413	430,313	16,675	660,402	18,079	678,481
Intra-group	4,097	14,885	6,604	25,586	(25,586)	-
Total revenues	**217,510**	**445,199**	**23,279**	**685,988**	**(7,507)**	**678,481**
Gross operating result	**39,206**	**74,944**	**6,275**	**120,424**	**(20,003)**	**100,422**
Operating result	**(13,015)**	**(59,539)**	**(2,418)**	**(74,972)**	**62,120**	**(12,852)**

31 december 2005 EUR 000	Italy	United Kingdom	Others	Segment report	Unallocated	Operating assets
Revenues						
From third parties	184,443	319,656	12,869	516,969	13,883	530,852
Intra-group	4,433	5,236	7,792	17,460	(17,460)	-
Total revenues	**188,876**	**324,892**	**20,661**	**534,429**	**(3,577)**	**530,852**
Gross operating result	**17,740**	**61,138**	**3,938**	**82,816**	**(13,130)**	**69,686**
Operating result	**(16,871)**	**7,284**	**(2,678)**	**(12,264)**	**(43,391)**	**(55,655)**

The unallocated elements include values relating to corporate assets.

OTHER SEGMENT DATA AND FINANCIAL POSITIONS

31 dicember 2006 EUR 000	Italy	United Kingdom	Others	Segments	Unallocated	Operating assets
Assets						
Segment assets	221,191	367,609	48,929	637,730	273,898	911,628
Equity investments – equity method	2,474	-	-	2,474	-	2,474
Goodwill	3,406	313,240	-	316,646	-	316,646
Total consolidated assets	**227,071**	**680,849**	**48,929**	**956,850**	**273,898**	**1,230,748**
Liabilities						
Segment liabilities	177,995	337,456	15,244	530,695	430,492	961,186
Total consolidated liabilities	**177,995**	**337,456**	**15,244**	**530,695**	**430,492**	**961,186**
Other information						
Investments	55,439	100,770	9,202	165,411	13,371	178,782
Depreciation and amortisation	35,363	72,904	7,636	115,903	14,192	130,095
Provisions and write-down	5,099	10,054	318	15,471	1,601	17,072

OTHER SEGMENT DATA AND FINANCIAL POSITIONS

31 december 2005 EUR 000	Italy	United Kingdom	The Netherlands	Germany	Others	Segments	Unallocated	Operating assets
Assets								
Segment assets	214,036	216,998	71,639	29,818	55,396	587,887	123,950	711,837
Equity investments – equity method	1,099	-	-	-	-	1,099	-	1,099
Equity 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	34,672	75,773	33,580	9,968	6,807	160,800	8,378	169,178
Depreciation and 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

ASSETS BY BUSINESS LINE

31 december 2006 EUR 000	Access *Broadband*	Access *Narrowband*	Voice	Business Services	Media & Vas	Unallocated	Total
Goodwill	-	-	-	6,584	-	310,062	**316,646**
Intangible assets	144,371	3,368	6,766	33,373	11	30,482	**218,371**
Property, plant and equipment	80,672	21,618	1,580	22,776	-	54,527	**181,173**
Equity investments	-	-	-	780	-	1,694	**2,474**
Other financial assets	-	-	-	12	-	13,083	**13,095**
Deferred tax assets	-	-	-	16	-	144,690	**144,706**
	225,043	**24,986**	**8,346**	**63,542**	**11**	**554,538**	**876,465**
Current assets							
Inventories	-	-	-	-	-	4,084	**4,084**
Receivables from customers	75,152	5,410	27,228	27,912	4,124	(4,090)	**135,737**
Other receivables and other current assets	12,070	1,661	2,289	4,305	1,266	22,544	**44,135**
Other current financial assets	-	-	-	5	-	7,857	**7,862**
Cash and cash equivalents	-	-	-	589	-	3,235	**3,824**
	87,222	**7,071**	**29,518**	**32,811**	**5,390**	**33,631**	**195,641**
Assets held for sale	-	-	-	-	-	158,642	**158,642**
Total Assets	**312,265**	**32,057**	**37,864**	**96,352**	**5,401**	**746,811**	**1,230,748**

ATTIVITÀ PER LINEA DI BUSINESS

31 december 2005 EUR 000	Access *Broadband*	Access *Narrowband*	Voice	Business Services	Media & Vas	Unallocated	Total
Goodwill	-	-	-	-	-	313,462	**313,462**
Intangible assets	79,942	18,100	1,934	42,159	1,617	20,197	**163,950**
Property, plant and equipment	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**	**544,619**	**808,644**
Current assets							
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**	**1,026,413**

6. Other income

Other income includes contributions for the financial year from the parent company as well as certain contingent assets and non-recurrent income.

7. Purchase of materials and outsourced services

EUR (000)	31.12.2006	31.12.2005
Purchase of raw materials and goods for resale	1,035	1,083
Line/traffic rental and interconnection costs	327,272	240,906
Costs for use of third party assets	12,715	6,176
Portal services	23,563	20,431
Marketing costs	75,902	63,568
Other services	57,902	55,667
Total	**498,389**	**387,831**

The increase in costs compared to the previous year is should be balanced with the significant increase in revenues. The cost figures, in particular those relating to line/traffic rental costs, reflect the efficiency of progressive development of the *'unbundling'* ADSL network.

8. Personnel costs

EUR (000)	31.12.2006	31.12.2005
Wages and salaries	51,643	49,934
Other personnel costs	26,240	16,606
Total	**77,883**	**66,540**

At 31 December 2006 the Tiscali Group had 1,354 employees. The relevant categories are disclosed below together with the corresponding data at 31 December 2005, applying the same consolidation area.

	31.12.2006	31.12.2005
Senior managers	53	46
Middle managers	128	112
Office staff	1,168	1,020
Manual workers	5	4
Total	**1,354**	**1,182**

9. Other operating costs

The table below shows a breakdown of these costs:

EUR (000)	31.12.2006	31.12.2005
Other operating expenses	3,608	4,087
Contingencies, capital losses and other non recurrent costs	1,864	3,729
Total	**5,472**	**7,816**

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

EUR (000)	31.12.2006	31.12.2005
Write-downs of receivables from customers	15,394	15,028
Restructuring costs and other write-downs	43,336	9,690
Provisions for risks and charges	1,678	3,501
Total	**60,408**	**28,219**

Write-downs of receivables from customers are essentially in line with the previous year, in absolute terms, with a 2% impact on revenues, reduced as compared to 2005.

Restructuring costs and other write-downs totalled EUR 43.3 million and mainly include EUR 39.6 million relating to the VNL business combination, EUR 1.3 million relating to charges on property not in the UK and EUR 1.3 million charges relating to staff indemnities.

Provisions for risks and charges include EUR 1 million for a dispute between Tiscali SpA and a Spanish supplier and the remainder for staff disputes.

11. Other unusual (Income) Charges

EUR (000)	31.12.2006	31.12.2005
Other unusual (Income) Charges	(77,229)	-
Total	**(77,229)**	**-**

The unusual income recorded under the operating result includes EUR 77.2 million originating from the Video Networks Ltd (VNL) business combination concluded in the third quarter 2006. This operation, involving the business combination and consolidation of VNL, 100% controlled by Tiscali UK, concluded with a simultaneous increase in Tiscali UK capital 'in favour of third parties' in relation to their contribution to VNL assets assessed at fair value. This contribution led to a dilution of Group interests previously held in Tiscali UK, but at the same time led to in increase in absolute value of the Group's equity interests in that company. In fact, following the VNL business combination concluded via a 100% share swap and increase in shareholders' equity in Tiscali UK, the Group achieved a net increase in equity value even if its control percentage was reduced. This increase, in accordance with reference accounting standards, is reflected under the relevant item of the income statement, coherent with the "parent company approach" of the current versions of IFRS 3 and IAS 27.

12. Financial Income (Charges)

12.1 Net financial Income (Charges)

A breakdown of net financial income (charges) for the year, negative at EUR -29.7 million is provided below.

EUR (000)	31.12.2006	31.12.2005
Financial income		
Interest on bank deposits	673	3,019
Interest received	268	3,444
Others	382	825
	1,323	**7,288**
Financial charges		
Interest on bonds	8,904	22,574
Interest and other charges due to banks	22,160	6,194
Interest due to affiliated companies	-	8
	31,064	**28,776**
Net financial charges	**(29,741)**	**(21,488)**

Interest on Bonds of EUR 8.9 million is fully attributable to interest paid on the bond.

Interest and other charges due to banks of EUR 22.2 million mainly includes interest paid to Silver Point of EUR 18.1 million, plus interest to Andalas of EUR 1.5 million and to EDC of EUR 1.2 million.

12.2 Other net financial Income (Charges)

Other net financial income (charges) totalling EUR 21.9 million mainly includes restructuring costs and penalties linked to transactions with Silver Point.

EUR (000)	31.12.2006	31.12.2005
Other net financial income (Charges)	(21,985)	(4,921)
Total	**(21,985)**	**(4,921)**

13. Income taxes

EUR (000)	31.12.2006	31.12.2005
Current taxes	(1,960)	(1,080)
Deferred taxes (utilisation)	(10,768)	(53,800)
Deferred tax assets (Pre-paid tax)	18,579	30,087
Net taxes for the year	**5,851**	**(24,793)**

The balance of current taxes includes around EUR 2 million IRAP corporate tax for Italian companies in the Tiscali Group.

Deferred taxes utilised at 31 December 2006 of EUR 10.7 million are fully attributable to Tiscali International BV and to Dutch subsidiaries included in the tax consolidation.

Prepaid taxes recorded at 31 December 2006 totals EUR 18.5 million and relates in full to the Dutch subsidiaries.

Deferred tax assets

At 31 December 2006 the total deferred tax assets due to prepaid tax were EUR 144.7 million.

EUR (000)	31.12.2006	31.12.2005
Deferred tax assets	144,706	135,416

Deferred tax assets recognised to the balance sheet mainly relate to tax losses brought forward by Tiscali Group companies. In accordance with reference accounting standards these deferred tax assets are recognised since it is considered likely that over the next financial years sufficient tax credit will become available from future taxation to recover the amount recorded at 31 December 2006. Such forecasts are based on tax credit generated with reasonable certainty in consideration of the approved business plans, and related tax plans, and current operating performance of Group companies to which the tax losses relate.

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

- Deferred tax assets relating to subsidiary Tiscali UK, totalling EUR 77.5 million (EUR 75.9 million in 2005), including EUR 63.4 million to tax benefits deriving from previous losses and EUR 14.1 million prepaid tax on temporary tax differences expected to be utilised over future periods to cover taxable income as forecast.

- Deferred tax assets relating to Tiscali International NV and subsidiaries included in the Dutch consolidated tax regime (particularly subsidiary Tiscali BV) for EUR 67.2 million (EUR 59.4 million at 31 December 2005), originating in full from previous tax losses. Significant utilisation of this sum is forecast for 2007 in relation to the disposal of Dutch assets and subsequent capital gains realised in the Netherlands.

Tax losses of subsidiaries operating in The Netherlands and in the United Kingdom can be carried forward indefinitely. Deferred tax assets cautiously take into account adjustments to losses brought forward from previous years deriving from confirmation received from Dutch tax authorities, described in note 35, illustrating the tax disputes in progress.

The table below illustrates the movements in deferred tax assets during 2006, divided into the various Group companies included in the ‘continuing operations’ area.

EUR (000)	31.12.2005	Utilisation	Increase	Other movements (*)	31.12.2006
Tiscali S.p.A.	-	-	-	-	-
Tiscali International BV	59,358	(10,768)	18,562	-	67,152
Tiscali UK Ltd	75,956	-	-	1,563	77,519
Tiscali International Network S.p.A.	102			(84)	18
Tiscali International Sa	-	-	17	-	17
Total	**135,416**	**(10,768)**	**18,579**	**1,479**	**144,706**

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

The tax benefit relating to previous losses brought forward compared to those recognised as deferred tax assets represent only a part of the tax benefit linked to previous losses brought forward by Tiscali Group companies which at 31 December 2006 totalled EUR 1,725.2 million.

It should be noted that the sum recognised as deferred tax assets is limited to EUR 144.7 million as in the opinion of Tiscali S.p.A. directors and on the basis of the current business plan there are no reasonable assumptions justifying a higher recording, in particular considering the time factor.

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

EUR (000)	Total	Year of expiry (*)					
	al 31.12.2006	2007	2008	2009	2010	Beyond 2010	Indefinite
Total previous tax losses	1,725,197	46,546	178,473	123,133	32,542	105,341	1,239,162
Deductible temporary differences	216,540	151,980	64,560	-	-	-	-
Total tax losses and deductible temporary differences	**1,941,737**	**198,526**	**243,033**	**123,133**	**32,542**	**105,341**	**1,239,162**
Total deferred tax assets (at the theoretical average tax rate of 30%)	582,521						
Deferred tax assets recognised	144,706						
Deferred tax assets not recognised	**437,815**						

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

The tax losses correspond to those recorded in tax returns and, for 2006, to taxable income calculations. These losses relate to the parent company and Italian subsidiaries (EUR 497.2 million, including EUR 260.5 million in the Italian tax consolidation), Tiscali International BV and Dutch subsidiaries (EUR 377.9 million less confirmed adjustments) and to subsidiaries operating in the UK (EUR 850 million).

Tax losses with indefinite expiries relate to Italian companies and in particular, with regard to expiries in 2007, to tax losses to be utilised against parent company taxable income.

14. Assets held for sale and/or discontinued operations

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

14.1 Result of discontinued and/or discontinuing operations

Asset disposals during year

In 2006 there were no disposals of assets held for sale.

Assets held for sale:

Tiscali Group assets under this category relate to:

- Czech Republic
- Germany
- The Netherlands
- Other assets (residual assets in Spain)

At 31 December 2006 this item, as in 2005, includes the net results of subsidiaries held for sale. In particular, the balance of this item includes the results of Tiscali operating assets in the Czech Republic, Germany and the Netherlands which at the end of the third quarter 2006 proved to meet the conditions for treatment under the terms of IFRS 5 *(non current assets held for sale and discontinued operations)*.

EUR (000)	31.12.2006	31.12.2005
Gains (Losses) deriving from disposal of subsidiaries and/or net asset disposals	-	169,467
Period result of subsidiaries held for sale	3,540	(38,517)
Write-down of goodwill and other assets	(71,000)	(13,988)
Charges related to disposals	(9,490)	(22,839)
Profit (Loss) from discontinued and/or discontinuing operations and/or held for sale	**(76,950)**	**94,123**

Write-down of goodwill includes the write-down of goodwill for German subsidiaries of EUR 65 million, aligned to the disposal value of the related assets, and to goodwill attributable to residual assets in Spanish subsidiaries (EUR 6 million).

Charges on disposals relate to financial and legal advisor fees in connection with the disposal of interests, and to costs relating to assets held for sale.

The 2005 figures also include effects deriving from asset disposals or assets held for sale in that period, and in particular effects deriving from disposal of French affiliate Liberty Surf.

14.2 Discontinued operations

As already mentioned, during the year there were no disposals of assets held for sale.

14.3 Assets held for sale

The following table shows the breakdown of results for the period of assets held for sale, relating in particular to holdings representing residual assets in the Czech Republic, Germany, the Netherlands and Spain.

Income statement - Operating assets held for sale		
EUR (000)	31.12.2006	31.12.2005
Revenues	190,085	227,387
Gross operating result	47,897	46,157
Operating result	5,874	(35,372)
Profit (loss) before tax	3,538	(38,515)
Net result	3,540	(38,517)

EUR (000)	31.12.2006	31.12.2005
Czech Republic	(698)	(2,675)
Germany	(15,054)	(22,938)
The Netherlands	22,017	4,918
Other assets	(2,725)	(17,822)
	3,540	**(38,517)**

In 2006 the net result from assets held for sale was positive at EUR 3.5 million.

In 2006, the Dutch subsidiary (Tiscali BV), despite the limited potential for further growth in the reference market which led to the decision regarding its disposal, confirmed its positive performances and fully achieved the break-even goal. Performances of subsidiaries in the Czech Republic and Germany, in the light of objectives in the Tiscali Group strategic plan, influenced the decision to proceed to their disposal.

The net total of assets held for sale, equal to EUR 158.6 million, is as follows:

Assets EUR (000)	31.12.2006	31.12.2005
Non current assets	129,763	10,312
Current assets	28,879	6,395
Assets held for sale	**158,642**	**16,707**

Total liabilities directly related to assets held for sale, equal to EUR 64.9 million, are as follows:

Liabilities EUR (000)	31.12.2006	31.12.2005
Non current liabilities	12,337	5,169
Current liabilities	52,595	6,553
Liabilities directly related to assets held for sale	**64,932**	**11,722**

15. Goodwill

Goodwill arises from acquisitions performed 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 geographic area 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.

The table below summarises the composition and movements in the period in relation to continuing operations. The table does not include, therefore, goodwill relating to subsidiaries operating in the Czech Republic, Germany and the Netherlands, the corresponding values for which are included under assets held for sale.

EUR (000)	31.12.2005	Increases	Decreases	Assets HFS	31.12.2006
Italy	3,406	-	-	-	3,406
United Kingdom	181,332	131,908	-	-	313,240
The Netherlands	35,518			(35,518)	-
Germany	91,396			(91,396)	-
Czech Republic	1,810			(1,810)	-
Total	**313,462**	**131,908**	**-**	**(128,724)**	**316,646**

The balance sheet figures at 31 December 2006 shows changes compared with those of the previous period due to the effect of business combination transactions performed in the UK (Video Network Limited).

In the reference period no situations arose requiring loss accounting due to impairment. As detailed in the section devoted to accounting standards, the impairment test on goodwill is applied at least annually or more frequently, if specific events or changes in circumstances indicate that assets may have suffered impairment. The impairment, if any, is identified by means of measurements referring to the ability of each 'unit', identifiable in this case with the subsidiary operating in a given geographic area, to generate cash flows sufficient to recover the goodwill allocated to the unit. The recoverable amount is the higher between the 'fair value' less costs to sell and its utilisation value. The expected future cash flows are discounted at a rate that reflects the current market estimate of the cost of money, the cost of capital and the risks specific to the unit. If the estimated recoverable amount of the unit concerned is lower than the relevant carrying value, it is decreased to the least recoverable value. Impairments are recognised to the income statement under write-down costs and are not subsequently reversible.

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

16. Intangible assets

Intangible asset movements for the year were as follows:

Intangible assets EUR (000)	31.12.2005	Increases	Other movements (*)	Ammortisation	Assets HFS	31.12.2006
Computer Software and development costs	10,375	2,456	38,768	(1,596)	(11)	49,992
Concessions and similar rights	109,562	17,365	4,923	(17,873)	(17,339)	96,638
Costs of activation of broadband service	32,445	49,634	6,292	(54,979)	(7,005)	26,387
Other	11,568	31,968	20,579	(14,518)	(4,242)	45,354
Total	**163,950**	**101,422**	**70,562**	**(88,966)**	**(28,597)**	**218,371**

(*) Other movements include decreases, reclassifications, conversion differences and changes in the consolidation area.

Computer Software and development costs totalling EUR 50 million include intangible assets from the VNL business combination of EUR 43 million and application software purchased for long-term use and customised for company use only.

"Concessions and similar rights" of EUR 96.6 million, includes approximately EUR 77.5 million rights and costs to purchase transmission capacity on a multi-year basis, implemented through the purchase of rights of use (concession – *IRU/Indefeasible right of use*). The increase of EUR 17.4 million recorded for the year mainly refers to the stipulation of new IRU contracts (EUR 12 million), required for development of the *unbundling* ADSL network.

"Broadband service activation costs" of EUR 26.3 million relates to the capitalisation of ADSL service activation costs. These costs are amortised in relation to the minimum customer contract duration, normally twelve months.

Other movements under Other intangible assets include EUR 11.1 million for assets from the VNL business combination, and any changes resulting from reclassifications, changes in the consolidation area and conversion differences.

1,855,000

ADSL subscribers

17. Property, plant and equipment

The table below shows the movements occurred during the financial year:

EUR (000)	31.12.2005	Increases	Other movements (*)	Riclassification of HFS	Depreciation	31.12.2006
Historical cost						
Land and Buildings	30,216	49	(1,379)	(1,621)	-	27,265
Plant and equipment	301,905	51,946	138,997	(96,135)	-	396,713
Other assets	77,251	25,415	(45,637)	(29,507)	-	27,522
Total	**409,372**	**77,410**	**91,981**	**(127,263)**	**-**	**451,500**

	31.12.2005	Increases	Other movements (*)	Riclassification of HFS	Depreciation	31.12.2006
Allowance for depreciation						
Land and Buildings	4,508	-	(1,292)	(499)	1,095	3,812
Plant and equipment	184,111	-	93,954	(55,600)	39,308	261,773
Other assets	54,798	-	(24,428)	(26,354)	726	4,742
Total	**243,417**	**-**	**68,234**	**(82,453)**	**41,129**	**270,327**

	31.12.2005	Increases	Other movements (*)	Riclassification of HFS	Depreciation	31.12.2006
Net value						
Land and Buildings	25,708	49	(87)	(1,122)	(1,095)	23,453
Plant and equipment	117,794	51,946	45,043	(40,535)	(39,308)	134,940
Other assets	22,453	25,415	(21,209)	(3,153)	(726)	22,780
Total	**165,955**	**77,410**	**23,747**	**(44,810)**	**(41,129)**	**181,173**

(*) Other movements include decreases, reclassifications, conversion differences and changes in the consolidation area.

‘Land and Buildings’ mainly refers to the investment implemented 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. It should be remembered that said mortgage was settled in February 2007 following the sale & lease back financing operation in relation to the property in question.

The net carrying value of *"Plant and machinery"*, (EUR 134.9 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 51.9 million reflects the significant investments to support the development of *unbundling* ADSL services.
Other movements include assets deriving from the VNL business combination.

“Other assets” include furnishings, office IT equipment and machinery, and vehicles.

18. Equity investments

Equity investments are assessed by the equity method and recognised to the balance sheet with a total EUR 2.5 million, in relation to companies held by the parent company and by its operative subsidiary Tiscali Italia S.r.l. The list of companies is reported in the appropriate section (List of equity investments)

19. Other non current financial assets

EUR (000)	31.12.2006	31.12.2005
Guarantee deposits	11,504	11,167
Other receivables	1,622	17,579
Equity investments in other companies	(31)	1
Total	**13,095**	**28,747**

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

These deposits relate in particular to property leases stipulated by our UK subsidiaries for EUR 9 million.

20. Deferred tax assets

EUR (000)	31.12.2006	31.12.2005
Deferred tax assets	144,706	135,416

For an analysis of this item, reference should be made to note 13 above.

21. Inventories

At 31 December 2006 inventories totalled EUR 4.1 million and mainly relate to *network* equipment, consumables, telephone cards, goods for resale as *merchandising* and *modems*.

22. Receivables from customers

EUR (000)	31.12.2006	31.12.2005
Receivables from customers	170,777	170,112
Write-down provisions for losses	(35,040)	(41,868)
Total	**135,737**	**128,244**

At 31 December 2006 customer receivables totalled EUR 135.7 million, after write-downs of EUR 35 million. These receivables accrued from the sale of internet services, billing of Internet access services, billing of network access services, inverse interconnection traffic, advertising revenues and *business* and telephone services provided by the Group. The carrying amount of trade receivables, in view of the maturities mentioned below and of conditions regulating the supply of services by the Group, is approximate to their 'fair value'.

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

23. Other Receivables and other current Assets

EUR (000)	31.12.2006	31.12.2005
Other receivables	18,953	21,266
Accrued income	11,195	18,696
Deferred charges	13,987	8,012
Total	**44,135**	**47,974**

Other receivables of EUR 18.9 million include, in particular, VAT credit of EUR 13.3 million, of which EUR 7.6 million VAT credit for which the parent company has requested reimbursement and for which settlement by the tax authorities is expected in the short term.

Accrued income (EUR 11.2 million) mainly relates to revenues matured in 2006 from services in the access segment.

Deferred charges of EUR 14 million relate to costs associated to multi-year rental of lines, international circuit agreements as well as hardware and software maintenance costs.

The carrying amount of records included in this item is approximate to their 'fair value'.

24. Other current financial assets

EUR (000)	31.12.2006	31.12.2005
Term deposits	7,638	6,880
Other receivables	224	126
Total	**7,862**	**7,006**

Term Deposits relate to restricted deposits and/or guarantees totalling EUR 7.6 million, of which EUR 0.3 million by sub-holding Tiscali International BV and EUR 7.3 million deposits by the UK subsidiary to guarantee advertising campaigns.

25. Cash and cash equivalents

At the end of 2006, cash and cash equivalents amount to EUR 3.8 million and include the Group liquid resources, essentially held in current accounts. Reference should be made to the report on operations for a detailed analysis of the financial position.

26. Shareholders' equity

EUR (000)	31.12.2006	31.12.2005
Share capital	212,207	198,369
Share premium reserve	948,017	953,717
Translation reserve	4,685	3,975
Retained earnings	(922,079)	(847,294)
Total	**242,829**	**308,767**

Changes in 2006 in shareholders' equity items are detailed in the relevant table.

At 31 December 2006 share capital amounted to EUR 212.2 million corresponding to 424,413,163 ordinary shares with a nominal value of EUR 0.50 each.

The share premium reserve shows a net decrease of EUR 5.7 million.

The diluted earnings calculation, indicated in the income statement, was performed by including in the calculation denominator the 27,675,021 shares issued as conversion of the bond expiring on 26 September 2006.

As required by Consob Communication DEM/6064293 of 28 July 2006, illustrated below is the summary comparison of Group results for the year and shareholders' equity with corresponding parent company values.

Summary comparison of parent company and consolidated financial statements	31.12.2006	
EUR (000)	Net result	Shareholders' equity
Tiscali S.p.A. balances	**(45,525)**	**953,157**
Elimination of effects of transactions between consolidated companies:		
Write-back of equity investments in subsidiaries	30,500	30,500
Shareholders' equity assessment of companies entered at cost in the financial statements	(937)	2,476
Adjustment to goodwill from intra-group transactions	-	(162,546)
Carrying amount of consolidated equity investments	**-**	**(895,566)**
Shareholders' equity and result for the period of consolidated companies	**(53,885)**	**73,350**
Differences attributed to assets of consolidated companies and related amortisation:		
Consolidation difference – continuing operations	-	316,646
Write-down of consolidation difference – Germany and Spain	(71,000)	(71,000)
Effect of other adjustments:		
Other adjustments	4,233	(4,188)
BALANCES IN CONSOLIDATED FINANCIAL STATEMENTS – Group share	**(136,614)**	**242,829**
BALANCES IN CONSOLIDATED FINANCIAL STATEMENTS – Third party share	**6,042**	**26,733**
BALANCES IN CONSOLIDATED FINANCIAL STATEMENTS	**(130,572)**	**269,561**

27. Non current financial liabilities

EUR (000)	31.12.2006	31.12.2005
Payables to banks and other lenders		
Payables to banks	-	89,163
Payables to other lenders	30,730	28,226
	30,730	**117,389**
Obligations under finance leases (m/l term)	15,918	17,789
Total	**46,648**	**135,178**

The financial position relates to continuing operations only and is summarised in the following table:

EUR (000)	31.12.2006	31.12.2005
A. Cash	3,824	30,004
B. Cash equivalents	-	-
C. Securities held for trading	-	-
D. Cash and cash equivalents (A) + (B) + (C)	**3,824**	**30,004**
E. Current financial payables	**7,638**	**6,881**
F. Current bank payables	358,896	18,081
G. Current portion of non-current debt	-	-
H. Other current financial payables (*)	28,194	227,755
I. Current financial debt (F) + (G) + (H)	**387,090**	**245,837**
J. Net current financial debt (I) – (E) – (D)	**375,629**	**208,952**
K. Non-current bank payables	-	89,162
L. Bonds issued	-	-
M. Other non-current payables (**)	46,648	46,014
N. Non-current financial debt (K) + (L) + (M)	**46,648**	**135,176**
O. Net financial debt (J) + (N)	**422,277**	**344,128**

(*) includes leasing payables

(**) includes leasing payables and payables to shareholders

The above table was prepared in the light of the Consob Communication dated 28 July 2006 and is different from that indicated in the report on operations since it does not take into consideration under 'other cash and cash equivalents' the guarantee deposits of EUR 11.5 million and under 'short-term loans' the VAT credits totalling approximately EUR 13.6 million.

It should also be mentioned that the 2005 financial position was defined by maintaining the consolidation area as at 31 December 2005, and therefore still including Germany, the Netherlands and the Czech Republic as continuing operations, which were instead classed as held for sale (HFS) in 2006.

In 2006, assets held for sale include cash of EUR 5 million whereas the liabilities directly related to assets held for sale are included under current financial debt as EUR 6.4 million and under non-current financial debt as EUR 7.6 million.

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

EUR (000)	31.12.2006	31.12.2005
Consolidated net financial debt presented in the Report on Operations	**(397,163)**	**(305,505)**
Other cash, cash equivalents and current financial receivables	(25,114)	(26,758)
Assets included as HFS in 2006	-	(11,865)
Net Financial Debt	**(422,277)**	**(344,128)**

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

27.1 Payable to banks and other lenders

Payables to banks and other lenders includes payables to other lenders of EUR 30.7 million (over 12 months) for the financing with market-rate interest granted in 2004 by partner Andalas Limited, the repayment of which is deferred until repayment of the new financing granted in 2007 by Banca Intesa Sanpaolo.

In December 2005, Payables to banks and other lenders also included the medium-long term mortgage (from Banca CIS, Cagliari) to construct the "Sa Illetta" HQ (EUR 27.6 million), the medium-long term financing from EDC *(Export Development Canada)*, a Canadian export credit bank (EUR 12.9 million) and the debt on financing granted by Silver Point Finance LLC, USA (EUR 48.6 million). In the 2006 statements the residual value of such debts was fully reclassified to short-term debts, in that the mortgage for construction of the "Sa Illetta" HQ was repaid in February 2007 (as part of the sale & lease back refinancing operation), as was the financing from ECD, which based on agreements stipulated with Banca Intesa Sanpaolo was fully repaid in February 2007. It is also worthwhile mentioning that the significant short-term payables to banks and other lenders and the financing from Silver Point Finance LLC, USA, discussed in note 31.2 below and repaid in February 2007, were replaced by financial debts composed of financing granted by Banca Intesa Sanpaolo for EUR 280 million and financing for the sale & lease back operation on the Sa Illetta property (Cagliari) of approximately EUR 61 million.

The financing from Banca Intesa Sanpaolo is available on demand by Tiscali up to a maximum of EUR 280 million, and is repayable in sums gradually increasing from EUR 7 million to EUR 15 million in the period 30 June 2008 to 30 June 2011, with final settlement by 31 December 2011. The financing also covers a number of advance settlement options as is normal for this kind of transaction. In particular, it is expected that EUR 130 million of the financing is repaid from income achieved from the disposal of Dutch assets.

The bank financing agreement signed with Intesa Sanpaolo contains financial covenants linked mainly to respect for the following financial indicators to be verified on a quarterly basis at consolidated level: EBITDA-debt ratio, EBITDA-debt service cover ratio and EBITDA-interest cover ratio. In addition, the financing involves general positive and negative covenants, common to this type of financing, the most significant of which in information terms are the limits posed by further indebtedness of the Tiscali Group to the granting of real guarantees and extraordinary business such as acquisitions and disposals. These limits are not restrictive to normal Group operations. The financing agreement is also aided by the pledge of shares in Tiscali Group subsidiaries and in relation to the Tiscali brand name.

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

27.2 Obligations under finance leases (m/l term)

This item totalling EUR 15.9 million includes payables to *leasing* companies based on finance lease contracts. These contracts chiefly relate to network equipment, *server* and other equipment directly involved in the production process.

In this respect, a financing framework agreement exists with Cisco Capital, finalised for the purchase of Cisco System equipment as part of the investment projects of Group companies for EUR 9.9 million. Approximately EUR 4 million of this sum was utilised in 2006.

28. Other non current liabilities

EUR (000)	31.12.2006	31.12.2005
Payables to suppliers	29,929	26,350
Other liabilities	101,469	1,864
Total	**131,398**	**28,214**

Payables to suppliers mainly include medium-long term trade payables on purchase agreements for systems and related to the stipulation of IRU *(indefeasible right of use)* contracts originating from ULL project investments.

Other liabilities include EUR 99.3 million for the debt incurred by Tiscali UK during the VNL business combination for payment after 2011. This debt will become payable only if VNL tax losses are recognised as utilisable based on current regulations subject to verification performed by specially appointed experts.

29. Liabilities for pension obligations and staff severance indemnities

The table below shows the period movements:

EUR (000)	31.12.2005	Provisions	Utilisation	Assets HFS	31.12.2006
Staff severance	6,108	3,646	(3,598)	38	6,194
Total	**6,108**	**3,646**	**(3,598)**	**38**	**6,194**

The staff severance indemnity fund, chiefly covering amounts payable to employees, is equal to EUR 6.2 million and relates to the parent company and subsidiaries operating in Italy.

In compliance with the IAS 19 accounting principle, the method "Projected Unit Credit Cost" 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 "financial assumptions" shown in the table below.

- At each measurement date the average current value of future payable indemnities was calculated, applying the discount rate disclosed in the "Financial assumptions" table, thus determining the liability to be recorded on financial statements.

Financial assumptions	
Inflation rate:	2%
Wage increase rate:	3,5% for Tiscali Service S.r.l. and Tiscali Italia S.r.l. 4% for Tiscali S.p.A.
Discount rate:	4,6%

Demographic assumptions:	
Mortality:	Mortality tables RG 48 published by *Ragioneria Generale dello Stato* (General Accounting Office)
Disability:	Same tables used for mortality
Resignation:	4% for Tiscali Service S.r.l. and Tiscali S.p.A 5% for Tiscali Italia S.r.l.
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)

30. Provisions for risks and charges

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

EUR (000)	31.12.2005	Provisions	Utilisation	Assets HFS	31.12.2006
Provisions for risks and charges	16,875	26,317	(4,553)	(580)	38,059
Total	**16,875**	**26,317**	**(4,553)**	**(580)**	**38,059**

The fund for risks and charges at 31 December 2006 is EUR 38 million and includes provisions against potential liabilities and disputes. The provisions mainly related to restructuring costs expected for subsidiary VNL (EUR 21.2 million).

31. Current financial liabilities

EUR (000)	31.12.2006	31.12.2005
Bonds	-	211,044
Payables to banks and other lenders:		
Due to banks	374,787	19,679
Obligations under finance leases (short-term)	12,303	16,711
	387,090	**247,434**

31.1 Bonds

The bond referred to in the 2006 financial statements was fully repaid immediately on expiry in September 2006.

31.2 Payables to banks and other lenders

Payables to banks and other lenders include: the debt to Silver Point of EUR 250.9 million, repaid in February 2007 as part of the refinancing operation stipulated with Banca Intesa (EUR 280 million), the mortgage (held with CIS bank, Cagliari) for construction of the "Sa Illetta" HQ in Cagliari for EUR 29.1 million, repaid in February 2007, and the financing granted by EDC *(Export Development Canada)*, a Canadian export credit bank, of EUR 13.3 million also repaid in February 2007.

The item also includes current account overdrafts necessary to face operations cash requirements.

In particular, overdrafts include EUR 52.6 million for financing from Barclays to Tiscali UK at 31 December 2006. This financing was granted for up to GBP 55 million, GBP 10 million of which as a current account overdraft and GBP 45 million as a short-term line of credit. This is guaranteed by a fixed & floating charge on Tiscali UK Ltd assets.

31.3 Obligations under finance leases

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

32. Payables to suppliers

EUR (000)	31.12.2006	31.12.2005
Payables to suppliers	180,147	160,418

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 10.8 million for the purchase of IRU *(indefeasible right of use)* related to the development of the unbundling project.

33. Other current liabilities

EUR (000)	31.12.2006	31.12.2005
Accrued liabilities	78,106	76,163
Deferred income	11,908	22,021
Other liabilities	16,706	27,662
Total	**106,720**	**125,846**

Accrued liabilities mainly consist of operating expenses, such as payments for content, network access costs, consultancy fees and line rental costs of EUR 73.3 million, and accrued liabilities related to personnel of EUR 4.7 million (leave/bonuses).

Deferred income concerns the deferral of income relating to subsequent periods, from the activation of ADSL services, that are spread over a time span of 12 months, i.e. the minimum legal duration of the contract with the customer.

Other liabilities mainly refer to payables to the tax authorities (employee withholding tax and VAT) and to social security agencies, totalling EUR 8.4 million, as well as payables to employees for EUR 5 million and others of EUR 3.7 million.

34. Acquisition of subsidiaries

In August 2006, Tiscali completed the integration of Video Networks International Ltd with its UK subsidiary (Tiscali UK) by means of a share swap. Video Networks International Ltd (VNIL) transferred 100% of its UK business – Video Networks Ltd (VNL) – to Tiscali UK Ltd, 100% controlled by Tiscali SpA, in exchange for a minority interest in Tiscali UK Ltd, initially of 11.5% but subject to increase (to max 20%) on reaching certain pre-established objectives. Following the integration, of strategic importance with a view to Tiscali's position as an integrated telecommunications service provider, the Tiscali Group has assured itself, inaddition to one of the best platforms currently in operation, a consolidated know-how in negotiation and the targeted development of television content. The transaction also allowed Tiscali to considerably reduce the time required to gain entry into this segment.

Net assets purchased in the transaction and deriving goodwill are as follows:

EUR (000)	Acquirer share prior to the merger	Fair value	Total
Property, plant and equipment	29,756	-	29,756
Intangible assets	11,465	54,207	65,672
Other receivables	12,569	-	12,569
	53,791	**54,207**	**107,998**
Other liabilities	17,252	-	17,252
Long term liabilities	15,818	-	15,818
	33,070	**-**	**33,070**
Net assets acquired	**20,721**	**54,207**	**74,928**
Goodwill	**-**	**-**	**131,907**
Total	**-**	**-**	**206,835**

Goodwill is attributable to the current and future assessment values of VNL, considered as a going concern, which will be strengthened by synergies achieved after business combination. The VNL business combination in fact guarantees a better market placement for the Group in the IPTV segment and improved use of the technological platform. The goodwill also represents the value attributed to intangible asset not identified according to IFRS 3, e.g. the favourable geographic location and human resources availability.

VNL Ltd contributed EUR 10.5 million to revenues and EUR -33.3 million to the Group result before tax for the period between the business combination and the end of 2006.
If the business combination had been completed on 1 January 2006, total Group revenues would have been EUR 27.6 million and losses for the year would have been EUR 96.1 million.

35. Derivative instruments

At 31 December 2006 there were no transactions involving derivatives.

36. Ongoing disputes, contingent liabilities and commitments

36.1 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. It is further specified 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.

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 unspecified damages against World Online (currently 99.5% owned by Tiscali) and against 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 Dutch foundation, Stichting Van der Goen WOL Claims, in August 2001. In relation to these disputes, no provisions have been set aside in the group's accounts given the low probability of a liability being incurred, and the unknown nature of the contingent amount.

In October 2006, the court pronounced sentence in the Prisa case, substantially accepting the opposition claims. Tiscali was ordered to pay approximately EUR 7.1 million. Tiscali decided not to appeal against the sentence, but in November 2006 deposited a claim for its interpretation. The interpretation claim suspends enforcement of the sentence. Tiscali asks whether: (i) Tiscali has advertising credit to enforce on the Prisa network to the sum of EUR 6.4 million or EUR 1.6 million; (ii) Tiscali may sell the advertising space to third parties. The advertising space may be used before the end of July 2007. The decision of the court is expected in the next few weeks. In order to limit liability the Company has claimed payment of approximately EUR 400 thousand from Prisa in accordance with a related agreement. The liabilities of EUR 7 million was fully accounted for by Tiscali in the consolidated financial statements at 31 December 2006 (EUR 6 million as provision for risks and EUR 1 million as a payable in Tiscali España accounts).

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 US company Qwest, currently in 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 of the latter. Following the liquidation of KPNQWest, the provision of services was interrupted after only 5 months and Tiscali International Network BV received and recognised invoices for the sum of EUR 1.5 million. KPNQWest has demanded payment of the entire amount stipulated in the agreement. Tiscali in turn objected to a demand for payment of this amount given the damages sustained from interruption of the service. On 17 March 2006, Citybank (the liquidator of KPNQWest) instigated a claim for precautionary garnishment of approximately EUR 5 million on current accounts of Tiscali International Network BV, which had no significant outcome. The dispute is not expected to be resolved in the short term, though no significant liabilities are expected to result. Based on available information, given the level of risk from advancement of the proceedings, the provision of EUR 4.2 million previously set aside was significantly reduced in Tiscali's 2006 Consolidated Financial Statements. The residual liability in relation to this dispute in these consolidated financial statements relate to Tinet BV liabilities of approximately EUR 1.5 million.

On 21 February 2007, Tiscali S.p.A., together with other Group companies involved, completed final settlement with the Scarlet Group, based on which, given the payment from the Tiscali Group to the Scarlet Group of EUR 2.75 million, provisioned at 31 December 2006, the parties waived all further claims and all claims pending.

Subsidiary Tiscali International BV is involved in a dispute initiated by Mobistar NV (member of the Wanadoo Group) in June 2006. The dispute concerns the cancellation by Wanadoo Belgium SA/NV of a dial-in traffic termination contract (the 'Contract') with Mobistar NV, following the acquisition by Tiscali Belgium NV/SA of 100% of shares in Wanadoo Belgium SA /NV. In the share disposal agreement Wanadoo had guaranteed to Tiscali that the Contract could be cancelled at any time, also confirmed by Tiscali legal advisors. It was later discovered that the Contract duration was 36 months and Mobistar rejected its premature cancellation by Tiscali. Based on the agreement for the sale of Wanadoo Belgium SA/NV shares by Tiscali Belgium to Scarlet, Tiscali would therefore be liable to Scarlet for breach of contract. Summoned to appear by Mobistar, Tiscali in turn summoned Wanadoo, legal advisors and their insurers. The value of the dispute, initially established as EUR 4 million should be reduced (i) by around EUR 1 million based on a correct interpretation of the Contract, (ii) by a further sum since the summoning of Wanadoo and legal advisors by Tiscali should at least result in a reduction of Tiscali liability.

At this stage of proceedings, Tiscali, having summoned Wanadoo and legal advisors, claims to have no liability whatsoever. Nevertheless, given the complexity of the dispute and number of parties involved, any prediction of the outcome would be difficult. Though a possible settlement by payment of around EUR 400 thousand has been suggested, Tiscali intends to resist settlement, believing its case to be strong. In the financial statements at 31 December 2006, Tiscali International BV had not set aside provisions.

36.2 Tax assessments

On 27 December 2005, the Dutch tax authorities, further to their investigations performed in 2005 and in previous years, issued their assessment notice in the suspected non-payment of wage taxes on payments made and Tiscali S.p.A. shares allocated to James Kinsella, the former CEO of World Online International BV. The tax authorities claimed that what had been received by Mr Kinsella in 2002 was a taxable bonus classed as remuneration, and therefore taxable on the waiver by Mr Kinsella to exercise option rights on the purchase of World Online International BV (WOL) shares at the time of the IPO and the acquisition of WOL by Tiscali. The Dutch tax authorities decided upon a total EUR 51.3 million, including EUR 7.3 million as penalty and EUR 5.0 million as interest, as the sum assessed. The liability was determined on the basis of the listed price of Tiscali shares during the WOL IPO. Tiscali's position, explained in the appeal submitted to competent authorities and already described in the notes to the financial statements of previous periods, is substantially founded on the absolute lack of involvement of the company in any transaction taking place between shareholders and Mr Kinsella. Tiscali cannot therefore be held liable for payment of withholding tax. From another point of view, it is important to emphasise that if the amount of taxes had been determined on the basis of the Tiscali share price in 2002, the year in which they were allegedly delivered to Mr Kinsella, or otherwise the year upon which taxation was based, the assessment value would have been much lower. The correctness of this position and Tiscali's conduct are further confirmed and supported by the opinion of tax consultants. Consequently, as the time required to reach a final outcome on this dispute is long term, it was determined that there was no reason to consider the risk associated with contingent liability as likely and therefore no requirement to make related provisions in the financial statements.

The Dutch tax authorities have issued several assessment notices to World On Line International NV (and its direct subsidiary Tiscali International BV) regarding the alleged failure to pay withholding tax on remuneration and stock options allocated in previous periods to 'group' managers. The total amount of these disputes is EUR 2 million, against which Tiscali International BV has made payments totalling around EUR 0.3 million. The remaining sum (EUR 1.7 million) relates mainly to stock options allegedly allocated to individuals not physically resident in the Netherlands and consequently, in Tiscali tax advisors' opinion, not subject to Dutch taxation. Given this circumstance and considering that this dispute is in the initial stages, it was decided that the liability cannot be considered likely and therefore no related provision was made.
Two notices of assessment were issued by Dutch tax authorities in relation to their investigations on VAT for 1999 and 2000. In particular, the disputes involve services for the listing of World Online International BV and are based on the premise that Tiscali International BV (direct subsidiary of the listed legal entity) had no right to deduct these costs for VAT purposes since they were attributable to World Online International NV, a legal entity that does not have a VAT number. The amounts disputed total EUR 4.4 million. In January 2006 an appeal was filed with the relevant authorities, focusing on the full right of the Dutch fiscal unit to deduct VAT costs, regardless of whether the listed legal entity was a pure Dutch holding. As a precaution against VAT risk, a provision for risk of EUR 1.9 million was recognised to accounts, this sum considered appropriate for the dispute in question.

In May 2005, the Dutch tax authorities issued a statement of assessment regarding the income declared by World Online International BV and Tiscali International BV, according to which the tax losses recognised during that period were reduced from EUR 254.5 million to EUR 186.1 million for Tiscali International BV. The difference of EUR 68.4 million relates mainly to costs arising from waivers on loans to other Group companies, considered to be non-deductible. The tax losses of World Online International NV (EUR 24.9 million) were not adjusted. An appeal was filed against this assessment in September 2005. The decision is still pending. The risk profile linked to this dispute is limited to the remeasurement of losses carried forward and bears no legal problems related to the estimate of any contingent liability or risk of a financial nature.

During the 2004 financial year, a VAT investigation began in relation to the Tiscali Group's German subsidiaries. This investigation, which to date has only involved years up to 2003, resulted in the payment of approximately EUR 8 million in 2004 and a provision in the financial statements at 31 December 2005 for a further liability of approximately EUR 4 million in relation to the likely outcomes on the definition of the overall VAT position. Investigations by the German tax authorities are expected in the near future to also involve the 2004 and 2005 periods, though according to data currently in our possession, no significant contingent liability is expected. In the first months of 2006 the German tax authorities also began investigations on direct taxes. It should be mentioned that no significant contingent liabilities are expected from this investigation. This takes into account the considerable sum declared as tax losses carried forward.

36.3 Commitments and other guarantees

Commitments
The Tiscali Group has no obligations outstanding or not included in the normal operating cycle.
Guarantees
At 31 December 2006, guarantees totalling around EUR 2.6 million are in force for a number of minor disputes.

- To tax authorities for the settlement of Group VAT of EUR 4.5 million.
- Other guarantees totalling around EUR 2.6 million are in force for a number of minor disputes.

37. Transactions with Related Parties

During the financial year the Tiscali Group had a number of relations with related parties. In particular, these involved relations with subjects in which the shareholders directly or indirectly possess shares or refer to members of the Board of Directors. These operations were dealt with at market conditions. The table below summarises the balance sheet and economic values recorded in the Tiscali Group financial statements at 31 December 2006 arising from transactions with related parties.

EUR (000)	trade receivables	Trade payables	Financial receivables	Financial payables	Revenues	Costs	Financial income	Financial charges
Interoute - Group -	17	6	-	-	514	762	-	-
Shardna SpA	331	-	-	-	-	-	-	-
Andalas Ltd	-	-	-	30,730	-	-	-	1,429
Total	**348**	**6**	**-**	**30,730**	**514**	**762**	**-**	**1,429**

Interoute is a group fully owned by the Sandoz Family Foundation, a Tiscali shareholder. The costs incurred in the financial year refer to purchases implemented by Tiscali Italia S.r.l. for dark fibre and related maintenance.

Shardna S.p.A. is controlled by the majority shareholder Renato Soru. Relations with the Parent Company relate to the subleasing of a Tiscali office in the suburbs of Cagliari.

As mentioned in the notes to the financial statements, in 2004 Andalas Limited granted an interest-bearing loan at market rates. The financing agreement explicitly refers to subordination to other debts of the Tiscali Group and, to date in particular, up to the date of financing granted in 2007 by Banca Intesa Sanpaolo.

584,000

unbundling subcribers

38. List of subsidiaries included in the consolidation area

Below are the details of subsidiaries included in the consolidation area

Company name	Country	% held
Tiscali S.p.A.	Italy	
Quinary S.p.A.	Italy	85,0%
Tiscali Telecomunicaciones Sa	Spain	99,99%
Tiscali Services S.r.l. (ex TITS srl)	Italy	100,0%
Consorzio CdCR-ICT	Italy	10,0%
Tiscali Italia S.r.l. (ex Andaledda Spa)	Italy	100,0%
Tiscali Finance Sa	Luxemburg	100,0%
Tiscali Deutschland Gmbh	Germany	100,0%
Tiscali GmbH	Germany	100,0%
Tiscali Breitband Gmbh	Germany	100,0%
Tiscali Comunications 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) (a)	Germany	100,0%
Tiscali Network Gmbh	Germany	100,0%
Ishtari GmbH	Germany	51,0%
World Online International Nv	The Netherlands	99,5%
Tiscali International Bv	The Netherlands	99,5%
Tiscali B.V.	The Netherlands	99,5%
World Online Portal BV.	The Netherlands	99,5%
Myt Vision Bv	The Netherlands	99,5%
Xoip BV	The Netherlands	99,5%
Tiscali Media Service BV (ex Sonera Plaza)	The Netherlands	99,5%
Wolstar B.V. in liq.	The Netherlands	49,7%
Tiscali Partner B.V.	The Netherlands	99,5%
12 Move Vof	The Netherlands	99,5%
Tiscali International Network B.V.	The Netherlands	99,5%
Tiscali International Network SpA	Italy	99,5%
Tiscali International Network SA (in liquidazione)	France	99,5%
Tiscali International Network SAU (in liquidazione)	Spain	99,5%
Tiscali International Network GmbH	Germany	99,5%
Tiscali International Network Ltd	UK	99,5%
Tiscali International Network USA	USA	99,5%
Tiscali Business International Ltd	UK	99,5%
Green Dot Property Man Ltd	UK	99,5%
World Online Ltd.	UK	99,5%
World Online Telecom Ltd.	UK	99,5%
Tiscali Holdings UK Ltd	UK	99,5%
Tiscali Uk Ltd	UK	88,0%
Telinko UK Ltd (b)	UK	88,0%
Connect Free Ineternet Services Ltd ©	UK	88,0%
Tiscali Network Distribution Ltd	UK	88,0%
Video Network Ltd	UK	88,0%
VNL Sports Ltd	UK	88,0%
VNL Trustees Ltd	UK	88,0%
VNL Videonet Ltd	UK	88,0%
Unviersal Sports Ltd	UK	88,0%
Tiscali Business UK Ltd	UK	99,5%
Tiscali Business GmbH	Germany	99,5%
Tiscali Nacamar Ltd Gmbh	Germany	99,5%
Nacamar Ltd (d)	UK	99,5%
Tiscali Espana SA	Spain	99,5%
TISCALI Telekomunikace Ceská republika s.r.o.	Czech Republic	99,5%
Tiscali Network s.r.o.	Czech Republic	99,5%

(b) liquidated 03.03.06 - (c) liquidated 18.07.06

(d) liquidated 26.09.06 - (e) liquidated 16.02.07

LIST OF HOLDINGS IN AFFILIATED COMPANIES MEASURED ACCORDING TO THE EQUITY METHOD

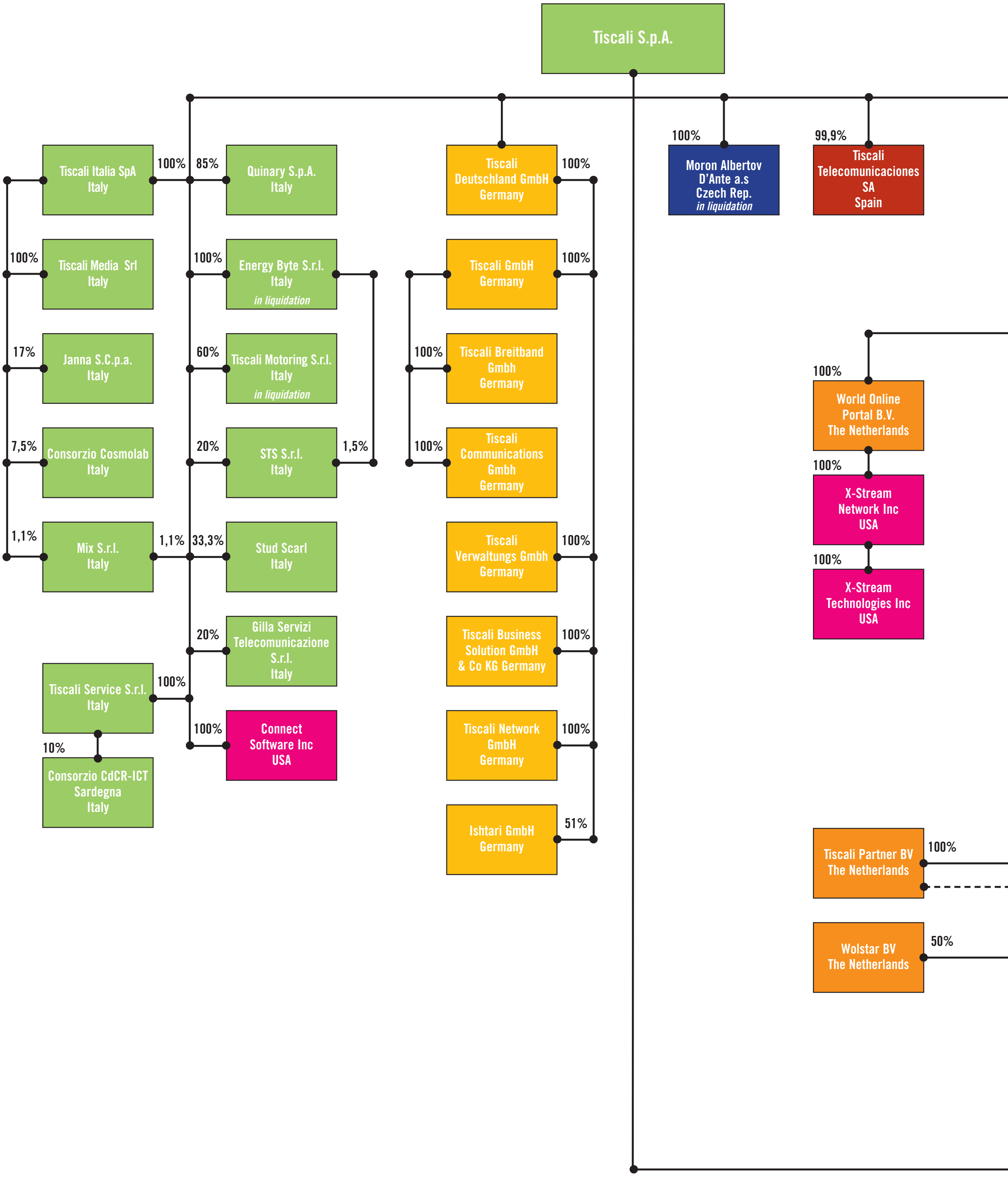
Company name	Country	% Investments
Energy Byte Srl (in liquidazione)	Italy	100%
Connect Software Inc.	USA	100%
Tiscali Motoring Srl (in liquidazione)	Italy	60%
Gilla Servizi Telecomuncaz Srl (e)	Italy	20%
STS S.r.l.	Italy	35%
Tiscali Media Srl	Italy	100%
STUD Soc. Consortile a.r.l.	Italy	33,33%

(e) liquidated Jannuary 2007

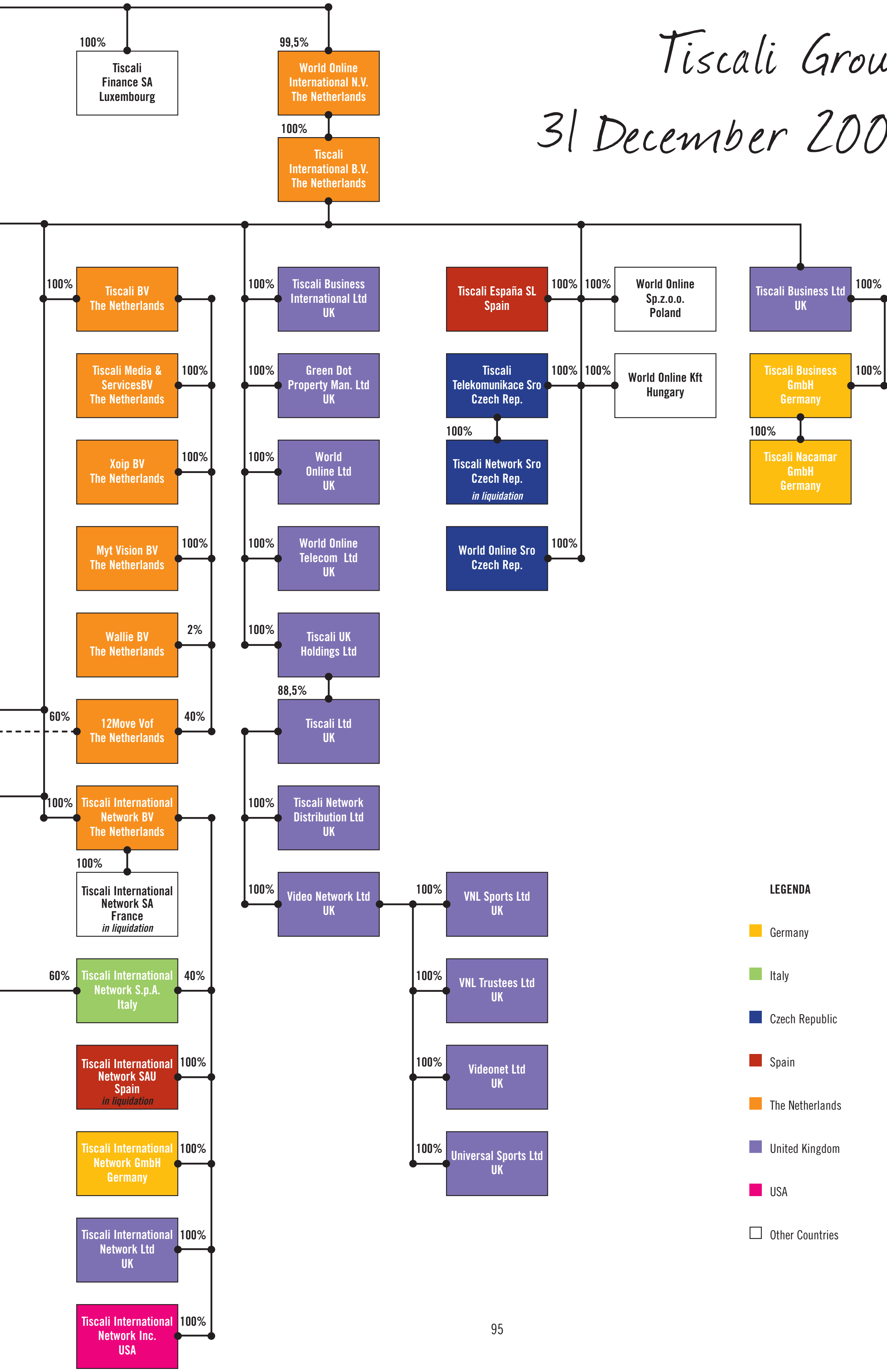
LIST OF HOLDINGS IN OTHER COMPANIES

Company name	Country
Mix S.r.l.	Italy
Janna S.c.p.a.	Italy
World Online s.r.o.	Czech Republic
Moron Albertov d'Ante a.s. (ex: Tiscali Czech Republic a.s.) (in liquidation)	Czech Republic
X-Stream Netwok Inc	USA
X-Stream Netwok Tecnologies Inc	USA
Liberty Surf UK (f)	UK
World Online Kft	Hungary
World Online Poland Sp Z.O.O.	Poland
Waille BV	The Netherlands

(f) liquidated 30.11.06


Tiscali S.p.A.
100%
Tiscali Italia SpA Italy
100%
Tiscali Media Srl Italy
17%
Janna S.C.p.a. Italy
7,5%
Consorzio Cosmolab Italy
1,1%
Mix S.r.l. Italy
1,1%
100%
Tiscali Service S.r.l. Italy
10%
Consorzio CdCR-ICT Sardegna Italy
85%
Quinary S.p.A. Italy
100%
Energy Byte S.r.l. Italy in liquidation
60%
Tiscali Motoring S.r.l. Italy in liquidation
20%
STS S.r.l. Italy
1,5%
33,3%
Stud Scarl Italy
20%
Gilla Servizi Telecomunicazione S.r.l. Italy
100%
Connect Software Inc USA
Tiscali Deutschland GmbH Germany
100%
Tiscali GmbH Germany
100%
100%
Tiscali Breitband Gmbh Germany
100%
Tiscali Communications Gmbh Germany
Tiscali Verwaltungs Gmbh Germany
100%
Tiscali Business Solution GmbH & Co KG Germany
100%
Tiscali Network GmbH Germany
100%
Ishtari GmbH Germany
51%
100%
Moron Albertov D'Ante a.s Czech Rep. in liquidation
99,9%
Tiscali Telecomunicaciones SA Spain
100%
World Online Portal B.V. The Netherlands
100%
X-Stream Network Inc USA
100%
X-Stream Technologies Inc USA
Tiscali Partner BV The Netherlands
100%
Wolstar BV The Netherlands
50%

Tiscali Group
31 December 2006



Tiscali S.p.A. - Financial Statements at 31 december 2006

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

Foreword

The following tables were prepared on the basis of the financial statements at 31 December 2006, to which reference should be made. In this respect, it should be mentioned that in accordance with EC Regulation 1606 of 19 July 2002, as of 2005 the Tiscali Group adopted the International Accounting Standards (IFRS) issued by the International Accounting Standards Board (IASB) in preparing the consolidated financial statements. Based on current national law enforcing the aforementioned Regulation the financial statements of parent company Tiscali S.p.A., in comparison with the previous year, was prepared according to the above-mentioned standards as from 2006.

Economic position

EUR (000)	31.12.2006	31.12.2005
Capital gains (losses) from equity investments	-	(18,897)
Value adjustments to equity investments	(38,421)	(131,158)
Net financial charges	(508)	(1,027)
Revenues from services and other income	19,267	12,095
Personnel, service and other operating costs	(21,980)	(23,817)
Provisions and other write-downs	(3,719)	(7,657)
Taxes	(163)	(45,334)
Net result	**(45,525)**	**(215,795)**

In 2005, the Capital gains (losses) from equity investments, negative at EUR -18.8 million, essentially reflect the losses from disposal of the French subsidiary Liberty Surf Group SA following adjustment to the sale price agreed originally and issued on closing the operation.

The value adjustments to equity investments relate to the EUR 30 million write-down of the investment in Tiscali Deutschland GmbH due to the results of impairment testing described in detail in the notes to the financial statements and EUR 7.6 million waiver of loss coverage on payables due to Tiscali Services S.r.l. from the parent company.
The balance relating to 2005 included write-downs for subsidiary World Online International NV of EUR 130 million.

As a pure holding company, the revenues from services follow the contractually defined considerations deriving from corporate services to subsidiaries, including fees for rights of use of the Tiscali brand name determined as a percentage of sums invoiced by Group companies using the brand name. The increase over the previous year is mainly due to increased charges for brand name usage.

Personnel costs represent the most significant indirect cost item, totalling EUR 9.3 million, while other operating costs include management consulting services and expenses related to ongoing activities.

Taxes include the taxable amounts for the period. Taxable amounts for the previous period mainly represent deferred taxes of EUR 45 million after utilisation of deferred tax assets recorded in the financial statements at 31 December 2004.

Financial position

Balance Sheet

EUR (000)	31.12.2006	31.12.2005
Non current assets	1,176,111	1,213,655
Current assets	55,471	54,521
Assets held for sale	-	-
Total Assets	**1,231,582**	**1,268,176**
	-	-
Shareholders' equity	**953,157**	**936,136**
Total Shareholders' equity	**953,157**	**936,136**
Non current liabilities	234,909	287,931
Current liabilities	43,516	44,109
Liabilities directly related to assets held for sale	-	-
Total Shareholders' equity and liabilities	**1,231,582**	**1,268,176**

Assets

Non current assets

Non current assets mainly represent controlling equity investments in the more important Group companies for a total of EUR 1,170 million.

Tangible assets (property, plant and equipment) and other intangible assets total, respectively EUR 0.2 million and EUR 0.9 million, while other financial assets total EUR 4.8 million.

Current assets

Current assets essentially include Receivables from customers of EUR 42.2 million (EUR 40.2 million of which due from Group companies) compared to the EUR 38.3 million of the previous year (EUR 37 million of which due from Group companies).

The same item also includes "Other receivables and other current assets" of EUR 13 million, mainly represented by VAT credit.

Liabilities

Non current liabilities

Non current assets, other than items relating to the financial position for which reference should be made to the next note, include provisions for risks and charges of EUR 26 million generated from provisions set aside for disputes and contingent liabilities.

Current liabilities

Current liabilities not relating to the financial position are mainly represented by payables to suppliers of EUR 26.8 million (EUR 14.8 million of which due to Group companies).

Financial position

The parent company's financial position is shown in the table below:

EUR (000)	31.12.2006	31.12.2005
A. Cash	-	10
B. Cash equivalents	152	994
C. Securities held for trading	-	-
D. Cash and cash equivalents (A) + (B) + (C)	**152**	**1,004**
E. Current financial receivables (*)	**13,097**	**15,208**
F. Current bank payables	(12,419)	(8,006)
G. Current portion of non-current debt		
H. Other current financial payables		
I. Current financial debt (F) + (G) + (H)	**(12,419)**	**(8,006)**
J. Net current financial debt (I) – (E) – (D)	830	8,206
K. Non-current bank payables	-	-
L. Bonds issued	-	-
M. Other non-current payables to Group companies	(208,162)	(260,583)
N. Other non-current payables to third parties	-	-
O. Non-current financial debt (K) + (L) + (M) + (N)	**(208,162)**	**(260,583)**
P. Net financial debt (J) + (O)	**(207,332)**	**(252,377)**

(*) we report that in Note 28, Net Financial Position, does not include current financial receivables (mainly VAT receivables)

Other non current payables relate mainly to financial payables to subsidiary Tiscali International BV, a sub-holding of the Tiscali Group.

Income Statement

EUR (000)

	NOTE	31.12.2006	31.12.2005
Revenues	(4)	18,801	9,283
Other income	(5)	466	290
Purchase of materials and outsourced services	(6)	11,028	6,115
Personnel costs	(7)	9,254	7,753
Other operating costs	(8)	1,113	1,184
Gross operating result		**(2,128)**	**(5,479)**
Restructuring costs, provisions			
for risks and write-downs	(9)	(42,140)	(137,835)
Depreciation and amortisation		(586)	(1,051)
Operating result		**(44,853)**	**(144,365)**
Share of profits or losses of associates			
with equity method			
Net financial income (Charges)	(10)	(508)	(1,027)
Profit (loss) before tax		**(45,362)**	**(145,392)**
Income taxes	(11)	(163)	(45,334)
Profit (Loss) from			
continuing operations		**(45,525)**	**(190,726)**
Profit (Loss) from discontinued and/or			
discontinuing operations and/or held for sale	(12)	-	(25,069)
Net result		**(45,525)**	**(215,795)**

Balance Sheet

EUR (000)

	NOTES	31.12.2006	31.12.2005
Non current assets			
Intangible assets	(13)	911	1,169
Property, plant and equipment	(14)	218	513
Equity investments	(15)	1,170,203	1,173,379
Other financial assets	(16)	4,779	38,594
		1,176,111	**1,213,655**
Current assets			
Receivables from customers	(17)	42,221	38,309
Other receivables and other current assets	(18)	13,097	15,208
Cash and cash equivalents	(19)	152	1,004
		55,471	**54,521**
Assets held for sale		-	-
Total Assets		**1,231,582**	**1,268,176**
Share Capital and reserves			
Share Capital		212,207	198,369
Share premium reserve		948,017	953,717
Retained earnings		(207,066)	(215,950)
Total Shareholders' equity	(20)	**953,157**	**936,136**
Non current liabilities			
Other non current liabilities	(21)	208,162	260,583
Liabilities for pension obligations and staff severance indemnities	(22)	401	475
Provisions for risks and charges	(23)	26,347	26,872
		234,909	**287,931**
Current liabilities			
Payables to banks and other lenders	(24)	12,419	8,006
Payables to suppliers	(25)	26,847	32,639
Other current liabilities	(26)	4,249	3,464
		43,516	**44,109**
Liabilities directly related to assets held for sale	-	-	
Total Shareholders' equity and liabilities		**1,231,582**	**1,268,176**

Statement of Changes in Shareholders' Equity

(EUR 000)

	Share Capital	Share premium reserve	retained earnings	Total
Balance at 1 January 2005	**196,619**	**1,436,719**	**(489,933)**	**1,143,405**
Increases	1,750	6,776	-	8,526
Transfers covering losses	-	(489,778)	489,778	-
Net profit (loss) for the period			(215,795)	(215,795)
Balance at 31 December 2005	**198,369**	**953,717**	**(215,950)**	**936,136**

	Share Capital	Share premium reserve	retained earnings	Total
Balance at 1 January 2006	**198,369**	**953,717**	**(215,950)**	**936,136**
Increases	13,838	48,708		62,546
Transfers covering losses		(54,409)	54,409	-
Net profit (loss) for the period			(45,525)	(45,525)
Balance at 31 December 2006	**212,207**	**948,016**	**(207,066)**	**953,157**

Cash Flow Statement

EUR (000)

	31.12.2006	31.12.2005
OPERATIONS		
Net result for the period	**(45,525)**	**(215,795)**
Adjustments for:		
Depreciation	279	86
Amortisation	307	2,084
Write-down of financial assets	2,038	-
Write-down of equity investments	38,421	131,158
Write-down of receivables	-	-
Cash flows of operations before changes in working capital	**(4,480)**	**(82,466)**
(Increase)/Decrease in receivables	(3,912)	(11,947)
(Increase)/Decrease in inventories	-	-
Increase/(Decrease) in payables to suppliers	(5,792)	(20,394)
Cash generated from operations	**(14,184)**	**(114,807)**
Net changes in the provisions for risks and charges	(525)	6,843
Net changes in the staff severance indemnity fund	(74)	(51)
Changes in other liabilities	(51,637)	(260,347)
Changes in other assets	2,111	14,695
Changes in tax	-	-
Changes in deferred tax	-	-
NET CASH GENERATED BY OPERATIONS	**(64,310)**	**(353,667)**
INVESTING ACTIVITIES		
Net changes in fixed assets		
Tangible assets	16	313
Intangible assets	(49)	(1,468)
Financial assets	(35,244)	(1,611)
NET CASH USED IN INVESTING ACTIVITIES	**(35,277)**	**(2,767)**
FINANCING ACTIVITIES		
Changes in obligations under finance leases	-	-
Changes in financial assets	31,777	(2,788)
Increase (decrease) in payables to banks and other lenders	4,413	(13,347)
Changes in shareholders' equity	48,708	51,776
Capital increases	13,838	1,750
NET CASH ARISING FROM /(USED IN) FINANCING ACTIVITIES	**98,735**	**37,391**
Changes in discontinued and held for sale operations	-	271,124
INCREASE / (DECREASE) OF CASH AND CASH EQUIVALENTS	**(852)**	**(47,919)**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE FINANCIAL YEAR	**1,004**	**48,923**
CASH AND CASH EQUIVALENTS	**152**	**1,004**

Notes to the 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 address of the registered office is indicated in the introduction to this report.

The financial information included in these statements is presented in euro (EUR) which is the currency used to conduct most of the parent company's operations.

The income statement and balance sheet, cash flow statement, statement of changes in shareholders' equity and values indicated in the notes to the financial statements are presented in thousands of euro.
These financial statements were prepared on an ongoing concern basis, in that the Tiscali S.p.A. prospects, and more in general those of the Group, are considered fully coherent with a balanced economic and financial position as forecast in the business plans. In reference to Tiscali's competitive landscape and sector characteristics, appropriate financial resources remain essential in supporting the development plans and to repay expiring debts. In 2007 important financing agreements were stipulated with Banca Intesa Sanpaolo and the sale & leaseback operation on the property in Cagliari was concluded, which together with income from the Netherlands, Germany and the Czech Republic will allow Tiscali to achieve a more balanced financial position by the end of 2007. In this context, the ability of the Group to generate positive cash flows, a condition of significant impact on the development of Tiscali's financial position as well as the stability of its businesses and finances, remains of prime importance.

1. Format and content of accounting statements

As from the financial year 2005, when European Regulation n.1606/2002 came into effect, the Tiscali Group adopted the new international accounting standards (IFRS – International Financial Reporting Standards e 'IAS' – International Accounting Standards) issued by 'IASB' (International Accounting Standards Board) and endorsed by the European Union, as well as the interpretations included in documents of the International Financial Reporting Committee ('IFRIC'), previously known as the Standing Interpretation Committee ('SIC'). Parent company Tiscali S.p.A. adopted the international accounting standards as of 2006 along with the Group.

The financial statements comprise the accounting statements (income statement, balance sheet, statement of changes in shareholders' equity and cash flow statement), complete with explanatory notes. The income statement was prepared in accordance with the minimum requirements established by IAS 1 – Presentation of financial statements – classifying expenses by nature; the balance sheet was prepared in a format that illustrates the division of current and non current assets and liabilities, while the cash flow statement was prepared according to the indirect method.

2. Accounting standards

2.1 General standards

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

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

2.2 Equity investments in subsidiaries

Equity investments in subsidiaries and affiliated companies are recognised at cost, adjusted for any impairment.
The positive difference emerging at the time of acquisition between the acquisition cost and the equity investment share pertaining to the company is therefore included in the carrying amount of the investment.
In application of IAS 36, the value of equity investments recognised at cost is reduced if there is impairment or if circumstances emerge that indicate that said cost is irrecoverable. If the impairment is discovered to no longer apply or is reduced, the carrying amount is increased to the new estimated recoverable value, up to a maximum of the value recognised initially.

2.3 Assets held for sales and discontinued operations

Assets due for disposal in relation to equity investments in non-strategic subsidiaries held for sale ('Assets Held for Sale and Discontinued Operations)', as required by IFRS 5 (applicable from 1 January 2004), are classified under a specific item in the balance sheet and are assessed at the lower of the asset's previous carrying value and fair value, less costs to sell. The assets (related to equity investments) are thus classified if it is estimated that their carrying value will be recovered by disposal rather than by continued use. This condition is observed only when the sale is highly probable, the asset (or investment) is available for immediate sale in its present condition and the Board of Directors of the parent company is committed to the sale, completion of which should be expected within one year from the date of classification.

2.4 Foreign currency transactions

Sums receivable and payable in foreign currency are recorded at the exchange rate valid at the end of the year, and related gains or losses from conversion are credited or charged to the income statement under "Exchange gains and losses". There are no tangible assets, intangible assets or equity investments recognised at cost in foreign currency. After closing of the financial period, there were no significant changes in the reference exchange rates used in the preparation of these statements.

2.5 Other intangible assets

Computer software – Development costs

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

2.6 Property, plant and equipment

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

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

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

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

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

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

2.7 Impairment of assets

The carrying amount of Equity investments, Other intangible assets and Property, plant and equipment are tested for impairment whenever events or changes in circumstance indicate that the carrying amount may be impaired. Intangible assets with unlimited useful life (goodwill) are tested annually or more frequently if there is any indication that those assets have suffered impairment. If any such indication exists the recoverable amount of the asset is estimated in order to determine the extent of the impairment. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the Cash Generating Unit (CGU) to which the asset belongs. The recoverable amount is the higher between the 'fair value' less costs to sell and its utilisation value. In assessing utilisation value, the estimated future cash flows are discounted to their present value using a pretax 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 is recognised to the income statement under write-downs. If the reasons for impairment 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 not beyond the carrying amount that would have been determined had no impairment been recognised for the asset in previous years. An impairment reversal is recognised to the income statement.

The accounting standards adopted for specific assets and liabilities are disclosed below.

Other financial assets

Other financial assets are measured, consistently with IAS 39 provisions for financial assets 'available for sale', at fair value or alternatively at cost whenever fair value cannot reliably be calculated. Gains and losses from changes in fair value are directly recognised to equity until the security is disposed of or is impaired, at which time the cumulative gain or loss previously recognised to equity is included in the income statement for the period. The original value is re-recognised in the following financial year if the reasons for write-down are considered to no longer apply.

Receivables from customers and other receivables

Receivables are initially measured at their nominal value (representative of the 'fair value' of the transaction) and are subsequently measured at amortised cost, net of write-downs, recognised to the income statement when there is objective evidence that the asset is impaired. Such write-downs are calculated as the difference between the carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. Particularly with regard to short-term trade receivables, considering the scarce significance of the period of time, the measurement at amortised cost is equivalent to the nominal value, less write-downs for impairment.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, current accounts and deposits held on demand with banks, and other short-term highly liquid investments 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
The Company has no existing bond issues.

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

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

Derivative instruments
The Company has no existing contracts relating to derivatives.

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

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

2.9 Provisions for risks and charges
Provisions for risks and charges are recognised when the Company has a present obligation as a result of a past event and is likely to be required to settle that obligation. Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the balance sheet date and are discounted to present values where the effect is material.

2.10 Revenue recognition
Revenues from sales of services are recognised net of discounts, rebates and bonuses in the period in which the services are rendered by reference to completion of the specific transaction. Amounts relating to other financial periods are recorded under other current liabilities as deferred income.

2.11 Financial income and charges
Interest received and paid is recognised using the effective interest method.

2.12 Taxes
Income tax expense for the year includes the tax currently payable.

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

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

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

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

Equity investments
Impairment testing, with particular regard to equity investments, is performed annually as indicated under point 2.7 "Impairment of assets". The ability of each unit (investment) to produce cash flows sufficient to recover the value recognised to the balance sheet is determined on the basis of economic and financial data of the company concerned or any subsidiaries. The development of such data, as well as the determination of an appropriate discount rate, requires a significant use of estimates.

3.2 New accounting standards

In December 2004, the IFRIC issued interpretational document IFRIC 4 – To determine when a contract contains a lease in order to provide guidelines to define when a contract without the legal format of a lease requires the application of IAS 17 - Leasing. In particular, the specific interpretation that a contract contains a lease is if its fulfilment depends on the use of a specific asset and confers the right of control or usage of said asset. This interpretation has had no effect on shareholders' equity or the result for the period.

In June 2005, IASB issued an amendment to IAS 39 – Financial Instruments: recognition and assessment limiting use of the option to designate all financial assets or liabilities assessed at fair value directly to the income statement (the "fair value option"). This review of the standard limits the use of said option to financial instruments that satisfy the following conditions:

- designation according to the fair value option eliminates or significantly reduces an imbalance in accounting;
- a group of financial assets, liabilities or both are managed and their performance is based on fair value according to a documented risk or investment management strategy; and
- an instrument contains an implicit derivative that satisfies particular conditions. The Company has applied said amendments to IAS 39 as of 1 January 2006. These amendments have had no effect on shareholders' equity or the result for the period.

In August 2005, IASB issued a further amendment to IAS 39 and IFRS 4 regarding the accounting of guarantees issued. Based on this amendment, liabilities deriving from guarantees must be recognised to the balance sheet of the guarantor and assessed as follows:

- initial recognition at fair value;
- subsequently, at the greater between (i) the best estimate of expenditure required to settle the obligation at the reference date, based on the provisions of IAS 37 – Provisions, contingent liabilities and contingent assets, and (ii) the total initially recognised less any accumulated amortisation recognised in accordance with IAS 18 – Revenues. Application of the amendment has had no significant effect.

In August 2005, IASB issued an amendment to IAS 7 – Financial Instruments: integrative information and a complementary amendment to IAS 1 – Presentation of financial statements: integrative information in relation to capital. IFRS 7 requires integrative information regarding the recognition of financial instruments as related to performance and the financial position of a company. Such information incorporates certain requisites previously included in the accounting standard IAS 32 – Financial instruments: balance sheet exposure and integrative information. The new accounting standard also requires information regarding the level of exposure to risk deriving from the use of financial instruments, and a description of the objectives, policies and procedures implemented by management to handle such risks. The amendment to IAS 1 introduces requirements relating to information to be provided on company capital. IFRS 7 and the amendment to IAS 1 became effective on 1 January 2007. The Company did not adopt IFRS 7 in advance.

On 2 November 2006, IFRIC issued the interpretational document IFRIC 11 – *IFRS 2 – Group and Treasury Shares Transaction.* This interpretation establishes that payment plans based on transactions by which the company receives services in exchange for own shares, must be accounted for as capital instruments. The interpretation in question becomes effective as of 1 January 2008. The Company has not adopted the interpretation in advance.

On 3 March 2006, the IFRIC issued interpretational document IFRIC 9 – *Subsequent assessment of underlying derivatives* to specify that a company must assess whether underlying derivatives must be separated from the primary contract and recognised as derivative instruments as of the moment that the company becomes party to the contract. Subsequently, unless contractual conditions are modified to produce significant effects on cash flows that would otherwise be required under contract, said assessment may not be implemented again. This interpretation became effective as of 1 January 2007. The Company does not consider that the adoption of this interpretation will demonstrate any significant impact.

4. Revenues

Operating revenues are represented by:

Revenues (EUR 000)	31.12.2006	31.12.2005
Revenues from services provided to Group companies	14,286	7,137
Revenues from services to third parties	4,515	2,146
	18,801	**9,283**

Revenues from service to Group companies mainly relate to the billing of services performed at central level by the company and, to a lesser extent, to the billing of costs sustained by the parent company in favour of Group companies.
This item also includes charges for rights of use of the Tiscali brand name calculated as a percentage of sums invoiced by Group companies using the brand name. The increase over the previous year is mainly due to increased charges for brand name usage.

5. Other income

Other income from third parties includes recovered expense, contingent assets and sundry income.

6. Purchase of materials and outsourced services

Costs for the purchase of materials and outsourced services totalled EUR 11 million, compared to the EUR 6.6 million of 2005, and include costs for services provided by Group companies of EUR 5 million, compared to the EUR 1.1 million of 2005.

Expense for services provided by third parties were EUR 5.9 million (EUR 4.9 million in 2005) and mainly relate to professional consulting costs for legal, administrative and financial purposes of EUR 3 million, marketing costs of EUR 0.9 million, insurance costs and other general expense.

Detailed below are the services purchased from group companies:

EUR (000)	31.12.2006
Tiscali Uk Ltd	3,535
Tiscali B.V.	49
Tiscali Gmbh	30
Tiscali Espana SLU	3
Tiscali Telekomunikace Sro	18
Tiscali Italia S.r.l.	606
Tiscali Services S.r.l.	809
Total	**5,050**

7. Personnel costs

EUR (000)	31.12.2006	31.12.2005
Wages and salaries	5,456	4,988
Other personnel costs	3,798	2,765
Total	**9,254**	**7,753**

Personnel costs were essentially in line with those of 2005.

At 31 December 2006 Tiscali S.p.A. had 49 employees. The relevant categories are disclosed below together with the corresponding figure at 31 December 2005.

	31.12.2006	31.12.2005
Senior managers	15	16
Middle managers	9	9
Office staff	22	27
Manual workers	3	3
Total	**49**	**55**

8. Other operating costs

The table below shows a breakdown of these costs:

EUR (000)	31.12.2006	31.12.2005
Other operating expenses	675	1,044
Contingencies, capital losses and other non recurrent costs	438	140
Total	**1,113**	**1,184**

Other operating costs include other operating expenses of EUR 0.6 million and contingent liabilities and other minor charges of EUR 0.4 million.

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

EUR (000)	31.12.2006	31.12.2005
Write-downs	101	-
Restructuring costs and other write-downs	40,546	131,188
Provisions for risks and charges	1,493	6,647
Total	**42,140**	**137,835**

Restructuring costs and other write-downs include EUR 30 million from the write-down of investment in Tiscali Deutschland GmbH following impairment testing performed as described in detail in the notes below, and EUR 7.6 million as part waiver of a receivable from subsidiary Tiscali Services S.r.l. to cover losses matured in 2005.
The balance relating to 2005 included write-downs for subsidiary World Online International NV of EUR 130 million.

Provisions for risks and charges relate to a number of pending tax and other disputes.

10. Financial income and charges

A breakdown of net financial charges for the year of EUR 0.5 million is provided below.

EUR (000)	31.12.2006	31.12.2005
Financial income		
Interest on bank deposits	3	176
Interest earned	-	166
Others	81	114
	84	**456**
Financial charges		
Interest on bonds	-	-
Interest and other charges due to banks	(539)	(934)
Other financial charges	(53)	(549)
	(592)	**(1,483)**
Net financial charges	**(508)**	**(1,027)**

11. Income taxes

EUR (000)	31.12.2006	31.12.2005
Current taxes	163	334
Deferred taxes (utilisation)	-	45,000
Deferred tax assets (Pre-paid tax)	-	-
Net taxes for the year	**163**	**45,334**

3,500,000

Active users

The current taxes balance includes IRAP corporate tax for the period, while deferred taxes for 2005 reflect the utilisation of deferred tax assets recognised to the 2004 statements for the tax gain achieved from the spin-off between Tiscali Italia S.r.l. and Tiscali Services S.r.l.

The following table illustrates total previous tax losses deductible by Tiscali S.p.A. and divided by year of expiry, together with deductible temporary differences.

EUR (000)	Total	Year of expiry (*)					
	at 31.12.2006	2007	2008	2009	2010	beyond 2010	Indefinite
Total previous tax losses	464,648	46,543	178,463	122,557	16,584	89,862	10,639
Deductible temporary differences	91,492	64,107	27,385	-	-	-	-
Total tax losses and deductible temporary differences	**556,140**	**110,650**	**205,848**	**122,557**	**16,584**	**89,862**	**10,639**
Total deferred tax assets (at the theoretical average tax rate of 30%)	166,842						
Deferred tax assets not recognised	**166,842**						

(*) Temporary differences are the year of use/deduction

12. Result of asset disposals and/or assets held for sale

In 2006 there were no disposals of assets held for sale. At 31 December 2005 this item showed a value of EUR 25 million, analysed in detail in the table below.

EUR (000)	31.12.2006	21.12.2005
Gains (Losses) deriving from disposal of subsidiaries		
and/or net asset disposals)	-	(18,897)
Charges related to disposals	-	(6,172)
Profit (Loss) from discontinued and/or discontinuing operations	**-**	**(25,069)**

In 2005, the item included capital losses of EUR 18.9 million from disposal of the French subsidiary Liberty Surf Group SA following adjustment to the sale price agreed originally and made on closing the operation.
Charges relating to the disposal included fees paid to financial and legal advisors for a total of EUR 6.1 million.

13. Intangible assets

Intangible asset movements for the year were as follows:

Intangible assets EUR (000)	31.12.2006	Increases	Ammortisation	(Decrease) and other changes	31.12.2006
Concessions, licenses and similar rights	1,169	1	(307)	48	911
Other					-
Total	**1,169**	**1**	**(307)**	**48**	**911**

Concessions, licenses and similar rights of EUR 0.9 million include a software license purchased at the end of 2004 for management of territorial information via a system based on vectorial mapping and a georeferencing database. This license was granted for a period of three years to a third party.

14. Property, plant and equipment

The table below shows the movements occurring during the financial year:

EUR (000)	31.12.2005	Increases	Other movements (*)	Depreciation	31.12.2006
Historical cost					
Land and Buildings	2,051	1	(90)	-	1,962
Plant and equipment	55	14	(4)	-	65
Other assets	653	55	-	-	708
Total	**2,759**	**70**	**(94)**	**-**	**2,736**

Allowance for depreciation	31.12.2005	Increases	Other movements (*)	Depreciation	31.12.2006
Land and Buildings	1,775	-	-	183	1.958
Plant and equipment	43	-	(4)	9	49
Other assets	429	-	(4)	86	511
Total	**2,247**	**-**	**(8)**	**279**	**2,518**

Net value	31.12.2005	Increases	Other movements (*)	Depreciation	31.12.2006
Land and Buildings	276	1	(90)	(183)	4
Plant and equipment	12	14	-	(9)	17
Other assets	225	55	4	(86)	197
Total	**513**	**70**	**(86)**	**(279)**	**218**

15. Equity investments

At 31 December 2006 this item included equity investments in subsidiaries of EUR 1,169.7 million, together with equity investments in affiliated and other companies for a total of approximately EUR 0.5 million.

The tables below provide a detailed composition of the balance and movements in the period.

SUBSIDIARIES		31.12.2006			31.12.2005	
	Cost	Reval / (write down)	Book value	Cost	Reval / (write down)	Book value
Connect Software Inc.	1,027	(1,027)	-	1,027	(1,027)	-
Energy Byte Srl in liquidation	677	(677)	-	677	(677)	-
Ideare S.p.A.	-	-	-	7,695	(3,747)	3,948
Quinary S.p.A.	30,161	(29,935)	226	30,161	(29,935)	226
Tiscali Czech Republic a.s.	39	(39)	-	39	(39)	-
Tiscali Deutschland Gmbh (ex Nikoma)	283,475	(277,088)	6,387	283,475	(247,088)	36,387
Tiscali Finance SA	125	-	125	125	-	125
Tiscali Italia S.r.l. (Ex Andaledda S.p.A.)	55,439	-	55,439	25,439	-	25,439
Tiscali Motoring S.r.l. in liquidation	500	(500)	-	500	-	500
Tiscali Services S.r.l (ex Tiscali I.T.S. S.r.l.)	29,828	-	29,828	29,828	-	29,828
Tiscali Telecomunicaciones SA	2,452	(2,327)	125	2,452	(2,327)	125
World Online International N.V.	1,811,994	(735,724)	1,076,270	1,811,994	(735,724)	1,076,270
Tiscali Int.l Network S.p.A.	1,306	-	1,306			
	2,217,023	**(1,047,317)**	**1,169,706**	**2,191,708**	**(1,020,564)**	**1,172,848**

AFFILIATED COMPANIES	31.12.2006			31.12.2005		
	Cost	Reval / (write down)	Book value	Cost	Reval / (write down)	Book value
Ariete Telemedia S.r.l	-	-	-	744	(744)	-
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
	1,306	**(811)**	**495**	**2,050**	**(1,555)**	**495**

OTHER COMPANIES	31.12.2006			31.12.2005		
	Cost	Reval / (write down)	Book value	Cost	Reval / (write down)	Book value
Mix S.r.l.	1	-	1	1	-	1
Tiscali Int.l Network S.p.A.	-	-	-	34	-	34
	1	**-**	**1**	**35**	**-**	**35**

The table below indicates movements in the period for each investment.

SUBSIDIARIES	Balance 31.12.2005	Increases	(Disposals)	Reval / (write-down)	Other movements	Balance 31.12.2006
Connect Software Inc.	-	-	-	-	-	-
Energy Byte S.r.l. in liquidazione	-	-	-	-	-	-
Ideare S.p.A.	3,948	-	(3,948)	-	-	-
Quinary S.p.A.	226	259	-	-	(259)	226
Tiscali Czech Republic a.s.	-	-	-	-	-	-
Tiscali Deutschland Gmbh	36,387	-	-	(30,000)	-	6,387
Tiscali Finance SA	125	-	-	-	-	125
Tiscali Italia S.r.l.	25,439	30,000	-	-	-	55,439
Tiscali Motoring S.r.l	500	-	-	(500)	-	-
Tiscali Services S.r.l	29,828	7,662	-	(7,662)	-	29,828
Tiscali Telecomunicaciones SA	125	-	-	-	-	125
World Online International N.V.	1,076,270	-	-	-	-	1,076,270
Tiscali Int.l Network S.p.A.	-	1,306	-	-	-	1,306
	1,172,848	**39,227**	**(3,948)**	**(38,162)**	**(259)**	**1,169,706**

Disposals in the period relate solely to the investment in Ideare S.r.l., transferred at carrying value to subsidiary Tiscali Services S.r.l. in April 2006 and subsequently merged by incorporation in the same year.

As indicated in the section on valuation criteria in these notes to the financial statements, equity investments are recognised at cost, with write-down of any permanent loss of value determined via impairment testing. It is considered that the book value of equity investments at 31 December 2006 remains valid, given the significant amount of goodwill intrinsic to the equity investments. For direct or indirect equity investments of a strategic nature, verification of the carrying amount for the equity investments was performed in a similar manner to the previous year, by development of a specific impairment test based on discounting of expected cash flows as indicated in the Tiscali Group business plan.

Considerations emerging from analysis of the book values of continuing equity investments, together with related effects on the Tiscali S.p.A. financial statements at 31 December 2006, and a brief comment on movements in the period, are provided below.

Connect Software Inc

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

Energy Byte Srl *in liquidation*

By resolution of the shareholders' meeting of 11 March, this company was placed in liquidation in 2004. The equity investment was fully written down in previous periods.

Quinary S.p.A.

This company operates in systems integration software production and development. Changes during the period relate to the EUR 0.3 million waiver of a loan by the Parent Company, with the full amount charged to the income statement. Quinary is still undergoing redefinition of its role in the Tiscali Group. It is considered that the residual carrying amount can be deemed to represent the goodwill value of the investment.

Tiscali Czech Republic S.r.o.

This is a small equity investment in a non-operating company in the Czech Republic, now in liquidation.

Tiscali Deutschland GmbH

Tiscali Deutschland owns a substantial portion of operating assets in the Tiscali Group in Germany, managed by Tiscali GmbH. In the first months of 2007, agreements were reached between Tiscali S.p.A. and Freenet AG for the disposal of B2C assets.

The results of impairment testing, developed to take account of the effects of such events, have led to write-down of the investment in the sum of EUR 30 million charged to the income statement.

Tiscali Finance SA

The carrying amount for this investment, a Tiscali Group "vehicle" which managed the Equity Linked Bonds of EUR 209.5 million repaid in September 2006, is indirectly adjusted by the sum of EUR 18.7 million recognised as a provision for risks and charges, established in previous years to cover the residual deficit of this subsidiary.

Tiscali Italia S.r.l.

The 100% controlled non-operating subsidiary Andaledda S.p.A. was renamed Tiscali Italia S.r.l. in October 2004. As part of the project to streamline the Tiscali Group structure, effective from 1 January 2005, all operating activities of Tiscali S.p.A. in Italy were transferred to Tiscali Italia S.r.l., i.e.: *consumer, business, media, technology*, the Italian network infrastructure, staff activities, licenses and authorisations for telecommunications and Internet services, for a total value of EUR 184.9 million. This value mainly represents goodwill, assessed as EUR 158.7 million.
The increase in 2006 of EUR 30 million was due to a part waiver of sums due from the subsidiary to cover the increase in capital implemented in June 2006.

Thought the investee company ended 2006 with a net loss of EUR 34.4 million, the results of impairment testing did not reveal any issues concerning the carrying amount for this equity investment (EUR 55 million), in the light of the valuation performed by the Discounted Cash Flow method described above.

Tiscali Motoring S.r.l

The carrying value of this equity investment, currently in liquidation, was fully written-down during 2006.

Tiscali Services S.r.l.

Tiscali I.T.S. S.r.l. was renamed Tiscali Services S.r.l. in November 2004. Like Tiscali Italia S.r.l., the company was involved in the transfer of Tiscali S.p.A. operating assets in 2005. Specifically, all the IT, media development and new products for group-wide use were transferred to Tiscali Services S.r.l. for a total value of EUR 31.2 million. The investee company, which closed the year with a loss of EUR 11.9 million, was recognised to the financial statements with a carrying amount of EUR 29.8 million. As the loss sustained in 2006 is not considered permanent, no write-downs were performed. Changes during the period relate to the part waiver of sums due from the subsidiary to cover losses, charging the sum of EUR 7.6 million to the income statement.

Tiscali Telecomunicaciones SA

The EUR 0.1 million balance, net of write-downs in previous periods, relates to one of the Group companies based in Spain.

World Online International N.V.

This is a sub-holding based in the Netherlands which, at 31 December 2006, controlled Tiscali Group companies operating, in particular, in the UK.

Impairment testing on the carrying amount of Tiscali S.p.A.'s investment in World Online International NV at 31 December 2006 (net of write-downs for permanent losses of EUR 735.7 million recognised in previous years) was performed on the basis of assumptions indicated in the foreword to the notes on equity investments. The value of World Online International NV was in this case mainly represented by the value of the underlying Dutch sub-holdings and items in the financial statements relating to its financial position, was determined on the basis of an approach focused on the discounting of expected cash flows as indicated in the Tiscali Group business plan.

The net residual carrying amount of EUR 1,076 million remains significant, given that the main underlying assets relate to operating equity investments in the UK in particular and to assets due for disposal in the Netherlands.

Tiscali International Network S.p.A.

In the last financial year, Tiscali International Network S.p.A. was 10% controlled by Tiscali S.p.A. and the remaining 90% by Dutch sub-holding Tiscali International Network BV.
In December 2006, Tiscali S.p.A. acquired 50% of the share capital in this company from Tiscali International Network BV for EUR 1.3 million, thus gaining 60% of the share capital and direct control of the company. For this reason, it was reclassified from an investment under "Other companies" to an investment under "Subsidiaries".

AFFILIATED COMPANIES EUR (000)	Balance 31.12. 2005	Increase	(Disposals)	Reval/ (write-down)	Other movements	Balance 31.12. 2006
STS Studi Tecnologie e Sistemi S.r.l.	480	-	-	-	-	480
STUD Soc. Consortile a. r. l.	15	-	-	-	-	15
	495	**-**	**-**	**-**	**-**	**495**

Equity investments in affiliated companies includes the equity investment in STS Studi Tecnologie e Sistemi S.r.l., operating in the software and IT production and development sector.

other companies EUR (000)	Balance 31.12. 2005	Increase	(Disposals)	Reval/ (write-down)	Other movements	Balance 31.12. 2006
Crs4	-	-	-	-	-	-
Mix S.r.l.	1	-	-	-	-	1
Tiscali Int.l Network S.p.A	34	-	-	-	(34)	-
	35	**-**	**-**	**-**	**(34)**	**1**

Equity investments - Other information

SUBSIDIARIES EUR (000)	Country	Share capital	Shareholders' equity	Result	% Held	Book value
Connect Software Inc. (*)	San Francisco (USA)	48	(43)	(2)	100%	-
Energy Byte Srl in liquidation	Milan	68	60	(7)	100%	-
Quinary S.p.A.	Milan	400	(485)	(1,143)	85%	226
Tiscali Czech Republic a.s. (**)	Prague	505	(43)	(23)	100%	-
Tiscali Deutschland Gmbh (ex Nikoma)	Frankfurt	61,228	(198,467)	(39,675)	100%	6,387
Tiscali Finance SA	Luxemburg	125	(18,229)	(2,045)	100%	125
Tiscali Italia S.r.l. (Ex Andaledda S.p.A.)	Cagliari	185,000	147,909	(34,409)	100%	55,439
Tiscali Motoring S.r.l. in liquidation	Cagliari	100	(44)	-	60%	-
Tiscali Services S.r.l (ex Tiscali I.T.S. S.r.l.)	Cagliari	32,000	18,887	(11,890)	100%	29,828
Tiscali Telecomunicaciones SA	Madrid	2,100	(6,772)	(3,321)	100%	125
World Online International N.V.(***)	Maarsen (NL)	(115,519)	1,080,095	(144,961)	100%	1,076,270
Tiscali Int.l Network S.p.A.	Cagliari	350	428	(283)	60%	1,306
						1,169,706

(*) Balance sheet data 31/12/2002 - (**) Balance sheet data 31/12/2003 - (***) Balance sheet data 31/12/2005

AFFILIATED COMAPNIES migliaia di Euro	Coury	Share capital	Shareholders' equity	Result	% Held	Book value
STS Studi Tecnologie e Sistemi S.r.l.	Rome	100	195	8	20%	480
STUD Soc. Consortile a r.l. (*)	Cagliari	45	43	(5)	33%	15
						495

(*) Balance sheet data 31/12/2002

With regard to STS S.r.l. it should be mentioned that 15% of the share capital is held by Energy Byte S.r.l. (in liquidation), which is 100% controlled by Tiscali S.p.A.

16. Other non current financial assets

EUR 000	31.12.2006	31.12.2005
Receivables from Group companies	4,779	32,459
Other receivables	-	6,135
Total	**4,779**	**38,594**

Other non-current financial assets include financial receivables from Group companies of EUR 4.7 million at 31 December 2006. The decrease as compared to the previous year is due to waiver of a sum receivable from Tiscali Italia S.r.l. of EUR 30 million to cover the increase in capital already mentioned under equity investments.
In 2005, Other receivables of EUR 6.1 million included EUR 3.9 million long-term tax receivables for VAT refunds. At 31 December 2006 the entire credit was classified under the item Other receivables and other current assets.

The financial receivables due from Group companies are detailed below:

EUR (000)	31.12.2006	31.12.2005
Energy Byte S.r.l	111	145
Ideare SpA	-	100
Quinary SpA	235	-
Tiscali International Network S.A.	-	40
Tiscali International Network S.p.A.	-	977
Tiscali Motoring S.r.l.	387	367
Tiscali Telecomunicaciones S.A.	1	1
Tiscali Italia S.r.l.	3,892	29,849
Connect Software Inc.	-	56
Surfeu Finland OY	-	7
Tiscali Services S.r.l.	-	567
Tiscali Business Services S.p.A.	-	281
Tiscali Media S.r.l.	153	69
	4,779	**32,459**

17. Receivables from customers

EUR 000	31.12.2006	31.12.2005
Receivables from customers	42,221	38,309
Total	**42,221**	**38,309**

At 31 December 2006, receivables from customers totalled EUR 42.2 million, including receivables from Group companies of EUR 40.2 million and from third party customers of EUR 1.9 million.
The carrying amount of trade receivables, in view of conditions regulating services provided by the Group, is approximate to their 'fair value'.

The trade receivables due from Group companies are detailed below:

EUR (000)	31.12.2006	31.12.2005
Quinary S.p.A.	32	-
Tiscali Deutschland Gmbh	12,755	11,822
Tiscali Finance S.A.	-	138
Tiscali International B.V.	125	2,144
Nacamar Luxemburg S.a.r.l.		1
Tiscali Business Gmbh	9,305	8,534
Tiscali B.V.	1,140	4,150
Tiscali Espana S.L.U.	315	-
Tiscali Telekomunikace S.r.o.	-	35
Tiscali UK Ltd	10,320	4,340
Tiscali UK Holdings Ltd	774	-
Tiscali International Network S.A.	-	35
Tiscali International Network B.V.	973	150
Tiscali International Network S.p.A.	137	137
Tiscali Italia S.r.l.	4,198	1,650
Tiscali Services S.r.l.	173	3,919
Tiscali Business Services S.p.A.	-	9
Total	**40,249**	**37,064**

18. Other Receivables and other Current Assets

EUR (000)	31.12.2006	31.12.2005
Other receivables	12,848	15,091
Deferred charges	249	118
Total	**13,097**	**15,208**

Other receivables totalling EUR 12.8 million include VAT credits of EUR 11.2 million, of which EUR 7.1 million VAT credits for which the parent company has requested reimbursement. Deferred charges of EUR 0.2 million include deferred insurance and leasing costs.

The carrying amounts included in this item are approximate to their 'fair value'.

19. Cash and cash equivalents

At the end of 2006, cash and cash equivalents totalled EUR 0.1 million and include the company liquid resources, essentially held in current accounts. Reference should be made to the report on operations for a detailed analysis of the financial position.

20. Shareholders' equity

EUR (000)	31.12.2006	31.12.2005
Share capital	212,207	198,369
Share premium reserve	948,017	953,717
Retained earnings	(207,066)	(215,950)
Total	**953,157**	**936,136**

Changes in 2006 in shareholders' equity items are detailed in the relevant table.

At 31 December 2006 share capital amounted to EUR 212.2 million corresponding to 424,413,163 ordinary shares with a nominal value of EUR 0.50 each. In 2006, company share capital increased by EUR 13.8 million due to the effect of an issue of 27,675,021 shares in repayment of the bond issued by subsidiary Tiscali Finance S.A. on 26 September 2003 and expiring on 26 September 2006 *(€ 209,500,000 4.25 per cent Guaranteed Equity Linked Bonds due 2006)*. As a result of this share issue the share premium reserve increased by EUR 48.7 million.

The share premium reserve decreased by an overall EUR 54.4 million due to its utilisation to cover Parent Company losses from the previous year, as resolved by the shareholders' meeting of 18 May 2006.

21. Other non current liabilities

EUR (000)	31.12.2006	31.12.2005
Payables to Group companies	208,162	260,583
Other payables	-	-
Total	**208,162**	**260,583**

The balance of Other non current liabilities primarily concerns financial payables to group companies, mainly represented by Tiscali International BV. It should be remembered that the financing agreement with this subsidiary, a sub-holding of the Tiscali Group, does not include interest charges (interest-free financing).

The analysis of financial liabilities to Group companies is as follows:

EUR (000)	31.12.2006	31.12.2005
Ideare S.p.A.	-	65
Tiscali International B.V.	206,223	259,044
Tiscali B.V.	8	8
Tiscali Motoring S.r.l.	74	77
Tiscali Italia S.r.l.	3	23
Tiscali International Network B.V.	1,839	566
Tiscali International Network S.A.	16	330
Tiscali Business Services S.p.A.	-	470
	208,162	**260,583**

The distribution by expiry of Other non current liabilities is as follows:

EUR (000)	31.12.2006	31.12.2005
1-5 years	208,162	260,583
beyond 5 years	-	-
Total	**208,162**	**260,583**

DETAILED STATEMENT OF SHAREHOLDERS' EQUITY ITEMS						Utilisation summary – last 3 financial years	
	Amoun	Utilisation options	Available portion	Available portion with no tax effect	Available portion with tax effect	Loss cover	Other
Share capital	212,207		-	-	-	-	-
Share premium reserve	948,017	A,B	948,017	-	-	658,721	-
Retained earnings	(207,066)		-	-	-	-	-
Total	**953,157**		**948,017**	**-**	**-**	**658,721**	**-**

Utilisation options – Legend:

A For share capital increases

B As loss cover

C For distribution to shareholders

22. Liabilities for pension obligations and staff severance

The table below shows the period movements:

EUR (000)	31.12.2005	Provision	Utilisation	31.12.2006
Staff severance	475	309	(383)	401
Total	**475**	**309**	**(383)**	**401**

The staff severance fund of EUR 0.4 million, chiefly covering amounts payable to employees, relates to the parent company and subsidiaries operating in Italy.
In compliance with the IAS 19 accounting principle, the method "Projected Unit Credit Cost" 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 "financial assumptions" shown in the table below.

- At each measurement date the average current value of future payable indemnities was calculated, applying the discount rate disclosed in the "Financial assumptions" table, thus determining the liability to be recorded on financial statements.

Financial assumptions	
Inflation rate:	2%
Wage increase rate:	4%
Discount rate:	4.1%
Demographic assumptions:	
Mortality:	Mortality tables RG 48 published by *Ragioneria Generale dello Stato* (General Accouting Office)
Disability:	Same tables used for mortality
Resignation:	5% from 20 - 65 years
Anticipated payments:	Up to 50 years of age, with at least 5 but no more than 14 years of service: 3% Over 50 years of age, with at least 5 but no more than 14 years of service: 1%
Retirement:	65 years (M) and 60 years (F)

23. Provisions for risks and charges

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

EUR (000)	31.12.2005	Provisions	Utilisation	31.12.2006
Provisions for risks and charges	26,872	1,493	(2,018)	26,347
Total	**26,872**	**1,493**	**(2,018)**	**26,347**

At 31 December 2006 the provision for risks and charges totalled EUR 26.3 million and includes provisions for contingent liabilities and disputes for around EUR 7.6 million, plus EUR 18.7 million (unchanged since 2005) essentially in relation to subsidiary Tiscali Finance SA for that portion of the write-down in excess of the carrying value.

24. Payables to banks and other lenders

EUR (000)	31.12.2006	31.12.2005
Payables to banks and other lenders:	-	-
Payables to banks	12,419	8,006
	12,419	**8,006**

The item only refers to bank overdrafts necessary to meet cash requirements deriving from operations.

25. Payables to suppliers

EUR (000)	31.12.2006	31.12.2005
Trade payables to third parties	12,012	18,040
Trade payables to Group companies for materials and services	14,836	14,599
	26,847	**32,639**

Trade payables to third party suppliers relate mainly to payables for professional consulting services.
It should be mentioned that Trade payables are for settlement by the end of the next financial year and it is considered that their carrying amount is approximate to their fair value.

Detailed below are the Trade payables to Group companies:

EUR (000)	31.12.2006	31.12.2005
Energy Byte S.r.l	-	93
Ideare S.p.A.	-	898
Tiscali Finance S.A.	-	6
Tiscali International B.V.	8,085	10,511
Tiscali Business Gmbh	546	546
Tiscali Deutschland Gmbh	30	-
Tiscali B.V.	149	101
Tiscali Espana S.L.	5	3
Tiscali UK Ltd	3,876	350
Tiscali Italia S.r.l.	83	367
Tiscali Services S.r.l.	1,181	749
Quinary S.p.A.	7	-
Tiscali International Network B.V.	873	846
Tiscali Business Services S.p.A.	-	129
	14,836	**14,599**

26. Other current liabilities

EUR (000)	31.12.2006	31.12.2005
Accrued liabilities	139	140
Deferred income	306	583
Other liabilities	3,804	2,741
	4,249	**3,464**

Accrued liabilities include EUR 0.1 million for operating expenses and sums due to personnel (leave/bonuses), while Deferred income relates to deferred revenues not relevant to the period.

Other liabilities mainly refer to payables to tax authorities (employee withholding tax and VAT) and to social security agencies, totalling EUR 1 million, as well as payables to employees for EUR 1.1 million and others of EUR 1 million. Other liabilities include emoluments due to Directors of approximately EUR 0.7 million.

27. Guarantees issued and commitments

Guarantees issued are detailed as follows:

	31.12.2006	31.12.2005
GUARANTEES ISSUED TO THIRD PARTIES		
Personal guarantees	317,952	304,726
	317.952	**304.726**
OTHER MEMORANDUM ACCOUNTS		
Leasing payments falling due	187	1,367
Commitments	33,347	33,962
	33,534	**35,328**
	351,486	**340,054**

Personal guarantees issued include EUR 244 million guaranteed to Silver Point Finance to cover the corresponding financing granted to subsidiary Tiscali International BV, originally in August 2005 and renegotiated in September 2006. It is important to mentioned that the financing in relation to said guarantee was repaid in February 2007, and that Tiscali International BV arranged new financing from Banca Intesa Sanpaolo, guaranteed by Tiscali S.p.A. in the sum of EUR 280 million plus interest.
The same item includes a EUR 13.5 million guarantee issued to Export Development Canada (EDC) for financing granted to subsidiary Tiscali International BV in October 2005 and guarantees released in favour of the Financial Administration Division against the requested VAT settlement of EUR 23 million. In 2005, personal guarantees issued included a EUR 209.5 million guarantee in relation to the Equity Linked Bond, which expired and was repaid in September 2006, issued by subsidiary Tiscali Finance SA.

Commitments include EUR 29 million for a residual medium-long term financing agreement with Banca CIS granted to subsidiary Tiscali Italia S.r.l. in the last financial year. The parent company Tiscali S.p.A. is joint guarantor for the amount duly amortised. Also included under this item is the commitment in favour of the Financial Administration division to cover the settlement of Group VAT.

28. Net financial position

As required by Consob Communication dated 28 July 2006, the Company declares its net financial position at 31 December 2006 to be as follows:

EUR (000)	31.12.2006	31.12.2005
A. Cash	-	10
B. Cash equivalents	152	994
C. Securities held for trading	-	-
D. Cash and cash equivalents (A) + (B) + (C)	**152**	**1,004**
E. Current financial payables	**-**	**-**
F. Current bank payables	(12,419)	(8,006)
G. Current portion of non-current debt		
H. Other current financial payables		
I. Current financial debt (F) + (G) + (H)	**(12,419)**	**(8,006)**
J. Net current financial debt (I) – (E) – (D)	**(12,267)**	**(7,002)**
K. Non-current bank payables	-	-
L. Bonds issued	-	-
M. Other non-current payables to Group companies	(208,162)	(260,583)
N. Other non-current payables to third parties	-	-
O. Non-current financial debt (K) + (L) + (M) + (N)	**(208,162)**	**(260,583)**
P. Net financial debt (J) + (O)	**(220,429)**	**(267,585)**

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

EUR (000)	31.12.2006	31.12.2005
Net consolidated debt as indicated in the report on operations	**(207,332)**	**(252,377)**
Current financial receivables (mainly VAT credit)	(13,097)	(15,208)
Net financial position	**(220,429)**	**(267,585)**

Fees to directors and statutory auditors

In accordance with article 78 of regulations in enforcement of Italian Legislative Decree 58/1998, issued by CONSOB by Resolution 11971/99, the following tables indicate fees recognised to Directors and Statutory Auditors.

NAME AND SURNAME	Position	Term of office	Emoluments	Non-monetary benefits	Other form of remunerations
Board of Directors					
Vittorio Serafino	Chairman (1)	Approval of 2007 annual report	€ 180,000	-	-
Rudolf Derk Huisman	CEO and Director (2)		-	-	-
Tommaso Pompei	CEO and Director (3)	Approval of 2007 annual report	€ 900,000		
Victor Bischoff	Director (4)	(8) 18 May 2006	€ 10,417	-	-
Gabriel Prêtre	Director (4)	(8) 18 May 2006	€ 10,417	-	-
Mario Rosso	Director (4)	Approval of 2007 annual report	€ 25,000	-	-
Massimo Cristofori	Director (4)	Approval of 2007 annual report	€ 25,000	-	€ 365,000
Francesco Bizzarri	Director (5)	Approval of 2007 annual report	€ 25,000	-	-
Gabriele Racugno	Director (5)	Approval of 2007 annual report	€ 25,000	-	-
Arnaldo Borghesi	Director (6)	Shareholders' meeting 3 May 2007	€ 694	-	-
Rocco Sabelli	Director (6)	Shareholders' meeting 3 May 2007	€ 694	-	-
Board of Statutory Auditors					
Aldo Pavan	Chairman (7)	Approval of 2008 annual report	€ 64,000	-	-
Piero Maccioni	Statutory auditor (7)	Approval of 2008 annual report	€ 42,000	-	-
Massimo Giaconia	Statutory auditor (7)	Approval of 2008 annual report	€ 42,000	-	-
Andrea Zini	Deputy Auditor (7)	Approval of 2008 annual report	-	-	-
Rita Casu	Deputy Auditor (7)	Approval of 2008 annual report	-	-	-

(1) Chairman since 23 September 2004
(2) CEO until 31 October 2005; Director until 11 January 2006
(3) CEO since 18 May 2006
(4) Appointed 6 May 2004
(5) Appointed 5 May 2005
(6) Appointed 20 December 2006
(7) Appointed 18 May 2006
(8) Directors Victor Bischoff and Gabriel Prêtre resigned at the Shareholders' Meeting of 18 May 2006.

Transition to international accounting standards (IAS/IFRS) by the parent company Tiscali S.p.A.

1. Foreword

From the 2005 financial year, in compliance with European Regulation 1606 of 19 July 2002, the Tiscali Group adopted the International Accounting Standards (IAS/IFRS) for the purpose of preparing the consolidated financial statements. In accordance with national law in enforcement of the aforementioned Regulation, the financial statements of parent company Tiscali S.p.A., as of 2006, were prepared according to the aforementioned standards.
To this effect, parent company Tiscali S.p.A. has presented 2006 data in compliance with the aforementioned IAS/IFRS International Accounting Standards, with comparative data from the previous year.

The date of transition to the IFRS was 1 January 2005, while the effective data of adoption is 1 January 2006. This section shows the reconciliation tables according to IFRS 1 standard ('First time adoption of International Financial Reporting Standards), together with the relevant explanatory notes concerning the effects arising from adoption of the standards.

The parent company Tiscali S.p.A. has applied the IFRS standards retrospectively. In particular, at the date of transition to the new standards (1 January 2005), a statement of the financial position was prepared according to IAS/IFRS reflecting the application of the following general accounting principles:

- all assets and liabilities required under the terms of IAS/IFRS were recognised and assessed in accordance with IFRS;
- all assets and liabilities required under the terms of Italian accounting principles, but not permitted by IFRS, were eliminated;
- certain balance sheet items were reclassified in accordance with IFRS.

The effects of these adjustments were recognised directly to shareholders' equity on opening of the first time adoption of IAS/IFRS standards (1 January 2005). It should be specified that assets and liabilities in the Tiscali S.p.A. balance sheet, drafted in accordance with IFRS, were recorded with the same values resulting from the accounting position as used in preparing the Group's consolidated statements with the exception, in compliance with IFRS 1, of the consolidated accounts.

2. First time adoption of IAS/IFRS - Presentation, optional exemptions and adopted accounting options

The adjustment of the financial position at the transition date (1 January 2004) and of the financial and economic statements at 31 December 2005 has required a number of preliminary decisions concerning the presentation format, 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' 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 adoption:

Recognition of Other intangible assets and Property, plant and equipment
Other intangible assets and Property, plant and equipment were recognised at cost. No asset was subject to revaluation. The cost principle was applied (instead of fair value) as the measurement standard for tangible and intangible assets also after initial recognition.

Liabilities for pension obligations and staff severance indemnities
The Group has elected to record all gains and losses accrued and existing at 1 January 2005, arising from actuarial valuations, and to waive the so called 'corridor approach', from that date allowing separate accounting of gains and losses recognisable only for that part exceeding a pre-established threshold.

3. Effects of the adoption of IAS/IFRS – Reconciliation required by IFRS 1

These notes describe the effects of the adoption of IAS/IFRS on data at 31 December 2004 (balance sheet opened on 1 January 2005), and on the periods ending 30 June 2005 and 31 December 2005.

These effects, as provided by IFRS 1, are presented and explained with the relevant reconciliation as compared to the corresponding published values determined in compliance with Italian accounting principles. It should be specified that, in consideration of the type of adjustment and Tiscali Group taxation, no tax effects arose from the adaptation to IAS/IFRS.

3.1 First time adoption of IAS/IFRS – 1 January 2005

The table below summarises the effects on the shareholders' equity at the date of transition to IAS/IFRS:

EUR (000)	Shareholders' equity
In compliance with Italian accounting principles	**1,310,261**
IAS 38 Intangible assets	(294)
IAS 19 Employee benefits	139
IAS 32 Financial instruments	(4,155)
IFRS 3 Business combinations and Goodwill	(162,546)
IAS/IFRS	**1,143,405**

The effects of adaptation to IAS/IFRS accounting standards in relation to the balance sheet are detailed in the table below:

BALANCE SHEET AT 1 JANUARY 2005 EUR (000)	In compliance with Italian accounting principles	Effect of conversion to IFRS	IAS IFRS
Non current assets			
Other intangible assets	6,842	(5,057)	1,785
Property, plant and equipment	304	608	912
Equity investments	1,736,596	(433,670)	1,302,926
Other financial assets	35,806	-	35,806
Deferred tax assets	45,000		45,000
	1,824,549	(438,119)	1,386,430
Current assets			
Receivables from customers	26,362	-	26,362
Other receivables and other current assets	29,903	-	29,903
Cash and cash equivalents	48,923	-	48,923
	105,188	**-**	**105,188**
Assets held for sale	-	271,124	271,124
Total Assets	**1,929,737**	**(166,995)**	**1,762,742**
Share Capital and reserves			
Share Capital	196,619	-	196,619
Share premium reserve	1,440,874	(4,155)	1,436,719
Retained earnings	(327,232)	(162,701)	(489,933)
Shareholders' Equity (Group)	**1,310,261**	**(166,856)**	**1,143,405**
Minority interests	**-**	**-**	**-**
Total Shareholders' equity	**1,310,261**	**(166,856)**	**1,143,405**
Non current liabilities			
Other non current liabilities	513,537	-	513,537
Liabilities for pension obligations and staff severance	665	(139)	526
Provisions for risks and charges	20,029	-	20,029
	534,231	**(139)**	**534,092**
Current liabilities			
Payable to banks and to other lenders	21,353	-	21,353
Payables to suppliers	53,035	-	53,035
Other current liabilities	10,858	-	10,858
	85,245	**-**	**85,245**
Liabilities directly related to assets held for sale	-	-	-
Total Liabilities	**619,476**	**(139)**	**619,337**
Total Shareholders' Equity and Liabilities	**1,929,737**	**(166,995)**	**1,762,742**

The table below shows the effects of IAS/IFRS adjustments in detail:

BALANCE SHEET AT 1 JANUARY 2005 EUR (000)	Effect of conversion to IAS / IFRS	Note 1 IAS 38 Intangible assets	Note 2 IAS 19 Employee benefits	Note 3 IAS 32 Financial instruments: Presentation and disclosure	Note 4 IFRS 3 Business combinations and Goodwill	Note 5 IFRS 5 Assets Discontinued/ Held for sale
Non current assets						
Intangible assets	(5,057)	(902)	-	(4,155)	-	-
Property, plant and equipment	608	608	-	-	-	-
Equity investments	(433,670)	-	-	-	(162,546)	(271,124)
	(438,119)	(294)	-	(4,155)	(162,546)	(271,124)
Current assets						
Receivables from customers	-	-	-	-	-	-
Other receivables and other current assets	-	-	-	-	-	-
Cash and cash equivalents	-	-	-	-	-	-
	-	-	-	-	-	-
Assets held for sale	271,124	-	-	-	-	271,124
Total Assets	**(166,995)**	**(294)**	**-**	**(4,155)**	**(162,546)**	**-**
Share Capital and reserves						
Share Capital	-	-	-	-	-	-
Share premium reserve	(4,155)	-	-	(4,155)	-	-
Retained earnings	(162,701)	(294)	139	-	(162,546)	-
Shareholders' Equity (Group)	**(166,856)**	**(294)**	**139**	**(4,155)**	**(162,546)**	**-**
Minority interests	-	-	-	-	-	-
Total Shareholders' equity	**(166,,856)**	**(294)**	**139**	**(4,155)**	**(162,546)**	**-**
Non current liabilities						
Other non current liabilities	-	-	-	-	-	-
Liabilities for pension obligations and staff severance	(139)	-	(139)	-	-	-
Provisions for risks and charges	-	-	-	-	-	-
	(139)	-	(139)	-	-	-
Current liabilities						
Payable to banks and to other lenders	-	-	-	-	-	-
Payables to suppliers	-	-	-	-	-	-
Other current liabilities	-	-	-	-	-	-
	-	-	-	-	-	-
Liabilities directly related to assets held for sale	-	-	-	-	-	-
Total Liabilities	**(139)**	**-**	**(139)**	**-**	**-**	**-**
Total Shareholders' equity and liabilities	**(166,995)**	**(294)**	**-**	**(4,155)**	**(162,546)**	**-**

NOTES

Notes pertaining to the balance sheet are reported consistently with the detailed table listing, with an indication of the item subject to adjustment.

1. *IAS 38 / Intangible assets*

Adjustments refers to the following:

A) cancellation of net carrying values of certain types of multi-year costs (start-up and expansion costs, advertising costs) capitalised in compliance with Italian accounting principles, the capitalisation of which is not recognised by IAS/IFRS.

B) Reclassification of upgrades on third-party assets concerning property, plant and equipment.

2. *IAS 19 / Employee benefits*

The liability relating to the staff severance fund (TFR) of Italian companies of the Group has been recalculated in accordance with the actuarial method.

3. *IAS 32 and IAS 39 / Financial Instruments*

Accessory charges on the increase in share capital of the Parent Company, implemented at the end of 2004, were eliminated from intangible assets, with a corresponding reduction in the share premium reserve.

4. *IFRS 3 / Business combinations and Goodwill*

The parent company Tiscali SpA transferred of all its operating assets in Italy to Tiscali Italia S.r.l. with effect from 1 January 2005. On the same date, all activities and corporate services performed on behalf of the group were transferred to Tiscali Service Srl, which manages IT, media development and new products for the entire Tiscali Group. Both companies are 100% owned and directly controlled by Tiscali S.p.A.

In application of IFRS 3, the effects of the transfer of business on accounts were eliminated, since they related solely to consolidated subsidiaries.

5. *IFRS 5 / Assets held for sale and discontinued operations*

Investments in companies held for sale and in relation to discontinued operations were reclassified to a specific balance sheet item.

3.2 Effects of transition to IAS/IFRS at 31 December 2005

The table below summarises the effects at 31 December 2005:

EUR (000)	Shareholders' equity	Net result
In compliance with Italian accounting principles	**1,101,832**	**(54,409)**
IAS 38 Intangible assets	825	1,119
IAS 19 Employee benefits	180	41
IAS 32 Financial instruments	(4,155)	-
IFRS 3 Business combinations and Goodwill	(162,546)	(162,546)
IAS/IFRS	**936,136**	**(215,795)**

The effects of adaptation to IAS/IFRS accounting standards in relation to the Income statement and Balance Sheet are detailed in the tables below:

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2005 EUR (000)	In compliance with Italian accounting principles	Effect of conversion to IAS/IFRS	IAS/IFRS
Revenues	9,283	-	9,283
Other income	165,358	(165,068)	290
Purchase of materials and outsourced services	6,115	-	6,115
Personnel costs	7,794	(41)	7,753
Other operating costs	27,793	(26,610)	1,184
Gross operating result	**132,938**	**(138,417)**	**(5,479)**
Restructuring costs, provisions for risks and write-downs	138,816	(981)	137,835
Depreciation and amortisation	2,170	(1,119)	1,051
Operating result	**(8,048)**	**(136,317)**	**(144,365)**
Share of profit or losses of associates with equity method	-	-	-
Net financial income (Charges)	(1,027)	-	(1,027)
Profit (loss) before tax	**(9,075)**	**(136,317)**	**(145,392)**
Income taxes	45,334	-	45,334
Profit (Loss) from continuing operations	**(54,409)**	**(135,317)**	**(190,726)**
Profit (Loss) from discontinued and/or discontinuing operations and/or held for sale	-	(25,069)	(25,069)
Net result	**(54,409)**	**(161,386)**	**(215,795)**

BALANCE SHEET AT 31.12.2005 EUR (000)	In compliance with Italian accounting principles	Effect of conversion to IAS/IFRS	IAS IFRS
Non current assets			
Goodwill	-	-	-
Other intangible assets	4,775	(3,606)	1,169
Property, plant and equipment	237	276	513
Equity investments	1,335,925	(162,546)	1,173,379
Other financial assets	38,594	-	38,594
Deferred tax assets	-	-	-
	1,379,531	**(166,000)**	**1,213,655**
Current assets			
Inventories	-	-	-
Receivables from customers	38,309	-	38,309
Other receivables and other current assets	15,208	-	15,208
Other current financial assets	-	-	-
Cash and cash equivalents	1,004	-	1,004
	54,521	**-**	**54,521**
Assets held for sale	-	-	-
Total Assets	**1,434,052**	**(165,876)**	**1,268,176**
Share Capital and reserves			
Share Capital	198,369	-	198,369
Share premium reserve	957,872	(4,155)	953,717
Translation reserve	-	-	-
Retained earnings	(54,409)	(161,541)	(215,950)
Shareholders' Equity (Group)	**1,101,832**	**(165,696)**	**936,136**
Minority interests	**-**	**-**	**-**
Total Shareholders' equity	**1,101,832**	**(165,696)**	**936,136**
Non current liabilities			
Bonds	-	-	-
Payable to banks and to other lenders	-	-	-
Obligations under finance leases	-	-	-
Other non current liabilities	260,583	-	260,583
Liabilities for pension obligations and staff severance	655	(180)	475
Provisions for risks and charges	26,872	-	26,872
	288,111	**(180)**	**287,931**
Current liabilities			
Bonds	-	-	-
Payable to banks and to other lenders	8,006	-	8,006
Obligations under finance leases	-	-	-
Payables to suppliers	32,639	-	32,639
Other current liabilities	3,464	-	3,464
	44,109	**-**	**44,109**
Liabilities directly related to assets held for sale	-	-	-
Total Liabilities	**332,220**	**(180)**	**332,040**
Total Shareholders' Equity and Liabilities	**1,434,052**	**(165,876)**	**1,268,176**

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

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2005 EUR (000)	Effect of conversion to IAS/IFRS	Note 1 IAS 38 Intangible assets	Note 2 IAS 19 Employee benefits	Note 3 IFRS 3 Business combinations and Goodwill	Note 4 IFRS 5 Assets held for sale and discontinued operations
Revenues	-	-	-	-	-
Other income	(165,068)	-	-	(162,546)	(2,522)
Purchase of materials and outsourced services	-	-	-	-	-
Personnel costs	(41)	-	(41)	-	-
Other operating costs	(26,610)	-	-	-	(26,610)
Gross operating result	**(138,417)**	**-**	**41**	**(162,546)**	**24,088**
Restructuring costs, provisions for risks and write-downs	(981)	-	-	-	(981)
Depreciation and amortisation	(1,119)	(1,119)	-	-	-
Operating result	**(136,317)**	**1,119**	**41**	**(162,546)**	**25,069**
Share of profit or losses of associates with equity method	-	-	-	-	-
Net financial income (Charges)	-	-	-	-	-
Profit (loss) before tax	**(136,317)**	**1,119**	**41**	**(162,546)**	**25,069**
Income taxes	-	-	-	-	-
Profit (Loss) from continuing operations	**(136,317)**	**1,119**	**41**	**(162,546)**	**25,069**
Profit (Loss) from discontinued and/or discontinuing operations and/or held for sale	(25,069)	-	-	-	(25,069)
Net result	**(161,386)**	**1,119**	**41**	**(162,546)**	**-**

NOTES

Notes pertaining to the income statement are reported consistently with the detailed table listing, with an indication of the item subject to adjustment.

1. *IAS 38 / Intangible assets*

The adjustment reflects the economic effects on the period as a result of: (a) cancellation of net carrying values of certain types of multi-year costs (start-up and expansion costs, advertising costs) capitalised in compliance with Italian accounting principles, the capitalisation of which is not recognised by IAS/IFRS. Amortisation recorded in 2005, in compliance with Italian accounting principles, has therefore been cancelled; (b) reclassification of upgrades on third-party assets concerning property, plant and equipment.

2. *IAS 19 / Employee benefits*

The liability relating to the staff severance fund (TFR) of Italian companies of the Group has been recalculated in accordance with the actuarial method. The related effect is reflected in the income statement

3. *IFRS 3 / Business combinations and Goodwill*

The parent company Tiscali SpA transferred of all its operating assets in Italy to Tiscali Italia S.r.l. with effect from 1 January 2005. On the same date, all activities and corporate services performed on behalf of the group were transferred to Tiscali Service Srl, which manages IT, media development and new products for the entire Tiscali Group. Both companies are 100% owned and directly controlled by Tiscali S.p.A.

In application of IFRS 3, the effects of the transfer of business on accounts were eliminated, since they related solely to consolidated subsidiaries.

4. *IFRS 5 / Assets held for sale and discontinued operations*

Equity investments in companies held for sale and in relation to discontinued operations were reclassified to a specific balance sheet item.

BALANCE SHEET AT 31.12.2005 EUR (000)	Effect of conversion to IAS / IFRS	Note 1 IAS 38 Intangible assets	Note 2 IAS 19 Employee benefits	Note 3 IAS 32 financial instruments: Presentation and disclosure	IFRS 1 First adoption of IAS principles	Note 4 IFRS 3 Business combinations and Goodwill	Note 5 IFRS 5 Assets Discontinued/ Held for Sale
Non current assets							
Intangible assets	(3,606)	1,451	-	-	(5,057)	-	-
Property, plant and equipment	276	(332)	-	-	608	-	-
Equity investments	(162,546)	-	-	-	-	(162,546)	-
	(165,876)	1,119	-	-	(4,449)	(162,546)	(124)
Current assets							
Receivables from customers	-	-	-	-	-	-	-
Other receivables and other current assets	-	-	-	-	-	-	-
Cash and cash equivalents	-	-	-	-	-	-	-
	-	-	-	-	-	-	-
Assets held for sale	-	-	-	-	-	-	124
Total Assets	**(165,876)**	**1,119**	**-**	**-**	**(4,449)**	**(162,546)**	**-**
Share Capital and reserves							
Share Capital	-	-	-	-	-	-	
Share premium reserve	(4,155)	-	-	-	(4,155)	-	-
Retained earnings	(161,541)	1,119	41	-	(155)	(162,546)	-
Shareholders' Equity (Group)	**(165,696)**	**1,119**	**41**	**-**	**(4,310)**	**(162,546)**	**-**
Minority interests	-	-	-	-	-	-	-
Total Shareholders' equity	**(165,696)**	**1,119**	**41**	**-**	**(4,310)**	**(162,546)**	**-**
Non current liabilities							
Other non current liabilities	-	-	-	-	-	-	-
Liabilities for pension obligations and staff severance	(180)	-	(41)	-	(139)	-	-
Provisions for risks and charges	-	-	-	-	-	-	-
	(180)	-	(41)	-	(139)	-	-
Current liabilities							
Payable to banks and to other lenders	-	-	-	-	-	-	-
Payables to suppliers	-	-	-	-	-	-	-
Other current liabilities	-	-	-	-	-	-	-
	-	-	-	-	-	-	-
Liabilities directly related to assets held for sale	-	-	-	-	-	-	-
Total Liabilities	**(180)**	**-**	**(41)**	**-**	**(139)**	**-**	**-**
Total Shareholders' equity and liabilities	**(165,876)**	**1,119**	**-**	**-**	**(4,449)**	**(162,546)**	**-**

NOTES

Notes pertaining to the balance sheet are reported consistently with the detailed table listing, with an indication of the item subject to adjustment.

1. *IAS 38 / Intangible assets*

Adjustments refers to the following:

C) cancellation of net carrying values of certain types of multi-year costs (start-up and expansion costs, advertising costs) capitalised in compliance with Italian accounting principles, the capitalisation of which is not recognised by IAS/IFRS.

D) reclassification of upgrades on third-party assets concerning property, plant and equipment.

2. *IAS 19 / Employee benefits*

The liability relating to the staff severance fund (TFR) of Italian companies of the Group has been recalculated in accordance with the actuarial method.

3. *IAS 32 e IAS 39 / Financial Instruments*

Accessory charges on the increase in share capital of the Parent Company, implemented at the end of 2004, were eliminated from intangible assets, with a corresponding reduction in the share premium reserve.

4. *IFRS 3 / Business combinations and Goodwill*

The parent company Tiscali SpA transferred of all its operating assets in Italy to Tiscali Italia S.r.l. with effect from 1 January 2005. On the same date, all activities and corporate services performed on behalf of the group were transferred to Tiscali Service Srl, which manages IT, media development and new products for the entire Tiscali Group. Both companies are 100% owned and directly controlled by Tiscali S.p.A.

In application of IFRS 3, the effects of the transfer of business on accounts were eliminated, since they related solely to consolidated subsidiaries.

5. IFRS 5 */ Assets held for sale and discontinued operations*

Equity investments in companies held for sale and in relation to discontinued operations were reclassified to a specific balance sheet item.

Vittorio Serafino

For the Board of Directors
The Chairman
Vittorio Serafino

Reports of the Independent Auditors

Deloitte.

Deloitte & Touche S.p.A.
Via Tortona, 25
20144 Milano
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AUDITORS' REPORT PURSUANT TO
ART. 156 OF LEGISLATIVE DECREE N. 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, 2006, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. These consolidated financial statements are the responsibility of the Company's Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

2. We conducted our audit in accordance with the Auditing Standards recommended by CONSOB, the Italian Commission for listed Companies and the Stock Exchange. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

   For comparative purposes the consolidated financial statements present the corresponding data of the prior year. As discussed in the explanatory notes, the Directors have retrospectively adjusted the comparative data related to the audited consolidated financial statements of the prior year, on which we issued our auditors' report on May 2, 2006. The change relates to the 2005 income statement adjusted in accordance with IFRS 5 regarding the classification within "discontinued operations" of activities sold or to be sold at December 31, 2006. The methods used for the retrospective adjustment of the corresponding data of the prior period and the information presented in the explanatory notes, with regard to changes made to such data, have been audited by us for the purpose of expressing our opinion on the consolidated financial statements as of December 31, 2006.

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, 2006, 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 and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree n° 38/2005.

4. For a better understanding of the consolidated financial statements, we 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:

Ancona Bari Bergamo Bologna Brescia Cagliari Firenze Genova Milano Napoli Padova Parma Perugia
Roma Torino Treviso Verona

Member of
Deloitte Touche Tohmatsu

Sede Legale: Via Tortona, 25 - 20144 Milano - Capitale Sociale: Euro 10.328.220,00 i.v.
Partita IVA/Codice Fiscale/Registro delle Imprese Milano n. 03049560166 - R.E.A. Milano n. 1720239

a) During 2006, the Tiscali Group has approved and started its new business plan 2007-2010 which foresees, among others, the concentration of its "core business" in Italy and the United Kingdom. In particular, in the first few months of 2007 the disposal of activities in several countries is in progress including the disposal in the Netherlands which at the moment remains subject to approval by the local authorities and is expected in the first six months of 2007. In this respect, the availability of adequate financial resources to sustain the plans developed and meet the financial debt repayment dates remains an essential going concern condition. In 2007 the financial position will benefit from the above disposal proceeds, once concluded, and a more balanced financial debt structure characterised by the medium term Banca Intesa San Paolo loan and a property lease contract entered into in February 2007, the terms of which are described in the report on operations and in the notes to the consolidated financial statements. In the future, it is important that the Group is able to sustain the necessary investments by way of growth in sales and operating "cash flows" in line with the new business plan.

Therefore, the ability to generate positive cash flows will remain a primary focus of the Group and a condition which will significantly influence the evolution of its financial position and stability.

b) At December 31, 2006 the Tiscali Group is involved 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 alleged 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 elements to be able to quantify or consider probable the above mentioned potential liabilities no provision has been recorded in the balance sheet. 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 recorded in the balance sheet.

DELOITTE & TOUCHE S.p.A.

Signed by

Fabrizio Fagnola
Partner

Milan, Italy
April 10, 2007

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

Deloitte.

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AUDITORS' REPORT PURSUANT TO
ART. 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., which comprise the balance sheet as at December 31, 2006, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. These financial statements are the responsibility of the Company's Directors. Our responsibility is to express an opinion on these financial statements based on our audit. These financial statements represent Tiscali S.p.A.'s first annual financial statements prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree n° 38/2005.

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.

   The financial statements present, for comparative purposes, the corresponding data for the year 2005 prepared in accordance with IFRS. In addition, included at the end of the notes to the financial statements are the effects of transition to IFRS, as adopted by the European Union, and 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, 2006, which we have audited and on which we issued a special purpose auditors' report dated October 30, 2006.

3. In our opinion, the financial statements present fairly the financial position of Tiscali S.p.A. as of December 31, 2006, 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 and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree n° 38/2005.

4. For a better understanding of the financial statements, we 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 2006, the Tiscali Group has approved and started its new business plan 2007-2010 which foresees, among others, the concentration of its "core business" in Italy and the United Kingdom. In particular, in the first few months of 2007 the disposal of activities in several countries is in progress including the disposal in the Netherlands which at the moment remains subject to approval by the local authorities and is expected in the first six months of 2007. In this respect, the availability of adequate financial resources to sustain the plans developed and meet the financial debt repayment dates remains an essential going concern condition. In 2007 the financial position will benefit from the above disposal proceeds, once concluded, and a more balanced financial debt structure characterised by the medium term Banca Intesa San Paolo loan and a property lease contract entered into in February 2007, the terms of which are described in the report on operations and in the notes to the consolidated financial statements. In the future, it is important that the Group is able to sustain the necessary investments by way of growth in sales and operating "cash flows" in line with the new business plan.

   Therefore, the ability to generate positive cash flows will remain a primary focus of the Group and a condition which will significantly influence the evolution of its financial position and stability.

b) At December 31, 2006 the Tiscali Group is involved 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 alleged 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 elements to be able to quantify or consider probable the above mentioned potential liabilities no provision has been recorded in the balance sheet. 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, taking into account the provisions recorded in the financial statements.

DELOITTE & TOUCHE S.p.A.

Signed by

Fabrizio Fagnola
Partner

Milan, Italy,
April 10, 2007

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 ITALIAN LEGISLATIVE DECREE 58/98 AND ARTICLE 2429 SUBSECTION 3 OF THE ITALIAN CIVIL CODE

To the Shareholders' Meeting of Tiscali S.p.A.

During the year ending 31 December 2006 we performed the supervisory activity required by law, in accordance with the code of practice recommended for Statutory Auditors by the National Board of Chartered and General Accountants.

Given that our duties do not include analytical audit of the financial statements, we confirm that we have supervised the general layout of the financial statements and their compliance with legal requirements in terms of format and structure. In this respect, we have nothing to report other than the adoption of IAS/IFRS international accounting standards in compliance with the transitory regime governed by CONSOB Resolution n° 14990 of 14 April 2005, to which the annual accounts refer.

Also in compliance with the guidelines provided by CONSOB in their communication of 6 April 2001, subsequently integrated by communications dated 4 April 2003 and 7 April 2006, we report that:

- We have monitored observance of the law and of the Articles of Association.
- We were duly informed by the Directors of activities performed and of the more significant economic and financial transactions effected by the Company and through its subsidiaries, and we are able to reasonably guarantee that the actions approved and implemented comply with the law, with the Articles of Association and in general with best economic practices, and are therefore not manifestly negligent, reckless, potentially in conflict of interest or in conflict with resolutions of the Shareholders' Meeting or such as to jeopardise the integrity of Company assets.
- To the extent of our authority, we have examined and monitored the adequacy of the Company's organisational structure, compliance with the principles of corporate governance and the adequacy of instructions issued by the Company to its subsidiaries under the terms of article 114, subsection 2 of Italian Legislative Decree 58/98, through information gathered from the various managers and through meetings with independent auditors for the purpose of mutual exchange of significant data and information. In this respect we have no observations to report.
- In relation to the provisions of Article 2, Italian Law 262 of 28 December 2005 - which introduced a series of amendments to Legislative Decree 58/98, including the provision contained in Article 151 subsection 2, according to which the Board of Statutory Auditors of the Parent Company is entitled to directly call upon subsidiaries' corporate governance bodies to provide information on business operations or on certain business transactions – the Board requested that the Boards of Statutory Auditors of subsidiaries Tiscali Italia S.p.A. and Tiscali Services S.p.A. provide copies on a half-yearly basis of the minutes of any meetings held, with a view to obtaining information on corporate governance systems

and on the general performance of the subsidiaries. In this respect, no significant data or information emerged worthy of note in this report.

- We assessed and monitored the adequacy of the internal audit system and administrative accounting system, together with the latter's ability to present a true and fair view of operations by obtaining information from department managers, examining corporate documents, analysing the results of work performed by the Independent Auditors and monitoring activity of the Internal Audit Coordinator. In this respect we have no particular observations to report. We hereby acknowledge that the Directors have approved the new "Organisational, Management and Control Model pursuant to Italian Legislative Decree 231/2001", in force from 1 March 2006, which integrates and replaces the previous model adopted in 2004. The Internal Audit Committee was appointed as the Supervisory Body with the role of monitoring compliance with the protocols and procedures adopted.
- We held meetings with the Independent Auditors, in accordance with Article 150, subsection 2 of Italian Legislative Decree 58/98, from which no significant data and information emerged worthy of mention in this report.
- The more significant intra-group transactions, of which we were duly informed pursuant to Article 150 of Italian Legislative Decree 58/98, were transactions pertaining to Group reorganisation (February 2006: merger by incorporation of Tiscali Business Service S.p.A. into Tiscali Italia S.p.A.; June 2006: merger by incorporation of Ideare S.r.l., a company specialised in research and development, into Tiscali Services S.p.A.).
- Transactions with related parties are reported in detail in the report on operations, summarising the financial and economic figures found in the specific section "Transactions with related parties".
- On 10 April 2007 the Independent Auditors, Deloitte & Touche S.p.A., issued their reports on the parent company and consolidated financial statements, which highlight the following:

  - the ability of the Group to generate positive cash flows, a condition of significant impact on the development of the Tiscali Group's financial position as well as its financial and economic stability, remains of prime importance
  - update on pending litigation, including tax disputes.

  The above points to not require comment by the Board of Statutory Auditors.
- No complaints pursuant to Article 2408 of the Italian Civil Code, nor third party claims, were received.
- In accordance with Article 149, subsection 1c)(2) of Italian Legislative Decree 58/98, we hereby acknowledge that the Company complies with the Code of Conduct for the Corporate Governance Committee of listed companies, revised edition of March 2006. In this respect, information can be found in the special Directors' Report to the Shareholders' Meeting.
- During 2006, Tiscali S.p.A. appointed Deloitte & Touche S.p.A. – and related entities – to perform a number of tasks in addition to audit of the parent company and consolidated financial statements. The total considerations invoiced for the various assignments, excluding VAT, are summarised below:

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	Euro/000
Audit (parent company and consolidated financial statements) including the financial statements of investees and operations pursuant to Article 155, Italian Legislative Decree 58/98	493
Fairness opinion pursuant to art. 2441 of the Italian Civil Code	30
Other assignments (software implementation support, countersigning of tax returns and the charging of fees for audit tasks performed by other European offices of Deloitte & Touche)	186
Total	709

- During the year, the Board of Statutory Auditors issued its opinion pursuant to Article 2389 of the Italian Civil Code (Directors' Fees).
- The Independent Auditors Deloitte & Touche S.p.A. submitted their opinion – to the Shareholders' Meeting held 18 May 2006 – in accordance with articles 158, subsection 1, Italian Legislative Decree 58/98 and 2441, subsection 4(2) of the Italian Civil Code regarding the issue price of shares in relation to the share capital increase excluding the right of option (share capital increase of a maximum EUR 13,837,517 to repay the Equity Linked Bond).
- The supervisory activity described above was performed through nine meetings of the Board, three meetings of the Internal Audit Committee and attendance at all nine meetings of the Board of Directors, in accordance with Article 149, sub-section 2 of Italian Legislative Decree 58/98.

In performing the supervisory activity and on the basis of information obtained from the Independent Auditors, no omissions and/or reprehensible facts and/or irregularities or any other significant facts emerged that would require a report to the Directors or worthy of mention in this report.

Cagliari, 12 April 2007

THE BOARD OF STATUTORY AUDITORS

ALDO PAVAN

MASSIMO GIACONIA

PIERO MACCIONI

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