tiscali.

FOURTH QUARTER – AS OF 31 DECEMBER 2005

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DIRECTORS AND AUDITORS

Board of Directors

Chairman

Vittorio Serafino

CEO

Tommaso Pompei*

CFO

Massimo Cristofori

Directors

Victor Bischoff

Francesco Bizzarri

Gabriel Pretre

Gabriele Racugno

Mario Rosso

** Appointed on January 11st, 2006*

Board of Auditors

Chairman

Aldo Pavan

Statutory Auditors

Piero Maccioni

Massimo Giaconia

Deputy Auditors

Andrea Zini

Rita Casu

Independent Auditors

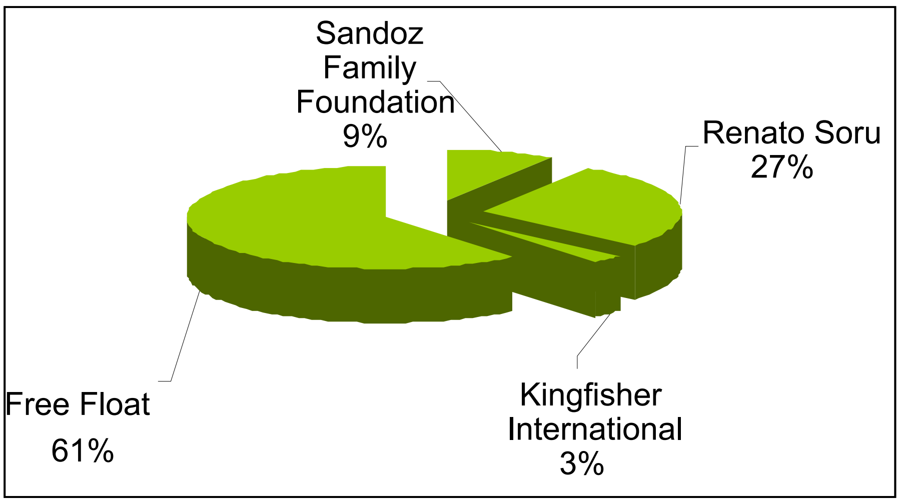
Deloitte & Touche S.p.A.

TISCALI SHARES

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

As of December 31st 2005, the company had a market capitalization of EUR 1,061 million. The share capital corresponds to 396,738,142 shares. This figure and the shareholding breakdown are stable respecting to September 30th 2005.

The chart below illustrates Tiscali's shareholder base as of December 31st, 2005.

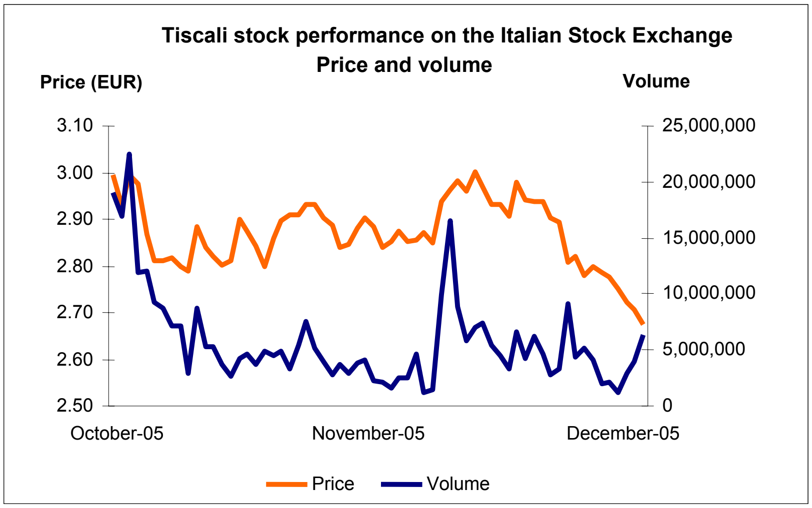


In stock market terms, Tiscali performance was variable, substantially in line with market trends. The positive trend that characterized the quarter stopped during the second half of December. Such trend, moreover in line with as much as observed in the same period of the previous financial year, was influenced by disinvestments at year end, according to the praxi of several investors that tend at year end to close their position.

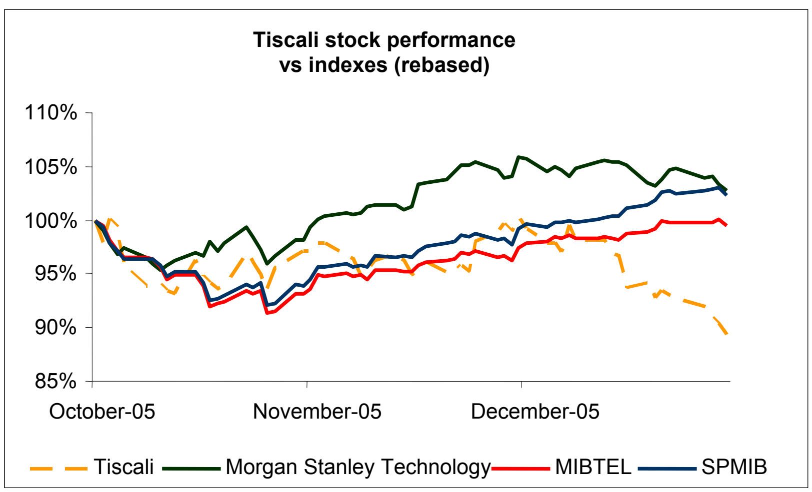
The average price in the quarter is EUR 2.87. The maximum price in the period, EUR 3.00, was registered on December 1st while the minimum price, EUR 2.67, on December 30th 2005.

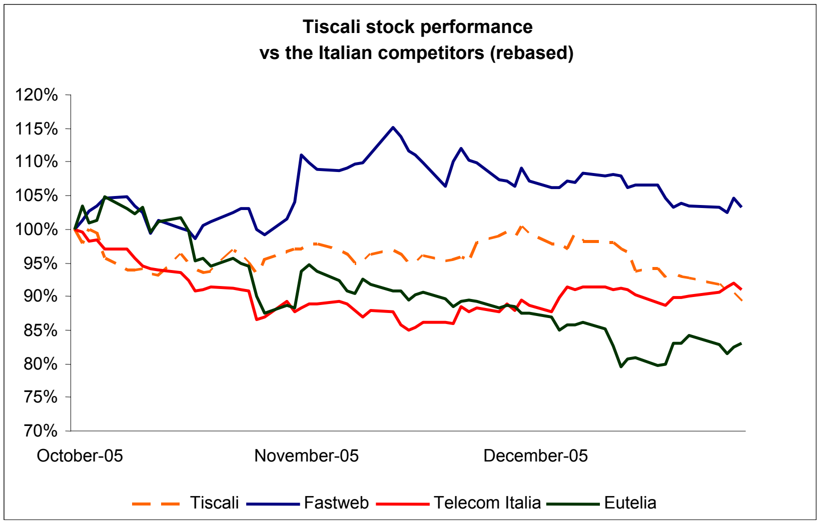
Compared to its Italian competitors, Tiscali shares registered however a performance superior to Telecom Italia and Eutelia stocks.

The graph below illustrates Tiscali stock trend during the fourth quarter 2005.



The graphs below describe Tiscali stock performance vs market indexes and its Italian competitors.





Trading volumes stood at a daily average of 5,800,413 shares over the quarter for an average daily value of EUR 16.6 million. In the quarter, the average value of trades was EUR 1.11 billion.

The trading volumes of the stock and their dynamic (in decrease) confirm the choice of the delisting from Euronext Paris.

Average daily trades of Tiscali shares on its two markets

Number of shares

	Borsa Italiana		Euronext Paris		Total	
Date	**Shares**	**in %**	**Shares**	**in %**	**Shares**	**in %**
Ottober-05	8,111,137	99.89%	8,728	0.11%	8,119,865	100%
November-05	4,625,452	99.38%	28,965	0.62%	4,654,417	100%
Dicember-05	4,611,398	99.71%	13,478	0.29%	4,624,875	100%
Daily average	**5,782,875**	**99.70%**	**17,538**	**0.30%**	**5,800,413**	100%

Source: Bloomberg

PREPARATION CRITERIA

In accordance with the provisions of art.1 of Consob regulation 11971 of 14 May 1999 and subsequent amendments and additions, and in particular the amendment pertaining to Consob regulation n.14990 of 14 April 2005, the quarterly report as of 31 December 2005, has been prepared adopting the standards for measurement and valuation established by International Financial Reporting Standards (IFRS – International Financial Reporting Standards) and expected to be effective at 31 December 2005. In particular the fourth quarter report 2005 falls in the field of application of IFRS 1 – 'First time adoption of IFRS', in consideration of the fact that the 2005 end year financial statements will be prepared in accordance with the IFRS.

Starting with the financial year 2005, with the above mentioned European Regulation n.1606/2002 coming into effect, the Tiscali Group has adopted the new International Financial Reporting Standards (IFRS – International Financial Reporting Standards) issued by 'IASB' (International Accounting Standards Board) and endorsed by the European Union, as well as the interpretations included in the documents of the International Financial Reporting Committee ('IFRIC'), previously known as Standing Interpretation Committee ('SIC') that are considered applicable to the Tiscali Group's operations starting from the current financial year.

The financial statements of the previous financial years have been restated according with the International Financial Reporting Standards (IFRS). The Appendix 'Transition to International Financial Reporting Standards includes the reconciliation statements provided by the IFRS 1 principle, together with the necessary explanatory notes relating to the effects deriving from the adoption of such principles.

The IFRS accounting principles adopted are in line with those adopted for the Third Quarter Report 2005 as of September 30rd and for the Half Year Report as of June 30rd, 2005.

KEY FIGURES

Income statement (EUR ml)	*31 December 2005 Fourth Quarter*	*31 December 2004 Fourth Quarter*	*31 December 2005 12 months*	*31 December 2005 12 months*
• Revenues	199.9	175.8	739.3	655.1
• Gross Operating Result	32.9	31.9	116.9	77.5
• Operating Result	(14.5)	(45.8)	(68.7)	(120.8)

Balance Sheet (EUR ml)	*31 December 2005*	*30 September 2005*	*31 December 2004*
• Total Assets	1,024	1,055	1,468
• Net Financial Debt	284	269	360
• Shareholders Equity	299	323	318
• Capex	66	92	158

Non financial figures (000)	*31 December 2005*	*30 September 2005*	ADSL Net additions *Fourth Quarter*
Access Users	4,723	4,900	
ADSL users (broadband)	1,715	1,485	230
ADSL users (unbundling)	362	280	82

REPORT ON OPERATIONS

PREFACE

In 4Q2005, the Tiscali Group continued its constant and significant growth both in revenues and profitability terms. As an "IP Company" with an offer based on access services, the main growth driver is the number of ADSL subscribers that reached 1.7 milion as of December 31st 2005. Over 360,000 users were successfully migrated on the unbundling network, improving the profitability.

The appointment of Tommaso Pompei as CEO happens while the Group is at a turning point. After refocusing in its core countries and having successfully implemented the refinancing process, Tiscali is now ready to enter a new development phase taking advantage of the opportunities of a dynamic market in fast evolution in which the bundled service offers are one of its core elements.

Tiscali Group financial results and historical figures given for comparison purposes in this fourth quarter report were prepared in accordance with IFRS international accounting principles and are shown on a homogeneous basis for the Group perimeter, including Italy, UK, Germany, The Netherlands, Czech Republic and TiNet IP.

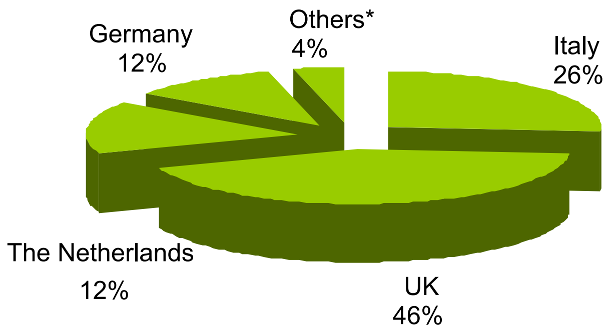
Income Statement (*EUR - 000*)	**31 December 2005 Fourth Quarter**	**31 December 2004 Fourth Quarter**	**Var.%**	**31 December 2005 12 months**	**31 December 2004 12 months**	**Var.%**
Revenues	**199,982**	**175,752**	**14%**	**739,288**	**655,133**	**13%**
Other operating income	421	4,846		5,266	9,009	
Purchase of material and external services	135,238	113,074	20%	503,207	446,437	13%
Personnel Costs	23,325	22,899	2%	105,954	106,305	-
Other Operating expenses	8,981	12,682	(29%)	18,466	33,945	(46%)
Gross Operating Result	**32,859**	**31,943**	**3%**	**116,927**	**77,455**	**51%**
Restructuring costs, other provisions and write downs	13,861	38,398	(64%)	50,806	69,053	(26%)
Amortisations	33,504	39,345	(15%)	134,848	129,217	4%
Operating Result	**(14,506)**	**(45,800)**	**68%**	**(68,727)**	**(120,815)**	**43%**
Share of the profit or losses of associates accounted for using the equity method	-	869		(726)	640	
Net financial income (expenses)	(5,760)	(7,940)	(27%)	(27,847)	(37,175)	(25%)
Income (loss) before taxes	**(20,266)**	**(52,871)**	**62%**	**(97,300)**	**(157,350)**	**38%**
Taxation	49	110,747		(45,119)	110,614	
Income (loss) from continued operations	**(20,315)**	**57,876**		**(142,419)**	**(46,736)**	
Income (loss) from discontinued operations	(15,178)	(43,467)		105,428	(87,449)	
Net Income (loss)	**(35,493)**	**14,409**		**(36,991)**	**(134,185)**	

Tiscali Group's revenues in 4Q05 stood at EUR 200 million, up 14% compared to 4Q04 (EUR 175.8 million), and up 8% compared to 3Q05 (around EUR 185.7 million), period during which was disposed the wholesale customer base to KPN in The Netherlands that generated net revenues for about EUR 7 million.

Such improvement was mainly driven by ADSL revenues growth in particular due to the growth in ADSL services. Confirming the trend of previous quarters, the significant increase of users in the UK remains the main driver of the Group revenue growth.

Geographical breakdown of revenues

The graph refers to the 4Q05 results



** Includes the revenues from the Czech subsidiary and Tinet IP.*

In 2005, revenues in **Italy** stood at EUR 196.4 million, essentially due to Tiscali Italia S.r.l.. The growth compared to full year 2004 (EUR 180.8 million) is 9%. Broadband revenues in the year, registered a positive performance (+29%), driven by the growth in active users (+77%), compared to a market growth (active lines) of around 55%. New users in the quarter were around 45,000, taking ADSL users at 31 December 2005 to around 303,000, and revenues in 4Q05 at EUR 53.3 million (EUR 40.2 million in 4Q04). Unbundled customers as of 31.12.2005 reached 107,000. ADSL product, with a bandwidth of 2 Mb/s and including VoIP at EUR 19.95 per month, launched during 4Q05, was the main driver of the growth. Moreover, in 4Q05 the product with a bandwidth of 24Mb/s was launched, thanks to the implementation of the unbundling network (ULL) developed with ADSL2+ technology.

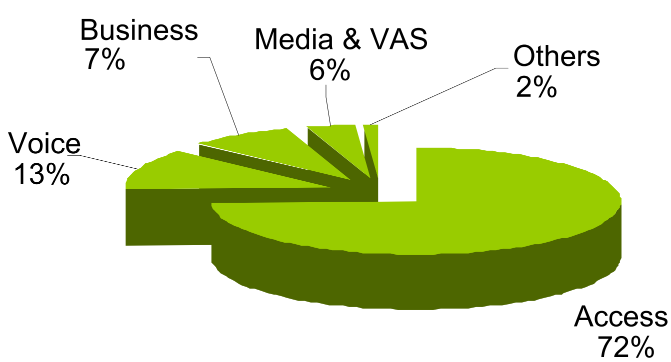
The **UK** subsidiary (Tiscali UK) closed year end 2005 with revenues at EUR 324.9 million, up 28% compared to 2004 (EUR 254.5 million). Broadband revenues registered a strong performance (+89%), driven by a growth of active lines of 141%, while the market grew 52%.
Also in 4Q05 the subsidiary continued to perform an extraordinary growth of ADSL users, that reached 934.4 thousands lines at year end. 4Q05 users performance (+22%), generated EUR 93.7 million revenues (EUR 70.2 million in 4Q04) thanks to a successful product offering (great price per bandwidth ratio) and to marketing investments oriented and extremely focused on the ADSL product. The launch of the 1 and 2 Mb products as well as the bundled services (voice and data) are the drivers of revenue growth. The customer retention percentage whether ADSL or dial-up, in the context described is greater than the average.

As of 31 December 2005, the **Dutch** subsidiary (Tiscali BV) generated revenues for EUR 109.9 million, up 18% compared to previous year (EUR 93.1 million). ADSL users, totally *unbundled*, were 249 thousands, up over 20 thousands compared to 3Q05. Revenues in 4Q05 stood at EUR 24.7 million, while broadband market share stood at 7%. Dutch broadband market is one of the most mature in Europe with a growth of around 23% YoY (YE04 vs YE05). In such market environment it is notable and the 51% growth of ADSL users and the 59% growth in ADSL revenues. ARPU (Average revenues per user) is one of the highest in Europe.

As of 31 December 2005, Tiscali **Germany's** revenues (Tiscali Deutschland e *Tiscali Business)* stood at EUR 87.9 million, slowing down (-7%) compared to EUR 94.8 million registered in 2004. In 4Q05 revenues were EUR 23.5 million (EUR 24.2 million in 4Q04). As of 31 December 2005 ADSL users stood at 215 thousands units. Reasons for the slow down are attributable to the situation in the German market for ADSL, with a predominant wholesale offer which has brought the Company to reduce marketing expenses. In 4Q05 we started the first selective investments in unbundling, which could bring, through a local and selective approach, to an improvement in the activities in Germany.

Breakdown of revenues by business line

The graph refers to the 4Q05 results



ACCESS

In 4Q05, access revenues represent 72% of the Group's revenues and are the main driver of Tiscali's growth. Such revenues stood at EUR 144.7 million, up 11% vs 4Q04 (EUR 130.9 million) and substantially stable (+4%) vs 3Q05 (EUR 139.3 million).

Within this segment is predominant the weight of the ADSL segment which represents 64% of the access revenues in the quarter. ADSL revenues in 4Q05 stood at EUR 93.1 million, up 44% compared to 4Q04 (EUR 64.4 million) and +3% compared to 3Q05 (EUR 90.6 million) which included non recurring revenues for about EUR 7 million deriving from the sale of the wholesale customer base in the Netherlands to KPN. Full year ADSL revenues were EUR 330.1 million, up 54% on full year 2004 (EUR 214.7 million, 45% on access revenues).

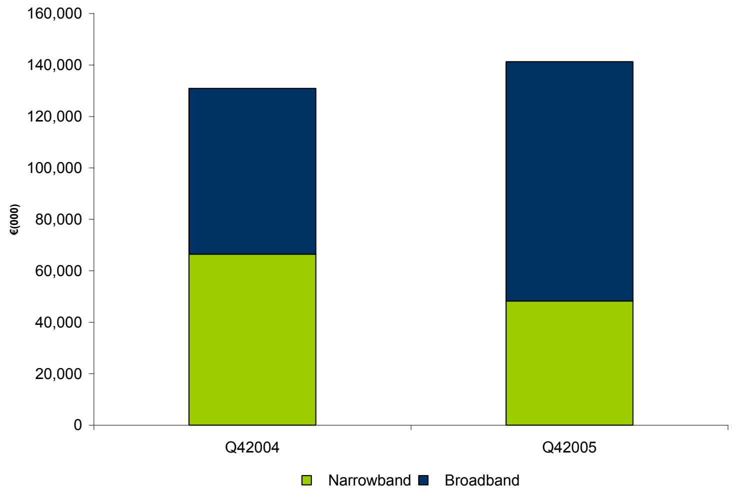
4Q05 ADSL new users were over 235,000, taking total ADSL active users as of 31 December 2005 to over 1.7 million (+66% compared to 31 December 2004) of which 362,000 users were *unbundled*. This user trend was mainly driven by the user growth in UK and Italy, growth that was possible thanks to the Tiscali's competitive positioning.

Tiscali offer differs from its competitors in each market thanks to very innovative products caracterised by an eccellent price / quality ratio. On a country level, in Italy a product data and voice (VoIP), 4Mbs for EUR 19.95 per month was launched. Moreover it enables the user to cancel its Telecom Italia subscription. In the UK, Tiscali is the first mover in the introduction of products with a high bandwith and value added services. In the Netherlands, the advance stage of the unbundling network roll out enables Tiscali to start its Triple Play trial phase, which should be available soon. In Germany, maket dominated by the incumbent, although competitive, it was registered an important reduction of the ARPU due to the introduction by the competition of a product with low bandwith. Tiscali has adeguated its offer in order not to deteriorate its market share, with a consequent reduction in revenues.

Dial-up revenues decreased from EUR 66.5 million in 4Q04 to EUR 51.6 million (22%), but showed an increase (+6%) on 3Q05 (EUR 48.7 million). Such slow down reflects the migration from dial-up towards ADSL technology. In detail, dial up revenues registered a reduction in the contribution on access revenues, decreasing from 51% in 4Q04 to around 36% in 4Q05. In 4Q05, active dial-up customers were 3 million, down 24% compared to 31.12.2004.

In FY2005, dial-up revenues stood at EUR 216.4 million, a slow down (17%) compared to EUR 261.6 million in FY 2004

Access revenues breakdown



VOICE

Voice revenues in 4Q2005 stood at EUR 25.8 million (13% on total revenues), compared to EUR 26.6 million registered in 4Q04 and EUR 21.6 million in 3Q05. The slight slow down of revenues, (3%) compared to 4Q04 was offset by the increase of revenues (19%) registered vs 3Q05. The trend of the line of business will be affected by the Group's strategy, more focused on 'bundled' and residential services instead of wholesale products.

Full year voice revenues were EUR 91.4 million, down 5% compared to FY2004 (EUR 96.2 million). It is important to underline, that the slow down of analogical voice revenues, is partially offset by the increasing adoption of VoIP services, generating in 2005 EUR 3.5 million of revenues (included in access revenues).

BUSINESS SERVICES

In 4Q05, **business services** revenues stood at EUR 14.0 million (7% on total revenues) up 27% compared to EUR 11.0 million (6% on revenues) in 4Q04 and decreasing by 17% compared to EUR 16.8 million 3Q05. The improvement of revenues compared to FY 2004 is totally due to organic growth, sustained by the commercial refocus. We highlight that business service revenues include only services such as VPNs, housing, hosting, domain names and leased lines while Internet access revenues (both dial-up and ADSL) generated by business users have been reclassified in access revenues.

In FY2005, business to business revenues stood at EUR 59.4 million, up 21% compared to FY2004 (EUR 49.1 million).

MEDIA AND VALUE ADDED SERVICES

In 4Q05 **media and value added services** reached EUR 12.8 million (6% on revenues), compared to EUR 6.8 million (+87%) in 4Q04. Compared to 3Q05 (EUR 6.4 million), they were almost doubled.

The growth is attributable to different factors, first of all to the dynamic of advertising revenues, which revenues increased in the last quarter also thanks to the positive seasonality of the fourth quarter.

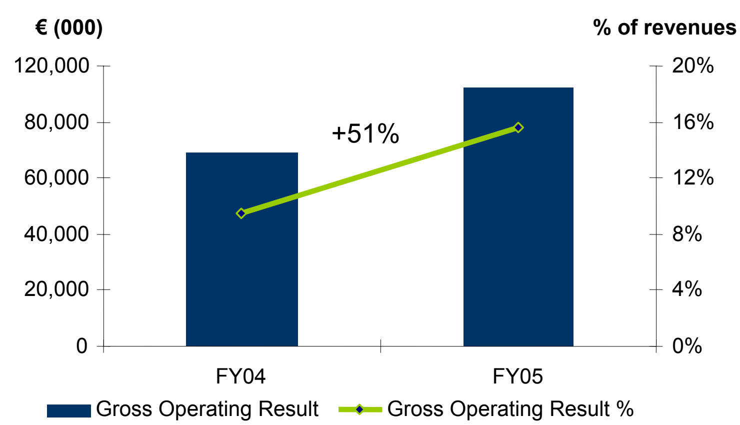
The Group's strategy foresees an increasing focus on value added services (VAS) and on content offer. For example, during 4Q04, Tiscali launched the games channel "Tiscali Giochi" and we enhanced the offer of music download on our Italian portal. Revenues trend was positively impacted by the increasing number of partnerships with distribution channels such as search engines (e.g. Google).

Media and value added services revenues in FY2005 were EUR 33.8 million (5% on total revenues), compared to EUR 28.8 million (+17%) in FY2004.

Gross Operating Result

In the 4Q05, **Gross Operating Profit**, before amortisation, depreciation, provision and write downs was EUR 32.9 million, up 3% vs 4Q04 (EUR 31.9 million) and vs 3Q05 (EUR 31.7 million), which included non recurring revenues for about EUR 7 million deriving from the sale of the wholesale customer base in the Netherlands.

In FY05, Gross Operating Result grew by 51%, reaching EUR 116.9 million (16% of revenues) vs EUR 77.5 million (12% of revenues) registered as of 31 December 2004, outperforming the target announced to the market.



Such results were due both to the positive trend of revenues and to the control of costs and efficiencies. The trend shown by variable costs linked to the increase of ADSL ULL customers, with as a consequence a better control of the service offering as well as a wider product and service range, determined the improvement also at Gross Margin level (Figure non reported in the Income Statement, as not included in the IFRS standards, but given as additional information) which in 4Q05 stood at around EUR 101 million, representing 51% of revenues. Such improvement was determined by the significant weight reached within the ADSL access segment by the ULL customers. In FY05, Gross Margin was EUR 389.8 million, 53% of revenues.

Marketing costs which included sale, distribution and retention costs in 4Q05 stood at EUR 29.5 million (15% of revenues), registering a significant vs 4Q04 (EUR 26.4 million) and to the 3Q5 (EUR 24.0 million). Investments were mainly dedicated to the promotion of ADSL products in UK and in Italy.

In FY05, marketing costs were EUR 118.5 million, increasing significantly (+42%) vs FY04 (EUR 83.7 million), which were reflected in the increase of DSL users.

Personnel costs amounted to EUR 23.3 million, stable in absolute terms vs to EUR 22.9 million in Q04, with an improvement as a percentage on revenues from 13% to 12%. This figure is significantly decreasing vs 3Q05 (EUR 28.4 million -18%) thanks to the capitalisation of certain personnel costs dedicated to the development of new products. Employees at the end of December were 1,897.

In FY05, personnel costs, at EUR 106.0 million were flat vs EUR 106.3 million of FY04, decreasing as a percentage of revenues from 16% to 14%.

Other operating costs in the 4Q05 amounted to EUR 8.9 million, decreasing (-29%) vs EUR 12.6 million in 4Q04, corresponding to a decrease in percentage on revenues from 7% to 4%. Such costs decreased by 19% vs 3Q05 (EUR 11.1 million, 6% of revenues)

Other operating costs on FY05 were EUR 40.8 million with a decrease by 12% vs FY04 when they amounted to EUR 46.5 million. This trend shows a decline of operating cost both as a percentage on revenues and also in absolute terms.

Operating result

The operating result in 4Q05 stood at a loss of EUR 14.5 million, in significant improvement (+68%) vs the loss of EUR 45.8 million in 4Q04. Such performance was achieved thanks to the significant increase in gross operational profitability analyzed in the previous paragraphs. FY05 operating loss stood at EUR 68.7 million, significantly reduced from the loss of EUR 120.8 million of the previous year. This is the evidence that Tiscali is getting closer to the operational break-even, despite the significant investments.

In 4Q05, amortisation of tangible and intangible assets stood ad EUR 33.5 million vs EUR 39.3 million posted 4Q04. In FY05 amortisation of tangible and intangible assets was EUR 134.8 million vs EUR 129.2 million in FY04. The increase was due to the significant investments during 2005 to develop the unbundling network and the offer of ADSL services (modem and activation costs).

Provisions for risks and write-downs (together with certain restructuring costs) in 4Q05 amounted to EUR 13.9 million vs EUR 38.4 million in 4Q04. The 4Q05 figure relates mainly to provisions attributable to bad debts as well as some provisions for risks and write downs.

In FY05, provisions for risks and write-downs (together with certain restructuring costs) amounted to EUR 50.8 million, lower than EUR 69.1 million in FY04. This decrease shows that the Group is successfully rationalising it client portofolio and its risk management on litigations.

<u>Full year operating result by country</u>

The operating result by country allows analyzing the Group's performance for the full year in the different geographical areas. The figures below point out the significant improvement of the main subsidiaries at the gross operating level as well as on the net operating result which is the consequence of growth, of the improvement in profitability and of the control of indirect costs.

The **Italian subsidiary** closed FY05 with a gross operating result before amortization and depreciation of EUR 26.0 million (13% of revenues), a sharp improvement vs FY04 (EUR 15.1 million, 8% of revenues). The operating result shows a substantial coherence with the figure even if negative of EUR 16.6 million, improved vs the negative result of EUR 30.7 million registered in 2004.

The Gross operating result before amortization and depreciation of **Tiscali UK** in FY05 was positive for EUR 68.8 million and represented 21% of revenues (EUR 47.7 million in 2004). The operating result, net of amortization and depreciation is positive for EUR 7.6 million (negative for EUR 4.6 million in 2004). The subsidiary performed well even if it had to face significant investments in marketing and higher amortization to sustain the increase of users and revenues during the period.

In FY05, **Tiscali Netherlands** registered a Gross operating result before amortization and depreciation of EUR 38.0 million (35% of revenues) and an operating result for EUR 4.5 million vs a gross operating result of EUR 20.5 million and an Operating result negative for EUR 10.2 million in 2004.

The slow down of revenues in **Germany** attributable to the cancellation of products with negative marginality, mainly in the Business segment, as well as the continuing reduction of operational costs enabled the gross operating result before amortization and depreciation and the operating result to improve. In fact, as of December 31st, the Gross Operating Result was positive for EUR 7.3 million (8% of revenues). Such result was negative for EUR 5.2 million in FY04. The Operating Result influenced by extraordinary items remains negative for EUR 25.1 million vs EUR 19.5 million in 2004.

Result before tax

Result before tax and after interest from continuing operations in 4Q05 was negative for EUR 20.3 million (+62% YoY) vs the EUR 52.9 million loss registered in 4Q2004.

The result before tax and after interest from continuing operations for the full year was negative for EUR 97.3 million but, as the operating result, showed significant improvement vs the negative result of EUR 157.4 million of FY04.

If we added the income deriving from discountinuing operations EUR 105.4 million (which is tax free) and which is mainly related to the EUR 144 million capital gain of Liberty Surf Group, net of the result from the operating subsidiaries and of one-off disposal costs, the total result before tax of the Tiscali Group for FY05 would be positive for EUR 8.1 million.

Net result

We point out that as of today in this quarterly report, no tax losses carried forward have been accounted for: such items are directly related to the business plan currently under revision and have been deferred to FY05 annual consolidated accounts.

SEGMENT INFORMATION (BY COUNTRY)

The activities of the Tiscali Group and the relevant strategies, as well as activities of subsidiaries, are articulated and defined by geographical segment, this being therefore the primary reporting segment for the purposes on segment information, as required by IAS 14. Geographical segments are represented in particular by the four main countries where the Tiscali Group operates (Italy, Germany, The Netherlands and the United Kingdom).

Lines of business (Access, Voice, Business, Media&VAS) represent the secondary segment of reporting.
This note reports the main results of these business segments analised in the previous section.

Income Statement

31 December 2005 *EUR Thousands*	**Italy**	**United Kingdom**	**Netherlands**	**Germany**	**Other**	**Segment results**	**Not allocated**	**Operating Assets**
Revenues and other income								
From third parties	190,562	319,434	109,854	86,243	27,480	733,573	10,981	744,554
Inter-segment	5,841	5,462	-	1,644	7,727	20,674	(20,674)	
Total revenues	**196.403**	**324,896**	**109,854**	**87,887**	**35,207**	**754,247**	**(9,693)**	**744,554**
						-	-	-
Gross Operating Result	**26,035**	**68,797**	**38,010**	**7,327**	**5,286**	**145,455**	**(30,185)**	**116,927**
Operating Result	**(16,647)**	**7,641**	**4,454**	**(25,095)**	**(5,781)**	**(35,428)**	**(34,956)**	**(68,727)**

Other income, totalling EUR 4.8 million is essentially related to 'corporate' activities.

31 December 2004 *EUR Thousands*	**Italy**	**United Kingdom**	**Netherlands**	**Germany**	**Other**	**Segment results**	**Not allocated**	**Operating Assets**
Revenues and other income								
From third parties	177,126	253,007	93,069	92,660	29,600	645,462	18,680	664,142
Inter-segment	3,663	1,524	-	2,151	11,393	18,731	(18,731)	
Total revenues	**180,789**	**254,531**	**93,069**	**94,811**	**40,993**	**664,193**	(51)	**664,142**
						-		-
Gross Operating Result	**15,099**	**47,674**	**20,517**	**(5,163)**	**9,456**	**87,583**	(10,129)	**77,454**
	8%	19%	22%	-5%	23%		-	
Operating Result	**(30,679)**	**(4,553)**	**(10,207)**	**(19,462)**	**(586)**	**(65,487)**	**(55,329)**	**(120,816)**

FINANCIAL POSITION

Consolidated Balance Sheet

Consolidated Balance Sheet	31 December 2005	30 September 2005	31 December 2004
Non-current assets			
Goodwill	313,462	313,462	313,462
Other intangible assets	149,086	126,504	126,351
Property, plant and equipment	168,064	153,523	177,307
Investments	2,682	2,682	2,642
Other financial assets	28,947	44,616	25,374
Deferred tax assets	114,128	114,443	157,301
	776,369	**755,230**	**802,437**
Current assets			
Inventories	4,335	3,929	2,000
Trade receivables	126,715	109,026	102,464
Other receivables and other current assets	49,027	63,058	77,729
Other current financial assets	10,488	9,055	4,913
Cash and cash equivalents	29,930	38,847	83,120
	220,495	**223,915**	**270,226**
Assets classified as held for sale	27,063	76,801	395,597
Total Assets	**1,023,927**	**1,055,946**	**1,468,260**
Share capital and reserves			
Share capital	198,369	198,369	196,619
Share premium reserve	953,717	953,717	1,440,874
Translation reserve	3,892	4,438	(1,763)
Retained earnings	(859,704)	(836,240)	(1,321,883)
Shareholders' Equity (Group)	**296,274**	**320,284**	**313,847**
Minority interest	2,691	2,665	3,948
Total Net equity	**298,965**	**322,949**	**317,795**
Non-current liabilities			
Bonds	-	-	209,500
Payables to banks and other lenders	117,739	119,954	68,113
Obligations under finance leases (m/l term)	13,118	15,033	18,591
Other non current liabilities	28,117	40,318	27,369
Liabilities for pension provisions and staff severance indemnities	6,289	6,389	5,875
Provisions for risks and charges	15,166	8,756	10,677
	180,429	**190,450**	**340,125**
Current liabilities		-	
Bonds	211,040	208,579	250,387
Payable to banks and to other lenders	18,081	17,977	25,324
Obligations under finance leases	16,325	17,019	19,220
Payable to suppliers	160,318	132,516	182,720
Other current liabilities	126,827	116,133	121,506
	532,591	**492,224**	**599,157**
Liabilities directly associated with assets classified as held for sale	11,942	50,323	211,183
Total Equity and liabilities	**1,023,927**	**1,055,946**	**1,468,260**

Consolidated statement of changes in shareholders' equity

(all amounts in EUR thousands)	Share Capital	Share premium reserve	Translation reserve adjustment	Retained earnings	Shareholders' equity (Group)	Minority interest	Total
Balance at 1 January 2005	**196,619**	**1,436,719**	**(1,763)**	**(1,321,773)**	**309,802**	**3,948**	**313,750**
Capital increases	1,750	6,776	-	-	**8,526**	-	**8,526**
Transfers covering losses	-	(489,778)	-	489,778	**-**	-	**-**
Conversion differences and other changes	-	-	5,655	1,706	**7,361**	-	**7,361**
Effects due to changes in consolidation following disposals	-	-	-	10,562	**10,562**	(1,521)	**9,041**
Loss due to minority interest attributed to the Group	-	-	-	(2,722)	**(2,722)**	-	**(2,722)**
Profit (loss) reported in shareholders equity	**1,750**	**(483,002)**	**5,655**	**499,324**	**23,727**	**(1,521)**	**22,206**
Net profit (loss) for the period	-	-	-	(37,255)	**(37,255)**	264	**(36,991)**
Total profit (loss) occurred in the period	**1,750**	**(483,002)**	**5,655**	**462,069**	**(13,528)**	**(1,257)**	**(14,785)**
Balance at 31 December 2005	**198,369**	**953,717**	**3,892**	**(859,704)**	**296,274**	**2,691**	**298,965**

ASSETS

Non current assets

Non current assets are mainly represented by goodwill, which value amounts to EUR 313.5 million unchanged on 30 September 2005 and on 31 December 2004. Such vaule is subject to a further impairment test in the preparation of the annual accounts in order to confirm conditions that did not arise to indicate a write down. This test will be done on the basis of the new business plan.

Non current assets include investments in tangible assets (Buildings, plant and equipment) and other intangible assets, amounting, respectively, EUR 168.1 million and EUR149.1 million.

Investments

The expansion of the ULL networks and the other investments for the installation and activation of new ADSL customers, in 4Q2005 generated investments for EUR 66 million, of which EUR 32.4 million related to investments in intangible assets and around EUR 33.7 million in tangible assets (investments in network equipment). In 4Q2005, investments to implement and expand the unbundling infrastructure (ULL network) stood at EUR 21.9 million. Such investments allowed to reach and activate 25 Colocations in the United Kingdom (concentrated in London area), around 365 Colocations in Italy and over 220 Colocations in the Netherlands. In fourth quarter started selective investments for the development of the ULL network in Frankfurt area, this should determine the recover of German activities.

In non current assets are also included deffered tax assets (EUR 114.4 million), originated from losses carried forward of UK and Dutch subsidiaries.

Current Assets

As of 31 December 2005 customer receivables totalled EUR 126.7 million, representing the most significant item of current assets. Among other receivables and other current assets are in particular included accrued income chiefly related to revenues from services in the access segment and deferred charges from costs for services as well as other receivables of which VAT credits.

LIABILITIES

Non current Liabilities

Togheter with the items of the financial position, detailed in the next paragraph, such liabilities include in particular, in the line Other non current liabilities, medium and long term debts towards suppliers for the acquisiton of IRU (Indefeseable Right of Use).

Current Liabilities

Current liabilities non related to financial position, mainly include debts towards suppliers, as well as, the line item Other current liabilities, to defferred charges related to the acquisition of access services and line rental.

FINANCIAL POSITION

As of 31 December 2005, the Tiscali Group's cash resources totalled EUR 30 million, while net debt stood at EUR 284 million (EUR 269 million as at 30 September 2005).

The Group's financial position is shown in the table below.

(EUR million)	*Notes*	*31 December 2005*	*30 September 2005*
Cash		**30**	**39**
Other financial assets	**(a)**	**35**	**43**
Bonds convertible in 2006	**(b)**	211	209
Total bonds		**211**	**209**
Long-term loans		89	92
Other short-term financial liabilities		20	18
Total payables to banks		**109**	**110**
Leasing		**29**	**32**
Gross debt	***(c)***	***349***	***350***
Net debt		***284***	***269***
Cash		**30**	**39**

(a) The figure includes exclusively escrows and tax credits (VAT)
(b) The figure as of 31 December 2005 includes interest accrued at end June 2005 and includes valuation of debt according to IAS/IFRS
(c) Excludes shareholders loans (EUR 28.2 ml as of 31 December 2005)

Operating cash flow in 4Q05, excluding sales of non-strategic assets, and including financial charges, was negative for EUR 16 million, improving vs the previous quarters (EUR - 46 million in 1Q05, EUR - 20 million 2Q05 and EUR - 23 million in 3Q05. 4Q05 cash flow included financial charges (mainly relating to the SilverPoint financing) for EUR 4 ml and cash investments for about EUR 44 million mainly for the development of the "*unbundling*" network. FY05 cash flow is negative for EUR 105 million.

CONSOLIDATED CASH FLOW STATEMENT	31 December 2005	31 December 2004
CASH GENERATED BY OPERATING ACTIVITIES	**15,094**	**(81,383)**
NET CASH USED IN INVESTING ACTIVITIES	**(148,341)**	**219,052**
INVESTING ACTIVITIES		
NET CASH ARISING FROM /(USED IN) FINANCING ACTIVITIES	**(229,450)**	**(16,481)**
Result on activities disposed of and held for sale	134,559	(55,435)
Change of activities disposed of and held for sale net of cash	325,360	(350,304)
Change of liabilities related to activities held for sale	(199,241)	211,183
INCREASE / (DECREASE) OF CASH AND CASH EQUIVALENTS	**(102,019)**	**(73,368)**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE FINANCIAL YEAR		
Cash and cash equivalents of operating activities at the beginning of the financial year	83,120	203,544
Cash and cash equivalents of activities disposed of and held for sale at the beginning of the financial year	45,293	-
CASH AND CASH EQUIVALENTS AT THE BEGINING OF THE FINANCIAL YEAR	**128,413**	**203,544**
Effect of changes on foreign currency exchange rates	5,655	(1,763)
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR		
Cash and cash equivalents of operating activities at the end of the financial year	29,930	83,120
Cash and cash equivalents of activities disposed of and held for sale at the end of the financial year	2,119	45,293
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR	**32,049**	**128,413**

We point out that cash flow generated by “Operating Activities” showed in the above Cash Flow Statement, includes also some non ricurrent items, as still part of Operating Result (according toIFRS statements) they can not be considered, strictly managerial, regarding the Operating performance of the Group. Those items were not taken into acccount in the paragraph of the net financial position previously analysed.

SIGNIFICANT EVENTS IN FOURTH QUARTER 2005

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

Delisting from Euronext Parigi
The 23 December, the process of voluntary delisting of Tiscali S.p.A shares from Eurolist of Euronext Paris, was motivated by the low trading volumes of Tiscali in the French market, which accounted for less than 1% of total.

Luca Scano, Managing Director of Tiscali BV
The 23 December 2005, Luca Scano was appointed Managing Director of Tiscali BV, the Dutch subsidiary of the Group, replacing Patricia Spuijbroek.

Disposal of international fibre optic network to Telecom Italia
On 1 November Tiscali finalized the disposal to Telecom Italia Sparkle of Tiscali's fiber optic network, Tiscali International Network SAS (TINet SAS), for a total consideration of EUR 8 million.

Disposal of certain activities in Spain
In December 2005 Tiscali signed ana greementto sell part of its activities in Spain. In particular it has sold to Deutsche Telekom and to France Telecom its consumer ADSL customer base for a total consideration of approximately EUR 3 million.

EVENTS TAKING PLACE AFTER THE END OF THE QUARTER

No significant evants took place after the closing of the quarter.

OUTLOOK AND PROSPECTS

In 2006, Tiscali will continue its activities focusing on the growth of ADSL customer base and on the development of its own *unbundling* network. This will guarantee an improved profitability and the complete management and control of services and content offer. Thanks, to the change into a more effective regulatory environment and a more economical situation during 2005 we started investing in *unbundling* (ULL) network in the United Kingdom and in Germany.

As part of the new business plan (currently under revision) Tiscali will focus on developing further its voice services, and in particular those on IP protocol (Voip). Those are strictly related to the development of the *unbundling* infrastructure to offer to its customer base, 'bundle' services or however the widest range of services. During 2006 we plan to launch, following a trial phase of Triple Play services, data, voice and video over internet protocol enabling Iptv services.
The significant investments carried out during 2005, in infrastructure for the extension of the unbundling network, the set up costs and as well as marketing expenses, result, consistently with the business plan forecasts, in negative cash flows during 2005.

The implementation of the disposal plan of "non core" assets, initiated in 2004, enabled the Group to collect financial resources for about EUR 400 million. This amount was used to pay back the EUR 250 million bonds matured in July 2005 and to push investments in those markets with high potential for value creation.

The intention, already anticipated in the 2004 Annual Report, to collect financial resources on the market, was fulfilled in August 2005 through the closing of the EUR 150 million financing, structured and provided by Silver Point Finance LLC. Such transaction allows Tiscali, from one hand to fully finance the business plan and, in the other hand to rely on financial resources to reimburse a significant part of the EUR 209.5 million Equity Linked Bond, with maturity date on September 2006. The remaining part of the Equity Linked Bond will be covered by the most opportune modality at the reimbursement date, considering the financial situation of the Group, not excluding the conversion option.

Taking into account sector perspectives, in which Tiscali Group operates, together with its competitive position, considering the achievement of operating performances as result of the disposal plan and refocus of the Company in "core countries", we find the strategy fully coherent with the operating and financial break-even goal.

TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

1. Preface

Tiscali Group adopted IFRS principles starting from 2005 financial year, according to regulation n.1606/2002 coming into effect, the Tiscali Group has adopted the new International Financial Reporting 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 the documents of the International Financial Reporting Committee ('IFRIC'), previously known as Standing Interpretation Committee ('SIC') that are considered applicable to the Tiscali Group's operations starting from the current financial year.

The date of transition to the IFRS is set at 1 January 2004, while the adoption date is 1 January 2005. This section shows the reconciliation tables provided by the IFRS 1 principle ('First time adoption of International Financial Reporting Standards), together with the relevant explanatory notes concerning the effects arising from the adoption of the principles.

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

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

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

Please note that the principles adopted in the preparation of this half-year consolidated report may not entirely comply with the IFRS provisions in force at 31 December 2005 both due to future stance of the European Commission on the approval of the international accounting principles and to the issue of new standards or interpretations by the appropriate authorities.

2. Presentation, optional exemptions and accounting options adopted

The adjustment of the consolidated financial position at transition date (1 January 2004) and of the financial and economic statements at 30 June 2004 and at 31 December 2004 has required some preliminary decisions concerning the presentation format, the optional exemptions and the accounting options provided by IFRS and summarised below:

2.1 Presentation format

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

2.2 Optional exemptions and accounting options provided by IFRS 1

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

Business combinations and Goodwill

The Group did not deem appropriate to make use of the option involving the ‘reconsideration’ of acquisition operations performed before 1 January 2004, through the application of the acquisition method provided by IFRS 3 – *Business combination.* Consequently the goodwill arising from company acquisitions preceding such date has been recorded as in the last balance sheet prepared on the basis or the preceding accounting principles (1 January 2004, date of transition to IFRS). Starting from 1 January 2004 (date of transition to the new principles) the Group has ceased to amortise goodwill using instead the impairment test.

Recognition of Other intangible assets and *property, plant and machinery*

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

Financial instruments

Tiscali has made use of the option provided by IFRS 1 to adopt the measurement principles for financial instruments established by IAS 32 (Financial instruments: disclosure and presentation) and IAS 39 (Financial instruments: recognition and measurement) starting from the consolidated balance sheet at 1 January 2005, avoiding the preparation of comparative statements for 2004, which data have been prepared in compliance with Italian accounting principles.

Translation reserve

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

Liabilities for pension obligations and staff severance

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

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

This note describes the effects arising from the adoption of IFRS on the balance sheet and financial statements as of 31 December 2004. These effects, as provided by IFRS 1, are presented and explained with the relevant reconciliation as compared to the corresponding published values and still determined incompliance with the Italian accounting principles.

We highlight, considering the nature of the changes and of the taxation of Tiscali Group, did not arise significant effects from the adoption of IAS/IFRS.

The table below summarises the effects on the consolidated shareholders' equity as of 30 September 2004:

EUR thousands	**Shareholders' equity**	**Net Result**
According to the Italian accounting principles	**315,772**	**(161,372)**
IAS 38 Intangible assets	(5,781)	6,773
IAS 38 ADSL activation costs	(65,313)	(47,972)
IAS 38 Consolidation differences	51,259	51,259
IAS 16 Buildings, plants and equipments	2	2
IAS 37 Provisions, contingent liabilities and contingent assets	614	293
IAS 19 Employee benefits	643	(14)
IAS 18 Revenues	20,599	16,825
Minority interests	-	20
IAS/IFRS	**317,795**	**(134,185)**

The adjustments of the single issues of the income statement at the same date are summarised in the table below

CONSOLIDATED INCOME STATEMENT at 30 June 2004 *EUR thousands*	**Complying with the Italian accounting principles**	**Effects of conversion to IFRS**	**Result of assets disposed of and/or held for sale**	**IFRS**
Revenues	1,080,561	16,825	(442,254)	655,133
Other income	51,046	(2,877)	(39,161)	9,009
Purchase of materials and outsource services	807,380	(24,086)	(336,858)	446,437
Personnel costs	156,641	20,809	(71,145)	106,305
Other operating costs	133,560	(24,902)	(74,713)	33,945
Gross operating result	**34,026**	**42,127**	**1,301**	**77,455**
Restructuring costs, provisions for risks and write-down	60,961	21,753	(13,662)	69,053
Depreciation and amortisation	205,135	(6,793)	(69,126)	129,217
Operating result	**(232,070)**	**27,167**	**84,088**	**(120,815)**
Share of profit or losses of associates with equity method	640	-	-	640
Net financial income (charges)	(37,662)	-	487	(37,175)
Profit (Loss) before tax	**(269,092)**	**27,167**	**84,575**	**(157,350)**
Taxation	(107,720)	-	(2,894)	(110,614)
Profit (Loss) from continuing operations	**(161,372)**	**27,167**	**87,469**	**(46,736)**
Profit (Loss) from discontinued operations	-	-	(87,449)	(87,449)
Net profit (Loss)	**(161,372)**	**27,167**	**20**	**(134,185)**
Attributable to:				
- Equity holders of the parents	**(159,466)**	**27,622**	**-**	**(131,844)**
- Minority interest	(1,906)	(455)	20	(2,341)

The transition effects are detailed in the table below for better understanding:

CONSOLIDATED INCOME STATEMENT at 30 June 2004 *EUR thousands*	**Effects of conversion to IFRS**	**Reclassification**	**Nota 1**	**Nota 2**	**Nota 3**	**Nota 4**	**Nota 5**	**Nota 6**	**Nota 7**	**Nota 8**	**Nota 9**	**Nota 10**	**Nota 11**
			IAS 38 Intangible assets	**IAS 38 ADSL activation costs**	**IAS 38 Goodwill**	**IAS 16 Property, plant and machinery**	**IAS 37 Provisions, contingent liabilities and contingent assets Accantonamenti passività e attività potenziali**	**IAS 19 Employee benefits**	**IAS 18 Revenue**	**IAS 32 Financial instruments Disclosure and recognition**	**IAS 39 Financial instruments: recognition and measurement**	**IFRS 1 First adoption of IAS principles**	**Other**
Revenue	**16,825**	-	-	-	-	-	-	-	16,825	-	-	-	-
Other income	**(2,877)**	-	-	-	(3,054)	-	177	-	-	-	-	-	-
Purchase of materials and outsource services	**(24,086)**	(20,774)	3,196	(6,508)	-	-	-	-	-	-	-	-	-
Personnel costs	**20,809**	20,774	78	-	-	-	-	(43)	-	-	-	-	-
Other operating costs	**(24,902)**	(21,813)	34	-	(3,123)	-	-	-	-	-	-	-	-
Gross operating result	**42,127**	**21,813**	**(3,308)**	**6,508**	**69**	**-**	**177**	**43**	**16,825**	**-**	**-**	**-**	**-**
Restructuring costs, provisions for risks and write-downs	21,753	21,813	-	-	-	-	(117)	57	-	-	-	-	-
Depreciation and amortisation	(6,793)	-	(10,081)	54,480	(51,190)	(2)	-	-	-	-	-	-	-
Operating result	**27,167**	**-**	**6,773**	**(47,972)**	**51,259**	**2**	**294**	**(14)**	**16,825**	**-**	**-**	**-**	**-**
Share of profit or losses of associates with equity method	**-**	-	-	-	-	-	-	-	-	-	-	-	-
Net financial income (charges)	**-**	-	-	-	-	-	-	-	-	-	-	-	-
Profit (Loss) before tax	**27,167**	**-**	**6,773**	**(47,972)**	**51,259**	**2**	**294**	**(14)**	**16,825**	**-**	**-**	**-**	**-**
Taxation	**-**	-	-	-	-	-	-	-	-	-	-	-	-
Profit (Loss) from continuing operations	**27,167**	**-**	**6,773**	**(47,972)**	**51,259**	**2**	**294**	**(14)**	**16,825**	**-**	**-**	**-**	**-**
Profit (Loss) from discontinued operations	**-**	-	-	-	-	-	-	-	-	-	-	-	-
Net profit (Loss)	**27,167**	**-**	**6,773**	**(47,972)**	**51,259**	**2**	**294**	**(14)**	**16,825**	**-**	**-**	**-**	**-**
Attributable to:													
- Equity holders of the parent	**27,622**	**-**	**6,773**	**(47,972)**	**51,259**	**2**	**294**	**(14)**	**16,825**	**-**	**-**	**-**	**455**
- Minority interest	**(455)**	-	-	-	-	-	-	-	-	-	-	-	(455)

Notes

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

1. IAS 38 / Intangible assets– Purchase of materials and outsource services
Adjustments reflect the effect on the accounts for the period following (a) cancellation of net carrying values of some types of multi-year costs (start-up and expansion costs, advertising costs) capitalised in compliance with the Italian accounting principles, while IFRS do not recognise capitalisation on these costs. Amortisation recorded in the first-half 2004, complying with Italian accounting principles, has therefore been cancelled; (b) reclassification of upgrades on third-party assets concerning property, plant and machinery.

2. IAS 38 / Intangible assets – Purchase of materials and outsource services
Activation costs for *broadband (ADSL)* services have been capitalised and amortised on a straight-line basis in relation to the minimum legal duration of customer contracts, currently equal to 12 months, while the 'bounty costs' are considered as expenses. The activation cost amortisation adjustment is recorded on profit and loss and the 'bounty cost' are also fully charged to profit and loss.

3. IAS 38 / Goodwill – Amortisation
Since 1 January 2004 goodwill is no longer amortised. The adjustment relates to the cancellation of amortisation for the period.

4. IAS 37 / Provisions, contingent liabilities and contingent assets– Provisions for risks
Provisions for contingent liabilities, i.e. the part of these involving expenditure expected to occur later than the end of the financial year, have been actualised with the consequent accounting effects.

5. IAS 19 / Employee benefits– Personnel costs
The liability related to staff severance (TFR) of the Italian companies of the Group has been restated according to the actuarial method. Adjustment

6. IAS 18 / Revenue recognition– Revenue
As for ADSL activation costs, for the purposes of IFRS also revenue from broadband service activation has been deferred over 12 months, as compared to the 36-month period estimated in relation to Italian accounting principles.

Reclassifications chiefly originate from the adoption of a profit and loss structure that considers the classified costs by nature, independently of the relevant destination.