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THIRD QUARTER REPORT AS OF 30 SEPTEMBER 2006
Third quarter 2006

Date of issue : 9 November 2006
This document is available in electronic format on the Internet: www.tiscali.com

TISCALI S.P.A.
Registered Office in Cagliari, Località Sa Illetta, SS195 Km 2,3
Share Capital € 212.206.580,98
Companies Register in Cagliari VAT n. 02375280928 R.E.A. - 191784

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DIRECTORS AND AUDITORS

- **Directors and Auditors**
- **Board of Directors**

Chairman

Vittorio Serafino

Chief Executive Officer

Tommaso Pompei

Chief Financial Officer

Massimo Cristofori

Directors

Francesco Bizzarri

Gabriele Racugno

Mario Rosso

- **Board of Statutory Auditors**

Chairman

Aldo Pavan

Statutory Auditors

Piero Maccioni

Massimo Giaconia

Deputy Auditors

Andrea Zini

Rita Casu

- **Independent Auditors**

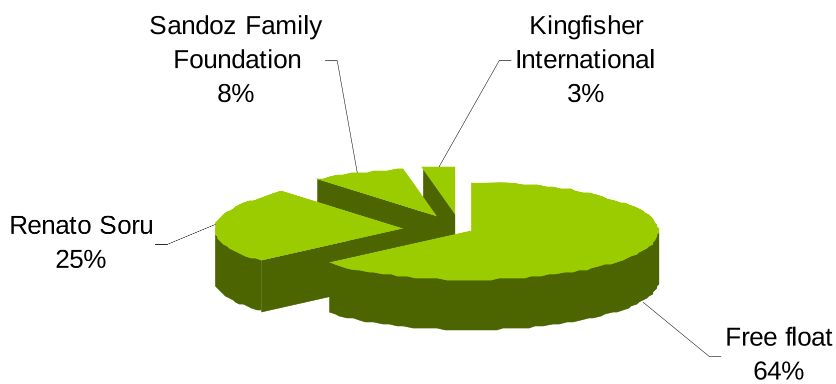
Deloitte & Touche S.p.A.

TISCALI SHARES

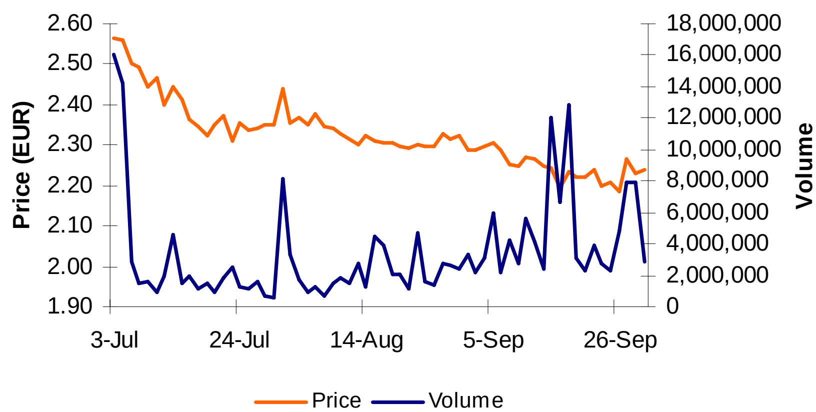
Tiscali shares are listed on the Blue Chip segment of the Italian Stock Exchange (TIS). As of 29 September 2006 the Company had a market capitalisation of approximately EUR 949.4 million.

As of 30 September 2006 the Group share capital corresponds to 424,413,463 shares, with an increase of 27,765,021 shares resulting from the capital increase associated to the Equity-Linked Bond 2003-2006, reserved for bondholders.

The chart below illustrates Tiscali's shareholder base as of 30 September 2006:



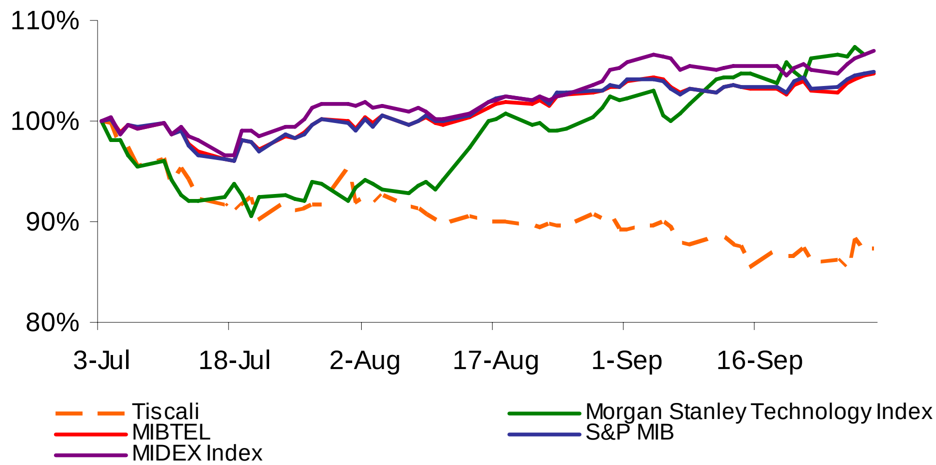
The graph below illustrates Tiscali stock trend during third quarter 2006 which was affected, among else, by the down-trend pressure following the announcement of the capital increase associated to the Equity-Linked bond, which in turn led to hedging operations by international funds.



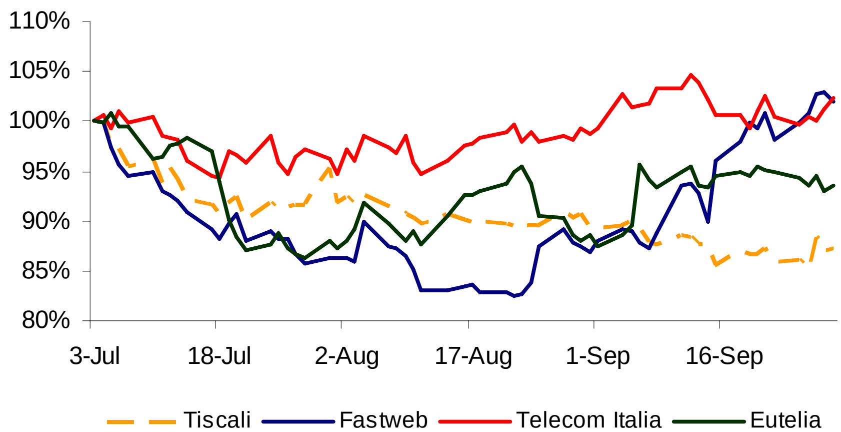
Source: Bloomberg

The average price in third quarter was EUR 2,324. The maximum price in the period, EUR 2,563, was reported on July 3rd, while the minimum price, EUR 2,185, occurred on 26 September 2006, date of completion of the capital increase reserved for holders of the Equity-linked bonds 2003-2006.

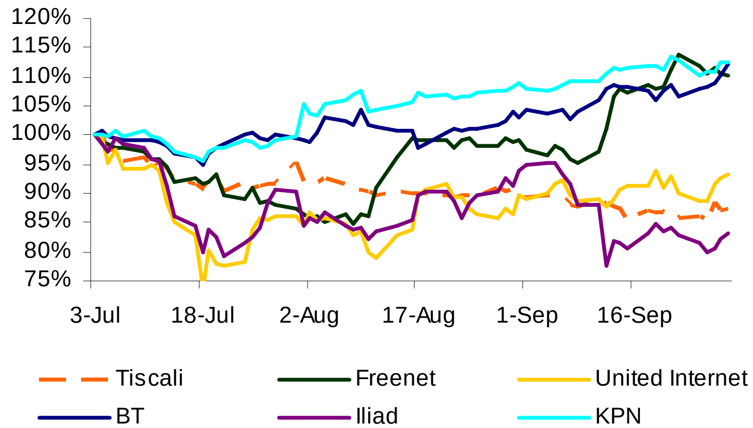
The graphs below illustrate the trend of Tiscali stock versus reference indexes and the main Italian and international competitors.



Source: Bloomberg



Source: Bloomberg



Source: Bloomberg

In the three months the trading volumes of the stock stood at a daily average of approximately 3.4 million shares for an average daily value of approximately EUR 7.9 million. In the third quarter of the 2006 financial year the value of trades was approximately EUR 511 millions.

Average daily trades of Tiscali shares on Italian Stock Exchange

	Price (EUR)	Number of shares
July	2,406	3,247,865
August	2,321	2,228,715
September	2,245	4,862,481
Average	**2,324**	**3,427,328**

KEY FIGURES

Income statement (EUR ml)				
Third quarter 2006	*Third Quarter 2005*		*As of 30 September 2006*	*As of 30 September 2005*
169	129	• Revenues	487	382
27	12	• Gross Operating Result	68	45
16	(14)	• Operating Result	(12)	(44)

Balance sheet (EUR ml)				
Third quarter 2006	*Third quarter 2005*		*As of 30 September 2006*	*As of 31 December 2005*
		• Total assets	1,249	1,043
		• Net Financial Debt	311	277
		• Shareholders' Equity	338	311
45	17	• Capex	125	123

Non financial figures (000)				
Third quarter 2006	*Third quarter 2005*		*As of 30 September 2006*	*As of 31 December 2005*
		Access users	3,467	3,372
160	162	ADSL (*broadband*) subscribers	1,744	1,236
204	20	Of which: ADSL unbundling subscribers	442	119

ANALYSIS OF THE GROUP ECONOMIC AND FINANCIAL POSITION

ECONOMIC PERFORMANCE

Third quarter 2006	Third quarter 2005	CONSOLIDATED INCOME STATEMENT *(EUR 000)*	30 September 2006 (9 months)	30 September 2005 (9 months)
168,915	**128,576**	**Revenues**	**487,010**	**382,014**
(802)	(60)	Other income	1,558	2,745
121,537	96,719	Purchase of materials and outsource services	360,941	279,045
18,732	18,573	Personnel costs	55,859	55,831
1,342	1,009	Other operating costs	3,908	4,637
26,502	**12,215**	**Gross operating result**	**67,860**	**45,246**
(41,352)	(3,932)	Restructuring costs, provisions for risks and write-downs	(52,599)	(20,292)
(33,525)	(22,532)	Depreciation and amortisation	(91,314)	(69,335)
64,352	-	Other income/Unusual income	64,352	-
15,977	**(14,249)**	**Operating result**	**(11,701)**	**(44,381)**
(131)	(30)	Share of profit or losses of associates with equity method	(355)	(726)
(12,936)	(2,538)	Net financial income (Charges)	(23,663)	(20,132)
2,910	**(16,817)**	**Profit (loss) before tax**	**(35,719)**	**(65,239)**
(114)	16	Income taxes	830	45,068
2,795	**(16,833)**	**Profit (loss) from continuing operations**	**(36,549)**	**(110,307)**
4,149	796	Net result from discontinued operations and/or assets held for sale	(30,646)	108,809
6,945	**(16,037)**	**Net profit (loss)**	**(67,196)**	**(1,498)**

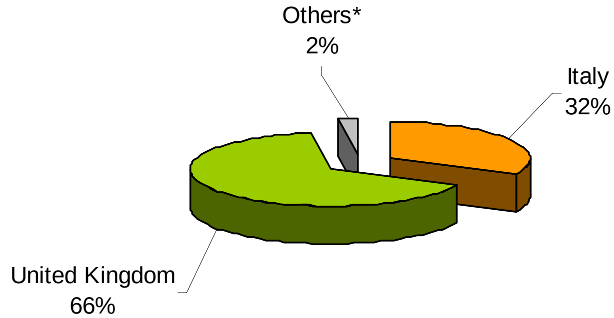
The income statement reported reflect changes in the consolidation perimeter, in particular concerning the classification of items in ‘Net result from discontinued operations and/or assets held for sale’ of the income statement components of subsidiaries operating in the Czech Republic, in Germany and in the Netherlands. The Tiscali Group’s third quarter 2006 revenues, pertaining therefore to operations in Italy, United Kingdom and to those of some minor participations (among which Tinet) stood at EUR 168.9 million, with a 31% increase as compared to the same period of 2005 (EUR 128.6 million).

This revenue increase in third quarter 2006, as compared to the preceding financial year, is mainly due to ADSL access services, bringing revenues in the first nine months of the financial year to EUR 487.0 million (+ 27% as compared to the EUR 382.0 of the first nine months of 2005).

REVENUES BY GEOGRAPHICAL AREA

The graph refers to the results of the first nine months of 2006.

Geographical breakdown of revenues



**Others includes revenues from Tinet subsidiary and other minor subsidiaries.*

<u>Italy</u>

In third quarter 2006 Tiscali Italia Srl, the Italian subsidiary controlling the strategic operations of the Tiscali Group in Italy, has achieved EUR 52.6 million revenues, as compared to EUR 42.6 in the same period of 2005, with a 23.5% increase. In an overall growth context revenues related to Internet broadband access services (ADSL) amounted to EUR 18.1 million, versus EUR 11.4 million in third quarter 2005 (+ 59%). Of these, approximately 50% were generated by 'direct' customers,that is users connected to the Tiscali network infrastructure (ULL). 'Voice' revenues were boosted by the VoIP services (over EUR 3 million of revenues in the period), and exceeded EUR 10.4 million (+ 59% as compared to EUR 6.5 million of the third quarter 2005).

In third quarter 2006 the Tiscali's customer base in Italy has been characterised by a net increase of 23,600 new ADSL customers, bringing the total users of this service to 407,000 (+ 35% as compared to the end of the preceding financial year), of which over 179,000 already activated and connected through the Tiscali network infrastructure (unbundling). Quite significant is the number of customers who subscribed in the quarter the service offer 'double play' (data and voice through the Internet), equal to over 11,000, thus bringing the total of VoIP customers in Italy to 61,000. The customer base using 'dial-up' access services (narrowband) is still significant (882,660), notwithstanding the physiologic slowdown of this market segment.

The Group's revenues in Italy in the first nine months of 2006 amounted to EUR 157.3 million, a 14% increase as compared to the 2005 financial year (EUR 138.0 million). The business lines contributing to such performance are mainly the ADSL access services, with EUR 51.6 million (EUR 35.9 million at 30 September 2005, with a 43.5% increase), representing 33% of Tiscali Italia's overall revenues. In the first nine months of 2006 the voice services generated EUR 28.5 million (versus EUR 22.7 million at 30 September 2005), of which EUR 6.4 million from VoIP services.

The third quarter of the 2006 financial year, though affected by seasonality, in particular in relation to pay-per-use contracts (both access and voice) and thus the acquisition of new customers, benefited in terms of revenues from the customer acquisitions of the preceding periods. The increase in revenues was also due to the new offers presented starting with the second quarter 2006 (ADSL and voice - Tiscali Tandem), as well as to “flat” solutions, allowing to navigate and call without limits fixed network numbers all over Italy, both in the areas covered by the *unbundling* network and in those not covered by such network.

United Kingdom

From the strategic viewpoint the third quarter 2006 of the Tiscali Group in the United Kingdom is characterised by the agreement that led to the integration of Video Networks Limited (VNL) operations, consolidated starting from the month of September.

Video Networks Ltd currently provides TV and video services, under its Homechoice brand, to its broadband subscriber base using its state of the art IPTV platform. Homechoice's premium offering, currently being integrated with Tiscali UK’s offers, includes content from all the major Hollywood studios delivering a library of over 1,000 movies, over 5,000 interactive music videos via the award-winning V: MX services as well as a full bouquet of pay TV channels.
VNL’s revenues, on an annual basis, amount to approximately EUR 27 million. In third quarter 2006, considering just the month of September as first consolidation date, was EUR 2.5 million revenues.

In third quarter Tiscali UK, including VNL, has achieved EUR 113.5 million revenues, a 37% increase as compared to the same period of 2005 (EUR 82.8 million revenues). Such performance is mainly due to the ADSL access service segment (EUR 74.2 million in the quarter, compared to EUR 44.9 million in the same period of 2005, a 65% increase). These services accounted for over 65% of the Tiscali’s revenues in UK. In such growing revenue context the voice services, also including analogical products sold in addition to ADSL services, generated EUR 17.8 million of revenues (EUR 13.2 million in the same period of 2005).

In third quarter 2006 the customer base showed a marked increase. The ADSL users acquired were137,000 and included approximately 43,000 from the integration of VNL. As at 30 September 2006 broadband users were over 1.34 million (1,336,000), of which 263.000 direct customers, i.e. already connected to the Tiscali unbundling network (ULL), whose roll-out was started in first-half 2006. In comparison with the end of the preceding financial year the ADSL user base is increased in the first nine month of 2006 by 43%.

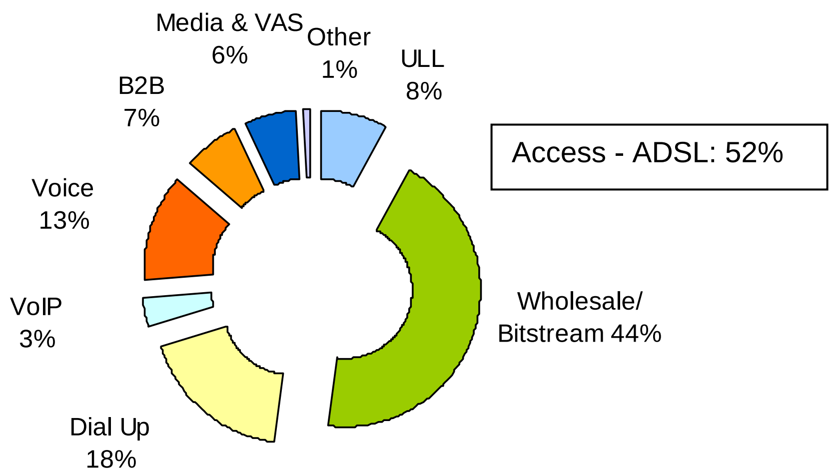
As at 30 September 2006 (first nine months of the financial year) revenues stood at EUR 319.1 million (EUR 231.2 million as at 30 September 2005), a 38% increase. Of these, revenues from ADSL services stood at EUR 201.8 million, approximately 63% of the total, altogether a 72% growth compared to the first nine months of 2005. EUR 16.6 million of these ADSL revenues were generated by contracts with direct customers (ULL) that during the current financial year were migrated. The unbundling offer only started at the end of the first quarter of the current financial year in the British market.

In third quarter, Tiscali UK continued to grow notwithstanding a market characterised by strong competition (also in terms of service price) and a concentration of operations among telecommunication operators. Tiscali UK maintained its high penetration rate while the recent integration with VNL and the relevant improvement of the range and quality of services should foster further growth.

REVENUES BY BUSINESS AREA

The graph refers to the results of the first nine months of 2006.

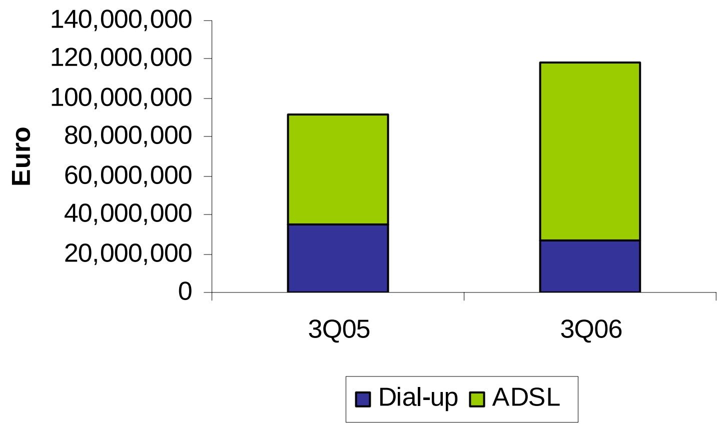
Breakdown of revenues by business line and access



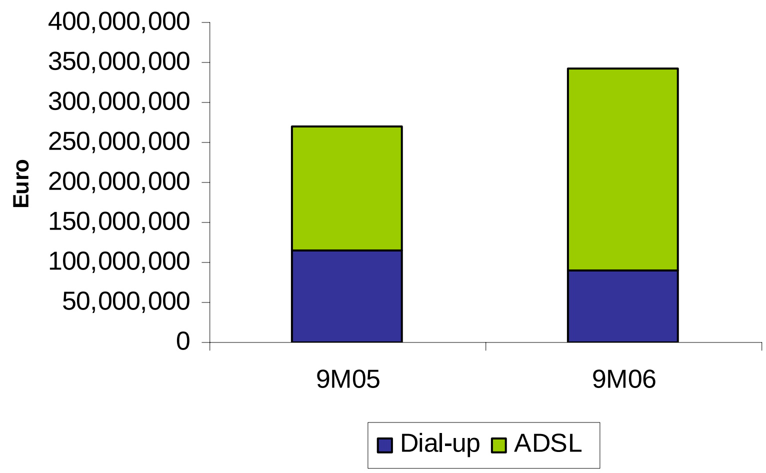
<u>Access</u>

This segment includes Internet access service revenues through narrowband (dial-up) and broadband (ADSL) and has generated in third quarter 2006 EUR 118.6 million revenues, accounting for the 70% of revenues of the Group in the quarter and showing a 29.4% growth with respect to the same period in 2005 (EUR 91.6 million reflecting a physiological slowdown in narrowband revenues. The increase of ADSL revenues in third quarter 2006, as compared to third quarter 2005, was 63% (EUR 92.3 million versus EUR 56.5 million).

Breakdown of access revenues (3Q05/3Q06)



Breakdown of access revenues (9M05/9M06)



The ADSL customer base acquired in third quarter exceeded 160,000 users, thus bringing the total of broadband customers to over 1.7 million (1,744,000), of which 442,000 already activated as direct customers, that is connected to the Tiscali network with unbundling access (ULL). In the first nine months of the financial year the net increase of the ADSL customer base was of 507,000 units (+41%).

Revenues from access services in the first nine months of 2006 stood at EUR 342.3 million (70% of the total Group's revenues), with a 27% increase versus the same period of 2005 (EUR 269.2 million). The figure accounts for the considerable revenue growth from ADSL services (EUR 253.3 million versus EUR 153.9 million in the same period of 2005, with a percent growth approximating 65%). It also reflects the physiological slowdown of the 'dial-up' / narrowband revenues that, as expected, stood in the first nine months of 2006 at EUR 88.9 million (EUR 115.3 million in the same period of 2005).

Voice

The development of the voice services – a business line of strategic relevance for Tiscali as a provider of integrated telecommunication services – though not showing in 2006 growth rates as significant as those of ADSL access services, grew by 44% in third quarter 2006, thanks in particular to voice products (both analogical and VoIP) offered to customers together with access services ('bundled' mode). In absolute terms the 'voice' revenues in third quarter 2006 amounted to EUR 28.4 million, with a 44% growth as compared to EUR 19.7 million in the same period of 2005. EUR 12.8 million were related to VoIP services.

Revenues achieved in the first nine months of the financial year, totalled EUR 78.4 million, with a 33% increase as compared to the first nine months of 2005 (EUR 59.1 million revenues) and included EUR 16.1 million revenues from VoIP services.

Business services

Revenues achieved from the business services (VPN, housing, hosting, domain services and leased lines, etc.), therefore excluding revenues pertaining to access and/or voice products for business customers, which are included in the relevant business lines, stood at EUR 10.9 million in third quarter 2006 (EUR 12.0 million in third quarter 2005). The first nine months of the financial year, with revenues standing at EUR 31.9 million, showed an improved performance as compared to the EUR 31.2 million result of the same period in 2005. The business service results have been partially affected by the strong strategic focus on access and voice products implemented during the financial year by the Tiscali Group.

Should the business users' revenues deriving from access and voice services (altogether EUR 24.7 million in third quarter 2006 and EUR 70.1 million in the first nine months of 2006) also be added, third quarter 2006 revenues deriving from business services would be equal to EUR 35.6 million and to EUR 102 million in the first nine months of the same financial year 2006.

Media and value-added services

In third quarter 2006 the revenues generated by this segment amounted to EUR 9.9 million, more than doubled with respect to the revenues achieved in third quarter 2005 (EUR 4.1 million). In the first nine months of 2006 revenues stood at EUR 29.7 million, with a significant increase (+93%) as compared to EUR 15.4 million of the corresponding period in 2005. These results substantiate Tiscali's choice to consider this business segment as a strategic one.

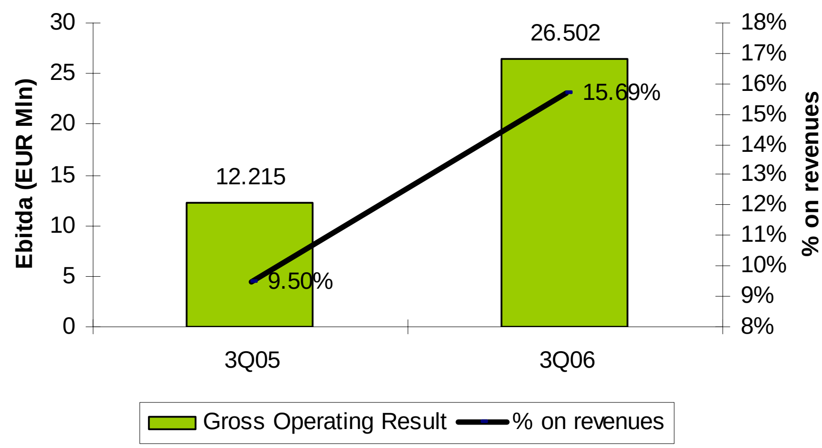
In third quarter 2006 the upturn trend of the online advertising market has been consolidated and strengthened. A further significant expansion is expected, considering the remarkable penetration of internet in the advertising market, also to the detriment of more traditional channels. Concerning the focus of Tiscali Group on such segment, the strategy adopted by Tiscali to develop the services offered through its portals, both in Italy and United Kingdom and to concentrate on selected and outstanding partnerships, proved very successful. In particular, the partnership with Google, the world renown search engine with full visibility directly on the Tiscali portals.

GROSS OPERATING RESULT (EBITDA)

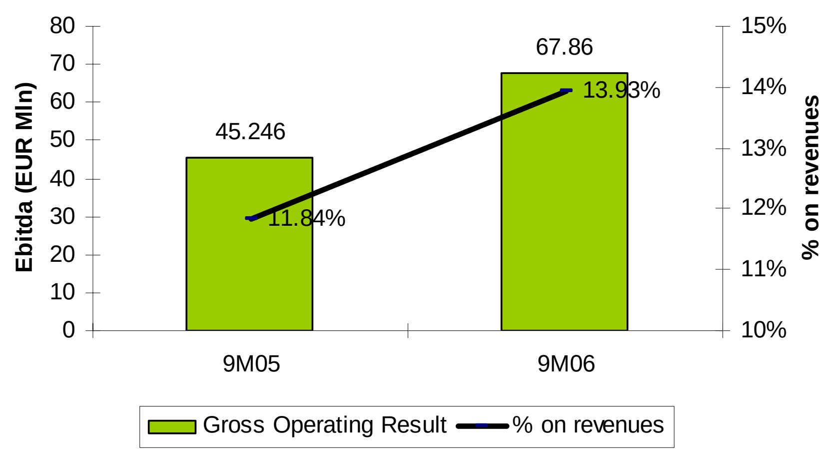
The Gross Operating Result (EBITDA) of third quarter 2006, before provisions for risks, write downs and depreciations, as well as unusual income, stood at EUR 26.5 million, more than doubled with respect to EUR 12.2 million achieved in third quarter 2005. In terms of incidence on period revenues this result increased from 10% in 3Q05 to 16% in 3Q06.

The marked improvement achieved in third quarter consolidated the trends of the current financial year, with a Gross Operating Results for the first nine months of 2006 standing at EUR 67.9 million (+50%), as compared to the EUR 45.2 million performance of the same period in the preceding financial year. The incidence on total revenues increases to 14%, as compared to 12% in 2005.

Gross Operating Result (3Q05 vs 3Q06)



Gross Operating Result (9M05 vs 9M06)



Concerning the *Gross Margin* (*a calculation which is not reported on the P&L account, as it is not required by the IAS/IFRS, but which is provided as additional information*) Tiscali Group performances were affected by competitive pressure on prices, first of all on the British market. The result achieved in third quarter (43% of incidence on revenues) is in line with that of the preceding financial year, while in the first nine months 2006 the Gross Margin was 45% of revenues, approximately two percent points less than 2005. Considering the marked growth of revenues, such percentage change is more than absorbed by absolute value data, with a Gross Margin achieving EUR 218.3 million (EUR 181.6 million in the first nine months of 2005, with an increase exceeding 20%, up to 30% in third quarter 2006). Please note that in third quarter the Gross Margin is structurally lower than that achieved in other periods of the financial year. This is due to a strong seasonality factor, i.e. to the still significant incidence of 'dial-up' access service revenues (having very high margins, but affected by the summer period).

Concerning **indirect operating costs** third quarter 2006 figure, EUR 44.7 million, is substantially in line, in absolute terms, with the corresponding period of the preceding financial year (EUR 43.1 million), thus determining a significant reduction of the incidence of such costs on revenues, decreasing from 34% to 26% of revenues. This was allowed by the optimisation of the performance of the first nine months, with indirect costs (EUR 151.1 million) representing an incidence of 31% on revenues, as compared to 36% at 30 September 2005. The overall incidence of the first nine months of 2006 is still higher that that of the last quarter, however in considering this figure special attention should be devoted to the planning and scheduling of marketing campaigns during the financial year.

Concerning comparative data for 2005 please note that some of these have been reclassified with respect to data originally disclosed. These variations did not impact the indirect cost total and Gross Operating Result. In particular, the above mentioned reclassification involve the exposure among personnel costs and other indirect costs of some expenses previously included by some Group's companies among marketing costs, expenses related in particular to customer assistance activities, professional consulting and collaborations.

Within indirect operating costs, the ***personnel costs*** of third quarter 2006 amounted to EUR 18.7 million, substantially stable as compared to the same period of financial year 2005 (EUR 18,6 million), also considering some capitalisations related to development projects implemented in 2006. As at 30 September 2006 (first nine months of the financial year), these costs amounted to EUR 55.9 million, stable as compared to 2005 (EUR 55.8 million). The control of the personnel cost dynamics achieved a positive effect in terms of reduction of their percent incidence on revenues, decreased from 15% in the first nine months of 2005 to 11% at 30 September 2006.

Stable in absolute terms is the ***marketing cost*** figure, including sales and distribution costs. The third quarter 2006 figure is indeed EUR 14.2 million (EUR 14.2 million also in third quarter 2005). On an annual basis, at 30 September 2006 (first nine months of 2006) marketing costs were still significantly higher than those of the preceding year (EUR 59.0 million as compared to EUR 50.5 million of the first nine months of 2005). When comparing single quarter values, please consider on one side the different implementation schedule of advertising campaigns during financial years and, on the other side, the fact that marketing costs growth is less than proportional as compared to revenue trends, with a relative incidence equal to approximately 12% at 30 September 2006.

Other indirect operating costs of third quarter 2006 amount to EUR 11.9 million, a limited increase with respect to EUR 10.3 million of third quarter 2005, thus mitigating the absolute terms dynamics of the financial year, mainly due to costs for post-sale assistance to customers, affected by customer base trends, and by consultancy fees. In the first nine months of financial year 2006 these costs amount to EUR 36.3 million, versus EUR 30.9 million of the corresponding period in

2005. The incidence of these costs on revenues decreased in any case from 8% of the first nine months 2005 to 7% at 30 September 2006.

OPERATING RESULT (EBIT)

The Operating Result of third quarter 2006 was positive (EUR 16,0 million) and significantly improved in comparison with the third quarter 2005 figure (negative at EUR 14.3 million). The Operating Result of the first nine months of the financial year is negative at EUR 11.7 million (negative at EUR 44.3 million at 30 September 2005). These results were significantly affected by the integration with VNL, implemented in the United Kingdom in third quarter 2006, and in particular by costs for the reorganisation plan and the unusual income due to the dilution of the Group profit-sharing in Tiscali UK, explained in more detail at the end of this section, whose effects are summarised below:

Third quarter 2006	Third quarter 2005	CONSOLIDATED INCOME STATEMENT *(EUR 000)*	30 September 2006 (9 months)	30 September 2005 (9 months)
15,977	**(14,249)**	**Operating result**	**(11,701)**	**(44,381)**
35,847	-	Restructuring costs from VNL acquisition	35,847	-
(64,352)	**-**	Other unusual income (effect of VNL dilution)	(64,352)	-
(12,528)	**(14,249)**	**Adjusted gross operating result**	**(40,206)**	**(44,381)**

Net of nonrecurring effects due to the integration of VNL, the Operating Result of third quarter 2006 was negative for EUR 12.5 million, while the corresponding result of the first nine months of 2006 was negative at EUR 40.2 million. As compared to the previous financial year, the performance of financial year 2006 shows an improvement, that should be considered positively in view of the significantly higher weight in 2006 of depreciations related to the investments implemented.

The ***Restructuring costs, provisions for risks and write-downs of third quarter*** 2006 amounted to EUR 41.3 million (EUR 3.9 million in the same period of 2005). The quarter is essentially affected by restructuring costs related to the integration with the VNL subsidiary, equal to EUR 35.8 million. The quarterly balance also included EUR 3.7 million related to costs for credit write-downs (EUR 3.3 million in third quarter 2005).

The figure in the first nine months of 2006 amounted to EUR 52.6 million (EUR 20.3 million at 30 September 2005). This amount , together with restructuring costs totalling EUR 35.8 million essentially due to the VNL integration plan, included EUR 10.3 million for credit write-down (EUR 8.6 million at 30 September 2005, with an incidence slightly over 2%, improved as compared to data of the first nine months 2005).

In third quarter 2006 ***amortisation and depreciation*** stood at EUR 33.5 million (EUR 22.5 million in third quarter 2005), while at 30 September 2006 the overall amortisation and depreciation for the financial year (first nine months) stood at EUR 91.3 million (EUR 69.3 million at 30 September 2005). As already explained this figure is affected by significant investments for the development of the "*unbundling*" network and of the ADSL service offer (modem and customer activation costs).

The operating result at 30 September 2006 included an **unusual income** of EUR 64.4 million generated by the integration of Video Networks Ltd (VNL) occurred in third quarter 2006. Such operation, involving the acquisition and consolidation of VNL, a company 100% owned by Tiscali

UK, occurred with a concurring capital increase by Tiscali UK to be underwritten by third parties, in exchange of the contribution by these parties of the VNL operations. The contribution in kind, which was valued at 'fair value', determined a dilution of the Group's stake in Tiscali UK, but at the same time involved an increase in absolute terms of the Group shareholders' equity in Tiscali UK. In accordance with the relevant reference accounting principles such increase has been accounted for in the income statement under the appropriate item.

OPERATING RESULTS BY GEOGRAPHICAL AREA

Details regarding the operating results by geographic area allow the analysis, in the third quarter and in the first nine months of 2006, of the performance of the Group's two main operating subsidiaries in the relevant geographical areas.
Please note that data reported refer to single operating units including inter-group components.

Tiscali Italia Srl closed third quarter 2006 with a gross operating result (EBITDA), net of inter-group costs related in particular to information technology services provided by Tiscali Services Srl, equal to EUR 10.1 million (versus the negative result of EUR 5.5 million in third quarter 2005). The gross operating result (EBITDA) for the first nine months of 2006 was EUR 20.8 million (EUR 10.7 million as at 30 September 2005). Operating result (EBIT) in third quarter 2006 was close to break-even (EUR 0.9 million) versus the EUR 13.0 million loss of third quarter 2005). The figure related to the first nine months of 2006 was an operating loss of EUR 9.2 million versus a EUR 15.4 million loss at 30 September 2005.

Gross operating result (EBITDA) achieved by the **Tiscali UK** subsidiary in third quarter 2006, including the September 2006 results of Video Networks Ltd (VNL) and the inter-group costs for information technology services provided by Tiscali Services Srl, stood at EUR 17.8 million (EUR 12.5 million in third quarter 2005) and enabled a further improvement of the result related to the fist nine months of the financial year, that is EUR 47.9 million (EUR 35,.8 million as at 30 September 2005). The gross operating result related to the single month of September for VNL (consolidated in Tiscali UK since September) was negative (after restructuring costs for EUR 2.2 million). This is mainly due to significant personnel costs that should however undergo a marked decrease following the reorganisation plan currently being implemented.

The operating result performance in third quarter 2006 is negative at EUR 35.2 million, as compared to positive results at EUR 0.5 million in third quarter 2005. This is basically due to appropriate provisions for restructuring costs associated to VNL integration. Third quarter results were significantly affected by depreciations (EUR 18.2 million) associated to the development of the customer base as well as to the 'roll-out' of the ULL infrastructure started in 2006. As at 30 September 2006 (first nine months of the financial year) the operating result is still negative at EUR 41.7 million, versus a negative figure of EUR 2.2 million at 30 September 2005. Such data should be considered positively, in view of the VNL restructuring costs and of the above mentioned depreciations associated to the roll-out of the ULL network infrastructure in the United Kingdom.

RESULTS FROM CONTINUING OPERATIONS

The third quarter 2006 closed with a positive net result for continuing operations, standing at EUR 2.8 million as compared to the EUR 16.8 loss in third quarter 2005. Such result was affected in particular by financial charges of EUR 12.9 million in the quarter. The overall result of the first nine months of 2006 was still negative at EUR 36.5 million, with a significant increase as compared to the EUR 110.3 million loss at 30 September 2005.

RESULTS OF ASSETS HELD FOR SALE

As at 30 September 2006 this item, as well as the corresponding comparative data for 2005, includes the net results of assets held for sale. The balance in particular refers to results of operations owned by Tiscali in the Czech Republic, in Germany and in The Netherlands, which at the end of third quarter could be dealt with as provided by IFRS 5 (*non current assets held for sale* and *discontinued operations*).

In third quarter 2006 the net result of assets held for sale was positive for EUR 4.1 million, as compared to the positive result of EUR 0.8 million in the same period of 2005. In the first nine months of 2006 the net result of 'discontinued operations' was negative at EUR 30.6 million (positive at EUR 108.8 million at 30 September 2005).
Please see below the breakdown by geographical area of the mentioned operations, elucidating the above results:

Third quarter 2006	**Third quarter 2005**	**CONSOLIDATED INCOME STATEMENT (EUR 000)**	**30 September 2006 (9 months)**	**30 September 2005 (9 months)**
191	(725)	Czech Republic	(1,354)	(1,933)
(1,849)	(11,654)	Germany	(40,692)	(15,001)
7,298	10,252	The Netherlands	18,507	4,602
(1,491)	2,923	Other operations	(7,107)	121,141
4,149	**796**	Result of discontinued and/or discontinuing operations	(30,646)	108,809

(Results net of inter-group revenues/costs)

Notwithstanding the limited growth potential of the reference market which led to decide for disposal, in the financial year 2006 the Dutch subsidiary (Tiscali BV) reported positive performances, showing the achievement of a full economic balance.

The performances of subsidiaries in the Czech Republic and Germany, in view of the strategic plan targets of the Tiscali Group, were consistent with the decision to exit those markets.

Please note that the result for 2006 concerning operating assets in Germany includes an EUR 30 million write-down of goodwill already accounted for in the half-year report as of 30 June 2006. The overall result as of 30 September of the financial year 2005 for 'discontinuing operations' included the effects arising from the disposal of certain non strategic assets, in particular the capital gain deriving from the sale of the French operations.

NET RESULT

The net result of third quarter 2006 was positive at EUR 6.9 million, compared to the EUR 16.0 million loss in the corresponding period in 2005. At 30 September 2006 net result was still negative at EUR 67.2 million, against the EUR 1.5 million loss of the first nine months 2005, which was however positively affected by the EUR 144 million gain deriving from the sale of French operations.

BALANCE SHEET AND FINANCIAL POSITION

CONSOLIDATED BALANCE SHEET (concise data) (EUR 000)	**30 September 2006**	**31 December 2005**
Non current activities	850,470	603,877
Current activities	196,994	184,401
Assets held for sale	201,952	254,837
Total Assets	**1,249,416**	**1,043,115**
Shareholders' Equity	305,148	308,767
Minority interests	33,183	2,553
Total Shareholders' Equity	**338,331**	**311,320**
Non current liabilities	394,002	172,339
Current liabilities	449,097	468,354
Liabilities directly related to assets held for sale	67,986	91,102
Total Shareholders' equity and liabilities	**1,249,416**	**1,043,115**

At 30 September 2006 the financial position is significantly affected by the integration and consolidation of Video Networks Ltd.

ASSETS

Non current assets

Non current assets include EUR 252.0 million for goodwill (EUR 184.7 million at al 31 December 2005). This refers essentially to operations in the United Kingdom, including from 30 September 2006 the 'goodwill' value attributed to Video Networks Limited. At 30 September 2006 other intangible assets and tangible assets related to Property, plant and equipment amount to EUR 432.4 million (EUR 256.5 million at 31 December 2005).

Investments

The expansion of the *unbundling* network and the relevant operational investments related to the installation and activation of new ADSL customers, generated in third quarter new investments amounting to EUR 44.6 million, of which EUR 22.4 million related to investments for intangible assets and approximately EUR 22.2 million investments in tangible assets. The intangible asset investments are mainly related to costs for the activation of ADSL customers, as well as for the stipulation of IRU (Indefeasible rights of use) contracts, related to the acquisition of rights to use network and bandwidth, while the tangible asset investments are mainly related to the development of the *unbundling* network, including the relevant equipment.

The overall investments implemented in the first nine months of financial year 2006 stood at EUR 124.7 million, of which EUR 84.4 million attributable to intangible asset investments and approximately EUR 40.3 in tangible asset investments. As in third quarter 2006 intangible asset investments were mainly related to costs for ADSL customer activation, as well as for the stipulation of IRU (Indefeasible rights of use) contracts, related to the acquisition of rights to use network and bandwidth, while the tangible asset investments are mainly related to the development of the *unbundling* network, including the relevant equipment.

The investments implemented in the current financial year 2006 allowed to reach and activate 370 colocations in the United Kingdom and approximately 440 colocations in Italy.

Non current assets also include among else also *Deferred tax assets* amounting to EUR 136.3 million. The figure includes EUR 76.9 million related to subsidiaries operating in the United Kingdom and EUR 59.4 million related to Tiscali International BV (The Netherlands), sub-holding of the Group and reference entity for the purposes of the ‘Dutch fiscal unit’.

Current assets

Current assets mainly refer to “Customer receivables” (EUR 128.3 million at 30 September 2006, versus EUR 108.3 million at 31 December 2005).

LIABILITIES

Non current liabilities

At 30 September 2006 Non current liabilities amount on the overall to EUR 394.0 million (EUR 172.3 million at 31 December 2005). Such significant increase is mainly due to changes in the composition of financial items: please see the comments on financial position reported below.

Current liabilities

Current liabilities and financial items (mainly payables to banks amounting to EUR 168.0 million at 30 September 2006) refer in particular to debts towards suppliers (EUR 181.3 million at 30 September 2006, versus EUR 135.2 million at the end of the preceding financial year).

FINANCIAL POSITION

As of 30 September 2006, the Tiscali Group's cash and cash equivalents totalled EUR 17.3 million of which EUR 10.6 million related to continuing operations. The net financial position at the same date and again related to continuing operations is negative at EUR 311.9 million (EUR 277.3 million at 31 December 2005).

The financial position concerning continued operations is summarised in the table below

(EUR 000)	30 September 2006	30 June 2006	31 December 2005
Cash and cash equivalents	***10,6***	***17,8***	***26,2***
Other financial assets	**35,5**	***26,5***	**33,7**
Of which			
Escrow accounts	19,5	10,1	16,1
Tax receivables and other financial assets	16,0	16,4	17,5
Total cash and financial assets	**46,1**	**44,4**	**60,0**
Bonds (Equity Linked Bonds) - September 2006	-	*215,9*	211,0
Total Bonds	***-***	***215,9***	***211,0***
Long and medium term loans (a)	169,6	***101,1***	89,2
Bank overdraft and short term loans	167,9	***38,5***	17,9
Total bank debts	***337,6***	***139,6***	***107,1***
Payables to other lenders (leasing)	***19,9***	***15,2***	***19,0***
Total gross debts (b)	**357,4**	**370,7**	**337,2**
Total net debt	**(311,3)**	**(326,4)**	**(277,3)**

(a) The value includes the interest due at that date and includes the measurement of the debt amortised according to the amortised cost methodology set forth by IAS/IFRS
(b) Does not include shareholders loans (EUR 30.7 million at 30 September 2006)

Following the repayment of the Equity Linked bonds in the month of September, the financial debt position showed significant changes. Financial debt mainly consisted of debts towards Silver Point Capital (included in Long and medium-term loans for EUR 133.5 million and in short-term loans for EUR 100.5 million) for a total of EUR 234 million.

The change in net cash in third quarter 2006, including financial charges, was negative at approximately EUR 7.2 million. During the first nine months of the year such variation stood at EUR 15.6 million. These results were mainly affected by the significant investments implemented (EUR 44.6 million in third quarter 2006 and EUR 124.7 million in the first nine months of the financial year) for the development of the customer base and of the "*unbundling*' network infrastructure, as well as for financial charges paid, EUR 21.0 million in the first nine months of 2006).

SIGNIFICANT EVENTS IN THIRD QUARTER

The significant events occurred in third quarter are related to the Group's structure and the conclusion of the repayment process concerning all bonds issued since 2000, as well as the disposal plan concerning non strategic assets, consistently with the new industrial plan 2007-2010.

Tiscali and Video Networks: integration on the British market

In August 2006 Tiscali has completed the integration of Video Networks International Ldt with its British subsidiary (Tiscali UK) through an exchange of shares. Pursuant to such agreement Video Networks International Ltd (VNIL) has contributed 100% of its activities in exchange with UK - Video Networks Ltd (VNL) – to Tiscali UK Ltd, 100% owned subsidiary of Tiscali SpA, in exchange for a minority investment in Tiscali UK Ltd, initially equal to 11,5%, but subject to a potential increase (up to 20%) in relation with the achievement of certain pre-determined targets.

Following the integration, strategically relevant from the viewpoint of the positioning of Tiscali as a provider of integrated telecommunication services, the Tiscali Group has acquired a state-of-the-art
IPTV platform as well as a consolidated know - how in the negotiation and packaging of television content. Moreover, thanks to the integration, Tiscali is significantly decreasing the time to market in such segment.

Sale of Dutch operations to KPN

On 15 September 2006 Tiscali has signed an agreement for the transfer of its Dutch operations to KPN Telecom. The offer values the enterprise value of Tiscali Netherlands at EUR 255 million, to be paid at closing. On the basis of data at 30 June the value of each ADSL user is EUR 923. The operation requires approval by the Dutch antitrust authorities. Such approval is expected within the end of the current financial year or immediately afterwards.

Repayment of the EUR 209.5 million Equity-linked bond

On 26 September 2006 Tiscali has repaid the Equity-Linked bond issued by the Luxembourg subsidiary Tiscali Finance SA for nominal EUR 209.5 million and interests amounting to approximately EUR 8.9 million. As previously disclosed the repayment of the *Equity Linked Bond* occurred also through the execution of the "*soft mandatory clause*", that is the delivery to bondholders of both cash and new shares, thanks to the financing operation concluded with Silver Point Capital. The amount for the repayment of the *Equity Linked bond* totalled EUR 62.5 million, with the issuance of 27.7 million shares at a price of EUR 2.26 each, and EUR 147.0 paid in cash. The Tiscali Group has thus concluded the repayment of all bonds issued since 2000, totalling over EUR 600 million.

EVENTS TAKING PLACE AFTER THE END OF THE QUARTER, OUTLOOK AND PROSPECTS

EVENTS TAKING PLACE AFTER THE END OF THE QUARTER

Tiscali brings ADSL to households without a telephone line with Telecom Italia
On 9 October 2006 Tiscali Italia presented all over the national territory its internet and voice services designed for users not connected to the telephone network of Telecom Italia.

Approved the Business Plan 2007-2010
On 11 October 2006 Tiscali has presented to the market its industrial plan for 2007-2010, whose guidelines are summarised in the paragraph "Outlook and prospects" below.

New credit line from Banca Intesa for EUR 280 million
Tiscali has received an irrevocable commitment by Banca Intesa, subject to customary terms and conditions, granting a EUR 280 million credit line to the Group. The Board of Directors has resolved to close the agreement at the proposed terms.

The credit line substantially improves the terms of the current facility granted by Silver Point Capital thus significantly reducing the overall cost of debt of the Group. The agreement with Banca Intesa, together with the proceeds deriving from the ongoing disposal process, provides the financial resources for the investments announced in the strategic plan approved last October and allows Tiscali to focus on the achievement of the objectives of revenues and profitability growth.

OUTLOOK AND PROSPECTS

Consistently with its new industrial plan the Tiscali Group intends to consolidate and strengthen its position as infrastructured provider of IP based services. The new positioning involves the transition from a pure ISP model to a full-service provider, delivering telecommunication and media integrated services to the end customer (with the relevant expansion on the physical access, voice and IPTV markets), through a full network IP model. The product proposition involves the complete transfer of both traditional and innovative services on the new networks, thus combining product innovation and marketing aggressiveness.
The strategic initiatives such as the disposal of the Dutch operations and the announced decision to dispose of subsidiaries operating in Germany and in the Czech Republic allow the concentration of the core business in Italy and in the United Kingdom, where the Group has significant points of strengths, among which an overall customer base exceeding 3 million customers of which approximately 50% ADSL subscribers.

Tiscali is also working on the new opportunities stemming from the fixed-mobile convergence process, both from a technologic viewpoint (testing of Wi-Max networks, single mobile terminals and integrated Wi-fi/GSM set-up-boxs), and on the basis of the new perspectives offered by the opening and development of the MVNO market.

A total amount of approximately EUR 740 million is anticipated as capital expenditure aimed at completing the *unbundling* network infrastructure and at developing the new IP service offer.

The asset disposal plan will enable the full financing of the industrial plan as well as a decrease of approximately EUR 150 million of the current debt in the next 12 months.

Following such decrease Tiscali's exposure will decrease at the end of 2007 from 2.4 times the current EBITDA to 1.2 times the EBITDA achieving at the same time the availability of financial resources appropriately supporting the development plans.

The perspectives of the sector in which the Tiscali Group operates and its competitive position are deemed consistent to achieve the goals of the new industrial plan, involving improved business and financial dynamics. A key factor is therefore the ability of the Group to generate positive cash flows, thus significantly influencing the development of Tiscali's financial position as well as the stability of its businesses and finances.

On the basis of the new business plan the targets set for 2006 are as follows:

- Revenues at EUR 688 ml
- Gross Operating Result (EBITDA) at EUR 98 million
- Over 3 million active users, of which more then 1.7 million ADSL customers and more than one third receiving ULL services

TISCALI GROUP

FINANCIAL STATEMENTS AND EXPLANATORY NOTES AT 30 SEPTEMBER 2006

CONSOLIDATED INCOME STATEMENT *(EUR 000)*	*Notes*	**Third quarter 2006**	**Third quarter 2005**	**30 September 2006 (9 months)**	**30 September 2005 (9 months)**
Revenues	*(2)*	**168,915**	**128,576**	**487,010**	**382,014**
Other income		(802)	(60)	1,558	2,745
Purchase of materials and outsource services	*(4)*	121,537	96,719	360,941	279,045
Personnel costs	*(4)*	18,732	18,573	55,859	55,831
Other operating costs	*(4)*	1,342	1,009	3,908	4,637
Gross operating result		**26,502**	**12,215**	**67,860**	**45,246**
Restructuring costs, provisions for risks and write-downs	*(5)*	(41,352)	(3,932)	(52,599)	(20,292)
Depreciation and amortisation		(33,525)	(22,532)	(91,314)	(69,335)
Other income/unusual income	*(6)*	64,352	-	64,352	-
Operating result		**15,977**	**(14,249)**	**(11,701)**	**(44,381)**
Share of profit or losses of associates with equity method		(131)	(30)	(355)	(726)
Net financial income (charges)	*(7)*	(12,936)	(2,538)	(23,663)	(20,132)
Profit (loss) before tax		**2,910**	**(16,817)**	**(35,719)**	**(65,239)**
Income taxes		(114)	16	830	45,068
Profit (loss) from continuing operations		**2,795**	**(16,833)**	**(36,549)**	**(110,307)**
Profit (loss) from discontinued operations and/or assets held for sale	*(8)*	4,149	796	(30,646)	108,809
Net profit		**6,945**	**(16,037)**	**(67,196)**	**(1,498)**
Attributable to:					
- Equity holders of the Parent				(67,403)	(1,736)
- Minority interest				208	238
Earnings (losses) per share					
From continuing and discontinued operations:					
- Basic				(0,17)	-
- Diluted				(0,14)	0,02
From continuing operations:					
- Basic				(0,09)	(0,28)
- Diluted				(0,07)	(0,26)

BALANCE SHEET	Notes	**30 September 2006**	**31 December 2005**
(EUR 000)			
Non current assets	(9)		
Goodwill		252,022	184,739
Intangible assets		224,460	135,353
Property, plant and equipment		207,988	121,145
Equity investments		759	1,114
Other financial assets		28,976	26,110
Deferred tax assets		136,265	135,416
		850,470	**603,877**
Current assets	*(10)*		
Inventories		5,847	3,678
Receivable from customers		128,298	108,266
Other receivables and other current assets		44,122	39,202
Other current financial assets		8,083	7,012
Cash and cash equivalents		10,645	26,243
		196,994	**184,401**
Assets held for sale	*(11)*	201,952	254,837
Total Assets		**1,249,416**	**1,043,115**
Share capital and reserves			
Share capital		212,207	198,369
Share premium reserve		948,016	953,717
Translation reserve		3,754	3,975
Retained earnings		(858,829)	(847,294)
Shareholders' Equity		**305,148**	**308,767**
Third-party interests		33,183	2,553
Minority interests		**33,183**	**2,553**
Total Shareholders' Equity		**338,331**	**311,320**
Non current liabilities	*(12)*		
Bonds		-	-
Payables to banks and other lenders		200,304	117,389
Obligations under finance leases		10,255	8,317
Other non current liabilities		130,677	24,192
Liabilities for pension obligations and staff severance		6,736	6,146
Provisions for risks and charges		46,030	16,295
		394,002	**172,339**
Current liabilities	*(13)*		
Bonds – current value		-	211,044
Payables to banks and other lenders		167,960	17,954
Obligations under finance leases		9,619	10,683
Payables to suppliers		181,275	135,216
Other current liabilities		90,243	93,457
		449,097	**468,354**
Liabilities directly related to assets held for sale	*(11)*	67,986	91,102
Total liabilities and shareholders' equity		**1,249,416**	**1,043,115**

CONSOLIDATED CASH FLOW STATEMENT (CONCISE) *(EUR 000)*	**30 September 2006**	**30 September 2005**
NET CASH GENERATED BY OPERATING ACTIVITIES	**(18,423)**	**(20,323)**
NET CASH USED IN INVESTING ACTIVITIES	**(91,142)**	**(87,564)**
NET CASH ARISING FROM /(USED IN) FINANCING ACTIVITIES	**94,850**	**(200,410)**
Result on activities disposed of and held for sale	(30,646)	108,809
Change of activities disposed of and held for sale net of cash	56,243	335,047
Change of liabilities related to activities held for sale	(23,116)	(179,556)
NET CASH ARISING FROM /(USED IN) FINANCING ACTIVITIES	**97,331**	**63,891**
INCREASE / (DECREASE) OF CASH AND CASH EQUIVALENTS	**(12,234)**	**(43,996)**
Cash and cash equivalents of operating activities at the beginning of the financial year	26,243	75,515
Cash and cash equivalents of activities disposed of and held for sale at the beginning of the financial year	3,762	7,485
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE FINANCIAL YEAR	**30,005**	**83,000**
Cash and cash equivalents of operating activities at the end of the financial year	10,645	37,247
Cash and cash equivalents of activities disposed of and held for sale at the end of the financial year	7,120	1,757
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (9 MONTHS)	**17,765**	**39,004**

STATEMENT OF CHANGES IN THE CONSOLIDATED SHAREHOLDERS' EQUITY

(EUR 000)	Share capital	Share premium reserve	Translation reserve	Retained earnings	Share holders' equity Group	Minority interest	Total
Balance at 1st January 2006	**198,369**	**953,717**	**3,975**	**(847,294)**	**308,767**	**2,553**	**311,320**
Increases	13,838	48,708	-	-	**62,546**	-	**62,546**
Transfers covering losses	-	(54,409)	-	54,409	**-**	-	**-**
Exchange differences arising on the translation of the financial statements of foreign operations	-	-	(221)	1,459	**1,238**	-	**1,238**
Changes in the basis of consolidation (VNL acquisition)	-	-	-	-	**-**	30,505	**30,505**
Loss due to minority interest	-	-	-	-	**-**	125	**125**
Gains (losses) taken to equity for the period	**13,838**	**(5,701)**	**(221)**	**55,868**	**63,784**	**30,630**	**94,414**
Net profit (loss) for the year (*)	-	-	-	(67,403)	**(67,403)**	-	**(67,403)**
Total recognised profit (loss) for the period	**-**	**-**	**-**	**(67,403)**	**(67,403)**	**-**	**(67,403)**
Balance at 30 September 2006	**212,207**	**948,016**	**3,754**	**(858,829)**	**305,148**	**33,183**	**338,331**

(*) Pertaining to the Parent

EXPLANATORY NOTES

1. FORMAT AND CONTENT / ACCOUNTING PRINCIPLES

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

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

Concerning comparative data for 2005 please note that some of these have been reclassified with respect to data originally disclosed in Third Quarter Report as of 30 September 2005. These variations did not impact the Gross Operating Result, Operating Result, Result before tax, Profit (loss) from continuing operations and Consolidated Shareholders' Equity. In particular, please note that the mentioned reclassifications concern the reporting among Personnel costs of some expenses previously included by some Group's companies among the costs for Purchases of materials and outsource services.

Consolidation area

In third quarter 2006 the following changes occurred in the consolidation area as compared to the consolidated statements as of 31 December 2005 and the Half-year report as of 30 June 2006:

- On 12 August 2006 Tiscali and Video Networks International Ltd signed an agreement relating to the integration of the relevant activities in UK. Pursuant to such agreement Video Networks International Ltd (VNIL) has contributed the 100% of its activities (consisting in the full ownership of Video Netwoks Ltd - VNL), in exchange for a minority investment in Tiscali UK Ltd. Starting from 1st September 2006, closing data of the operation, Video Networks Ltd is therefore fully consolidated and this third quarter reports accounts for the initial effects of this 'business combination' operation. The process is based on assessments by independent experts during negotiations for the integration of VNL into Tiscali UK and on contractual documents, and has led to the determination of a 'fair value' for the acquired operations amounting to EUR 192 million, as compared to a book value of EUR 24 million. The added value, amounting to EUR 168 million, has been allocated for EUR 101 million to tangible assets related to the infrastructure and technologic platform of VNL (and the relevant contents/rights), while the residual amount of EUR 67 million has been considered as 'goodwill', as it could not be directly attributed to other currently measurable assets. Against the recording of the added value of assets, the VNL 'business combination' operation has involved from the viewpoint of liabilities the inclusion in third quarter report of a debt towards VNL ex-shareholders corresponding to the current value of tax losses related to such companies (EUR 88 million) for which a deferred medium-long term payment is contractually agreed.

Please note that the complex process for the 'fair value' assessment of the diversified assets of the VNL subsidiary is still ongoing. As explicitly provided by IFRS 3, changes of the accounting effects of the aforementioned business combination on end-year financial statements can not be ruled out. Such period complies with the twelve - months period from the acquisition date stated to this purpose in IFRS 3.

- In September 2006 Tiscali has signed an agreement for the transfer of its Dutch operations to KPN Telecom. The operation requires in particular the consultation of *works council* and the approval of the Dutch *antitrust* authorities. As disclosed on the half-year report at 30 June 2006, the described circumstances meet the conditions for the application of (non current assets held for sale e discontinued operations) for the subsidiary operating in The Netherlands (Tiscali BV). In this third quarter report at 30 September 2006 the assets and liabilities of the Tiscali BV subsidiary, as well as the relevant comparative data, are consequently reclassified, in compliance with the IFRS 5 principle, among those held for sale, while the overall result of the subsidiary is posted under Results of discontinued and/or discontinuing operations.

- In third quarter report at 30 September 2006 also the activities of the Tiscali subsidiaries operating in the Czech Republic (Tiscali Telekomunikace Sro) and in Germany (Tiscali Deutschland GmbH e Tiscali Business GmbH) have been reclassified as held for sale. The overall result of the same is therefore included in Results of discontinued and or discontinuing operations. Such attribution arises from the deliberation by the Tiscali Board of Directors and reflected in the industrial plan presented at the beginning of October 2006: these subsidiaries are considered no more strategic and the relevant disposal is therefore highly likely.

Accounting principles

This third quarter report has been prepared applying the same accounting principles adopted for the consolidated financial statements as at 31 December 2005 to which reference is made.

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

Estimates concerned in particular the areas detailed below:

Impairment of goodwill
The *impairment* test on goodwill is performed in coincidence with annual reports or more frequently during the financial year if any impairment indicator arises, requiring the immediate assessment of possible losses of value. The ability of each 'unit', identifiable in this case with the subsidiary, to generate cash flows such as to recover the goodwill allocated to the unit is determined on the basis of business and financial statements of the unit to which goodwill is related. The preparation of these financial statements, as well as the determination of an appropriate discount rate, requires the application to a significant extent of estimates.

Income tax
The determination of income tax, in particular with reference to deferred taxes, involves the use of estimates to a significant extent and the adoption of assumptions as detailed below. Deferred tax assets, arising from temporary differences and/or previous losses, are recognised to the extent that it is probable that taxable profits will be available in the future against which deductible temporary differences and/or previous losses can be utilised. The provisions are based on taxable revenue which is reasonably certain in light of the approved business plans. Such assets and liabilities are not recognised if the temporary differences arise from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in transactions that affect neither the taxable profit nor the accounting profit. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

Seasonality
Tiscali's activity in third quarter is affected by phenomena associated to business seasonality. Seasonality phenomena are basically associated to revenue performance in coincidence with the summer holidays, affecting the internet and phone traffic volumes.

2. Revenues

	Third quarter 2006	Third quarter 2005	30 September 2006 (9 months)	30 September 2005 (9 months)
REVENUES	**168,915**	**128,576**	**487,010**	**382,014**

Please see the comments already reported in the section devoted to the financial position analysis.

3. Segment information (by country)

The activities of the Tiscali Group and the relevant strategies, as well as activities of subsidiaries, are articulated and defined by geographical segment, this being therefore the primary reporting segment for the purposes on segment information, as required by IAS 14. Geographical segments are represented in particular by the two main countries where the Tiscali Group operates (Italy and the United Kingdom). We have therefore excluded the geographical areas whose activities, starting with this third quarter report, have been included among those held for sale (in particular Germany, The Netherlands and the Czech Republic). This note reports the main results of these business segments, analysed in the preceding section.

30 September 2006 *EUR 000*	Italy	United Kingdom	Others	Segment information	Unallocated	Operating assets
Revenues and other income						
To third parties	154,234	309,134	11,445	**474,813**	12,068	486,881
Inter-group	3,107	10,014	5,463	**18,583**	(18,455)	129
Total revenues	**157,341**	**319,147**	**16,908**	**493,396**	**(6,386)**	**487,010**
Gross Operating Result	**20,842**	**47,926**	**6,873**	**75,641**	**(7,781)**	**67,860**
Operating Result	**(9,177)**	**(41,716)**	**533**	**(50,361)**	**(38,659)**	**(11,701)**

30 September 2005 *EUR 000*	Italy	United Kingdom	Others	Segment information	Unallocated	Operating assets
Revenues and other income						
To third parties	135,150	228,463	9,988	373,601	8,414	382,014
Inter-group	2,868	2,753	5,788	11,409	(11,409)	-
Total revenue	**138,018**	**231,216**	**15,776**	**385,010**	**(2,995)**	**382,014**
Gross Operating Result	**10,696**	**35,799**	**3,603**	**50,098**	**(4,852)**	**45,246**
Operating Result	**(15,420)**	**(2,183)**	**(885)**	**(18,488)**	**(25,893)**	**(44,381)**

4. Purchase of materials and outsource services, personnel costs and other operating costs

	Third quarter 2006	Third quarter 2005	30 September 2006 (9 months)	30 September 2005 (9 months)
Purchase of materials and outsource services	121,537	96,719	360,941	279,045
Personnel costs	18,732	18,573	55,859	55,831
Other operating costs	1,342	1,009	3,908	4,637

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

5. Restructuring costs, risk provisions and write-downs

	Third quarter 2006	Third quarter 2005	30 September 2006 (9 months)	30 September 2005 (9 months)
Write-down of receivables	(3,709)	(3,270)	(10,303)	(8,590)
Restructuring costs and other write-down	(3,665)	(662)	(8,125)	(8,702)
Provisions for risks and charges	(33,978)	-	(34,171)	(3,000)
	(41,352)	(3,932)	(52,599)	(20,292)

As shown in the table in third quarter 2006 these costs amount on the overall to EUR 41.3 million and chiefly relate to restructuring costs arising from the integration of the VNL subsidiary. These amount to EUR 35.8 million, of which EUR 3.1 million already supported and EUR 32.6 million as provisions for risks. The quarter balance also includes EUR 3.7 million of costs for write-down of receivables (EUR 3.3 million in third quarter 2005) and EUR 1.4 million for other provisions against risks/write-downs.

The balance of the first nine months 2006 amounts to EUR 52.6 million. Besides restructuring costs for EUR 35.8 million associated to the VNL integration plan, also includes EUR 10.3 million for write-down of receivables (EUR 8.6 million at 30 September 2005).

6. Other unusual income (charges)

The operating result at 30 September 2006 includes among **unusual income**, the amount of EUR 64.4 million arising from the integration of Video Networks Ltd (VNL) occurred in third quarter 2006. Such operation has involved the acquisition and consolidation of the activities of VNL, a company 100% owned by Tiscali UK, and has been implemented through an increase of capital by Tiscali UK to be underwritten by third parties, in exchange of the contribution by these parties of the VNL operations, to be assessed at ‘fair value’. The contribution in kind determined a dilution of the Group’s stake in Tiscali UK, but at the same time it involved an increase in absolute terms of the Group shareholders’ equity in Tiscali UK. In accordance with the relevant reference accounting principles such in crease has been accounted for in the income statement under the appropriate item.

7. Financial income and charges

Financial charges and the relevant dynamics are related to the Group overall debt. The figure relative to the first nine months is higher as compared to the corresponding period of the preceding financial year, depending on the different composition of debt and the relevant costs. Please see also the section devoted to the financial position analysis.

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

	Third quarter 2006	Third quarter 2005	30 September 2006 (9 months)	30 September 2005 (9 months)
Czech Republic	191	(725)	(1,354)	(1,933)
Germany	(1,849)	(11,654)	(40,692)	(15,001)
The Netherlands	7,298	10,252	18,507	4,602
Other activities	(1,491)	2,923	(7,107)	121,141
Total	4,149	796	(30,646)	108,809

(Results net of inter-group revenues/costs)

At 30 September 2006 this item, and the relevant comparative data for 2005, includes the net results of subsidiaries held for sale. The balance in particular refers to the results of operating activities held by Tiscali in the Czech Republic, in Germany and in The Netherlands, which at the end of third quarter could be dealt with as provided by IFRS 5 (*non current assets held for sale* e *discontinued operations*).

In third quarter 2006 the net result of assets held for sale was positive for EUR 4.1 million, as compared to the positive result of EUR 0.8 million in the same period of 2005. In the first nine months of 2006 the net result of ‘discontinued operations’ was negative at EUR 30.6 million (positive at EUR 108.8 million at 30 September 2005).

Notwithstanding the limited growth potential of the reference market which led to decide for disposal, in the financial year 2006 the Dutch subsidiary (Tiscali BV) reported positive performances, showing the achievement of a full economic balance.

The performances of subsidiaries in the Czech Republic and Germany, in view of the strategic plan targets of the Tiscali Group, were consistent with the decision to exit those markets.

Please note that the result for 2006, related to operating activities in Germany, includes a goodwill write-down for EUR 30 million, already accounted for in the half-year report at 30 June 2006. The overall result at 30 September 2005 of ‘discontinuing operations’ included effects arising from the disposal of certain non strategic assets, in particular the capital gain deriving from the sale of the French operations (EUR 144 million).

9. Non current assets

	30 September 2006	31 December 2005
Goodwill	252,022	184,739
Intangible assets	224,460	135,353
Property, plant and machinery	207,988	121,145
Equity investments	759	1,114
Other financial assets	28,976	26,110
Deferred tax assets	136,265	135,416

Non current assets include goodwill for EUR 252.0 million (EUR 184.8 million at 31 December 2005). This item essentially refers to operating activities in the United Kingdom. The relevant increase reflects the initial assessment at fair value of Video Networks Ltd (VNL) activities, consolidated at 30 September 2006.

Non current assets also include other intangible assets and tangible assets related to Property, plant and equipment, with an overall value at 30 September 2006 of EUR 432.4 million (EUR 256.5 at 31 December 2005), reflecting the allocation of EUR 68 million as a ‘fair value’ portion of VNL activities, besides other changes occurred in the period following new investments and depreciation.

Non current assets also includes *Other financial activities – EUR* 29.7 million (EUR 27.2 million at 31 December 2005), and *Deferred tax assets – EUR* 136.3 million. The figure includes EUR 76.9 million related to subsidiaries operating in the United Kingdom and EUR 59.4 million related to Tiscali International BV (The Netherlands), sub-holding of the Group and reference entity for the purposes of the ‘Dutch fiscal unit’. Please note that deferred tax assets arise essentially from previous losses undergone by subsidiaries and are recognised on financial statements to be used in future financial years should taxable profits become available. Once concluded the disposal of the Dutch subsidiary (Tiscali BV) this opportunity will be appropriately analysed.

10. Current assets

	30 September 2006	31 December 2005
Inventories	5,847	3,678
Receivables from customers	128,298	108,266
Other receivables and other current assets	44,122	39,202
Other current financial assets	8,083	7,012
Cash and cash equivalents	10,645	26,243

Current assets mainly refer to Receivables from customers (EUR 128.3 million at 30 September 2006, as compared to EUR 108.3 million at 31 December 2005). Other current assets include various receivables (including VAT credits), accrued income and deferred charges on service. The balance also includes certain financial records, among which cash and cash equivalents (EUR 10.6 million at 30 September 2006).

11. Assets held for sale

Assets held for sale amount to EUR 201.9 million at 30 September 2006 (EUR 254.8 million at the end of the preceding financial year) and refer to assets included in the financial statements of subsidiaries held for sale as well as to goodwill values accounted for in the consolidated financial statements (EUR 61.4 million related to operating activities in Germany, net of EUR 30 million write-down recorded on 30 June 2006, and EUR 35.6 million related to the Dutch subsidiary – Tiscali BV).

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

12. Non current liabilities

	30 September 2006	31 December 2005
Bonds	-	-
Payables to banks and other lenders	200,304	117,389
Obligations under finance leases	10,255	8,317
Other non current liabilities	130,677	21,192
Liabilities for pension obligations and staff severance	6,736	6,146
Provisions for risks and charges	46,030	16,295

Non current liabilities at 30 September 2006 amount to EUR 394.0 million (EUR 172.3 million at 31 December 2005). The significant increase is essentially due to changes of financial components, particularly medium/long term payables to banks (EUR 200.3 million at 30 September 2006, versus EUR 117.4 million at the end of the preceding financial year). Medium/long financial commitments also include financial leasing obligations (EUR 10.3 million).

Non current liabilities also include, under Other non current liabilities (EUR 130.7 million at 30 September 2006 versus EUR 24.2 at 31 December 2005), the medium/long payables to suppliers for the acquisition of multiyear IRU rights (indefeasible rights of use) to use network and bandwidth, as well as contractual debts towards the ex-shareholders of Video Networks Ltd (VNL), non existing at 31 December 2005 and related in particular to the current value of tax losses of such company (EUR 88 million at 30 September 2006). These have been assessed while determining the overall ‘fair value’ for VNL consolidation purposes. A deferred medium-long term payment has been contractually agreed.

The non current liabilities balance also includes the staff severance fund for employees of Italian companies (EUR 6.7 million at 30 September 2006) and provisions for risks and charges (EUR 46.0 million), chiefly related to VNL restructuring costs and disclosed in the relevant restructuring plan. The change with respect to the EUR 16.3 million balance at 31 December 2005 is thus motivated.

13. Current liabilities

	30 September 2006	31 December 2005
Bonds – Current value	-	211,044
Payables to banks and other lenders	167,960	17,954
Obligations under finance leases	9,619	10,683
Payables to suppliers	181,275	135,216
Other current liabilities	90,243	93,457

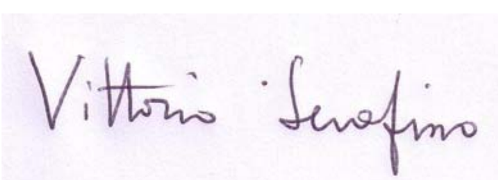
Current liabilities amount on the overall top EUR 449.1 million (EUR 468.4 million at 31 December 2005). Among financial records we point out payables to banks, EUR 168.0 million, whose dynamics as compared to the end of the preceding financial year (EUR 17.9 million) was chiefly due to changes in the financial components following the repayment of Equity linked bonds in September 2006 (EUR 211.0 million at 31 December 2005).

This item also includes obligations under finance leases (EUR 9.6 million).

Non financial records refer in particular to payables towards suppliers (EUR 181.3 million at 30 September 2005, versus EUR 135.2 million at the end of the preceding financial year), as well as to other current liabilities such as accrued liabilities related to the purchase of access services, line renting and other operating debts.

14. ONGOING DISPUTES, CONTINGENT LIABILITIES AND COMMITMENTS

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



For the Board of Directors
The Chairman
Vittorio Serafino