tiscali.

HALF-YEAR REPORT AS OF 30 JUNE 2006

Index

DIRECTORS AND AUDITORS

BOARD OF DIRECTORS

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Chief Executive Officer (CEO)

Tommaso Pompei

Chief Financial Officer (CFO)

Massimo Cristofori

Directors

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Deputy Auditors

Andrea Zini

Rita Casu

INDEPENDENT AUDITORS

Deloitte & Touche S.p.A.

KEY FIGURES

Income Statement (EUR ml)	*30 June 2006*	*30 June 2005*	*Change (%)*
• Revenues	413	354	17%
• Gross Operating Result (EBITDA)	64	52	22%
• Operating Result	(28)	(46)	(39%)

Balance Sheet (EUR ml)	*30 June 2006*	*31 December 2005*
• Total Assets	1,011	1,043
• Net Financial Debt	334	290
• Shareholder's Equity	237	311
• Capex	92	169

Non Financial Figures (000)	*30 June 2006*	*31 December 2005*	Net additions First-half
Access users	4,457	4,723	
ADSL (broadband) subscribers	2,073	1,715	358
Of which: ADSL unbundling subscribers	514	369	145

MARKET OVERVIEW[1]

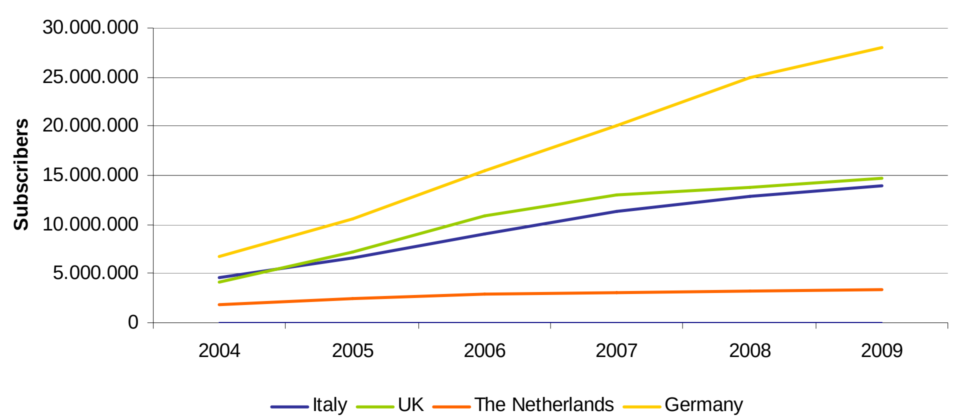
At the end of 2005, 93 million European households were connected to the Internet, with a residential market penetration of 30%. According to estimates, by the end of 2009 approximately 132 million households will be connected, with a residential penetration rate of approximately 41%.

As of 31 December 2005, the households connected to the Internet in Italy were 8.7 million (household penetration rate 37%), 16 million in the United Kingdom (63% penetration), approximately 5 million in The Netherlands (71% penetration) and 23 million in Germany (59% penetration) – (Source: IDC).

In Western Europe the demand for broadband services in 2005 has been quite strong, a trend continuing in the current financial year. As of 31 March 2006, broadband connections in Western Europe were over 70 million lines, with a growth of approximately 22 million lines as compared to the end of March 2005 (+47%).

The breakdown of the single countries where Tiscali operates as of 31 March 2006 is as follows: in Italy approximately 7.3 million broadband connections; in the United Kingdom approximately 10.8 million; in The Netherlands 4.3 million and over 12 million in Germany.

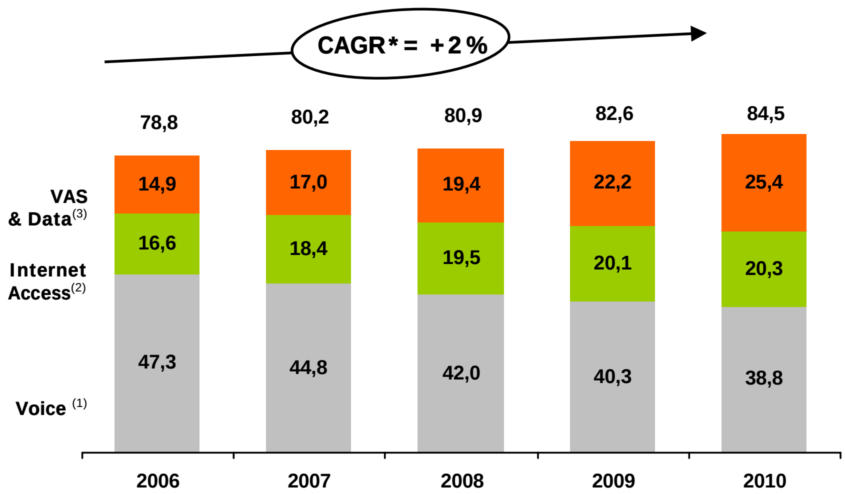
Estimates: BB DSL subscribers



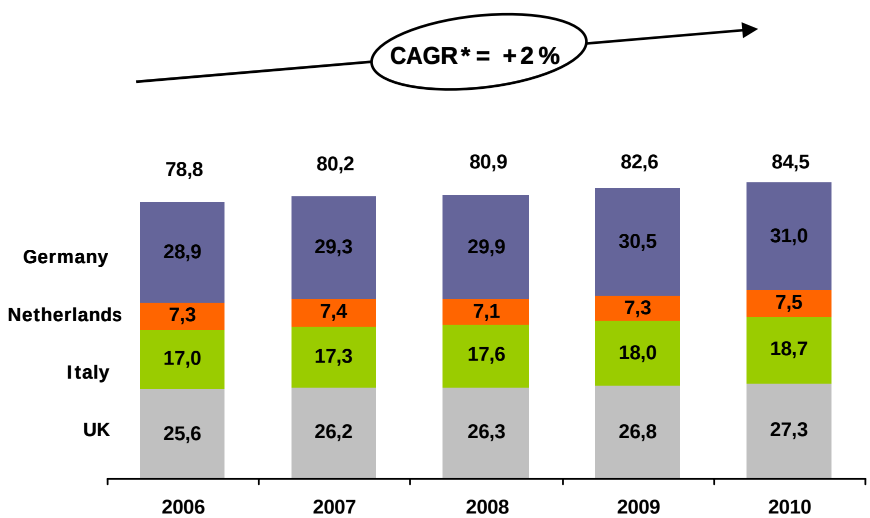
This significant growth of broadband product and service demand is associated to strong competition and consequently to an expansion of service offers and pressure on prices, in a context of wider band availability and of growing demand sophistication, both by residential and business customers.

[1] Unless otherwise indicated the source of data reported in this section is CMA/Dataxis

Fixed TLC market by segment (EUR bln)



Fixed TLC market by country (EUR bln)



*: Compound annual growth rate

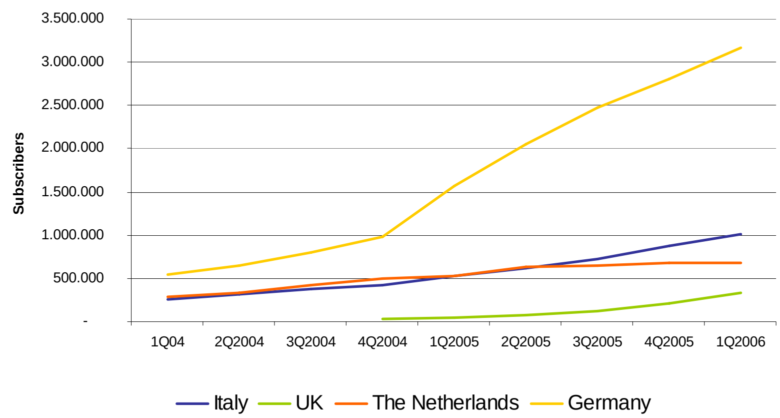
The growing competition and the possibility to invest in network infrastructure led to an erosion of the broadband market share for the so-called incumbent operators. IDC estimates the European incumbent market share to be 46% with respect to all Internet access providers, while the 68% of connections are provided through their networks. There is a growing competition by alternative operators using local loop unbundling. At the end of 2005, alternative operators were providing 15% of broadband connections, a market share similar to that of cable operators.

At the end of first quarter 2006, Telecom Italia held a broadband market share equal to 78%; BT a market share of 25%. In The Netherlands the share held by KPN was 35% while in Germany, Deutsche Telecom had a market share of 28%.

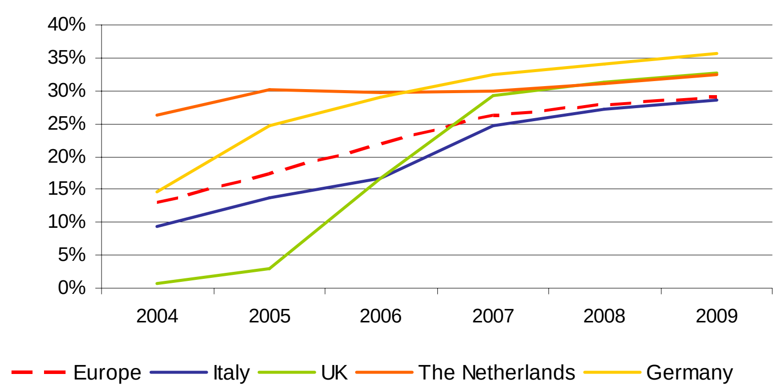
Investments in network infrastructure by alternative operators

In the last few years, an increasing number of operators have started to invest in proprietary platforms, taking advantage of regulations and procedures more favourable to local loop unbundling, of decreasing costs and of the growing demand of broadband access. Investing to achieve direct contact with customers involves higher margins, improved flexibility in the differentiation of product offer and a better ability to retain customers, which is a quite significant factor most of all when these operators offer services that are complementary to access such as Voice over Internet Protocol (VoIP) or multimedia content.

DSL Unbundling Subscribers Growth



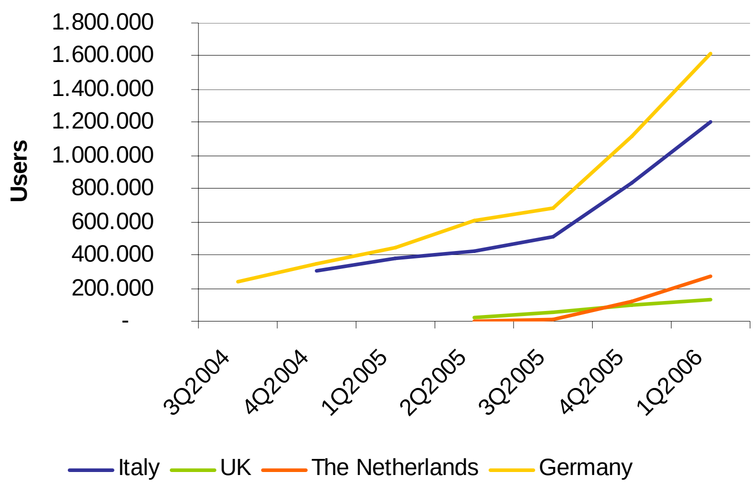
Unbundling market shares



Increased offer of integrated services

In this competitive scenario – within which broadband plays a strategic role – operators are positioning themselves on the market as providers of integrated telecommunication services (data, voice and video). This market dynamic foretells an exposure of the ex monopolists that could suffer negative effects on their traditional business lines (such as PSTN), due to the diffusion of broadband and of the related services. As to alternative operators, these services offer a significant opportunity to increase revenues, which is necessary in a long-term sustainability perspective. In this regards, we point out that at the end of first quarter 2006 the VoIP connections in Europe were approximately 10 million (nearly threefold as compared with 31 March 2005) of which approximately 8 million through DSL. In Italy as at 31 March 2006, the DSL VoIP connections were over 1.2 million; 131,000 in the United Kingdom, 269,000 in the Netherlands and over 1.6 million in Germany.

VoIP (DSL) user growth



The average downstream speed for broadband connections has considerably increased over the past few years. Operators have accordingly and repeatedly increased bandwidth, often at no additional cost.
Broadband access demand should remain significant also over the next few years. According to Dataxis, total broadband connections should increase from 50 million at the end of 2005 to approximately 117 million in 2009. High-speed Internet access should be the main growth driver at short-term while VoIP and IPTV will be the most important demand drivers in the medium and long-term.

REGULATORY FRAMEWORK

European regulation

During 2005, the official implementation process of the new EU regulatory framework for the electronic communications sector[2] was completed by all member states, except Greece.

The European Commission has however identified many substantial legislative problems at national level in the adoption of the European Law and has started infraction procedures against the 18 member States.

Following is a brief presentation of the regulatory situation concerning wholesale markets for broadband services (wholesale/bitstream market 12, ULL, market 11) in the main markets in which the Tiscali Group operates.

	Italy	**United Kingdom**
WHOLESALE	The price is based on the ”retail minus” formula which allows for very low margins of around 20%. In the first quarter of 2006, AGCOM approved a provision that introduced a cost oriented wholesale offer.	Wholesale allows alternative operators margins of approximately 35%. The price that the alternative operators pay the former monopolists is based on the °retail minus° formula. In 2005, BT decreased the costs of migration substantially, for wholesale as well as data stream. OFCOM (the regulatory Authority), had concluded the analysis of the market in 2004, much ahead of the rest of the EU. An initial review of the results had been set for 2005 but was postponed to 2006. A premature deregulation would force the issue, resulting in quicker adoption of unbundling by alternative operators.
BITSTREAM	Together with the provision mentioned above, AGCOM has also introduced a bitstream offer.	Authorized in 2002. The margins are regulated by Ofcom. This model allows for reasonable margins (approximately 40%) and the flexibility to offer specific tailor made services to retail.
ULL	ULL tariffs are among the lowest in Europe even though the initial investment required continues to be onerous. The so-called override mechanism has been authorized for "shared access," that is the ability to activate an ADSL service as "shared access" for a client that has already concluded an ADSL subscription with another provider without requiring this previous subscription to be cancelled. The mechanism was already in existence for full unbundling and will lessen migration and activation times for customers.	Ofcom has decreased the activation costs and the recurring costs. Investments in ULL began in the first quarter of 2005. Ofcom has pushed the incumbent (BT) to maintain fixed prices for unbundling until 1.5 million lines are reached. Furthermore, BT has announced further price reductions for the migration as of 1 July 2006. These initial moves have created ideal conditions for investments by alternative operators.

[2] Directives of 7 March 2002: “Framework” 2001/21; “Access” 2002/19 ; “Authorisations” 2002/20; “Universal service” 2002/22; Electronic Communication Privacy Framework” 2002/58 of 12 July 2002.

AGOM has divided VoIp into two categories: Roaming and semi-roaming services The first can be used anywhere in the world where there is an internet connection, will have special numbers (in 5 decimals) while the second can be used only within a specific telephone district and will have geographic numbers, with the area code of the city they belong to. The semi-roaming service will be equivalent to the Pats (Publicly available telephony service): the regular fixed telephony services. Only operators that have a Pats license will therefore be able to provide geographical numbers. In the quarter following the publication of the resolution, AGCOM will also introduce rules for interoperability of VoIP services.

Recent analyses of the market have not taken VoIP into account, due to the limited diffusion of the service at this time. However, OFCOM does not seem to be ready to intervene in this segment in the short term.

	The Netherlands	Germany
WHOLESALE	The wholesale offer allows for margins of about 30% and does not include the last mile. The customer receives two invoices: one from the ISP for the service and one from the incumbent for the ADSL line. The wholesale offer for the entire territory published at the beginning of the year by KPN is not very convenient as an alternative for the areas not covered by LLU. .	The available wholesale offer allows margins that exceed 30% even in cases in which the last mile is managed by the incumbent. As of August 2004, the last mile was also liberalized
BITSTREAM	The market has been divided into two segments: High quality (overbooking ratio of 1.20 or more), for business customers and low quality (overbooking ratio lower than 1.20) for residential customers. OPTA (the Dutch Regulatory Authority) has assigned SMP (Significant Market Power) to the incumbent KPN for the first, while – despite the doubts expressed by the European commission to this effect – it has concluded that there are no dominant providers in the residential market. The absence of a bitstream offer for the residential customer base creates difficulties in ranking the investments, as the move is directly from wholesale reselling to LLU, while the same holds true for consolidation of the client base. The European commission has however asked the regulator to repeat the analysis after one year and has been able to introduce a test to verify the actual availability of KPN to conclude business agreements for residential bitstream	The market analysis completed in December 2005 has identified DTAG as a dominant operator in the two segments the market has been divided into (ATM and IP). A reference offer for bit stream should be finalized by the end of 2006.
ULL	The analysis of this market has confirmed that KPN is the dominant provider and has upheld the regulatory obligations already defined through the previous regulatory framework, in addition to introducing new methods for the determination of tariffs.	The market analysis has recognised DTAG as the incumbent and as a provider with significant market power. Negotiations continue for improvement of the provisioning and co-location terms. No decreases in the prices offered by the incumbent are anticipated and the unbundling prices continue to be very high
VoIP	OPTA has decided to include VoIP in the fixed telephony market, making it mandatory to offer the service at prices that are not inferior to cost.	VoIP is considered as part of the voice market, but BNetzA has not yet decided on the treatment that it will be accorded. .

The following table summarises the conclusion of each market analysis carried out by the relevant NRA, concerning the Group's reference countries.

Country	Significant markets																	
	1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**	**13**	**14**	**15**	**16**	**17**	**18**
Germany								a	v	A	a							
Italy	a	a									a	a	a	A	a	a		
The Netherlands	a	a	a	A	a	A	a	a	a	A	a	a	a	A	a	a		a
UK	a	a	a	A	a	A	a	a	a	A	a	a	a	a	a	a		a
Legend																		
		Market with competition– no *ex ante* obligation																
		Market without competition–*ex ante* obligations																
		Market with partial competition– partial *ex ante* obligations																
	a	Final measures adopted																
	v	EU veto of market analysis																
Data updated at 07-06-2006, source EU																		

Retail services: 1. Access to the public telephone network from fixed line for residential customers / 2. Access to the public telephone network for non residential customers / 3. Local and/or national telephone services available to the public from fixed line for residential customers / 4. International telephone services available to the public from fixed line for residential customers / 5. Local and/or national telephone services available to the public from fixed line for non residential customers / 6. International telephone services available to the public from fixed line for non residential customers / 7. Minimum set of rented lines (including the special type of rented lines up to 2 Mbit/s, mentioned in art. 18 and attachment VII of EU Directive on Universal Service).
Wholesale services: 8. Collection of calls in the public telephone network on fixed line / 9. Termination of calls on single public telephone networks on fixed line / 10. Transit services in fixed public telephone network / 11. Wholesale unbundled access (including shared access) to metallic networks and sub-loops, for the purpose of providing broadband and vocal services / 12. Wholesale broadband access. This market covers the numerical flow access («bitstream») allowing broadband bidirectional data transmission and other types of wholesale access provided through other infrastructures, provided these involve issues equivalent to numerical flow access / 13. Wholesale supply of terminal segments of rented lines / 14. Wholesale supply of rented lines segments on interurban circuits / 15. Access and collection of calls on mobile public telephone networks / 16. Termination of vocal calls on single mobile networks / 17. Wholesale national market for roaming international services for mobile public telephone networks / 18. Radio-television broadcasting for content transmission to final users.

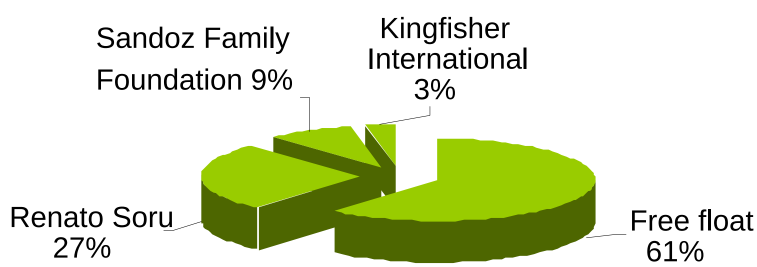
Quite important at the moment is the publication of documents and drafts related to the Review of the European Regulation Framework. The Commission has launched a public consultation, to be closed on 27 October 2006, which will be followed by a co-decision procedure by Council and EuroParliament and by the approval in 2007 of the updated European Regulation Framework.

TISCALI SHARES

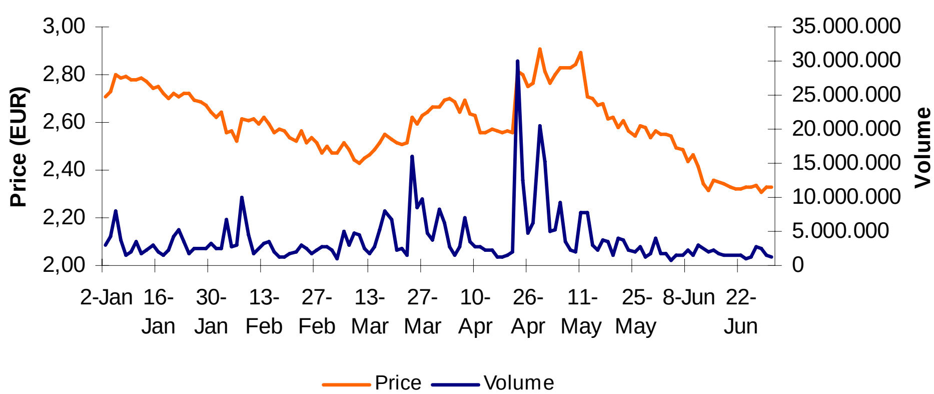
Tiscali shares are listed on the Blue Chip segment of the Italian Stock Exchange (TIS). As of 30 June 2006, the Company had a market capitalisation of EUR 922 million.

The Group share capital corresponds to 396,738,142 shares and is unchanged as compared to 31 December 2005. The chart below illustrates Tiscali's shareholder base, unchanged as compared to 31 December 2005:

Shareholder base as of 30 June 2006



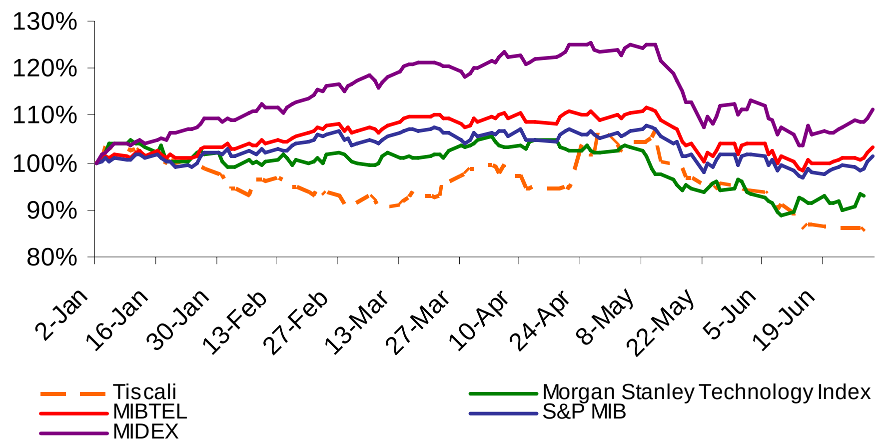
In stock market terms, the negative trend of the six-month span registered an inversion from mid-April to the end of May, with an uptrend favoured by the publication of good results achieved in first quarter. The graph below describes Tiscali stock performance during the first six months of 2006:



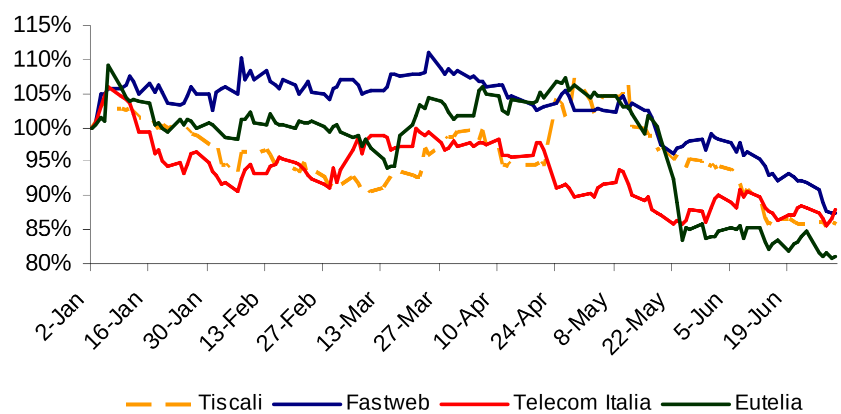
The average share price during the six-month span was EUR 2.59. The maximum price of the period – EUR 2.91 – was recorded on April 28, while the minimum – EUR 2.31 – on 28 June 2006.

Compared to market indexes, Tiscali stock underperformed up to mid-April with respect to the MIBTEL, MIDEX, Morgan Stanley Technology Index and S&P Mib indexes. In the last part of the six-month span, Tiscali stock has reduced the gap with respect to market indexes, settling for several weeks above the Morgan Stanley Technology Index.

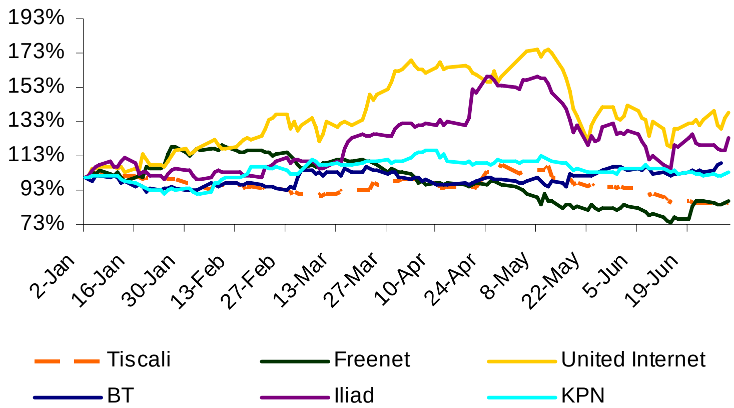
The graph below illustrates the trend of Tiscali stock as compared to market indexes:



The graph below illustrates Tiscali stock performance vs that of Italian competitors:



The graph below illustrates Tiscali stock performance vs European operators.



In the six months the trading volumes of the stock stood at a daily average of 3.8 million shares for an average daily value of EUR 9.8 million. In the first six months of 2006 the value of trades was EUR 1,250 million.

Average daily trades of Tiscali shares on Italian Stock Exchange

	Price (EUR)	Number of Shares
January	2.73	3,020,534
February	2.56	3,062,642
March	2.54	4,959,209
April	2.66	5,995,279
May	2.69	4,277,978
June	2.39	1,742,768
Average	**2.59**	**3,796,361**

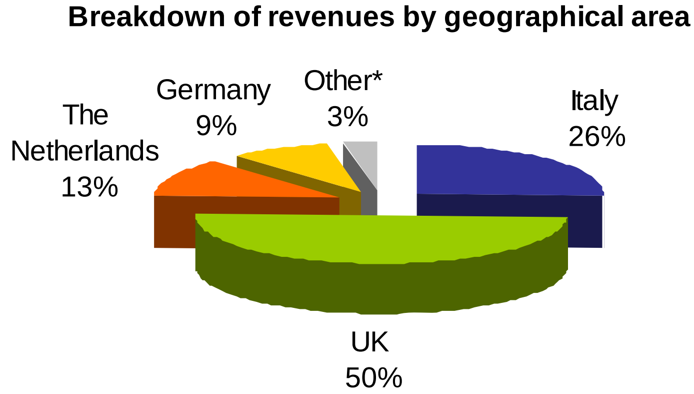
REPORT ON OPERATIONS

RESULTS AND PERFORMANCE OF THE TISCALI GROUP

CONSOLIDATED INCOME STATEMENT	30 June 2006	30 June 2005	Change (%)
EUR (000)			
Revenues	412,467	353,651	+17%
Other operating income	3,754	3,986	(6%)
Purchases of materials and external services	293,174	242,922	+21%
Personnel costs	57,287	56,253	+2%
Other operating expenses	2,004	6,051	(67%)
Gross Operating Result	**63,756**	**52,411**	**+22%**
Restructuring costs, other provisions and write downs	17,524	30,458	(42%)
Depreciation and amortisation expense	74,710	68,388	+9%
Operating Result	**(28,478)**	**(46,435)**	**+39%**
Non recurring impairment of goodwill	**(30,000)**	**-**	
Operating result net of non-recurring impairment of goodwill	**(58,478)**	**(46,435)**	**(26%)**
Share of the profit or losses of associates accounted for using the equity method	**(224)**	**(696)**	**+68%**
Net financial income (Expenses)	**(11,130)**	**(19,018)**	**+41%**
Income (loss) before taxes	**(69,832)**	**(66,149)**	**(5%)**
Taxation	(693)	45,053	
Income (loss) from continued operations	**(70,524)**	**(111,202)**	**+36%**
Income (loss) from discontinued operations	(3,616)	125,741	
Net income (loss)	**(74,140)**	**14,539**	

In the first six months of 2006, Tiscali Group's revenues stood at EUR 412.5 million, increased over 17% compared to the same period of 2005 (EUR 353.7 million), thanks in particular to the continuously growing trend of revenues from ADSL access services.

Revenues by geographical area



** Other includes revenues from subsidiaries in the Czech Republic and Tinet.*

<u>Italy</u>

In the first six months of the 2006 financial year, Tiscali Italia has seen an acceleration of the growth of its ADSL user base. Over 81,000 net activations at the end of June 2006 bring the total number of ADSL subscribers to approximately 384,000, with a growth of 27% as compared to the end of the 2005 financial year (approximately 303,000 ADSL subscribers). The users connected through the Tiscali network infrastructure (unbundling) are 153,000, up 47% as compared to the end of December 2005 (104,000 units), thanks to the proprietary network infrastructure (ULL) of 440 collocations at 30 June 2006. As compared to 31 December 2005, the users subscribing Double Play services (data and voice) have tripled, reaching approximately 50,000 units. The dial-up users, approximately 931,000 show a physiological slowdown.

The Group's revenues in Italy, essentially relative to Tiscali Italia S.r.l., amount to EUR 106.2 million, showing an increase of 7% as compared to the same period of the previous year (EUR 99.1 million). The turnover generated by the Italian subsidiary accounts for 26% of the Tiscali Group's revenues. The revenues generated by ADSL access services, EUR 33.4 million, increase by 34% (EUR 25.0 million in the first six months of 2005). The incidence of ADSL revenues on access revenues is increasing: from 38% of the first six months 2005 to the current 48%. Revenues generated by the voice services are EUR 18.1 million of which EUR 3.3 million owing to VoIP services.

The growth of the user's base in the six months was favoured by the quality of Tiscali products and commercial offers. In this regard, during the first three months of 2006, two products have been launched: the 24 mb/s product for residential customers (already available since October 2005 for business customers) and the ADSL access product 4 Mb/s "Double Play" including VoIP (Voice over IP) at the cost of EUR 19.95, which was quite successful. In May Tiscali Italia has launched a new ADSL and voice offer - Tiscali Tandem – that is a range of "flat" solutions allowing navigating and calling fixed network numbers without limits, all over Italy, both in the areas covered by the unbundling network and in those not yet covered.

United Kingdom

The subsidiary operating in the United Kingdom (Tiscali UK) continued its extraordinary growth in the first six months of 2006. The period saw over 266,000 net activations of ADSL services, with a growth rate of 28% of the ADSL user base as compared to the end of the previous financial year (934,000 units). At 30 June, Tiscali ADSL user base in the United Kingdom is approximately 1.2 million users. The six-month span also saw the successful roll-out of the ULL network, with the consequent migration of existing customers. Subscribers with direct access (unbundling) are approximately 85,000. Collocations activated at 30 June 2006 are 217. Notwithstanding the physiological slowdown, the dial-up user base, 928,000 units, is still significant.

From the marketing viewpoint, the most successful product on this market in these first six months is the unlimited 1 Mb access, offered at a monthly rate of at GBP 14.99.

The revenues generated by the British subsidiary are EUR 205.7 million, up 39% as compared to EUR 148.4 million of the first half 2005. Thanks to revenues equal to 50% of the overall Group's revenues, Tiscali UK is currently the main 'growth driver' for the Group's revenues. Revenues generated by ADSL access services amount to EUR 127.6 millions (83% of revenues of the access segment), with a percent increase of 76% as compared to the first six months of 2005 (EUR 72.4 million – 65% of access revenues).

The Netherlands

The Group's performance in The Netherlands is influenced by the special context of this market, as compared to the other markets on which the Group operates, that is in a very mature broadband market. Notwithstanding this, the six-month span saw 26,000 net activations. At the end of June, the user base registered 276,000 users with a satisfactory increase of 10% as compared to 31 December 2005 (250,000). Please note that since the fourth quarter of 2005 practically all Dutch subscribers use the Group's network infrastructure. The users that subscribed a data and voice *bundled* offer are approximately 49,000. Dial-up users accessing the Internet are still 126,000.

Revenues generated by Tiscali BV in the six-month period amount to EUR 52.2 million, up 5% as compared to EUR 49.8 million of the first six months 2005. The Dutch subsidiary contributes 13% to the Group turnover. The ADSL access revenues amount to EUR 36.4 million, up 8% as compared to EUR 33.6 million revenues of the first six months of 2005. With regard to the incidence on access revenues, this increases in one year from 72% to 84%. VoIP revenues amount to EUR 3.2 million.

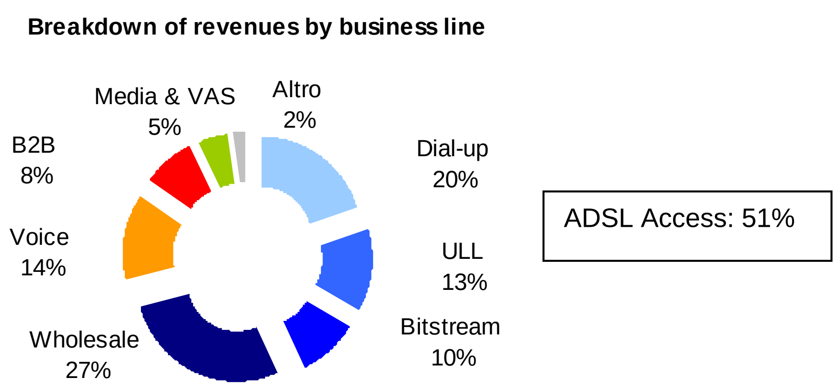
Germany

The characteristics of this market, both concerning regulations and competition, and the consequent strategic policy, limiting infrastructural and marketing investments, have had a significant impact on the German subsidiaries performance in the first six months of the year. At the end of June the ADSL subscribers were 205,000, down as compared to 215,000 users in the first six months of 2005. A positive trend is shown concerning the Double Play (data and voice) service subscribers, as 22,200 is a nearly twofold figure as compared to 31 December 2005. The dial up user base includes 324,000 users.

Revenues generated by subsidiaries operating in Germany (*Tiscali GmbH* e *Tiscali Business)* amount to EUR 36,4 million, down 14% as compared to EUR 42.1 million of the end of June 2005. The German subsidiaries' revenues are 9% of the Group's revenues. ADSL (broadband) revenues amount to EUR 12.0 million, equal to 50% of access revenues, down compared to the first six months of 2005 (EUR 14.4 millions – 46% of access revenues). The VoIP revenues stood at EUR 1.6 million.

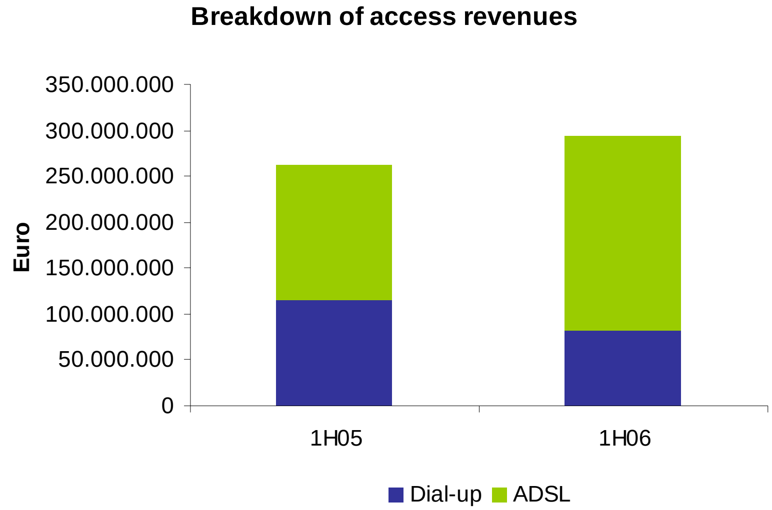
At 30 June 2006 the subsidiary operating in the **Czech Republic** has approximately 9,000 ADSL subscribers (+40% compared to 31.12.2005) and 74,000 dial-up users. Revenues from such subsidiary amount to EUR 6.9 million, approximately 2% of the Group's revenues, down 24% as compared to the same period of the 2005 financial year (EUR 9.1 million).

Revenues by business line



Access

In the first six months of 2006, access Group's revenues amount to EUR 293.5 million, with a 12% increase as compared to the same period of the 2005 financial year (EUR 262.6 million, 74% of Group's revenues). From the viewpoint of business lines, this is the most significant and has a 71% relative incidence on the Group's revenues.



The weight of the ADSL/broadband segment (72%) prevails within the access business line. In the six-month span revenues generated by the broadband access are EUR 210.6 million, up 44% compared to the same period of the preceding financial year (EUR 146.2 million, 56% of access revenues). Net activations posted in the first six months of the year are approximately 360,000 (+ 21% as compared to 31 December 2005). In these six months the number of ADSL subscribers increased from 1,715,000 to 2,073,000 at the end of June 2006. Of these subscribers more than 25% have direct access (+37% as compared to 369,000 at 31 December 2005).

In parallel to the growth of broadband access, an opposing tendency is noted concerning the dial-up services, due to the unavoidable development of technology. This segment is decreasing in all markets and indeed in the twelve-month span the incidence of dial-up revenues over access revenues is decreased from 44% to 28%. In the six-month span the segment revenues amount to EUR 82.9 million, down 28% as compared to EUR 115.8 million posted in the first six months of 2005. At 30 June 2006, the dial–up users are approximately 2.4 million, with a 21% decrease as compared to 31 December 2005 (3 million).

Voice

The voice revenues at 30 June 2006 amount to EUR 57.6 million, and show therefore an increase compared to the same period of the previous financial year (EUR 44.0 million – 12% of total revenues), representing 14% of total revenues. It should be underlined that following technology developments the revenues generated by voice services benefit from offers of Voice over Internet Protocol (VoIP), available in 4 main countries where the Group operates. In the first six months of the year VoIP posts revenues of EUR 8.1 million and has over 120,000 subscribers. Please note that in the United Kingdom, the VoIP has been launched only at the beginning of the second half.

Business services

In the first six months the revenues of the business service line, including VPN, housing, hosting, domain services and leased lines, stand at approximately EUR 33.1 million, +16% as compared to the same period of 2005 (EUR 28.5 million). The 8% incidence over Group's revenues is stable. Revenues generated by company Internet access (both dial-up and ADSL) are included in access revenues but should it be possible to add to this revenue line also revenues generated by ADSL business users (EUR 49.4 million), classified in the Access segment, the values would be equal to approximately EUR 82.5 million.

Media and Value-Added Services

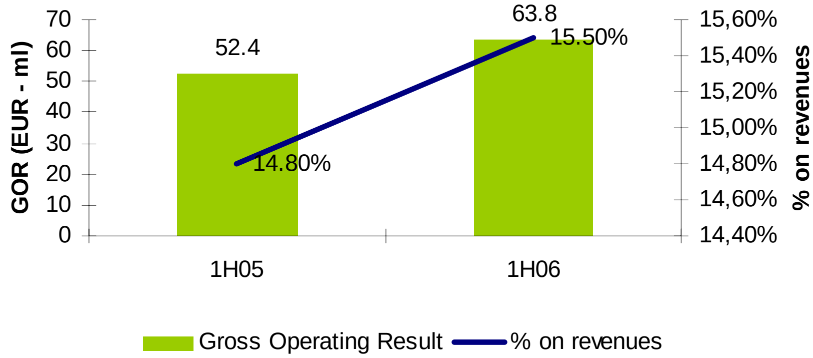
In the first six months, the revenues generated by media and value-added services amount to EUR 22.0 million (5% of total revenues) compared to EUR 14.6 million (4% of total revenues) posted last year. In these six months the performance of this business line has been significantly good (+50%) thanks to an improved Group's focus on value-added services and on content. Partnership agreements (Google above all) and the development of online advertising are points of strength of this segment.

In order to strengthen the development of services in this segment the 'Tiscali Lab' structure has been launched in May.

The Group's strategy of the last few months, focusing on value-added services, has been appreciated by the market, as demonstrated by the award granted to the Tiscali UK portal at the end of February. The portal was the first in the classification "Best portal Award at ISPA's Annual event".

Gross Operating Result

At 30 June 2006, the Gross Operating Result (EBITDA), before provisions for risks, write downs and depreciation, was EUR 63.8 million, showing a significant 22% improvement as compared to EUR 52.4 million of the first half 2005. In terms of incidence on revenues the gross operating result increases from 14.8% to 15.5%.



In the first six months of 2006, 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*) amounted to EUR 202.7 million, with an incidence on revenues exceeding 49%. The control of variable cost dynamics (among which particularly significant are regulations related to 'traffic') and the migration of the DSL users from indirect access (*wholesale*) to direct access (ULL), permitted to maintain a good performance level, despite strong competition on service sale prices.

Indirect operating costs amount to EUR 141.1 million, a 34% incidence on revenues. Significant and positive is the decreased incidence of these costs on Group's revenues, from 40% to 34%. In the first six months of 2005 indirect operating costs were EUR 140.0 million. As stated in the notes to financial statements, we wish to specify on comparative data of the first half 2005, some of which underwent reclassification with respect to data published in the First-Half Report 2005. 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.

Marketing costs, also including sales and distribution expenses, amount in the first six months of 2006 to EUR 56,2 million (14% of revenues). The increase generated by comparison to EUR 55.9 million (16% of revenues) of the first half 2005, is not significant and can be correlated to the level achieved by such costs in absolute terms and to the dynamics and schedules of the marketing campaigns planned during the financial year.

Personnel costs stand in the six months at EUR 57.3 million, with an increase of approximately EUR 1.0 million in absolute terms as compared to 30 June 2005, mainly due to the activity volume growth. Such circumstance has determined at the same time a positive effect in terms of decrease of the incidence of this cost on revenues decreasing from 16% to 14%. Headcount of Tiscali Group at 30 June 2006 is 1,728.

In the first six months of the financial year *Other indirect costs* amount to EUR 27.6 million, substantially stable in absolute terms, but improved (from 8% to 7%) as incidence on revenues. In the first six months of 2005 other indirect costs stood at EUR 27.8 millions.

Operating Result

The operating result of the first six months of 2006 (loss of EUR 28.5 million) shows a further and significant improvement (+39%) compared to the operating loss of EUR 46.4 of the first half 2005, confirming the positive trend and goals to achieve the operating break-even at Group's level.

At 30 June 2006, depreciation and amortisation expenses for tangible and intangible assets stand at EUR 74.7, compared to EUR 68.4 million of the first half 2005. The increase is due to significant investments made in the period to develop the unbundling network and the offer of ADSL services (modem and activation costs), particularly in the United Kingdom and Italy.

Provisions for risks and write-downs, together with restructuring costs, stood at EUR 17.5 million, versus EUR 30.5 million in the first half 2005. This significant improvement in absolute terms is due to a decrease of restructuring costs, from EUR 17.5 million to EUR 7.7 million, mainly related to the German operating subsidiaries. Credit write-downs stand at EUR 9.5 million at 30 June 2006, versus EUR 9.9 million of the first six months of the previous financial year, with a percentage incidence on revenues slightly exceeding 2%, i.e. improved as compared to the previous financial year.

Operating Result by geographical area

Details regarding the operating results by geographic area allow for an analysis of the performances of the Group's operating subsidiaries in the different geographic areas for the first six months of 2006.

The gross operating result in **Italy** (related to Tiscali Italia S.r.l. and to some minor subsidiaries) amounts to EUR 14.5 million (14% of revenues) compared to EUR 15.5 million in the first half 2005. The result should be considered positive as in the first six months of 2006 marketing expenditure was higher than in the first half 2005. The operating result, negative at EUR 8.7 million is compared to the loss occurred in the first half 2005, EUR 3.4 million. The current financial year results are due to amortisation of infrastructure investments and to the growth of customers.

The marked growth of revenues and the management of cost structure permitted a significant increase in absolute terms of the gross operating result of Tiscali UK (**United Kingdom)** in the first six months of 2006, i.e. EUR 34.5 million (17% of revenues), versus EUR 22.1 million (15% of revenues of the first half 2005). The operating result, net of depreciation/amortisation and write-downs, is still negative at EUR 6.6 million (negative at EUR 3.7 million in the same period of the previous financial year); this performance is affected by amortisation related to investments for the development of Tiscali UK own ULL network infrastructure.

At 30June 2006 **The Netherlands** registered a positive gross operating result (EUR 23.1 million, equal to 44% of revenues) up compared to the positive result of EUR 12.2 million (24% of revenues) of the first half 2005. Consistently with the business model that, in advance with respect to other subsidiaries, supports customers through its own network infrastructure, thus achieving higher margins, the subsidiary has achieved positive results also in terms of operating results (EUR 9.7 profit versus a negative operating result of EUR 5.8 million in the same period of 2005).

The slow down of revenues in **Germany** continues to affect negatively the operating performances, causing a decrease of the gross operating result and of the operating result. At the end of June 2006, the gross operating result is substantially balanced, but lower than result at 30 June 2005 (positive at EUR 5.7 million). The period operating result, affected among else by an ongoing reorganisation process, is negative at EUR 10.5 million, versus the loss of EUR 2.3 million of the corresponding period of 2005. The market scenario is still uncertain and is undergoing assessment by Tiscali who however has done in the first few months of 2006 some selective investments in the ULL network.

In the first six months of 2006, the **Czech Republic** showed a negative gross operating result of EUR 301,000 as compared to a gross operating result of EUR 446,000 at 30 June 2005. The operating result at the end of June 2006 is negative for EUR 1.9 million, versus a loss of EUR 1.2 million in the corresponding period of 2005.

Operating result net of non-recurring impairment of goodwill

The result under examination, negative for EUR 58.5 million, indicates the effect on the operating result of the EUR 30 million non-recurring impairment of the German subsidiaries' goodwill, due to the difficult conditions of the reference market and negative results.

Result from continuing operations

In the first six months of 2006, the result from continuing operations is negative at approximately EUR 70.5 million, compared to the loss of EUR 111.2 million of the first half 2005.

Net Profit (Loss)

The six-month span at 30 June 2006 ends with a net loss of EUR 74.1 million, compared to the net profit of EUR 14.5 million of the first six months of the preceding financial year, essentially due to the result of discontinued operations, positive at EUR 125.7 in 2005. This is not particularly significant at June 2006 in consideration of the fact that the ongoing financial year does not involve extraordinary operations related to participations.

However, at 30 June 2006, circumstances do not advise further allocations and/or the utilisation of deferred tax assets on tax losses compared to the figure recorded on the consolidated balance sheet at 31 December 2005, which will be assessed later in the financial year.

BALANCE SHEET AND FINANCIAL POSITION

CONSOLIDATED BALANCE SHEET EUR (000)	**30 June 2006**	**31 December 2005**
Non-current assets	788,381	808,644
Current assets	214,819	217,764
Assets held for sale	7,767	16,707
Total Asset	**1,010,967**	**1,043,115**
Shareholder’s Equity (Group)	234,500	308,767
Minority interests	2,563	2,553
Total Shareholder’s equity	**237,062**	**311,320**
Non-current liabilities	212,592	186,375
Current liabilities	554,967	533,698
Liabilities directly related to assets held for sale	6,346	11,722
Total Shareholder’s equity and liabilities	**1,010,967**	**1,043,115**

ASSETS

Non current assets

Non-current assets for EUR 788.4 million basically consist of Goodwill, whose value of EUR 283.5 million is decreasing compared to 31 December 2005 as a consequence of the impairment related to Germany.

Tangible assets (property, plant and machinery) and other intangible assets amount respectively to EUR 160.8 million and EUR 182.2 million.

Investments

Tiscali Group's investments in the first six months of 2006 are related to the expansion of the unbundling network, mainly in the United Kingdom and to operating investments related to the connection and activation of new customers in the various countries. Investments breakdown is as follows: approximately EUR 92.0 million of which EUR 70.5 million attributable to intangible asset investments and approximately EUR 21.5 million to tangible asset investments.

Intangible asset investments are mainly related to ADSL customer activation costs, and to new IRU contracts (Indefeasible Rights of Use), related to the acquisition of rights to use network and bandwidth. Tangible asset investments refer to the acquisition of equipment for the development of the unbundling network. Such investments allowed us to reach and activate 217 sites in the United Kingdom. In Italy and The Netherlands, collocations are 440 and 250, respectively.

Current assets

At 30 June 2006, receivables from customers stand at EUR 138.7 million and are the most significant item under current assets. Other receivables and current assets also include accrued income on access services provided, prepayments for service costs and various receivables, including VAT credits.

LIABILITIES

Non-current liabilities

In addition to the items applying to the financial positions listed under the next note, these liabilities include in particular, under non-current liabilities, the medium and long term payables to suppliers for the purchase of multi-year rights for transmission capacity (IRU).

Current liabilities

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

FINANCIAL POSITION

As of 30 June 2006, the Tiscali Group's cash and cash equivalents totalled EUR 23.5 million, while the net financial position at the same date is negative at EUR 334.4 million (EUR 290.1 million at 31 December 2005). The financial position concerning continued operations is summarised in the table below:

EUR (ml)	Note	30 June 2006	31 December 2005
Cash		***23.5***	***30.0***
Other financial assets		***28.4***	***34.3***
Of which			
Escrow accounts		12.0	18.0
Tax receivables and other financial assets		16.4	16.3
Total cash and other financial assets		**51.9**	**64.3**
Bonds (Equity Linked Bonds) – September 2006		216.0	211.0
Total bonds		***216.0***	***211.0***
Long and medium term loans	(a)	101.1	89.2
Bank overdraft and short term loans		41.0	19.7
Total bank debts		***142.1***	***108.8***
Payables to other lenders (leasing)		***28.3***	***34.5***
Total gross debt	(b)	**386.3**	**354.4**
Total net debt		**334.4**	**290.1**

(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 June 2006, including interests)

The net financial position variation in the first six months of 2006, including financial charges, is negative at EUR 44 million. This is mainly due to the use of cash for operating management purposes and to the increase of bank loans, particularly in relation to the medium/long term operation agreed with Silverpoint which is analysed in the following sections.

Cash variation in the first six months of 2006, including financial charges, is negative at approximately EUR 7 million. This result is mainly due to significant investments (EUR 92 million) for the development of our customer base and of the unbundling network infrastructure, as well as to financial charges paid (EUR 10 million).

SIGNIFICANT EVENTS IN THE FIRST SIX MONTHS OF 2006

Appointment of Tommaso Pompei as Chief Executive Officer
On January 11, 2006, the Board of Directors of Tiscali S.p.A. has appointed Tommaso Pompei as Group's Chief Executive Officer (CEO).

Extension of the Silverpoint facility
In June 2006 an agreement has been signed with Silver Point Finance LLP to increase the existing senior secured facility granted to the Tiscali Group in August 2005 by EUR 70 million, bringing the total commitment to EUR 220 million, of which EUR 75 million were drawn at 30.06.2006. The use of the residual EUR 145 million, maturing three years after drawdown will be used mainly for the repayment of the Equity Linked Bonds due September 2006.
The rate has been initially set at EURIBOR +800bps, to reflect market conditions and the increased commitment by Silver Point towards the Group. The security package includes some 'covenants and negative pledges' described in the notes to financial statements, together with a pledge over the shares of Tiscali Group's operating subsidiaries.

Resignations of Board Members Bischoff and Prêtre
On May 19, 2006, Tiscali S.p.A. has announced that, following the approval of the FY2005 results the Board Members Victor Bischoff and Gabriel Prêtre resigned for personal reasons linked to new professional commitments.

Equity Linked bonds –Capital increase has been approved
On June 22, 2006, Tiscali's shareholders meeting in third and extraordinary call approved the proposed capital increase with waiver of pre-emption rights for a maximum nominal value of EUR 13,837,517 through the issuance of a maximum 27,675,034 new ordinary shares at EUR 0.50 nominal value each, with regular entitlement. The capital increase, corresponding to 6.98% of the existing share capital, is exclusively dedicated to the reimbursement of the "EUR *€209,500,000 4.25 per cent Guaranteed Equity Linked Bonds due 2006"*, issued by Tiscali S.p.A's subsidiary Tiscali Finance SA on September 26th 2003 and expiring on September 26th 2006.

Pursuant to the "*soft mandatory*" clause provided for in the Bonds, the execution of the capital increase will allow Tiscali Group to reimburse the Bonds, based on the current stock price, partially through new shares. This will allow to convert part of Tiscali's debt in equity capital while limiting the cash out for the reimbursement and increasing the free float with institutional shareholders. At today's share price, the portion of the Bonds to be repaid in shares would amount to ca EUR 65 million, whereas the cash top up would be ca EUR 145 million.

Mario Mariani, Chief Executive Officer of Tiscali Italia Srl
On June 28, 2006, Mario Mariani has been appointed Chief Executive Officer and Member of the Board of Directors of Tiscali Italia Srl, following the resignation of Sergio Cellini.

SUBSEQUENT EVENTS AFTER THE END OF FIRST-HALF AND OUTLOOK

SUBSEQUENT EVENTS AFTER THE END OF FIRST-HALF

On 12 August 2006, Tiscali and Video Networks International Ltd announced an agreement whereby their respective UK market operations would be fully integrated.
Pursuant to this agreement, signed on 26 August, Video Networks International Ltd (VNIL) will contribute 100% of its UK operations - Video Networks Ltd (VNL) - into Tiscali UK Ltd, fully owned subsidiary of Tiscali SpA, in exchange for an interest in Tiscali UK. As a result, Tiscali SpA will control 88.5% of Tiscali UK, while VNIL will own 11.5%.

Following this integration, strategically relevant from the viewpoint of Tiscali positioning as provider of telecommunication services, Tiscali UK will immediately achieve over 1.3 million DSL customers, of which 350,000 subscribing the Double Play (data and voice) services and over 45,000 subscribing the IPTV services. The Company will also own an *unbundled local loop* (ULL) network covering more than 300 collocations with ULL customers in excess of 220,000.

As of the date of approval of this half-year report that is after the end of the half-year, negotiations are ongoing for the disposal of Tiscali's Dutch operations. The event is currently considered highly likely, thus meeting the conditions for the application of IFRS 5 (non current assets held for sale and discontinued operations) for the subsidiary operating in The Netherlands. Therefore, starting from the quarter report of 30 September 2006 and provided the current conditions are unchanged, the activities of the Dutch subsidiary will be classified in compliance with such principle. Please note that, pending negotiations, the relevant effects cannot be foretold.

OUTLOOK AND PROSPECTS

Financial year 2006 sees Tiscali pursuing the process of focusing and defining its activities as telecommunication service operator in the reference markets. In such context the availability of a proprietary unbundling network infrastructure, and in particular the development of the same in the United Kingdom and the expansion of the Italian one, is strategically relevant.

The development of the business model and the diversification of telecommunication services offered on the market led Tiscali to qualify its offer also as a provider of voice services, firstly through the Internet Protocol (VoIP). These services represent one of the most important growth factors and as such have a special significance in the Group's business plans. The expansion of voice services is also related to the development of the unbundling infrastructure. Following the agreement signed in the United Kingdom and related to the acquisition of Video Networks Limited, Tiscali will soon be able to qualify as 'Triple play' service provider: video services (IPTV) will indeed be offered in the second half of the current financial year, through the UK proprietary platform of Video Networks, in view of the integration and use of the same also in Italy.

Significant growth rates and high competitiveness characterise the market context in which Tiscali operates, thus requiring strategic decision-making by Management in order to assure the sustainability of plans as well as to gain larger market shares and to expand service offer. The goal is the optimisation of size and of the relevant 'critical mass' of Tiscali's subsidiaries operating in the various geographic areas, without excluding possible business focusing initiatives, also in consideration of local market conditions.

Concerning financial positioning and perspective, the Group's significant investments up to the current financial year, both in terms of infrastructures to expand the unbundling network – with the relevant costs for customer connection – and in terms of marketing costs, have determined negative cash flows that were however consistent with the business plan projections. The completion of the financing operation totalling EUR 220 million, structured and provided by Silver Point Finance LLC, enabled Tiscali to devote the first EUR 50 million tranche to further support its business plan.

In consideration of the competitive scenario and of the characteristics of the sector in which Tiscali operates, the availability of appropriate financial resources supporting development plans and allowing to cope with financial debt maturity is of course essential to corporate continuity. In particular, insofar as the Equity Linked Bond of EUR 209.5 million, maturing at the end of September 2006, the repayment terms provide for use of the further tranches (totalling EUR 170 million) of the Silverpoint financing. In this regard, as specified in the section concerning significant events occurred in first half 2006, the Tiscali Group plans to exercise the so-called conversion clause (more appropriately "soft mandatory clause") delivering to bondholders both cash and new shares, following shareholder's approval of 22 June 2006.

The perspectives of the sector in which the Tiscali Group operates and its competitive position, steadily reinforcing up to first-half 2006, are deemed consistent to achieve the goals of the new industrial plan which will be disclosed in October 2006, 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.

CORPORATE GOVERNANCE

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

The Corporate Governance system is described at length in the 'Corporate Governance' section of the Annual Report 2005. This section of the half-year report points out updates and integrations to such system, occurred in the first months of the current financial year.

Following the resignations of Directors Victor Bischoff and Gabriel Prêtre, the Board of Directors of Tiscali S.p.A. includes 6 members (2 executive members and 4 non executive members, one of which is an independent Director). The Board includes Vittorio Serafino (Chairman), Tommaso Pompei (Chief Executive Officer), Massimo Cristofori, Francesco Bizzarri, Mario Rosso e Gabriele Racugno (Independent Director). Directors with executive powers are the Chief Executive Officer, Tommaso Pompei and the Chief Financial Officer, Massimo Cristofori.

During first-half 2006 the Board of Directors met five times as follows: January 11, February 13, March 30, May 11 and June 19.

The Internal Audit Committee includes Vittorio Serafino, who is also Chairman, and Gabriele Racugno. Since January 2006 the Committee met twice, on March 22 and on May 18.

The Remuneration Committee includes Mario Rosso and Francesco Bizzarri.

For further information and details on the Group's Corporate Governance please refer to the Annual Report 2005 as well as to the "Annual Report on Corporate Governance and on Consistency with the Recommendations of the Italian Code of Conduct for Listed Companies" published on website: http://investors.tiscali.com/tiscali/Documents

TISCALI GROUP – CONSOLIDATED FINANCIAL STATEMENTS AND EXPLANATORY NOTES AS OF 30 JUNE 2006

INCOME STATEMENT	Notes	30 June 2006	30 June 2005
EUR (000)			
Revenues	*2*	412,467	353,651
Other income	*4*	3,754	3,986
Purchase of materials and outsource services	*5*	293,174	242,922
Personnel costs	*6*	57,287	56,253
Other operating costs	*7*	2,004	6,051
Gross Operating Result		**63,756**	**52,411**
Restructuring costs, provisions for risks and write-downs	*8*	17,524	30,458
Depreciation and amortisation		74,710	68,388
Operating Result		**(28,478)**	**(46,435)**
Non-recurring write-down of goodwill	***9***	(30,000)	-
Net Operating Result after goodwill write-down		**(58,478)**	**(46,435)**
Share of profit or losses of associates with equity method		(224)	(696)
Net financial income (Charges)	*10*	(11,130)	(19,018)
Profit (loss) before tax		**(69,832)**	**(66,149)**
Income taxes	*11*	693	45,053
Profit (loss) from continuing operations		**(70,525)**	**(111,202)**
Profit (loss) from discontinued and/or discontinuing operations	*12*	(3,616)	125,741
Net profit		**(74,140)**	**14,539**
Attributable to:			
- Equity holders of the parent		**(74,233)**	**14,322**
- Minority interests		93	217
Earnings (losses) per share			
From continuing and discontinued operations:			
- Basic		**(0.19)**	**0.04**
- Diluted		**(0.16)**	**0.04**
From continuing operations:			
- Basic		**(0.18)**	**(0.28)**
- Diluted		**(0.15)**	**(0.28)**

BALANCE SHEET	Notes	**30 June 2006**	**31 December 2005**
(EUR 000)			
Non-current assets			
Goodwill	*13*	283,462	313,462
Intangible assets	*14*	182,238	163,950
Property, plant and machinery	*15*	160,786	165,955
Equity investments	*16*	893	1,114
Other financial assets	*17*	26,335	28,747
Deferred tax assets	*18*	134,667	135,416
		788,381	**808,644**
Current assets			
Inventories	*19*	4,815	4,535
Receivables from customers	*20*	138,733	128,244
Other receivables and other current assets	*21*	44,985	47,974
Other current financial assets	*22*	2,785	7,006
Cash and cash equivalents	*23*	23,502	30,005
		214,819	**217,764**
Assets held for sale		7,767	16,707
Total Assets		**1,010,967**	**1,043,115**
Share capital and reserves			
Share capital		198,369	198,369
Share premium reserve		899,308	953,717
Translation reserve		4,063	3,975
Retained earnings		(867,241)	(847,294)
Shareholders' Equity (Group)	***24***	**234,500**	**308,767**
Third-party interests		2,563	2,553
Minority interests		**2,563**	**2,553**
Total Shareholders' Equity		**237,062**	**311,320**
Non-current liabilities	*25*		
Bonds		-	-
Payables to banks and to other lenders	*25.1*	128.551	117.389
Obligations under finance leases	*25.2*	13,569	17,789
Other non-current liabilities	*26*	48,612	28,214
Liabilities for pension obligations and staff severance	*27*	6,492	6,108
Provisions for risks and charges	*28*	15,368	16,875
		212,592	**186,375**
Current liabilities	*29*		
Bonds – Current value	*29.1*	215,957	211,044
Payables to banks and other lenders	*29.2*	41,031	19,679
Obligations under finance leases	*29.3*	14,699	16,711
Payables to suppliers	*30*	161,537	160,418
Other current liabilities	*31*	121,743	125,846
		554,967	**533,698**
Liabilities directly related to assets held for sale		6,346	11,722
Total liabilities and shareholders' equity		**1,010,967**	**1,043,115**

CASH FLOW STATEMENT

EUR (000)	30.06.2006	30.06.2005
OPERATING ACTIVITIES		
Net result from continuing operations	**(70,617)**	**(111,418)**
Adjustments for:		
Share of profit or losses of associates with equity method	-	32
Depreciation of property, plant and equipment	24,546	30,038
Amortisation of intangible assets	50,164	38,350
Write-down of goodwill	30,000	-
Provision increases	254	3,000
Current income taxes	693	-
Deferred income taxes	-	45,053
Staff severance and pension obligations	1,956	1,655
Financial charges	11,748	25,282
Cash flows from operating activities before changes in working capital	**48,743**	**31,992**
(Increase)/Decrease in commercial and other activities	(13,552)	(911)
((Increase)/Decrease in inventories	(280)	(1,010)
(Increase)/Decrease in commercial and other liabilities	16,723	(22,038)
Cash generated by operating activities	**51,635**	**8,033**
Interests paid	(10,043)	(13,016)
Net change of provisions for risks and charges	(1,761)	(5,082)
Decreases of staff severance provisions	(1,572)	(1,331)
Changes in prepaid taxes	749	(2,951)
NET CASH GENERATED BY OPERATING ACTIVITIES	**39,008**	**(14,347)**
INVESTING ACTIVITIES		
Change in receivables from investment disposal	5,987	(38,678)
Proceeds on disposal of property, plant and machinery	-	158
Acquisition of property, plant and machinery	(21,464)	(15,551)
Net increases from other intangible assets	(70,502)	(51,971)
Change in intangible assets:		
- Tangible assets	2,087	2,635
- Intangible assets	2,050	5,012
NET CASH USED IN INVESTING ACTIVITIES	**(81,842)**	**(98,395)**
FINANCING ACTIVITIES		
Decreases and write-downs of financing fixed assets	6,920	11,390
Redemption of bond issues	(1,922)	-
Changes in bond issues due to application of IAS 39	4,913	(7,297)
Increases of share capital	-	1,750
New bank loans	25,000	-
Increase (decrease) of short-term payables to banks	(5,353)	(23,551)
Changes of shareholders' equity pertaining to minorities	10	(1,285)
Change of short-term financing liabilities	(2,012)	821
Change of medium/long-term financing liabilities	9,590	9,977
Payables to shareholders' for financing	(726)	(4,294)
Changes in shareholders' equity	(122)	(437)
Effect of changes on foreign currency exchange rates	88	7,620
NET CASH ARISING FROM/(USED IN) FINANCING ACTIVITIES	**36,385**	**(5,306)**
Result on activities disposed of and held for sale	(3,616)	125,741
Change of activities disposed of and held for sale net of cash	7,289	270,412
Change of liabilities related to activities held for sale	(5,376)	(159,369)
NET CASH ARISING FROM/(USED IN) FINANCING ACTIVITIES	**34,682**	**231,478**
NET INCREASE/(DECREASE) OF CASH AND CASH EQUIVALENTS	**(8,152)**	**118,736**
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	30,005	83,120
Cash and cash equivalents of activities disposed of and held for sale at the beginning of the financial year	1,965	45,293
CASH AND CASH EQUIVALENTS AT THE END OF HALF-YEAR	**31,970**	**128,413**
Cash and cash equivalents of operating activities at the end of the financial year	23,502	245,891
Cash and cash equivalents of activities disposed of and held for sale at the at the end of the financial year	314	1,258
	23,816	**247,149**

STATEMENT OF CHANGES IN 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	-	-	-	-	**-**	-	**-**
Transfers covering losses	-	(54,409)	-	54,409	**-**	-	**-**
Exchange differences arising on the translation of the financial statements of foreign operations	-	-	88	(123)	**(35)**	-	**(35)**
Changes in the basis of consolidation	-	-	-	-	**-**	-	**-**
Effect due to changes in consolidation following disposal	-	-	-	-	**-**	-	**-**
Loss due to minority interest	-	-	-	-	**-**	10	**10**
Gains (losses) taken to equity for the period	**-**	**(54,409)**	**88**	**54,286**	**(35)**	**10**	**(25)**
Net profit (loss) for the year	-	-	-	(74,233)	**(74,233)**	-	**(74,233)**
Total recognised profit (loss) for the period	**-**	**(54,409)**	**88**	**(19,947)**	**(74,268)**	**10**	**(74,258)**
Balance at 30 June 2006	**198,369**	**899,308**	**4,063**	**(867,241)**	**234,500**	**2,563**	**237,062**

	Share capital	Share premium reserve	Translation reserve	Retained earnings	Share holders' equity Group	Minority interest	Total
Balance at 1st January 2005	**196,619**	**1,436,719**	**(1,763)**	**(1,321,773)**	**309,802**	**3,948**	**313,750**
Increases	1,750	6,776	-	-	**8,526**	-	**8,526**
Transfers covering losses	-	(489,778)	-	489,778	**-**	-	**-**
Exchange differences arising on the translation of the financial statements of foreign operations	-	.-	7,620	(460)	**7,160**	-	**7,160**
Changes in the basis of consolidation	-	-	-	-	**-**	-	**-**
Effect due to changes in consolidation following disposal	-	-	-	-	**-**	(1,502)	**(1,502)**
Loss due to minority interest	-	-	.-	(2,707)	**(2,707)**	-	**(2,707)**
Gains (losses) taken to equity for the period	1,750	(483,002)	7,620	486,611	**12,979**	(1,502)	**11,477**
Net profit (loss) for the year	-	-	-	14,322	**14,322**	217	**14,539**
Total recognised profit (loss) for the period	**1,750**	**(483,002)**	**7,620**	**500,933**	**27,301**	**(1,285)**	**26,016**
Balance at 30 June 2005	**198,369**	**953,717**	**5,857**	**(820,840)**	**337,103**	**2,663**	**339,766**

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EXPLANATORY NOTES

1. FORMAT AND CONTENT OF ACCOUNTING REPORTS / ACCOUNTING PRINCIPLES

According to art. 81 of Consob Rule No. 11971/1999 and subsequent updates and integrations this half-year report has been prepared in compliance with the international accounting principle applicable to interim financial reporting (IAS 34), adopted according to the procedure described in art. 6 of EU regulation no. 1606/2002.

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

This half-year 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.

Please also note that with regard to income statement data pertaining to first-half 2005, included in this report for comparative purposes, we have applied some reclassification with respect to data published in the first-half 2005 report. These changes had no effect on Gross Operating Result, Operating Result, Result before tax, Profit (loss) from continuing operations and on Consolidated Shareholders' equity. In particular, please note that the mentioned reclassifications concern the reporting among Personnel costs of some charges previously reported by some Group's companies among costs for Purchase of materials and outsource services.

The income statement structure has been modified as compared to the financial statements published on 31 December 2005 to underline the effects on the operating result of a non-recurring item, that is the non-recurring write-down of goodwill concerning German activities.

No changes occurred in the basis of consolidation with respect to the consolidated financial statements as at 31 December 2005.

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. In the preparation of this half-year report we considered that the Group's strategic plan is currently

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being updated, a circumstance that prevents the availability of all the assessment indicators required when dealing with complex issues such as that under examination.

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

Provisions for risks and charges
Provisions for risks and charges related to potential legal and fiscal liabilities are established following estimates performed by directors on the basis of judgements developed by the Group legal and fiscal advisers, concerning the charges that are reasonably deemed to be incurred in order to settle the obligation. Any 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.

Tiscali's activity in the half-year period is not significantly affected by phenomena associated to business seasonality. Seasonality phenomena, basically associated to revenue performance, occur essentially in the third quarter of the year, in coincidence with the summer holidays.

2. Revenues

The breakdown of revenues of the operating assets by geographic area and *business* line is disclosed below.

Revenues by geographical area (EUR 000) (*)	30 June 2006	30 June 2005
Italy	104,403	96,724
United Kingdom	199,405	148,019
The Netherlands	52,178	49,757
Germany	35,321	41,409
Other	21,160	17,742
	412,467	**353,651**

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

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Revenues by business line (EUR 000)	30 June 2006	30 June 2005
Broadband ADSL access revenues	*210,620*	*146,476*
Dial up access revenues	*82,853*	*116,144*
Access revenues	293,473	*262,620*
VoIP revenues	8,083	-
Voice revenues	49,566	43,994
Business revenues	33,087	28,530
Media revenues (portal and others)	21,978	14,606
Other revenues	6,280	3,900
Total	**412,467**	**353,651**

The increase in revenues is mainly determined by the development of broadband access services. The detailed analysis of the period profit and loss performance is included in the Report on operations.

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 four main countries where the Tiscali Group operates (Italy, Germany, The Netherlands and the United Kingdom). This note reports the main results of these business segments, together with the balance sheet data of the various geographical segments and other information required by the reference principles.

The lines of business represent the secondary segment of reporting. See Note 2 above reporting information on segment revenues.

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Results by geographical segment

Income statement

30 June 2006 EUR (000)	Italy	United Kingdom	The Netherlands	Germany	Other	Segment results	Unallocated	Operating assets
Revenues								
To third parties	104,403	199,405	52,178	35,321	13,330	404,637	7,715	412,352
Inter-group	1,775	6,276	-	1,047	3,463	12,562	(12,447)	115
Total revenue	**106,178**	**205,682**	**52,178**	**36,368**	**16,793**	**417,199**	**(4,732)**	**412,467**
Gross Operating Result	**14,534**	**34,464**	**23,119**	**14**	**5,361**	**77,492**	**(13,735)**	**63,756**
Operating Result	**(8,683)**	**(6,564)**	**9,710**	**(10,531)**	**(477)**	**(16,545)**	**(11,933)**	**(28,478)**

30 June 2005 EUR (000)	Italy	United Kingdom	The Netherlands	Germany	Other	Segment results	Unallocated	Operating assets
Revenues								
To third parties	96,724	148,129	49,757	41,409	14,086	350,105	3,546	353,651
Inter-group	2,338	237	-	732	1,833	5,140	(5,140)	-
Total revenue	**99,062**	**148,366**	**49,757**	**42,141**	**15,919**	**355,245**	**(1,594)**	**353,651**
Gross Operating Result	**15,506**	**22,088**	**12,160**	**5,723**	**2,747**	**58,224**	**(5,813)**	**52,411**
Operating Result	**(3,402)**	**(3,683)**	**(5,845)**	**(2,319)**	**(1,505)**	**(16,754)**	**(29,681)**	**(46,435)**

Unallocated items are related to ‘corporate’ activities.

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Other segment data and financial positions

30 June 2006 EUR (000)	Italy	United Kingdom	The Netherlands	Germany	Other	Segments	Unallocated	Continuing operations
Assets								
Segment assets	237,515	205,437	69,241	27,151	53,859	593,202	125,015	718,217
Investments – equity method	893	-	-	-	-	893	-	893
Investments in other companies	-	-	628	33	-	661	(33)	628
Goodwill	3,406	181,333	35,517	61,395	1,812	283,463	(1)	283,462
Total consolidated assets	**241,814**	**386,770**	**105,386**	**88,579**	**55,671**	**878,220**	**124,982**	**1,003,201**
Liabilities								
Segment liabilities	190,445	101,215	40,919	28,366	13,209	374,153	393,406	767,559
Total consolidated liabilities	190,445	101,215	40,919	28,366	13,209	374,153	393,406	767,559
Other information								
Investments	39,084	34,527	7,977	3,842	1,751	87,181	4,785	91,966
Depreciation and amortisation	15,906	31,621	11,740	4,142	4,589	67,997	6,713	74,710
Provisions for risks and write-down of receivables	2,200	4,394	600	2,051	345	9,589	192	9,782

31 December 2005 EUR (000)	Italy	United Kingdom	The Netherlands	Germany	Other	Segments	Unallocated	Continuing operations
Assets								
Segment assets	214,036	216,998	71,639	29,818	55,396	587,887	123,950	711,837
Investments – equity method	1,099	-	-	-	-	1,099	-	1,099
Investments in other companies	15	-	-	-	-	15	-	15
Goodwill	3,406	181,333	35,518	91,395	1,810	313,462	-	313,462
Total consolidated assets	**218,556**	**398,331**	**107,157**	**121,213**	**57,206**	**902,463**	**123,950**	**1,026,413**
Liabilities								
Segment liabilities	154,235	103,280	50,333	25,526	15,525	348,899	371,179	720,078
Total consolidated liabilities	154,235	103,280	50,333	25,526	15,525	348,899	371,179	720,078
OTHER INFORMATION								
Investments	34,672	75,773	33,580	9,968	6,807	160,800	8,378	169,178
Depreciation and amortisation	26,094	46,718	29,614	6,659	8,684	117,769	17,804	135,573
Provisions for risks and write-down of receivables	5,292	7,698	2,518	7,652	729	23,889	3,328	27,217

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4. Other income

Other income includes some contingent assets and non-recurring income, including those arising from the release of unused risk provisions.

5. Purchase of material and external services

EUR (000)	30 June 2006	30 June 2005
Purchase of raw materials and goods for resale	134	127
Line/traffic rental and interconnection costs	178,504	141,718
Costs for use of third party assets	9,699	8,342
Portal services	11,680	11,762
Marketing costs	56,207	55,298
Other services	36,950	25,675
Total	**293,174**	**242,922**

The purchases of raw materials, supplies, consumables and goods include the cost of Consumables' and equipment for pre-paid telephone cards and goods intended for resale.

The increase of costs, as compared to the preceding financial year, is related to the significant increase of revenues.

6. Personnel costs

EUR (000)	30 June 2006	30 June 2005
Wages and salaries	38,789	41,683
Other personnel costs	18,498	14,570
Total	**57,287**	**56,253**

In absolute terms personnel costs are not significantly changed as compared to the same period of 2005.

Headcount at 30 June 2006 is 1,728.

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7. Other operating costs

The table below shows a breakdown of these costs:

EUR (000)	**30 June 2006**	**30 June 2005**
Other operating expenses	366	2,390
Contingencies, capital losses and other non-recurring costs	1,638	3,661
Total	**2,004**	**6,051**

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

EUR (000)	**30 June 2006**	**30 June 2005**
Write-down of receivables from customers	9,528	9,970
Restructuring costs and other write-downs	7,742	17,488
Provisions for risks and charges	254	3,000
Total	**17,524**	**30,458**

In absolute terms the write-down of receivable from customers is basically in line with previous results, accounting for approximately 2% of revenues and thus decreasing with respect to 2005.

Restructuring costs and other write-downs, amounting to approximately EUR 7.7 million, include charges chiefly related to the reorganisation plan of operating German subsidiaries as well as to the EUR 2 million write-down of the residual non commercial credit towards Eurolight Associates Ltd, for the sale in 2003 of investments held in CD Telekomunikace Sro (Czech Republic).

9. Write-down of goodwill

EUR (000)	**30 June 2006**	**30 June 2005**
Write-down of goodwill	30,000	-
Total	**30,000**	**-**

The amount of EUR 30 million refers to the write-down of goodwill related to German subsidiaries. See note 13 below (Goodwill).

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10. Financial income and charges

Breakdown of net financial charges for the six-month period, equal to EUR 11.1 million.

EUR (000)	30 June 2006	30 June 2005
Financial income		
Interests on bank deposits	183	2,087
Interests earned	307	3,444
Other	127	732
	617	**6,263**
Financial charges		
Interests on bonds	6,453	17,500
Interests and other charges due to banks	2,418	2,803
Interests due to affiliated companies	-	8
Other financial charges	2,876	4,970
	11,747	**25,281**
Net financial charges	**(11,130)**	**(19,018)**

The marked decrease of financial income, as compared to first-half 2005, is due to the termination of swap contracts related to the bond redeemed in July 2005 and to the relevant ceasing of earned interests from swap contracts.

Financial charges are related to the Group overall debt. Interests on bonds include interests on the convertible bond maturing in September 2006, while other financial charges are mainly related to interests on financial leasing contracts.

11. Income taxes

EUR (000)	30 June 2006	30 June 2005
Income tax	693	45,053
Net taxes for the financial year	**693**	**45,053**

Current taxes for the period are related to IRAP (Regional Business Tax) charges of the parent company and Italian subsidiaries.

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Deferred tax assets

As at 30 June 2006 deferred tax assets amount to a total of EUR 134.6 million.

EUR (000)	30 June 2006	31 December 2005
Deferred tax assets	134,667	135,416

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

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

- Deferred tax assets relating to Tiscali International NV and subsidiaries, falling within the Dutch tax consolidation project (in particular the operating subsidiary Tiscali BV) for EUR 59.4 million (EUR 59.4 million as at 31 December 2005), arising exclusively from tax losses carried forward.

- Prepaid taxes relating to subsidiary Tiscali UK, amounting to a total of EUR 75.2 million (EUR 75.9 million at the end of financial year 2005).

Tax losses of subsidiaries operating in The Netherlands and in the United Kingdom can be carried forward indefinitely. We note that deferred tax assets already take account of adjustments to losses carried forward from previous years arising from the assessment carried out by Dutch tax authorities. Please see also note no. 32 below, in which the tax litigation in process is described.

12. Assets held for sale and/or discontinued operations

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

12.1 Results of assets held for sale and/or discontinued operations

Assets disposed of in the period
In first half 2006 no disposal of the residual assets held for sale has been concluded.

Assets held for sale:
The Tiscali Group assets having these characteristics refer to the residual activities which are a part of the investments held in Tiscali Telecomunicaciones SA and Tiscali Espana SA (Spain). Also included are other assets belonging to Tiscali International Network S.A.(Tinet Link - France), and subsidiaries Tiscali International Network SAU (Spain) and Tiscali International

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Network Ltd (United Kingdom), after execution of the contract with Telecom Italia Sparkle, which are to be liquidated.

EUR (000)	30 June 2006	30 June 2005
Capital gains (losses) arising from disposal of subsidiaries and/or the disposal of net assets)	-	165,284
Period result of subsidiaries disposed of and/or held for sale	(890)	(10,865)
Write-down of goodwill and of discontinuing operations	(2,500)	(12,231)
Charges related to disposals	(226)	(16,447)
Profit (Loss) from discontinued and/or discontinuing operations	**(3,616)**	**125,741**

The write-down of goodwill and of other discontinuing operations include the write-down of a share of goodwill pertaining to the Spanish subsidiaries, in order to adjust the market value of these residual operations.

12.2 Discontinued operations

As stated above no operation has been disposed of in first-half.

12.3 Assets held for sale

The following table shows the breakdown of results for the period of assets held for sale, that is subsidiaries representative of activities in Spain and of Tinet Link:

INCOME STATEMENT – ASSETS HELD FOR SALE **EUR (000)**	**30 June 2006**	**30 June 2006**
Revenues	3.624	12.715
Gross operating result	(1.186)	(2.450)
Operating result	(483)	(10.723)
Result before tax	(772)	(10.882)
Net profit	(889)	(10.865)

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Details of assets held for sale, equal to 7.7 million, are as follows:

ASSETS HELD FOR SALE EUR (000)	30 June 2006	31 December 2005
Non current assets	3,402	10,312
Current assets	4,364	6,395
Assets held for sale	**7,767**	**16,707**

Total liabilities directly related to assets held for sale, equal to EUR 6.3 million, is as follows:

LIABILITIES Eur (000)	30 June 2006	31 December 2005
Non current liabilities	901	5,169
Current liabilities	5,444	6,553
Liabilities directly related to assets held for sale	**6,346**	**11,722**

13. Goodwill

Goodwill arises from acquisitions performed by Tiscali in the preceding financial years, in particular from the acquisition of the World Online Group. In consideration of the fact that business strategies are mainly defined by geographical areas and that these represent a strategic business unit, the goodwill values – analytically recorded for each subsidiary ("legal entity"), have been re-aggregated by "country" as appropriate. Such circumstance has in particular determined the allocation to the single countries of the goodwill of World Online International NV. The table below shows a synthetic breakdown. In first half 2006 no movement occurred. .

EUR (000)	31 December 2005	Increases	Decreases	30 June 2006
Italy	3,406	-	-	3,406
Germany	91,396	-	(30,000)	61,396
The Netherlands	35,518	-	-	35,518
United Kingdom	181,332	-	-	181,332
Czech Republic	1,810	-	-	1,810
	313,462	**-**	**(30,000)**	**283,462**

The book value as at 30 June 2006 decreases due to the EUR 30 million write-down pertaining to Germany.

The impairment test on goodwill is applied at least annually or more frequently, if there is any indication that assets may have suffered an impairment loss. The loss of value, if any, is identified by means of measurements referring to the ability of each 'unit', identifiable in this case with the subsidiary, to generate cash flows such as to recover the goodwill allocated to the unit.

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

In the period impairment indicators arose regarding the German subsidiaries. The current difficult competitive condition of this market has led to negative results and performances not in line with expectations. Decisions related to goodwill take into account that the new Group industrial plan is currently being defined, thus preventing the availability of all the indicators required when dealing with such complex assessment issues.

14. Intangible assets

Intangible asset movements for half-year 2006 are as follows:

Intangible assets EUR (000)	31 December 2005	Increases	Other changes	Depreciation	30 June 2006
Development costs	10,375	1,009	(8,062)	(249)	3,073
Licenses and similar rights	109,562	11,878	925	(9,940)	112,426
Broadband service activation costs	32,445	36,602	(2,735)	(36,611)	29,701
Other	11,568	21,012	7,822	(3,364)	37,039
Total	**163,950**	**70,502**	**(2,050)**	**(50,164)**	**182,238**

“Development costs” includes the capitalisation of development costs for the application software licensed indefinitely and customised for exclusive use by the company. These costs chiefly pertain to internal dedicated personnel costs. The cost of software licences, a net book value of approximately EUR 8 million, has been reclassified under “Licenses and similar rights” as at 30 June 2006.

The balance of "Licenses and similar rights" is EUR 112.4 million and includes approximately EUR 87.3 million for rights and costs to purchase transmission capacity on a multi-year basis, implemented through the purchase of rights of use (license– IRU/Indefeasible Right of Use). The EUR 11.8 million increase recorded for the period mainly refers to the conclusion of new IRU contracts (EUR 7.2 million) related to investments for the development of the unbundling network.

“Broadband service activation costs”, equal to (EUR 37 million) refers to the capitalisation of activation costs related to the ADSL service. These costs are amortised over twelve months.

The “Other” intangible assets include software licenses and other capitalised costs.

Besides some reclassifications, “Other changes” includes decreases mainly attributable to the reversal of activation cost capitalisations for those clients that have cancelled their contracts under normal conditions, in relation to the “churn rate” of the client base, as well as conversion differences.

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15. Property, plant and equipment

The table below show the movements occurred during the six months:

EUR (000)	31 December 2005	Increases	Other movements (*)	Depreciation	30 June 2006
Historical cost					
Land and buildings	30,216	66	(1,361)	-	28,921
Plant and machinery	301,905	18,739	36,279	-	356,923
Other tangible assets	77,251	2,659	(43,052)	-	36,858
	409,372	**21,464**	**(8,134)**	**-**	**422,702**

Allowance for depreciation	31 December 2005	Increases	Other movements (*)	Depreciation	30 June 2006
Land and Buildings	4,508	-	(1,285)	706	3,929
Plant and machinery	184,111	-	27,401	23,143	234,655
Other tangible assets	54,798	-	(32,162)	697	23,332
	243,417	**-**	**(6,047)**	**24,546**	**261,916**

Net value	31 December 2005	Increases	Other movements (*)	Depreciation	30 June 2006
Land and Buildings	25,708	66	(76)	(706)	24,992
Plant and machinery	117,794	18,739	8,879	(23,143)	122,268
Other tangible assets	22,453	2,659	(10,889)	(697)	13,526
Total	**165,955**	**21,464**	**(2,087)**	**(24,546)**	**160,786**

(*) Other movements include decrease, reclassifications, conversion differences and changes in consolidation

'Land and Buildings', equal to EUR 25 million, mainly refers to the investment carried out in the preceding financial years for the building of the parent company headquarters in Cagliari. The building is mortgaged for about EUR 70 million through Banca CIS, as a guarantee for the financing provided to realise the entire investment.

The net carrying value of "Plant and machinery", (EUR 122.2 million) includes in particular dedicated equipment and networks, such as routers, servers, optical equipment and telephone exchanges that make up most of the tangible assets. The increase of EUR 18.7 million reflects the significant investments aimed at supporting the development of *unbundling* ADSL services.

“Other tangible assets” include furnishings, IT and office equipment and vehicles. “Other movements” reflect certain reclassifications.

16. Equity Investments

Investments are valued according to the equity method and are recorded in the accounts at a total of EUR 0.9 million. They refer to minor investments held by the parent company and by its operative subsidiary Tiscali Italia S.r.l. A list of these investments is provided in the appropriate section (List of Investments).

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17. Other non current financial assets

(EUR 000)	30 June 2006	31 December 2005
Surety deposits	9,662	11,167
Other receivables	16,045	17,579
Investments in other companies	628	1
Total	**26,335**	**28,747**

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

Surety deposits mainly refer to lease contracts.

The other receivables refer to the medium term deferred credit portion of Telecom Italia S.p.A. arising from the sale of the subsidiary Liberty Surf Group SA (EUR 10 million), as well as VAT credits applied for by the parent company, which are not expected to be reimbursed within the next financial year (EUR 4 million) , besides minor receivables. Still pending at 31 December 2005 was a receivable amounting to EUR 2 million towards Eurolight Associates Ltd, to which at the beginning of 2003 the shareholding held in CD Telekomunikace Sro (Czech Republic). Being irrecoverable the receivable has been fully written-down.

18. Deferred tax assets

EUR (**000**)	**30 June 2006**	**31 December 2005**
Deferred tax assets	134,667	135,416

Please see note 11 above for the analysis of this item.

19. Inventories

At 30 June 2006 inventories totalled EUR 4.8 million and are mainly related to *network* equipment, consumables, telephone cards, goods for resale as part by the company's merchandising and modems.

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20. Trade receivables

EUR (000)	30 June 2006	31 December 2005
Receivables from customers	184,064	170,112
Write-down provisions for losses	(45,331)	(41,868)
Total	**138,733**	**128,244**

At 30 June 2006 customer receivables totalled EUR 138.7 million, after write-down provisions of EUR 45.3 million. These receivables accrued from the sale of internet services, billing of internet access services, billing of usage-based fees for traffic generated by Tiscali subsidiaries on third-party fixed lines, advertising revenues and *business* and telephone services provided by the Group. The book value of trade receivables, in view of the maturities mentioned below and of conditions regulating the supply of services by the Group, approximates their ‘fair value’.

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

21. Other Receivables and other current Assets

EUR (000)	30 June 2006	31 December 2005
Other receivables	18,368	21,266
Accrued income	15,185	18,696
Deferred charges	11,432	8,012
Total	**44,985**	**47,974**

Other receivables totalling EUR 18.3 million are related to VAT credits of EUR 12.5 million, of which EUR 3.9 million of VAT credits applied for by the parent company. Accrued income (EUR 15.1 million) chiefly relates to revenues due from services in the access segment. Deferred charges, whose balance is EUR 11.4 million, relate to costs associated with multi-year rental of lines, international circuit agreements as well as hardware and software maintenance costs.

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

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22. Other current financial assets

EUR (000)	30 June 2006	31 December 2005
Term deposits	2,563	6,880
Other receivables	222	126
Total	**2,785**	**7,006**

Term deposits refers to term deposits and/or guarantees of EUR 1.8 million, pertaining to the sub-holding Tiscali International BV, Netherlands, which are expected to be released in the short-term and EUR 0.7 million. The decrease as compared to the figure as at 31 December 2005 refers to the partial release of UK deposits.

23. Cash and cash equivalents

At 30 June 2006 cash and cash equivalents amounted to EUR 23.5 million and include the Group liquid resources, essentially held in current accounts. Please see the appropriate section of the Report on operations for a detailed analysis of the financial position.

24. Shareholders' equity

EUR (000)	30 June 2006	31 December 2005
Share capital	198,369	198,369
Share premium reserve	899,308	953,717
Translation reserve	4,063	3,975
Retained earnings	(867,241)	(847,294)
Total	**234,500**	**308,767**

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

At 30 June 2006 the share capital amounted to EUR 198.3 million corresponding to 396,738,142 ordinary shares having a face value of 50 EUR cents each. The share premium reserve shows a drop of EUR 54.4 million, due to the reserve being used to cover losses by the parent company in the preceding financial year.

The diluted earning per share, presented on income statement, has been calculated including in the number of shares recognised as denominator of the calculation the no. 27,675,034 shares to be issued when the bond maturing on 26 September 2006 will be converted.

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As required by Consob no. DEM/6064293 of 28 July 2006 we include below the statement detailing the result for the period and shareholders' equity of the Group and the same values pertaining to the parent company.

Statement of shareholders' equity: Parent Company and Group

	30 June 2006	
	Net result	Shareholders' equity
Balances Tiscali S.p.A.	**(15,367)**	**920,770**
Elimination of effects of transactions between consolidated companies:		
- Cancellation of write-downs of holding in subsidiaries	-	-
- Valuation at equity of companies recorded on balance sheet	(224)	(224)
- Adjustment of goodwill following intra-group operation	-	-
Book value of consolidated equity investments	-	(664,419)
Shareholders' equity and net profit (loss) of consolidated companies	(36,618)	(319,910)
Allocation of differences to the assets of consolidated companies and related depreciation and amortisation:	-	-
- Consolidation difference	(30,000)	290,593
Effect of other adjustments:	-	-
- Waiver of receivables from discontinued operations	7,662	7,662
- Other adjustments	221	27
BALANCE FROM THE CONSOLIDATED ACCOUNTS – Group	**(74,326)**	**234,500**
BALANCE FROM THE CONSOLIDATED ACCOUNTS – Minorities	**93**	**2,563**
BALANCE FROM THE CONSOLIDATED ACCOUNTS	**(74,233)**	**237,062**

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25. Non current financial liabilities

EUR (000)	30 June 2006	31 December 2005
Bonds	**-**	**-**
Payables to banks and other lenders		
Payables to banks	101,051	89,163
Payables to other lenders	27,500	28,226
	128,551	**117,389**
Obligations under finance leases (m/l term)	**13,569**	**17,789**
Total	**142,120**	**135,178**

25.1 Payables to banks and other lenders

"Payables to banks and other lenders" includes the medium/long term portion of the loan granted by Banca CIS of Cagliari for the new company headquarters in "Sa Illetta" (Cagliari), equal to EUR 26.1 million. The total amount of the loan amounts to EUR 30.6 million the short-term portion of which is EUR 4.5 million and is included in current liabilities. The loan, repayable in six-month instalments and falling due in 2014, is backed, as mentioned in the note related to buildings, by a EUR 70 million guarantee in respect of the property.

"Payables to banks" also includes the medium-long portion of the loan granted by EDC (*Export Development Canada*), an export financing Canadian bank, for EUR 8.7 million. The short- term portion is EUR 6.7 million and is included in current liabilities. The loan has been granted for a maximum amount of EUR 20 million for 3 years, and its purpose is the purchase of NORTEL equipment used in Italy for the ULL project. Please note that the contract related to the grant of this loan provides, among other provisions, for a *"covenant"* linked to a ration between shareholders' equity and total assets, to be calculated on a six-month basis.

"Payables to banks" also includes an EUR 65.1 million balance (stated in compliance with IAS 32 according to the *amortised cost method,* instead of nominal value) related to the loan granted in August 2005 (and integrated with a contract signed in June 2006) by Silver Point Finance LLC (USA). The transaction consists of three tranches, each with a three-year duration. The rate is Euribor + 800 basis points. The payable at 30 June 2006 refers to the loan tranches collected at the reference date in August 2005 (EUR 50 million at nominal value) and in June 2006 (EUR 25 million at nominal value). The residual portion, EUR 145 million, will available at maturity of the Equity linked bonds (end of September 2006).

The transaction with Silverpoint Finance is subject to certain 'financial conditions / covenants', to be assessed on a three-month basis, which pertain mainly to the conformance to some parameters related to management and financial indicators for companies operating in Italy, The Netherlands and the United Kingdom. The most significant among these are the number of *ADSL* subscribers and the gross operating result. The loan also involves certain conditions defined as 'negative undertakings', usual in these circumstances. From the viewpoint of reporting, the most significant among these are financial borrowing limits. These limits are

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differentiated according to the technical format of the loan and are not such as to hinder the ordinary operations of the Group. As usual, the negative pledges included in the contract are related to extraordinary operations. The loan is also secured by a pledge over the shares of operating subsidiaries of the Tiscali Group, as well as on the Tiscali brand and on certain classes of tangible assets.

With regard to the effects of ‘covenants’ infringement and of variances with parameters stated in the contract please note that these would basically involve the possibility by the lender to require the advance repayment of the loan. However please note that no such problem is ongoing.

“Payables to other lenders” (EUR 27.5 million– EUR 30.7 million if we include the accrued interest debt, recorded with other liabilities) refer to the interest-bearing loan, with market interest rates, granted in the financial year 2004 by partner Andalas Limited. The loan was taken to support the investments that are necessary to sustain growth and notably the implementation of a network unbundling structure.

25.2 Obligations under finance leases (m/l term)

“Obligations under finance leases” (EUR 13.5 million) payables to leasing companies based on finance lease contracts. These contracts chiefly relate to network equipment, servers and other equipment directly involved in the production process.

The overall debt chiefly refers to transactions with Cisco Capital, involving the purchase of Cisco System equipment as part of the investment projects undertaken by Group companies.

26. Other non current liabilities

EUR (000)	30 June 2006	31 December 2005
Payables to suppliers	46,895	26,350
Other payables	1,717	1,864
Total	**48,612**	**28,214**

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

27. Liabilities for pension obligations and staff severance

The table shows the movements for the period:

EUR (000)	31 December 2005	Provisions	Amounts used	30 June 2006
Staff severance	6,108	1,956	(1,572)	6,492
Total	**6,108**	**1,956**	**(1,572)**	**6,492**

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The staff severance fund, chiefly covering indemnities payable to employees, is equal to EUR 6.5 million and refers to the parent company and subsidiaries operating in Italy. In compliance with the IAS 19 accounting principle, the "Projected Unit Credit Cost" method has been applied to the valuation of severance indemnities, included in the defined benefit plans.

28. Provisions for risks and charges

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

EUR (000)	31 December 2005	Provisions	Amounts used	30 June 2006
Provisions for risks and charges	16,875	1,144	(2,651)	15,368
Total	**16,875**	**1,144**	**(2,651)**	**15,368**

At the end of the six-month span the fund for risks and charges is EUR 15.3 million and includes provisions against potential legal and fiscal liabilities and disputes.

29. Current financial liabilities

EUR (000)	30 June 2006	31 December 2005
Bonds	215,957	211,044
Payables to banks and other lenders:		
Due to banks	41,031	19,679
Obligations under finance leases (short-term)	14,699	16,711
	271,687	247,434

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29.1 Bonds

The item concerns the EUR 219.9 million *'Equity linked Bond'* falling due at the end of September 2006 and recognised in accordance with the "Amortised cost" (IAS 32) principle. This loan has the following characteristics:

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

As detailed in other sections of this first-half report the redemption of the debt involves the activation of the *'soft mandatory'* provision. This means that the issuer will assign shares even if, at maturity, Tiscali's market price is lower than the issue price of EUR 7.57. The difference between issue price and market price, measured during the first fifteen days of September 2006, will be settled in cash.

29.2 Payable to banks and other lenders

The item refers to bank overdrafts necessary for operational cash requirements. These debts also include EUR 4.5 million, i.e. the short-term portion of the loan granted to Tiscali Italia Srl for the new headquarters of "Sa Illetta" in Cagliari, together with the short term amount of the EDC loan (approximately EUR 6.7 million).

29.3 Obligations under finance leases

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

30. Payables to suppliers

EUR (000)	30 June 2006	31 December 2005
Payables to suppliers	**161,537**	**160,418**

Payable to suppliers refer to trade payables for the supply of services such as content, telephone traffic and data traffic. The figure also includes EUR 10.8 million for the purchase of IRU (Indefeasible Right of Use) related to the development of the unbundling project.

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31. Other current liabilities

EUR (000)	30 June 2006	31 December 2005
Accrued liabilities	67,468	76,163
Deferred income	23,803	22,021
Other payables	30,472	27,662
	121,743	**125,846**

Accrued liabilities, EUR 58.1 million, are related to operating expenses, such as payments for content, network access costs, consultancy fees and line rental costs.

Deferred income concerns the deferral of income relating to subsequent periods, from the activation of ADSL services, which are spread over a time span of 12 months, i.e. the minimum legal duration of the contract with the customer. This mainly concerns the Dutch subsidiary Tiscali BV and Italian subsidiary Tiscali Italia S.r.l.

Other liabilities mainly refer to payables to the tax authorities (VAT first of all) and to social security agencies, totalling EUR 19.4 million, as well as payables to employees for EUR 4.2 million and other payables for EUR 6.9 million.

32. Derivatives

There were no transactions involving derivatives at 30 June 2006.

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33. ONGOING DISPUTES, CONTINGENT LIABILITIES AND COMMITMENTS

33.1 Disputes

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

In July 2001 the Dutch foundation Vereniging van Effectenbezitters, which represents a group of former minority shareholders of World Online International NV, made a claim for unquantified damages against World Ondine (currently 99.5% owned by Tiscali) and the financial institutions involved in its stock market listing, alleging, in particular, that some of the information provided in the IPO prospectus and in public statements issued by the company and its chairman at the time was incomplete and inaccurate. The Dutch court ruled on 17 December 2003 that the IPO prospectus did not contain any misleading information and that many other claims were groundless. In the same ruling, however, the Dutch judges upheld the claim that a press release issued by World Online did not sufficiently clarify comments made by its former chairman at the time of the listing regarding the latter's own shareholding. World Online appealed against this decision, claiming that it did not need to provide any further clarification, given that the IPO prospectus was not deemed to be inaccurate. Furthermore, any damages to be paid will have to be established in a new court case, with the onus on the shareholders' association to substantiate the causal link and the amount of damages claimed. A similar dispute was initiated by another Dutch foundation, Stichting Van der Goen WOL Claims, in August 2001. Following this, letters were received from other subjects stating that similar actions could be taken if prerequisites apply. No provisions have been set aside in the group's accounts for this dispute, given the low probability of a liability being incurred, the unknown nature of the potential amount, and the legal opinions of our consultants.

In May 2005 the Spanish company Promotora De Informaciones S.A., belonging to the media group Prisa, filed a claim against Tiscali S.p.A before the International Court of Arbitration of the International Chamber of Commerce, alleging the breach of an advertising agreement concluded on 31 July 2001 for the provision to Tiscali of advertising space on Prisa's media platforms for five years, with a yearly minimum guaranteed payment of EUR 1.6 million. Proceedings are near conclusion and a decision should be made in a short while. The conclusive counterparty claim corresponds to approximately EUR 5.7 million including updated fees, interests and legal charges. With regard to this dispute and in consideration of its foreseeable outcome, a provision of EUR 6 million has been made.

Subsidiaries Tiscali International Network BV and Tiscali International Network SA are involved in a dispute initiated by KPNQWest Bankruptcy, a joint venture constituted of Dutch company KPN and U.S. company Qwest, currently under liquidation. The dispute began in previous financial years and involves a 5 year IRU agreement concluded between Tiscali International

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Network BV and KPNQWest, which provided for the payment by the former of EUR 3.1 million for services provided by the latter. Following the liquidation of KPNQWest, the provision of services was interrupted after only 5 months and Tiscali International Network BV received and recognised invoices in the amount of EUR 1.5 million. KPNQWest has demanded payment of the entire amount stipulated in the agreement. Tiscali has objected to a demand for payment of this amount because of damages sustained on account of the service interruption. On 17 March 2006 Citibank (the liquidator for KPNQwest) put forth a request for precautionary seizure for an amount of approximately EUR 5 million in the current bank accounts of Tiscali International Network BV, which did not result in any significant outcome. The dispute is not expected to be resolved in the short term, though no significant liabilities are expected to result from it.

In July 2004, Tiscali Espana SA filed a claim before the Civil Courts of Madrid against the company Airtel Movil SA – a Spanish subsidiary of the Vodafone Group – demanding payment of the approximately EUR 4.7 million, as a reduction for the price paid for the purchase of the Spanish internet assets of the Vodafone Group which took place in January 2003. According to Tiscali, the price paid for such purchase (approximately EUR 9.8 million paid in newly issued Tiscali S.p.A. shares) had been wrongfully determined due to an inexact representation by Vodafone of the value of the revenues of such business. Vodafone has fully rejected Tiscali's claim.
In July 2006 the first instance Court of Madrid ruling basically rejected Tiscali's theses. The ruling is being analysed and in the meantime Tiscali lodged an appeal to be confirmed in the next few months, failing which entitlement lapses. According to a preliminary analysis of the sentence the Court did not appropriately consider and inquire into the arguments and evidences presented by Tiscali.

33.2 Tax assessments

On 27 December 2005, the Dutch tax authorities continued the investigation they had begun in the 2005 financial year and in the preceding ones, regarding the suspected non-payment of wage taxes on payments made and Tiscali S.p.A. shares provided to James Kinsella, the former CEO of World Online International BV. The tax authorities claimed that what had been received by Mr. Kinsella during the 2002 financial year was a taxable bonus in return for Mr Kinsella waiving his subscription right to World Online International BV (WOL) shares, at the time when WOL was listed and acquired by Tiscali. The Dutch tax authorities set the amount of the assessment at EUR 51.3 million, including EUR 7.3 million as a penalty and EUR 5 million as interest. The liability was determined on the basis of the price of Tiscali shares on the stock exchange during the WOL IPO. Tiscali's position, which is set forth in the appeal submitted to the competent authorities has already been described in the notes to the financial statements of previous years and is based on the absolute lack of involvement of the company in any transactions that took place between shareholders and Mr. Kinsella. Tiscali can therefore be under no obligation to pay the withholding taxes. Furthermore, it must be noted that if the amount of the taxes had been determined on the basis of Tiscali shares in the year 2002, the year in which they were allegedly delivered to Mr. Kinsella, or otherwise the pertinent year insofar as the taxation, the amount of the assessment would have been quite significantly lower. The correctness of this position and of Tiscali's actions are further confirmed and supported by the opinion of the tax consultants. Consequently, as the time required for the final outcome of this dispute is expected to be long, it was determined that that the details required for consideration of the risk associated with the probable potential liability and recording of the relative provision to be recorded were not available.

The Dutch tax authorities have filed several assessment notices for World On Line International NV (and its direct subsidiary Tiscali International BV) concerning the alleged failure to pay

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withholding tax on remuneration and stock options provided to “group” managers recognised in previous periods. The total amount of these disputes is EUR 2 million, against which Tiscali International BV has made payments amounting to approximately EUR 0.3 million. The remaining amount (EUR 1.7 million) mainly concerns stock options that have allegedly been provided to individuals that do not physically reside in the Netherlands and consequently are not subject to taxation in Holland, according to Tiscali’s tax consultants. Given this and taking account of the fact that this dispute is at an initial stage, the liability was not considered as probable and therefore no provision was made.

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

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

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

In July 2005, Tiscali International BV received a notice of claim sent by the legal advisors of the Scarlet Group (buyer of Tiscali Belgium NV) which made reference to a tax dispute against the former Tiscali Belgium NV (now Scarlet Extended NV) focusing mainly on the deductibility for tax purposes of an extraordinary write-down of a provision in the 2002 financial statements. Within this context, the company was asked by Belgian authorities to pay EUR 5.9 million in December 2005. This was the result of the restatement of the taxable results for 2002. For this dispute and on the basis of the guarantees provided by Tiscali International BV to Scarlet in the transfer

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agreement for Tiscali Belgium NV, on 23 January 2006 Scarlet requested Tiscali to place an amount of EUR 6 million in escrow, which also includes the remarks made by tax authorities regarding VAT. On 3 February 2006, Scarlet notified the Tiscali Group of an “attachment” on shares, bank accounts, Personal and real estate and Tiscali BV and Tiscali International BV receivables for an amount of EUR 7.5 million. However, on 1 March 2006, Scarlet revoked the attachment in return for a pledge of Tiscali International BV shares. In the month of March Scarlet filed a timely appeal against the assessment, which was drafted on the basis of the information and relative documentation produced. At the present time, given that we consider that the write down of the provision was justified at the time, this dispute is not expected to result in significant liabilities.

33.3 Commitments and other guarantees

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

Guarantees
At 30 June 2006 the following guarantees are in force:

- To tax authorities for the settlement of EUR 1.3 million for settlement of the Group’s VAT, as well as other guarantees of various types, issued to third parties in favour of Group companies, totalling EUR 0.3 million.
- Sureties of EUR 29.4 million, related for EUR 12.9 million to guarantees to tax authorities against VAT credits applied for by the company. The remaining portion was related to guarantees covering supply contracts entered into by the Tiscali Group
- Other guarantees for minor disputes, for a total of approximately EUR 2 million.

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34. TRANSACTIONS WITH RELATED PARTIES

During first-half 2006 the Tiscali Group had several relation with related parties, in particular relations with subjects in which the shareholders or members of the Board of Directors directly or indirectly hold investments. These operations were dealt with at market conditions. The table below summarises the balance sheet and economic values recorded in the consolidated financial statements of Tiscali Group as at 30 June 2006 arising from transactions with related parties.

EUR (000)	Trade receivables	Trade payables	Financial receivables	Financial payables	Revenue	Costs	Financial income	Financial charges
Interoute - Group -	35	323	-	-	43	421	-	-
Shardna SpA	336	-	-	-	-	-	-	-
Andalas Ltd	-	-	-	30,698	-	-	-	804
Total	371	323	-	30,698	43	421	-	804

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

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

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

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35 . LIST OF SUBSIDIARIES INCLUDED IN THE CONSOLIDATION AREA

Details of the subsidiaries included in the consolidation area:

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

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

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

Company name	Country	% held
Ariete Telemedia S.r.l.	Italy	40%
Energy Byte Srl (being liquidated)	Italy	100%
Connect Software Inc.	USA	100%
Tiscali Motoring Srl (being liquidated)	Italy	60%
Gilla Servizi Telecomunicaz. S.r.l.	Italy	20%
STS S.r.l.	Italy	35%
Tiscali Media Srl	Italy	100%
Janna S.c.p.a.	Italy	17%
STUD Soc. Consortile a.r.l.	Italy	33.33%

- **List of holdings in other companies**

Company name	Country
Mix S.r.l.	Italy
World Online s.r.o.	Czech Republic
Tiscali Czech Republic a.s. (being liquidated)	Czech Republic
X-Stream Netwok Inc	USA
X-Stream Netwok Tecnologies Inc	USA
Liberty Surf UK (being liquidated)	UK
World Online Kft	Hungary
World Online Epe	Greece
World Online Poland Sp Z.O.O.	Poland

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TISCALI S.P.A. – FINANCIAL STATEMENTS AS AT 30 JUNE 2006

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INCOME STATEMENT	30 June 2006	30 June 2005
EUR (000)		
Revenues	4,958	5,794
Other operating income	45	-
Purchase of materials and outsource services	490	2,993
Personnel costs	8,290	4,025
Other operating expenses	1,008	2,967
Gross operating results	**(4,785)**	**(4,189)**
Restructuring costs, other provisions and write downs	9,946	994
Amortisation	370	511
Operating result	**(15,101)**	**(5,694)**
Share of the profit or losses of associates – equity method	-	-
Net financial income (charges)	(267)	(623)
Income (loss) before taxes	**(15,367)**	**(6,318)**
Taxation	-	-
Profit (loss) from continued operations	**(15,367)**	**(6,318)**
Profit (loss) from discontinued and/or discontinuing operations	-	(23,567)
Net profit	**(15,367)**	**(29,884)**

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BALANCE SHEET	30 June 2006	31 December 2005
EUR (000)		
Non current assets		
Intangible assets	1,064	1,169
Property, plant and machinery	271	513
Equity investments	1,199,307	1,173,255
Other financial assets	10,088	38,594
	1,210,731	**1,213,531**
Current assets		
Receivables from customers	38,584	38,309
Other receivables and other current assets	14,067	15,208
Other current financial assets	-	-
Cash and cash equivalents	1,867	1,004
	54,518	**54,521**
Assets held for sale	124	124
Total Assets	**1,265,373**	**1,268,176**
Share capital and reserves		
Share capital	198,369	198,369
Share premium reserve	899,308	953,717
Translation reserve	-	-
Retained earnings	(176,907)	(215,950)
Shareholders' equity (Group)	**920,770**	**936,136**
Third-party interests	-	-
Minority interests	**920,770**	**936,136**
Total shareholders' equity	**920,770**	**936,136**
Non current liabilities		
Bonds	-	-
Payables to banks and to other lenders	-	-
Obligations under finance leases	-	-
Other non current liabilities	274,600	260,583
Liabilities for pension obligations and staff severance	494	475
Provisions for risks and charges	25,059	26,872
	300,153	**287,931**
Current liabilities		
Bonds – current value	-	-
Payables to banks and other lenders	8,641	7,869
Obligations under finance leases	-	-
Payables to suppliers	30,366	32,639
Other current liabilities	5,443	3,601
	44,450	**44,109**
Liabilities directly related to assets held for sale	-	-
Total liabilities and shareholders' equity	**1,265,373**	**1,268,176**

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CASH FLOW STATEMENT

EUR (000)	30.06.2006	30.06.2005
OPERATING ACTIVITIES		
Net result for the Group from continuing operations	**(15,368)**	**(29,885)**
Adjustments for:		
Depreciation of property, plant and equipment	153	41
Amortisation of intangible assets	217	470
Provision increases	193	3,000
Staff severance and pension obligations	188	111
Financial charges	268	774
Cash flows from operating activities before changes in working capital	**(14,349)**	**(25,489)**
(Increase)/Decrease in commercial and other activities	865	(16,628)
(Increase)/Decrease in commercial and other liabilities	(425)	(18,673)
Cash generated by operating activities	**(13,909)**	**(60,790)**
Income taxes paid	(5)	-
Interest paid	(120)	(323)
Net change in provisions for risks and charges	(2,006)	(291)
Decreases of staff severance provisions	(169)	(68)
Write-down of fixed assets	2,038	-
NET CASH GENERATED BY OPERATING ACTIVITIES	**(14,171)**	**(61,472)**
INVESTING ACTIVITIES		
Changes in receivables from investment disposal	-	(30,000)
Acquisition of property, plant and machinery	64	5
Net increases from other intangible assets	3	17
Changes of fixed assets:		
- Tangible assets	25	145
- Intangible assets	(115)	(189)
NET CASH USED IN INVESTING ACTIVITIES	**(23)**	**(30,022)**
FINANCING ACTIVITIES		
Increases of investments	(26,052)	(916)
Change of financing payables/receivables IC	40,485	(173,553)
Increases of share capital /share premium reserve	-	8,526
Increase/decrease in bank overdrafts	624	(6,885)
Changes in shareholders' equity	2	23,568
NET CASH ARISING FROM/(USED IN) FINANCING ACTIVITIES (before discontinued operations)	**15,059**	**(149,260)**
Result on activities disposed of and held for sale	-	(23,567)
Change of activities disposed of and held for sale net of cash	-	271,000
NET CASH ARISING FROM/(USED IN) FINANCING ACTIVITIES	**15,059**	**98,173**
NET INCREASE / (DECREASE) OF CASH AND CASH EQUIVALENTS	**865**	**6,679**
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	1,004	48,923
Cash and cash equivalents of activities disposed of and held for sale at the beginning of the financial year	-	-
CASH AND CASH EQUIVALENTS AT THE END OF FIRST-HALF	**1,004**	**48,923**
Cash and cash equivalents of operating activities at the end of the financial year	1,867	55,604
Cash and cash equivalents of activities disposed of or held for sale at the end of the financial year	-	-
	1,867	**55,604**

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STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Eur (000)

	Share Capital	Share premium reserve	Translation reserve	Profit (loss) of the period	Shareholders' equity
Balance at 1 January 2006	**198,369**	**953,717**	**-**	**(215,950)**	**936,136**
Increases	-	-	-	-	**-**
Transfers covering losses	-	(54,409)	-	54,409	**-**
Other changes	-	-	-	-	**-**
Gains (losses) taken to equity for the period	**-**	**(54,409)**	**-**	**54,409**	**-**
Profit (loss) for the year	-	-	-	(15,367)	**(15,367)**
Total recognised profit (Loss) for the period	**-**	**(54,409)**	**-**	**39,042**	**(15,367)**
Balance at 30 June 2006	**198,369**	**899,308**	**-**	**(176,907)**	**920,770**

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TRANSITION TO INTERNATIONAL ACCOUNTING AND FINANCIAL REPORTING PRINCIPLES (IFRS) BY THE PARENT COMPANY TISCALI S.P.A.

1. Foreword

Starting with the financial year 2005 and in compliance with European Regulation no.1606 of 19 July 2002, the Tiscali Group has adopted the International Accounting Principles and the Financial Reporting Standards (IFRS) in order to prepare the consolidated financial statements. As provided by national regulations integrating the above mentioned European regulations, the financial statements of the parent company Tiscali S.p.A. will be in compliance with the aforementioned standards beginning from 2006. The parent company Tiscali S.p.A. is therefore presenting its first-half reports for financial year 2006, as well as the relevant comparative reports for 2005, in compliance with the IFRS international standards.

The date of transition to the IFRS principles was 1st January 2005, while the date of adoption is 1st January 2006. This section includes the reconciliation statements provided by the IFRS 1 principle ("*First time adoption of International Financial Reporting Standards"*), together with the necessary explanatory notes relating to the effects deriving from the adoption of such principles.

The parent company Tiscali S.p.A. has applied the IFRS principles with retroactive effect. In particular, at the date of transition to the new principles (1st January 2005), the company prepared its consolidated financial statements according to IFRS and applying 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;
- Assets and liabilities recordable on the basis of Italian accounting principles, but not acceptable by IFRS, have been eliminated;
- Certain balance sheet items have been reclassified as provided by IFRS.

The effects of these adjustments have been directly recognised in the opening balance sheet on the date of the first application of IFRS (1st January 2005). Please note that the assets and liabilities of the financial statements of Tiscali S.p.A. that have been prepared according to IFRS are exposed to the same values resulting from the accounting statement prepared for the Group's consolidated financial statements, as provided by IFRS 1.

On the financial statements relative to the financial year 2005, that are included in this section as provided by the IFRS principles currently in force, we state for comparative purposes the values to be published in the financial statements as at 31st December 2006. Please note that such values may undergo changes should any International Accounting Principle be reviewed or amended before the publication of the financial statements of Tiscali S.p.A. as at 31 December 2006.

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

The adjustment of the consolidated financial position at transition date (1st January 2005) and of the financial and economic statements at 30 June 2005 and at 31 December 2005, has required certain 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:

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

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

Liabilities for pension obligations and staff severance

The Group has elected to record all gains and losses accrued and existing at 1st January 2005 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.

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

This note describes the effects arising from the adoption of IFRS on the data as at 31 December 2004 (opening balance sheet as at 1st January 2005), as well as on the subsequent periods closed as at 30 June 2005 and 31 December 2005.

These effects, as provided by IFRS 1, are presented and explained with the relevant reconciliation as compared to the corresponding published values determined in compliance with the Italian accounting principles. Please note that in consideration of the nature of adjustments and of the fiscal characteristics of the Tiscali Group, no fiscal effect arising from adjustments to IFRS has been recognised.

3.1 First adoption of IFRS – 1st January 2005

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

EUR (000)	**Shareholders' equity**
According to Italian accounting principles	**1,310,261**
IAS 38 Intangible assets	(294)
IAS 19 Employee benefits	139
IAS 32 Financial instruments	(4,155)
IFRS 3 Business combination and goodwill	(207,546)
IFRS	**1,098,405**

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The effects of adjustments to the IFRS accounting principles with regards to balance sheet are summarised in the table below:

BALANCE SHEET AS AT 1ST JANUARY 2005 **EUR (000)**	**According to Italian Accounting Principles**	**Effects of conversion IFRS**	**IFRS**
Non current assets			
Other intangible assets	6,842	(5,057)	1,785
Property, plant and machinery	304	608	912
Investments	1,736,596	(433,670)	1,302,926
Other financial assets	35,806	-	35,806
Deferred tax assets	45,000	**(45,000)**	-
	1,824,549	**(483,119)**	**1,341,430**
Current assets			
Trade receivables	26,362	**-**	26,362
Other receivables and other current assets	29,903	-	29,903
Cash and cash equivalents	48,923	**-**	48,923
	105,188	**-**	**105,188**
Assets held for sale	**-**	**271,124**	**271,124**
Total Assets	**1,929,737**	**(211,995)**	**1,717,742**
Share capital and reserves			
Share capital	196,619	**-**	196,619
Share premium reserve	1,440,874	(4,155)	1,436,719
Retained earnings	(327,232)	(207,701)	(534,933)
Shareholders' Equity	**1,310,261**	**(211,856)**	**1,098,405**
Non current liabilities			
Other non current liabilities	513,537	-	513,537
Liabilities for pension provisions and staff severance	665	(139)	526
Provisions for risks and charges	20,029	-	20,029
	534,231	**(139)**	**534,092**
Current liabilities			
Payables to banks and other lenders	21,353	**-**	21,353
Payables to suppliers	53,035	**-**	53,035
Other current liabilities	10,858	-	10,858
	85,245	**-**	**85,245**
Liabilities directly related to assets held for sale	**-**	**-**	**-**
Total Liabilities	**619,476**	**(139)**	**619,337**
Total shareholders' equity and liabilities	**1,929,737**	**(211,995)**	**1,717,742**

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The effects of IFRS adjustments are analytically shown in the table below:

BALANCE SHEET AS AT 1ST JANUARY 2005 **Eur (000)**	**Effects of conversion to IAS/IFRS**	**Note 1** **IAS 38 Intangible assets**	**Note 2** **IAS 19 Employee benefits**	**Note 3** **IAS 32 Financial instruments disclosure and presentation**	**IFRS 1 First adoption of IAS principles**	**Note 4** **IFRS 3 Business combination and goodwill**	**Note 5** **IFRS 5 Assets held for sale and discontinued operations**	**Other**
Non current assets								
Intangible assets	(5,057)	(902)	-	(4,155)	-	-	-	-
Property, plant and machinery	608	608	-	-	-	-	-	-
Investments	(433,670)	-	-	-	-	(162,546)	(271,124)	-
Deferred tax assets	(45,000)	-	-	-	-	(45,000)	-	-
	(483,119)	(294)	-	(4,155)	-	**(207,546)**	**(271,124)**	-
Current assets								
Customer receivables	-	-	-	-	-	-	-	-
Other receivables and other current assets	-	-	-	-	-	-	-	-
Other current financial assets	-	-	-	-	-	-	-	-
Cash and cash equivalents	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
Assets held for sale	271,124	-	-	-	-	-	271,124	-
Total Assets	(211,995)	(294)	-	(4,155)	-	(207,546)	-	-
Share Capital and reserves								-
Share capital	-	-	-	-	-	-	-	-
Share premium reserve	(4,155)	-	-	(4,155)	-	-	-	-
Retained earnings	(207,701)	(294)	139	-	-	(207,546)	-	-
Shareholders' equity	(211,856)	(294)	139	(4,155)	-	(207,546)	-	-
Non current liabilities								
Payables to banks and other lenders	-	-	-	-	-	-	-	-
Other non current liabilities	-	-	-	-	-	-	-	-
Liabilities for pension provisions and staff severance	(139)	-	(139)	-	-	-	-	-
Provisions for risks and charges	-	-	-	-	-	-	-	-
	(139)	-	(139)	-	-	-	-	-
Current liabilities								
Payables to banks and other lenders	-	-	-	-	-	-	-	-
Payables to suppliers	-	-	-	-	-	-	-	-
Other current liabilities	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
Liabilities directly related to assets held for sale	-	-	-	-	-	-	-	-
Total Liabilities	(139)	-	(139)	-	-	-	-	-
Total Shareholders' Equity and Liabilities	(211,995)	(294)	-	(4,155)	-	(207,546)	-	-

Notes

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

1. IAS 38 / Intangible assets

The adjustment refers to the following:

a. cancellation of the net carrying values of certain type of multi-year costs (start-up and expansion costs, advertising costs) capitalised in compliance with the Italian accounting principles, while the IAS/IFRS do not recognise capitalisation of these costs;
b. reclassification of upgrades on third-party assets concerning property, plants and machinery.

2. IAS 19 / Employee benefits

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

3. IAS 32 e IAS 39 / Financial instruments

Supplementary charges related to the increase of share capital of, dating back to the end of the 2004 financial year, have been written off Intangible assets with the simultaneous decrease of Share premium reserve.

4. IFRS 3 / Business combination and goodwill

Effective as from 1st January 2005 Tiscali S.p.A. has transferred to Tiscali Italia S.r.l all operations pertaining to the Italian territory. All *'corporate'* operations and services performed on behalf of the Group have instead been transferred to Tiscali Services S.r.l., taking care of activities such as *information technology*, development of media and new products for the whole Group. Both companies are fully and directly owned by Tiscali S.p.A.

As provided by IFRS 3 all accounting effects of the transfer have been eliminated as implemented on companies fully owned and consolidated.

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

Investments in companies held for sale and in discontinued operations have been reclassified in an appropriate balance sheet item.

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3.2 Effects of transition to IFRS as at 30 June 2005

The table below summarises the effects as at 30 June 2005:

EUR (000)	Shareholders' equity	**Net result**
According to Italian accounting principles	**1,243,393**	**87,152**
IAS 38 Intangible assets	223	517
IAS 19 Employee benefits	132	(7)
IAS 32 Financial instruments	(4,155)	-
IFRS 3 Business combination and goodwill	(162,546)	(117,546)
IFRS	**1,077,047**	**(29,884)**

The table below summarises effects on the single items of the income statement:

INCOME STATEMENT AS AT 30 JUNE 2005 **EUR (000)**	**According to Italian accounting principles**	**Effects of conversion to IAS/IFRS**	**IAS/IFRS**
Revenues	5,794	-	5,794
Other income	164,494	(164,493)	-
Purchase of materials and outsource services	2,655	-	2,655
Personnel costs	4,356	7	4,363
Other operating costs	25,481	(22,514)	2,967
Gross Operating Result	**137,797**	**(141,986)**	**(4,189)**
Restructuring costs, provisions for risks and write-downs	3,994	(3,000)	994
Depreciation and amortisation	1,028	(517)	511
Operating Result	**132,775**	**(138,469)**	**(5,694)**
Share of profit or losses of associates with equity method	-	-	-
Net financial income (Charges)	(623)	-	(623)
Profit (loss) before tax	**132,152**	**(138,469)**	**(6,318)**
Taxation	45,000	(45,000)	-
Profit (loss) from continuing operations	**87,152**	**(93,469)**	**(6,318)**
Profit (loss) from discontinued operations and/or assets held for sale	-	(23,567)	(23,567)
Net profit	**87,152**	**(117,036)**	**(29,884)**

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

		Note 1	Note 2	Note 3		Note 4	Note 5	
INCOME STATEMENT AS AT 30 JUNE 2005 **Eur (000)**	**Effect of conversion to IAS/IFRS**	**IAS 38 Intangible assets**	**IAS 19 Employees benefits**	**IAS 32 Financial instruments: Disclosure and presentation**	**IFRS 1 First adoption of IAS principles**	**IFRS 3 Business combination and goodwill**	**IFRS 5 Assets held for sale and discontinued operations**	**Other**
Revenues	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Other income	**(164,493)**	**-**	**-**	**-**	-	***(162,546)***	(1,947)	**-**
Purchase of materials and outsource services	**-**	**-**	-	-	**-**	**-**	**-**	**-**
Personnel costs	**7**	**-**	7	**-**	**-**	**-**	**-**	-
Other operating costs	**(22,514)**	-	-	-	-	-	(22,514)	-
Gross Operating Result	**(141,986)**	**-**	**(7)**	**-**	**-**	**(162,546)**	**20,567**	**-**
Restructuring costs, provisions for risks and write-downs	(3,000)	-	-	-	-	-	(3,000)	-
Depreciation and amortisation	(517)	(517)	-	-	-	-	-	-
Operating Result	**(138,469)**	**517**	**(7)**	**-**	**-**	**(162,546)**	**23,567**	**-**
Share of profit or losses of associates with equity method	**-**	-	-	-	-	-	-	-
Net financial income (Charges)	**-**	-	-	-	-	-	-	-
Profit (Loss) before tax	**(138,469)**	**517**	**(7)**	**-**	**-**	**(162,546)**	**23,567**	**-**
Taxation	**(45,000)**	-	-	-	-	(45,000)	-	-
Profit (Loss) from continuing operations	**(93,469)**	**517**	**(7)**	**-**	**-**	**(117,546)**	**23,567**	**-**
Profit (Loss) from discontinued operations	**(23,567)**	-	-	-	-	-	(23,567)	-
Net profit (loss)	**(117,036)**	**517**	**(7)**	**-**	**-**	**(117,546)**	**-**	**-**

Notes

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

1. IAS 38 / Intangible assets

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 do not. Amortisation recorded in the first-half 2005, complying with Italian accounting principles, has therefore been cancelled; (b) reclassification of upgrades on third-party assets concerning property, plant and machinery.

2. IAS 19 / Employee benefits

The liability related to staff severance (TFR) has been restated according to the actuarial method. Adjustment is recorded on profit and loss.

3. IAS 32 e IAS 39 / Financial instruments

Supplementary charges related to the increase of share capital, dating back to the end of the 2004 financial year, have been written off from Intangible assets with the simultaneous decrease of Share premium reserve.

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4. IFRS 3 / Business combination and goodwill

Effective as from 1st January 2005 Tiscali S.p.A. has transferred to Tiscali Italia S.r.l all operations pertaining to the Italian territory. All *'corporate'* operations and services performed on behalf of the Group have instead been transferred to Tiscali Services S.r.l., taking care of activities such as *information technology*, development of media and new products for the whole Group. Both companies are fully and directly owned by Tiscali S.p.A.

As provided by IFRS 3 all accounting effects of the transfer have been eliminated as implemented on companies fully owned and consolidated.

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

Investments in companies held for sale and in discontinued operations have been reclassified in an appropriate balance sheet item.

3.3 Effect of transition to IFRS as at 31 December 2005

The table below summarises the effects of transition as at 31 December 2005:

EUR (000) Euro	**Shareholders' Equity**	**Net Profit**
According to Italian accounting principles	**1,101,832**	**(54,409)**
IAS 38 Intangible assets	825	1,119
IAS 19 Employee benefits	180	41
IAS 32 Financial instruments	(4,155)	-
IFRS 3 Business combination and goodwill	(162,546)	(117,546)
IFRS	**936,136**	**(170,795)**

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The tables below point out the effects of adjustments to the IAS/IFRS accounting principles with regard to the income statement and balance sheet:

INCOME STATEMENT AS AT 31 DECEMBER 2005 **EUR (000)**	**According to the Italian Accounting Principles**	**Effects of conversion to IAS/IFRS**	**IAS/IFRS**
Revenues	9,283	-	9,283
Other income	165,358	(165,068)	290
Purchase of materials and outsource services	6,115	-	6,115
Personnel costs	7,794	(41)	7,753
Other operating costs	27,793	(26,610)	1,184
Gross Operating Result	**132,938**	**(138,417)**	**(5,479)**
Restructuring costs, provisions for risks and write-down	138,816	(981)	137,835
Amortisation and depreciation	2,170	(1,119)	1,051
Operating Result	**(8,048)**	**(136,317)**	**(144,365)**
Share of profit or losses of associates with equity method	-	-	-
Net financial income (charges)	(1,027)	-	(1,027)
Profit (loss) before tax	**(9,075)**	**(136,317)**	**(145,392)**
Taxation	45,334	(45,000)	334
Profit (loss) from continuing operations	**(54,409)**	**(91,317)**	**(145,726)**
Profit (loss) from discontinued operations and/or assets held for sale	-	(25,069)	(25,069)
Net profit (loss)	**(54,409)**	**(116,386)**	**(170,795)**

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BALANCE SHEET AS AT 31 DECEMBER 2005 **EUR (000)**	**According to the Italian Accounting Principles**	**Effects of conversion to IFRS**	**IFRS**
Non current assets			
Other intangible assets	4,775	(3,606)	1,169
Property, plant and equipment	237	276	513
Investments	1,335,925	(162,670)	1,173,255
Other financial assets	38,594	-	38,594
Deferred tax assets	-	-	-
	1,379,531	**(166,000)**	**1,213,531**
Current assets			
Receivable from customers	38,309	-	38,309
Other receivables and other current assets	15,208	-	15,208
Cash and cash equivalents	1,004	-	1,004
	54,521	**-**	**54,521**
Assets held for sale	**-**	**124**	**124**
Total assets	**1,434,052**	**(165,876)**	**1,268,176**
Share Capital and Reserve			
Share Capital	198,369	-	198,369
Share premium reserve	957,872	(4,155)	953,717
Translation reserve	-	-	-
Retained earnings	(54,409)	(161,541)	(215,950)
Shareholders' Equity	**1,101,832**	**(165,696)**	**936,136**
Non current liabilities			
Payables to banks and other lenders	-	-	-
Other non current liabilities	260,583	-	260,583
Liabilities for pension obligations and staff severance	655	(180)	475
Provisions for risks and charges	26,872	-	26,872
	288,111	**(180)**	**287,931**
Current liabilities			
Payables to banks and other lenders	7,869	-	7,869
Payables to suppliers	32,639	-	32,639
Other current liabilities	3,601	-	3,601
	44,109	**-**	**44,109**
Liabilities directly related to assets held for sale	**-**	**-**	**-**
Total liabilities	**332,220**	**(180)**	**332,040**
Total Liabilities and Shareholders' Equity	**1,434,052**	**(165,876)**	**1,268,176**

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

INCOME STATEMENT AS AT 31 DECEMBER 2005 **EUR (000)**	**Effect of conversion to IFRS**	**Note 1** **IAS 38 Intangible assets**	**Note 2** **IAS 19 Employees benefits**	**Note 3** **IAS 32 Financial instruments: Disclosure and presentation**	**IFRS 1 First adoption of IAS principles**	**Note 4** **IFRS 3 Business combination and goodwill**	**Note 5** **IFRS 5 Assets held for sale and discontinued operations**	**Other**
Revenue	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Other income	**(165,068)**	**-**	**-**	**-**	-	**(162,546)**	(2,522)	**-**
Purchase of materials and outsource services	**-**	**-**	-	-	**-**	**-**	**-**	**-**
Personnel costs	**(41)**	**-**	(41)	**-**	**-**	**-**	**-**	-
Other operating costs	**(26,610)**	-	-	-	-	-	(26,610)	-
Gross Operating Result	**(138,417)**	**-**	**41**	**-**	**-**	**(162,546)**	**24,088**	**-**
Restructuring costs, provisions for risks and write-downs	(981)	-	-	-	-	-	(981)	-
Depreciation and amortisation	(1,119)	(1,119)	-	-	-	-	-	-
Operating Result	**(136,317)**	**1,119**	**41**	**-**	**-**	**(162,546)**	**25,069**	**-**
Share of profit or losses of associates with equity method	**-**	-	-	-	-	-	-	-
Net financial income (Charges)	**-**	-	-	-	-	-	-	-
Profit (Loss) before tax	**(136,317)**	**1,119**	**41**	**-**	**-**	**(162,546)**	**25,069**	**-**
Taxation	**(45,000)**	-	-	-	-	(45,000)	-	-
Profit (Loss) from continuing operations	**(91,317)**	**1,119**	**41**	**-**	**-**	**(117,546)**	**25,069**	**-**
Profit (Loss) from discontinued operations	**(25,069)**	-	-	-	-	-	(25,069)	-
Net profit (loss)	**(116,386)**	**1,119**	**41**	**-**	**-**	**(117,546)**	**-**	**-**

Notes

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

1. IAS 38 / Intangible assets
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 2005, complying with Italian accounting principles, has therefore been cancelled; (b) reclassification of upgrades on third-party assets concerning property, plant and machinery.

2. IAS 19 / Employee benefits
The liability related to staff severance (TFR) has been restated according to the actuarial method. Adjustment is recorded on profit and loss.

3. IAS 32 e IAS 39 / Financial instruments
Supplementary charges related to the increase of share capital, dating back to the end of the 2004 financial year, have been written off from Intangible assets with the simultaneous decrease of Share premium reserve.

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4. IFRS 3 / Business combination and goodwill

Effective as from 1st January 2005 Tiscali S.p.A. has transferred to Tiscali Italia S.r.l all operations pertaining to the Italian territory. All *'corporate'* operations and services performed on behalf of the Group have instead been transferred to Tiscali Services S.r.l., taking care of activities such as *information technology*, development of media and new products for the whole Group. Both companies are fully and directly owned by Tiscali S.p.A.

As provided by IFRS 3 all accounting effects of the transfer have been eliminated as implemented on companies fully owned and consolidated.

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

Investments in companies held for sale and in discontinued operations have been reclassified in an appropriate balance sheet item.

BALANCE SHEET AS AT 31 DECEMBER 2005 **EUR (000)**	**Effects of conversion to IFRS**	**Note 1** **IAS 38 Intangible assets**	**Note 2** **IAS 19 Employee benefits**	**Note 3** **IAS 32 Financial instruments disclosure and presentation**	**IFRS 1 First adoption of IAS principles**	**Note 4** **IFRS 3 Business combination and goodwill**	**Note 5** **IFRS 5 Assets held for sale and discontinued operations**	**Other**
Non current assets								
Intangible assets	(3,606)	1,451	-	-	(5,057)	-	-	-
Property, plant and equipment	276	(332)	-	-	608	-	-	-
Investments	(162,670)	-	-	-	-	(162,546)	(124)	-
Deferred tax assets	-	-	-	-	-	-	-	-
	(166,000)	1,119	-	-	(4,449)	**(162,546)**	**(124)**	-
Current assets								
Receivables from customers	-	-	-	-	-	-	-	-
Other receivables and other current assets	-	-	-	-	-	-	-	-
Cash and cash equivalents	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	**-**	-
Assets held for sale	124	-	-	-	-	-	124	-
Total Assets	(165,876)	1,119	-	-	(4,449)	(162,546)	**-**	-
Share Capital and Reserves								-
Share capital		-	-	-	-	-	-	-
Share premium reserve	(4,155)	-	-	-	(4,155)	-	-	-
Translation share	-	-	-	-	-	-	-	-
Retained earnings	(161,541)	1,119	41	-	(155)	(162,546)	-	-
Shareholders' equity	(165,696)	1,119	41	-	(4,310)	(162,546)	**-**	**-**
Non current liabilities								
Payables to banks and other lenders	-	-	-	-	-	-	-	-
Other non current liabilities	-	-	-	-	-	-	-	-
Liabilities for pension obligations and staff severance	(180)	-	(41)	-	(139)	-	-	-
Provisions for risks and charges	-	-	-	-	-	-	-	-
	(180)	-	(41)	-	(139)	-	**-**	-
Current liabilities								
Payables to banks and other lenders	-	-	-	-	-	-	-	-
Payables to suppliers	-	-	-	-	-	-	-	-
Other current liabilities	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	**-**	-
Liabilities directly correlated to assets held for sale	-	-	-	-	-	-	-	-
Total Liabilities	(180)	-	(41)	-	(139)	-	**-**	-
Total Shareholders' equity and liabilities	(165,876)	1,119	-	-	(4,449)	(162,546)	**-**	-

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Notes

Notes pertaining to the consolidated balance sheet are reported consistently with the detailed table listing, pointing out the item subject to adjustment.

1. IAS 38 / Intangible assets

The adjustment refers to the following:

c. cancellation of the net carrying values of certain type of multi-year costs (start-up and expansion costs, advertising costs) capitalised in compliance with the Italian accounting principles, while the IAS/IFRS do not recognise capitalisation of these costs;
d. reclassification of upgrades on third-party assets concerning property, plants and machinery.

2. IAS 19 / Employee benefits

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

3. IAS 32 e IAS 39 / Financial instruments

Supplementary charges related to the increase, dating back to the end of the 2004 financial year, have been written off from Intangible assets with the simultaneous decrease of Share premium reserve.

4. IFRS 3 / Business combination and goodwill

Effective as from 1st January 2005 Tiscali S.p.A. has transferred to Tiscali Italia S.r.l all operations pertaining to the Italian territory. All *'corporate'* operations and services performed on behalf of the Group have instead been transferred to Tiscali Services S.r.l., taking care of activities such as *information technology*, development of media and new products for the whole Group. Both companies are fully and directly owned by Tiscali S.p.A.

As provided by IFRS 3 all accounting effects of the transfer have been eliminated as implemented on companies fully owned and consolidated.

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

Investments in companies held for sale and in discontinued operations have been reclassified in an appropriate balance sheet item.

Vittorio Serafino

For the Board of Directors

The Chairman
Vittorio Serafino

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AUDITORS' REVIEW REPORT ON THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2006 PREPARED IN ACCORDANCE WITH ARTICLE 81 OF CONSOB REGULATION APPROVED BY RESOLUTION NO. 11971 OF MAY 14, 1999 AND SUBSEQUENT MODIFICATIONS AND INTEGRATIONS

To the Shareholders of
TISCALI S.p.A.

1. We have reviewed the interim consolidated financial statements of Tiscali S.p.A. (and subsidiaries the "Tiscali Group"), which include the consolidated balance sheet, income statement, statement of changes in equity and cash flow statement, and the related explanatory notes at the consolidated level included in the half year report for the six-month period ended June 30, 2006. These interim consolidated financial statements are the responsibility of the Company's Directors. Our responsibility is to issue a report on the interim consolidated financial statements based on our review. In addition, we have read the explanatory notes to verify the consistency with the report on operations contained in the above interim consolidated financial information.

2. Except as discussed in paragraph 4 below, our review was carried out in accordance with the standards recommended by the Italian Regulatory Commission for Companies and the Stock Exchange ("Consob") for the review of the half-yearly interim financial statements under Resolution n° 10867 of July 31, 1997. Our review consisted principally of applying analytical procedures to the underlying financial data, assessing whether accounting policies have been consistently applied and making enquiries of management responsible for financial and accounting matters. The review excluded audit procedures such as tests of controls and substantive verification procedures of the assets and liabilities and was therefore substantially less in scope than an audit performed in accordance with established auditing standards. Accordingly, unlike our report on the year-end financial information, we do not express an audit opinion on the half-yearly interim consolidated financial statements.

3. As far as comparative figures related to the consolidated financial statements and the half-yearly interim consolidated financial statements of the prior year, reference should be made to our auditors' report dated May 2, 2006 and October 3, 2005, respectively.

4. As indicated in the explanatory notes, the Directors, taking into account the difficult competitive situation that characterizes the German market and the lower than expected negative results, deemed it necessary to write down the goodwill relating to the German activities at June 30, 2006 for Euro 30 million even though, at the date of the half year consolidated financial statements, there was still significant uncertainty relating both to the definition of the new business plan 2007-2010, presented only to the market on October 11, 2006, and the analysis of possible ways and means of selling the German activities whose disposal is forecasted in the new business plan during 2007. With regard to the write down of goodwill we were not provided with any evidential elements to support the Directors considerations, nor any evidence of possible detailed calculations determined in accordance with the relevant accounting principles (IAS 36 – "Impairment of asserts"). Due to the lack of supporting information relating to the calculation criteria utilized by the Directors', we were not able to perform the necessary audit review procedures to verify the write down in accordance with such accounting principle. Also, the information available to date would indicate that a precise calculation of the write down would probably lead to an amount higher than that recorded in the half year information at June 30, 2006. Even though it is not possible to quantify an independent amount, whose determination is exclusively the responsibility of the Directors of the Company, for indicative purposes only, with reference to the date of June 30, 2006 the amount could have been higher by approximately Euro 20 – 30 million, even though it is not possible to exclude that a detailed calculation could lead to a different amount to that indicated.

5. Based on our review, except for the effects of such adjustments as might have been determined to be necessary had we been able to perform the audit review procedures relating to the matter in paragraph 4, we are not aware of any material modifications that should be made to the accompanying interim financial information mentioned in paragraph 1. above in order for them to be in conformity with International Accounting Standard IAS 34 and the criteria provided by art. 81 of Consob regulations for the preparation of the half-yearly interim financial information approved with Resolution n° 11971 of May 14, 1999 and subsequent modifications and integrations.

6. We draw your attention to the following items for a better understanding of the interim financial information:

6.a The first six months of 2006 has seen Tiscali continue the process of focusing and defining its activities in its primary markets, in particular the strengthening and development of its own unbundling network infrastructure in Italy and the United Kingdom, in addition to the qualification and diversification of the services it has to offer (so called *double and triple play*). In the market in which the Group operates strategic decisions need to be made to assure the sustainability of the economic and financial plans are focused on achieving larger market share in the countries in which it operates and that will expand the services offered. The availability of adequate financial resources to sustain the plans developed and to meet the expiring financial debt remains an essential going concern condition. In this connection, by way of further financing from Silver Point Finance LLP, that foresees various limits and conditions and also pledges over the share capital of operating companies within the Group, the Tiscali trademark and on some types of tangible assets, funds were made available to reimburse the "Equity Linked Bond" ,not reimbursed by way of the share capital increase, that expired at the end of September 2006. Other actions are in progress of realization, as described in more detail in the half year financial information, as known at that date, and subsequently in the new business plan 2007 -2010 presented to the market on October 11, 2006. In particular, the disposal of the principal activities in some countries are expected (in particular, the disposal of the activities in the Netherlands has already started and the formal completion is expected in the next few months) and, at the same time the net debt should be reduced by the end of 2007 and positive cash flows should commence starting from 2008. In this context, the primary focus of the Group is on the capacity to generate cash flows in line with its forecast and to be able to finance its planned 2007 – 2010 investments, which conditions will significantly influence the evolution of Tiscali's financial position and stability.

6.b As of June 30, 2006, the Tiscali Group is involved, in certain legal disputes initiated by third parties against entities of the Group World Online International N.V., dating back to the time of the acquisition of the former World Online Group by the Tiscali Group. The Directors, based on their legal advisors' opinion, believe these claims are unfounded. Also, a tax dispute, for a total amount of Euro 51.3 million determined by the Dutch tax authorities including penalties and interest, exists with reference to World Online International NV, regarding the lack of payment of withholding taxes on emoluments that supposedly were paid in the year 2000 to the former Managing Director. The Tiscali Group, on the basis of its fiscal advisors' opinion, has made no provision against this contingency, believing the claim to be unfounded. Therefore, due to the lack of available information to be able to consider the above mentioned potential liabilities as probable and in any case to allow a reasonable estimate, no provision has been recorded in the balance sheet against such contingent liabilities. In addition, there are other risk situations relating to tax inspections described in detail in note 33 in the notes to the consolidated financial statements which the Tiscali Group believe will not result in a significant liability, taking into account the provisions already recorded in the balance sheet.

6.c As of June 30, 2006, the Company has recorded a write down of Euro 30 million related to its German activities, as described in paragraph 4 above, in a separate line in the consolidated income statement after the operating result by inserting a separate intermediate result called "Net operating result after goodwill write down". This form of presentation, that excludes the above mentioned write down from the operating result and as a consequence the line "Operating result" indicates a loss of Euro 28.4 million instead of Euro 58.4 million, has been adopted by the Directors in consideration of the element of discretion contemplated by the relevant accounting principle (IAS 1 "Presentation of Financial Statements") in terms of presentation and classification of the income statement line items, due to the lack of any specific comment relating to this matter.

DELOITTE & TOUCHE S.p.A.

Signed by
Fabrizio Fagnola
Partner

Milan, Italy
October 30, 2006

This report has been translated into the English language solely for the convenience of international readers.