

Tiscali: the Board of Directors approves the draft 2006 consolidated accounts and the proposal of a *stock options* plan

- **Revenues: EUR 678.5 million, up 28% as compared to financial year 2005**
- **Gross operating result: EUR 100.4 million (15% of revenues), up 44% as compared to financial year 2005**
- **Active users: 3.5 million, over 1.8 million ADSL subscribers (of which 584,000 ULL). Over 618,000 new customers in the financial year**
- **Stock option plan to be approved by the extraordinary shareholders' meeting**

Cagliari, 20th March 2007

Financial year ended as at 31 December 2006 has seen the concentration of the Tiscali Group in Italy and in the United Kingdom, where product and infrastructure investments have also been focused. This follows the announcement of the disposal of the subsidiaries in Germany, The Netherlands and Czech Republic, and the completion of disposal of the residual Spanish activities. On the UK market Tiscali also concluded the acquisition of Video Networks, consolidated starting as of September 2006 consistently with the intent to expand in the UK market and to develop a triple pay offer with IPTV.

Financial year 2006 also features a substantial change in the Group's financial situation, with repayment of all existing bonds towards the market and with the replacement of the structured financing provided by Silver Point Finance with an EUR 280 million credit line granted by Banca Intesa San Paolo. This credit line, with terms and conditions significantly more favourable for the Group, is an indication of a renewed trust by the banking system in Tiscali's industrial plan and its growth potential.

The Tiscali Group's revenues for financial year 2006 were affected by the above mentioned changes in the consolidation area and refer to activities in Italy, United Kingdom and to those of certain minor subsidiaries (among which TInet). Total revenues stood at EUR 678.5 million, up 28% as compared to the EUR 530.8 million achieved in financial year 2005.

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The breakdown by geographical area shows in particular the dynamics described below.

Italy

In financial year 2006 Tiscali Italia Srl, the Italian subsidiary controlling national operations, has achieved EUR 217.5 million revenues, with a 33% increase of revenues net of narrowband and a 15% increase as compared to EUR 188,9 million of financial year 2005. In particular, revenues related to the broadband Internet access systems (ADSL) amounted to EUR 73.3 million, as compared to EUR 51 million of financial year 2005 (an approximate 44% increase). Of these, approximately 40% were generated by direct customers, that is customers connected to the Tiscali network infrastructure (ULL). The financial year 2006 also saw a sustained dynamics of the voice revenues. Boosted by the VoIP services (over EUR 10 million revenues in the period), these exceeded EUR 40 million (EUR 40,9 million, as compared to EUR 30,8 of financial year 2005, with an increase of about 33%).

In financial year 2006 Tiscali's customer base in Italy has seen a net increase of over 129,000 new ADSL customers, bringing the total users of this service to 432,000 (+ 43% as compared to the end of the preceding financial year), of which approximately 234,000 already activated and connected through Tiscali's network infrastructure (*unbundling*). Quite significant is the number of customers who subscribed in the financial year to the 'double play' product offer (data and voice through the internet), equal to over 66,000, thus bringing the total of VoIP customers in Italy to over 81,000. The customer base using 'dial-up' access services (narrowband) is still significant (about 726,000) notwithstanding the slowdown of this market segment.

Tiscali Italia Srl ended the financial year 2006 with a **gross operating result**, net of intra-group costs related in particular to information technology services provided by Tiscali Services Srl, of EUR 30.1 million (14% of revenues), showing a substantial improvement as compared to EUR 17.7 million (9% of revenues) of financial year 2005. As far as the operating result, the financial year 2006 shows an operating loss amounting to EUR 13 million, as compared to the EUR 16,9 million loss of financial year 2005.

United Kingdom

In financial year 2006 Tiscali UK confirmed quite dynamic growth rates, notwithstanding a market characterised by strong competition (also in terms of service price) and by concentration operations among telecommunication operators. Tiscali UK maintains its high penetration rate while the recent integration with Video Networks Limited¹, and the relevant improvement of the range and quality of services should

¹ Video Networks Ltd provides TV and video services, under its Homechoice brand, to its broadband subscriber
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foster further growth. The overall contribution by VNL in financial year 2006, starting from the month of September, stood at EUR 10.5 million of revenues.

In financial year 2006 Tiscali UK, including VNL, has achieved EUR 445,2 million revenues, with a 37% increase as compared to financial year 2005 (revenues EUR 324,9 million). Such performance is mainly due to the organic growth of the subsidiary, particularly noticeable in the ADSL access service segment (EUR 284,6 million in financial year 2006, as compared to EUR 170.5 million in the preceding financial year, with a 67% increase). These services accounted for over 64% of the Tiscali's revenues in the UK. In such growing revenue context the voice services, also including analogical products sold in addition to ADSL services (in the 'bundled' mode), generated EUR 70.5 million of revenues (+36% as compared to EUR 5.9 million of financial year 2005).

In financial year 2006 the customer base showed a marked increase: the acquired ADSL users were over 459,000, of which approximately 43,000 deriving from the integration with VNL. As at 31 December 2006 broadband users were over 1.42 million, of which approximately 350,000 direct customers, i.e. already connected to the Tiscali unbundling network ULL whose roll-out started in first-half 2006. The ADSL user base by 52% in year end 2006 as compared to 2005.

The **gross operating result** achieved by Tiscali UK in financial year 2006, which included Video Networks Ltd (VNL) from September 2006 and the intra-group costs for information technology services provided by Tiscali Services Srl, stood at EUR 65 million (EUR 61.1 million in financial year 2005). Without the impact of the gross operating result of VNL (negative at EUR 6.2 million) the gross operating result would have been equal to approximately EUR 71 million, up 16% with respect to the preceding financial year. A significant revenue improvement of the UK subsidiary is however expected following the implementation of the reorganisation plan, concluded in February 2007.

The reorganisation costs associated to VNL integration, in relation to which the appropriate provisions have been made in 2006, significantly affected the operating result performance of financial year 2006 which is negative at EUR 59.6 million as compared to the positive figure of EUR 7.3 million of financial year 2005. Gross of VNL and the above mentioned reorganisation costs the UK operating result would have been negative of approximately EUR 3.6 million.

Depreciation charges also deeply affected financial year 2006 results (EUR 72.9 million versus EUR 46.9 million in financial year 2005). These were affected by the

base using its state of the art IPTV platform. The Homechoice premium offering, currently being integrated with Tiscali UK offers, included content from all the major Hollywood studios delivering a library of over 1,000 movies, over 5,000 interactive music videos via the V:MX service as well as a full bouquet of pay TV channels. On an annual basis, VNL revenues amount to approximately EUR 27 million.

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development of the customer base, the ULL infrastructure roll-out started in 2006 and to VNL reorganisation charges.

The revenues by business line dynamics are as follows.

Access

This segment includes Internet access service revenues through narrowband (dial-up) and broadband (ADSL) and has generated in financial year 2006 EUR 473.5 million revenues, accounting for 70% of total Group revenues and showing a 27.2% growth as compared to financial year 2005 (EUR 372,1 million). The figure reflects the physiological slowdown of narrowband revenues. In fact, the increase of ADSL revenues in financial year 2006, versus 2005, stood at 61% (EUR 357.9 million versus EUR 222.4 million). It also reflects the physiological slowdown of the 'dial-up' / narrowband revenues that, as expected, stood at EUR 115.6 million (EUR 149.7 million in financial year 2005).

The ADSL customer base acquired in the year exceeded 618,000 users, thus bringing the total of broadband customers to over 1.855 million, of which 584,000 already activated as direct customers, that is connected to the Tiscali network with unbundling access (ULL).

Voice

The development of the voice services is of strategic relevance in the framework of the plan that sees Tiscali as a provider of integrated telecommunication services. These services favoured the implementation of a 35% revenue growth performance in financial year 2006, thanks in particular to voice products (both analogical and VoIP) offered to customers together with access services (bundled mode). In absolute terms the voice revenues in financial year 2006 amount to EUR 112.2 million, with a 35% growth as compared to EUR 82,9 million in financial year 2005. On the total voice revenues EUR 32.1 million were related to VoIP services.

Business services

Revenues achieved in financial year 2006 from the business services (VPN, housing, hosting, domain services and leased lines, etc.), therefore excluding revenues pertaining to access and/or voice products for business customers, which are included in the relevant business lines, stood at EUR 44.4 million (growing approximately 8% as compared to EUR 41.2 million in financial year 2005). The business segment results were partly affected by the stronger strategic focus on access and voice products by the Tiscali Group in the financial year.

Please note that should the business segment revenues deriving from access and voice services (altogether EUR 98.8 million in financial year 2006), also be added, the

financial year 2006 revenues deriving from business services would be equal to EUR 143.2 million.

Media and value-added services

In financial year 2006 the revenues generated by this segment amounted to EUR 42 million, with a 69% growth as compared to financial year 2005 (EUR 24.9 million). These results substantiate Tiscali's choice to consider this business segment as a strategic one.

In financial year 2006 the upturn trend of the online advertising market has been consolidated and strengthened. A further significant expansion is expected, considering the remarkable penetration of internet in the advertising market, also to the detriment of more traditional channels. Tiscali's performance on such segment rewards the Group strategy to develop the service offered through its portals, both in Italy and in the United Kingdom, and to concentrate on selected and outstanding partnerships, such as that with Google. Also significant is the marked restyling of the user interface, in line with the development of content use and the new online advertising modes.

GROSS OPERATING RESULT (EBITDA)

The Gross Operating Result (EBITDA) of financial year 2006, before provisions for risks, write downs and depreciations, stood at EUR 100.4 million, with a 44% growth as compared to EUR 69.7 million achieved in financial year 2005. In terms of percentage of revenues this result shows a 15% increase and a steady improving trend along the whole year.

Tiscali Group's *Gross Margin*, was affected by competitive pressure on prices, above all in the UK market. The result achieved in financial year 2006 (45% of revenues) was approximately two percent points less than 2005. Considering the marked growth of revenues, such percentage change is more than absorbed by absolute value data, with a Gross Margin achieving EUR 303.8 million (EUR 251.6 million in 2005, with an increase exceeding 20%).

Indirect operating costs at EUR 205.2 million grew in absolute terms with respect to financial year 2005, but showed a significant reduction as a percentage of revenues, decreasing from 34% to 30%.

Within indirect operating costs, the **personnel costs** in financial year 2006 amounted to EUR 77.8 million, an increase in absolute terms with respect to financial year 2005 (EUR 73.5 million). The control of the personnel cost dynamics achieved a positive effect in terms of reduction as a percentage of revenues, decreasing from 14% in financial year 2005 to 12% in financial year 2006.

Also the **marketing costs**, including sales and distribution costs, equal to EUR 75.9 million (11% of revenues), exceeded in absolute terms 2005 financial year figure (EUR 63.6 million)

Other indirect operating costs of financial year 2006 amounted to EUR 51.5 million, growing with respect to EUR 42.1 million in 2005, though with a steady incidence on revenues (8%), thus mitigating the absolute terms dynamics of the financial year, mainly due to costs for after-sale assistance to customers, affected by customer base trends, and by consultancy fees supported in financial year 2006.

OPERATING RESULT

The Operating Result of financial year 2006 was negative (EUR 12.8 million) but significantly improved in comparison with the financial year 2005 figure (negative at EUR 55.6 million). These results were significantly affected by the integration with VNL, implemented in the United Kingdom in third quarter 2006, and in particular by costs for the reorganisation plan and the unusual income due to the dilution of the Group profit-sharing in Tiscali UK, whose effects may be summarised as follows:

CONSOLIDATED PROFIT AND LOSS ACCOUNT (EUR ml)	2006	2005
Operating result	(12.8)	(55.6)
Restructuring costs due to VNL acquisition	39.6	-
Other unusual income (VNL dilution effect)	(77.2)	-
Adjusted gross operating results	(50.4)	(55.6)

Net of non-recurring effects due to the integration of VNL, the Operating Result of financial year 2006 was negative at EUR 50,4 million, but showing however an improvement with respect to the preceding financial year, notwithstanding the significant incidence of higher depreciation in 2006 – EUR 130 million versus EUR 97 million in 2005 - related to the investments implemented.

The **Restructuring costs, provisions for risks and write-downs of financial year 2006** totalled EUR 60.4 million (EUR 28.2 million in financial year 2005). The 2006 financial year dynamics is essentially affected by restructuring costs related to the integration with the VNL subsidiary, equal to EUR 39.6 million. Credit write-downs amount in financial year 2006 to EUR 15.4 million, improving as a percentage of revenues with respect to EUR 15 million in financial year 2005.

Amortisation and depreciation financial year 2006 stood at EUR 130 million (EUR 97.1 million in 2005). As already explained this figure is affected by significant investments for the development of the “*unbundling*” network and of the ADSL service offer (modem and customer activation costs).

The operating result at 30 September 2006 included an **unusual income** of EUR 77.2 million generated by the integration of Video Networks Ltd (VNL) occurred in third quarter 2006. Such operation occurred with a concurring capital increase by Tiscali UK to be underwritten by third parties, in exchange of the contribution by these parties of the VNL operations. The contribution in kind, which was valued at ‘fair value’, determined a dilution of the Group’s stake in Tiscali UK, but at the same time it involved an increase in absolute terms of the Group shareholders’ equity in Tiscali UK, and has been accounted for in the income statement under the appropriate item.

RESULTS FROM CONTINUING OPERATIONS

Financial year 2006 closed with a negative net result for continuing operations standing at EUR 59.7 million as compared to the EUR 106.9 million loss in financial year 2005. Such result has been affected in particular by financial charges standing at EUR 51.7 million in the financial year with respect to EUR 26,. million in 2005.

RESULTS OF ASSETS HELD FOR SALE

In financial year 2006 the net result for continuing operations was positive at EUR 3.5 million, versus the negative result at EUR 38.5 million in financial year 2005. The results by geographical area are summarised in the table below:

CONSOLIDATED PROFIT AND LOSS ACCOUNT (EUR thousands)	2006	2005
Czech Republic	(0.7)	(2.7)
Germany	(15.1)	(22.9)
The Netherlands	22.1	4.9
Other activities	(2.8)	(17.8)
Result of discontinued operations and/or held for sale	3.5	(38.5)

Note: Results net of intragroup revenues/costs

In financial year 2006 the Dutch subsidiary (Tiscali BV) reported positive performances and the achievement of full economic realignment, notwithstanding the limited potential of further growth of the reference market that led to the decision to dispose of this subsidiary.

The performances of subsidiaries in the Czech Republic and Germany, in view of the strategic plan targets of the Tiscali Group, reinforced the decision to exit these markets.

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NET RESULT

The net result takes into account the unbundled performance of items related to discontinued operations or assets held for sale and is summarised in the table below.

EUR ml	2006	2005
Result of continuing operations	(59.7)	(106.9)
Capital gains (losses) arising from disposal of subsidiaries and/or disposal of net assets	-	169.5
Period result of subsidiaries disposed of and/or held for sale	3.5	(38.5)
Write-down of goodwill and of discontinuing operations	(71.0)	(13.9)
Charges related to disposal	(9.5)	(21.5)
Profit (loss) from discontinued and/or discontinuing operations	(77.0)	94.1
Net result	(136.7)	(12.8)

As a consequence, the worsening net result (loss for EUR 136.7 million in financial year 2006) is fully due to the effect of discontinued and/or discontinuing operations. In particular, the write-off amounting to about EUR 65 million related to the disposal in March 2007 of the German operations has been entirely expensed in financial year 2006. The net result of continuing operations (loss of EUR 59.7 million) net of such effects, improves of approximately EUR 47 million, with respect to the loss of EUR 106.9 million in financial year 2005.

FINANCIAL POSITION

As at 31 December 2006 the Tiscali Group's cash and cash equivalents totalled EUR 3.8 million only related to continuing operations. The net financial position at the same date was negative at EUR 397.2 million (EUR 305.5 million at 31 December 2005). Change in cash and cash equivalents in financial year 2006, including financial charges, was negative at approximately EUR 22.4 million. These results were mainly affected by substantial investments for the customer base development and the *unbundling* network (EUR 178.8 million), by financial charges equal to EUR 24.1 million and by charges related to refinancing of the existing debt, EUR 13.7 million in financial year 2006.

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In particular, the expansion of the *unbundling* network and the relevant operational investments related to the connection and activation of new ADSL customers, have generated in financial year 2006 overall investments equal to EUR 178.8 million of which EUR 101.4 million allocated to intangible assets and about EUR 77.4 million to tangible assets. The intangible asset investments are mainly related to costs for the activation of ADSL customers, as well as for the stipulation of IRU (Indefeasible rights of use) contracts, related to the acquisition of rights to use network and bandwidth, while the tangible asset investments are mainly related to the development of the *unbundling* network, including the relevant equipment. The investments implemented in the current financial year 2006 allowed to reach and activate 420 sites in the United Kingdom and approximately 440 in Italy.

Following the repayment of Equity-Linked bonds in the month of September the composition of financial debts was considerably changed. Such debt is in fact mainly referred to debts towards Silver Point Capital, posted among short-term loans, with overall debt amounting to EUR 251.3 million. Please note that debts towards shareholders have been posted among non current financial debts.

The financial position related to continuing operations only is summarised in the table below:

<i>EUR million</i>	31 December 2006	31 December 2005
A. Cash and cash equivalent	3.8	26.2
B. Other liquid assets	11.5	9.2
C. Securities	-	-
D. Total cash and other financial assets (a)+(b)+(c)	15.3	35.4
E. Other current financial assets	21.2	24.4
F. Bank overdraft	374.8	17.9
G. Long term loans falling within one year	-	-
H. Other financial debt (*)	12.3	10.7
I. CURRENT FINANCIAL DEBT (F)+(G)+(H)	387.1	28.6
J. Net current financial debt (I)-(E)-(D)	350.6	(31.2)
K. Non current bank loans	-	89.2
L. Bonds	-	211.0
M. Other non current debts (**)	46.6	36.5
N. Non current financial debt (K)+(L)+(M)	46.6	336.7
O. Net financial debt (J) +(N)	397.2	305.5

(*) includes leasing debts

(**) includes leasing debts and debts towards shareholders

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■ Significant events in financial year 2006

The significant events occurred in financial year 2006 are related to the Group's structure and management and to the conclusion of the repayment process concerning all bonds issued since 2000, as well as the disposal plan concerning non strategic assets, consistently with the new industrial plan 2007-2010 presented in October 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).

Tiscali and Video Networks: integration on the British market

In August 2006 Tiscali has completed the integration of Video Networks International Ltd with its British subsidiary (Tiscali UK) through an exchange of shares. Pursuant to such agreement Video Networks International Ltd (VNIL) has contributed 100% of its activities in exchange with UK - Video Networks Ltd (VNL) – to Tiscali UK Ltd, 100% owned subsidiary of Tiscali SpA, in exchange for a minority investment in Tiscali UK Ltd, initially equal to 11.5%, but subject to a potential increase (up to 20%) in relation with the achievement of certain pre-determined targets. Following the integration, strategically relevant from the viewpoint of the positioning of Tiscali as a provider of integrated telecommunication services, the Tiscali Group has acquired a state-of-the art IPTV platform as well as a consolidated know-how in the negotiation and packaging of television content. Moreover, thanks to the integration, Tiscali is significantly decreasing the time to market in such segment.

Sale of Dutch operations to KPN

On 15 September 2006 Tiscali has signed an agreement for the transfer of its Dutch operations to KPN Telecom. The offer values the enterprise value of Tiscali Netherlands at EUR 255 million, to be paid cash at closing. On the basis of data at 30 June the value of each ADSL user is established at EUR 923. The completion of the operation requires approval by the Dutch antitrust authorities. Such approval is expected within the end of first quarter 2007 or immediately afterwards.

Repayment of the EUR 209.5 million Equity-linked bond

On 26 September 2006 Tiscali has repaid the Equity-Linked bond issued by the Luxembourg subsidiary Tiscali Finance SA for nominal EUR 209.5 million and interests amounting to approximately EUR 8.9 million. The repayment of the *Equity Linked Bond* occurred through the delivery to bond subscribers of a mix of newly issued shares and cash, obtained from a financing agreement signed with Silver Point Capital.

Board of Directors: new appointments

On 20 December 2006, the Board of Directors of Tiscali S.p.A. ha appointed two new non executive Directors, Arnaldo Borghesi and Rocco Sabelli. With these two new

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appointments the Company consolidates its governance structure, in line with its recent financial consolidation. The appointment comes after the resignation of Board Members Bischoff e Pretre, occurred during the financial year.

New management in Tiscali Italia Srl

On 28 June 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 financial year**

New financing

The Tiscali Group has signed the credit line agreement granted in February by Banca Intesa Sanpaolo for EUR 280 million, which will be mostly used to repay the existing Silver Point and Export Development Canada financing. The initial rate, equal to Euribor + 250 bps, and other terms of the credit line granted by Intesa Sanpaolo substantially improve the terms of the current facility granted by Silver Point. The financing contracts with Intesa Sanpaolo includes certain Financial Covenants mainly associated to certain financial indicators to be verified, at consolidated level, on a quarterly basis. The loan also involves both positive and negative commitments (General Covenants), that are customary in this type of financing, the most significant being the limit to further financial borrowing of the Tiscali Group, the provision of real guarantees and extraordinary activities, such as acquisitions and disposals. The financing contract involves moreover a pledge on shares of Tiscali Group operating subsidiaries and on the Tiscali brand. For further information on financing terms please see the relevant Annual Report.

The Tiscali Group has moreover completed a so-called “*sale and lease back*” operation concerning the building located Cagliari, *headquarter* of the Group. On the basis of this operation the Tiscali Groups will transfer the property of its headquarters in Cagliari, with a repurchase option at the expiry of the renting contract, to a pool of lenders including Centro Leasing, Intesa Leasing and Locat, for the equivalent of EUR 61.2 million; the Tiscali Group has rented the building for 15 years and will pay an annual rent calculated at about Euribor +140 bps. After the mortgage re-payment and other costs the operation has generated approximately EUR 26 million net cash for the Group.

Sale of German and Spanish activities

On 31 January 2007 Tiscali has signed an agreement with Freenet AG which acquired the narrowband and broadband consumer customers of Tiscali in Germany. At 31 December 2006 Tiscali had in Germany about 380,000 active customers, of which about a third connected through indirect broadband.

On 5 February 2007, Tiscali has reached an agreement with Ecotel Communication AG who acquired the Tiscali B2B activities in Germany.

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The proceeds from the disposal in Germany and Spain is approximately estimated at EUR 50 million to be paid in cash.

Tiscali launches the Tiscali TV service in UK

On 1 March 2007 Tiscali announced the launch on the market of television via internet (IPTV) in the United Kingdom. The service will cover the whole ULL network of Tiscali UK within 2008 – at the price of 19.99 pounds per month with the triple play offer. This operation is line with Tiscali's philosophy that sees the television offer as a complement to the access and voice broadband service offer, with an option allowing users to choose premium content in addition to the basic package.

■ Target 2007

On the basis of the new business plan, the targets anticipated for 2007 are:

- Revenues at approximately EUR 820 million
- EBITDA at approximately EUR 150 million
- Capex at approximately EUR 200 million
- FCF positive in 4Q2007

■ Stock option plan

Today the Board of Directors of Tiscali S.p.A. (the "Company") has moreover resolved to submit to the approval of the Shareholders' Meeting a *stock option plan* concerning the Chief Executive Officer and the Tiscali Group management in Italy.

The plan is in particular intended for:

- The Chief Executive Officer of the Company, Tommaso Pompei;
- A maximum of 40 employees belonging to the parent company and the Italian subsidiaries of the Tiscali Group, selected after consultation with the Remuneration Committee by the Chief Executive Officer among senior and middle managers, on a three-range basis, depending on their role within the Tiscali Group (first and second level of reporting to CEO and "key" figures).

3,593,143 options will be allocated to the CEO for the purchase of the same number of ordinary shares of the Company, from purchases of own shares by the company on the market in compliance with art. 2357 of the Italian Civil Code and on the basis of the authorisation that will be requested at the next Shareholders' meeting. The right to subscribe is subordinated to the achievement of *budget-associated performance* targets established by the Board of Administrators, 40% with reference to targets

established for financial year 2006, considered as achieved, and the remaining 60% with reference to targets set for financial year 2007.

A maximum of 4,244,131 option will be allocated to employees for the subscription of the same number of newly issued ordinary shares of the Company, from a capital increase reserved in compliance with art. 2441 of the Italian Civil Code whose deliberation will be proposed at the next Shareholders' meeting.

The right to exercise, even in multiple *tranches*, is operational during the six months following the third anniversary of the allocation date and in any case within 3 May 2012, at an exercise price equal to the arithmetic average of the Official Prices of Borsa Italiana for the Company shares in the month preceding the allocation date, according to the applicable tax rules. The beneficiary shall maintain for a 5-year period since exercise a number of shares whose total value shall not be lower than the difference between the share value at allocation date and the amount paid. However should change occur in the Company control, the *stock option* beneficiaries will be allowed to immediately exercise the allocated options and freely dispose of all shares obtained through the exercised options.

With regard to the Chief Executive Officer Besides the plan represents a valuable incentivisation tool consistent with market practices, as well as the granting of benefit arising from a contractual obligation undertaken by the Company upon his appointment.

As far as the other management is concerned, through the implementation of the plan the Company aims at aligning the *management* interests to valorisation for the Tiscali Group and its Shareholders, prompting the achievement of strategic goals, as well as encouraging *management* loyalty and their involvement in the Company's key challenges.

The *stock options* plan for the Italian *management* of the Tiscali Group, follows the stock-based compensation plan approved in October 2006 for the Group's UK *management*. Such three-year plan provides for the allocation to 20 British *manager* of a number of options convertible into shares of the Tiscali UK Ltd. subsidiary not exceeding 5% of the capital stock of Tiscali UK net of dilution. The option exercise price has been defined on the basis of the *equity value* of the British subsidiary at the allocation date.

PROFIT & LOSS (EUR 000s)	2006	2005	Delta	%
Revenues	678,481	530,852	147,629	28%
Other operating income	3,685	1,021	2,664	261%
Purchase of material and external services	498,389	387,831	110,558	29%
Personnel Costs	77,883	66,540	11,343	17%
Other Operating expenses	5,472	7,816	(2,344)	(30%)
Gross Operating Result	100,422	69,686	30,736	44%
Restructuring costs, other provisions and write downs	60,408	28,219	32,189	114%
Depreciations and Amortisations	130,095	97,122	32,973	34%
Income/Expense unusual	(77,229)	-	(77,229)	-
Operating Result	(12,852)	(55,655)	42,803	77%
Share of the profit or losses of associates accounted for using the equity method	(937)	(74)	(863)	
Net financial income (expenses)	(29,741)	(21,488)	(8,253)	38%
Net financial income (expenses) other	(21,985)	(4,921)	(17,064)	347%
Income (loss) before taxes	(65,515)	(82,138)	16,623	20%
Taxation	5,851	(24,793)	18,942	
Income (loss) from continued operations	(59,664)	(106,931)	47,267	
Income (loss) from discontinued operations	(76,950)	94,123	(171,073)	
Net Income (loss)	(136,614)	(12,808)	(123,806)	(967%)

Consolidated Balance Sheet (EUR 000s)	31 Dec 2006	31 Dec 2005
Non Current Assets	876,465	603,877
Current Assets	195,641	184,401
Assets classified as held for sale	158,642	254,837
Total Assets	1,230,748	1,043,115
Equity	269,561	311,320
Non current liabilities	222,299	172,339
Current liabilities	673,957	468,354
Liabilities directly associated with Assets classified as held for sale	64,932	91,102
Total liabilities and shareholders equity	1,230,748	1,043,115

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