# Annual Report

# 2009

tiscali:

# Annual Report 2009

This report is available
on the website www.tiscali.it

**Annual Report 2009**

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Località Sa Illetta, 09122 Cagliari
www.tiscali.it

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# 1. Highlights

| Income statement | 31 December 2009 | 31 December 2008 Restated* | Change in % |
|---|---|---|---|
| *(EUR mln)* | | | |
| Revenues | 290.4 | 325.1 | (10.7%) |
| Adjusted Gross Operating Result (EBITDA): | 88.1 | 85.9 | 2.6% |
| **Gross Operating Result (EBITDA):** | 69.7 | 65.9 | 5.8% |
| Operating result | 11.4 | (14.2) | 179.9% |

| Balance sheet | 31 December 2009 | 31 December 2008 Restated* | Change in % |
|---|---|---|---|
| *(EUR mln)* | | | |
| Total Assets | 428.6 | 1.205.8 | (64.5%) |
| Net Financial Debt | 211.2 | 601.1 | 64.9% |
| Net financial debt as per Consob communication no. DEM/6064293 of 28 July 2006 | 224.4 | 616.4 | 63.6% |
| Shareholders' equity | (67.0) | 4.8 | n.d. |
| Investments | 40.8 | 174.3 | 76.6% |

| Operating figures | 31 December 2009 | 31 December 2008 Restated* | Change in % |
|---|---|---|---|
| *(mln)* | | | |
| Internet Access and Voice users | 609.5 | 669.1 | (8.9%) |
| ADSL (broadband) users | 570.2 | 586.1 | (2.7%) |
| of which: Direct ADSL users (LLU) | 387.2 | 385.1 | 0.6% |

* the figures as at 31 December 2008 were restated using the same perimeter as that existing at 31 December 2009

# 2.
# Alternative performance indicators

In this report on operations, in addition to the conventional indicators envisaged by the IFRS, a number of alternative performance indicators are present (EBITDA and Adjusted EBITDA) used by Tiscali Group management for monitoring and assessing the operational performance of the same and given they have not been identified as an accounting measure within the sphere of the IFRS, must not be considered as alternative measures for the assessment of the performance of the Tiscali Group's result. Since the composition of the EBITDA and Adjusted EBITDA is not regulated by the reference accounting standards, the calculation criteria applied by the Tiscali Group might not be the same as that adopted by others and therefore may not be comparable.

The Gross Operating Result (EBITDA) and the operating result before the write-down of receivables and costs for the stock option plans (Adjusted EBITDA) are economic performance indicators not defined by reference accounting standards and are formed as indicated below:

**Pre-tax result and result deriving from assets destined to be disposed of**
+ Financial charges
- Financial income
+/- Income/Charges from equity investments in associated companies

**Operating result**
+ Restructuring costs
+ Amortisation/depreciation
+/- Atypical charges/income

**Gross Operating Result (EBITDA)**
+ Write-downs of receivables from customers
+ Stock option plan costs
Gross Operating Result (Adjusted EBITDA)

# 3. Management

**Renato Soru**
Chairman and CEO

**Luca Scano**
General Manager

**Andrea Podda**
CTO

**Salvatore Pulvirenti**
CIO

**Roberto Lai**
B2C Director

**Michele Lavizzari**
B2B Director

# 4.
# Directors and Auditors

**Board of Directors**[1]

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Renato Soru

DIRECTORS

Franco Grimaldi

Gabriele Racugno

Luca Scano

Victor Uckmar

**Board of Statutory Auditors**

CHAIRMAN

Paolo Tamponi[1]

STATUTORY AUDITORS

Piero Maccioni

Andrea Zini

DEPUTY AUDITORS

Rita Casu

Giuseppe Biondo

**Executive appointed to draw up the accounting and corporate documents**

Luca Scano

**Independent Auditing Firm**

Reconta Ernst & Young S.p.A.

1. Appointed by the Shareholders' Meeting on 21 December 2009

# 5. Milestones

1998 ___ 1999 ___ 2000 _____ 2001 _____ 2002

**1998**

**JANUARY** Incorporation: launch of telephone services at regional level in Sardinia

**1999**

**MARCH** Launch of tiscalinet, the first free internet connection service in western europe. Awarded a license for the supply of voice telephony services throughout the country

**OCTOBER** Ipo on nuovo mercato

**DECEMBER** European expansion plans with the acquisition of two french companies

**2000**

**JANUARY** Acquisition of world online – pan-european footprint. expansion in Switzerland, Czech Republic, Belgium, Germany, Norway, Netherlands and Spain mainly through the acquisitions of local isps

**2001**

**JANUARY** Acquisition of Liberty Surf

**APRIL** Achieved leadership position in the UK, Austria and Finland following integration of acquisitions.

**OCTOBER** Launch of Adsl product

**2002**

**DECEMBER** Achieved Ebitda breakeven

2004__2005__2006__2007__2008__2009

**2004**

**APRIL**
Reached 1.3 million Adsl customers

**AUGUST**
Disposal of Austria, Switzerland, South Africa

**DECEMBER**
completed the first phase of the refocus plan in core countries with the disposal of Belgium, Norway and Sweden

**2005**

**JANUARY / DECEMBER**
Disposal of the French and Danish subsidiaries.
Disposal of Excite, Tinet Link, Adsl customers in the Netherlands and Spain

**2006**

**JANUARY / DECEMBER**
Acquisition of Video Networks International ltd.
Disposal of the Dutch subsidiary

**2007**

**JANUARY / DECEMBER**
Acquisition of broadband and voice divsion of Pipex IPTV service launch in the UK and Italy

**2008**

**JANUARY / DECEMBER**
Rights issue of ca eur 150 million conversion of the eur 60 million convertible bonds underwritten by management&capitali

**2009**

**JANUARY / DECEMBER**
Disposal of TiNet and Tiscali UK, right issue of ca EUR 180 million.

Tiscali is one of the leading alternative telecommunications companies in Italy. Tiscali supplies to its customers, both private individuals and companies, a wide range of services: internet access through dial-up and ADSL, Voice, VoIP, media, value-added services and other technologically advanced products. Thanks to its unbundling network (ULL), its offer of innovative services and its strong brand, Tiscali reaches a strategic position in the market.

Caterina Murino
**Testimonial of Tiscali**

# 6.
# A strong brand

**ITALY – ADV Campaign**
**“Tiscali Unica: la strada è aperta”**

The most successful advertising campaign in 2009, produced by Tiscali Italy, was “Tiscali UNICA”, the best way to browse and make unlimited calls at competitive prices, supplementing the current “Tutto Incluso” offer, the Tiscali mobile SIM and the innovative wiPhone service, the application marks a change in fixed-mobile convergence.

To advertise a product that integrates the latest technology Tiscali chooses a clear and direct language: simplicity, freedom and savings. These are the messages transmitted through the spot images in a borderless nature, the notes of the music of Ludovico Einaudi and gestures of the new testimonial: the international actress Caterina Murino that, star of the new spot, conveys freshness, simplicity and discretion, married perfectly with the identity of Tiscali.

In the spot, Caterina Murino walks along open landscapes and highlights, with its light footsteps, the simplicity and the pleasure of moving freely, while her voice highlights the benefits of innovative offerings.

The slogan of the “Tiscali Unica: la strada è aperta” campaign, recalls that Tiscali has built its history on the ability to open new avenues of change in the telecommunications sector and the spot closes on the testimonial smile behind which opens a wide space “open to all.”

The TV campaign, created by the agency com.unico was launched in September 2009.

The chosen media mix, TV (terrestrial and satellite) and Internet, allowed to reach a Spontaneous Brand Awareness, for TLC operators, of 15% and a Generated Brand Awareness of 75%.

Positive results also for sales: in the two weeks of the campaign pull sales channels (web and inbound) are doubled (+105%) compared to the previous two weeks.





“Some images of the “Tiscali Unica”spot

# 7.
# Report on operations

## 7.1 Tiscali’s position within the market scenario

Tiscali is one of the leading alternative telecommunications operators in Italy offering a wide range of services to its private and business customers: internet access through dial-up and ADSL, as well as voice, VoIP, media, and added-value services and other technologically advanced products. To complete the product portfolio, the mobile services offering for private and business customers was launched in 2009.
In addition, Tiscali is active in the digital media and on-line advertising segment mainly through its www.tiscali.it portal.

In 2009 the telecommunications market essentially confirmed the long-term economic and competitive trend already highlighted in previous years and expects growth in broadband internet access and connected services.

The gradual diffusion of broadband radically changes telecommunication services consumption methods, with an increasingly greater presence of flat access services and progressive success of the dual play model. This was combined with an increasingly marked reduction in narrowband access services.

The widespread use of broadband in recent years has transformed internet access into a mass consumption commodity and a fundamental working tool. Therefore, it is forecast that the recent adoption of broadband connections by families and businesses will continue to grow in the current macroeconomic context too, although the low level of penetration of the PC in Italian households could put a limit on this in the absence of adequate IT literacy policies. It is estimated that in Italy, broadband connections over the fixed network will grow on average by 6% per annum until 2013, reaching a penetration of roughly 49% of families in 2013.

Within said context, the main factors that have distinguished the Italian TLC market may linked to a fall in infrastructural investments, an expansion in the range of public offers with a portfolio composed of several product combinations including internet access, voice services (fixed and mobile) and multi-media services, and strong competitive pressure exerted mainly through promotions and additional services, which confirm the ongoing structural trend and the competitive market.

The year 2009 was also characterised by a highly negative economic situation, due to the marked recession in the general economic context which characterised the Italian economy and the international economic scenario and which continues to do so.

As regards Italy, the theme of the infrastructural adaptation of the fixed transport and access telecommunications network is of central importance. In fact, the increased demand for services and content generates an increasing bandwidth requirement from the end user, both consumers or business customers. At the current state of play, it is estimated that broadband is available, through the various access technologies, to roughly 96% of the population, but only to 88% through physical means of access (copper and fibre optic), which continues to make the theme of the digital divide and infrastructural adaptation one of the country’s main issues as regards technological innovation.

Furthermore, mobile broadband is taking on increasingly greater importance, used both through smartphones and Internet Keys (via UMTS – HDSPA), which are decidedly more costly however and suffer from a lower quality performance compared with fixed broadband access.

The broadband access market features 5 main operators, aside from Tiscali:
Telecom Italia, Fastweb, Wind Infostrada, Vodafone, Tele-tu, an essentially stable picture compared with the previous year. Each of these operators offer the market different marketing strategies and sales channel mixes; the promotional price strategy is of key importance, as is the advertising pressure exerted on traditional and on-line media.

Within this scenario, in 2009 Tiscali was first and foremost committed to the rationalisation of its cost structure and the process of financial restructuring but, at the same time, implemented a series of significant network development projects aimed at increasing the level of national coverage, improving performances and launching new services. This was targeted at enhancing its position as innovative provider on the consumer market and, simultaneously, laying the foundations for the development of the business sector.

The LLU network expansion project expects to see the extension of direct access coverage for 200 new exchanges located throughout the different parts of Italy. As a result of said extension Tiscali will have 686 LLU exchanges, thus achieving direct coverage of roughly 9 million families or telephone users. Tiscali provides internet access and dual play services in Bitstream mode in the rest of the country.

As part of the repositioning process launched last year, Tiscali has placed particular attention on its presence in the web and digital media segment.

In a macroeconomic scenario marked by a contraction in consumption and investments, the Italian advertising market on the whole recorded a considerable decrease in 2009. This occurred despite on-line advertising recording a slight increase, registering a total volume of EUR 900 million, with a total volume of the display segment at around EUR 400 million. Despite the constant growth in the on-line advertising segment and increasingly greater use of digital formats by the big spenders, the TV advertising segment continues to maintain a stable share of around 50%, although the internet audience has shown continuous growth with a total volume of roughly 22 million users in Italy. A comparison with other western markets shows that the growth margins of the digital segment are substantial.

Therefore, repositioning of the Tiscali.it portal took place in 2009 with a greater news orientated focus and greater presence of video content and UGC, in order to be able to attract a higher portion of on-line advertising investments and provide a suitable on-line shop window for fixed and mobile telecommunications services.

## 7.2 Quadro regolamentare

In 2009, AGCOM concentrated on the following macro-areas of intervention:

- Provisions relating to services provided over the Telecom Italia access network
- Improvement of the procedures relating to the Operator changeover processes
- Consumer protection
- Market analysis

Specifically, the most significant measures originated by these activities are illustrated below:

**Increase in wholesale access service fees**

By resolution 71/09/CIR *"Approval of the Telecom Italia Reference Proposal for 2009 relating to bitstream services (Market 12)"* the increase in prices (effective from 15/06/2009) was approved relating to the extra fee for the dedicated line (so-called Naked), from EUR 9.71/month (approved by resolution 13/09/CIR) to EUR 10.72/month.

With regard to market 11 (Wholesale unbundled access (including therein shared access) to metallic loops and sub-loops, for the purpose of providing broadband and voice services), resolution 14/09/CIR *"Approval of the economic conditions of the Telecom Italia Reference Proposal relating to services of wholesale unbundled access to metallic loops and sub-loops and to co-location services (market 11) for 2009"* established an increase in the fee for Full LLU, VLLU and LLU Data access from EUR 7.64/month to EUR 8.49/month. In any case, it must be remembered that the new approved fee is lower than the one initially published in the 2009 reference proposal from Telecom Italia (EUR 9.39/month).

**Establishment of new bodies**

Following the definitive approval of the commitments presented by Telecom Italia on 29/12/2008 by Resolution 718/08/CONS, two new auxiliary bodies were set up providing support for the Communications Regulatory Authority: OTA-Italia (Telecoms Adjudicator-Italy) and Comitato NGN (NGN Committee).

OTA-Italia was established by resolution 121/09/CONS on 18 March 2009, whose objective is to reduce the number of disputes between Telecom Italia and the other operators regarding access to the fixed network, the goal being to prevent/resolve potential technical-operational disputes between the operators. Agcom's role with respect to OTA is one of supervision.

By contrast, the Comitato NGN, set up by Agcom by resolution 64/09/CONS on 13 February 2009, has proposal functions and is open to the participation of operators active in the electronic communications markets. In particular, Comitato NGN Italia's job is to draw up, upon the proposal of Authority, proposals and solutions regarding the technical, organisational and economic aspects connected with the transition to NGN networks.

**Consumer protection and service quality**

AGCOM continued its activities aimed at greater user protection through the adoption of measures geared toward making the telecommunications market more transparent. Resolution 244/08/CSP *"Additional provisions concerning quality and service charters for internet access from a fixed location supplementing resolution 131/06/CSP"* published on 21/01/2009, which amends/supplements the quality indicators for internet access from a fixed location, already established by the previous resolution, also envisaging a "third

body" which, upon the appointment of the Authority, will have to manage and certify the measurement activities or provide an assessment of the quality of internet access from a fixed location, to the end users who request this service.
By resolution 147/09/CSP the Fondazione Ugo Bordoni (Ugo Bordoni Foundation) has been designated as the independent subject responsible for implementing the measures on behalf of the operators. Two measurement systems were identified, the so-called "Server Oriented" model and the "Client Oriented" model.

**Process for migration of end customers between alternative operators**

In order to counteract the phenomenon of activations/migrations of services not requested by the customer, by resolution 23/09/CIR *"Implementation provisions of procedures pursuant to resolution 274/07/CONS regarding the provision of the migration code from the fixed network operators"*, Agcom invited operators to adopt a Code of Conduct in regards to the migration procedures and imposed the obligation to provide the Migration Code to its customers.

Attachment B to resolution 41/09/CIR defined the minimum contents which Operators must comply with upon signing the Code of Conduct. Said agreement was signed by Tiscali (and by some of the main Operators in the market) on 11/06/2009. In addition, resolution 23/09/CIR laid down the obligation for operators to insert the migration code in the invoicing document periodically sent to the customer. This provision concerned both consumers and business customers, even if with different timescales as regards adaptation. Another provision introduced to protect users can be found in resolution 52/09/CIR (implementing resolution 274/07/CONS) and provides for the use of a *'Secret Code'* generated at random, within the migration code. This mechanism, whose activation is forecast in March 2010, was designed to avoid the phenomena of activations/migrations of services not requested by the customer.

**Mobile telephony and entry of mobile virtual Operators (MVNO)**

By resolution 78/08/CIR *"Norms regarding the portable nature of the mobile number"* the Authority deemed it necessary to review the series of norms, provisions and models of interaction which regulate the service for transferring the mobile number for the customers of all operators, including therein virtual operators, as well as the disclosure formalities vis-à-vis the Authority, in light of the changed situation determined by the entry into the market of virtual operators. One of the most significant measures present in the provision is without doubt the reduction of cut-over (migration) times from 5 to 3 days.

In addition, the obligations envisaged by resolution 353/08/CONS of 30/06/2008 were implemented, *"New deadline for meeting the obligation of the portability of residual credit in the event of transfer of the customers pursuant to resolution 416/07/CONS, containing: Notice to mobile telephone operators to meet the obligation of crediting the residual credit to customers as per article 1, paragraph 3 of Italian Law no. 40/2007".*

**Market analysis**

The objective of market analysis at national level is to establish whether a market is effectively competitive and in that case suspend the ex ante regulation obligations. With reference to community directive 2007/879/EC (which reduced the relevant markets significant from 18 to 7), on the basis of the results of previous market analysis, Agcom was called to assess the opportunity, at national level, for reducing the relevant markets, or the removal of restrictions on some markets and defining new solutions on markets still deemed to be susceptible to ex ante regulation.

The analysis procedure has already been completed for some markets:

Resolution 731/09/CONS, *"Identification of the regulatory obligations which must be met by companies that hold significant market power in fixed network access markets (markets 1, 4 and 5 among those identified by recommendation 2007/879/CE)"*; public consultation followed in accordance with Resolution 525/09/CONS.

The resolution in question confirms the obligations which must be met by Telecom Italia in regards to:

- price control with the 3-year price planning mechanism (network cap) for unbundled access services (market 4), wholesale virtual access services (market 5) and for WLR services and the relative accessory services;
- guaranteeing the replicability by an efficient competitor (introducing the BU LRIC accounting model) of retail services supplied by Telecom Italia and therefore the need to subject said proposals to the price test in order to verify its replicability, with the obligation of informing the Authority of new retail offers with 30 days notice with respect to their sale;
- Physical Access: providing access to its infrastructures for the laying of data transmission means and installation of equipment for radio bridges and the obligation of providing access to the Dark Fibre;
- Virtual Access: providing virtual access to NGA networks.

At the same time, it provides for the revocation of:

- the control of the maximum prices for the services of access to the public telephone network from a fixed location offered to residential and non-residential customers, imposed on Telecom Italia pursuant to article 10 of resolution 33/06/CONS;

Resolution 2/10/CONS *"Market of wholesale supply of terminating segments of leased lines (market 6) of the recommendation of 2007/879/EC) and market of wholesale supply of trunk segments of leased lines (market 14 of the recommendation of the EURpean Commission no. 2003/311/EC): market identification and analysis, assessment of the existence of significant market power for companies operating in said market and the identification of any regulatory obligations"*; this closed the analysis commenced under resolution 184/08/CONS confirming the obligations resting with Telecom Italia in relation to:

- the terminating segments of leased line market for the connection between a point of termination of an alternative operator at a Telecom Italia node and a user site (Market A);

At the same time, obligations regarding the following were cancelled:

- trunk segments of leased lines market, (given that the market is not susceptible to ex ante regulation);
- the terminating segments of leased line market for the connection between a point of termination of an alternative operator at a Telecom Italia node and a BTS of a mobile network operator (Market B);

In addition, obligations resting with Telecom Italia in relation to the following were cancelled:

- Retail market for low bandwidth leased lines (Market 7 among those identified by Recommendation of the European Commission no. 2003/311/EC), procedure opened by resolution 183/08/CONS and closed with resolution 707/09/CONS);
- Markets of international telephone services available to the public and provided from a fixed location, for residential and non-residential customers (markets nos. 4 and 6 of the recommendation of the EURpean Commission no. 2003/311/EC) procedure opened by resolution 145/08/CONS and closed with resolution 578/09/CONS.

European Directives 2003/311/EC and 2007/879/EC

The European Directives are shown below: 2003/311/EC and 2007/879/EC relative to the different markets in the electronic communications sector. With the following directives the number of markets, which previously numbered 18, dropped to 7. The previous paragraphs refer to the old markets (Directive 2003/311/EC) in the event in which the market under consideration does not fall within the scope of the new markets (2007/879/EC).

*Directive 2003/311/EC defines:*

### Retail services

1. Access to the public telephone network at a fixed location for residential customers.
2. Access to the public telephone network at a fixed location for non-residential customers.
3. Publicly available local and/or national telephone services provided at a fixed location for residential customers.
4. Publicly available international telephone services provided at a fixed location for residential customers.
5. Publicly available local and/or national telephone services provided at a fixed location for non-residential customers.
6. Publicly available international telephone services provided at a fixed location for non-residential customers.
7. The minimum set of leased lines (including specific types of leased lines with up to 2 Mbit/s capacity, pursuant to article 18 and attachment VII of the Universal Service Directive.

### Wholesale services

8. Call origination in the public telephone network at a fixed location.
9. Termination of calls on individual public telephone networks at a fixed location.
10. Transit services in the fixed public telephone network.
11. Wholesale unbundled access (including shared access) to metallic loops and sub-loops for the purpose of providing broadband and voice services.
12. Wholesale broadband access.
13. Wholesale terminating segments of leased lines.
14. Wholesale trunk segments of leased lines.
15. Access and call origination on public mobile telephone networks.
16. Voice call termination on individual mobile networks.
17. Wholesale national market for international roaming on public mobile telephone networks.
18. Broadcasting transmission services to deliver content to end users.

Directive 2007/879/EC defines:

### Retail services

1. Access to the public telephone network at a fixed location for residential and non-residential customers.

### Wholesale services

2. Call origination in the public telephone network at a fixed location.
3. Termination of calls on individual public telephone networks at a fixed location.
4. Wholesale access (physical) to the network infrastructures (including shared access or fully unbundled access) at a fixed location.
5. Wholesale broadband access.
6. Wholesale supply of terminating segments of leased lines, regardless of the technology used to deliver the leased or reserved capacity.
7. Voice call termination on individual mobile networks.

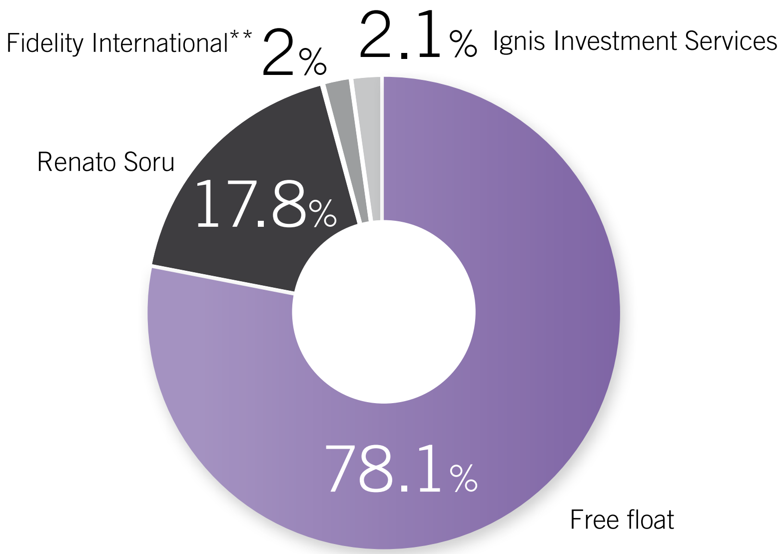
## 7.3 Tiscali shares

Tiscali shares have been listed on the Italian Stock Market (Milan: TIS) since October 1999. At 30 December 2009, market capitalisation came to roughly EUR 308.3 million, calculated on the value of EUR 0.1656 per share as of that date.

At 31 December 2009, the number of shares representative of the Group's share capital stood at 1,861,473,919.

For more information on the increase in share capital and reverse split of shares please refer to note 24 "Shareholders' equity and paragraph 4.4 "Events subsequent to the end of the year" respectively.
Tiscali's shareholder base at 31 December 2009 is illustrated below:

***Fig. 1 Tiscali Shares***



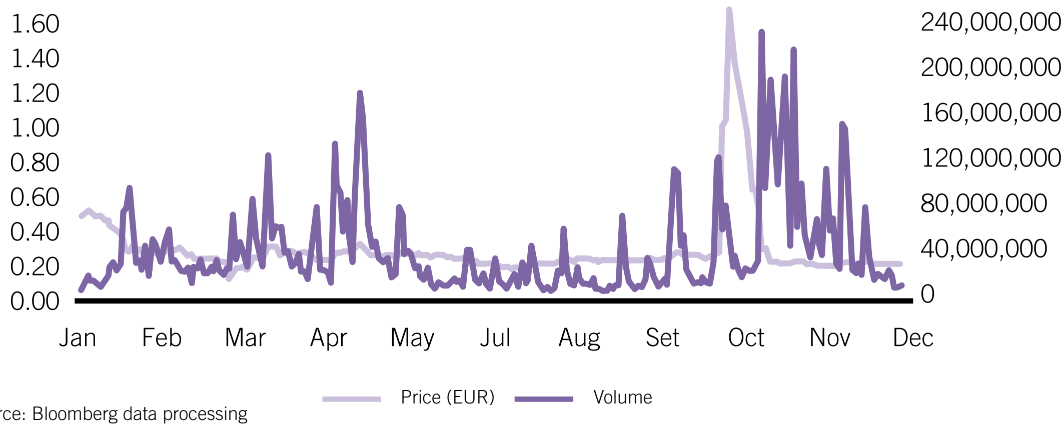

**Share Capital Structure at 31 December 2009**

| SHARE CAPITAL STRUCTURE | | |
|---|---|---|
| | **No. Shares** | **Incidence with respect to share capital** |
| Ordinary shares | 1,861,473,919 | 100% |
| **OTHER FINANCIAL INSTRUMENTS** | | |
| | **N° Warrant** | **Listing market** |
| Tiscali 2009-2014 warrants *** | 1,799,819,371 | Regulated Italian Market |

*Directly for roughly 15% and, indirectly through subsidiaries Monteverdi Srl (1.8%),Cuccureddus Srl (0.9%) and Andalas Ltd (0.1%)
** It should be noted that on 21 January 2010 Fidelity International fell below the 2% threshold.
Source: Tiscali Share Capital Structure at 31 December 2009
*** The Warrants – combined free of charge with newly issued shares relating to the increase in share capital launched last October and concluded successfully on 11 November 2009 – offer the right to subscribe ordinary company shares at the ratio of 1 conversion share for every 20 warrants exercised at the price of EUR 0.80 per each new share.

The graph below illustrates Tiscali's share trend during 2009, characterised by sustained trading volumes, particularly in the October-November period.

***Fig. 2 – Tiscali's share performance in 2009***




PSource: Bloomberg data processing

The average monthly price in 2009 stood at EUR 0.237. The maximum price of EUR 1.4876 for the period was recorded on 14 October, 2009 and the minimum of EUR 0.0895 , on 9 March, 2009.

Trading volumes stood at a daily average of about 33.8 million items, with a daily average trade value of EUR 8 million.

| Average exchanges of Tiscali share on Borsa Italia (Italian Stock Exchange) in 2009 | | |
|---|---|---|
| | Price (euro) | Number of shares |
| January | 0.336 | 26,693,471 |
| Febraury | 0.215 | 26,208,320 |
| March | 0.182 | 40,055,101 |
| April | 0.211 | 42,292,663 |
| May | 0.222 | 52,380,520 |
| June | 0.195 | 14,775,484 |
| July | 0.160 | 12,544,388 |
| August | 0.186 | 15,082,274 |
| September | 0.197 | 14,396,716 |
| October | 0.603 | 49,511,614 |
| November | 0.166 | 79,158,073 |
| December | 0.168 | 33,143,443 |
| **Average** | **0.237** | **33,853,506** |

[2] This value was discounted to take account of the share reverse split on 14 September 2009 (ref. Note 4.4, page 21). The historic price on 9 March, 2009 was EUR 0.1561.

## 7.4 Significant events during the financial year

2009 was predominantly characterised by activities carried out by company management aimed at restructuring the Group's debt and guaranteeing its long-term economic and financial equilibrium. These activities, which fall within the general framework of the Restructuring Plan and launched with standstill request dated 6 March, led to a series of agreements with Senior Lenders (Framework Agreement) and culminated in the sale of subsidiary Ti Net on 26 May 2009, the sale of assets in the UK completed on 6 July 2009 and shareholders' meeting resolutions of 30 June 2009.

The Restructuring Plan was finally completed with the execution of the share capital increase resolved on 30 June 2009 and launched on 12 October 2009, concluded with almost 100% of subscriptions from the market and shareholder Renato Soru on 11 November 2009. These activities were combined with a recovery in efficiency at the end of 2008 at the level of subsidiary Tiscali Italia, which laid the foundations for the commercial strengthening carried out in the second half of 2009, which provides the basis for reinforcing the industrial structure in 2010.

The end of the year also saw the appointment of members of the Board of Directors and the Chairman of the Board of Statutory Auditors.

As part of the equity and financial restructuring process undertaken by the Tiscali Group, the sale of assets belonging to Tiscali UK and the Ti Net Group involved a significant reduction in the Group's perimeter of operations, now essentially attributable solely to Italian activities.

The main events during the year are listed below in chronological order. However, for ease of interpretation, firstly we'll analyse the events related to the Restructuring Plan.

**Launch of the company Restructuring Plan and activities carried out at the date of preparation of this annual report**

**Situation at the date of approval of the financial statements for year ended at 31 December 2008**

During preparation of the Financial Statements for year ended at 31 December 2008, having acknowledged the Group's economic, equity and financial position, and in light of the deterioration of the macroeconomic conditions and worsening of the competitive context in the sector, already highlighted in the results for the year and the business outlook based on the current trends in the first few months of 2009, the Board of Directors assessed the need to prepare a new Business Plan and an associated Financial Plan which will allow the Tiscali Group to launch a process aimed at restructuring the debt and guaranteeing financial balance over the long-term.

On said date, the Board of Directors, while highlighting existing uncertainties regarding the company's business continuity, deemed it appropriate to draw up the financial statements at 31 December 2008 on the basis of the assumption of the business as a going-concern, in particular, believing there to be a reasonable probability of achieving a restructuring of the Tiscali Group's financial debt consistent with cash flows and able to support the new Business Plan. In relation to said financial statements, auditing firm Ernst & Young declared it impossible to express an opinion due to the uncertainties expressed regarding the assumption of the business as a going-concern. However, this decision was in contrast to the clear position of the Board of Statutory Auditors in favour of the assumption of the business as a going-concern.

On 30 April 2009, the Shareholders' Meeting resolved the approval of the 2008 financial statements and the partial covering of the Parent Company's accumulated losses through the full use of the share premium reserve, retaining the residual part of EUR 151.8 million.

**Signing of the Framework Agreement and activities carried out at the date of preparation of the 2009 financial statements**

On 8 May 2009, the Board of Directors approved the guidelines of the Group debt restructuring plan, in line with the financial and equity requirements of the Tiscali Italia business plan, which the financial institutions have pledged to support.
In particular, the following primary objectives have been outlined:

- the reduction, conversion and review of debt conditions, also through the use of proceeds from the sale of assets (primarily Tiscali UK, the UK subsidiary).
- strengthening of the Group's equity base, to be carried out in one or more capital increases, also under option, for a total amount up to a maximum of EUR 236.5 million with the guarantee, on the part of Senior Lenders and some shareholders, of subscription of a portion of shares that remain un-opted, through the waiver of receivables due from the Group.

It is appropriate to highlight the existing link, from the moment of definition of the above objectives by the Board of Directors, between the resolution of the sales of assets - which under current market conditions would have probably caused a loss from disposal - and the decision to carry out share capital increases already entirely guaranteed by Senior Lenders.

In fact, at the same date, the Board of Directors also approved the sale of companies operating in the UK. It sold Tiscali UK Ltd to Carphone Warehouse Group Plc (through the sale of 100% of the share capital of Tiscali UK Ltd and the associated subsidiaries, by parent company Tiscali UK Holdings Plc, in turn held through two Dutch subsidiaries, by Tiscali S.p.A.), for a total amount of GBP 236 million (net of roughly GBP 20 million constituted by the assumption of certain financial debts by the Purchaser), of which roughly GBP 35.4 million bound to secure certain contractual commitments ('*Escrow*').

The decision – subject, among other things, to a settlement agreement with the Tiscali UK Ltd ("VNIL") minority shareholder and creditor for the repurchase of the minority share and partial settlement of the debt of the UK subsidiary owed to VNIL – was subject to the normal regulatory approvals and to finalisation of the Group's overall debt restructuring agreements.

In fact, the goals of the Board of Directors incorporated inter-related transactions, one chosen based on the other. In particular, the presumed sale of companies operating in the UK was considered subordinate to finalisation of the Group's overall debt restructuring agreements (and with it the guarantee obligation from Senior Lenders in respect of share capital increases) and the approval of the shareholders' meeting of the company's share capital increase (which took place on 30 June 2009). The latter was, in turn, necessary for the issue of the certification of reasonableness of the restructuring plan pursuant to article 67, paragraph 3, letter d) of Royal Decree no. 267 of 16 March 1942.

Therefore, on 28 May 2009, Tiscali S.p.A.'s Board of Directors approved the so-called Framework Agreement aimed at restructuring the Group's debt, particularly with regard to:

- roughly EUR 500 million in Senior Debt, plus the associated interest, subject of the standstill agreement;
- roughly EUR 100 million of debt owed to Tiscali UK (VNIL) minority shareholders;
- roughly EUR 30 million of debt owed to Andalas, company held by shareholder Renato Soru.

This agreement, which subsequently led to the Restructuring Agreement signed by Senior Lenders and the company (Tiscali S.p.A. and Tiscali UK Holding) on 3 June, envisages:

1) the sale of Tiscali UK Ltd and use of the revenue to repay a portion of the Senior Debt and the debt owed to Tiscali UK minority shareholders for EUR 200 million and EUR 8 million respectively.

2) the restructuring of the Group's residual debt to Senior Lenders, after the partial repayment made with the proceeds from the sale of Tiscali UK as follows:
   a) a total of EUR 165 million (which after closing became approximately EUR 158.5 million), according to new terms, conditions and expiries, in three tranches:
      • **tranche A:** for a maximum amount of EUR 100 million and term of 5 years;
      • **tranche B:** for a maximum amount of EUR 45 million and term of 6 years (which after closing became EUR 38.5 million);
      • **tranche C:** for a maximum amount of EUR 20 million and term of 7 years, to be repaid with funds deriving from the release of the escrow account relating to the sale of Tiscali UK, or also through the increase in share capital described below (see the third share capital increase);
   b) a total of EUR 193.5 million – including the associated interest and costs of closing hedge contracts, of which roughly EUR 147 million relating to tranche D1 and a maximum of approximately EUR 46.5 million relating to tranche D2 through share capital increases in line with the terms described below under point 3).
3) The execution of increases in share capital, to be offered under option to shareholders, to be used to repay the residual amount of Senior Debt and debts owed to Andalas, a company owned by shareholder Renato Soru, and debts owed to Tiscali UK minority shareholders, totalling roughly EUR 31 million and EUR 11 million respectively. The Framework Agreement envisages the guarantee of subscription of said increases by the above-mentioned creditors through the off-setting, in whole or in part, of receivables due to the company, in line with the following:
   c) **First increase:** increase in share capital for a maximum amount of EUR 190 million, with warrants allocated free of charge. The subscription of said increase, expected to be executed before 31 December 2009, was guaranteed:
      • for EUR 32 million by Andalas, a company held by shareholder Renato Soru;
      • for EUR 11.7 million by Tiscali UK minority shareholders, whose residual debt, net of the amount already repaid with the sale of the UK subsidiary, would then be wiped out;
      • per la parte restante, fino ad un massimo di 147 milioni di Euro circa, dai *Senior Lenders*.

At the same time, provision was made for a share capital increase to service the aforementioned warrants up to a maximum of 5% the share capital post-increase;

The first share capital increase was launched on 12 October and concluded on 11 November 2009 with the subscription of around 99.9% of all shares offered, as better described in this paragraph.

   d) **Second increase**: increase in share capital for a maximum amount of EUR 46.5 million, following completion of the first increase and whose amount was to be calculated on the basis of the relative level of subscription. In particular, for every EUR in cash subscribed by the market in relation to the First increase, Senior Lenders would write off roughly 32 cents of Senior Debt, up to a maximum of EUR 46.5 million. In substance, if the market had subscribed EUR 147 million, the Senior Debt would have been cut by EUR 46.5 million and the second share capital increase would not have been launched. By contrast, if the market had not subscribed the entire first share capital increase, the second increase would have been fully launched and offered under option to the market with the guarantee of subscription from Senior Lenders. Execution of the second increase was expected by 28 February 2010;

e) **Third increase:** increase in share capital for a maximum amount of EUR 25 million, delegated to the Board of Directors, whose subscription was also to be guaranteed by Senior Lenders, to be carried out within three years from the resolution, in one or more tranches, aimed at repaying another portion of Senior Debt, upon the occurrence of given conditions.

4) Finally, contractual terms were renegotiated regarding financing of the Sale and Lease Back of the Cagliari registered office building.

The Framework Agreement approved by the Board of Directors was subject to the occurrence of certain conditions, including:

- the resolution by the Shareholders' Meeting of the above-mentioned share capital increases together with subscription agreements from Senior Lenders;
- Consob certification of the exemption from execution of the obligatory Public Offer (so-called exemption from bail-out) provided under article 49, paragraph 1, letters b) and d) of Consob regulation no. 11971/99 (Issuers Regulation) in relation to the restructuring of debt and the execution of the above-mentioned share capital increases;
- verification of a restructuring plan by an independent expert pursuant to article 67, paragraph 3, letter d) of Royal Decree no. 267 of 16 March 1942;
- the completion of the sale of Tiscali UK to the Carphone Warehouse Group, with prior receipt of authorisation from the EURpean Antitrust Authority.
-

**Activities carried out at the date of preparation of the 2009 Financial Statements, as part of implementation of the Restructuring Plan and the Framework Agreement**

1) On 26 May, Tiscali completed the sale of the Ti Net Group, IP transit service provider, to the BS private equity fund. The transaction valued Ti Net at an Enterprise Value of roughly EUR 47 million, including a potential earn out of around EUR 7 million. The Equity Value, net of debt, was approximately EUR 35 million. Based on the Group's debt restructuring agreements, net revenue from the sale of Ti Net was retained in the company's cash balance to service working capital requirements, also through recapitalisation of the Italian subsidiary.

2) On 30 June 2009 the Extraordinary Shareholders' Meeting, in third call, approved the following provisions:

- Elimination of the nominal value of shares and reverse split of said shares at a ratio of 1 share for every 10 existing shares, to be carried out with the prior resolution of the company's Board of Directors;
- Reduction of share capital for losses, pursuant to article 2446 of the Italian Civil Code. Following said resolution, share capital fell to roughly EUR 156.1 million;
- The share capital increase through payment pursuant to article 2441, paragraph 1 of the Italian Civil Code up to a maximum of EUR 190 million through the issue of ordinary no-par value shares, with warrants allocated free of charge, at a price of EUR 0.01 (EUR 0.1 post-reverse split) per share (First increase);
- The share capital increase pursuant to article 2441, paragraph 1 of the Italian Civil Code up to a maximum amount of EUR 46.5 million through the issue of ordinary no-par value shares, at a price of EUR 0.01 (EUR 0.1 post-reverse split) per share (Second increase);
- Delegation to the Board of Directors pursuant to article 2443, paragraph 2 of the Italian Civil Code, to increase share capital through payment in accordance with article 2441, paragraph 1 of the Italian Civil Code, in one or more tranches, for a maximum period of three years from the delegation decision, up to a maximum amount of EUR 25 million, through the issue of ordinary no-par value shares (Third increase).

3) On the same date, the Company communicated that it had obtained the approval of the EURpean Antitrust Authority for the sale of Tiscali UK to the Carphone Warehouse Group.

4) On 1 July, the professionals tasked with the job issued the certification of the reasonableness of the restructuring plan regarding exposure to the financial system pursuant to article 67, paragraph 3, letter d) of Royal Decree no. 267 of 16 March 1942.

5) The following agreements were signed on 2 July:

- *Group Facilities Agreement* which set out the parties' commitments, and the terms, conditions and expiries of the Group's residual debt to Senior Lenders, following the partial repayment made using the proceeds from the sale of Tiscali UK, for a total amount of EUR 165 million, broken down into Tranches A, B, C.
- *Rights Issues Memorandum and Subscription Agreement* which defined, among other things, the subscription commitment of Senior Lenders, which confirmed their obligations to the company to subscribe any remaining un-opted shares from the First share capital increase for a maximum amount of EUR 147 million, through the off-setting of receivables deriving from Tranche D1 not repaid with the proceeds from subscriptions in cash carried out by the market, and, therefore, with the exclusion of Andalas and VNIL, subscriptions in cash of the First increase. Senior Lenders are also committed to writing off a portion of its receivables relating to Tranche D2, for an amount of EUR 0.3123 per EUR subscribed in cash, up to a maximum of EUR 46.5 million.
- *Shareholder Agreements (Andalas and VNIL)* which defined a) the subscription commitment of shareholder Mr. Renato Soru, through which said subject renewed his obligation to the company to subscribe the First increase, for the portion of option rights granted him directly or indirectly, up to maximum amount of roughly EUR 32 million. Said subscription commitment, made formal on 2 July 2009, shall be fulfilled through the off-setting of receivables due to Andalas Ltd, a company headed up by Mr. Renato Soru, from the Tiscali Group and b) the subscription commitment of UK minority shareholders (VNIL), on the basis of which the latter assumed the obligation to subscribe company shares as part of the First increase through the off-setting of the portion of its receivables (equal to roughly EUR 11 million after the agreed transactions) which have not been repaid or written off.

6) On 6 July 2009, Tiscali announced the completion of the sale of 100% of the share capital of Tiscali UK to the Carphone Warehouse Group for an Enterprise Value of approximately GBP 255 million, GBP 236 million net of some financial payables. On said date, the proceeds from the sale, net of accessory transaction costs, were used to repay part of the Senior Debt and debts owed to Tiscali UK minority shareholders for roughly EUR 200 million (including payment of Interest Rate Swaps) and EUR 8 million respectively.

7) In addition, on the same date, Consob deemed the Restructuring Plan to be suitable, owing to its characteristics, for determining the application of the exemption pursuant to article 49, paragraph 1, letter b) of the Issuers Regulation.

8) On 14 September 2009, in execution of the resolution adopted by the Extraordinary Shareholders' Meeting on 30 June 2009 and that of the Board of Directors dated 28 August 2009, Tiscali launched the operation of reverse splitting 616,545,485 ordinary Tiscali S.p.A. shares into 61,654,548 new no-par value shares at a ratio of 1 (one) new ordinary Tiscali no-par value share (code ISIN IT0004513666, coupon no. 1), with regular dividend rights, for every 10 ordinary Tiscali no-par value shares (code ISIN IT0001453924, coupon no. 2) with regular dividend rights.

9) On 22 September 2009, Tiscali S.p.A. deposited at CONSOB and Borsa Italiana respectively, the request for the authorisation to publish the information and listing prospectus relating to the offer to shareholders under option of roughly 1,800,000,000 ordinary Tiscali shares combined with 1,800,000,000 "Tiscali 2009 – 2014 Warrants" (for which the application for admission to trading on the Electronic Share Market was deposited at the same time).

10) On 12 October, Tiscali announced the opening of the period of shares being offered under option to shareholders combined with warrants deriving from the share capital increase, and simultaneously released its 2009 – 2013 Business Plan. The information and listing prospectus on the offer under option and admission to quotation on the Electronic Share Market of 1,799,830,945 ordinary Tiscali shares combined with 1,799,830,945 "Tiscali S.p.A. 2009-2014 Warrants" was published on 9 October 2009. The Offer, promoted exclusively on the Italian market, concerned ordinary Tiscali no-par value shares, with identical characteristics to those already in circulation at the date of their issue, with regular dividend rights, which derive from a divisible share capital increase against payment resolved by the Board of Directors on 21 September 2009, for a maximum of EUR 180 million. The shares were offered under option to shareholders in proportion to the equity investment held by each one pursuant to article 2441, paragraph 1 of the Italian Civil Code, at a ratio of 643 shares for every 22 ordinary shares held, at a price of EUR 0.10 per share. Each share subscribed under the Offer was combined with a free "Tiscali S.p.A. 2009-2014 Warrant". On 5 October 2009, Borsa Italiana, by means of Provision no. 6450, arranged for the admission to quotation of said warrants on the Electronic Share Market. Warrant holders have the right to subscribe, at any time (effective from the first day of trading in the first month after the issue of the warrants and up until the last day on 15 December 2014) ordinary company shares at a ratio of 1 conversion share to every 20 warrants exercised at a subscription price for each conversion share of EUR 0.8 including premium of EUR 0.7. The option rights were exercised, under penalty of forfeiture, between 12 and 30 October 2009 included, with depository intermediaries adhering to the Monte Titoli S.p.A. centralised securities administration system. The option rights were traded on the Stock Market between 12 and 23 October 2009 included. Within the month following the end of the Offer Period, any option rights not exercised during said Offer Period were offered on the Stock Market by the company for five days on the open market pursuant to article 2441, paragraph 3 of the Italian Civil Code (5, 6, 9 10 and 11 November 2009).

Together with the launch of the share capital increase, on 12 October 2009 Tiscali announced its Business Plan. This 2009-2013 Business Plan, which reflects the Group's new perimeter of operations, and now essentially relates to activities performed solely in Italy, was also subject to the necessary certification, required by article 67, paragraph 3, letter d) of Royal Decree no. 217 of 16 March 1942, by an independent expert who issued the certification on 1 July 2009.

The forecast data extracted from the Business Plan and the report of auditing firm Reconta Ernst & Young S.p.A. concerning the examination of Forecast Data, with reference i) to the reasonableness of the assumptions and underlying elements and ii) accounting standards applied in their preparation, are contained in the Information Prospectus published on 9 October 2009.

The Business Plan guidelines provide for consolidation of the Group's position on the Italian market. The position will be maintained mainly through dual play offers (voice and data) through a product portfolio characterised by greater simplicity in the range offered and in terms of price, and by a gradual integration with mobile services (through agreements for the offer of MVNO services). The Business Plan also envisages that the Group will position itself in the SME market, offering a complete range of integrated IP services at competitive prices. In order to reach these objectives, the Tiscali Group intend, in particular, to:

I) reposition Tiscali as an innovative brand, reinforcing the original mission of “first mover” in the Italian telecommunications market, also through brand and product advertising campaigns, both via traditional media and via the internet. The launch of the convergent “Tiscali Unica” offer in September 2009, with innovative wiPhone service should be pointed out;

II) increase the consumer ARPU through the diffusion of fixed-mobile convergent offers which bring together all the potential offered by the IP protocol in order to provide both mobile access internet services and low cost voice services over IP protocol, with the effect of containing the natural rate of attrition of the user base in favour of the competition (also known as the churn rate) and cut costs considerably for the user;

III) enhance sales channel performance, through improving registration processes and targeted product advertising campaigns. In order to increase customer penetration in direct areas of business, Tiscali avails itself of targeted telemarketing campaigns to optimise penetration in given geographical areas of special interest, and to increase the rate of employment in its sites. The commercial agreements reached in October 2009 with CHL and Buffetti for the distribution of Tiscali products in their network of stores in Italy should be pointed out.

IV) strengthen the brand awareness of Tiscali in the business market, focusing in particular on the Soho, Small Business and Medium Business segments. Tiscali offers this target customer integrated voice and internet access solutions at competitive prices, making use of the same technological infrastructure used for consumers. The full integration of mobile voice solutions, to be carried out through network integration, aims to increase the market share in the business segment. In support of the activities detailed above, Tiscali intends to reinforce its presence in the area through a targeted increase in the direct and indirect sales force;

V) continue with the rationalisation and monitoring of operating costs, aiming to improve provisioning, invoicing and credit recovery processes;

VI) continue with the development of the network also through network sharing agreements with other alternative operators and complete the integration of the network and information systems in order to support fixed-mobile convergence programmes.

11) On 30 October, shareholder Renato Soru Tiscali S.p.A., also in fulfilment of his subscription commitment as part of the share capital increase in progress, exercised directly and indirectly via subsidiaries Cuccureddus S.r.l. and Monteverdi S.r.l., option rights deriving from the associated equity investments in Tiscali S.p.A. for a total of roughly EUR 31.39 million (corresponding to 313,977,543 new shares with the same number of warrants). The subscription price will be paid through the mechanism of off-setting of receivables due – following the sale of the receivable originally involving Andalas Ltd – to Mr. Soru and each of the aforementioned companies controlled by the latter from Tiscali S.p.A with the completion of the assumption of the corresponding debt of Tiscali Finance SA (including interest accrued as at the exercise date), assumed by Tiscali S.p.A. on 2 July 2009;

12) On 16 November 2009, Tiscali communicated that, as part of the offer of un-opted rights on the Stock Market, pursuant to article 2441, paragraph 3 of the Italian Civil Code, launched on 5 November 2009 and concluded on 11 November 2009, 4,353,756 option rights were purchased meaning, therefore, 127,248,414 newly issued Tiscali ordinary shares were subscribed – equal to roughly 99.99% of all shares offered as part of the Offer on the Stock Market – for total value of EUR 12,724,841.4. The 127,248,414 Tiscali ordinary shares subscribed as part of the Offer on the Stock Market were combined with 127,248,414 free “Tiscali S.p.A. 2009 – 2014 Warrants”; as a result of the above subscriptions, Tiscali’s new share capital

stood at EUR 336,053,433.35, represented by 1,861,473,919 ordinary no-par value shares. Given that the share capital increase was concluded with the subscription of 1,799,819,371 newly issued Tiscali ordinary shares (therefore only 11,574 shares less that the total offered, for a value of EUR 1,157), combined with 1,799,819,371 free warrants (equal to 96.7% of the new share capital for an amount of EUR 179,981,937.10 before commissions and expenses), Senior Lender intervention was not deemed necessary (as already communicated to the market following the offer under option period), nor was the intervention of Video Networks International Ltd – whose receivable due from Tiscali S.p.A. (at roughly EUR 11.7 million) was fully repaid through the use, for the same amount, of proceeds from the share capital increase. Holders of warrants combined free of charge with newly issued shares will have the right to subscribe the company's ordinary shares at a ratio of 1 conversion share to every 20 warrants exercised. In particular, said right may be exercised at any time starting from the day after the Shareholders' Meeting called by a resolution of the Board of Directors which met on 12 November 2009 (set for 20, 21 and 22 December 2009), up to the last day on 15 December 2014 (except in the case of additional suspensions to the exercising of warrants, pursuant to the Regulation of said warrants). Warrants not exercised by 15 December 2014 shall forfeit any right, becoming void of validity to all intents and purposes.

13) On 11 December 2009, the Board of Directors acknowledged that Parent Company Tiscali S.p.A.'s equity and economic position at 30 November 2009 and the equity situation updated to take account of the effects of the share capital increase drawn up at 1 December 2009 showed a loss of EUR 252,560,297.48, mainly attributable to the capital loss from the sale of the equity investment Tiscali UK. Parent Company Tiscali S.p.A.'s shareholders' equity fell to EUR 89,482,529.74, compared with share capital of EUR 336,053,433.35, therefore, with the case envisaged by article 2446 of the Italian Civil Code becoming a concrete reality. The Board therefore submitted a proposal on 1 December 2009 to the Shareholders' Meeting for the full coverage of losses through the full use of the share premium reserve for EUR 8,509,754.60 and reduction of share capital for the remaining EUR 244,050,542.88. Thus, Parent Company Tiscali S.p.A.'s share capital must fall from EUR 336,053,433.35 to EUR 92,002,890.47. Tiscali S.p.A.'s balance sheet, updated at 1 December 2009, includes the significant transactions carried out and recorded as of said date, including repayment of the debt owed to Senior Lenders of EUR 135.5 million and write-off of debt by said Senior Lenders of EUR 42.3 million.

14) Tiscali's Ordinary Shareholders' Meeting approved the appointment of members of the Board of Directors. The Shareholders' Meeting, after having appointed 5 Directors to the Board, elected candidates from the single list presented by shareholder Renato Soru, pursuant to article 11 of the Articles of Association. Tiscali S.p.A.'s new Board of Directors is composed as follows: Renato Soru, Gabriele Racugno, Luca Scano, Victor Uckmar (Independent Director) and Franco Grimaldi (Independent Director). The CVs of the Directors are available on the company's website, in the Investors section.The Shareholders' Meeting also resolved that the company Directors are to remain in office for three years, up to the date of the Shareholders' Meeting called to approve the 2011 financial statements and approved the gross annual fee of each Director of EUR 25,000. The Ordinary Shareholders' Meeting also approved the proposed integration of the Board of Statutory Auditors, assigning Mr. Paolo Tamponi the role of Chairman of the Board of Statutory Auditors up to the date of the Shareholders' Meeting called to approve the financial statements at 31 December 2011 and also confirming Mr. Giuseppe Biondo as a Deputy member of the Board of Statutory Auditors up until such date. At the same time, the Shareholders' Meeting fixed the annual emolument of the Chairman of the Board of Statutory Auditors on the basis of the professional fees of accountants, plus 50%.
The new Board of Directors, which met immediately after the Ordinary Shareholders' Meeting, confirmed Renato Soru as Chairman and Chief Executive Officer of Tiscali S.p.A.. Furthermore, the Board established the following committees internally: 1) The Internal Audit Committee, composed of Victor Uckmar, Franco Grimaldi and Luca Scano; 2) the Remuneration Committee, composed of Victor Uckmar, Franco Grimaldi and Gabriele Racugno.

The Board also resolved the appointment of Luca Scano as the Executive in charge of drawing up the company's accounting documents. Finally, the Board of Directors approved the indicative calendar of corporate events for 2010.

15) On 22 December 2009, the Extraordinary Shareholders' Meeting resolved to fully cover accumulated losses as at 1 December 2009, at EUR 252,560,297.48, through the full use of the share premium reserve for EUR 8,509,754.60 and reduction of share capital for the remaining EUR 244,050,542.88 with the subsequent reduction in share capital from EUR 336,053,433.35 to EUR 92,002,890.47 and resulting amendment to article 5 (Share Capital and Shares) of the Articles of Association. The Extraordinary Shareholders' Meeting also resolved to partially revoke the resolution of the share capital increase for a maximum of EUR 190 million adopted by the Extraordinary Shareholders' Meeting on 30 June 2009 for the entire amount not realised, at EUR 10,018,062.90.
Finally, the Extraordinary Shareholders' Meeting resolved to amend articles 5 and 6 of the Articles of Association. In consideration of completion of the above-mentioned increase in share capital, Article 5 (*"Share Capital and Shares"*) of the Articles of Association was updated by eliminating the transitory provisions implemented or forfeited up until today. Finally, in relation to Article 6 of the Articles of Association – "Calling of the Shareholders' Meeting" – approval was given to the proposed publication of the call notice in the Official Gazette and, as an alternative, in "Sole 24 Ore" or "MF Milano Finanza". In addition, the Extraordinary Shareholders' Meeting amended the second paragraph of Article 6, aligning the term within which the company's Board of Directors is required to call the Ordinary Shareholders' meeting annually for the approval of the financial statements with current legislation.

**Other significant events during the year**

### Appointment of the Tiscali Italia General Manager

On 19 January 2009, Tiscali S.p.A. announced the appointment of Luca Scano as Tiscali Italia S.p.A. General Manager. Luca Scano is also the CFO of the Italian subsidiary.

### Reduction of the equity investment by Management & Capitali

On 21 January 2009, M&C informed Consob that it had reduced its stake in the share capital of Tiscali S.p.A. below the 2% threshold.

### Co-opted appointment of Renato Soru to the Tiscali S.p.A. Board of Directors

On 19 March 2009, the Tiscali S.p.A. Board of Directors resolved the co-opted appointment of Mr. Renato Soru, company founder and shareholder, subsequently appointed also by the Shareholders' Meeting on 30 April 2009. Renato Soru replaced outgoing Director Arnaldo Borghesi, who resigned on 25 February 2009.

### Appointment of the Board of Statutory Auditors and Chairman

On 30 April 2009, Tiscali's Ordinary Shareholders' Meeting appointed the new Board of Statutory Auditors, which will remain in office until the approval of the financial statements at 31 December 2011, and resolved the fees to be paid to its members. Based on the two lists submitted respectively by shareholder Renato Soru (majority list) and jointly by Haselbeech Holdings NV and Mallowdale Corporation NV (minority list), the following Auditors were appointed: Aldo Pavan (Chairman); Piero Maccioni (Statutory Auditor); Andrea Zini (Statutory Auditor); Rita Casu (Deputy Auditor) and Giuseppe Biondo (Deputy Auditor). The CVs of new members of the Board of Statutory Auditors are available on the company's website in the Investors section.

### Approval of the 2008 financial statements and resolution pursuant to article 2446 of the Italian

### Civil Code

As already pointed out, on 30 April 2009, the Board of Directors presented the Shareholders' Meeting called to resolve the approval of the Financial Statements as at 31.12.2008 with a proposal for the partial covering of losses accumulated as at 31 December 2008 by Parent Company Tiscali S.p.A. through the full use of the share premium reserve, retaining the remaining portion of losses equal to EUR 151.831 million. The Parent Company's loss recorded in 2008 was entirely attributable to write-downs of equity investments as a result of annual impairment tests.

As at that date, the Board of Directors did not deem it necessary to increase or reduce share capital, stating that the loss recorded in the period was determined predominantly by write-downs of equity investments closely linked to the exceptional market situation, as better described in the directors' report on operations to the financial statements for year ended at 31 December 2008.

### Appointment of Renato Soru as Tiscali Italia S.p.A. Chairman and CEO

On 13 May 2009, the Tiscali Italia S.p.A. Board of Directors, 100% owned by Tiscali S.p.A., acknowledged the resignation of Mario Rosso from his post as Chairman and CEO and resolved, upon the proposal of said Mario Rosso, the co-optation of Renato Soru to the Tiscali Italia S.p.A. Board of Directors. Renato Soru was appointed Chairman and CEO at the next meeting of the Board of Directors of the Italian subsidiary.

### Founding of Tiscali Contact

On 11 September 2009, new company Tiscali Contact s.r.l. was founded, a subsidiary of Tiscali Italia S.p.A., whose objective is to insource activities connected with customer technical and administrative support.

### Waiving, by former CEO Tommaso Pompei, of the exercise of options as part of the stock options plan approved in 2007

On 1 October 2009, former Tiscali S.p.A. CEO Tommaso Pompei waived all his purchase options on as many Tiscali S.p.A. ordinary shares. Said options were assigned to Mr. Pompei as part of the share incentive plan approved by a resolution of the Tiscali S.p.A. shareholders' meeting on 3 May 2007 and are due to become exercisable from 4 May 2010 to 3 November 2010 at a unit strike price of EUR 24.77.

The company proceeded to sell 260,000 treasury shares in several tranches, which were previously purchased and tied to said share incentive plan.

### Change of composition of corporate bodies

At the meeting held on 12 November 2009, Chairman and CEO Mario Rosso resigned from office and relinquished the powers received to the Board. During the same meeting, the Board appointed Renato Soru to the office of Chairman of the Board of Directors and delegated the powers of CEO. Subsequently, at the same meeting, Mario Rosso, Francesco Bizzarri and Massimo Cristofori resigned from their posts of Director. Consequently, with the majority of its members having resigned, the term of office of the Board of Directors was extended until the Shareholders' Meeting of 21 December 2009, which elected a new Board of Directors.

Following the resignation of Chairman of the Board of Statutory Auditors Aldo Pavan on 12 November 2009, the Chairman's post was temporarily held by Deputy Auditor Giuseppe Biondo, appointed from the same list as the outgoing Chairman. On 21 December 2009, the Ordinary Shareholders' Meeting supplemented the Board of Statutory Auditors, replacing the outgoing Chairman Aldo Pavan with the first of the non-elected members of said list, Paolo Tamponi.

### Decision of the Dutch Supreme Court in relation to World Online International

On 29 November 2009, Dutch Supreme Court ruled on the proceedings launched by VEB, an association of Dutch shareholders, against World Online International N.V ("WOL"), a subsidiary of Tiscali S.p.A. ("Tiscali"), following the stock market listing of WOL in March 2000. The Dutch Supreme Court upheld the decision of the Amsterdam Court of Appeal in May 2007, which affirmed that the listing prospectus was incomplete in some of its parts and that WOL would need to adjust some of the information reported by the media, particularly regarding the shareholding held by its former CEO and some optimistic statements on the company's future. In addition, the Supreme Court stated in its ruling that the listing prospectus should have indicated the price at which, three months before listing, a certain number of WOL shares had been sold to third parties. WOL noted with satisfaction the fact that the Supreme Court had rejected all other claims made by VEB during the proceedings. Finally, it is important to underline that the proceedings before the Supreme Court were exclusively aimed at establishing whether WOL had generally acted in a misleading manner towards the average investor in the period of time immediately before and after listing on the stock market. In particular, during said proceedings, it was not determined whether WOL's conduct could have actually influenced investors' decisions regarding the investment or whether, as already presented to the market, the investors had the right to claim damages or not. As of today, no court had ruled on the matter.

### Appointment of members of the Board of Directors and integration of the Board of Statutory Auditors

On 21 December 2009, the Shareholders' Meeting elected the new Tiscali S.p.A. Board of Directors, composed as follows: Renato Soru, Gabriele Racugno, Luca Scano, Victor Uckmar (Independent Director) and Franco Grimaldi (Independent Director). In addition, the Shareholders' Meeting also resolved that the company Directors will remain in office for three years, up to the date of the Shareholders' Meeting called to approve the 2011 financial statements and approved the gross annual fee of each Director of EUR 25,000.

The Shareholders' Meeting also approved the proposed integration of the Board of Statutory Auditors, assigning Mr. Paolo Tamponi the role of Chairman of the Board of Statutory Auditors up to the date of the Shareholders' Meeting called to approve the financial statements at 31 December 2011 and also confirming Mr. Giuseppe Biondo as a Deputy member of the Board of Statutory Auditors up until said date. At the same time, the Shareholders' Meeting fixed the annual emolument of the Chairman of the Board of Statutory Auditors on the basis of the professional fees of accountants, plus 50%.

Luca Scano was also appointed as the Executive in charge of drawing up the company's accounting documents.

## 7.5 Analysis of the Group economic, equity and financial position

### Foreword

Founded in 1998, Tiscali is one the leading alternative telecommunications operators in Italy. With 704,000 customers, as at 31 December 2009, Tiscali is among the main providers of Broadband services with xDSL technology (more than 570,000 customers) and voice and Narrowband services (roughly 134,000 customers). Thanks to a cutting edge network based on IP technology, Tiscali can offer its customers a wide range of services, from broadband and narrowband internet access, to more specific and hi-tech products to meet the needs of the market. This offer also includes voice services (VoIP and CPS), and portal and mobile telephone services, thanks to the service supply agreement reached with Telecom Italia Mobile (MVNO).

Following a major re-focus on the scope of consolidation, culminating with the sale of the UK subsidiary to the Carphone Warehouse Group on 3 July, the Group concentrated its operations in Italy, offering its products to consumers and business customers including internet access services, voice services via analogue and Voip mode and mobile telephony. In addition, the Tiscali.it portal, with more than 18 million browsers monthly (source: Webtrends) has proven itself to be one of the leading Italian portals, capable of acting as a valuable and efficient shop window for telecommunications services and for attracting significant advertising investments, thanks to the Tiscali Advertising division, one of the most important on-line concessionaires on the Italian market.

### Main risks and uncertainties to which Tiscali S.p.A. and the Group are exposed

#### Risks relating to the general economic situation

The Group's economic, equity and financial position is affected by several factors which constitute the macro-economic scenario – such as, for example, variations in GDP, investor confidence in the economic system and interest rate trends. A gradual weakening of the economic system, together with a reduction in household disposable income, has cut the general level of consumption, with a depressive impact on the capacity for a quick recovery in 2010.

Should said period of economic uncertainty be drawn out, the activities, strategies and prospects of the Tiscali Group could be adversely impacted and as a result, this could also affect the company's economic, equity and financial position.

#### Risks connected with the performance of the telecommunications market

The telecommunications market the Tiscali Group operates in is extremely competitive in terms of innovation, price, efficiency and user support. Tiscali competes with other groups at international level and with various local operators.

The success of the Group's activities depends on the capacity to maintain and increase shares of the market in which it currently operates through high quality, innovative services that guarantee adequate levels of profitability. If the company is unable to maintain its competitive position with respect to the main competitors in terms of price and quality and other elements, the Tiscali Group's market shares could fall, with a negative impact on the economic and financial results of the Group.

### Risks connected with the dependence on technology of the telecommunications sector

The Group, which operates in a highly complex market from a technological point of view, is exposed to a high risk regarding IT and ICT systems. As regards the management of the risks connected with the damage to and malfunctioning of said systems, on which the business management is based, the Group invests adequate resources aimed at protecting all IT tools and processes. The core business systems are all highly reliable; the data centre in the Cagliari headquarters is equipped with safety systems such as the fire prevention and anti-flood systems, while the copies of data back-ups made by operational personnel are kept in a different location from the CED (data processing centre) guaranteeing a high level of reliability. The programmatic document on safety is drawn up on an annual basis which defines the safety measures (technical, IT, organisational, logistical and procedural tools) aimed at reducing the risks of destruction or loss, even accidental, of this data, and of unauthorised access or treatment.

### Risks associated with financial requirements

The evolution of the Group's financial situation depends on different factors, in particular, for example, the achievement of the forecast objectives, the trend in the general conditions of the economy, the financial markets and the sector in which the Group operates.

During 2009, Tiscali implemented a restructuring plan aimed at ensuring the long-term economic and financial equilibrium which, as described above, was completed successfully in December 2009. The continuous obtainment of adequate financing depends largely on the general conditions of the credit market and the Group's capacity to correctly implement the economic and financial plan aimed at creating a stable economic and financial balance.

### Risks associated with fluctuations in interest and exchange rates

The Tiscali Group, operates exclusively in Italy. However, some supplies, even though for insignificant amounts, are denominated in foreign currency. The same can be said for the GBP 35.4 million as guarantee deriving from the sale of Tiscali UK.

Therefore, sudden fluctuations in interest and exchange rates could have a negative impact on the Group's economic and financial results.

### Risks associated with dealings with employees and suppliers

Group employees are protected by various laws and/or collective labour contracts which ensure they have, via local and national delegations, the right to be consulted with regard to specific matters, including therein downsizing or the closure of departments and the reduction of the workforce. These laws and/or collective labour contracts applicable to the Group and its suppliers could influence its flexibility when strategically redefining and/or repositioning its activities. Tiscali's ability and that of its suppliers to make staff cuts or take other measures, even temporary, to end the employment relationship is subject to government authorisations and the consent of trade unions. Trade union protests by workers could negatively affect the company's activities.

### Risks associated with the turnover of management and other human resources with key roles

The company's future depends greatly on the ability of its executives to handle it effectively. The loss of the services of an executive director, a first level manager and other key resources without adequate replacement, as well as the inability to attract and retain new and qualified personnel, could therefore have a negative impact on the Group's prospects, activities and economic and financial results.

### Risks associated with business continuity

For further information please refer to para. 4.7 *"Assessment of the business as a going-concern and business outlook".*

### Risks associated with disputes and contingent liabilities

For further information please refer to the paragraph *"Ongoing disputes, contingent liabilities and commitments".*

## Economic position

| CONSOLIDATED INCOME STATEMENT | 2009 | 2008 Restated* | Change | % Change |
|---|---|---|---|---|
| *(EUR mln)* | | | | |
| Revenues | 290.4 | 325.1 | (34.7) | (10.7%) |
| Other income | 3.1 | 5.3 | (2.2) | (41.3%) |
| Purchase of materials and outsourced services | 159.1 | 195.7 | (36.7) | (18.7%) |
| Payroll and related costs | 39.2 | 51.1 | (11.9) | (23.2%) |
| Other operating costs | 7.1 | (2.4) | 9.4 | n.d. |
| **Gross operating result (Adjusted EBITDA)** | **88.1** | **85.9** | **2.2** | **2.6%** |
| Write-downs of receivables from customers | 17.9 | 17.1 | 0.8 | 4.8% |
| Stock option plan cost | 0.5 | 2.9 | (2.4) | (83.9%) |
| **Gross operating result (EBITDA)** | **69.7** | **65.9** | **3.8** | **5.8%** |
| Restructuring costs, provisions for risk reserves and write-downs | 11.7 | 27.3 | (15.5) | (57.0%) |
| Amortisation/depreciation | 46.7 | 52.8 | (6.2) | (11.7%) |
| **Operating result** | **11.4** | **(14.2)** | **25.6** | **179.9%** |
| Share of results of equity investments valued using the equity method | - | (0.1) | 0.1 | (67.5%) |
| Net financial income (charges) | (13.9) | (88.4) | 74.5 | (84.3%) |
| **Pre-tax result** | **(2.6)** | **(102.7)** | **100.1** | **(97.5%)** |
| Income taxes | (12.1) | (25.0) | 12.9 | 51.5% |
| **Net result from operating activities (on-going)** | **(14.7)** | **(127.7)** | **113.0** | **88.5%** |
| Result from assets disposed of and/or destined for disposal | (372.3) | (143.4) | (229.0) | (159.7%) |
| **Net result** | **(387.0)** | **(271.1)** | **(115.9)** | **(42.8%)** |
| **Minority interests** | **(2.2)** | **(28.4)** | **(26.2)** | **92.3%** |
| **Group Net Result** | **(384.8)** | **(242.7)** | **(142.1)** | **(58.5%)** |

## Italy

### Operational Income Statement – Italy

| | 31 December 2009 | 31 December 2008 |
|---|---|---|
| *EUR (mln)* | | |
| **Revenues** | **287.8** | **313.5** |
| of which: ADSL revenues | 120.3 | 124.6 |
| of which: voice revenues | 94.3 | 95.1 |
| **EBITDA** | **88.1** | **76.3** |
| **EBIT** | **24.7** | **(17.4)** |

During 2009, Tiscali Italia S.p.A. generated revenues of EUR 287.8 million, down by 8.2% compared with EUR 313.5 million in the same period in 2008.

In particular, revenues from ADSL services stood at EUR 120.3 million, slightly down (-3.4%) compared with EUR 124.6 million in 2008. This was due to the shrinking in the customer base recorded during the year, particularly in the first half, due to the difficult situation which arose following the restructuring plan and the adoption of more restrictive policies regarding customer termination due to default, as well as silent customer termination.

Voice revenues amounted to EUR 94.3 million during the year, down by roughly 1% compared to 2008 (EUR 95.1 million).

As at 31 December 2009, the number of ADLS customers had fallen slightly to roughly 570 thousand (down by 2.7% compared with 31 December 2008, from approximately 586 thousand). The number of customers already active and connected to the Tiscali network infrastructure (unbundling) stood at around 387 thousand, essentially in line with the figure as at 31 December 2008 (roughly 385 thousand).

More than 302 thousand customers subscribed to the double play offer (data and voice via the internet), an increase of around 40 thousand compared with 31 December 2008. The customer base using dial-up access services (narrowband) and CPS voice services stood at around 134 thousand. The reduction in the narrowband customer base follows the market trend which is seeing customer offers being gradually replaced with broadband services, following upsell policies used by operators and which Tiscali also uses regularly.

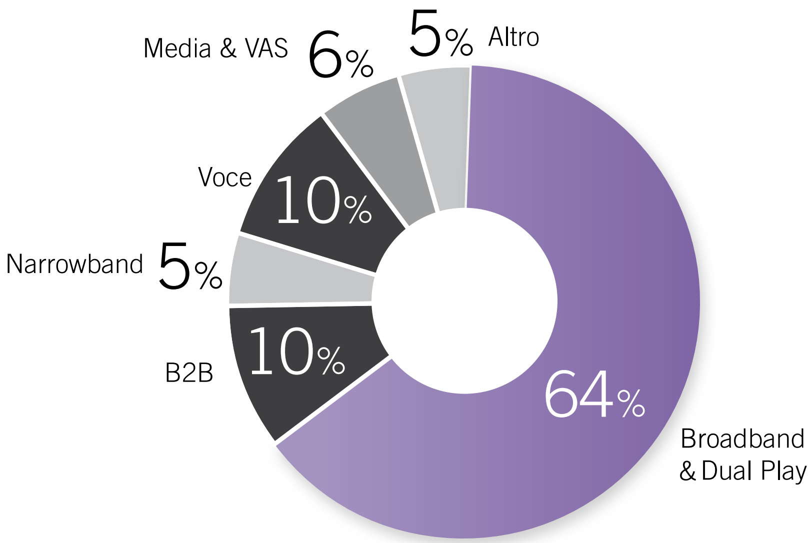
### Evolution of the customer base - Italy

| | 31 December 2009 | 31 December 2008 |
|---|---|---|
| *(000)* | | |
| ADSL customers | 570.2 | 586.1 |
| of which: LLU | 387.2 | 385.1 |
| Narrowband and voice customers | 133.7 | 277.4 |
| Dual play customers | 302.8 | 254.2 |

Unbundled network coverage in Italy at 31 December 2009 came to 585 sites, up by 20% compared with 486 sites at 31 December 2008.

**Revenues by business segment**

***Fig. 3 Breakdown of revenues by business line and access mode[3]***




Source: Tiscali

### Internet access

This segment, which includes revenues from broadband (ADSL) and narrowband (dial-up) internet access services and the flat component of bundled offers, generated revenues during the year of EUR 135.8 million, representing around 47.2% of the Group's total revenues during the year, in line with the figure recorded in the same period in 2008 (EUR 157.2 million).

The customer base for ADSL services, relating to 2009, numbered roughly 570 thousand users (of which around 387 thousand direct), down slightly compared with the number of ADSL users at 31 December 2008 (amounting to 586 thousand).

### Voice

The voice segment includes both the traditional telephone service and a component of the variable traffic generated by voice services over IP offered in joint mode with internet access. During 2009, these services generated revenues in line with the previous year. In absolute terms, voice revenues in 2009 totalled EUR 94.3 million, compared to EUR 95.0 million in 2008. As regards total voice revenues EUR 64.6 million was due to the voice traffic components generated by the VoIP services.

[3]Il grafico riporta una divisione per linea di business che accorpa i ricavi da dual play con il broadband.

### Business services

Revenues from business services (VPN, housing, hosting services, domains and leased lines), excluding those from access and/or voice products for the same customer base which are already included in their respective business lines, amounted to EUR 27.6 million in 2009, down by 13.4% over the EUR 31.9 million recorded in 2008.

### Media and value added services

In 2009, revenues recorded by the media and value added services segment (deriving from direct and indirect advertising through commercial agreements with search engines) amounted to EUR 17.6 million, down markedly compared with the previous year (EUR 31.1 million). This business line does not include revenues from the sale of content (e.g. video on demand), revenues classified in the “access line”.

**Operational Income Statement of the Group**

| | 31 December 2009 | 31 December 2008 Restated |
|---|---|---|
| *EUR (mln)* | | |
| **Revenues** | **290.4** | **325.1** |
| Access revenues | 135.8 | 157.2 |
| of which: ADSL | 120.3 | 124.6 |
| Voice revenues | 94.3 | 95.0 |
| of which: dual play (traffic component) | 64.6 | 53.6 |
| Revenues from business services | 27.6 | 31.9 |
| Revenues from media and value added services | 17.6 | 31.1 |
| Other revenues | 15.0 | 9.8 |
| **Gross Operating Margin (Gross Margin)** | **169.7** | **198.7** |

## Gross Operating Result (EBITDA)

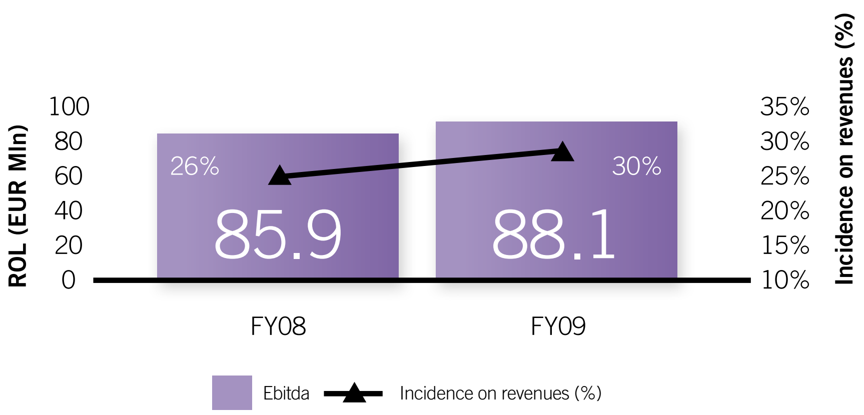
### Operational Income Statement – Group

| | 31 December 2009 | 31 December 2008 Restated |
|---|---|---|
| *EUR (mln)* | | |
| **Revenues** | **290.4** | **325.1** |
| **Gross Operating Margin (Gross Margin)** | **169.7** | **198.7** |
| **Indirect operating costs** | **82.8** | **125.1** |
| Marketing and sales | 16.7 | 36.4 |
| Payroll and related costs | 39.2 | 51.1 |
| Other indirect costs | 26.9 | 37.6 |
| Other income/charges | (1.2) | (12.3) |
| **Adjusted Gross Operating Result (EBITDA)** | **88.1** | **85.9** |
| Write-down of receivables and other provisions | 18.4 | 20.0 |
| **Gross Operating Result (EBITDA)** | **69.7** | **65.9** |
| Amortisation/depreciation | 46.7 | 52.8 |
| **Gross Result (EBIT) before restructuring costs and provision for risks** | **23.0** | **13.1** |
| **Gross Result (EBIT)** | **11.4** | **(14.2)** |
| **Group Net Result** | **(384.8)** | **(242.7)** |

The adjusted Gross Operating Result (EBITDA) for the year, before provisions for risks, write-downs, depreciation and amortisation, was EUR 88.1 million, a slight increase compared to the EUR 85.9 million in 2008.

EBITDA net of write-downs of receivables and other provisions stood EUR 69.7 million in 2009 (24.0% of revenues), essentially in line with the figure in 2008 (EUR 65.9 million, equal to 20.3% of revenues).

***Fig. 4 – Evolution of the Group Operating Result (adjusted EBITDA)***




Source: Tiscali

**Indirect operating costs** amounted to EUR 82.8 million for the year (28.5% of revenues), down compared with the previous year (EUR 125.1 million, 38.5% of revenues).

These included **payroll and related costs** of EUR 39.2 million in 2009, down compared with 2008 (EUR 51.1 million), but down by roughly 2% in terms of its incidence on revenues (15.7% in 2008 compared with 13.5% in 2009).

To illustrate the matter more clearly, here are the details of the operating costs/revenues making up the Gross Operating Result, as shown in the income statement table. In particular, the reconciliation between "purchase of materials and outsourced services" and "other operating costs" with the indirect operating costs described in this paragraph is pointed out.

| | 31 December 2009 | 31 December 2008 Restated |
|---|---|---|
| *EUR (mln)* | | |
| **Revenues** | **290.4** | **325.1** |
| Other revenues | 3.2 | 5.3 |
| **Purchase of materials and services. of which:** | **159.1** | **195.7** |
| - marketing | 16.7 | 36.4 |
| - indirect costs (*) | 21.7 | 33.0 |
| - other direct costs | 120.7 | 126.4 |
| Payroll and related costs | 39.2 | 51.1 |
| Other operating costs. of which: | 7.1 | (2.4) |
| - other indirect costs (*) | 5.2 | 4.6 |
| - other operating costs | 1.9 | (7.0) |
| **Gross Operating Result (Adjusted)** | **88.1** | **85.9** |
| **(*) Total Indirect Costs** | **26.9** | **37.6** |

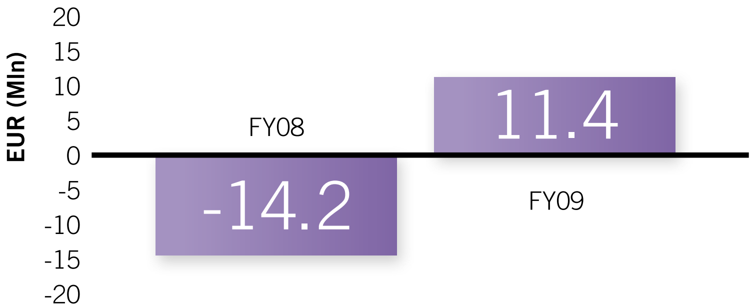
**Operating Result (EBIT)**

The 2009 Operating Result (EBIT), net of provisions, write-downs and restructuring costs, was roughly EUR 11.4 million, against a negative EUR 14.2 million in 2008.

**Provisions for risks, write-downs of receivables and other provisions** amounted to EUR 11.7 million in total in 2009 and mainly include the costs of restructuring the Senior Debt. The corresponding figure at 31 December 2008, at EUR 27.3 million, included roughly EUR 15 million in provisions to cover charges relating to the Group's restructuring plan. Essentially concluded at the end of 2009.

**Amortisation/depreciation** amounted to EUR 46.7 million in 2009 (EUR 52.8 million in 2008).

***Fig. 5 – Evolution of the Operating Result (EBIT)***




**Net result from operating activities (on-going)**

The net result from operating activities (on-going), was a negative EUR 14.7 million, a net improvement compared with the figure in the previous year, a negative EUR 127.7 million. The 2009 result was affected by the capital gain of EUR 42.3 million brought about by the removal of the Senior Debt D2 Facility, as well as a reduction in financial charges by around EUR 32.3 million, linked to the restructuring of the Senior debt, whose total value fell from EUR 490.7 million at 31 December 2008 to EUR 163.9 million at 31 December 2009.

In addition, income taxes accounted for EUR 12.1 million, of which EUR 10.5 million constituted by the repayment of deferred taxes recorded at 31 December 2008 by subsidiary Tiscali International BV, and EUR 1.6 million relating to IRAP (regional business tax) charged to Italian companies.  At 31 December 2008 the item instead mainly included the repayment of deferred taxes in respect of Tiscali International BV amounting to EUR 23.8 million.

**Group Net Result**

The Group Net Result for the period was a negative EUR 387.0 million, primarily as a result of the negative impact of the result from the sale of the UK subsidiary and of the Ti Net Group (roughly EUR 372.3 million).

**Results of subsidiary Tiscali Italia S.p.A.**

**Operational Income Statement – Italy**

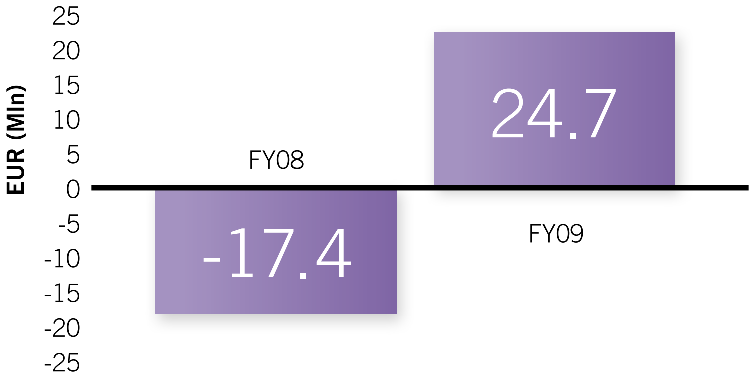
| | 31 December 2009 | 31 December 2008 |
|---|---|---|
| *EUR (mln)* | | |
| **Revenues** | **287.8** | **313.5** |
| **Gross Operating Margin (Gross Margin)** | **166.1** | **185.8** |
| **Indirect operating costs** | **73.2** | **105.4** |
| Marketing and sales | 16.6 | 35.5 |
| Payroll and related costs | 34.4 | 41.3 |
| Other indirect operating costs | 22.2 | 28.5 |
| **Gross operating result (adjusted EBITDA)** | **88.1** | **76.3** |
| **Operating result (EBIT)** | **24.7** | **(17.4)** |

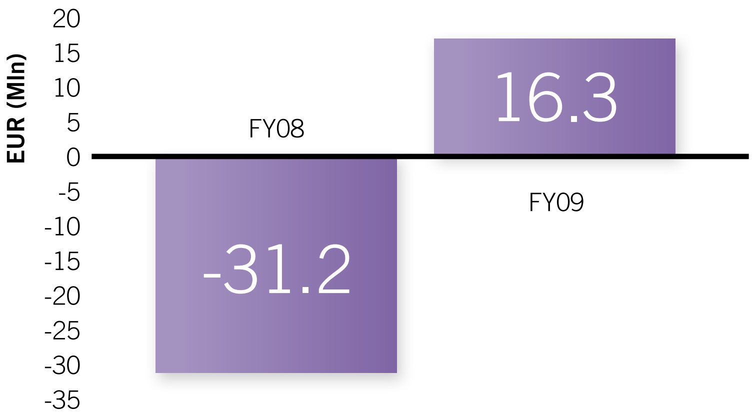
**Tiscali Italia S.p.A.** closed 2009 with a gross operating result (adjusted EBITDA) of EUR 88.1 million (30.6% of revenues), up compared with EUR 76.3 million (24.3% of revenues) in 2008. The Gross Margin, an indicator of the industrial performance of the Italian subsidiary, fell by roughly 10% on a YoY basis and around 1.5% in terms of its incidence on revenues. Operating costs, which fell from EUR 105.4 million to EUR 73.2 million in 2009 (-30.5%), included marketing costs which fell by roughly 53.3% in absolute terms on a YoY basis (from EUR 35.5 million in 2008 to EUR 16.6 million in 2009.

In 2009, the operating result (EBIT) for Tiscali Italia S.p.A. stood at EUR 24.7 million, compared to the loss of EUR 17.4 million in 2008.

The gross operating result (adjusted EBITDA) increased when compared with the previous year, despite the fall in revenues. This was due, in particular, to the improvement in the overall cost structure, optimisation of sales expenses and the reduction in payroll and related costs, also achieved thanks to the voluntary redundancy programme implemented in the first quarter of 2009.

*Fig. 6 – Evolution of the Operating Result (EBIT) and Net Result - Italy*




Source: Tiscali

The graph shows the net result of Tiscali Italia S.p.A., according to International Accounting Standards (IFRS), which differs from the net result of the local statutory financial statements equal to EUR 4.3 million.

### Equity and financial position

| CONSOLIDATED BALANCE SHEET (in abridged form) | 31 December 09 | 31 December 08 |
|---|---|---|
| *(EUR mln)* | | |
| Non-current assets | 239.6 | 890.9 |
| Current assets | 188.9 | 258.1 |
| Assets held for sale | - | 56.8 |
| **Total Assets** | **428.6** | **1,205.8** |
| Group shareholders' equity | (67.0) | 10.8 |
| Shareholders' equity pertaining to minority shareholders | - | (6.0) |
| **Total Shareholders' equity** | **(67.0)** | **4.8** |
| Non-current liabilities | 239.3 | 229.7 |
| Current liabilities | 255.4 | 949.1 |
| Liabilities directly related to assets held for sale | 0.9 | 22.3 |
| **Total Liabilities and Shareholders' equity** | **428.6** | **1,205.8** |

Balance sheet assets and liabilities show lower figures than those in the previous year, due mainly to the change in the consolidation area following the sale of Ti Net and Tiscali UK.

### Assets

#### Non-current assets

Non-current assets amounted to EUR 239.6 million at 31 December 2009, significantly lower than the figure recorded at 31 December 2008, equal to EUR 890.9 million.
This was mainly due to the change in the consolidation area and the write-back of prepaid taxes recorded for Tiscali International BV amounting to EUR 10.5 million. In particular, it should be noted that goodwill, standing at EUR 438.8 million in December 2008, was fully written back (and included in the recalculation of the capital loss from the sale of Tiscali UK) given it concerns the UK subsidiaries.

The extension of the unbundling network and subsequent operating investments relating to the connection and activation of new ADSL customers generated fresh investments during the year of around EUR 40.8 million, including EUR 25.8 million for investments in intangible assets and around EUR 15.0 million for investments in tangible fixed assets. Investments relate entirely to Tiscali Italia S.p.A..

#### Current assets

At 31 December 2009 current assets amounted to EUR 188.9 million, substantially lower than at 31 December 2008 (EUR 258.1 million). Customer receivables stood at EUR 112.2 million at 31 December 2009, compared with EUR 176.8 million at 31 December 2008. Other receivables and sundry current assets, equal to EUR 27.1 million, included in particular accrued income on access services provided, prepaid expenses for service costs, together with sundry receivables, including VAT credits.

## Liabilities

### Non-current liabilities

Non-current liabilities amounted to EUR 239.3 million at 31 December 2009 compared to EUR 229.7 million at 31 December 2008. The figure also includes items concerning the financial position, for which reference should be made to the following section, the provision for risks and charges for EUR 9.0 million, the employee severance indemnity for EUR 4.2 million, medium/long-term payables to suppliers for EUR 7.4 million and payables to suppliers for the purchase of long-term usage rights on transmission capacity (IRU) for EUR 6.3 million.

### Current liabilities

Current liabilities amounted to EUR 255.4 million at 31 December 2009 (compared with EUR 949.7 million at 31 December 2008). They mainly include the current portion of financial payables, payables to suppliers, together with accrued expenses pertaining to the purchase of access services and line rentals, the employee severance indemnity, the provision for risks and charges and the provision for taxation.

## Reconciliation between the Parent Company's financial statements and the consolidated financial statements

As required by Consob Communication no. DEM/6064293 of 28 July 2006, the following table shows the reconciliation between the net profit for the period and Group shareholders' equity with the corresponding values of the Parent Company.

| | 31 December 2009 | |
|---|---|---|
| | Net profit (loss) | Shareholders' equity |
| *EUR (000)* | | |
| **Shareholders' equity and net profit (loss) of Tiscali S.p.A.** | **(248,254)** | **93,747** |
| Shareholders' equity and net profits of consolidated companies net of minority interests | (418,481) | 16,248 |
| Book value of consolidated equity investments | - | (334,758) |
| Write-down of equity investments recorded in the Parent Company's financial statements | 318,133 | 318,133 |
| Elimination of the provision for the coverage of losses of investee companies recorded in the Parent Company's financial statements | (35,984) | 75 |
| Cancellation of waiver on financial receivables from subsidiaries (T Finance and TUKH) | 195,052 | 195,052 |
| Reversal of the goodwill recorded in the financial statements of consolidated investee companies | - | (160,250) |
| Other | 120 | (174) |
| **Shareholders' equity and net profit (loss) for the year pertaining to the Parent Company** | **(384,826)** | **(66,980)** |
| Shareholders' equity and net profit (loss) for the year pertaining to minority shareholders | (2,186) | - |
| **Shareholders' equity and net profit (loss) for the year as per the Consolidated Financial Statements** | **(387,012)** | **(66,980)** |

**Financial situation**

As at 31 December 2009, the Tiscali Group could count on cash and cash equivalents of EUR 16.2 million, against a negative net financial position of EUR 211.2 million at the same date (EUR 601.1 million at 31 December 2008 relating solely to operating activities).

| | Notes | 31 December 09 | 31 December 08 |
|---|---|---|---|
| *EUR (mln)* | | | |
| A. Cash | (1) | 16.2 | 24.2 |
| B. Other cash equivalents | | 0.6 | 12.7 |
| C. Securities held for trading | | - | - |
| **D. Cash and cash equivalents (A) + (B) + (C)** | | **16.8** | **36.9** |
| **E. Current financial receivables** | | **6.4** | **5.3** |
| F. Non-current financial receivables | (2) | 12.7 | 1.4 |
| G. Current bank payables | (3) | 13.6 | 510.0 |
| H. Current portion of non-current debt | (4) | 10.9 | - |
| I. Other current financial payables (*) | (5) | 10.8 | 21.4 |
| **J. Current financial debt (G) + (H) + (I)** | | **35.3** | **531.4** |
| **K. Net current financial debt (J) – (E)- (F) – (D)** | | **(0.7)** | **487.7** |
| L. Non-current bank payables | (6) | 152.9 | - |
| M. Bonds issued | | - | - |
| N. Other non-current payables (**) | (7) | 59.0 | 113.4 |
| **O. Non-current financial debt (L) + (M) + (N)** | | **211.8** | **113.4** |
| **P. Net financial debt (K) + (O)** | | **211.2** | **601.1** |

On 3 July the company sold its assets in the UK for GBP 236 million. Proceeds from the sale were used for the partial repayment of the financial debt to Senior Lenders (roughly GBP 180 million),and the payment of debts to the management of Tiscali UK (around GBP 8 million).

Net of the partial repayment of the debt to Senior Lenders for EUR 207 million, the residual debt, equal to EUR 332.8 million, was restructured for a nominal amount of EUR 158.5 million (roughly EUR 164 million including interest accrued at 31 December 2009) and the remainder, called the D1 and D2 Facility, for a nominal EUR 174.3 million (EUR 177.8 million including interest accrued at 18 November 2009) and was subject to repayment (D1 Facility) and write-off (D2 Facility) following the first share capital increase, launched on 12 October 2009 and concluded with almost 100% of subscriptions from the market and shareholder Renato Soru on 11 November 2009. The share capital increase was concluded with the subscription of roughly 1,799,819,371 shares for a value of EUR 179,981,937.

(*) includes leasing payables
(**) includes leasing payables and payables due to shareholders
(1) Includes EUR 8.5 million deriving from the sale of un-opted rights.
(2) Includes receivables due from the purchaser of Ti Net Group (Talia) for the deferred component of the price and interest-bearing time deposit established upon the request of a pool of lenders that took part in the financial Sale & lease-back transaction.
(3) Includes the bank payables of Tiscali Italia S.p.A. and Tiscali S.p.A. totalling EUR 13.6 million.
(4) This item includes the short-term component equal to EUR 10.8 million relating to debt to Senior Lenders.
(5) Includes EUR 5.6 million of leasing in Italy.
(6) The entire amount of EUR 152.9 million relates to the long-term component of debt to Senior Lenders, restructured from 3 July 2009, for a nominal amount of EUR 158.5 million plus interest from 3 July 2009 to 31 December 2009. The short-term component, equal to EUR 10.8 million, is shown in the item “Current portion of non-current debt”.
(7) Includes the Sale & lease back Sa Illetta debt for EUR 58.9 million.

Net of the amount subscribed by shareholder Renato Soru through the conversion of the debt by said party due to the company, equal to EUR 31.4 million (including interest), the revenue effectively collected from the share capital increase amounted to EUR 148.5 million, plus EUR 8.5 million from the sale of un-opted rights.

Income from the share capital increase was used on 1 December 2009 for the repayment of the D1 Facility, amounting to EUR 135.5 million (amount includes interest accrued at 18 November 2009) and for the repayment of debt due to ex VNL shareholders for EUR 11.7 million.

The D2 Facility, equal to EUR 42.3 million including interest accrued at 18 November 2009 was instead written off by Lenders on 1 November 2009 in line with the provisions of the debt restructuring agreements signed on 2 and 3 July 2009 and comprehensively detailed in the share capital increase Information Prospectus available on the company's website www.tiscali.it, in the Investors section.

Finally, it should be noted that, prudentially, the net financial position does not include the time deposit relating to the sale of Tiscali UK, amounting to EUR 31.4 million at 31.12.09 and could be released in two tranches in June and December 2010.

For the purpose of consistency with the information contained in previous reports, the table shown above includes VAT credits in financial receivables and guarantee deposits among other cash equivalents. For completeness, we have shown below the reconciliation of the above financial position with the financial position prepared in light of Consob Communication no. DEM/6064293 of 28 July 2006.

| | **31 December 09** | **31 December 08** |
|---|---|---|
| *EUR (mln)* | | |
| Consolidated net financial debt | 211.2 | 601.1 |
| Other cash and cash equivalents and current and non-current financial receivables | 13.2 | 15.3 |
| Consolidated net financial debt prepared on the basis of Consob communication no. DEM/6064293 del 28 July 2006 | 224.4 | 616.4 |

## 7.6 Events subsequent to the end of the year

### Tiscali Italia S.p.A. : new organisation for customer support activities

On 7 January 2010, Tiscali announced its decision, as part of its relaunch programme on the Italian market, also through an improvement in the quality of customer support and administrative services and optimisation in the use of internal resources, to continue with the insourcing of said activities. Insourcing of pre- and post-sales support is one of the critical factors of success in the telecommunications sector and also allows savings in terms of costs.

### Other significant events

As shown in the section “Disputes, contingent liabilities and commitments”, March 2010 saw the assignment to a third party of the mandate for establishing the amounts necessary for settlement of the dispute between Tiscali and Talk Talk limited regarding the release of part of the payment of the sale of UK assets deposited under guarantee. No other significant events occurred after 31 December 2009.

## 7.7 Assessment of the business as a going-concern and business outlook

### Events and uncertainties regarding the business continuity

The Tiscali Group incurred a consolidated loss for the financial year of EUR 387.0 million, of which EUR 372.3 million was related to disposals during the year, and has a deficit in consolidated net shareholders' equity of EUR 67.0 million, after the share capital increase completed in November 2009 for approximately EUR 180.0 million and after the effects of writing-off EUR 42.3 million in debt, in accordance with the restructuring agreements signed with financial institutions. In addition, as at 31 December 2009, the Group reports gross indebtedness of EUR 240.6 million and current liabilities which are greater than current (non-financial) assets by EUR 85.3 million.

As at 31 December 2008, the loss stood at EUR 271.1 million (of which EUR 143.3 million determined by the result of the assets sold), total shareholders' equity amounted to EUR 4.8 million, and gross financial debt totalled EUR 644.8 million. At the same date, the difference between current assets and liabilities (non-financial) was a negative EUR 187.2 million.

The financial and economic disequilibrium of the Group, as already in evidence in the financial statements for year ended at 31 December 2008, caused the Directors in early 2009 to prepare a new Business Plan and related Financial Plan to enable the Tiscali Group to begin restructuring its debts in order to guarantee its long-term financial equilibrium.

Subsequently, during 2009 the Group undertook certain actions (overall referred to as the 'Restructuring Plan') aimed at achieving the long-term financial and economic equilibrium for the Group and to re-launch its commercial activities (as described in paragraph 4.4 of the Report on Operations, “Significant events during the year”).

In particular, as part of the Restructuring Plan the following actions were launched and completed, which impacted the equity, financial and economic position shown in the financial statements for year ended at 31 December 2009:

1. preparation of the 2009-2013 business plan aimed at achieving the Tiscali Group's long-term economic and equity equilibrium;
2. sale of UK subsidiary Tiscali UK Ltd for a total value of EUR 245.4 million (as described in section 11 of the Consolidated Financial Statements); revenue from the sale was used mainly to repay a portion of the Group's debt;
3. sale of subsidiary Tiscali International Network for a total value of EUR 30.9 million;
4. renegotiation of the terms of the residual senior debt and Sale & lease-back debt (as described in paragraph 4.4 of the Report on Operations, “Significant events during the year”);
5) launch and execution of a paid share capital increase offered under option to the shareholders of Tiscali S.p.A., completed on 11 November 2009 and immediately used for the repayment of another portion of financial debt in execution of the agreements entered into with lenders; based on said

agreements lenders wrote off a portion of the residual debt amounting to roughly EUR 42.3 million.

In addition, in 2009 other measures were implemented aimed at enhancing operational efficiency, particularly in subsidiary Tiscali Italia S.p.A., including:

- the termination of IPTV activities;
- the rationalisation of operating and commercial costs;
- the implementation of a voluntary redundancy plan which, combined with other actions taken to improve operational efficiency, cut payroll and related costs by roughly EUR 7 million (EUR 12 million in respect of the Group);
- the optimisation of credit recovery policies;
- the rationalisation of the structure and of corporate costs.

The above-mentioned actions therefore contributed greatly to reducing the gross financial debt from EUR 644.8 million at 31 December 2008 to EUR 240.6 million at the end of December 2009. In addition, said actions made it possible to cut payables due to suppliers from EUR 181.1 million at 31 December 2008 to EUR 150.9 million at 31 December 2009.

The company then implemented a series of actions in the second half of 2009 which generated a reversal in the trend in customer acquisition evident in the recent past. In fact, the first half of 2009 not only saw the above-mentioned actions of recovery of operational efficiency but a reduction in the volume of registrations of telecommunications products; by contrast, in the second half, also as a result of renewed confidence in the market, an improvement in macro-economic prospects and rediscovering of the brand image, an increase of more than 80% was recorded in ADSL and voice registrations compared with the first half of 2009. Said trend also continued in the first few months of 2010.

On account of the aforegoing, the Directors, in assessing the existence of the condition of the Tiscali Group as a going concern in the current macro-economic context, has identified some factors that indicate the persistence of certain uncertainties:

- The Group is still in a situation of financial and economic disequilibrium, which is made evident by a net consolidated deficit even after the execution of the debt write-off of EUR 42.3 million (although the partent company reports a positive shareholders' equity amounting to EUR 93.7 million), due to negative economic performance and the considerable burden of Group indebtedness. Indeed, in 2009, the result of operating activities, though much better than the previous year (also due to the debt write-off), is negative and amount to about EUR 14.7 million for the Group. However, the operating result of the Group is positive and amounts to EUR 11.4 million thanks to the positive contribution of the subsidiary Tiscali Italia;
- the presence of gross financial indebtedness, which, , although significantly reduced during the year, is still significant and subject to covenants and other contractual obligations obligations (so-called 'default events ), which, as is the practice with such contracts, could trigger the end of the benefit of the term (see note 27);
- achieving a situation of long-term financial and economic equilibrium for the Group is subject to achieving the results indicated in the Plan, in the context of the current uncertain economic scenario, and therefore connected to the achievement of the forecasts and assumptions contained in the Plan and, in particular, those concerning the evolution of the telecommunications market and the achievement of the growth objectives set in a market characterized by strong competitive pressures.

Thus the following depends on the possibility and capacity of executing the plan: a) the ability of re-establish an adequate level of shareholders funds, b) the recoverability of its assets, c) the ability to comply with the covenants and the other contractual commitments and thus to maintain the availability of the funding granted and to face up the group's obligations, d) achieve a long-term financial and economic equilibrium for the Group.

To these factors need to be added the litigation matters described in the notes to the financial statements, the outcomes of which although not reasonably predictable at the moment, nor be reasonably expected in the next twelve months following the balance sheet date, have been evaluated as potentially significant (see the paragraph "*Disputes, potential liabilities and commitments")*.

**Final assessment of the Board of Directors**

The Board of Directors, in assessing the above elements, has considered that, in 2009, the Group:

a) completed all the actions required by the Restructuring Plan, including repayment of a significant portion of the financial debt and restructuring (with more favourable terms) of the residual debt, as well as the completion of the share capital increase, proof of the confidence of the market and of the financial institutions in the company's business model;

b) positively launched the implementation of the 2009-2013 Plan, confirming, at the current state of play, both the main assumptions used in its preparation and the validity of the business strategy and business model; in particular, the Directors observed how the trend in customer acquisition was reversed and how the net profit for the period, despite being negative as a whole, recorded significant improvement, with a positive consolidated operating result (EUR 11.4 million) compared with a negative figure in the previous year (EUR 14.2 million) and a consolidated loss generated by operating activities which fell from EUR 127.7 million in 2008 to EUR 14.7 million in 2009, also thanks to revenues generated by the writing off of EUR 42.3 million of debt by lenders, in line with the provisions of the agreements;

c) verified consistency between the Business Plan and the financing requirements of the new debt structure, as well as the suitability of the Plan to respect the covenants and other contractual obligations.

These elements mean the Group is reasonably positioned to implement the Business Plan and this will enable it to achieve a situation of financial and economic equilibrium in the long-term.

In conclusion, the Directors, in analysing what was already achieved in the context of a path aimed at allowing the Group and Company to reach long-term financial and economic equilibrium, recognise that, as of today's date, uncertainties remain, as mentioned previously, relating to events and circumstances that could raise significant doubts about the ability of the Group and the Company to continue to operate on the basis of the assumption of a going-concern. But, after making the necessary checks and assessing the uncertainties identified in light of the additional elements described, they have the reasonable expectation that the Group and the Company possess adequate resources to continue operations in the foreseeable future and have therefore adopted the going-concern assumption in preparing the financial statements.

*Cagliari, 26 March 2010*

**The Chief Executive Officer**

Renato Soru

**The Executive appointed to draw up the company accounting documents**

Luca Scano

# 8. Corporate Governance Report and Ownership Structure

## 8.1 Foreword

In pursuance of Article 123 bis of Italian Legislative Decree No. 58/1998, as implemented by Article 89 bis of the Issuers' Regulations, adopted by Consob under resolution No. 11971 of 14 May 1999, and the current Instructions to the Regulations for Markets organized and run by Borsa Italiana S.p.A., Article IA.2.6, listed companies are obliged to draw up an annual disclosure report on their Corporate Governance system and on compliance with the Code's recommendations (as defined below). This report must be made available to the shareholders at least 15 days before the shareholders' meeting for the approval of the annual financial statements and forwarded at the same time to Borsa Italiana S.p.A. who will make it available to the general public. The report is also published in the "investor relations" section on the Company website: www.tiscali.com.

Fulfilling the prescribed obligation and with the intention of providing extensive corporate disclosure to the shareholders and the investors, Tiscali S.p.A.'s ("**Tiscali**" or the "**Company**") Board of Directors has drawn up this report (the "**Report**"), in compliance with the guidelines published by Borsa Italiana S.p.A. and in light of the indications provided by Assonime in this connection.

Therefore, the Report is split into two parts. In the first part the model of corporate governance adopted by Tiscali is illustrated and the governing bodies are described along with the shareholdings and other information under Article 123 bis of Italian Law Decree 58/98 as referred to above. The second part by contrast provides detailed disclosure regarding compliance with the Code's recommendations by means of a comparison between the choices made by the Company and said recommendations of the Code.

## 8.2 Part I: Corporate Governance Structure

### General principles

The term *Corporate Governance* defines the series of processes for managing the corporate activities with the aim of creating, protecting and increasing the value for the shareholders and investors over time. These processes must ensure the achievement of the corporate objectives, the maintenance of socially responsible conduct, transparency and responsibility vis-à-vis the shareholders and the investors.

In order to ensure the transparency of management's operations, correct market disclosure and protection of the socially relevant interests, the corporate governance system adopted by Tiscali fully draws on the recommendations of the Code of Conduct (the "**Code**"), drawn up by the Corporate Governance Committee, March 2006 edition. The Company adopts practices and principles of conduct, formalized in procedures and codes, in line with Borsa Italiana S.p.A.'s indications, CONSOB recommendations and with the best practice seen at national and international level; furthermore, Tiscali has equipped itself with an organizational structure suitable for correctly handling business risks and potential conflicts of interest which may occur between Directors and shareholders, majority and minority.

**Adopted model**

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

**Directors and Auditors, and the company appointed to audit the accounts**

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

### Board of Directors

Up to 25 February 2009 the Board of Directors was made up of: Mario Rosso (Chairman and Managing Director), Francesco Bizzarri, Arnaldo Borghesi, Massimo Cristofori and Umberto De Iulio (Directors).

On the date of 25 February 2009 the resignation of Director Arnaldo Borghesi was given, and the Board of Directors in its meeting on the 19 March 2009 arranged to replace him by co-opting Renato Soru. Afterwards, on the 30 April 2009 the Annual General Meeting of Tiscali S.p.A. appointed Renato Soru as member of the Board of Directors.

In the meeting of 12 November 2009, the Chairman and Managing Director Mario Rosso put the appointment and powers to the Board which, at the same meeting, granted Renato Soru the post of Chairman of the Board of Directors and the powers of Managing Director. Thereafter, still within the same meeting, the said Mario Rosso, Francesco Bizzarri and Massimo Cristofori gave their resignations as Directors. Accordingly, since the resignation of the majority of its members has taken place, the Board of Directors has remained in post by way of extension until the General Meeting of Shareholders on the 21 December 2009, which elected a new Board of Directors made up of:

| | |
|---|---|
| Chairman and Managing Director | Renato Soru |
| Directors | Gabriele Racugno<br>Luca Scano<br>Victor Uckmar<br>Franco Grimaldi |
| Company Secretary | Luca Naccarato |

The post of Chairman and the powers of Managing Director were thus conferred upon Renato Soru in the Board meeting on the 21.12.2009. The remit of the current Directors shall expire with the approval of the financial statements for the year 2011.

### Board of Statutory Auditors

Until 30 April 2009 the Board of Statutory Auditors was made up of: Aldo Pavan (Chairman), Piero Maccioni, Andrea Zini, (Statutory Auditors), Rita Casu (Supplementary Auditor).

On the 30 April 2009, the Annual general meeting appointed the new Board of Statutory Auditors, in post until the approval of the financial statements to the 31 December 2011, and has resolved upon the remuneration to be paid to its members. Based on the two lists provided respectively by the shareholders, Renato Soru (majority list) and, jointly by Haselbeech Holdings NV and Mallowdale Corporation NV (minority list) the following Statutory Auditors were appointed: Aldo Pavan (Chairman), Piero Maccioni and Andrea Zini, (Statutory Auditors), Rita Casu and Giuseppe Biondo (Supplementary Auditors).

Following the resignation of the Chairman of the Board of Statutory Auditors, Aldo Pavan, which took place on the 12 November 2009, the post of Chairman was temporarily taken over by the Supplementary Auditor Giuseppe Biondo, appointed under the same list on which the resigning Chairman took part. On the 21 December 2009, the Annual General Meeting carried out the completion of the Board of Statutory Auditors by replacing the outgoing Chairman Aldo Pavan with the first of the persons not elected from the same list, Paolo Tamponi. Thus the Board is made up as follows:

| | |
|---|---|
| Chairman | Paolo Tamponi |
| Statutory Auditors | Piero Maccioni |
| | Andrea Zini |
| Supplementary Auditors | Rita Casu |
| | Giuseppe Biondo |

### Executive in charge of drawing up the Company's financial statements

As envisaged by Article 14 of the Articles of Association, in pursuance of the provisions of Italian Law No. 262/2005, on 21 December 2009 the Board of Directors took steps to appoint the Director Luca Scano, currently Director of the Company, and Director general of the Italian subsidiary Tiscali Italia S.p.A. as executive in charge of drawing up the Company's accounting documents.

### Independent Auditing Firm

The task of independent audit has been conferred upon the company Reconta Ernst & Young S.p.A. by the Annual general Meeting on the 29 April 2008. This task shall expire with the approval of the financial statements for the year 2016 on the part of the General Meeting of the Shareholders.

### Committees

Until 25 February 2009, the Committees within the Board of Directors, the internal Control Committee and the Remuneration Committee were made up as follows: Internal Control Committee: Umberto De Iulio and Arnaldo Borghesi; Remuneration Committee: Francesco Bizzarri, Umberto De Iulio and Arnaldo Borghesi.

Following the resignation of Director Arnaldo Borghesi on the 25 February 2009, the Committees were made up as follows: Internal Control Committee: Umberto De Iulio; Remuneration Committee: Francesco Bizzarri, and Umberto De Iulio.

In the meeting of the Board of Directors on the 21 December 2009, following the appointment of the new Board of Directors, the following Internal Committees were formed:

- *Internal Control Committee*, made up of Victor Uckmar (Chairman), Franco Grimaldi and Luca Scano.
- *Remuneration Committee*, made up of Franco Grimaldi (Chairman), Victor Uckmar and Gabriele Racugno.

In addition there is a Supervisory Body made up of Pasquale Lionetti that also covers the remit set out for Internal Control.

**Shareholding structure**

At the date of the present report, the company equity was voted as 94,124,955.97 EUR and has been subscribed and paid up in the amount of 92,016,815.67 EUR, divided into 1,861,491,326 ordinary shares with no face value, freely transferable under the terms of law without any certificates granting any special powers of control.

In the table below the name or company name of the Shareholders with voting rights with a shareholding in excess of 2%, who have given notice to the Company and to CONSOB of their shareholding is stated. No restrictions to voting rights are specified.

| Shareholder | Shares held | Percentage |
|---|---|---|
| **Renato Soru** | **331,133,617** | **17.79%** |
| Directly* | 278,928,283 | 14.98% |
| Via Andalas Ltd | 1,483,109 | 0.08% |
| Via Monteverdi S.r.l.* | 17,609,873 | 0.95% |
| Via Cuccureddus S.r.l.* | 33,112,352 | 1.78% |
| **IGNIS Asset Management Ltd**<br>*Asset management* | **39,460,216** | **2.11%** |

The remaining 80.10% of the share capital is held by the market. The Company is not aware of any syndicate agreement or of any shareholders agreements except as specified below.

**Warrants**

The General Meeting of the 30 June 2009, at the same time as resolving to increase the share equity, resolved for the issue of Warrants. In the light of the execution of the above mentioned increase, in November 2009, the Company issued 1,799,819,371 Warrants. Warrant holders are entitled to subscribe ordinary shares in the Company at the ratio of no.1 share per grouping of 20 Warrants exercised at the price of 0.80 EUR per share grouping. Currently 348,140 Warrants have been exercised and 17,470 shares have been issued in face of an equity increase of 13,925.20 EUR. Warrants can be exercised until 15 December 2014 in accordance with the Tiscali S.p.A. 2009-2014 Warrant Regulations which can be found under the "Investor relations" section on the website www.tiscali.it.

*On the date of the 19 December 2008, Renato Soru made a deed of fiduciary transfer with Prof. Gabriele Racugno for the purpose of administration. The shareholding that formed the scope of the fiduciary transfer was that held directly and indirectly through the Monteverdi and Cuccureddus companies. By the said deed, the fiduciary party was due to exercise all the rights and privileges connected with the shares, including the voting rights, without any instructions on the part of the principal. On the 20 March 2009, the fiduciary arrangement was amended by the assignment by the principal of the sole shareholding directly held by Renato Soru. On the 15 April 2009 the fiduciary arrangement was definitively cancelled with the return of the residual shareholding to the principal.

### Share Based Incentive Plans

On the 3May 2007, the General Meeting approved a share incentive plan in favour of the Managing Director at the time and for the key managers in the Company and its Italian subsidiaries up to a maximum amount of 7,837,274 pre-merging options equal to 783,727 options after the merger transaction. Thereafter the board has executed that resolution by allocating a total of 3,760,000 options to staff and 3,593,143 to the managing Director at the time, in consideration of the pre-merger shares. In the light of the surrender on the part of Dr. Tommaso Pompei of all his options which took place on 1 October 2009, And on expiry of the rights of certain beneficiaries, 216,000 options can currently be exercised allocated to managers at an exercise price of 0.729 EUR for 173,000 options and 0,827 EUR for 43,000 options. The exercise price was adjusted after the equity increases in February 2008 and November 2009 and of the reverse split of shares in September 2009. Exercise shall take place in accordance with the regulations in the Stock Option Plan which can be found in the investor relations section of the www.tiscali.it as described in further detail in the note on “Stock Options” in the 2009 Financial Statements.

### Delegated increases within the meanings of Article 2443 of the Italian Civil Code

The general meeting of 30 June 2009 voted to delegate the option to increase the shareholder equity to the Board of Directors on payment, in one or more slices, over a maximum period of three years from the delegation resolution, up to a maximum amount of 25 Million EUR by means of the issue of ordinary stock without face value to be offered as an option to shareholders in proportion to the shares held by each o them within the meanings of Article 2441 paragraph one of the Italian Civil Code.

The Board of Directors may carry out the increase if the Talk Talk Group, which is the purchaser of the group’s English business, is granted certain compensation on the funds deriving from the sale of Tiscali UK which is still under guarantee.

The terms and timing of subscription shall be set by resolution of the Board of Directors in accordance with Company demands and the situation in the financial markets. The subscription price shall be equal to the average market price for Tiscali shares recorded in the three months prior to the working day prior to each related offering of Tiscali shares, subject to the constant provisos of Article 2346, paragraph five of the Italian Civil Code.

### Shareholders Agreements

With regard to the existence of shareholders’ agreements under Article 122 of Italian Law Decree 58/98, it is pointed out that on the 15 may 2009, the Company and Renato Soru made a shareholder’s agreement with the subject of the exercise of voting rights. In particular, Renato Soru has made a commitment, as regards the shares he holds directly or indirectly in Tiscali S.p.A., to approve at the General Meeting any proposal by the Board of Directors of the Company in the sphere of the debt restructuring transaction for Tiscali S.p.A., and its subsidiaries.

### Amendments to significant agreements following the change of Control

In the case of a **change of control** of the Company or of some of the Group companies that come within the scope of the finding agreements with the Senior Lenders, the amendment of the funding agreements themselves is envisaged. In particular the change of control involves the obligation to make prepayments with reference to the funding agreements referred to above as described in further detail in the table under the note “Non Current Financial liabilities” in the 2009 Financial Statements.

## 8.3 1.3 Part II: Disclosure on compliance with the recommendations contained in the Code of Conduct for Listed Companies

### Board of Directors

#### Role

The Board of Directors has a prominent role to play in Company life, being the body responsible for running the Company, providing strategic and organizational guidelines and, as such, for identifying Company objectives and monitoring their achievement.
This body is invested with all ordinary and extraordinary powers of administration pursuant to Article 14 (Powers of the Board of Directors) of the Company's Articles of Association.

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

The powers and duties exercised by the Company's Board of Directors in its role as provider of strategic guidelines, supervisor and monitoring body for Company Activities, as set out in the Company's Articles of Associations and implemented in corporate codes of practice, are largely consistent with what is laid down by Article 1 of the Code.

#### Composition

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

At the date of the present Report, the Board of Directors is made up of five members.

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

#### Chairman of the Board of Directors and Chief Executive Officer

In accordance with the Company's Articles of Association, the Chairman of the Board of Directors calls and conducts board meetings and coordinates its activities. For Board meetings, the Chairman ensures that Board Members receive all necessary documentation, well in advance, to allow the Board to knowledgeably discuss subjects under examination.
The Articles of Association also state that the Board of Directors, within legal limits, may appoint one or more Chief Executives, establishing powers to be granted to them, within legal limits.

The Board of Directors has granted executive powers to the Managing Director. The powers of the managing Director may be exercised up to a value of EUR 25 Million.

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

### Non-executive, minority and independent directors

In compliance with the provisions of Italian Law No. 262/2005, as amended by Italian Legislative Decree No. 303/2006, the Articles of Association envisage the presence of at least one independent director if the Board is made up of less than seven members, and at least two independent directors if the Board is made up of more than seven members.

Furthermore, the list voting mechanism envisaged by the Articles of Association for the election of the members of the Board ensures the appointment of at least one director taken from the list which has obtained the second greatest number of votes and which is not in any way associated with the shareholders who have presented or voted for said list.

Currently the board of Directors is made up of five Directors: Renato Soru, Chairman and Managing Director, is the sole Director with executive powers delegated by the Board.
As indicated in Article 3.2 of the Code, at the time of appointment and in any event once a year when this Report is prepared, the Board evaluates the Directors' independence on the basis of information provided by the Directors themselves, and provides the market with appropriate information in this respect by publishing said Report.

Until 25 February 2009 Umberto De Iulio and Arnaldo Borghesi were independent Directors, and the latter then resigned at the same date. At the meeting of the Board of Directors held on the 28 August 2009, the Board of Directors checked the existence of the independence parameters required by Article 3 of the Code, with regard to Director Francesco Bizzarri who in the meantime, joined Umberto de Iulio as independent director.

Currently, following the appointment of the new Board of Directors by the Annual General Meeting on the 21 December 2009, two of the current Directors, Victor Uckmar and Franco Grimaldi possess the independence criteria in compliance with the principles and application criteria in Article 3 of the Code and under Article 148 of the Consolidated Finance Act.

The offices covered by the current Board members in their capacity as directors of other listed companies, banks or insurance companies or businesses of a significant size, are listed below. None of the Directors cover roles in boards of statutory auditors of other listed companies, banks or insurance companies or businesses of a significant size. Even in consideration of the offices covered elsewhere and the part they play in Company life, the Company believes that the Directors are in a position to dedicate the necessary time for the diligent performance of their duties as Company directors.

| Roles in boards of directors of other listed companies, banks and insurance companies and businesses of a significant size | |
|---|---|
| Renato Soru: | - |
| Luca Scano: | - |
| Gabriele Racugno: | Banco di Sardegna S.p.A. Director |
| Victor Uckmar: | Chairman of Class Editori S.p.A. - Merck Serono S.p.A. Director |
| Franco Grimaldi: | - |

In the specific "*investor relations*" *Section of the website* www.tiscali.it, the Company publishes the professional résumés of its Directors, so that the shareholders and investors can assess the professional experience and the authoritativeness of the Board members.

### Board meetings

The Board of Directors meets regularly and in any event at the time of the approval of the quarterly reports, the half year report and the draft annual financial statements.

It is consolidated practice that executives and consultants from outside the Company are also called to attend Board meetings, according to the subjects being dealt with.

As can be seen in the tables below, during 2009 the Board of Directors met twenty one times, so as to discuss and approve the periodic accounting figures and significant transactions implemented by the Company. In the course of the year 2010, up to the date of the present Report, the Board of Directors has met once to approve the draft financial statements on the 26 March and almost full attendance from the Directors and members of the Board of  Statutory Auditors. On average, nearly all the Directors and the members of the Board of Statutory Auditors took part in the afore-mentioned meetings, as indicated by the details below.

| Meetings during first half of 2009 | 06.03.09 | 19.03.09 | 24.03.09 | 27.03.09 | 06.04.09 | 14.04.09 |
|---|---|---|---|---|---|---|
| Directors present | 4 | 4 | 4 | 4 | 5 | 4 |
| Percentage | 100% | 100% | 80% | 80% | 100% | 80% |
| Statutory Auditors present | 3 | 3 | 3 | 3 | 3 | 3 |
| Percentage | 100% | 100% | 100% | 100% | 100% | 100% |

| 27.04.09 | 07.05.09 | 14.05.09 | 28.05.09 | 11.06.09 | 22.06.09 | 29.06.09 | Media |
|---|---|---|---|---|---|---|---|
| 4 | 4 | 4 | 5 | 4 | 4 | 4 | 4.3 |
| 80% | 80% | 80% | 100% | 100% | 80% | 80% | 87% |
| 3 | 3 | 3 | 2 | 3 | 2 | 3 | 2.8 |
| 100% | 100% | 100% | 67% | 100% | 67% | 100% | 95% |

| Meetings during second half of 2009 | 30.07.09 | 17.08.09 | 27.08.09 | 21.09.09 | 07.10.09 | 12.11.09 | 11.12.09 | 21.12.09 | Media |
|---|---|---|---|---|---|---|---|---|---|
| Directors present | 5 | 3 | 5 | 5 | 5 | 4 | 4 | 5 | 3.9 |
| Percentage | 100% | 60% | 100% | 100% | 100% | 80% | 80% | 100% | 90% |
| Statutory Auditors present | 2 | 2 | 3 | 3 | 3 | 3 | 3 | 3 | 2.75 |
| Percentage | 67% | 67% | 100% | 100% | 100% | 100% | 100% | 100% | 92% |

On 21 December 2009, the Board of Directors approved the calendar of its meeting for the year 2010.

The 2010 meetings timetable is as follows:

- 23 March 2010 (Approval of the draft Financial Statements as at the 31 December 2009),
- 11 May 2010 (Approval of the Quarterly Report at 31 March 2010),
- 05 August 200 (Approval of the Half-yearly Report at 30 June 2010),
- 09 November 2010 (Approval of the Quarterly Report at 30 September 2010).

### Appointment of Directors

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

The right to present electoral lists is granted to Shareholders that alone or together with other Shareholders represent at least the percentage of the Share equity stated in the applicable regulations. This mechanism ensures, therefore, that even minority Shareholders have the power to submit their own lists. Everyone with a voting right may vote for one list only.

The election of Directors proceeds as follows: (a) five sevenths of Directors are appointed from the list receiving the majority of votes expressed by Shareholders; (b) the remaining Directors are appointed from the other lists. For this purpose, the votes obtained by the lists are progressively divided by one, due, three, four, five, etc, according to the number of Directors to be elected. The quotients obtained thus are then progressively assigned to candidates on each list, in accordance with their respective order. The quotients assigned to candidates on the various lists are compiled into a single list in descending order.

Those elected are the candidates with the highest quotients, in any event after appointment of the candidate first on the list receiving the second highest number of votes, and who is in no way connected with that first list, and after the appointment of one or two independent directors, depending on whether the Board comprises more or less than seven members, in accordance with Italian Law No. 262/2005, as amended by Italian Legislative Decree No. 303/2006.

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

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

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

The report on management attached to the financial statements for the year to 31 December 2009 contains an information summary on the system of remuneration for the Directors (see the note "Remuneration of Directors, Statutory Auditors and managers with strategic responsibilities" in the 2009 financial statement).

**Shareholders' meetings**

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

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

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

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

Within the meanings of Article 2370 of the Italian Civil Code and of Article 8 (Speaking at Shareholders' Meetings) in the Articles of Incorporation, Shareholders may speak at Shareholders' Meetings from whom at least to days prior to the date set for the first session of the Meeting notice was served at the Company sent by an authorised intermediary under the terms of current regulations, attesting to the ownership of the shares and the voting rights in addition to any voting proxies.

**Board of Statutory Auditors**

**Appointment and composition**

Consistent with Article 10.1 of the Code, in relation to the appointment of Statutory Auditors, Article 18 (Board of Statutory Auditors) envisages a voting list system which guarantees the transparency and correctness of the appointment procedure and protects minority Shareholders' rights.

Shareholders are only entitled to present lists if, alone or together with other shareholders, they can prove that they hold at least the percentage of the share capital envisaged by applicable legislation. Each list must indicate five candidates in descending order of professional seniority. Each Shareholder may submit, or jointly submit, one list only and each candidate may be listed in one list only or be disqualified. The list of nominations must be filed at the Company's registered office at least ten days prior to the date of the next Shareholders' Meeting in first calling, together with the professional CVs of individuals appearing on the lists and a declaration from each accepting the candidature and declaring the inexistence of reasons for ineligibility or incompatibility and that the honourable and professional qualifications required under applicable law and by the Articles of Association are met.

Each shareholder may vote for one list. They are elected as follows: two Statutory Auditors and two Deputy Auditors are elected, in the order in which they appear on the list receiving the most votes. The third Statutory Auditor is the first candidate on the list receiving the second highest number of votes. In accordance with Italian Law No. 262/2005, as amended by Italian Legislative Decree No. 303/2006, the person appearing first on the list receiving the second highest number of votes is appointed Chairman of the Board of Statutory Auditors.

On 30 April 2009, the ordinary shareholders' meeting applied the voting list mechanism described above for the appointment of the current Board of Statutory Auditors, which will remain in office until the date of the meeting called to approve the annual financial statements at 31 December 2011. Two lists were presented in total during said shareholders' meeting.

The first list, presented by the shareholder Renato Soru, proposed the following candidates:
- Piero Maccioni
- Andrea Zini
- Valeria Secchi
- Rita Casu
- Andrea Cadeddu

The second list, presented jointly by the shareholders Haselbeech Holdings N.V. and Mallowdale Corporation N.V. (with a total shareholding of 6.19%), proposed the following candidates:
- Aldo Pavan
- Paolo Tamponi
- Simonetta Fadda
- Giuseppe Biondo
- Marco Racugno

Aldo Pavan, Piero Maccioni and Andrea Zini were elected as Statutory Auditors. Rita Casu and Giuseppe Biondo were elected as Supplementary Auditors. Aldo Pavan was elected Chairman of the Board of Auditors.

The Chairman of the Board of Statutory Auditors, Aldo Pavan presented his own resignation during the meeting of the Board of Directors on the 12 November 2009 and was replaced by Giuseppe Biondo, a Supplementary Auditor appointed from the same list from which the outgoing Chairman had come. On the 21 December 2009, the General Meeting of Shareholders added to the Board of Statutory Auditors by replacing the outgoing Chairman Aldo Pavan with the first person not elected from the same list, Paolo Tamponi. The Board of Statutory Auditors is thus currently made up of Paolo Tamponi (Chairman) Piero Maccioni and Andrea Zini (Statutory Auditors) and Rita Casu and Giuseppe Biondo (Supplementary Auditors).

### Requirements

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

In the specific "investor relations" section of the website www.tiscali.it, the Company publishes the professional résumés of its Statutory Auditors, so that the shareholders and investors can assess the professional experience and the authoritativeness of the members of the Board of Statutory Auditors.

### Activities

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

## Board of Directors internal committees

In accordance with the provisions of Article 5 of the Code, the Board of Directors has set up its own Internal Audit Committee and Remuneration Committee.

### Internal Audit Committee (see reference)

With regard to the Internal Audit Committee, reference should be made to Section 6.2. of this Report.

### Remuneration Committee

Since March 2001 the Company's Board of Directors has set up its own Remuneration Committee, as recommended by Article 7 of the Code and relevant application criteria.

The Board of Directors also approved Remuneration Committee Regulations which envisaged that said committee should comprise three members, mainly chosen from among the Board members without executive functions. A Chairman is elected from among the members, by means of majority vote. The Committee makes proposals to the Board of Directors for the remuneration of the Managing Directors and those who cover specific offices, as well as, upon the indication of the Managing Directors, for the determination of the criteria for the remuneration of the Company's senior management. The committee is also responsible for making proposals concerning any stock option plans of the Company and the related execution. As part of its functions, the Committee may avail itself of outside consultants, at the Company's expense. The Committee meets when it considers it necessary, upon the request of one or more members. The provisions of the Articles of Association, in as far as they are compatible, apply for the calling of said committee and the business of its meetings.

Until 25 February 2009, the Remuneration Committee was made up of the Directors Francesco Bizzarri, Umberto De Iulio and Arnaldo Borghesi. Following the resignation of the Director Arnaldo Borghesi, which took place on 25 February 2009, the Committee was made up of Francesco Bizzarri, who chaired it and

Umberto De Iulio. The Committee has expressed an opinion of compliance with regard to the management contract for the managing Director Renato Soru, approved by the Board on the 12 November 2009.

During the meeting of the board of Directors on the 21 December 2009, the newly elected Board re-formed within itself the Remuneration Committee, made up of the two independent Directors, Franco Grimaldi and Victor Uckmar, in addition to the Director Gabriele Racugno, who holds no executive role in the Company or in the Group. The function of Committee Chairman was given to the Director Franco Grimaldi.

### Appointments Committee

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

## Internal auditing

Back in October 2001, the Company formalized the internal audit organizational set-up. Following the amendments to the Code of Conduct for listed companies and the suggestions of Borsa Italiana S.p.A., on 25 March 2004 the Board of Directors took steps to up-date the organizational set-up of the Company's internal audit system, on the basis of a proposal made by the Internal Audit Committee 24 March 2004. The current internal audit set-up is in line with the matters envisaged by the principles and applicative criteria contained in Article 8 of the Code.

### Internal audit system

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

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

The Director appointed to this task identifies the main business risks, submits them for the attention of the Board of Directors and implements the Board's recommendations by developing, managing and monitoring the internal audit system. He is assisted in this task by an Internal Audit Coordinator, appointed by the Managing Director on the recommendation of the Internal Audit Committee. The Coordinator is equipped with all means necessary to perform this support role.

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

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

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

During the period covered by the previous Report, the main activities carried out with regard to the internal audit by the Coordinator, the Committee and the Internal Audit department were as follows:

- Assessment of the terms and procedures for updating the "Organisational, management and control model" for the main Companies in the Group including for the purpose of incorporating the relevant regulatory updates.
- On the instructions of the Director in charge of drafting the accounting documents, the Internal Audit Department devoted itself to the activity of checking the adequacy of the administrative and accounting procedures for forming the basis of the 2009 financial statements with the aim of assessing their respective effectiveness. This work also has the aim of issuing the certificate under Article 154 bis of the Consolidated Finance Act, introduced by Italian Law Decree 262/2005 as amended by law Decree 303/2006, and following.
- In the course of 2009 the testing stage continued on the checks under Article 154 bis of the Consolidated Finance Act, introduced by Italian Law Decree 262/2005 in the 2009 financial statements which have been carried out on the most important Group subsidiaries.

On the basis of the checks carried out, the Board of Directors deemed the internal audit system to be adequate for the Company's needs, as well as in line with current legislation and the Code's recommendations.

Internal Audit Committee

In accordance with the recommendations of the Code, the Board of Directors has set up an Internal Audit Committee to provide advice and recommendations, comprising made up of three non-executive Directors, two of which are independent. The Internal Audit Committee is a sub-group of the Board of Directors, its sole function being to advise and recommend. Its objective is to improve the effectiveness and strategic guidance capacity of the Board of Directors with regard to the Internal Audit system. In particular:

a) Helping the Board of Directors to set guidelines for the system and periodically verify its adequacy and correct function, ensuring that the main business risks are identified and appropriately managed;
b) Assessing the work plan prepared by the Internal Audit Coordinator and receiving the Coordinator's periodic reports;
c) Together with the Company's Directors and auditing company, verifying adequacy of the accounting standards used and their uniformity for the purpose of drafting the consolidated financial statements;
d) Assessing bids submitted by auditing companies for the role of independent auditor, and the proposed work plan for the independent audit and the results expressed in the report and letter of recommendations, along with the day-to-day contact with the independent auditing firm;
e) Assessing bids of an advisory nature formulated by the independent auditing firm - or its affiliated companies - in favour of Group companies;
f) Assessing bids of an advisory nature in favour of Group companies that are for significant amounts;
g) Reporting to the Board of Directors on tasks performed and on the adequacy of the internal audit system, at least once every six months on approval of the annual and half-yearly reports;
h) Performing additional tasks as assigned by the Board of Directors.

The entire Board of Statutory Auditors, its Chairman or a Statutory Auditor delegated by the Chairman of the Board of Statutory Auditors takes part in the work of the Committee

Two of the members of the Committee are qualified as independent and, if it is not possible to guarantee an Internal Audit Committee with a Majority of independent non-executive Directors, the Committee shall be reduced to two members, of which at least one shall be an independent Director. This solution is preferable to having a majority of non-independent Directors, albeit temporary. If for a certain period the Internal Audit Committee is composed of two members only, the entire Board of Statutory Auditors is always invited to attend committee meetings. In addition, if for a certain period the Committee membership is reduced to two members only, and the number of votes is equal, then the independent Director has the casting vote.

The Chairman of the Internal Audit Committee may invite the Managing Director and other parties, e.g. the independent auditing firm, the General Manager, if appointed, and the Finance Director, to Committee meetings in relation to specific items on the agenda for which their presence may prove useful.

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

Up to the 25 February 2009 the Internal Audit Committee was made up of two members, Umberto De Iulio (Chairman),and Arnaldo Borghesi, both of whom were independent non-executive Directors.

Following the resignation of the Director Arnaldo Borghesi which took place on 25 February 2009, the internal Audit Committee was temporarily made up of Umberto De Iulio.

During the meeting of the board of Directors on the 21 December 2009, the newly elected Board of Directors re-formed the Internal Audit Committee, made up of two independent Directors, Victor Uckmar and Franco Grimaldi, in addition to the Director Luca Scano, who possessed the requirement of proven experience in the accounting and financial field as required by the Code.  The function of Committee Chairman was given to the Director Victor Uckmar.

During the course of 2009 the Committee met twice: on the 26 June 2009 and 24 September 2009; and in 2010 on the 23 February. The Board of Statutory Auditors, or some of its members, attended all the meetings.

**Internal checking relating to accounting and financial information**

The internal Audit System on company information must be understood as a process which, as it involves several company functions, provides reasonable assurances about the reliability of the financial information, the fairness of the accounting documents and compliance with the applicable regulations.

The correlation with the process of risk management is close and clear, and is configured as the process of identifying and analysing those factors that might prejudice the attainment of corporate goals, with the scope of determining how those risks can be handled. An ideal and effective risk management system can in fact mitigate any negative impact on company goals, amongst which are the reliability, accuracy, fairness and timeliness of the accounting and financial information.

## Description of the main features of the risk management system and internal controls in existence with regard to the financial information process

**A) Description of the main features of the risk management system and internal controls in existence with regard to the financial information process**

### Identifying risks on financial information

The work of identifying risks is carried out first and foremost by the selection of relevant entities (companies) at group level and, later, by the analysis of risks that reside along the corporate processes from which the financial information originates.

This work includes: i) defining the quantitative criteria with regard to the income and asset contributions provided by individual companies in the last accounting position and the rules for selection with internal relevance thresholds. Considering qualitative elements is not excluded: ii) Identifying significant processes, associated to material data and information, that is accounting items for which a possibility exists that is not remote for the containment of errors with a potential significant impact on financial information.
For each significant account the identification of the most relevant 'statements" is made, in constant compliance with assessments based on risk analysis. The account statements are represented by the existence, completeness, needfulness, valuation, by rights and obligations and by presentation and information. Risks thus refer to the possibility that one or more account statements may not be correctly represented, with a consequential impact on the information itself.

### Identifying risks on financial information

The assessment of risks is carried out both on an overall company basis and at the level of specific processes. The first sphere includes the risks of fraud, of incorrect functioning of the computer systems or other unintentional errors. At a process level, the risks connected with financial information (underestimation, overestimation of items, inaccuracy of information, etc.) must be analysed at the level of the activities that make up the processes.

### Identifying checks when faced with identified risks

First of all attention is given to the checks at corporate level, which can be connected to information/data and to the related statements, which must be identified and assessed both through the monitoring of the reflection at the process and at a general level. Checks at corporate level are aimed at preventing, identifying and offsetting any significant errors, even if not operating at a process level.

### Assessing checks when faced with identified risks

The assessment of the checking system used is carried out in accordance with various elements: Timeliness and frequency: sufficiency; operational compliance; and organisation assessment. The overall analysis of checks for each risk is autonomously defined as a summary of the assessment process at the level of adequacy and compliance that corresponds to those checks. The analyses sum up considerations about the effectiveness and efficiency of the checks on each individual risk and the overall assessment of the management of risks is broken down into assessments of existence, appropriateness and compliance. The information flows with the results of the activity are supplied to the management bodies by the Director in Charge of the accounting document preparation.

**B) Roles and functions involved:**

The Director in Charge is in essence at the top of a system that supervises the formation of the financial information and provides for the information of the company summit thereupon. With the purpose of pursuing his/her assignment, the Director in Charge has the option of specifying the organisational lines for an appropriate structure in the context of his/her won duties; he/she has the resources and tools to carry out the work; and has the option of working with other organisation units.

A multiplicity of corporate functions contribute to providing information of an economic-financial nature. Thus, the Director in Charge sets up a systematic and fertile relationship with said functions. The Director in Charge is required to inform the Board of Statutory Auditors in good time if any critical items of an accounting, asset or financial nature were to emerge.

The Consolidated Financial Statements Function serves as an intermediate level and as a link between the Director in Charge and the single Administrative Reporters for checking defined relevancies within the Tiscali Group and arrange to gather, check, assemble, and monitor the information received from the latter. The Consolidated Accounts Function cooperates with the Director in Charge with regard to the documentation of the accounting processes and their related updating over time.

The Administrative Reporters for the various Group subsidiaries gather the operating information at local level, check it and guarantee the appropriate information flows with regard to compliance with the outside regulations involved from time to time.

A constant flow of information is expected between the three levels described above, by means of which the Reporters inform the Consolidated Financial Statements Function, and by means of the latter the Director in Charge, in accordance with the provisos under which the work of management is carried out and the process of preparing accounting and financial documents is checked for any critical items emerged during the period and for the remedial action to overcome any problems.

It is believed that the model used will enable sufficient guarantees to be provided for correct accounting and financial information. It is however stressed that it not possible to be certain that no malfunctions or anomalies liable to affect accounting and financial information will occur, even in the presence of correctly configured and operational internal control systems,

## 8.4 Organization, management and control model pursuant to Italian Legislative Decree no. 231/2001

The Company has opted for the “Model of organisation, management and control under Italian Law Decree 231/2001”, last updated by a resolution of the Board of Directors on the 21 December 2005 and in force since 1 March 2006; the Supervisory body operates without any continuity solution on its own supervisory work on the operation and compliance of the model itself.

The legislative re-enactments of the last few years that have introduced new crimes with regard to the administrative responsibility for bodies, have been considered in the context of periodic risk assessments, which have not revealed any significant critical classes of crime, so as to demand an immediate updating of the Model. At the end of 2008, in consideration of the numerous new occurrences of crime and taking account of the intrinsic benefits arising from increased organisational stability, a project for the overall updating of the Model was launched, with the initial support of a company specialised in this area. This updating process is still in progress in accordance with the new demands arising from the reduction of the Group’s extent which took place in 2009 and its completion is expected during the course of 2010.

It is stressed that the main controlled company under Italian Law, Tiscali Italia S.p.A. has also adopted, in consideration of its own features and its own exposure to risk, its own “Model of organisation, management and control” by a resolution from the Board of Directors on the 28 March 2006, and accordingly appointing a Supervisory Body required thereunder. The updating project in progress, referred to above, also includes the required updating for the Tiscali Italia S.p.A. Model.

**Related Parties**

It is Company practice to keep transactions with related parties (i.e. operations considered such pursuant to Consob Communication No. 2064231 of 30 September 2002) to a minimum. Any transactions of this nature are in any event conducted in such a way as to ensure compliance with legal and procedural standards pursuant to Article 9 of the Code.

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

Lastly, pursuant to Article 14 (Powers of the Board of Directors) of the Articles of Association, the Board of Directors must inform the Board of Statutory Auditors in writing, by post or via e-mail, of any transactions involving a potential conflict of interest.
In the meeting of the Board of Directors held on the 26 March 2010 to overall Regulations on Related Parties were approved, and published in the section for “investor relations” on the Company website at *www.tiscali.it*.

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

The Company has an Investor Relations Office responsible for communications with shareholders and institutional investors. The Investor relations office arranges, amongst other things, for the wording of press releases and in accordance with the type of communique, it carried out the internal approval procedure jointly with the Legal and Company Affairs department. Furthermore, it concerns itself with publication, including by means of a network of qualified outside companies that carry out such work professionally.

Disclosure is ensured not only by means of press releases, but also via periodic encounters with institutional investors and the financial community, as well as by extensive documentation made available on the company website www.tiscali.it  in the "investor relations" section. Recourse to on-line communication, which is mainly used by the non-institutional public, is considered strategic by the Company, since it makes standardized disclosure of the information possible. Tiscali undertakes to systematically see to the accuracy, completeness, continuity and up-dating of the financial matters disclosed via the Company website. It is also possible to contact the Company using a special e-mail address (ir@tiscali.com).

The Directors, Statutory Auditors and top management of Tiscali and its subsidies are obliged to respect the confidentiality of the documents and information acquired during their activities. Any dealings between these parties and the press or other means of mass media, as well as with financial analysts or institutional investors, which involve confidential documents or information concerning Tiscali or the Group, may take place solely via the head of investor relations, unless they involve interviews or declarations made by the executive directors.

The company managers and, in any event, all the employees and collaborators are obliged to keep price sensitive information and documents acquired because of and during their activities confidential and not to communicate such information to others except for official or professional reasons, unless these documents or information have already been made public in the prescribed forms. The above parties are prohibited from giving interviews to press bodies, or making public declarations in general, which contain information on significant events, qualifiable as "privileged" as per Article 181 of Italian Legislative Decree No. 58/1998, unless such information has been included in press releases or documents already disclosed to the public, or expressly authorized by the Investor Relations office. In compliance with the matters indicated by Article 114.2 of Italian Legislative Decree No. 58/1998, on 17 November 2004 a procedure was circulated within the Group with the aim of disciplining the communication to the Parent Company of price sensitive events which have occurred within the sphere of pertinence of the subsidiary companies.

In replacement of the Code of Conduct on Internal Dealing adopted by the Company in November 2002, and in enactment of the new Article 115(2) of Italian Legislative Decree No. 58/1998 on keeping a register of persons with access to privileged information, the Company established a register of persons (held by the Investor Relations Office) who, based on their business or profession or in relation to duties performed, have access to such information. In accordance with the aforementioned legislation, the IT-managed register contains: the identity of each person with access to privileged information, the reason that person was entered on the register, that date of registration, and the date of any updates to information relating to that person.

## 8.5 Security System Document

Within the meanings of Schedule B, item 26 of Italian law Decree no. 196/2003 that forms the Law on the protection of personal data, the Directors report that the Company has conformed to the measures for the protection of personal data, in the light of the Provisos introduced by Italian Law Decree no. 196/2003 in accordance with the terms and procedures indicated therein. In particular we highlight the completed updating of the Security System Document filed at the registered office.

## 8.6 Shares held by Directors and Statutory Auditors

As required by current legislation, and specifically by Article 79 of CONSOB Regulation No. 11971/99 implementing Italian Legislative Decree 58/1998, the table below indicates the number of shares held by Directors and Statutory Auditors.

## Board of Directors

| Name - Surname | Position | No. of shares held at 31.12.08 | No. of shares purchased/ subscribed | No. of shares sold | No. of shares held at 31.12.09 |
|---|---|---|---|---|---|
| Mario Rosso | Chairman and Managing Director (a) | - | - | - | - |
| Massimo Cristofori | Director (a) | - | - | - | - |
| Francesco Bizzarri | Director (a) | - | - | - | - |
| Umberto De Iulio | Director (a) | - | - | - | - |
| Arnaldo Borghesi | Director (d) | - | - | - | - |
| Renato Soru | Chairman and Managing Director (a) | 12,388,872 (e) | 318,744,745 (e) | 0 | 331,133,617 (e) |
| Luca Scano | Director (c) | 8,000 | | 8,000 | - |
| Victor Uckmar | Director (c) | - | - | - | - |
| Franco Grimaldi | Director (c) | - | - | - | - |
| Gabriele Racugno | Director (c) | - | - | - | - |

(a) Director in post under the extension system from 12 November to 21 December 2009;
(b) Director from the 19 March to 12 November 2009. Chairman and Managing Director under the extension system from 12 November to 21 December 2009, and Chairman and Managing Director in post since 21 December 2009.
(c) In post from 21 December 2009 until the approval of the financial statements to 31.12.2011;
(d) In post until 25 February 2009;
(e) The number of shares shows the value after the merger of the 14 September 2009.

## Board of Statutory Auditors

| Name - Surname | Position | No. of shares held at 31.12.08 | No. of shares purchased/ subscribed | No. of shares sold | No. of shares held at 31.12.09 |
|---|---|---|---|---|---|
| Aldo Pavan | Chairman and Statutory Auditor (a) | - | | | - |
| Paolo Tamponi | Chairman | - | | | - |
| Piero Maccioni | Statutory Auditor | - | | | - |
| Andrea Zini | Statutory Auditor | - | | | - |
| Rita Casu | Supplementary Auditor | 50 | | | 50 |
| Giuseppe Biondo | Supplementary Auditor (b) | | | | |

(a) In post until 12 November 2009;
(b) In post for the period from 12 November to 21 December 2009.

# 9. Consolidated Financial Statements and Explanatory Notes

## 9.1 Income Statement

| | Notes | 31 December 2009 | 31 December 2008 Restated |
|---|---|---|---|
| *(EUR 000)* | | | |
| Revenues | *1* | 290,353 | 325,064 |
| Other income | *2* | 3,097 | 5,273 |
| Purchase of materials and outsourced services | *3* | 159,052 | 195,713 |
| Payroll and related costs | *4* | 39,230 | 51,099 |
| Stock option plan cost | *5* | 465 | 2,893 |
| Other operating (income) charges | *6* | 7,054 | (2,367) |
| Write-downs of receivables from customers | *7* | 17,919 | 17,105 |
| Restructuring costs and other write-downs | *8* | 11,723 | 27,265 |
| Amortisation/depreciation | *15-16* | 46,655 | 52,831 |
| **Operating result** | | **11,353** | **(14,203)** |
| Share of results of equity investments valued using the equity method | | (33) | (101) |
| Net financial income (charges) | *9* | (13,883) | (88,395) |
| **Pre-tax result** | | **(2,563)** | **(102,699)** |
| Income taxes | *10* | (12,135) | (25,037) |
| **Result from operating activities (on-going)** | | **(14,698)** | **(127,736)** |
| Result from assets disposed of and/or destined for disposal | *11* | (372,313) | (143,354) |
| **Net result** | *12* | **(387,012)** | **(271,090)** |
| **Attributable to:** | | | |
| - Group result | | **(384,826)** | **(242,724)** |
| - Minority interests | | (2,186) | (28,365) |
| From operating activities and those disposed of: | | | |
| - Basic | | -0.55 | -0.43 |
| - Diluted | | -0.55 | -0.43 |
| From operating activities: | | | |
| - Basic | | **-0.02** | **-0.18** |
| - Diluted | | **-0.02** | **-0.18** |

## 9.2 Statement of Comprehensive Income

| | Notes | 31 December 2009 | 31 December 2008 Restated |
|---|---|---|---|
| *(EUR 000)* | | | |
| **Net result** | | **(387,012)** | **(271,090)** |
| Translation differences of the financial statements of foreign companies | | - | (95,937) |
| Delta fair value equity bond | | - | (22,053) |
| **Total comprehensive income after tax** | | - | (117,990) |
| **Total comprehensive result after tax** | | **(387,012)** | **(389,080)** |
| Attributable to: | | | |
| - Group result | | **(384,826)** | **(360,715)** |
| - Minority interests | | (2,186) | (28,365) |
| | | **(387,012)** | **(389,080)** |

## 9.3 Statement of Financial Position

| | Notes | 31 December 2009 | 31 December 2008 |
|---|---|---|---|
| *(EUR 000)* | | | |
| *Non-current assets* | | | |
| Goodwill | *13* | - | 438,824 |
| Intangible assets | *15* | 85,187 | 191,931 |
| Properties, plant and machinery | *16* | 137,737 | 232,288 |
| Equity investments | *17* | - | 33 |
| Other financial assets | *18* | 16,723 | 17,313 |
| Deferred tax assets | *19* | - | 10,507 |
| | | **239,647** | **890,896** |
| *Current assets* | | | |
| Inventories | *20* | 1,892 | 6,880 |
| Receivables from customers | *21* | 112,246 | 176,819 |
| Other receivables and other current assets | *22* | 27,087 | 46,794 |
| Other current financial assets | *23* | 31,484 | 3,430 |
| Cash and cash equivalents | *24* | 16,220 | 24,202 |
| | | **188,928** | **258,125** |
| Assets held for sale | | 31 | 56,795 |
| **Total Assets** | | **428,606** | **1,205,817** |

| | | | |
|---|---|---|---|
| *Share Capital and reserves* | | | |
| Share Capital | | 92,003 | 308,273 |
| Share premium reserve | | - | 990,857 |
| Stock option reserve | | 4,315 | 3,840 |
| Translation reserve | | - | (157,190) |
| Results from previous periods and Other Reserves | | 221,528 | (892,234) |
| Result pertaining to the group | | (384,826) | (242,724) |
| **Group shareholders' equity** | *25* | **(66,980)** | **10,823** |
| Minority interests | | - | (6,046) |
| **Shareholders' equity pertaining to minority shareholders** | *26* | **-** | **(6,046)** |
| **Total Shareholders' equity** | | **(66,980)** | **4,777** |
| *Non-current liabilities* | | | |
| Payables to banks and other lenders | *27* | 152,875 | 30,743 |
| Payables for financial leases | *27* | 58,952 | 73,118 |
| Other non-current liabilities | *28* | 14,234 | 95,444 |
| Liabilities for pension obligations and staff severance indemnities | *29* | 4,218 | 5,001 |
| Provisions for risks and charges | *30* | 9,002 | 25,384 |
| | | **239,281** | **229,690** |
| *Current liabilities* | | | |
| Payables to banks and other lenders | *31* | 24,453 | 510,012 |
| Payables for financial leases | *31* | 4,349 | 21,399 |
| Payables to suppliers | *32* | 150,894 | 268,899 |
| Other current liabilities | *33* | 75,678 | 148,765 |
| | | **255,374** | **949,076** |
| Liabilities directly related to assets held for sale | | 930 | 22,274 |
| **Total Liabilities and Shareholders' equity** | | **428,606** | **1,205,817** |

## 9.4 Cash Flow Statement

| | 31 December 2009 | 31 December 2008 Restated |
|---|---|---|
| *(EUR 000)* | | |
| **OPERATIONS** | | |
| **Result from operating activities** | **(14,698)** | **(127,736)** |
| *Adjustments for:* | | |
| Depreciation of tangible assets | 26,403 | 23,839 |
| Amortisation of intangible assets | 20,252 | 28,992 |
| Allowance for bad debt provision | 17,919 | 18,196 |
| Inventory write-down | - | 1,446 |
| Capital gains on disposal of non-current assets – tangible (Sa Illetta) | (2,108) | (2,108) |
| Capital gains on disposal of non-current assets – tangible | (5) | - |
| Tiscali International BV deferred tax assets | 10,507 | 23,844 |
| Year-end income taxes | 1,628 | 1,193 |
| Write-down of fixed assets | 165 | 14,948 |
| Valuation of equity investments carried at shareholders' equity | 33 | 101 |
| Provisions for risks and restructuring charges | 2,197 | 10,107 |
| Release of provisions for risks | (1,237) | - |
| Stock Option cost | 465 | 2,893 |
| Provision for employee severance indemnities and pension obligations | 2,165 | 2,565 |
| Facility D2 Senior Lenders Write-off | (42,322) | |
| Fair value of financial instruments | 7,218 | 24,819 |
| Financial income/charges | 48,987 | 69,509 |
| ***Cash flow from operations before changes in working capital*** | ***77,569*** | ***92,608*** |
| Change in receivables | (1,527) | (60,402) |
| Change in inventory | 117 | (2,300) |
| Change in payables to suppliers | (31,878) | 32,403 |
| Net change in the provisions for risks and charges | (2,273) | (9,269) |
| Net change in provision for staff severance indemnities | (2,737) | (2,671) |
| Changes in other liabilities | (2,549) | (4,044) |
| Changes in other assets | (1,201) | 2,660 |
| ***Changes in working capital*** | ***(42,048)*** | ***(43,623)*** |
| **CASH FLOWS GENERATED BY OPERATIONS** | **35,520** | **48,985** |

| | | |
|---|---|---|
| **INVESTMENT ACTIVITIES** | | |
| Change in other financial assets | 1,839 | 10,848 |
| Acquisition of tangible fixed assets | (14,985) | (21,582) |
| Acquisition of intangible fixed assets | (25,833) | (36,591) |
| Payments for the disposal of financial fixed assets | 233,837 | - |
| **NET CASH USED FOR INVESTMENT ACTIVITY** | **194,858** | **(47,325)** |
| **FINANCIAL ACTIVITIES** | | |
| Change in loans from banks | (351,709) | (178,708) |
| of which: | | |
| *Payment of Senior Loan* | *(342,833)* | *(150,000)* |
| *New loans obtained* | - | *40,714* |
| *Interest paid* | - | *(75,929)* |
| *Increase/Decrease in bank overdrafts* | *(8,876)* | *6,507* |
| Financial leasing payment/collection | (8,823) | (5,399) |
| Increase (decrease) in other non-current liabilities | 662 | (19,988) |
| Share capital increase | 157,094 | 145,314 |
| Charges on share capital increase | (1,811) | (4,400) |
| (Purchase)/Disposal of treasury shares | 749 | (6,187) |
| **NET CASH GENERATED BY/USED IN FINANCIAL ACTIVITIES** | **(203,839)** | **(69,368)** |
| Effect of changes in foreign currency exchange rates | - | 3,138 |
| Cash flow from assets sold/held for sale | (16,556) | (21,913) |
| **NET CASH GENERATED BY/USED IN FINANCIAL ACTIVITIES including cash flow from assets sold/held for sale** | **(220,395)** | **(88,143)** |
| **NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS** | **9,984** | **(86,843)** |
| **CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE FINANCIAL YEAR** | **6,236** | **92,719** |
| **CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR** | **16,220** | **6,236** |

## 9.5 Statement of Changes in Shareholders' Equity

| | Share Capital | Share premium reserve | Stock option reserve | Results from previous periods and other reserves | Group shareholders' equity | Minority interests | Total |
|---|---|---|---|---|---|---|---|
| *(EUR 000)* | | | | | | | |
| **Balance at 1.1.2009** | **308,273** | **990,857** | **3,840** | **(1,292,147)** | **(10,823)** | **(6,046)** | **4,777** |
| Share capital increase | 179,982 | 8,510 | - | (1,811) | **186,681** | - | **186,681** |
| Figurative Stock Option cost | - | - | 475 | - | **475** | - | **475** |
| Purchase/Disposal of treasury shares | - | - | - | 749 | **749** | - | **749** |
| Transfers covering losses | (396,252) | (999,367) | - | 1,395,619 | **-** | - | **-** |
| Exchange differences arising on the translation of the financial statements of foreign companies and changes in the consolidation area | - | - | - | 119,119 | **119,119** | 8,231 | **127,350** |
| **Net result** | - | - | - | (384,826) | **(384,826)** | (2,186) | **(387,012)** |
| **Balance at 31.12.2009** | **92,003** | **-** | **4,315** | **(163,297)** | **(66,980)** | **-** | **(66,980)** |

| | Share Capital | Share premium reserve | Stock option reserve | Equity bond reserve | Results from previous periods and other reserves | Group shreholders' equity | Minority interests | Total |
|---|---|---|---|---|---|---|---|---|
| *(EUR 000)* | | | | | | | | |
| **Balance at 1.1.2008** | **212,207** | **902,492** | **9,969** | **22,053** | **(977,074)** | **169,647** | **37,322** | **206,970** |
| Share capital increase | 96,066 | 112,207 | - | - | - | **208,273** | - | **208,273** |
| Increases/ (Decreases) | - | - | (6,129) | - | 5,933 | **(196)** | - | **(196)** |
| Purchase/Disposal of treasury shares | - | - | - | - | (6,187) | **(6,187)** | - | **(6,187)** |
| Transfers covering losses | - | (23,842) | - | - | 23,842 | **-** | - | **-** |
| Exchange differences arising on the translation of the financial statements of foreign companies | - | - | - | - | - | **-** | (15,002) | **(15,002)** |
| *Net result* | | | | | *(242,724)* | ***(242,724)*** | *(28,365)* | ***(271,090)*** |
| *Other profit (loss)* | | | | *(22,053)* | *(95,937)* | ***(117,990)*** | | ***(117,990)*** |
| **Net result for the period** | | | | **(22,053)** | **(338,661)** | **(360,714)** | **(28,365)** | **(389,079)** |
| **Balance at 31.12.2008** | **308,273** | **990,857** | **3,840** | **-** | **(1,292,147)** | **(10,823)** | **(6,046)** | **4,777** |

## 9.6 Income Statement Pursuant to Consob Resolution no.15519 dated 27 July 2006

| | 31 December 2009 | of which: related parties | 31.12.2009 Restated | of which: related parties |
|---|---|---|---|---|
| *(EUR 000)* | | | | |
| Revenues | 290,353 | 404 | 325,064 | 245 |
| Other income | 3,097 | | 5,273 | - |
| Purchase of materials and outsourced services | 159,052 | 1,148 | 195,713 | 1,867 |
| Payroll and related costs | 39,230 | | 51,099 | - |
| Stock option plan cost | 465 | | 2,893 | - |
| Other net operating (income) charges | 7,054 | 2 | (2,367) | 69 |
| Write-downs of receivables from customers | 17,919 | | 17,105 | - |
| Restructuring costs and other write-downs | 11,723 | | 27,265 | - |
| Amortisation/depreciation | 46,655 | | 52,831 | - |
| **Operating result** | **11,353** | **(746)** | **(14,203)** | **(1,691)** |
| Share of results of equity investments valued using the equity method | (33) | | (101) | - |
| Net financial income (charges) | (13,883) | (1,520) | (88,395) | (2,747) |
| **Pre-tax result** | **(2,563)** | **(2,266)** | **(102,699)** | **(4,438)** |
| Income taxes | (12,135) | | (25,037) | - |
| **Result from operating activities (on-going)** | **(14,698)** | **(2,266)** | **(127,736)** | **(4,438)** |
| Result from assets disposed of and/or destined for disposal | (372,313) | - | (143,354) | (100) |
| **Net result** | **(387,012)** | **(2,266)** | **(271,090)** | **(4,538)** |
| **Attributable to:** | | | | |
| - Result pertaining to the group | **(384,826)** | | **(242,724)** | |
| - Minority interests | (2,186) | | (28,365) | |
| **Earnings (Losses) per share** | | | | |
| From operating assets and those disposed of: | | | | |
| - Basic | -0.55 | | -0.43 | |
| - Diluted | -0.55 | | -0.43 | |
| From operating assets: | | | | |
| - Basic | **-0.02** | | **-0.18** | |
| - Diluted | **-0.02** | | **-0.18** | |

## 9.7 Balance Sheet Pursuant to Consob Resolution no. 15519 dated 27 July 2006

| *(EUR 000)* | 31 December 2009 | of which: related parties | 31 December 2008 | of which: related parties |
|---|---|---|---|---|
| *Non-current assets* | | | | |
| Goodwill | - | | 438,824 | - |
| Intangible assets | 85,187 | | 191,931 | - |
| Properties, plant and machinery | 137,737 | | 232,288 | - |
| Equity investments | - | | 33 | - |
| Other financial assets | 16,723 | | 17,313 | - |
| Deferred tax assets | - | | 10,507 | - |
| | **239,647** | | **890,896** | **-** |
| *Current assets* | | | | |
| Inventories | 1,892 | | 6,880 | - |
| Receivables from customers | 112,246 | 516 | 176,819 | 559 |
| Other receivables and current assets | 27,087 | | 46,794 | - |
| Other current financial assets | 31,484 | | 3,430 | - |
| Cash and cash equivalents | 16,220 | | 24,202 | - |
| | **188,928** | | **258,125** | **-** |
| **Assets held for sale** | 31 | | 56,795 | **-** |
| **Total Assets** | **428,606** | **516** | **1,205,817** | **559** |
| *Share Capital and reserves* | | | | |
| Share Capital | 92,003 | | 308,273 | - |
| Share premium reserve | - | | 990,857 | - |
| Stock option reserve | 4,315 | | 3,840 | - |
| Translation reserve | - | | (157,190) | - |
| Results from previous periods and Other Reserves | 221,528 | | (892,234) | - |
| Net result | (384,826) | | (242,724) | - |
| **Group shareholders' equity** | **(66,980)** | | **10,823** | **-** |
| Minority interests | - | | (6,046) | - |
| **Shareholders' equity pertaining to minority shareholders** | **-** | | **(6,046)** | **-** |
| **Total Shareholders' equity** | **(66,980)** | | **4,777** | **-** |
| *Non-current liabilities* | | | | |
| Payables to banks and other lenders | 152,875 | - | 30,743 | 30,288 |
| Payables for financial leases | 58,952 | | 73,118 | - |
| Other non-current liabilities | 14,234 | | 95,444 | - |
| Liabilities for pension obligations and staff severance indemnities | 4,218 | | 5,001 | - |
| Provisions for risks and charges | 9,002 | | 25,384 | - |
| | **239,281** | **-** | **229,690** | **30,288** |
| *Current liabilities* | | | | |
| Payables to banks and other lenders | 24,453 | | 510,012 | - |
| Payables for financial leases | 4,349 | | 21,399 | - |
| Payables to suppliers | 150,894 | 1,355 | 268,899 | 1,241 |
| Other current liabilities | 75,678 | | 148,765 | - |
| | **255,374** | | **949,076** | |
| Liabilities directly related to assets held for sale | 930 | | 22,274 | |
| **Total Liabilities and Shareholders' equity** | **428,606** | **1,355** | **1,205,817** | **31,529** |

## 9.8 Explanatory Notes

Tiscali S.p.A. is a limited company incorporated under the laws of the Republic of Italy at the Cagliari Companies' Register.

The Tiscali Group provides a wide range of services to its customers, both private individuals and companies, from **dial-up** and ADSL Internet access to more specific and hi-tech products to satisfy the needs of the market.

This offer, which also includes voice services (such as mobile telephony) and portal services, enables Tiscali to compete effectively with the major operators on the market.

Thanks to its ***unbundling*** network (ULL), its innovative services and its strong brand, Tiscali has achieved a strategic position in the market of telecommunications.

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

In preparing these financial statements the directors have taken the going-concern assumption and therefore have drafted the financial statements using the standards and policies that are applied to companies in operation.

**Assessment of the business as a going-concern and business outlook and prospect**

**Events and uncertainties regarding the business as a going-concern**

The Tiscali Group incurred a consolidated loss for the financial year of EUR 387.0 million, of which EUR 372.3 million was related to disposals during the year, and has a deficit in consolidated net shareholders' equity of EUR 67.0 million, after the share capital increase completed in November 2009 for approximately EUR 180.0 million and after the effects of writing-off EUR 42.3 million in debt, in accordance with the restructuring agreements signed with financial institutions. In addition, as at 31 December 2009, the Group reports gross indebtedness of EUR 240.6 million and current liabilities which are greater than current (non-financial) assets by EUR 85.3 million.

At 31 December 2008 losses amounted to EUR 271.1 million (EUR 143.3 million of which from assets sold), shareholders' equity amounted to EUR 4.8 million, and gross financial indebtedness amounted EUR 644.8 million. At the same date the difference between current assets and liabilities (non financial) was negative at EUR 187.2 million.

The financial and economic disequilibrium of the Group, as already in evidence in the financial statements for year ended at 31 December 2008, caused the Directors in early 2009 to prepare a new Business Plan and related Financial Plan to enable the Tiscali Group to begin restructuring its debts in order to guarantee its long-term financial equilibrium.

Subsequently, during 2009 the Group undertook certain actions (overall referred to as the 'Restructuring Plan') aimed at achieving the long-term financial and economic equilibrium for the Group and to re-launch its commercial activities (as described in paragraph of the Report on Operations, ***7.4 "Significant events during the year"***).

In particular, the Restructuring Plan provided for the following measures which had an impact on the financial posting in the financial statements as at 31 December 2009:

1. drafting a 2009-2013 business plan to reinstate long-term financial equilibrium for Tiscali Group;
2. sale of the subsidiary Tiscali UK Ltd for a total of EUR 245.4 million (as described in Note 11 of the consolidated financial statements). Revenues from the sale shall be used to pay off a part of Group debt;
3. sale of the subsidiary Tiscali International Network for a total of EUR 30.9 million;
4. renegotiation of senior loan conditions and the debt for Sale & lease-back (as described in section 4.4 Significant events during the financial year in the Report on Operations);
5. paid share capital increase offered as an option to Tiscali S.p.A. shareholders, completed on 11 November 2009 and immediately used to pay off an additional part of the loans in accordance with the agreements made with the financial institutions. Based on the agreements the financial institutions wrote off a portion of the remaining debt amounting to EUR 42.3 million.

Furthermore in 2009, additional measures were taken to improve efficiency, especially in the subsidiary Tiscali Italia S.p.A., namely:

- sale of IPTV activities;
- rationalization of operating and commercial costs;
- implementation of an incentive plan which, together with other efficiency improvement measures, resulted in a reduction in labour costs for about EUR 7 million (EUR 12 million for the Group);
- optimization of payment collection policies;
- rationalization of corporate structure and costs.

The measures mentioned above made a significant contribution to reducing the gross financial indebtedness from EUR 644.8 million at 31 December 2008 to EUR 240.6 million at the end of December 2009. Moreover, these measures made it possible to lower the amounts owed to suppliers from EUR 181.1 million at 31 December 2008 to EUR 150.9 million at 31 December 2009.

Then in the second quarter of 2009 the company implemented a series of actions that inverted the trend in customer acquisition compared to the recent past. In addition to the measures implemented to recover efficiency, the first quarter of 2009 saw a reduction in registrations of telecommunications products, whereas in the second quarter, also after renewed market confidence, better economic forecasts and a recovery in brand image, there was an increase in ADSL and voice registrations by over 80% over the first quarter 2009. This trend was continued also in the first months of 2010.

On account of the aforegoing, the Directors, in assessing the existence of the condition of the Tiscali Group as a going concern in the current macro-economic context, has identified some factors that indicate the persistence of certain uncertainties:

i. The Group is still in a situation of financial and economic disequilibrium, which is made evident by a net consolidated deficit even after the execution of the debt write-off of EUR 42.3 million (although the partent company reports a positive shareholders' equity amounting to EUR 93.7 million), due to negative economic performance and the considerable burden of Group indebtedness. Indeed, in 2009, the result of operating activities, though much better than the previous year (also due to the debt write-off), is negative and amount to about EUR 14.7 million for the Group. However, the operating result of the Group is positive and amounts to EUR 11.4 million thanks to the positive contribution of the subsidiary Tiscali Italia;

ii. the presence of gross financial indebtedness, which, , although significantly reduced during the year, is still significant and subject to covenants and other contractual obligations obligations (so-called 'default events ), which, as is the practice with such contracts, could trigger the end of the benefit of the term (see note 27);

iii. achieving a situation of long-term financial and economic equilibrium for the Group is subject to achieving the results indicated in the Plan, in the context of the current uncertain economic scenario, and therefore connected to the achievement of the forecasts and assumptions contained in the Plan and, in particular, those concerning the evolution of the telecommunications market and the achievement of the growth objectives set in a market characterized by strong competitive pressures.

Thus the following depends on the possibility and capacity of executing the plan: a) the ability of re-establish an adequate level of shareholders funds, b) the recoverability of its assets, c) the ability to comply with the covenants and the other contractual commitments and thus to maintain the availability of the funding granted and to face up the group's obligations, d) achieve a long-term financial and economic equilibrium for the Group.

To these factors need to be added the litigation matters described in the notes to the financial statements, the outcomes of which although not reasonably predictable at the moment, nor be reasonably expected in the next twelve months following the balance sheet date, have been evaluated as potentially significant (see the paragraph "***Disputes, potential liabilities and commitments***".

**Final Assessment of the Board of Directors**

In light of the above factors, the Board of Directors considered that in 2009 the Group:

a) completed all the actions required by the Restructuring Plan, including repayment of a significant portion of the financial debt and restructuring (with more favourable terms), as well as the completion of the share capital increase, proof the confidence the market and financial institutions have in the company's business model;
b) positively launched the implementation of the 2009-2013 Plan, confirming the main assumptions used for its preparation and the validity of their business strategy and model. In particular, the Directors noted that the customer acquisition trend was reversed and how the year-end result, though negative on the whole, recorded considerable improvement with a positive consolidated result (EUR 11.4 million) compared to last year's negative result (EUR 14.2 million) with a consolidated loss generated from a reduction in operating assets from EUR 127.7 million in 2008 to EUR 14.7 million in 2009, also thanks to proceeds from the write-off of EUR 42.3 million in debt by the financial institutions, as provided for in the agreements;
c) verified consistency between the Business Plan and the financial needs of the new debt structure, as well as the suitability of the Plan to respect the covenants and other contractual obligations.

These elements mean the Group is reasonably positioned to implement the Business Plan and this will enable it to achieve a situation of financial and economic equilibrium in the long-term.

In conclusion, the Directors, in analyzing what was already achieved in the context of a path aimed at allowing the Group and the Company to obtain long-term financial and economic equilibrium, recognise that, as of today's date, uncertainties still remain, as mentioned above, with regards to events and circumstances that may raise considerable doubt on the ability of the Group and the Company to continue to operate under the going-concern assumption. However, after making the necessary checks and after assessing the uncertainties found in the light of additional factors described, they have the reasonable expectation that the Group and the Company have adequate resources to continue operations in the foreseeable future and have therefore adopted the going-concern assumption in preparing the financial statements.

**Form and content of accounting statements**

## Basis of preparation

The 2009 consolidated financial statements were drawn up by following both the International Accounting Standards ("IFRS") issued by the Accounting Standards Board ("IASB") and ratified by the EURpean Union, and the measures issued in conformity with Article 9 of Italian Legislative Decree no. 38/2005. IFRS include also all the reviewed international accounting standards ("IAS") and all the interpretations by the International Financial Reporting Interpretations Committee ("IFRIC") previously called Standing Interpretations Committee ("SIC").

Preparation of the financial statements requires management to make accounting estimates and in certain cases assumptions in the application of accounting standards. The areas where assumptions and estimates are significant to the financial statements are described in ***Critical decisions in applying accounting standards and in the use of estimates***.

In accordance with applicable legal rules and provisions, the financial statements were drawn up on a consolidated basis and were audited by Reconta Ernst & Young S.p.A..

## Financial Statement Formats

The consolidated financial statements were drawn up in line with IAS 1 – "Presentation of Financial Statements". This standard lays down new names for the schedules, namely:

- The balance sheet: according to IFRS, assets and liabilities are to be posted as current and non-current or, alternatively, according to the order of their liquidity. The Group chose current and non-current classification with two separate items for "Assets sold/held for sale" and "Liabilities related to assets sold/held for sale";
- Total Income Statement: IFRS require that this includes all economic effects for the period, regardless of whether these were posted to the income statement or shareholders' equity, and a classification of items based on their nature or destination, in addition to separating the economic results of operating assets from the net result of "Assets sold/held for sale". The Group decided to use two schedules:
    - *Prospetto di conto economico* che accoglie solo i ricavi e i costi classificati per natura;
    - *Prospetto di conto economico complessivo* che accoglie gli oneri e i proventi imputati direttamente a patrimonio netto al netto degli effetti fiscali.
- Cash Flow Statement: IAS 7 prescribes that the cash flow statement should report cash flow classified between assets for operations, investment and financing and posting separately the total of financial flow deriving from "Assets sold/held for sale". Cash flow deriving from operating assets can be posted according to the direct method or using the indirect method. The Group decided to use the indirect method. With reference to Consob resolution no. 15519 of 27/7/2006 with regards to financial statement formats, it should be mentioned that specific sections were included to show significant relationships with associated parties, as well as specific items in the income statement in order to show, where existing, one-off significant transactions during regular operations.

All figures shown in the statements and explanatory notes, unless otherwise specified, are in thousands of EUR.

The data from the previous financial statements, provided for comparison, are shown to take into account the changes introduced by IAS 1 and disposal of company assets in 2009, as prescribed by IFRS 5 and described herein.

### Segment reporting

With Regulation (EC) no. 1358/2007 of 21 November 2007, the EURpean Commission approved the introduction of IFRS 8 “Operating Segments” to replace IAS 14 “Segment Reporting”. IFRS 8 lays down the information to provide in the financial statements concerning the operating segments where the company operates.

Operating segment means the unit of an entity:

- that undertakes business activities that generate revenues and costs (including revenues and costs related to transactions with other units of the same entity);
- whose operating results are regularly reviewed by upper level management in order to make decisions on the resources to allocate to the segment and assess results;
- who has separate financial statements.

Unlike the provisions of IAS 14, this standard substantially prescribes to determine and report the results of operating segments according to the “management approach”, i.e., according to methods used by management for internal reporting to assess performance and allocate resources to the various segments.

The application of this standard did not have an impact on the segment report since the operating segments are the same as when IAS 14 “Segment Reporting” was applied.

The activities of the Tiscali Group and the related strategies, as well as the underlying activities linked to head office control, are structured and defined by geographic area, which therefore represents the primary segment for the purposes of segment reporting. The geographic areas are represented in particular by:

- Italy
- Corporate and other business: minor Italian companies and corporate activities.

The activities of Tiscali UK Ltd and the Ti Net Group sold off in the first quarter of 2009, reported in the note Operating assets sold and/or held for sale, are no longer represented as geographic areas in segment reporting.

Lines of business (Access, Voice, Business services / Business, Media) represent the secondary reporting segment, at sector information level.

### Assets held for sale and discontinued operations

Non-current assets and/or groups of assets undergoing disposal (‘Assets Held for Sale and Discontinued Operations)’, as required by IFRS 5, were classified under a specific item in the balance sheet and are assessed at the lower of the asset’s previous book value and market value, net of any sales costs, until the disposal of the assets themselves.

The assets are thus classified if it is estimated that their book value will be recovered by disposal rather than by continued use. This condition is observed only when the sale is highly probable, the asset is available for immediate sale in its present condition and the Board of Directors of the parent company is committed to the sale, completion of which should be expected within one year from the date of classification.

After the sale, the remaining values were reclassified in the different balance sheet items.
Gains and losses on assets held for sale and/or assets disposed of were listed and continue to be listed under the item ‘Results from assets disposed of and/or intended to be disposed of (discontinued operations)

if the conditions listed below and established by IFRS 5 apply to such assets:

a) they represent an important independent line of business or geographic business area;
b) they are part of a single co-ordinated plan to dispose of an independent major line of business or geographic business area;
c) they involve subsidiaries acquired exclusively with a view to resale.

The income statement item entitled 'Results from assets sold and/or held for sale' contains the following, in a single item and net of tax effects:

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

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

In conformity with IFRS 5, and with the necessary requirements, the values of the assets sold, namely Ti Net and UK, were recorded under the item of the consolidated income statement "results of assets sold and/or held for sale". The 2008 income statement was reclassified in order to make it compatible with the 2009 income statement.

They were also posted separately in the cash flow statement to show 2008 cash flow.

Concerning equity, the values of group companies, Tiscali UK and Ti Net were removed from consolidation when sold (3 July 2009 for UK and 26 May for Ti Net respectively). At 31 December 2008, the values of the UK company balance sheet were entered line by line in the consolidated balance sheet, whereas the Ti Net Group already reclassified assets and liabilities under "assets held for sale" and "liabilities directly related to assets held for sale".

Concerning Ti Net's removal from consolidation, the remaining items (after sale) of Tiscali International Network BV were reclassified under continuing operations at 30 June 2009.

The financial effects and effects on equity from the disposals described above are shown in the note Operating assets sold and/or assets held for sale.

### Seasonal nature of revenues

Tiscali's activities are not affected to a significant extent by events linked to the seasonal nature of business.

### Basis of Consolidation

The consolidation area includes the parent company Tiscali S.p.A. and the companies over which Tiscali – either directly or indirectly – has the power to govern the financial and operating policies so as to obtain economic benefits from their activities. In the specific circumstances relating to Tiscali, control involves the majority of voting rights exercisable at ordinary shareholders' meetings of the companies included in the consolidation area.

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

When preparing the consolidated financial statements, the assets, liabilities, costs and revenues of the consolidated companies are consolidated line-by-line for the entire amount, allocating the portion of equity and results for the year due to minority shareholders in the specific balance sheet and income statement items. The book value of the equity investment in each of the subsidiaries is eliminated against the corresponding portion of the shareholders' equity of each of the subsidiaries inclusive of any adjustments at fair value as of the acquisition date. The positive difference emerging is recorded as goodwill under intangible assets, as illustrated further on, while the negative difference (negative goodwill) is recorded in the income statement.

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

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

If the losses attributable to the minority shareholders of a consolidated subsidiary are greater than the shareholders' equity pertaining to the minority shareholders of the subsidiary, the excess and any other loss attributable to the minority shareholders is allocated to the shareholders' equity pertaining to the shareholders of the parent company unless the minority shareholders are subject to binding obligations and they are able to make further investments so as to cover the losses.

If, subsequently, the subsidiary reports profits, the profits attributable to the minority shareholders are attributable to the shareholders' equity pertaining to the parent company's shareholders until the portion of the losses of the minority shareholders, previously covered by the parent company's shareholders, have been recovered.

Equity investments in associated companies, as well as those subject to joint control, are reflected in the consolidated financial statements among non-current assets and carried at equity, as envisaged, respectively, by IAS 28 (Equity investments in associated companies) and by IAS 31 (Equity investments in joint ventures).

Associated companies are those over which the Group has significant influence, i.e. the power to participate in the financial and operating policy decisions of the investee, but without control or joint control over those policies. Under the equity method, equity investments in associates are initially booked to the balance sheet at acquisition cost, as adjusted for post-acquisition changes in the shareholders' equity of the associate companies, less any impairment in the value of individual equity investments. Any excess of the cost of acquisition over the Group's share of the net fair value of identifiable assets, liabilities and contingent liabilities of the associate at the date of acquisition is recognised as goodwill. The goodwill is included in the book value of the investment and is subject to impairment testing. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition of the associate at the date of acquisition is booked to the income statement in the financial year of acquisition. The consolidated financial statements include the Group's share in the results of the associated companies as well as those jointly controlled as from the date when significant influence commenced until the moment this influence ceases to exist. If the Group's share of the losses of the associated company exceeds the book value of the equity investment, steps are taken to write off the value of the equity investment and the portion of the additional losses is only recorded if the Group is obliged to be responsible for them.
Unrealized profits and losses deriving from transactions with associated companies or those jointly controlled,

are eliminated against the value of the Group's investment in the companies.

With regard to transactions which concern interests in companies which are already subsidiaries, in the absence of a specific Standard or interpretation on the subject and referring to the provisions contained in IAS 8 "Accounting standards, changes in accounting estimates and errors", the Group has applied the following accounting approaches, identifying two types of transactions:

- acquisitions/disposals of interests in companies which are already subsidiaries: in the event of acquisitions the Group pays the minority shareholders a cash amount or a consideration in new shares, thereby resulting in simultaneous elimination of related minority interests and recording of Goodwill equating to the difference between the purchase cost of the interests and the book value of the assets and liabilities acquired proportionally; in the event of disposal, the difference between the transfer value and the corresponding book value in the consolidated financial statements is recorded in the income statement (Parent entity extension method);
- intragroup transfer of interests in subsidiary companies which lead to a change in the shareholding: the interests transferred are recorded at historic cost and the gain or loss emerging from the transfer is reversed in full. The shareholders' equity pertaining to minority shareholders that do not directly participate in the transaction, is adjusted to reflect the change with a corresponding opposite effect on the shareholders' equity pertaining to the shareholders of the Parent Company without recording any goodwill and without producing any effect on the result and the total shareholders' equity.

### Changes in the consolidation area

The consolidation area of the Group includes the financial statements of Tiscali S.p.A. (parent company) and the companies the latter directly or indirectly controls starting from the date on which it was acquired and until the date on which control ceases. These subsidiaries are listed in the note ***List of subsidiaries included in the consolidation area***. Changes in the consolidation area during 2009, when compared with the consolidated financial statements at 31.12.08, are illustrated as follows:

### Companies removed from the consolidation area by sale:

- Ti Net Group: on 26 May 2009 it was sold to the BS private equity fund;
- Tiscali UK Ltd: on 3 July 2009 100% of the shares were sold for cash consideration to Carphone Warehouse Group Plc.

### Companies removed from the consolidation area by liquidation:

- Tiscali Espana: on 16 November 2009 liquidation proceedings were concluded and the company was wound up;
- Tiscali Motoring: on 17 December 2009 liquidation proceedings were concluded and the company was wound up.

### Companies entering the consolidation area:

- Tiscali Contact s.r.l.: on 11 September 2009 a new company was incorporated, controlled by Tiscali Italia S.p.A., with the objective to internalize technical and administrative support services to customers.

### Business combinations and Goodwill

The acquisition of controlling interests is accounted for using the purchase method, in accordance with IFRS 3 – (Business combinations). The cost of the acquisition is measured as the aggregate of the fair values, at the date of the exchange, of assets, liabilities incurred or undertaken concerning the acquired company, and the financial instruments possibly issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination.

The acquiree's identifiable assets, liabilities and contingent liabilities (including the respective shares of the minority shareholders), which meet the conditions for recognition under IFRS 3 are recognised at their fair values at the acquisition date.

The excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised represents the goodwill arising on acquisition that is stated as an asset and initially valued at cost. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities, exceeds the cost of the business combination, the excess is booked immediately to the income statement.

The interest of minority shareholders in the acquiree is initially stated at the minority's proportion of the net fair values of the assets, liabilities and contingent liabilities stated.

Following initial statement, goodwill is recorded at cost less any accumulated impairment losses. In compliance with IFRS 3, goodwill is not amortised, but subject to impairment tests in order to identify any reductions in value.

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

The impairment, if any, is identified by means of assessments referring to the ability of each 'unit', identifiable in this case with the subsidiary, to generate cash flows sufficient to recover the goodwill allocated to the unit. The recoverable amount is the higher between the 'fair value' less sales costs and its utilisation value. The utilization value is determined starting from expected future cash flows discounted at a rate that reflects the current market estimate of the cost of money, the cost of capital and the risks specific to the unit. If the estimated recoverable amount of the unit concerned is lower than the relevant book value, it is decreased to the least recoverable value. Impairments are booked to the income statement under write-down costs and are not subsequently reversible.

On first time adoption of the IFRS and in accordance with the exemption envisaged by IFRS 1, it was not considered necessary to avail of the option of 'reconsidering' the acquisition transactions carried out prior to 1 January 2004. Consequently, the goodwill deriving from the business acquisitions which took place prior to this date, has been stated at the value recorded for this purpose in the last set of financial statements drawn up on the basis of the previous accounting standards (1 January 2004, date of changeover to the IFRS), subject to checking and statement of any impairment losses which arose as of the date this document was drawn up.

On disposal of a subsidiary, the net book value of the goodwill is calculated as the expected capital gain or loss on disposal.

### Foreign currency transactions

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

Exchange differences arising from settlement of monetary items and retranslation of monetary items using current exchange rates at year end, are booked to the income statement for that period.

For the purpose of presenting the consolidated financial statements, the assets and liabilities of foreign subsidiaries with operating currencies other than EUR, are translated into EUR at the rates prevailing at the financial year end date. Revenues and costs are translated at the average exchange rates for the period. The exchange differences arising from the application of this method are classified as equity under the Translation reserve. This reserve is booked to the income statement as income or expense in the period in which disposal of the foreign subsidiary is completed.

The exchange differences coming up from intra-group receivable/payable relationships of financial character are recorded in the shareholders' equity special conversion reserve.

The main exchange rates used for translation of the 2009 and 2008 financial statements for foreign companies into EUR were:

| | 31 December 2009 | | 31 December 2008 | |
|---|---|---|---|---|
| | Average | Final | Average | Final |
| GB pound | 0.89104 | 0.88810 | 0.90448 | 0.95250 |

### Other intangible assets

#### Computer software – Development costs

Acquired computer software licenses are capitalised and included among intangible assets at purchase cost and are amortised on a straight-line basis over their estimated useful lives.
Internally-generated intangible assets arising from costs supported for the development of applications software under Group control and directly associated with the production of services, in particular with regard to 'technological platforms' for access and management of the Tiscali network, are recognised if:

- the following general conditions indicated by IAS 38 are observed for the capitalization of the intangible assets: (a) the asset created can be identified; (b) it is likely that the asset created will generate future economic benefits; (c) the development cost of the asset can be reliably gauged;
- the Group can demonstrate the technical possibility of completing the intangible asset so as to make it available for use or for sale, its intention to complete said asset so as to use or sell it, the ways in which it will generate probable future economic benefits, the availability of technical, financial or other resources for completing its development and its ability to reliably assess the cost attributable to the asset during its development.

During the development period, the asset is reviewed annually for the purpose of revealing any impairment losses. Subsequent to initial statement, the development costs are valued at the decreased cost of the amortisation and any other accumulated loss. Amortisation of the asset commences when the development has been completed and the asset is available for use. The cost is amortised with reference to the period when it is expected that the related project will generate revenues for the Group.

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

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

The IRU are classified in the category "concessions and similar rights" and comprise costs sustained for the purchase of long-term rights of use for the fibre optics network, i.e. the 'transmission capacity' and related charges. Amortisation is calculated using the straight-line method, either over the remaining life of the agreement or the estimated utilisation period of the right, whichever is the shorter. The amortisation period varies on average between 12 and 15 years.

#### Broadband service activation costs

These assets refer to equity investments incurred for the activation of broadband (ADSL) services, such as contributions for connection to the Tiscali network to 'network operators' in the various geographic areas and related user equipment. As at 30/6/2009, these costs were amortised based on the minimum legal duration of the contract, which is 12 months. In 2009 the structure of the ADSL services contract was amended to provide a minimum contract term of 24 months. The company adjusted the amortization period used for costs to activate such services as a result of the amended contract term and taking into account the expected average duration of customer contracts for ADSL services. As described in the notes describing the contract amendment, it also resulted in determining deferred income and prepaid expenses, respectively, with regards to revenues for activation fees charged to customers and costs incurred for customer acquisition (Subscriber Acquisition Costs – SACs), over a period of 24 months instead of 12 months.

This change constitutes a case of changes in accounting estimates as defined and described in sections 32-40 of IAS 8. As laid down by the international accounting standard, the company determined the impact of the change, starting from 1 July 2009, with regards to all the financial elements referring to the accounting of costs and revenues for the acquisition and activation of each ADSL subscriber. This impact is described in the explanatory notes in the section on these financial components.

**Properties, plant and machinery**

Properties, plant and machinery are stated at purchase or production cost, including accessory charges directly attributable to the purchase of the items, less accumulated depreciation and any write-downs for impairment. No revaluations have been provided for such tangible assets.

Depreciation is calculated using the straight-line method on the cost of each asset less the relevant residual value, if any, over its estimated useful life. Land, including that pertaining to buildings, is not depreciated. The depreciation rates are reviewed annually and are amended if the current estimated useful life differs from that estimated previously. The effects of these changes are reflected in the income statement on a forecast basis.

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

The minimum and maximum depreciation rates applied during 2008 and 2009 are those indicated below:

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

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

Leasehold maintenance costs are capitalised, posted under the relevant line of tangible assets and are amortised over either the estimated useful life of the asset or the remaining term of the lease, whichever is shorter.

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

**Assets held under finance lease**

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

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

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

Moreover, as for asset disposal and backdating operations on the basis of financial lease contracts, the accomplished capital gains are deferred for the duration of contracts or the residual life of the asset (if lower).

Operating lease payments are booked to the income statement as costs on an accruals basis.

**Impairment of assets**

Goodwill, intangible assets with an unspecified useful life and assets in process of formation are subject to an impairment test each year or more frequently if there is indication of impairment. The book value of intangible assets with an unspecified useful life and of property, plant and machinery, is checked each time there is indication that the asset has suffered impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash Generating Unit (CGU) to which the asset belongs. The recoverable amount is the higher between the 'fair value' less sales costs and its utilisation value. When assessing the utilisation value, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments on the value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash generating unit) is estimated to be less than its book value, the latter is written down to its recoverable amount. The relevant impairment is booked to the income statement under write-downs. If the reasons for impairment are considered to no longer apply in the current year, the book value of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but not beyond the net book value that would have been determined had no impairment been recognised for the asset in previous years. An impairment reversal is booked to the income statement.

**Inventories**

Inventories are stated at the lower of cost and net realisable value. Considering the circumstances and characteristics of the Group's assets, the cost refers to direct materials. The cost is calculated by using the average cost method. The net realisable value is the selling price less the costs considered necessary for achieving the sale.

**Financial instruments**

**Loans and receivables**

Group receivables are stated in the items "other non-current financial assets", "receivables from customers", "other receivables and other current assets" and "other current financial assets", and include guarantee deposits, trade receivables, and receivables from third parties generated as part of core business activities. If they have a fixed maturity, they are stated at amortised cost, using the effective interest rate method. When financial assets have no fixed expiry, they are estimated at the acquisition cost. Receivables with expiry over one year, unprofitable receivables, and receivables maturing interests at lower rates with respect to the market, are updated by using market rates.

Estimates are regularly carried out with the aim of making sure whether there is objective evidence that a financial asset or a group of assets have been subject to market value reduction. If there is objective evidence, the value loss must be recorded as cost in the income statement of the period.

### Cash and cash equivalents

Cash and cash equivalents include cash on hand, on-demand and short-term deposits, in the latter case with an original maturity envisaged of no more than three months.

### Payables and financial liabilities

The Group's payables and financial liabilities are stated in the items "bonds", "payables to banks and other lenders", "payables for finance leases", "other non-current liabilities", "payables to suppliers", and include trade payables, payables to third parties, financial payables, inclusive of payables for loans received for advances on the factoring of receivables and for finance lease transactions.

Trade payables and other payables are stated at face value. Financial payables are initially stated at cost, equating to the fair value of the amount received, net of related charges. Subsequently, these payables are stated at amortised cost using the effective interest rate method, calculated considering the issue costs and any other premium or discount envisaged on settlement.

### Reduction in value of financial assets

For each period the financial statements refer to (annual or half-year), appraisals are made to check whether objective evidence exists that a financial asset or group of assets has suffered impairment. If there is objective evidence, the impairment is recorded in the income statement for financial assets valued at cost or at amortized cost while for "financial assets available for sale", the matters already illustrated above are should be referred to.

### Derivative financial instruments

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

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

- *Cash flow hedges:* These are hedging instruments which aim to hedge exposure to fluctuations in future cash flows arising in particular from risks relating to changing interest rates on loans. Changes in the fair value of the 'effective' portion of the hedge are booked to equity while the ineffective portion is booked to the income statement if the hedge is not effective. Hedge effectiveness, i.e. its ability to adequately offset fluctuations caused by the hedged risk, is periodically tested, in particular analysing correlation between the fair value or the cash flows of the hedged item and those of the hedging instrument.

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

In accordance with IAS 39, financial hedging derivatives are stated according to the methods established for hedge accounting only when:
- on commencement of the hedge, formal designation and the documentation of the hedging relationship itself exist;
- the hedge is expected to be highly effective;
- the effectiveness can be reliably gauged;
- the hedge itself is highly effective during the various accounting periods for which it is designated.

With regard to financial instruments that do not qualify for hedge accounting, changes arising from the fair value assessment of the derivative are booked to the income statement.
At present, the Group does not apply Hedge accounting and does not have financial derivatives.

**Liabilities for pension obligations and staff severance indemnities**

Defined benefit schemes (as classified by IAS 19), in particular the Staff Severance indemnities relating to employees of the parent company and the subsidiaries with registered offices in Italy, are based on valuations performed at the end of each financial year by independent actuaries. The liability recognised in the balance sheet is the current value of the obligation payable on retirement and accrued by employees at the balance sheet date. It should be specified that no assets are held in support of the above scheme.

As permitted by IFRS 1 and IAS 19, the Tiscali Group has not adopted the corridor method but uses the Projected Unit Credit method and, therefore, the actuarial gains and losses are stated in full in the period in which they arise and are booked directly to the income statement.

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

As from 1 January 2007, the 2007 Finance Bill and the related implementing decrees introduced significant amendments to the regulation of staff severance indemnities (TFR), including the worker’s choice regarding the allocation of their accruing TFR to supplementary welfare funds or to the “ Treasury Fund” managed by INPS (national insurance institute for social security).

Therefore, the obligation vis-à-vis INPS and the contribution to the supplementary pension schemes takes on the form, as per IAS 19, of “Defined contribution schemes”, while the portions recorded in the staff severance indemnity (TFR) remain “Defined benefit schemes”.

Furthermore, the law changes taking place starting from 2007 implied a new calculation of actuarial assumptions, and of the consequent methods used to calculate staff severance indemnities, whose effects were directly ascribed to the income statement.

### Remuneration schemes involving interests in the share capital

The Group gives additional benefits to certain members of the top management and certain employees mainly consisting of stock option plans. These plans are a component of the beneficiaries' remuneration. The cost is the fair value of the stock options as of the date allocation is recorded, for accounting purposes in accordance with "IFRS 2- Payments based on shares", in the income statement with a matching balance directly under shareholders' equity.

### Provisions for risks and charges

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

### Treasury shares

Treasury shares are booked to reduce the shareholders' equity.

### Revenue recognition

Revenues are stated to the extent that it is probable that the Group will receive the economic benefits and their amount can be determined reliably. They are stated net of discounts, rebates and returns.

Revenues for the provision of services are stated in the income statement with reference to the stage of completion of the service and only when the result of the service can be reliably estimated.

In particular, recognition in the income statement for revenues from internet access services (narrowband and broadband) and voice services, is based on the actual traffic produced at the reference date and/or the periodic service fee payable at that date.

As described above, revenues related to the activation of broadband services (ADSL), consistent with the relevant costs capitalised among intangible assets, are booked to the income statement on a straight-line basis in relation to the minimum legal duration of customer contracts, which, starting from the second quarter of 2009, is normally 24 months. Amounts relating to other financial periods are recorded under other current liabilities as deferred income.

Lastly, the revenues originating from the sale of IRU (Indefeasible Rights of Use) are acknowledged per quota, depending on the duration of the concession, while any components which may be identified separately are recorded in the revenues based on the nature of the performance or disposal.

## Financial income and charges

Interest received and paid, including interest on bonds issued, is recognised using the effective interest rate method.

## Research and advertising costs

Research and advertising costs are charged directly to the income statement in the period they are incurred.

## Taxes

Income taxes include all the taxation calculated on the taxable income of Group companies.

- ***The tax currently*** payable is based on taxable income for the year. Taxable income differs from the result reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it also excludes items that are never taxable or deductible. Liability for current tax is calculated using tax rates applicable at the balance sheet date.
- ***Deferred taxes*** are taxes which are expected to be paid or recovered on timing differences between the book value of the balance sheet assets and liabilities and the corresponding value for tax purposes used to calculate the taxable amounts, as well as on those items which, despite not being allocated in the balance sheet, lead to potential future tax credits, such as for example the losses for the years which can be used for tax purposes in the future, and are calculated according to the balance sheet and liability method.

Deferred tax liabilities are generally recognised for all taxable timing differences relating to the Group companies and to equity investments in associated companies, except where the Group is able to control reversal of these timing differences and it is unlikely that the timing difference will reverse in the foreseeable future.

Deferred tax assets, arising from temporary differences and/or previous losses, are recognised to the extent that it is probable that taxable profits will be available in the future against which deductible temporary differences and/or previous losses can be utilised. The provisions are based on taxable income likely to be generated in light of the approved business plans. Such assets and liabilities are not recognised if the temporary differences derive from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in transactions that affect neither the accounting result nor taxable income. The book value of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer likely that sufficient taxable income will be available to allow all or part of the asset to be recovered.

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

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

### Earnings per share

The basic result per ordinary share is calculated by dividing the portion of the Group's economic result attributable to ordinary shares by the weighted average of the ordinary shares in circulation during the financial year, excluding treasury shares.

For calculating the diluted result per ordinary share, the weighted average of shares in circulation is changed by assuming the subscription of all potential shares deriving, for instance, from the conversion of bonds, from exercising rights on shares with diluting effects, or from the potential diluting effect due to the allocation of shares to the beneficiaries of already accrued stock option plans.

### Critical decisions in applying accounting standards and in the use of estimates

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

Assessment of whether primary assets reported can be recovered is based on the estimate of income and financial flow the Group feels it will be able to generate in the future. As described in the note "Assessment of the going-concern assumption", achieving the results set forth in the business and financial plan, used for the assessment, depends on whether the forecasts and assumptions contained therein are reached. Some of these variables are out of the control of Group management and especially with regards to developments in the telecommunications market and achieving the growth objectives set in an extremely competitive market.

### Assumptions for the application of accounting standards

#### Revenue recognition criteria

Revenues related to the activation of broadband services (ADSL) are deferred as the underlying benefits affect the entire duration of the customer contracts.

As described above, in 2009 the structure of the ADSL services contract was amended to provide a minimum contract term of 24 months. The company adjusted the period of deferral of the revenues a result of the amended contract term and taking into account the expected average duration of customer contracts for ADSL services.

#### Activation costs and customer acquisition costs

As described above, in 2009 the structure of the ADSL services contract was amended to provide a minimum contract term of 24 months. The company adjusted the amortization period used for costs to activate such services and costs incurred for customer acquisition (Subscriber Acquisition Costs – SACs) as a result of the amended contract term and taking into account the expected average duration of customer contracts for ADSL services.

### Losses in value on assets (Impairment)

Goodwill is tested for impairment annually or more frequently during the financial year, as disclosed in the preceding section, ‘Business combinations and goodwill’. The ability of each ‘unit’, identifiable in this case with the subsidiary, to generate cash flows such as to recover the goodwill allocated to the unit, is determined on the basis of the economic and financial data concerning the unit to which the goodwill refers. The development of such data, as well as the determination of an appropriate discount rate, requires a significant use of estimates.

### Income taxes

The determination of income tax, in particular with reference to deferred taxes, involves the use of estimates and assumptions to a significant extent. Deferred tax assets, arising from temporary differences and/or previous losses, are recognised to the extent that it is probable that taxable profits will be available in the future against which deductible temporary differences and/or previous losses can be utilised.

The provisions are based on taxable income likely to be generated in light of the approved business plans. Such assets and liabilities are not recognised if the temporary differences derive from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in transactions that affect neither the accounting result nor taxable income. The book value of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer likely that sufficient taxable income will be available to allow all or part of the asset to be recovered.

### Provisions relating to employees

The provisions associated with employees, and in particular the Provisions for staff severance indemnities, are determined based on actuarial assumptions. The changes in these assumptions could have significant effects on these provisions.

### Receivable write-down provisions

The recoverability of the write-downs is assessed taking into account the risk of not collecting them, their age and the significant losses on receivables in the past for similar receivables.

### Provisions for risks and charges

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

### Equity investments

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

### Fair value calculation

Depending on the instrument or financial statements item to be estimated, the directors identify the most suitable method, by taking into consideration market objective data as much as possible. In absence of market values, that is, quotations, estimating techniques are used, with reference to the ones which are most commonly used.

**Accounting standards, amendments and interpretations effective from 1 January 2009**

Below is a brief description of IFRS in force starting from 1 January 2009:

- IAS 1 (Presentation of Financial Statements). On 17 December 2008 Regulation (EC) no. 1274-2008 was published, which transposed the changes made to IAS 1 (Presentation of Financial Statements) at EC level. The primary changes introduced include: the presentation in the statement of changes in shareholders' equity of all the changes deriving from transactions with shareholders; and the statement of the other changes in shareholders' equity (other than those with the shareholders) as follows:
    1. in a single "Total income statement" schedule, which shows the revenues, income, costs and charges recorded directly in the income statement, the profit (loss) for the period, as well as the analysis of the income and costs recorded directly under shareholders' equity (Other components of the total income statement); or
    2. in two statements: one statement which shows the components of the profit (loss) for the period (separate income statement Schedule) and a second statement which starts off from the profit (loss) for the period and shows the items of the statement of the other components of the total income statement (Total income statement schedule).

The revised version of IAS 1 came into force as from 1 January 2009. The adoption of the standard had no effect with regard to the valuation of the financial statement items.

The standard was retroactively applied by Tiscali Group before starting from 1 January 2009. All the changes generated by transactions with non-shareholders were posted in two schedules referred to as Income Statement and Total Income Statement respectively. Thus, presentation of the Statement of Changes in Shareholders' Equity was changed.

- Amendments to IAS 23 (Financial charges) On 10 December 2008, EC Regulation No. 1260-2008 was published, transposing the amendments made to IAS 23 (Financial charges) at EU level. The main amendment made to IAS 23 concerns the elimination of the option present in the previous version of the standard which envisaged, for financial charges, the possibility of registration in the income statement in the period they are incurred instead of their capitalization (permitted treatment). Therefore, in the revised version of IAS 23, financial charges which are directly attributable to the acquisition, construction or production of an asset which requires a significant period of time before being ready for its expected use or sale (so-called qualifying assets), must be capitalized as part of the cost of said asset. However, there were no significant accounting effects following the revision of this standard.
- Amendments to IFRS 2 (Share-based Payment) EC Regulation no. 1261-2008 transposing the amendments made to IFRS 2 (Share-based Payment) at EU level. The standard specifies the definition of "vesting conditions" and lays down cases where failing to reach a condition results in cancelation of the option. As at 31 December 2009 there were no accounting effects since the stock option plans in place do not have vesting conditions other than service and performance, nor were any plans cancelled.
- IFRS 8 (Operating Segments). On 21 November 2007 Regulation (EC) no. 1358-2007 was published, which transposed the changes made to IFRS 8 (Operating Segments) at EC level. This standard requires that an entity prepare information (quantitative and qualitative) regarding the related segments subject

to disclosure (reportable segments). The reportable segments are components of an entity (operating segments or combinations of operating segments) in relation to which distinct financial information is available, periodically assessed by the Chief Operating Decision Maker (CODM) in order to allocate resources to the segment and assess results. The financial disclosure must be represented with the same methods and the same criteria used in internal reporting for the CODM. IFRS 8 came into force starting from the 2009 reporting period and it replaces IAS 14 (Segment reporting). Adoption of the standard had no effect with regard to valuation of the financial statement items.

- Amendments to IAS 32 (Financial instruments: Disclosure and Presentation) and to IAS 1 (Financial statement presentation). On 21 January 2009 Regulation (EC) no. 53-2009 was published, which transposed at EU level the changes made to IAS 32 (Financial Instruments: Disclosure and Presentation) and to IAS 1 (Financial statement presentation). The changes to IAS 32 require, in the presence of certain conditions, the classification under shareholders' equity of certain financial instruments with the option to sell (puttable instruments) or which impose an obligation on the entity in the event of its liquidation. The amendments to IAS 1 require specific disclosures regarding these instruments. The amendments are not expected to have significant effects on the Group's consolidated financial statements.
- IFRIC 13 (Customer Loyalty Programs). On 16 December 2008 Regulation (EC) no. 1262-2008 was published, which transposed the changes made to IFRIC interpretation 13 (Customer Loyalty Programs) at EC level. This interpretation lays down the following:
  1. award credits granted to a customer are a separately identifiable element of the transaction itself and represent rights granted to the customer, for which the customer implicitly paid;
  2. the consideration allocated to the award credits is measured by reference to their fair value (i.e., the amount for which the award credits could be sold separately) and recognizes the consideration allocated to award credits as revenue when the entity fulfils its obligations.

Adoption of the standard is not applicable to Tiscali Group since there are no customer loyalty programs.

**Improvements to the IFRS**

On 23 January 2009 Regulation (EC) no. 70-2009 was published, which transposed at EU level certain changes made to International Financial Reporting Standards (IFRS). Below is a brief description of the amendments in force starting from 1 January 2009:

- IAS 16 (***Properties, plant and machinery***): the amendment provides a number of specifications on the classification and accounting treatment to be adopted by an entity which during its normal business activities as a rule sells elements of properties, plant and machinery held for lease to third parties;
- IAS 19 (***Employee benefits***): the amendment introduced, to be applied prospectively, clarifies the conduct to be adopted in the event of changes in employee benefits, defines the methods for recording the cost/income relating to past work services and precisely defines short-term and the long-term benefits;
- IAS 28 (***Equity investments in associated companies***): the change establishes that, in the event of equity investments carried at equity, any impairment shall not be allocated to the individual assets (and in particular to any goodwill) which makes up the book value of the investment, but to the value of the investee company in its entirety. Therefore, in the presence of conditions for a subsequent value writeback, this writeback must be recognized fully;
- IAS 29 (***Accounting in hyperinflationary economies***): these are changes to a standard not applied by the Group at present;
- IAS 38 (***Intangible Assets***): the amendment prescribes that promotional and advertising costs be recognized in the income statement. It establishes that in the event a company incurs charges which have future economic benefits without recording intangible fixed assets, these must be charged to the

income statement when the company itself has the right to gain access to the asset, if this involves the purchase of assets, or when a service is rendered, if this involves the purchase of services. Furthermore, the standard was amended to clarify in which cases it is possible to adopt the "produced units method" for the amortization of intangible fixed assets with a specified useful life;
- IAS 39 (***Financial Instruments: Recognition and Measurement***): the amendment clarifies how the calculation of the new effective rate of return of a financial instrument must be calculated on conclusion of a fair value hedge; it also specifies the cases when it is possible to reclassify a derivative instrument in and outside the category "***fair value through the income statement***".

IFRS 5 was also amended (***Non-current Assets Held for Sale and Discontinued Operations***): the amendment prescribes that if an entity undertakes a sales program which involves the loss of control over a subsidiary, it must classify all the assets and liabilities of said subsidiary as held for sale, leaving aside the fact that, after the sale, it maintains a minority interest in the former subsidiary. The new version of IFRS 5 came into force on 1 January 2010.
Application of the "IFRS improvements" is not expected to have significant effects on the Group's consolidated financial statements.

**New standards and Interpretations acknowledged by the EU but not yet in force and not yet adopted in advance**

As required by IAS 8 (Accounting policies, changes in accounting estimates and errors) the possible impact the new standards or new interpretations have on the financial statements are set forth below. These standards, effective after 31 December 2009, were not applied by the Group in advance.
- Amendments to IFRS 3 (Business Combinations). On 3 June 2009, with Regulation no. 495/2009 the European Commission approved an updated version of IFRS 3. The main changes concern the elimination of the obligation to value each asset and liability of subsidiaries at fair value for every subsequent acquisition in the event of subsidiary acquisition in phases. Goodwill is determined only in the final acquisition phase and equal to the difference between the value of any equity investments immediately prior to acquisition, payment for the transaction and the fair value of net assets acquired. Moreover, if the Group does not acquire 100% of the company, the shareholdings of minority interests can be valued at fair value or by using the method already provided by IFRS 3. The revised version of the standard also provides that all costs related to the business combination are charged to the income statement and liabilities for payments subject to conditions at the date of the acquisition are to be reported. The new rules shall be applied starting from 1 January 2010.
- Amendments to IAS 27 (Consolidated and Separate Financial Statements). With Regulation no. 494/2009 of 3 June 2009 the European Commission amended IAS 27 and established that changes in shareholdings that do not constitute a loss of control shall be treated as equity transactions and so offset with shareholders' equity, excluding the previously accepted practice of reporting any goodwill or capital gain as the difference between the amount paid/received and the pro-rata value of the net assets acquired/sold. Moreover, it was established that when a parent company loses control of its subsidiary, but continues to hold interests in the company, it values the investment maintained in the financial statements at fair value and charges any profit or loss deriving from the loss of control to the income statement. Lastly, the amendment to IAS 27 requires that all losses attributed to minority shareholders should be allocated to the minority share, even when they exceed their share in the equity of the company. The new rules shall be applied starting from 1 January 2010. Amendments to IFRS 5 (Non-current assets held for sale and discontinued operations). This standard prescribes that if an entity undertakes a sale which involves the loss of control over a subsidiary, it must reclassify all the assets and liabilities of the subsidiary as held for sale, even when after the sale it maintains a minority interest in the former subsidiary. The new rules shall be applied starting from 1 January 2010.
- Amendments to IAS 36 (Impairment of Assets). The amendment of this standard provides that additional

information be provided if the Group determines the recoverable value of cash generating units using the discounted cash inflow method.

- Amendments to IAS 24 (Related Party Disclosures). On 4 November 2009, IASB issued a new version of IAS 24 Disclosure of Related Party Transactions, which simplifies the disclosure requirements concerning related parties involving public entities and clarifies the definition of “related party”. To date, the competent bodies of the European Union has not yet concluded the approval process necessary for the application of this standard.

**Revenues (note 1)**

The reduction in revenues is mainly due to the drop in access segment (both broadband and narrowband), in revenues from “media and value added services” and in company services.
As mentioned in the “Form and content of accounting statements”, starting from 1 July 2009, the revenues from ADSL activation and costs related to promotions were discounted over a period of 24 months in consideration of the change in contract duration and the average duration of ADSL contracts. The net effect of revenues on the economic result deriving from the change in the accounting estimate is positive and amounts to EUR 0.3 million.

**Other income (note 2)**

| | 31 December 2009 | 31 December 2008 Restated |
|---|---|---|
| *(EUR 000)* | | |
| Other income | 3,097 | 5,273 |
| **Total** | **3,097** | **5,273** |

Other income amounts to EUR 3.1 million and includes the amount of the capital gains from the disposal of SA Illetta for EUR 2.1 million.

**Purchase of materials and outsourced services (note 3)**

| | 31 December 2009 | 31 December 2008 Restated |
|---|---|---|
| *(EUR 000)* | | |
| Purchase of raw materials and goods for resale | 295 | 149 |
| Line/traffic rental and interconnection costs | 93,135 | 90,411 |
| Costs for use of third party assets | 4,687 | 4,931 |
| Portal services | 12,687 | 20,926 |
| Marketing costs | 16,708 | 36,353 |
| Other services | 31,540 | 42,944 |
| **Total** | **159,052** | **195,713** |

The decrease in costs with respect to the same period last year reflects the drop in revenues and application of strict policies for controlling costs.

The costs for marketing include the positive impact of changes in accounting estimates related to treatment of customer acquisition costs described in the section "Assumptions for the application of accounting standards - Activation costs and customer acquisition costs". This change resulted in a positive impact amounting to about EUR 2.6 million.

**Payroll and related costs (note 4)**

| | 31 December 2009 | 31 December 2008 Restated |
|---|---|---|
| *(EUR 000)* | | |
| Wages and salaries | 26,796 | 31,867 |
| Other personnel costs | 12,434 | 19,232 |
| **Total** | **39,230** | **51,099** |

Payroll costs dropped significantly compared to last year due to a considerable reduction in staff thanks to the incentive plan which ended in the first quarter of 2009.

The number of employees at 31 December 2009 was 744. The breakdown by category and the corresponding balance at 31 December 2008 are presented below.

**Number of employees**

| | 2009 | 2008 (including companies sold in 2009) | 2008 Restated |
|---|---|---|---|
| Executives | 25 | 80 | 35 |
| Middle managers | 84 | 278 | 84 |
| Office staff | 634 | 1,203 | 710 |
| Blue-collar workers | 1 | - | - |
| **Total** | **744** | **1,561** | **829** |

**Stock option plan cost (note 5)**

| | 31 December 2009 | 31 December 2008 Restated |
|---|---|---|
| *(EUR 000)* | | |
| Stock option plan cost | 465 | 2,893 |
| **Total** | **465** | **2,893** |

The amount entirely reflects the provision made for charges relating to the stock option plan of the Italian subsidiaries, Tiscali S.p.A. and Tiscali Italia S.p.A.

**Other operating (income) charges (note 6)**

The table below shows a breakdown of these costs:

| | 31 December 2009 | 31 December 2008 Restated |
|---|---|---|
| *(EUR 000)* | | |
| Other operating expenses | 5,200 | 4,614 |
| Contingencies, capital losses and other non recurrent costs | 1,853 | (6,981) |
| **Total** | **7,054** | **(2,367)** |

This item includes general expenses, namely contract penalties and indemnities amounting to EUR 0.5 million, fines and sanctions for EUR 0.5 million, costs for Ministry of Commerce administration for EUR 0.7 million, charges for control and collection for EUR 0.8 million, and other general services for the remaining amount.

**Write-down of receivables from customers (note 7)**

| | 31 December 2009 | 31 December 2008 Restated |
|---|---|---|
| *(EUR 000)* | | |
| Write-down of receivables from customers | 17,919 | 17,105 |
| **Total** | **17,919** | **17,105** |

The write-down of receivables from customers represents around 6.2% of revenues, up slightly with respect to the percentage in the same period of 2008 (5.3%).

**Restructuring costs and other write-downs (note 8)**

| | 31 December 2009 | 31 December 2008 Restated |
|---|---|---|
| *(EUR 000)* | | |
| Restructuring costs and other write-downs | 11,723 | 27,265 |
| **Total** | **11,723** | **27,265** |

Restructuring costs and other write-downs, amounting to EUR 11.7 million, are mainly for charges related to restructuring the Senior Debt on 2 July 2009.

**Net financial income (charges) (note 9)**

A breakdown of net financial income (charges) for the year, presenting a negative balance of EUR 13.9 million, is provided below.

| | 31 December 2009 | 31 December 2008 Restated |
|---|---|---|
| *(EUR 000)* | | |
| ***Financial income*** | | |
| Interest on bank deposits | 171 | 3,402 |
| Facility D2 write-off | 42,322 | - |
| Other financial income | 226 | 2,512 |
| **Total** | **42,719** | **5,914** |
| ***Financial charges*** | | |
| Interest and other charges due to banks | 43,836 | 58,061 |
| Other financial charges | 12,766 | 36,248 |
| **Total** | **56,602** | **94,309** |
| **Net financial income (charges)** | **(13,883)** | **(88,395)** |

This item mainly includes income from the Facility D2 write-off from Senior Lenders amounting to EUR 42.3 million, including interest calculated to 18 November 2009.

The write-off was provided for by contract based on agreements reached with the Financial Institutions on 3 July 2009 (Rights Issues Memorandum and Subscription Agreement), and was subject to the positive outcome of the share capital increase. Indeed, the agreement provided that for ever EUR subscribed by the market for the increase the Senior Lenders would write off about 32 cents of the Senior Debt up to a maximum of EUR 46.5 million. On 11 November 2009, since the increase was successful with the subscription of about 99.99% of the shares offered on the stock exchange, the condition mentioned above was met so on 1 December 2009 the Financial Institutions wrote off the entirety of Facility D2, for a total amount of EUR 42.3 million (EUR 41.5 million plus interest).

The item Financial Charges, amounting to EUR 56.6 million, is essentially attributable to the following factors:

- payable interest, amounting to EUR 41.4 million, on the loan from Senior Lenders. This loan was restructured on 2 July 2009, for a nominal amount of EUR 158.5 million;
- interest payable on financial leases for about EUR 2 million attributable to Tiscali Italia S.p.A.;
- interest payable on the shareholders' loan (Andalas) for EUR 1.5 million;
- effects of the valuation at fair value of the IRS relating to the Banca Intesa San Paolo & JPMorgan debt, before restructuring, which presents a negative balance of EUR 7.2 million;
- bank fees amounting to EUR 2.5 million;
- other financial charges amounting to EUR 2 million.

The dynamics of this item are linked to restructuring the Group's debt on 3 July 2009, which resulted in a different breakdown and cost of debt.

**Year-end income taxes (note 10)**

| | 31 December 2009 | 31 December 2008 Restated |
|---|---|---|
| *(EUR 000)* | | |
| Current taxes | 1,628 | 1,193 |
| Deferred taxes | 10,507 | 23,844 |
| **Net taxes for the year** | **(12,135)** | **(25,037)** |

Current taxes are mainly represented by IRAP (regional business tax) payable by Italian companies, which do not have current tax burdens for IRES since they used previous tax losses.
The item Deferred taxes, amounting to EUR 10.5 million, represents the reversal of prepaid taxes at 31 December 2008 for the subsidiary Tiscali International BV.

**Operating assets disposed of and/or assets held for sale (note 11)**

The 2009 financial statements report the sale of Ti Net Group, which took place on 26 May 2009, and the sale of UK operations on 3 July 2009, details of which are contained in the Report on Operations.

The table below shows the result from assets disposed of and/or held for sale:

| | 31 December 2009 | 31 December 2008 Restated |
|---|---|---|
| *(EUR 000)* | | |
| Gross capital losses deriving from disposal of subsidiaries and/or asset disposals | (351,546) | - |
| Period result of subsidiaries disposed of and/or destined to be disposed of (Tiscali UK Holding and Ti Net) | (20,768) | (143,354) |
| **Result from assets disposed of and/or destined for disposal** | **(372,313)** | **(143,354)** |
| Earnings per share from assets disposed of: | | |
| - Basic | (0.53) | (0.26) |
| - Diluted | (0.53) | (0.26) |

The result of the disposal of subsidiaries refers to the capital loss deriving from the sale of UK subsidiaries, amounting to EUR 353.1 million and the capital loss adjustment, already recorded at 31 December 2008, deriving from the sale of Ti Net Group for EUR 1.6 million, as shown in the table below:

| | | TiNet Group | UK | Total |
|---|---|---|---|---|
| | *(EUR 000)* | | | |
| | Closing price | 24,669 | 213,903 | 238,572 |
| | Deferred price/Escrow | 6,308 | 40,897 | 47,205 |
| | Escrow write-down (including exchange rate change) | - | (9,481) | (9,481) |
| **(A)** | **Total net price** | **30,977** | **245,319** | **276,296** |
| | *Net shareholders' equity at the date of sale including consolidated goodwill/net assets sold* | *32,668* | *90,668* | *123,336* |
| | *Waived receivables from the companies sold* | - | *390,862* | *390,862* |
| **(B)** | **Net shareholders' equity at the date of sale including consolidated goodwill net of waived receivables** | **32,668** | **481,530** | **514,198** |
| **(A)-(B)** | **Consolidated theoretical capital loss** | **(1,691)** | **(236,211)** | **(237,902)** |
| | *Remaining debt to VNIL assumed by the Group* | - | *(11,730)* | *(11,730)* |
| | *Additional transaction charges* | *(357)* | *(3,545)* | *(3,902)* |
| | *Reclassification of translation reserve in income statement* | - | *(101,704)* | *(101,704)* |
| | *Capital loss reversal allocated at 31.12.08 (Ti Net Group)* | *3,691* | - | *3,691* |
| | **Total consolidated capital gains/losses** | **1,643** | **(353,190)** | **(351,547)** |
| | **Net cash flow deriving from the sale:** | | | |
| | Closing sale price | 24,669 | 213,903 | *238,572* |
| | *Net escrow* | - | 31,415 | *31,415* |
| | Cash held by the company sold | 368 | 2,819 | 3,187 |
| | **Net cash flow deriving from the sale** | **25,037** | **248,137** | **266,800** |

The result of assets sold as at the date of sale and assets held for sale at 31 December 2009 is shown in the table below.

| | TiNet Group | UK | Other | Total |
|---|---|---|---|---|
| *(EUR 000)* | | | | |
| Revenues | 13,990 | 254,079 | 3 | 268,072 |
| Gross operating result (EBITDA) | 232 | 39,246 | 272 | 39,751 |
| Operating result | (2,108) | (22,640) | 272 | (24,477) |
| Pre-tax result | (2,472) | (18,586) | 272 | (20,787) |
| Net result | (2,599) | (18,440) | 272 | (20,768) |

At 31 December 2009 the amounts in the balance sheet relating to companies the companies sold, Tiscali UK and Ti Net Group, were deconsolidated starting from the date of sale.

The balance of liabilities referring to the companies sold amounts to EUR 0.9 million and includes payables to suppliers following the sales costs charged to Tiscali S.p.A. and Tiscali UK Holdings.

Concerning the sale of Ti Net assets on 26 May to the BS private equity fund, the transaction took place at a net price of EUR 30.9 million, against a value of EUR 32.6 million for assets sold. The economic effect of the transaction was essentially zero at 31 December 2009 (a total capital gain of EUR 1.6 million), since the company wrote down the assets of the company sold in the financial statements at 31 December 2008 for an amount of EUR 3.7 million.

Concerning the operations sold in the UK on 3 July 2009, it consisted of the cash sale of 100% of the shares of Tiscali UK to CPW for 236 million pounds by the sub holding Tiscali UK Plc. The sale of the shares entailed transferring to CPW the debts for financial leases owed by Tiscali UK. Under the transaction, CPW and Tiscali UK reached a transitory agreement with former minority shareholders of Tiscali UK (VNIL), holders of about 13% of Tiscali UK. The agreement provided for the sale of their minority interests in Tiscali UK and a waiver of about 72 million pounds of amounts owed to the UK subsidiary. 7 million pounds of the remaining amount, equal to about 17 million pounds, was repaid in cash with proceeds from the sale to CPW. The remaining 10 million pounds was repaid with the proceeds generated from the share capital increase concluded in November 2009.

The agreement provides the following payment terms at the closing date on 3 July 2009:
Il contratto prevede i seguenti termini di pagamento alla data del *closing* avvenuto in data 3 luglio 2009:

- immediate payment to Tiscali of about 200 million pounds used to partially pay off their debt to Senior Lenders (about 180 million pounds), amounts owed to Tiscali UK management (about 8 million pounds) and amounts owed to former VNIL minority shareholders (about 7 million pounds);
- setting up an escrow account of 35.4 million pounds, corresponding to 15% of the sale price for the first 12 months, which can be reduced to 10% for the subsequent 6 months, as a guarantee for any price adjustments negotiated based on operating and financial parameters or certain declarations and guarantees that may result in various forms of indemnities also with regard to rendering services. At 31 December 2009 the escrow was written down for an amount of 7.5 million pounds (EUR 8.4 million). The value recorded in the financial statements was affected by the negative exchange rate at 31 December 2009 by about 1 million EUR. The amount of the escrow, net of the write-down and of the negative effect of the exchange rate, amounted to EUR 31.4 million at 31.12.09.

The breakdown of the sale price for UK operations is shown in the table below:

| | GBP | EUR |
|---|---|---|
| *(EUR 000)* | | |
| Sale price | 236,000 | - |
| of which: | | |
| For UK management for stock options | (8,445) | - |
| For VNIL | (7,000) | - |
| Total after amounts for UK Management and VNIL | 220,555 | 254,800 |

**Earnings (Losses) per share (note 12)**

The earnings per share from operating activities and those disposed of amounted to EUR (0.55). This amount was calculated by dividing the net loss for the year attributable to the ordinary shareholders of the Parent Company, equating to EUR (384,825,826), by the average weighted number of ordinary shares in circulation during the year, equating to 698,966,875.

The earnings per share from operating assets amounted to EUR (0.02), calculated by dividing the operating assets, amounting to EUR (12,512,604) by the average weighted number of ordinary shares in circulation during the year, equating to 698,966,875.

The potential shares deriving from the stock option conversions had an anti-diluting effect and therefore were not considered in the calculation of the result per share.

The diluted earnings per share, from operating assets and those disposed of, were calculated by dividing the net earnings attributable to the ordinary shareholders of the Parent Company and the result from operating activities, by the average weighted number of ordinary shares in circulation during the year.

**Goodwill (note 13)**

The goodwill reported in the consolidated financial statements at 31 December 2008 originating from the acquisitions made by Tiscali in previous years was entirely referred to the assets held in the United Kingdom. The sale of these assets on 3 July 2009 (see note 11 "Operating assets disposed of and/or assets held for sale") entailed a total reversal of goodwill reported in the financial statements.

**Impairment test of assets (note 14)**

As mentioned in the section on accounting policies, at the date of the financial statements, also considering the presence of impairment indicators, an impairment test was performed on assets, in accordance with IAS 36 and prescribed in the joint document Banca d'Italia / Consob / ISVAP no. 4 of March 2010.

The impairment test on assets was performed by comparing the value of assets reported at 31 December 2009 and their utilization value, determined based on the following essential elements.

(i) Definition of Cash Generating Units
The Group identified the Cash Generating Units with the segments set forth in the segment reporting (see section "Segment reporting (by geographic area and business segment") defined and structured by geographic area. The impairment test on assets was performed with respect to the Cash Generating Units "Italy" (essentially the subsidiary Tiscali Italia S.p.A.) and the entire Group.

(ii) Criteria for estimating recoverable amount
The utilization value of the Cash Generating Units (CGU) was determined by discounting the cash flows deriving from the Business Plan approved ("2009/2013 Plan").

With regard to the economic/financial objectives, the main assumptions concern:

- Explicit forecast period equating to the remaining plan duration (4 years);
- EBITDA emerging from market and business development;
- Investments to maintain expected development of the business and the pre-established level of profitability;
- Determination of the terminal value calculated as perpetuity based on the projection of the last year of the plan;
- The WACC rate determined based on market valuations of the cost of money and specific risks related to the company's core business;
- Terminal growth rate (Long-Term Growth – LTG) amounting to 2%, in line with analysts' forecasts.

The cost of the capital was estimated considering the calculation criteria provided by the CAPM (Capital Asset Pricing Model). In particular in the determination of the WACC:
a) the beta coefficient was valued considering both the value of Tiscali over various timescales for a period of more than twelve months, and a panel of various telecommunications operators in Europe adjusted to take into account Tiscali's financial structure;
b) the spread of the credit on the risk free element was valued in line with the conditions of current debt;
c) the risk premium was valued within a prudent range with respect to the current conditions of financial markets.

Based on these parameters the WACC used for the impairment tests was estimated at 8.80% both for the CGU Italy and for the valuation of the entire Group.

The result of the impairment test, both for CGU Italy and the Group, shows a considerably positive difference between the recoverable value and book value, thus the company feels that it is not necessary to write down any of its assets.

(i) Sensitivity of the impairment test result
In consideration of the current scenario and the results of the impairment tests performed in 2009, an analysis was made on the sensitivity of the recoverable value estimated using the discounted cash flow method. The discount rate is considered a key parameter in the estimate of recoverable value. An increase of 1% would lower the positive difference between estimated recoverable value and book value. This difference would continue to be considerably positive.

(ii) Considerations on the presence of external impairment indicators
Considering the current market situation, certain considerations on the presence of external impairment indicators were made especially with regard to evidence from the financial market. For that purpose, market capitalization of Tiscali Group does not give rise to elements departing from the results of the impairment tests.

**Intangible assets (note 15)**

Intangible asset movements in 2009 were as follows:

| Intangible assets | Computers, software and development costs | Concessions and similar rights | Broadband service activation costs | Other intangible assets | Intangible assets in course of acquisition and prepayments | Total |
|---|---|---|---|---|---|---|
| *(EUR 000)* | | | | | | |
| **HISTORIC COST** | | | | | | |
| **1 Genuary 2009** | **9,308** | **148,933** | **123,884** | **91,261** | **6,933** | **380,319** |
| Increases | 92 | 7,867 | 9,795 | 947 | 7,133 | 25,835 |
| Other variations | - | (1,140) | - | - | - | (1,140) |
| Assets sold | (4,759) | (71,786) | (94,820) | (69,647) | - | (241,012) |
| Reclassifications | - | 4,499 | 1,809 | 2,000 | (7,184) | 1,124 |
| **31 December 2009** | **4,641** | **88,373** | **40,667** | **24,562** | **6,882** | **165,126** |
| | | | | | | |
| **ACCUMULATED DEPRECIATION** | | | | | | |
| **1 gennaio 2009** | **6,941** | **64,074** | **90,147** | **27,226** | **-** | **188,388** |
| Increases in amortization | 910 | 8,727 | 2,557 | 10,114 | - | 22,309 |
| Other variations | - | (427) | - | - | - | (427) |
| Assets sold | (4,098) | (37,806) | (66,468) | (21,960) | - | (130,331) |
| Reclassifications | - | - | 5,146 | (5,146) | - | - |
| **31 December 2009** | **3,753** | **34,569** | **31,382** | **10,234** | **-** | **79,939** |
| | | | | | | |
| **NET VALUE** | | | | | | |
| **31 December 2008** | **2,366** | **84,859** | **33,737** | **64,036** | **6,933** | **191,931** |
| **31 December 2009** | **888** | **53,804** | **9,285** | **14,328** | **6,882** | **85,187** |

The item "Assets sold" includes the variation in intangible assets compared to 2008 for a net value of EUR 110.7 million due to deconsolidation of intangible assets of UK companies sold.

The item Computers, software and development costs, whose balance amounts to EUR 888 thousand includes the capitalization of development costs for software applications customized for the exclusive use of the company.

The balance of "Concessions and similar rights", amounting to EUR 53.8 million, includes EUR 45.9 million relating to rights and costs connected with the acquisition of transmission capacity on a long-term basis, in the form of concession agreements for the use of the same (IRU/Indefeasible Rights of Use) and around EUR 5.3 million relating to licences and software. The remaining amount is EUR 2.6 million for patent rights and other intangible assets. On the whole, the increase in this item amounts to EUR 7.9 million, mainly for licenses and software and the creation of new IRU contracts.

The item "Broadband service activation costs", equalling EUR 9.3 million, relates to the capitalization of the activation costs ADSL service. The balance of this category reflects the positive impact of changes in accounting estimates related to treatment of customer acquisition costs described in the section "Assumptions for the application of accounting standards - Activation costs and customer acquisition costs". The effect of this change in the accounting estimate amounts to EUR 2.8 million.

Overall investments in this category amount to EUR 9.8 million made by Tiscali Italia S.p.A., mainly for licenses and software and the creation of new IRU contracts.

The other intangible assets, amounting to EUR 14.3 million, mainly consist of development costs for the new UNIT2 platform for EUR 11.8 million, and about EUR 2 million for costs relating to the mobile project (MVNO). The increases in this item, for EUR 8 million, include costs incurred for improving management of the UNIT2 platform used for managing the customer base.

The item Intangible assets in course of acquisition and prepayments, amounting to EUR 6.9 million, held by the Italian subsidiary Tiscali Italia S.p.A., refers to costs for fibre activation together with activities for site placement and installation.

The main reclassifications between the categories under intangible assets of the subsidiary Tiscali Italia S.p.A. are the following:

- from the category "Other intangible assets in course of acquisition and prepayments" to "Concessions and similar rights" for EUR 4.4 million for fibre optics costs in IRU mode entering in service;
- from the category "Other intangible assets in course of acquisition and prepayments" to "Broadband service activation costs" for EUR 220 thousand for ADSL line and device activation for customers subscribing during the year;
- from the category "Other intangible assets in course of acquisition and prepayments" to "Other intangible assets" for EUR 2 million for MVNO set-up costs, started up during the year;

Other reclassifications between intangible and tangible assets include the following:

- from the category "Other assets in course of acquisition and prepayments" (intangible assets) to "Plant and machinery" (tangible assets) for EUR 488 thousand for ULL site installation and expansion during the year;
- from the category "Other tangible assets in course of construction and prepayments" (tangible assets) to "Broadband service activation costs" (intangible assets) for EUR 1.6 million for modems for customers subscribing during the year;
- from the category "Other assets in course of construction and prepayments" (tangible assets) to "Concessions and similar rights" (tangible assets) for EUR 24 thousand for software made available during the year.

The item "Other variations", amounting to EUR 1.1 million, includes discounting IRU contracts deriving from the determination of contract fair value and Indefeasible right of use contracts (IRU) in the stage of initial measurement.

**Properties, plant and machinery (note 16)**

Changes during the financial year are shown in the following table:

| Tangible assets | Properties | Plant and machinery | Other tangible assets | Tangible assets in course of construction | Total |
|---|---|---|---|---|---|
| *(EUR 000)* | | | | | |
| **HISTORIC COST** | | | | | |
| **1 Genuary 2009** | **64,236** | **471,548** | **9,626** | **9,070** | **554,917** |
| Increases | 24 | 11,949 | 603 | 2,409 | 14,985 |
| Other variations | - | - | - | - | |
| Assets sold | - | (245,786) | (5,572) | (437) | (251,796) |
| Reclassifications | - | 1,479 | - | (2,603) | (1,124) |
| **31 December 2009** | **64,260** | **239,188** | **4,656** | **8,877** | **316,982** |
| **ACCUMULATED DEPRECIATION** | | | | | |
| **1 Genuary 2009** | **6,243** | **310,016** | **6,371** | **-** | **322,629** |
| Increases in depreciation | 1,883 | 24,119 | 401 | - | 26,403 |
| Other variations | - | - | - | - | - |
| Assets sold | | (165,175) | (4,612) | - | (169,788) |
| Reclassifications | - | - | - | - | |
| **31 December 2009** | **8,126** | **168,959** | **2,160** | **-** | **179,245** |
| **VALORE NETTO** | | | | | |
| **31 December 2008** | **57,993** | **161,532** | **3,255** | **9,508** | **232,288** |
| **31 December 2009** | **56,134** | **70,229** | **2,497** | **8,877** | **137,737** |

The item "Assets sold" includes the variation in tangible assets compared to 2008 for a net value of EUR 82 million due to deconsolidation of tangible assets of UK companies sold.

The item "Properties", amounting to EUR 56 million, mainly relates to the SA Illetta office, the headquarters of the Italian subsidiary in Cagliari, which was the object of the Sale & Lease back financial transaction in 2007.

The net book value of "Plant and Machinery" (EUR 70.2 million) includes, in particular, costs to install and extend ULL sites, specific and network devices such as routers, DSLAM, servers and transmission devices. The EUR 11.9 million increase reflects the remarkable investments concerning the development of the infrastructure that is necessary to support the ADSL service supply in the unbundling mode.

The "Other tangible assets", whose balance amounts to EUR 2.5 million, include furniture and furnishings, electronic and electromechanical office equipment as well as motor vehicles.

In addition, the item "Tangible assets in course of construction and prepayments", held by the Italian subsidiary Tiscali Italia S.p.A., amounting to EUR 8.9 million, includes transmission devices and DSLAM, for EUR 7.4 million, which will be used in the first quarter of 2010 to compete the expansion plan started up in the fourth quarter of 2009, and modems in inventories destined to be loaned to customers for the connection of ADSL lines (EUR 1.5 million).

The main reclassifications between the categories under tangible assets of the subsidiary Tiscali Italia S.p.A. are the following:

- from the category "Other tangible assets in course of construction and prepayments" to "Plant and machinery" for EUR 974 thousand for transmission devices and for EUR 16 thousand for plant and machine start-up costs;

Other reclassifications between tangible and intangible assets include the following:

- from the category "Other tangible assets in course of construction and prepayments" (tangible assets) to "Broadband service activation costs" (intangible assets) for EUR 1.6 million for modems for customers subscribing during the year;
- from the category "Other assets in course of construction and prepayments" (tangible assets) to "Concessions and similar rights" (tangible assets) for EUR 24 thousand for software made available during the year.
- from the category "Other assets in course of acquisition and prepayments" (intangible assets) to "Plant and machinery" (tangible assets) for EUR 488 thousand for ULL site installation and expansion during the year.

**Equity Investments (note 17)**

As at 31 December 2009, equity investments, carried at equity, amount to zero. The balance of EUR 33 thousand reported at 31 December 2008 refers to STS S.r.l., which was disposed of in June 2009. Below is a list of investments as at 31 December 2009:

| Company name | Country | Investment held by | Statutory value as at 31.12.2009 (EUR mln) | | | Percentuale di parteci-pazione |
|---|---|---|---|---|---|---|
| | | | Share Capital | Shareholders' equity | Result | |
| Tiscali S.p.A. | Italy | Parent Company | 92,003 | 93,747 | (248,254) | n.a. |
| Tiscali Italia S.p.A. | Italy | Tiscali S.p.A. | 185,000 | 135,731 | 4,335 | 100.0% |
| Tiscali Media S.r.l. | Italy | Tiscali Italia S.p.A. | 10 | 66 | 39 | 100.0% |
| Tiscali Contact S.r.l. | Italy | Tiscali Italia S.p.A. | 10 | 10 | 0 | 100.0% |
| Energy Byte S.r.l. (in liquidation) | Italy | Tiscali S.p.A. | 68 | - | 404 | 100.0% |
| Tiscali Finance SA (in liquidation) | Luxemburg | Tiscali S.p.A. | 125 | 1 | (1,044) | 100.0% |
| Tiscali Financial Services SA | Luxemburg | Tiscali S.p.A. | 31 | (3,217) | (176) | 100.0% |
| Tiscali Deutschland Gmb* | Germany | Tiscali S.p.A. | 555 | (177,367) | (2,353) | 100.0% |
| Tiscali Holdings UK Ltd | UK | Tiscali S.p.A. | 59 | (251,889) | (91,464) | 100.0% |
| World Online International Nv | Netherlands | Tiscali S.p.A. | 115,519 | (4,100) | (127,035) | 99.5% |
| Tiscali International Bv | Netherlands | World Online International Nv | 115,469 | 356,498 | 22,215 | 99.5% |
| Tiscali B.V. | Netherlands | Tiscali International Bv | 91 | 3,215 | 731 | 99.5% |
| Wolstar B.V. (in liquidation) | Netherlands | Tiscali International Bv | - | - | - | 49.7% |
| Tiscali Finance BV (in liquidation) | Netherlands | Tiscali International Bv | - | - | - | 99.5% |
| Tiscali International Network B.V. | Netherlands | Tiscali International Bv | 18 | 23,136 | (6,362) | 99.5% |
| Tiscali International Network SA (in liquidation) | France | Tiscali International Network B.V. | 50,000 | (7,536) | (63) | 99.5% |
| Tiscali Business UK Ltd | UK | Tiscali International Bv | 68 | - | 415 | 99.5% |
| Tiscali Business GmbH | Germany | Tiscali Business UK Ltd | 2,046 | (209,775) | (4,318) | 99.5% |

**Other non-current financial assets (note 18)**

| | 31 December 2009 | 31 December 2008 |
|---|---|---|
| *(EUR 000)* | | |
| Guarantee deposits | 6,877 | 12,725 |
| Other receivables | 7,514 | 2,256 |
| Equity investments in other companies | 2,332 | 2,332 |
| **Total** | **16,723** | **17,313** |

*Tiscali Gmbh and Tiscali Verwaltungs Gmbh are held by Tiscali Deutschland Gmbh

Guarantee deposits amounting to EUR 6.8 million, include EUR 6.3 million in deposits reported by the Italian subsidiary relating to the sale and lease back transaction on the SA Illetta property, EUR 0.2 million in deposits relating to the German subsidiaries.

Other receivables mainly include other financial assets represented by the amount owed to Tiscali Group by the buyer of Ti Net Group (Talia) for the deferred amount of the price equal to EUR 6.4 million.

The item Equity investments in other companies is mainly for the shareholdings held by Tiscali Italia S.p.A. in Janna S.c.p.a., a consortium company whose company object is the operation of an underwater fibre optic cable between Sardinia and the Italian mainland and between Sardinia and Sicily, which Tiscali Italia S.p.A. uses through their partner.

**Deferred tax assets (note 19)**

At 31 December 2009, no deferred tax assets due to prepaid tax were recorded. The balance as at 31 December 2008, amounting to EUR 10.5 million, was for prepaid taxes reported by the subsidiary Tiscali International BV, and entered in the income statement in 2009.

| | 31 December 2009 | 31 December 2008 |
|---|---|---|
| *(EUR 000)* | | |
| Deferred tax assets | - | 10,507 |
| **Total** | **-** | **10,507** |

At the date of the financial statements, the Group reported tax losses that can be carried forward to subsequent years for a total of EUR 775 million and deductible timing differences for EUR 205 million.

The timing differences are all attributable to the Italian companies.

Tax losses refer to:
- the parent company and Italian subsidiaries for EUR 193.3 million;
- Tiscali International BV and the Dutch subsidiary for EUR 174 million;
- German subsidiaries for EUR 251 million;
- Tiscali UK Holdings for EUR 156.6 million.

The term of tax losses is shown in the table below:

| | Total at 31 December 2009 | Year of expiry | | | | |
|---|---|---|---|---|---|---|
| | | 2010 | 2011 | 2012 | After 2012 | Indefinite |
| *(EUR mln)* | | | | | | |
| Total previous tax losses | 775 | 9 | 233 | 94 | 21 | 418 |

Indefinite tax losses refer to the German companies (EUR 251 million), Tiscali UK Holdings (EUR 156.6 million) and Tiscali S.p.A. (EUR 10.6 million).

As mentioned above, the Group does not report prepaid taxes, while the theoretical tax benefit calculated based on an estimated average rate of 28.4% would amount to EUR 279 million.

Indeed, although the Tiscali business plan forecasts net profits over the next the five-year period, considering the expiry and distribution of timing differences and losses amongst the various companies of the Group, the forecast profitability of each subsidiary, and the risks related to tax audits underway, the directors of Tiscali S.p.A. deemed it necessary not to allocate prepaid taxes to the balance sheet.

**Inventories (note 20)**

At 31 December 2009, inventories totalled EUR 1.9 million and mainly relate to “work in progress to order” contracted by third parties for IT projects carried out by the subsidiary Tiscali Italia S.p.A..

**Receivables from customers (note 21)**

| | 31 December 2009 | 31 December 2008 |
|---|---|---|
| *(EUR 000)* | | |
| Receivables from customers | 173,683 | 259,395 |
| Write-down provision | (61,437) | (82,576) |
| **Total** | **112,246** | **176,819** |

At 31.12.09, receivables from customers totalled EUR 112.2 million, after write-downs of about EUR 61.4 million. These receivables accrued from the sale of internet services, billing of network access services, inverse interconnection traffic, 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.

The analysis of receivables is carried out periodically, adopting a specific policy for calculating the receivable write-down provision, with reference to experience and historical trends.

Specialized outsourced companies are used to appraise potential new customers, define receivable limits and check the risk level of customers.

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

The following table illustrates ageing at 31.12.09 and 31.12.08, respectively (gross of the receivable write-down provision):

| | 31 December 2009 | 31 December 2008 |
|---|---|---|
| *(EUR 000)* | | |
| not due | 31,335 | 53,077 |
| 1 -180 days | 33,396 | 106,632 |
| 181 -360 days | 19,912 | 27,982 |
| over 360 days | 89,040 | 71,704 |
| **Total** | **173,683** | **259,395** |
| Receivable write-down provision | (61,437) | (82,576) |
| **Total without provision** | **112,246** | **176,819** |

The following table shows aging net of the receivable write-down provision at 31 December 2009.

| | 31 December 2009 |
|---|---|
| *(EUR 000)* | |
| not due | 31,335 |
| 1 -180 days | 31,907 |
| 181 -360 days | 17,368 |
| over 360 days | 31,637 |
| **Total** | **112,246** |

The following table illustrates the movements of the receivable write-down fund during respective financial years.

| | 31 December 2009 | 31 December 2008 |
|---|---|---|
| *(EUR 000)* | | |
| **Write-down provision at start of period** | **(82,576)** | **(80,335)** |
| Exchange differences | - | 10,485 |
| Acquisitions/Consolidation area change | 32,452 | 437 |
| Provision | (17,919) | (35,418) |
| Utilisation | 6,606 | 22,255 |
| **Write-down provision at end of period** | **(61,437)** | **(82,576)** |

Utilisation is due to the write off of amounts no longer recoverable.

**Altri crediti e attività diverse correnti (nota 22)**

| | 31 December 2009 | 31 December 2008 |
|---|---|---|
| *(EUR 000)* | | |
| Other receivables | 13,996 | 15,690 |
| Accrued income | 2,276 | 15,343 |
| Prepaid expense | 10,815 | 15,761 |
| **Total** | **27,087** | **46,794** |

Other Receivables, amounting to about EUR 14 million, mainly include VAT receivables for EUR 5.1 million, advances to suppliers amounting to approximately EUR 7 million and other receivables due from tax authorities for EUR 1.2 million.

Accrued income (EUR 2.3 million) mainly relates to shares of revenues for the sale of ADSL services during the period, but not yet billed.

Prepaid expenses were affected by the changes in accounting estimates related to the policy for recognizing revenues described in the section "Assumptions for the application of accounting standards – Policy for recognizing revenues". The effect of this change in the accounting estimate amounts to about EUR 1 million. Prepaid expenses of EUR 10.8 million relate to costs already incurred and carried over to the subsequent period, mainly for multi-year rental of lines, hardware and software maintenance costs and costs for insurance and advertising.

Prepaid expenses were affected by the changes in accounting estimates related to customer acquisition costs described in the section "Assumptions for the application of accounting standards - Activation costs and customer acquisition costs". The effect of this change in the accounting estimate amounts to about EUR 2.6 million.

**Other current financial assets (note 23)**

| | 31 December 2009 | 31 December 2008 |
|---|---|---|
| *(EUR 000)* | | |
| Guarantee deposits | 31,454 | 2,709 |
| Other receivables | 30 | 721 |
| **Total** | **31,484** | **3,430** |

Other current financial assets include the escrow account for the UK sale, which amounts to EUR 31.4 million and can be freed in two tranches, in June and December 2010.
For further information see note 11 "Operating assets disposed of and/or assets held for sale" and the section "Disputes, contingent liabilities and commitments".

**Cash and Cash Equivalents (note 24)**

Cash and cash equivalents at 31.12.09 amounted to EUR 16.2 million and include the Group's cash, essentially held in bank current accounts.
For the comments relating to the change in cash and cash equivalents, please refer to the Consolidated Cash Flow Statement.

**Shareholders' equity (note 25)**

| | 31 December 2009 | 31 December 2008 |
|---|---|---|
| *(EUR 000)* | | |
| Share capital | 92,003 | 308,273 |
| Share premium reserve | - | 990,857 |
| Stock option reserve | 4,315 | 3,840 |
| Accumulated losses and other reserves | 221,528 | (1,049,423) |
| Result for the period | (384,826) | (242,724) |
| Minority interests | - | (6,046) |
| **Total** | **(66,980)** | **4,777** |

Changes in 2007 in shareholders' equity items are detailed in the relevant table.

At 31 December 2009, the share capital amounted to EUR 92.0 million corresponding to 1,961,473,919 shares without a nominal value.

The share premium reserve amounting to EUR 990.9 million at December 2008 and zero at the end of 2009, was used entirely to cover losses accumulated as at 31 December 2008.

On 30 June 2009, in the absence of available reserves and the legal reserve, the extraordinary general shareholders' meeting resolved to reduce share capital to EUR 156,071,496 (EUR 308,272,742 at 31 December 2008), in order to absorb the losses carried forward from the previous year, amounting to EUR 151,830,722 and an additional loss of EUR 3,044,736 reported at 31 March 2009.

On conclusion of the share capital increase on 11 November 2009, the new share capital of Tiscali was EUR 336,053,433.35, with an increase in the share premium reserve equal to EUR 8,509,755 due to income from the sale of unexercised trade options.

On 22 December 2009 the extraordinary shareholders' meeting resolved to cover all losses accumulated at 1 December 2009, amounting to EUR 252,560,297.48, by using all of the share premium reserve for EUR 8,509,754.60 and reducing share capital for the remaining EUR 244,050,542.88 lowing the share capital from EUR 336,053,433.35 to EUR 92,002,890.47 resulting in an amendment to art. 5 (Share Capital and Shares) of the company by-laws.

**Shareholders' equity pertaining to minority shareholders (note 26)**

The shareholders' equity pertaining to minority shareholders changed due to the allocation to minority shareholders of the period result and due to exchange rate changes.

**Non-current financial liabilities (note 27)**

## Net financial position

The net financial position for the Group, amounting to about EUR 224.4 million, is shown in the table below:

| | 31 December 2009 | 31 December 2008 |
|---|---|---|
| *(EUR 000)* | | |
| A. Cash | 16,220 | 24,202 |
| B. Other cash equivalents | - | - |
| C. Securities held for trading | - | - |
| ***D. Cash and cash equivalents (A) + (B) + (C)*** | ***16,220*** | ***24,202*** |
| ***E. Current financial receivables*** | ***-*** | ***2,709*** |
| F. Non-current financial receivables | - | 1,436 |
| G. Current bank payables | 13,573 | 510,012 |
| H. Current portion of non-current debt | 10,880 | - |
| I. Other current financial payables (*) | 4,349 | 21,399 |
| ***J. Current financial debt (G) + (H) + (I)*** | ***28,802*** | ***531,411*** |
| **K. Net current financial debt (J) – (E)- (F) – (D)** | **12,582** | **503,065** |
| L. Non-current bank payables | 152,875 | - |
| M. Bonds issued | - | - |
| N. Other non-current payables (**) | 58,952 | 113,387 |
| **O. Non-current financial debt (L) + (M) + (N)** | **211,827** | **113,387** |
| **P. Net financial debt (K) + (O)** | **224,410** | **616,452** |

The table above has been drawn up in light of Consob Communication no. DEM/6064293 dated 28 July 2006.

The net financial position prepared by the company according to operating criteria, and described in the section "Financial Situation" in the Report on Operations, amounts to EUR 211.2 million.

The table below shows the reconciliation between the two net financial positions:

| *(EUR mln)* | 31 December 2009 | 31 December 2008 |
|---|---|---|
| **Consolidated net financial debt** | **211.2** | **601.1** |
| Other cash and cash equivalents and current and non-current financial receivables | 13.2 | 15.3 |
| **Net financial indebtedness drawn up based on Consob Communication no. DEM/6064293 of 28 July 2006** | **224.4** | **616.4** |

(*) includes leasing payables
(**) includes leasing payables and payables due to shareholders

Financial indebtedness is mainly composed of:

- amounts owed to banks mainly in relation to the loan agreement signed on 2 July 2009 following Group debt restructuring (“Group Facilities Agreement “ - or GFA). For the process of Group debt restructuring see details set forth in the Report on Operations.
- amounts for financial leasing contracts mainly in relation to the sale and lease back agreement stipulated for the Cagliari office (Sa Illetta).

### Payables to banks

Amounts owed to banks, totalling EUR 177.3 million, mainly refer to:

- Group Facility Agreement (GFA) stipulated on 2 July 2009 with financial institutions (“Senior Lenders”) for EUR 158.5 million in addition to payable interest accrued at 31 December 2009. The GFA loan was stipulated under the process of group debt restructuring, which included a share capital increase and write-off of a portion of the debt (Senior Debt), in addition to the disposal of UK subsidiaries. Concerning the debt restructuring process see details set forth in the Report on Operations.
- Current bank payables for account overdrafts amounting to EUR 13.5 million.

The amounts owed to banks with regard to the GFA loan existing at 31.12.2009 is broken down into three lump sums:

- Tranche A: EUR 100 million in 5 years;
- Tranche B: EUR 38.5 million in 6 years;
- Tranche C: EUR 20 million in 7 years, to be paid off with funds from the escrow account for the Tiscali UK sale, or also through a third share capital increase (see note 11 “Assets sold” and the section “Disputes, contingent liabilities and commitments” for details on the escrow account).

The following table summarizes the main elements of the loan. This is only a summary of primary data and not a complete list.

| Loan | Amount | Duration | Financial Institution | Borrower | Guarantor |
|---|---|---|---|---|---|
| **Facility A** | Euro 100 mln | 5 years (2014) | JP Morgan | Tiscali UK | Tiscali S.p.A. |
| **Facility B** | Euro 38.5 mln | 6 years (2015) | Chase Bank N.A. | Holdings Ltd | Tiscali Italia S.p.A. |
| **Facility C** | Euro 20 mln | 7 years (2016) | Intesa Sanpaolo | | Tiscali International |
| | | | S.p.A. Rabobank | | BV Tiscali Financial |
| | | | Goldman Sachs | | Services SA |
| | | | Sark Master Fund | | |
| | | | Limited | | |

The loan agreement also provides for:

- informational covenants that include periodic disclosure to lenders with regard to accounting data and forecasts reported quarterly and yearly, together with explanatory notes from management.
- Financial covenants that will be monitored on maturity starting from 30 June 2010. These covenants provide for achieving certain EBITDA levels with regard to indebtedness and the result of financial operations as well as specific cash flow levels which will enable the Group to honour loan payments laid down in the payment play.
- Operational covenants that provide for achieving specific ARPU levels and a specific number of customers and investments (“capital expenditure”).

Several general covenants where also defined to limit certain extraordinary transactions such as the disposal of important assets, transfer of property, intercompany payments over a certain threshold, payment of dividends.

The loan agreement provides for events of default, which is common practice for this type of agreement, where the senior financial institutions can apply an acceleration clause for repayment. Among these is default on certain contract obligations, namely the financial and operational covenants and payment of full amounts according to the payment schedule. In addition, the Group Facility Agreement provides as an event of default any litigation whose negative outcome might have a significant impact on the Group to such a degree that it would place doubts on its ability to survive or fulfil its obligations as laid down in the loan agreement ("Material Adverse Effect").

As at today's date, also with regard to the factors described in the section "Disputes, contingent liabilities and commitments", which should be referred to for details and assessment of the possible impact of disputes and contingent liabilities, there have been no events or circumstances that would be considered an "event of default" as defined in the Group Facility Agreement.

The Business Plan over the entire timeframe provides for respecting the covenants and contract obligations as laid down in the Group Facility Agreement, whose limits can be overcome when the plan is updated.

According to the Group Facility Agreement and agreements reached with the financial institutions, Tiscali has also undertaken to present an extension to the 2009-2013 plan until 2017, certified pursuant to art. 67 of Royal Decree 267/1942.

With regard to the guarantees, the parent company Tiscali S.p.A. and subsidiaries Tiscali Italia S.p.A., Tiscali International BV and Tiscali Financial Services SA are the entities that provided them under the loan agreement. It should also be mentioned that the guarantee given by the subsidiary Tiscali Italia S.p.A. is limited to EUR 110 million.

The amortization plan provided by the GFA provides for payment of Facility A, B and C for 85% directly on expiry. The interest rate set by the agreement is at a fixed rate and goes up in phases until maturity. A portion of the interest is to be paid in cash according to preset deadlines while the remaining portion is capitalized on the loan and paid off on expiry of each tranche ("PIK" interest).

It should be remembered that the debt with Senior Lenders until 3 July 2009, when the debt was completely restructured, was composed of the following:

1) Senior Secured Bridge Facility Agreement, EUR 400 million;
2) Credit Facility, EUR 49 million;
3) Revolving Credit Facility, EUR 50 million.

It should also be remembered that under the policies for managing exchange rate risk, the Group stipulated a SWAP agreement with the financial institutions. At 3 July 2009, it had a negative fair value amounting to EUR 16 million and it was completely paid off under the debt restructuring transaction.

### Payables for financial leases

The financial leases refer to agreements stipulated by the subsidiary Tiscali Italia S.p.A. and concern:

- The "Sales & Lease Back" financial lease on the Sa Illetta property, head offices of the company, whose debt at the date of the financial statements amounted to EUR 56.3 million;
- Other financial leases for a total of EUR 7.0 million.

Under the debt restructuring plan, the "Sales & Lease Back" agreement was the object of a restructuring agreement stipulated on 2 July 2009, which provided new payment terms and their deadlines. The new agreement provides payable interest at a fixed rate until 2014, part of which paid in cash and a part is capitalized ("PIK" interest). The "PIK" interest shall be paid starting from 2014, which is also when variable interest rates will be paid based on EURIBOR at 3 months plus a spread until the end of the loan agreement (2022).

The reconciliation between the total of the minimum payments due for leasing as of the balance sheet date and the current value for each of the periods considered, is presented below.

| | **Minimum payments due** | | **Current value of minimum payments due** | |
|---|---|---|---|---|
| *(EUR 000)* | **31 December 2009** | **31 December 2008** | **31 December 2009** | **31 December 2008** |
| Less than 1 year | 6,948 | 25,067 | 4,349 | 19,708 |
| Between 1 and 5 years | 24,421 | 52,966 | 4,484 | 30,080 |
| More than 5 years | 59,459 | 44,540 | 54,468 | 44,729 |
| | 90,829 | 122,573 | 63,301 | 94,517 |
| Less future financial charges | (27,528) | (28,056) | - | - |
| **Current value of minimum payments** | **63,301** | **94,517** | **63,301** | **94,517** |
| **Included in the balance sheet** | | | | |
| Payables due to current finance leases | | | 4,349 | 21,399 |
| Payables due to non-current finance leases | | | 58,952 | 73,118 |
| | | | **63,301** | **94,517** |

The financial leases are recorded under fixes assets in accordance with the international accounting standards applied and shown in the table below.

| Leasing included in Intangible assets | Computers, software and development costs | Concessions and similar rights | Broadband service activation costs | Other | Total |
|---|---|---|---|---|---|
| *(EUR 000)* | | | | | |
| **NET VALUE** | | | | | |
| **31 December 2008** | **-** | 515 | - | - | **515** |
| **31 December 2009** | **-** | - | - | - | **-** |

| Leasing included in Tangible assets | Properties | Plant and machinery | Other assets | Total |
|---|---|---|---|---|
| *(EUR 000)* | | | | |
| **NET VALUE** | | | | |
| **31 December 2008** | 57,869 | 48,892 | - | **106,761** |
| **31 December 2009** | 56,027 | 15,754 | - | **71,781** |

Total commitments relating to payments due from operating lease contracts are provided below.

| | 31 December 2009 | 31 December 2008 |
|---|---|---|
| *(EUR 000)* | | |
| Minimum payments due for leasing | 1,402 | 583 |
| Subleasing payments | - | - |
| **Total** | **1,402** | **583** |

Total commitments relating to payments due from operating lease transactions which cannot be cancelled, are presented in the following table.

| | 31 December 2009 | 31 December 2008 |
|---|---|---|
| *(EUR 000)* | | |
| Less than 1 year | 1,031 | 3,857 |
| Between 1 and 5 years | 930 | 2,751 |
| More than 5 years | - | - |
| **Total** | **1,961** | **6,608** |

### Breakdown of current and non-current debt

Provided in the table below.

| | Debt at 31/12/2009 | Current Debt | Non-current Debt |
|---|---|---|---|
| **Amounts owed to banks for loans (*)** | | | |
| Facility A | 103,297 | 3,513 | 99,784 |
| Facility B | 39,797 | 1,013 | 38,784 |
| Facility C | 20,659 | 6,353 | 14,306 |
| **Total amounts owed to banks for loans** | **163,754** | **10,880** | **152,874** |
| **Total current bank payables** | **13,573** | **13,573** | **0** |
| **Total amounts owed to banks** | **177,327** | **24,453** | **152,874** |
| **Amounts owed to leasing firms** | | | |
| *Sale and lease back – Sa Illetta* | *56,253* | *0* | *56,253* |
| *Other financial leases* | *7,048* | *4,349* | *2,699* |
| **Total amounts owed to leasing firms** | **63,301** | **4,349** | **58,952** |
| **Total indebtedness** | **240,629** | **28,802** | **211,827** |

(*) The amount is for the GFA loan amounting to EUR 158.5 million in addition to payable interest accrued at 31 December 2009.
(**) Amounts owed for bank overdrafts

The portion of amounts owed to banks for loans, totalling EUR 10.8 million, is represented by:

- portion of cash deriving from the sale of unexercised trade options following the share capital increase transaction, which shall be used to make an advance payment of part of the restructured debt (EUR 5.3 million);
- portion of principal, expiring on 30 June 2010 referring to Facility A amounting to EUR 2.5 million;
- portion of interest accrued referring to cash amount provided by the agreement and due within 12 months.

### Debt ratio

| | 31 December 2009 | 31 December 2008 |
|---|---|---|
| *(EUR 000)* | | |
| Net debt (*) | (224,410) | (616,452) |
| Shareholders' equity (**) | (66,980) | 4,777 |
| **Debt ratio** | **(3,3)** | **129,0** |

(*) the debt includes short and medium/long-term borrowing
(**) shareholders' equity includes all the Group's capital and reserves

**Other non-current liabilities (note 28)**

| | 31 December 2009 | 31 December 2008 |
|---|---|---|
| *(EUR 000)* | | |
| Payables to suppliers | 12,651 | 13,011 |
| Other payables | 1,583 | 82,434 |
| **Total** | **14,234** | **95,444** |

Payables to suppliers represent medium/long-term trade payables linked to the stipulation of IRU contracts (indefeasible right of use) deriving from investments relating to the LLU project, which provide for deferred payment.

**Liabilities for pension obligations and staff severance indemnities (note 29)**

The table below shows the period movements:

| | 31 December 2008 | HFS/ Discontinued | Provisions | Utilisation | 31 December 2009 |
|---|---|---|---|---|---|
| *(EUR 000)* | | | | | |
| Staff severance | 5,001 | (210) | 2,165 | (2,738) | 4,218 |
| **Total** | **5,001** | **(210)** | **2,165** | **(2,738)** | **4,218** |

The staff severance provision, which comprises the indemnities accrued in favour of employees, amounted to EUR 4.2 million at 31 December 2009 and refers to the Parent Company and the subsidiaries operating in Italy.

In accordance with Italian Law No. 297/1982, the amount due to each employee accrues depending on the service provided, and has to be immediately disbursed when the employee leaves the company. On termination of the employment contract, the amount due is calculated based on the duration of the contract and the taxable salary of each employee. The liability is annually adjusted in compliance with the official index of living cost, and with the interests fixed by law. It is not associated with any condition or period of accrual, or with any obligation of financial borrowing; therefore, there are no assets in the service of the provision. In compliance with IAS 19, the provision was recorded under “Plan with definite performances”.

In compliance with the new rules introduced by Italian Legislative Decree no. 252/2005, and by Law no. 296/2006 (Finance Act 2007), for the companies with at least 50 employees, the staff severance indemnities accrued from 2007 are ascribed either to the Treasury Fund of the social security (from 1 January) or to the supplementary types of pension (from the option month), and acquire the nature of “Plan with definite contributions”. However, the revaluations of the provision existing at 31 December 2006 (carried out on the basis of the official index of living cost and of the legal interests) and the quotas accrued with companies with less that 50 employees remain as staff severance indemnities.

Following IAS 19, for estimating staff severance indemnities, the following methods were used: the Traditional Unit Credit Method for companies with at least 50 employees, and the Projected Unit Credit Cost – service pro rate for the other companies, in accordance with the following stages:

- on the basis of a series of financial hypotheses (increase in living cost, remuneration, etc.), the possible future performances which might be disbursed in favour of each employee registered in the programme in the case of retirement, decease, disability, resignation, etc. were projected. The estimate of future benefits includes any foreseeable increases relating to a further length of service, and to the presumable growth of the remuneration received as of the date of estimation, only for the employees of companies with less than 50 employees;

- the current average value of future performances was calculated at the date of estimate, on the basis of the adopted annual interest rate, and of the probability of each performance to be really disbursed;
- the liability was established for each company concerned, to an extent equating to the average current value of the future benefits which will be generated by the provision existing as of the valuation date, without considering any future provision (for companies with at least 50 employees) or identifying the portion of the current average value of the future benefits which refer to the service already accrued by the employee as of the value date (for the other companies).

### Financial assumptions

| | |
|---|---|
| Inflation rate: | 2.0% |
| Discount rate: | 4.8% |
| Salary increase rate: | 2.5%* |

### Demographic assumptions:

| | |
|---|---|
| Mortality: | ISTAT 2002 M/F mortality |
| Disability: | INPS 1998 M/F disability tables |
| Resignation: | 3.5% from 20 to 65 years of age |
| Advance payments: | 3.0% from 20-65 years |
| Retirement: | 65 for men and 60 for women, with maximum length of service of 40 years |

* for Tiscali Contact

**Provisions for risks and charges (note 30)**

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

| | 31 December 2008 | HFS/ discontinued | Provisions | Utilisation/ Release | 31 December 2009 |
|---|---|---|---|---|---|
| *(EUR 000)* | | | | | |
| Provisions for risks and charges | 25.384 | (9,088) | 2,197 | (9,491) | 9,002 |
| **Total** | **25,384** | **(9,088)** | **2,197** | **(9,491)** | **9,002** |

A breakdown of the provision covering risks and charges at 31 December 2009 is as follows:

a) EUR 3.2 million for expenses and charges related to the dispute underway concerning the disposal of property by the German subsidiaries;
b) EUR 3.7 million related to allocations for employee disputes;
c) EUR 1.5 million related to liquidation/wind-up charges for the subsidiary World Online;
d) EUR 0.6 million for other charges.

The item Utilization/Release in the period include EUR 3.9 million for monetary utilization, of which EUR 2.3 million related to restructuring charges for Tiscali Italia S.p.A. and Tiscali S.p.A. and EUR 1.6 million related to payments made by Tiscali Business Gmbh for the Ecotel dispute. In addition, this item includes release of amounts to the income statement due to over-allocation of the restructuring fund recorded in 2008 on the Italian subsidiaries for EUR 1.2 million and reclassified as trade payables and credit notes for EUR 4.3 million.

**Current financial liabilities (note 31)**

| | 31 December 2009 | 31 December 2008 |
|---|---|---|
| *(EUR 000)* | | |
| Payables to banks and other lenders: | | |
| Payables to banks | 24,453 | 510,012 |
| Payables for finance leases (short-term) | 4,349 | 21,399 |
| **Totale** | **28,802** | **531,411** |

### Payables to banks and other lenders

The item "Payables to banks", amounting to EUR 24.4 million, includes bank debts owed by the Italian subsidiary Tiscali Italia S.p.A. (EUR 13.0 million), the parent company Tiscali S.p.A. (EUR 0.6 million) and by Tiscali UK Holding for EUR 10.8 million (short-term amount of Senior Lender restructured debt, see note 27 for details).

### Payables for financial leases

This item, amounting to EUR 4.3 million, refers to the short-term portion of payables due to leasing companies for finance lease agreements. For further details, see note 27.

**Payables to suppliers (note 32)**

| | 31 December 2009 | 31 December 2008 |
|---|---|---|
| *(EUR 000)* | | |
| Payables to suppliers | 150,894 | 268,899 |
| **Totale** | **150,894** | **268,899** |

Payables to suppliers refer to trade payables for the supply of telephone traffic, data traffic, materials, technology and services. The balance also includes EUR 7.3 million for the purchase of IRU (Indefeasible Right of Use) concerning investments for the unbundling project.

**Other current liabilities (note 33)**

| | 31 December 2009 | 31 December 2008 |
|---|---|---|
| *(EUR 000)* | | |
| Accrued expenses | 6,541 | 45,984 |
| Deferred income | 50,118 | 61,215 |
| Other payables | 19,020 | 41,567 |
| Total | **75,678** | **148,765** |

Accrued expenses include EUR 1.3 million relating to operating expenses, such as costs for contents, costs for network access, costs for professional consulting and costs for line rentals.
Deferred income mainly refers to the deferral of capital gains:

- on disposal relating to the sale & lease back transaction on the Sa Illetta property, amounting to around EUR 25.5 million which is released pro-rata depending on the duration of the lease agreement;
- deferrals on IRU sales contracts for around EUR 16 million;
- deferred income from the activation of ADSL services. These deferrals were affected by the changes in accounting estimates related to the policy for recognizing revenues described in the section "Assumptions for the application of accounting standards – Policy for recognizing revenues". The effect of this change in the accounting estimate amounts to about EUR 1 million.

The item Other payables, totally EUR 19.0 million, mainly includes payables due to the tax authorities (VAT in the first instance) and due to welfare institutions for a total of EUR 9.7 million, together with payables due to employees totalling EUR 6.0 million and other payables for the remaining balance.

Payables to employees for EUR 6 million include EUR 2.7 million for contributions, amounts owed for vacation leave and leaves of absence accrued for about EUR 1.2 million and about EUR 1.4 million for bonuses.

## Financial instruments

### Financial risk management objectives

The Group's Corporate Treasury division provides business services, co-ordinates access to the local and international financial markets, and monitors and handles the financial risk associated with Group operations by means of internal risk reports which analyze the exposures by degree and magnitude of the risk. These risks include market risks (inclusive of currency risks, fair value interest rate risks and price risks), credit risks and risks in cash flow interest rates.

The use of financial derivatives is regulated by policies approved by the Board of Directors, which provides written standards on foreign exchange risks, interest rate risks, credit risks and the investment of surplus liquidity.

### Market risk

Group activities expose it primarily to the financial risk of changes in exchange rates for foreign currency and to the interest rate.

### Handling of the foreign exchange risk

### Analysis of foreign currency sensitivity
This analysis is no longer applicable since the UK group was disposed of during the year.

### Risk management linked with interest rates

The Group is not exposed to the risk linked to interest rate fluctuations since the Group's financial debt is mainly at a fixed rate. At 31 December 2009 the financial debt amounted to EUR 224.4 million, of which EUR 163.9 million (EUR 158.5 million nominal) is at a fixed interest rate.

The financial debt related to the Sa Illetta lease, amounting to EUR 56.3 million at 31 December 2009, is at a variable interest rate. However, the company does not feel that the risk related to fluctuating interest rates is considerable and therefore it is not necessary to perform any risk hedging transactions.

### Handling of the liquidity risk

The following tables consider the maturity of the financial investments for the next five years with particular indication of the amounts to be paid to the leading banks in 2010.

| 31 December 2009 | Book value | Outgoing cash flows | less than 1 year | between 1 and 5 years | more than 5 years |
|---|---|---|---|---|---|
| *(EUR 000)* | | | | | |
| Secured bank loans | 163,754 | 216,715 | 10,880 | 186,354 | 19,481 |
| Payables to suppliers and other payables | 184,121 | 184,121 | 169,886 | 14,234 | - |
| Bank account overdrafts | 13,573 | 13,573 | 13,573 | - | - |

| 31 December 2008 | Book value | Outgoing cash flows | less than 1 year | between 1 and 5 years | more than 5 years |
|---|---|---|---|---|---|
| *(EUR 000)* | | | | | |
| Secured bank loans | 490,767 | 719,221 | 109,286 | 186,623 | 427,312 |
| Unsecured bank facility | 30,743 | 44,522 | 515 | | 44,007 |
| Payables to suppliers and other payables | 396,384 | 418,949 | 312,097 | 87,817 | 19,034 |
| Bank account overdrafts | 19,245 | 19,245 | 19,245 | - | - |

At 31 December 2008, after breaching the covenants, the senior loan was reclassified from long to short term.

### Financial instruments

### Fair value

The following tables show the valuations respectively at 31 December 2009 and at 31 December 2008, of financial instruments present as of the balance sheet date:

| | 31 December 2009 | |
|---|---|---|
| | Book value | Fair Value |
| *(EUR 000)* | | |
| Secured bank loans | 163,754 | 150,127 |
| Unsecured bank facility | 13,573 | 13,573 |
| Payables for financial leases | 63,301 | 58,631 |

| | 31 December 2009 | |
|---|---|---|
| | Book value | Fair Value |
| *(EUR 000)* | | |
| Secured bank loans | 590,623 | 458,533 |
| Unsecured bank facility | 30,743 | 32,463 |
| Payables for financial leases | 94,516 | 60,440 |
| IRS fair value | 9,527 | 9,527 |
| Amounts owed to former VNL shareholders | 71,275 | 71,275 |

The fair value of the financial instruments as indicated above was determined using the discounted cash flow method and taking as reference the market interest rates, in addition to contract spreads (where applicable).

**Stock Options**

Upon the proposal of the Board of Directors, on 3 May 2007 the shareholders' meeting approved a stock option plan in favour of the Chief Executive Officer and key managers of the Company and its Italian subsidiaries, with the aim of aligning management's interests with the creation of value for the Tiscali Group and its shareholders, to encourage achievement of strategic objectives.

The plan provides for allocation:

- to the Chief Executive Officer, of 3,593,143 options for the purchase of the same amount of ordinary shares in the Company, deriving from purchases of treasury shares which the Company bought on the market in compliance with Article 2357 of the Italian Civil Code and based on the authorization of the shareholders' meeting. On 10 May 2007, the Board of Directors attributed all such stock options in a single tranche to the Chief Executive Officer. Subsequently, after the resignation of the Chief Executive Officer, Tommaso Pompei, on 28 February 2008, these options were considered entirely exercisable according to the terms provided in the regulations. Pursuant to IFRS 2(28) this transaction should be considered as advance maturity. On 1 October 2009, Tommaso Pompei waived all his rights to the options. Thus, the company sold 260,000 treasury shares in several tranches, which had previously been bought and restricted to the incentive plan;
- to the employees, of up to a maximum of 4,244,131 options for the subscription of the same amount of newly-issued ordinary shares in the Company, deriving from a share capital increase reserved in accordance with Article 2441(8) of the Italian Civil Code resolved by the shareholders' meeting.

Thus the Board of Directors:

- on 28 June 2007 and 12 May 2008 attributed a total of 3,760,000 options to 26 managers (376,000 following the reverse split of shares). After the expiry of term of the options some of the beneficiaries, there are currently 216,000 options (after reverse split) which can be exercised by managers, also in several tranches, from 29 June 2010 to 28 December 2010 for the options assigned 28 June 2007 and from 13 May 2011 to 12 November 2011 for the options assigned 12 May 2008 at an exercise price of EUR 0.729 EUR for 173,000 options and EUR 0.827 for 43,000 options. The exercise price was adjusted following the share capital increase of February 2008 and November 2009 and the reverse split of September 2009;
- On 7 August 2008, the regulations of the Stock Option Plan was changed in order to confirm that Mr. Cristofori would have the exercise his rights to the options despite that he is no longer employed by the company.

The beneficiaries of the options are obliged not to sell, for a period of at least five years as from the exercise date, a quantity of shares whose total value is no lower than the difference between the normal value of the shares as of the exercise date and the amount paid by the beneficiaries, in compliance with applicable tax legislation.

For further information, with particular reference to the effects - on the rights assigned - of the possible termination of the employment contract of the beneficiaries or a change in the management of the Company, please refer to the disclosure document drawn up in accordance with Article 84 bis of Regulation No. 11971 approved by Consob under resolution dated 14 May 1999, available on the Company's website (www.tiscali.it).

As at 31 December 2010, the fair value of the options was appraised at the date of allocation using the following assumptions:

| | |
|---|---|
| Dividend-price ratio (%) | **-** |
| Expected volatility (%) | **30** |
| Risk-free interest rate (%) | **4.5** |
| Annual duration | **4** |
| Weighted average price per share (euro) | **2.228** |

The table below shows the movement of options in 2009 and 2008:

| | **31 December 2009** | **31 December 2008** |
|---|---|---|
| *(EUR 000)* | | |
| In circulation at 1 January | 687,314 | 692,314 |
| Assigned | - | 43,000 |
| Renounced | 435,314 | 48,000 |
| In circulation at 31 December | 252,000 | 687,314 |
| Exercisable at 31 December | - | - |

**Disputes, contingent liabilities and commitments**

During the normal course of its business, the Tiscali Group is involved in a number of legal and arbitration proceedings, as well as being subject to tax assessments.

A summary of the main proceedings to which the Group is a party, is presented below.

### Disputes

#### Vereniging van Effectenbezitters/ Stichting Van der Goen WOL Claims dispute

In July 2001, the Dutch association Vereniging van Effectenbezitters and the Stichting VEB-Actie WOL foundation, which represent a group of around 10,000 former minority shareholders of World Online International NV, summonsed World Online International NV (currently 99.5% owned by Tiscali, hereinafter WoL) and the financial institutions tasked with the stock market listing of the Dutch subsidiary, disputing, in particular, the incomplete and incorrect nature, as per Dutch law, of certain information contained in the WoL listing prospectus and of certain public statements made by WoL and its Chairman immediately prior to and after the listing.

By means of provision dated 17 December 2003, the first level Dutch court deemed that in certain press releases issued by WoL prior to 3 April 2000, sufficient clarity was not provided regarding the declarations made public by its former chairman at the time of listing relating to his shareholding. Consequently, WoL was held responsible vis-à-vis the parties who had subscribed the shares of the company at the time of the IPO on 17 March 2000 (start date of trading) and who acquired shares on the secondary market up to 3 April 2000 (date on which the press release was issued, specifying the effective shareholding held by the former chairman of WoL). WoL appealed against this decision, citing the correctness of the information prospectus.

On 3 May 2007, the Amsterdam Court of Appeal partially amended the decision of the first level court, deeming that the prospectus used at the time of listing was incomplete in some of its parts and that WoL should have corrected certain information relating to the shareholding held by its former chairman, reported by the media before said listing; furthermore, it was deemed that the company had created optimistic expectations regarding the activities of WoL.

On 24 July 2007, the Dutch association and the foundation mentioned above proposed an appeal before the Dutch Supreme Court against the sentence of the Court of Appeal. On 2 November 2007, WoL and the financial institutions tasked with the stock market listing filed their counter-appeal. In November 2009 the Dutch Supreme Court pronounced its final sentence confirming the ruling of the Court of Appeal and ruled that the IPO prospectus was not complete under certain aspects and that WoL management should have provided additional information during listing. It should be mentioned that the ruling is limited to ascertaining certain aspects of WoL responsibility and the financial institutions handling the listing with regard to the obligations on disclosure during an IPO and defines certain principles that might be considered applicable to future court decisions (e.g., on the proof of cause), while it did not rule on the actual damages, which should be the object of new, separate and independent proceedings at the competent court petitioned by investors. At present no such petition has been initiated. A dispute of a similar nature to that described above was forwarded by another Dutch foundation, Stichting Van der Goen WOL Claims, in August 2001, and letters were subsequently received from other parties, in which the hypothesis of being able to proceed with similar action, if the conditions should apply.

These disputes are potentially significant; however, at present there are not enough sufficiently defined elements for quantifying potential liability. Therefore, no provision was allocated in the financial statements.

### Mobistar dispute

The indirect subsidiary, Tiscali International BV, is involved in a dispute furthered by the company Mobistar NV (a Wanadoo Group company) in June 2006. The dispute concerns the termination by Wanadoo Belgium, a company acquired by Tiscali in Spring 2003, of a dial-in traffic termination agreement with Mobistar NV (hereinafter: Contract). Even if the contract for the sale of the Wanadoo Belgium shares from Wanadoo SA to Tiscali Belgium provided the possibility of early termination of the Contract, a circumstance also confirmed by Tiscali's legal advisors, Mobistar however opposed this early termination and file suit. Subsequently, Tiscali Belgium sold Wanadoo Belgium to Scarlet but remained liable for Mobistar demands.

Tiscali has brought before the courts (i) Wanadoo SA – responsible in accordance with the contract for the sale of the Wanadoo Belgium shares to Tiscali Belgium, (ii) the legal advisors for the purchase transaction – who issued an erroneous opinion on the possibility of terminating the Contract - and (iii) the respective insurance company.

The petitum amounts to 4 euro million, nevertheless Tiscali believes that the same should be reduced (i) by around 1 euro million on the basis of the correct interpretation of the Contract, (ii) by a further amount, since the summons to Wanadoo and the legal advisors from Tiscali should at least mitigate the latter's liability. Tiscali believes that it is in no way liable; however, given the complexity of the dispute and the number of parties involved, a forecast on the possible outcome is complex and therefore there are negotiations underway to reach a settlement involving payment of approximately EUR 270,000 from Tiscali. Tiscali International BV and Tiscali S.p.A. report liabilities (already recorded in previous years) equal to the amount of the possible settlement. No additional allocation was made in the year.

### Ecotel Communication AG/Tiscali

On 19 October 2007, Ecotel Communication AG (Ecotel) - the company to which the Tiscali Group during the first half of 2007 transferred its German B2B activities for around EUR 18.5 million – sent Tiscali a letter by means of which, with regards to the sale contract stipulated with Tiscali Business GmbH on 3 February 2007 and signed by Tiscali in its capacity as guarantor, it challenged the company on certain income values pertaining to the activities acquired and claimed they were not correctly represented during the negotiations and in purchase agreement and demanded that the Company launch an independent appraisal of these values. Therefore, as a consequence of the alleged deviation from the real values, Ecotel assumes that it suffered a loss during its activities, whose effective total is estimated to be at least EUR 15 million. The Company has fully disputed all such claims.

In accordance with the arbitration clause provided in the contract for the sale of the German activities, on 21 April 2008 Ecotel initiated arbitration proceedings, summoning Tiscali Business Gmbh and Tiscali as jointly bound. Ecotel demands compensation for the damages suffered, estimated at EUR 15.2 million plus any additional damages and other related charges. Tiscali and Tiscali Business Gmbh have produced their statement of action, disputing the charges. The arbitration proceedings took place in Frankfurt (Germany).

In September 2009 the dispute ended with a settlement agreed by the parties. The agreement provided that Tiscali pay about EUR 1.65 million to Ecotel and that Ecotel release to Tiscali the portion of payment for the purchase of the German B2B activities still block as guarantee, amounting to about EUR 2.6 million.

### Talk Talk Group Limited /Tiscali

Following the disagreement between Tiscali and Talk Talk Limited (buyer of the UK activities, hereinafter: Talk Talk) on certain figures provided when payment was released for the portion still held as guarantee. In March 2010 the procedure provided for in the sale contract began. The parties appointed an independent expert to determine the amount of the figures in question. In particular, among the different allegations Tiscali claims it is entitled to be paid more than what is provided in the contract since the actual working capital proved to be higher than what was guaranteed by contract whereas Talk Talk claims that the number of users actually transferred was lower than guaranteed. Concerning the portion of payment still in escrow, amounting to about 35 million pounds, Tiscali demands payment of about 30 million while Talk Talk demands about 25 million pounds from the amount of the guarantee.

In the financial statements at 31 December 2009, though the company feels its position is completely sound, it wrote down the escrow for 7.5 million pounds due to the uncertainty entailed in such cases

### Tax Audits

The Dutch tax authorities sent a number of audit notices to World On Line International NV, and to the direct subsidiary Tiscali International BV, for allegedly not paying withholdings on salaries and stock options acknowledged in previous years to Group executives. The total amount of these disputes is EUR 2 million, against which Tiscali International BV has made payments totalling around EUR 0.3 million. The remaining amount mainly refers to stock options supposedly granted to Mr. Landefeld (who, by the way, is a resident of Germany for tax purposes) and, in the opinion of Tiscali's tax advisors, not subject to taxation in the Netherlands. Given this circumstance and considering that this dispute is in the initial stages, it was decided that the liability cannot be considered likely and therefore no related provision was made.

**Segment reporting (by country and business segment)**

The application of IFRS 8 "Operating Segments" did not have an impact on the segment report since the operating segments are the same as when IAS 14 "Segment Reporting" was applied.

The activities of the Tiscali Group and the related strategies, as well as the underlying activities linked to head office control, are structured and defined by geographic area, which therefore represents the primary segment for the purposes of segment reporting.

## Conto Economico

| 31 December 2009 | Italy | Other | Corporate | HFS/ Discontinued | Cancellation adjustments | Totale |
|---|---|---|---|---|---|---|
| *(EUR 000)* | | | | | | |
| **Revenues** | | | | | | |
| From third parties | 285,953 | 44 | 5,356 | 268,072 | (268,072) | 290,353 |
| Intra-group | 2,839 | 25 | 11,082 | 8,416 | (22,362) | - |
| **Total revenues** | **287,793** | **69** | **16,438** | **276,488** | **(290,434)** | **290,353** |
| **Operating result** | **24,733** | **(2,543)** | **(12,807)** | **(22,505)** | **24,474** | **11,353** |
| **Portion of results of equity investments carried at equity** | | | | | | **(33)** |
| **Net financial income (charges)** | | | | | | (13,883) |
| **Pre-tax result** | | | | | | (2,563) |
| **Income taxes** | | | | | | (12,135) |
| **Net result from operating activities (on-going)** | | | | | | (14,698) |
| **Result from assets disposed of and/or destined for disposal** | | | | | | (372,396) |
| **Net result** | | | | | | **(387,012)** |

| 31 December 2008 | Italy | Other | Corporate | HFS/ Discontinued | Cancellation adjustments | Totale |
|---|---|---|---|---|---|---|
| *(EUR 000)* | | | | | | |
| **Revenues** | | | | | | |
| From third parties | 309,431 | 1,684 | 13,949 | 703,654 | (703,654) | 325,064 |
| Intra-group | 4,072 | - | 16,733 | 21,388 | (42,194) | - |
| **Total revenues** | **313,504** | **1,684** | **30,682** | **725,042** | **(745,848)** | **325,064** |
| **Operating result** | **(17,362)** | **3,200** | **(5,641)** | **(90,723)** | **96,324** | **(14,203)** |
| **Portion of results of equity investments carried at equity** | | | | | | **(101)** |
| **Net financial income (charges)** | | | | | | (88,395) |
| **Pre-tax result** | | | | | | (102,699) |
| **Income taxes** | | | | | | (25,037) |
| **Net result from operating activities (on-going)** | | | | | | (127,736) |
| **Result from assets disposed of and/or destined for disposal** | | | | | | (143,354) |
| **Net result** | | | | | | **(271,090)** |

## Balance Sheet

| 31 December 2009 | Italy | Other | Corporate | HFS/ Discontinued | Total |
|---|---|---|---|---|---|
| *(EUR 000)* | | | | | |
| **Attività** | | | | | |
| Attività di settore | 361,858 | 12,130 | 52,255 | 31 | 426,274 |
| Partecipazioni valutate con il metodo del PN | - | - | - | - | - |
| Partecipazioni in altre imprese | 2,332 | - | - | - | 2,332 |
| Avviamento | - | - | - | - | - |
| **Totale attività consolidate** | **364,190** | **12,130** | **52,255** | **31** | **428,606** |
| **Passività** | | | | | |
| Passività di settore | 294,277 | 11,676 | 188,675 | 31 | 494,628 |
| **Totale passività consolidate** | **294,277** | **11,676** | **188,675** | **31** | **494,628** |

| 31 December 2008 | Italy | United Kingdom | Other | Corporate | HFS/ Discontinued | Cancellation adjustments | Total |
|---|---|---|---|---|---|---|---|
| *(EUR 000)* | | | | | | | |
| **Assets** | | | | | | | |
| Segment assets | 384,098 | 293,835 | 5,781 | 24,115 | 60,472 | (60,472) | 764,624 |
| Equity investments carried at equity | 33 | - | - | - | - | - | 33 |
| Equity investments in other companies | 2,332 | - | - | - | 14 | (14) | 2,332 |
| Goodwill | - | 438,824 | - | - | - | - | 438,824 |
| **Total consolidated assets** | **386,463** | **732,660** | **5,781** | **24,115** | **60,486** | **(60,486)** | **1,205,817** |
| **Liabilities** | | | | | | | |
| Segment liabilities | 347,951 | 762,929 | 12,192 | 55,268 | 22,274 | (22,274) | 1,178,340 |
| **Total consolidated liabilities** | **347,951** | **762,929** | **12,192** | **55,268** | **22,274** | **(22,274)** | **1,178,340** |

## Assets by business segment

| 31 December 2009 | Access | | Voice | Business services | Media & VAS | Unallocated | Total |
|---|---|---|---|---|---|---|---|
| | Broadband | Narrowband | | | | | |
| *(EUR 000)* | | | | | | | |
| Goodwill | - | - | - | - | - | - | - |
| Intangible assets | 46,454 | - | 26,529 | 411 | 324 | 11,469 | 85,187 |
| Properties, plant and machinery | 83,709 | - | 45,824 | 1,825 | 112 | 6,268 | 137,737 |
| Equity investments | - | - | - | - | - | 0 | - |
| Other financial assets | - | - | - | - | - | 16,723 | 16,723 |
| Deferred tax assets | - | - | - | - | - | - | - |
| | **130,163** | **-** | **72,353** | **2,236** | **436** | **34,459** | **239,647** |
| *Current assets* | | | | | | | |
| Inventories | 151 | - | - | 1,741 | - | - | 1,892 |
| Receivables from customers | 50,069 | 5,563 | 37,830 | 7,789 | 4,451 | 6,545 | 112,246 |
| Other receivables and current assets | 11,219 | - | - | - | - | 15,868 | 27,087 |
| Other current financial assets | - | - | - | - | - | 31,484 | 31,484 |
| Cash and cash equivalents | - | - | - | - | - | 16,220 | 16,220 |
| | **61,439** | **5,563** | **37,830** | **9,529** | **4,451** | **70,116** | **188,928** |
| Assets held for sale | - | - | - | - | - | 31 | **31** |
| **Total Assets** | **191,602** | **5,563** | **110,183** | **11,765** | **4,851** | **104,606** | **428,606** |

| 31 December 2008 | Access | | Voice | Business services | Media & VAS | Unallocated | Total |
|---|---|---|---|---|---|---|---|
| | Broadband | Narrowband | | | | | |
| *(EUR 000)* | | | | | | | |
| Goodwill | - | - | - | - | - | 438,824 | 438,824 |
| Intangible assets | 119,028 | 1,392 | 44,446 | 67 | 1,130 | 25,868 | 191,931 |
| Properties, plant and machinery | 189,512 | 3,989 | 3,779 | 1,426 | 37 | 33,545 | 232,288 |
| Equity investments | - | - | - | - | - | 33 | 33 |
| Other financial assets | - | - | - | - | - | 17,313 | 17,313 |
| Deferred tax assets | - | - | - | - | - | 10,507 | 10,507 |
| | **308,540** | **5,381** | **48,225** | **1,492** | **1,167** | **526,091** | **890,896** |
| *Current assets* | | | | | | | |
| Inventories | 4,872 | - | - | 1,727 | - | 281 | 6,880 |
| Receivables from customers | 84,607 | 10,261 | 61,321 | 5,613 | 8,670 | 6,348 | 176,819 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Other receivables and current assets | 23,440 | 824 | 8,190 | - | - | 14,341 | 46,794 |
| Other current financial assets | - | - | - | - | - | 3,430 | 3,430 |
| Cash and cash equivalents | - | - | - | - | - | 24,202 | 24,202 |
| | **112,919** | **11,084** | **69,510** | **7,340** | **8,670** | **48,602** | **258,125** |
| Assets held for sale | - | - | - | - | - | 56,795 | 56,795 |
| **Total Assets** | **421,459** | **16,4659** | **117,736** | **8,832** | **9,837** | **631,488** | **1,205,817** |

**Investments in fixed assets by business segment**

| 31 December 2009 | Access | | Voice | Business services | Media & VAS | Unallocated | Total |
|---|---|---|---|---|---|---|---|
| | Broadband | Narrowband | | | | | |
| *(EUR 000)* | | | | | | | |
| Intangible assets | 9.097 | - | 4,980 | 198 | 12 | 697 | **14,985** |
| Properties, plant and machinery | 14,088 | - | 8,045 | 125 | 98 | 3,477 | **25,833** |
| | **23,185** | **-** | **13,025** | **323** | **110** | **4,174** | **40,818** |

| 31 December 2008 | Access | | Voice | Business services | Media & VAS | Unallocated | Total |
|---|---|---|---|---|---|---|---|
| | Broadband | Narrowband | | | | | |
| *(EUR 000)* | | | | | | | |
| Intangible assets | 73,169 | 1,408 | 25,256 | 30 | 511 | 12,621 | **112,994** |
| Properties, plant and machinery | 49,156 | 1,859 | 542 | 205 | 5 | 9,540 | **61,308** |
| | **122,325** | **3,267** | **25,798** | **235** | **516** | **22,161** | **174,302** |

**Impegni e altre garanzie**

Di seguito si riportano il dettaglio delle garanzie prestate nel corso dell'esercizio 2009,

| | 31 December 2009 | 31 December 2008 |
|---|---|---|
| *(EUR 000)* | | |
| Guarantees given to third parties (sureties) | 257,816 | 687,527 |
| Commitments | 7,096 | 6,964 |
| **Totale** | **264,912** | **694,491** |

Sureties given include EUR 158 million in relation to the guarantee given by the Parent Company for the loans granted by Banca Intesa San Paolo and JP Morgan as part of Group debt restructuring during the year.

The same item includes the surety given by Tiscali S.p.A. to guarantee the amount of the loan granted for the sale & lease back transaction on the Sa Illetta property, totalling EUR 95.3 million, carried out by the subsidiary Tiscali Italia S.p.A..

In addition to the sureties given to third parties there are also other sureties including the most significant one in favour of the Janna consortium (EUR 2.3 million) to guarantee commitments undertaken when stipulating the share capital increase and in favour of Regione Sardegna for the UNISOFIA project.

The item commitments includes EUR 2.9 million for the maintenance of credit facilities granted to the subsidiary Tiscali Italia S.p.A. and EUR 3.6 million for other guarantees related to leasing contracts stipulated by the subsidiary.

**One-off transactions**

Pursuant to Consob Resolution no. 15519 of 27 July 2006, the table below shows details on one-off transactions.

| | Risultato delle attività continuative prima delle imposte | | Patrimonio Netto | | Indebitamento finanziario netto | |
|---|---|---|---|---|---|---|
| | Valore | % | Valore | % | Valore | % |
| *(EUR mln)* | | | | | | |
| **Book value** | **(2.5)** | | **(66.9)** | | **(224.4)** | |
| Effect of charges for debt restructuring | *10.7* | | *10.7* | | *7.8* | |
| Effect of loan write-off (Facility D2) | *(42.3)* | | *(42.3)* | | *(42.3)* | |
| **Total effects of one-off events and transactions** | **(31.6)** | | **(31.6)** | | **(34.5)** | |
| **Figurative value with one-off transactions** | **(34.1)** | | **(98.5) (*)** | | **(258.9) (*)** | |

The charges for debt restructuring, amounting to EUR 10,7 million, refer to costs incurred for Group debt restructuring (Senior Debt restructuring) with the stipulation of the Group Facility Agreement on 2 July 2009. For further details see note 8 “Restructuring costs and other write-downs”.

Financial income includes the effect of the Facility D2 write-off by the Financial Institutions (Senior Lenders) of a portion of the debt (Facility D2) amounting to EUR 42.3 million, including interest calculated to 18 November 2009.

(*) It should be mentioned that had the conditions for the Facility D2 write-off not been in place, based on the agreements stipulated with the financial institutions, in 2010 the company would have launched share capital increase 2 on the market, for a maximum amount of EUR 46.5 million. Subscription to the increase, guaranteed by the financial institutions by contract, would have had the same positive effect on sharehol-ders’ equity and financial debt for the Group.

### Transactions with related parties

#### Dealings with non-consolidated Group companies

The Group has no significant dealings with non-consolidated companies.

#### Dealings with other related parties

During the year, the Tiscali Group had a number of dealings with related parties, under conditions considered normal on their respective markets, taking into account the characteristics of the goods and services provided.

The table below summarizes the balance sheet and income statement values recorded in the Tiscali Group's consolidated financial statements at 31 December 2009 arising from transactions with related parties.
The most significant balances, at 31 December 2009, summarized by supplier of the services, are as follows:

| INCOME STATEMENT VALUES | Notes | December 2009 (Group) | December 2008 (Group) |
|---|---|---|---|
| *(EUR 000)* | | | |
| Shardna | 1 | - | - |
| Interoute | 2 | (739) | (1,621) |
| Leadsatz GmbH | | - | (100) |
| Bizzarri Francesco | 3 | - | - |
| Studio Racugno | 4 | (2) | (69) |
| Nuove Iniziative Editoriali S.p.A. | 5 | (5) | - |
| **TOTAL SUPPLIERS OF MATERIALS AND SERVICES** | | **(746)** | **(1,790)** |
| Andalas SA | 6 | (1,520) | (2,747) |
| **TOTAL** | | **(2,266)** | **(4,538)** |

| BALANCE SHEET VALUES | Notes | December 2009 (Group) | December 2008 (Group) |
|---|---|---|---|
| *(EUR 000)* | | | |
| Shardna | 1 | 331 | 331 |
| Interoute | 2 | (1,125) | (948) |
| Leadsatz GmbH | | - | (60) |
| Bizzarri Francesco | 3 | (37) | (37) |
| Studio Racugno | 4 | (2) | (27) |
| Nuove Iniziative Editoriali S.p.A. | 5 | (5) | |
| **TOTAL SUPPLIERS OF MATERIALS AND SERVICES** | | **(838)** | **(741)** |
| Andalas SA | 6 | - | (30,228) |
| **TOTAL** | | **(838)** | **(30,970)** |

**Remuneration of the directors, statutory auditors and executives with strategic responsibility**

The remuneration due to the directors and statutory auditors of Tiscali S.p.A. for conducting their functions in the parent company and other consolidated subsidiaries is presented below:

| | 2009 | 2008* |
|---|---|---|
| *(EUR 000)* | | |
| Directors | 913 | 5,994 |
| Statutory Auditors | 190 | 188 |
| **Total remuneration** | **1,103** | **6,182** |

The total value of the cost incurred in 2009 for the remuneration due to executives with strategic responsibility amounted to EUR 2.4 million. This amount includes the following:

- the figurative cost of stock options granted to a number of Group executives for around EUR 0.1 million;
- the Group's contributions to public and corporate welfare funds for EUR 0.5 million.

**List of subsidiaries included in the consolidation area**

A list of the subsidiary companies included within the consolidation area is presented below.

* 2008 figures include remuneration for directors and statutory auditors of companies sold in 2009

(1) Shardna S.p.A.: the majority shareholder Renato Soru held shares in the company until 30 November 2009, when he sold his shareholdings. The dealings maintained by the Parent Company referred to the sub-letting of the Tiscali offices in the suburbs of Cagliari.

(2) Interoute: group entirely owned by the Sandoz Family Foundation, a Tiscali shareholder. The costs incurred during the year refer to purchases made by Tiscali Italia S.p.A. for dark fibre and related maintenance. The Sandoz Family Foundation, the parent company of Interoute, reduced its shareholding in the company below any significant level and reported holding about 0.21% on 16 November 2009.

(3) Mr. F. Bizzarri: member of Tiscali S.p.A's Board of Directors until 21 December 2009, stipulated an IPTV consultancy contract with the Parent Company and with the subsidiary Tiscali Italia S.p.A., which expired in June 2008.

(4) Racugno Law Firm: Gabriele Racugno, member of Tiscali S.p.A.'s Board of Directors since 29 December 2009, provides Tiscali Italia S.p.A. with legal assistance.

(5) Nuove Iniziative Editoriali S.p.A.: the majority shareholder, Renato Soru, holds shares in this company and the transactions refer to an advertising contract and the provision of telecommunications services. It should be mentioned that the shares held by Renato Soru were in the name of Gabriele Racugno by virtue of a deed of trust. The latter was a member of the board of directors of Tiscali S.p.A. from 21 December 2009 to January 2010.

(6) in 2004, the shareholder Andalas Limited (shares of the latter held by Renato Soru) granted a loan bearing interest at market rates. On 30 October 2009, Renato Soru compensated for the amount (including interest accrued) by subscribing an equivalent amount in Tiscali S.p.A. shares when the latter increased its share capital.

| Company name | Country | % investment |
|---|---|---|
| Tiscali S.p.A. | Italy | |
| Tiscali Italia S.p.A. | Italy | 100.0% |
| Tiscali Media S.r.l. | Italy | 100.0% |
| Tiscali Contact S.r.l. | Italy | 100.0% |
| Energy Byte S.r.l. (in liquidation) | Italy | 100.0% |
| Tiscali Motoring S.r.l. (sold) | Italy | 60.0% |
| Tiscali Finance Sa in liquidation | Luxembourg | 100.0% |
| Tiscali Financial Services SA | Luxembourg | 100.0% |
| Tiscali Deutschland Gmb | Germany | 100.0% |
| Tiscali GmbH | Germany | 100.0% |
| Tiscali Verwaltungs Gmbh | Germany | 100.0% |
| World Online International Nv | Netherlands | 99.5% |
| Tiscali International Bv | Netherlands | 99.5% |
| Tiscali B.V. | Netherlands | 99.5% |
| Wolstar B.V. (in liquidation) | Netherlands | 49.7% |
| Tiscali Finance BV (in liquidation) | Netherlands | 99.5% |
| Tiscali International Network B.V. | Netherlands | 99.5% |
| Tiscali International Network S.p.A (sold) | Italy | 99.8% |
| Tiscali International Network SA (in liquidation) | France | 99.5% |
| Tiscali International Network GmbH (sold) | Germany | 99.5% |
| Tiscali International Network Ltd (sold) | UK | 99.5% |
| Tiscali International Network USA (sold) | USA | 99.5% |
| Green Dot Property Man Ltd (sold) | UK | 99.5% |
| World Online Ltd. (sold) | UK | 99.5% |
| World Online Telecom Ltd (sold) | UK | 99.5% |
| Tiscali Holdings UK Ltd* | UK | 99.5% |
| Tiscali Uk Ltd (sold) | UK | 86.3% |
| Tiscali Network Distribution Ltd (sold) | UK | 86.3% |
| Video Network Ltd (sold) | UK | 86.3% |
| VNL Sports Ltd (sold) | UK | 86.3% |
| Pipex UK Holdings Ltd (sold) | UK | 86.3% |
| Switch 2 Telecom Ltd (sold) | UK | 86.3% |
| Toucan Residential Ireland Ltd (sold) | UK | 86.3% |
| Toucan Residential Ltd (sold) | UK | 86.3% |
| Pipex UK Ltd (sold) | UK | 86.3% |
| Homecall Payment Serv Ltd (sold) | UK | 86.3% |
| Pipex InternetLtd (sold) | UK | 86.3% |
| Freedom 2 Surf Ltd (sold) | UK | 86.3% |
| Freedom 2 Surf Registr Serv Ltd (sold) | UK | 86.3% |
| Pipex Broatband Ltd (sold) | UK | 86.3% |
| Higwai One Ltd (sold) | UK | 86.3% |
| Pipex Networks Ltd (sold) | UK | 86.3% |
| Freedom 2 Serf Cons. Serv. Ltd (sold) | UK | 86.3% |
| Accent UK Ltd (sold) | UK | 86.3% |
| Nildram Ltd (sold) | UK | 86.3% |
| Trinite Ltd (sold) | UK | 86.3% |
| Trinite Services Ltd (sold) | UK | 86.3% |
| Pipex Comm. Serv. Ltd (sold) | UK | 86.3% |
| GX Network Twelve Ltd (sold) | UK | 86.3% |
| Homecall (UK) Ltd (sold) | UK | 86.3% |
| Tiscali Business UK Ltd | UK | 99.5% |
| Tiscali Business GmbH | Germany | 99.5% |
| Tiscali Espana SLU (sold) | Spain | 99.5% |

* Tiscali UK Holding was sold to Tiscali S.p.A. on 26 November 2009 and is now 100% controlled

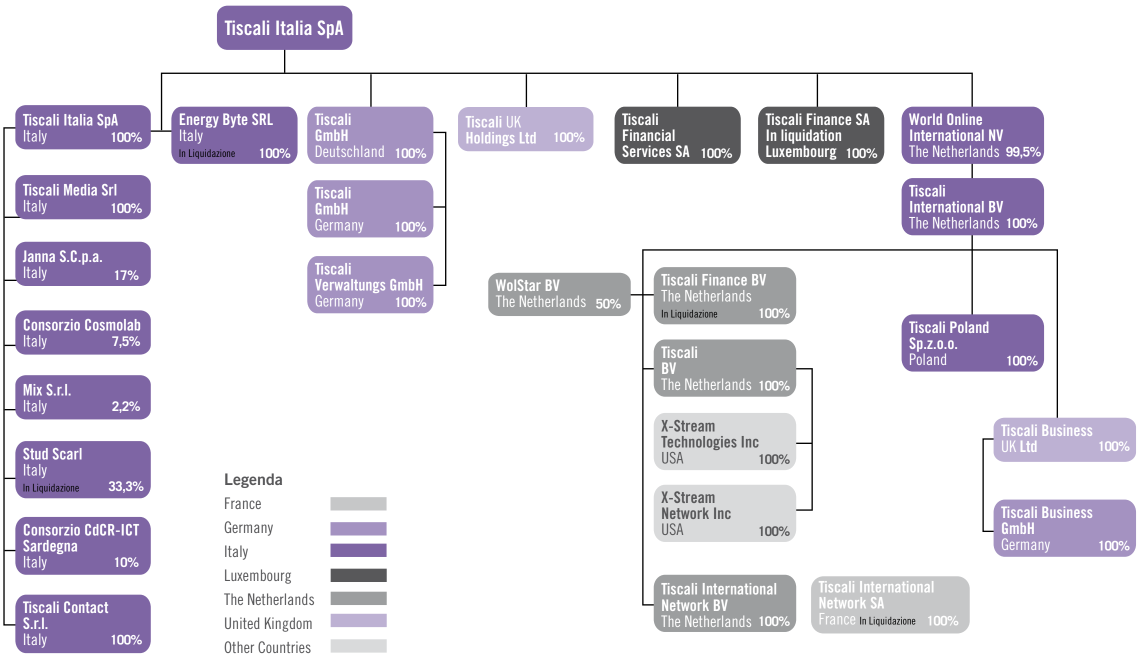
List of equity investments carried at equity

| Company name | Country | % investment |
|---|---|---|
| STS S.r.l. * | Italy | 35% |
| STUD Soc. Consortile a.r.l. (in liquidation) | Italy | 33.33% |

** shareholding disposed of in June 2009*

List of equity investments in other companies carried at cost.

| | |
|---|---|
| Mix S.r.l. | Italy |
| Janna S.c.p.a. | Italy |
| CdCR-ICT Consortium | Italy |
| Cosmolab Consortium | Italy |
| X-Stream Network Inc | USA |
| X-Stream Network Technologies Inc | USA |
| World Online Poland Sp Z.O.O. | Poland |




## Significant events after the end of the year

### Tiscali Italia S.p.A. new organization for customer support service

On 7 January 2010 Tiscali announced that as part of its program to relaunch on the Italian market, also by improving the quality of its technical and administrative customer support services and by optimizing internal resources, it has decided to internalize those services. Internalization of before sales and after sales customer support is considered a critical factor for success in the telecommunications industry, in addition to enabling the group to save on costs.

## Other significant events

As described in the note “Disputes, contingent liabilities and commitments”, in March 2010 an independent expert was appointed to determine figures under discussion to define the disagreement between Tiscali and Talk Talk limited to release payment of amounts for the sale of UK activities still held in escrow. No other significant events occurred after 31 December 2009.

### Positions and transactions deriving from atypical and/or unusual operations

There were no positions or transactions deriving from atypical and/or unusual operations in 2009.

### Annex - Information pursuant to Article 149-duodecies of Consob Issuers’ Regulations

The following table, drawn up in accordance with Article 149-duodecies of Consob Issuers’ Regulations, indicates the fees paid in 2009 for auditing services and for other services provided by the independent auditing firm. There were no services provided by bodies belonging to its network.

| Type of service | Party providing the services | Beneficiary | Fee (EUR mln) |
|---|---|---|---|
| Accounts auditing | Reconta Ernst & Young S.p.A. | Parent company - Tiscali S.p.A. | 261 |
| | Reconta Ernst & Young S.p.A. | Subsidiary companies | 160 |
| | Ernst & Young LLP | Subsidiary companies | 140 |
| Certification services [1] | Reconta Ernst & Young S.p.A. | Parent company - Tiscali S.p.A. | 10 |
| Disclosure statement for the sale of UK subsidiaries (Tiscali UK) | Reconta Ernst & Young S.p.A. | Parent company - Tiscali S.p.A. | 65 |
| Disclosure prospectus for share capital increase | Reconta Ernst & Young S.p.A. | Parent company - Tiscali S.p.A. | 150 |
| Tax compliance services | Ernst & Young LLP | Subsidiary companies | 33 |
| Other professional services | Ernst & Young LLP | Subsidiary companies | 149 |
| **Total** | | | **968** |

*1) Certification services include signing tax declarations.*

*Cagliari, 26 March 2010*

**Chief Executive Officer**

Renato Soru

**Executive appointed to draw up corporate accounting documents**

Luca Scano

**2009 consolidated financial statements certification pursuant to Article 81-ter of CONSOB Regulation no. 11971 of 14 May 1999 and as amended.**

The undersigned, Renato Soru in his capacity as Chief Executive Officer, and Luca Scano, in his capacity as Executive appointed to draw up the corporate accounting documents of Tiscali S.p.A., hereby certify, also taking into account the provisions of Article 154-bis (3 and 4), of Italian Legislative Decree No. 58 dated 24 February 1998:

- the adequacy in relation to the Company's characteristics;
- the effective application of the administrative and accounting procedures for the formation of the financial statements during 2009.

Tiscali S.p.A. has adopted the following as a reference frame work for the definition and assessment of its internal audit system, with particular reference to internal checks for the formation of the financial statements: the Internal Control - Integrated Framework model issued by the Committee of Sponsoring Organizations of the Treadway Commission, which is a group of the general reference standards for internal audit systems and is generally accepted worldwide.

- It is also hereby certified that the financial statements at 31 December 2009:
- are consistent with the results of accounting books and entries;
- have been drawn up in compliance with the International Financial Reporting Standards adopted by the European Union as well as the legislative and regulatory provisions in force in Italy;
- as far as is known, they are suitable for providing a true and fair view of the equity, economic and financial situation of the issuer.

*Cagliari, 26 March 2010*

**Chief Executive Officer**

Renato Soru

**Executive appointed to draw up corporate accounting documents**

Luca Scano

# 10.
# Tiscali S.p.A.
# Financial Statements 2009

## 10.1 Analysis of the income statement, balance sheet and cash flow statement for Tiscali S.p.A.

**Foreword**

The statements presented below have been drawn up on the basis of the statutory financial statements at 31 December 2009, to which reference should be made. In this connection, note that the 2009 statutory financial statements represent the separate financial statements of the Parent Company Tiscali S.p.A. and have been prepared in observance of the International Accounting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") as approved by the European Union, as well as the instructions issued by way of implementation of Section 9 of Italian Legislative Decree No. 38/2005. The IFRS are understood to include all the reviewed international accounting standards ("IAS") and all the interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), previously known as the Standing Interpretations Committee ("SIC").

**Income statement**

| | 31 December 2009 | 31 December 2008 |
|---|---|---|
| *(EUR 000)* | | |
| Value adjustment on equity investments (Other write-down) | (123,065) | (954,695) |
| Net financial income (charges) | 4,771 | (1,915) |
| Revenues from services and other income | 10,764 | 17,425 |
| Payroll and related, service and other operating costs | (12,286) | (24,275) |
| Other write-downs | (128,700) | (17,351) |
| Income taxes | (185) | (263) |
| Result from assets disposed of and/or destined for disposal | 447 | (250) |
| **Net result** | **(248,254)** | **(981,324)** |

The shareholding value adjustments mainly cater for the devaluation of the shareholding in World Online International N.V in the amount of EUR 122.6 Million (compared with EUR 954 million in the previous year).

Net financial income, positive to the tune of EUR 4.8 million, refer to the positive effect of the debt waiver (Facility D2) on the part of the Senior Financial Bodies of EUR 42.3 million previously borne by Tiscali UK Holdings Ltd and then passed on to Tiscali S.p.A. This positive effect has been partly offset by the waiver by the intercompany financial loan towards Tiscali UK Holdings in the amount of EUR 37.5 million generated by the passing-on transaction referred to above.

Revenues from services mainly comprise (EUR 10.2 million) the fees contractually agreed deriving from 'Corporate' services to subsidiary companies including the payments for licences to use the Tiscali trademark calculated as a percentage of the sales revenues generated by the Group companies using said trademark.

The item also includes income from third parties of EUR 5 million arising from the partnership contract with the Google search engine which is allocated to and invoiced by the Parent Company. The income proportions relevant to the Group companies are then transferred back to the latter with individual acknowledgements in the Parent Company financial statements of the inter-group costs of EUR 5 million. It is pointed out that, in accordance with the provisos of international accounting principles ("IFRS"), the value of such inter-group costs have been deducted from the inherent income as adjustment items.

The most significant cost component is represented by payroll and related costs, which amounted to EUR 5.3 million while other operating costs include management consultancy services and professional expenses pertaining to current business operations.

Other write-downs include the devaluation of the credit positions held to be unenforceable towards Group companies in the amount of EUR 121 million and for charges borne for the restructuring of the debt of the UK subsidiary Tiscali UK Holdings Ltd of about EUR 7 million.

Taxes payable for the year amounting to EUR 0.2 million are classified in the taxes item.
The results of assets sold and/or intended for sale, which is positive to the tune of EUR 0.4 million, includes the positive effect of the capital value achieved on the sale of the 60% shareholding held in the Company Tiscali International Network S.p.A. (which took place in May 2009) equal to EUR 3.4 million net of the related charges of around EUR 0.4 million. The item also includes the charges incurred on the occasion of the sale of the UK Company Tiscali UK Ltd, which was controlled indirectly, and which took place in July 2009 for an amount equal to EUR 2.6 million.

## 10.2 Balance sheet and Cash flow statement

| | 31 December 2009 | 31 December 2008 |
|---|---|---|
| *(EUR 000)* | | |
| *Non-current assets* | 134,623 | 241,616 |
| *Current assets* | 20,060 | 30,182 |
| Assets held for sale | - | - |
| **Total Assets** | **154,683** | **271,798** |
| | - | - |
| **Shareholders' equity** | 93,747 | 154,096 |
| **Total Shareholders' equity** | **93,747** | **154,096** |
| *Non-current liabilities* | 5,955 | 44,115 |
| *Current liabilities* | 54,750 | 73,587 |
| Liabilities directly related to assets held for sale | 231 | - |
| **Total Liabilities and Shareholders' equity** | **154,683** | **271,798** |

At 31 December 2008, with net assets equal to EUR 154.1 million, Tiscali S.p.A. was under the conditions set out under section 2446 of the Italian Civil Code for corporate equity reduction of more than one third since the accumulated losses at the same date came to EUR 1,142.7 million.

During the course of the year 2009 the Directors have made appropriate arrangements described in detail in the comments under the Net Assets item to which kindly refer.

**Assets**

### Non-current assets

Non current assets mainly include controlling shareholdings in the value of EUR 112 million.

Other financial assets are mainly represented by financial loans to Group companies and come to EUR 23 million.

### Current assets

Current assets mainly include Receivables from customers for EUR 15.5 million (of which EUR 15.1 million are due from Group companies), compared with EUR 23.7 million last year (of which EUR 19.5 million due from Group companies).

The same item also includes also “Other loans and sundry current assets” of EUR 2.1 million relating to advances paid to suppliers of EUR 0.9 million and tax credits, and instalments on services.

**Liabilities**

*Non-current liabilities*

Non-current liabilities, other than items relating to the financial position for which reference should be made to the next note, include provisions for risks and charges of EUR 3.6 million generated from provisions set aside for disputes and contingent liabilities.

### Current liabilities

Current liabilities not related to the financial position mainly include debts to suppliers for EUR 15.3 million (of which EUR 3 million are due from Group companies), compared with EUR 22 million last year (of which EUR 11 million due from Group companies).

**Cash flow statement**

The Parent Company's financial position is shown in the table below:

| | 31 December 2009 | 31 December 2008 |
|---|---|---|
| *(EUR 000)* | | |
| A. Cash | 6 | 1 |
| B. Other cash equivalents | 2,425 | 1,372 |
| C. Securities held for trading | - | - |
| **D. Cash and cash equivalents (A) + (B) + (C)** | **2,431** | **1,373** |
| **E. Current financial payables** | **2,120** | **5,026** |
| **F. Non Current financial receivables (*)** | **484** | **1,435** |
| G. Current bank payables | (590) | (627) |
| H. Current portion of non-current debt | - | - |
| I. Other current financial payables | (36,014) | (45,753) |
| **J. Current financial debt (G) + (H) + (I)** | **(36,604)** | **(46,379)** |
| **K. Net current financial debt (J) – (E) – (F) – (D)** | **(31,569)** | **(38,545)** |
| L. Non-current bank payables | | - |
| M. Bonds issued | | - |
| N. Other non-current payables to Group companies | (2,090) | (3,108) |
| O. Other non-current payables to third parties | - | (515) |
| **P. Non-current financial debt (L) + (M) + (N) + (O)** | **(2,090)** | **(3,623)** |
| **Q. Net financial debt (K) + (P)** | **(33,659)** | **(42,169)** |

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

It seems appropriate to stress that in the financial position set out in the financial statements at 31 December 2008, equal to EUR 43.6 million, the Non Current Financial Loans item was not included and came to EUR 1.4 million, included instead in the calculation at 31 December 2009, and for uniformity, in the comparison with 2008.

*(*) The table presented in note 25, Net financial position, does not include Non-Current financial receivables*

# 11.
# Tiscali S.p.A.
# Accounting Statements
# and Explanatory Notes

## 11.1 Income Statement

| | Notes | 31 December 2009 | 31 December 2008 |
|---|---|---|---|
| *(EUR)* | | | |
| Revenues | *1* | 10,764,130 | 17,424,709 |
| Other income | | - | - |
| Purchase of materials and outsourced services | *2* | (3,211,228) | (7,883,497) |
| Payroll and related costs | *3* | (5,343,961) | (14,247,742) |
| Other operating costs | *4* | (3,384,065) | (1,769,006) |
| Write-downs of receivables from customers | *5* | (1,814) | - |
| Other write-downs | *5* | (251,763,462) | (972,045,889) |
| Amortisation/depreciation | | (346,666) | (375,112) |
| **Operating result** | | **(253,287,066)** | **(978,896,537)** |
| Portion of result of equity investments carried at equity | | | |
| Net financial income (charges) | *6* | 4,770,678 | (1,915,079) |
| **Pre-tax result** | | **(248,516,388)** | **(980,811,616)** |
| Income taxes | *7* | (184,683) | (262,604) |
| **Net result from operating activities (on-going)** | | **(248,701,071)** | **(981,074,220)** |
| Result from assets disposed of and/or destined for disposal | *8* | 447,311 | (250,000) |
| **Results for the year** | | **(248,253,761)** | **(981,324,220)** |

## 11.2 Statement of the asset and financial position

| | Notes | 31 December 2009 | 31 December 2008 |
|---|---|---|---|
| *(EUR)* | | | |
| *Non-current assets* | | | |
| Intangible assets | 9 | 2,348 | 306,966 |
| Properties, plant and machinery | 10 | 26,509 | 68,557 |
| Equity investments | 11 | 111,989,572 | 235,743,924 |
| Other financial assets | 12 | 22,604,609 | 5,496,440 |
| | | **134,623,038** | **241,615,887** |
| *Current assets* | | | |
| Receivables from customers | 13 | 15,509,490 | 23,782,983 |
| Other receivables and other current assets | 14 | 2,119,874 | 2,421,118 |
| Other current financial assets | 15 | - | 2,604,475 |
| Cash and cash equivalents | 16 | 2,430,831 | 1,373,247 |
| | | **20,060,194** | **30,181,823** |
| Assets held for sale | | - | - |
| **Total Assets** | | **154,683,232** | **271,797,710** |
| *Share Capital and reserves* | | | |
| Share Capital | | 92,002,890 | 308,272,743 |
| Share premium reserve | | - | 990,857,353 |
| Stock option reserve | | 4,314,970 | 3,840,707 |
| Reserve for own equity | | - | (6,186,581) |
| Reserve to cover losses | | 252,931,146 | |
| Other reserves | | (7,248,453 | |
| Result from previous years | | | (161,363,531) |
| Results for the year | | (248,253,761) | (981,324,220) |
| **Total Shareholders' equity** | **17** | **93,746,793** | **154,096,471** |
| *Non-current liabilities* | | | |
| Other non-current liabilities | 18 | 2,090,062 | 3,622,967 |
| Liabilities for pension obligations and staff severance | 19 | 202,530 | 271,188 |
| Provisions for risks and charges | 20 | 3,662,273 | 40,220,386 |
| | | **5,954,865** | **44,114,541** |
| *Current liabilities* | | | |
| Payables to banks and other lenders | 21 | 589,964 | 626,825 |
| Payables to suppliers | 22 | 15,299,020 | 22,077,214 |
| Other current liabilities | 23 | 38,861,256 | 50,882,660 |
| | | **54,750,239** | **73,586,699** |
| Liabilities directly related to assets held for sale | | 231,336 | - |
| **Total Liabilities and Shareholders' equity** | | **154,683,232** | **271,797,710** |

## 11.3 Statement of changes in shareholders' equity

| *(EUR)* | Share Capital | Share premium reserve | Stock option reserve |
|---|---|---|---|
| **Balance at 1 January 2008** | **212,206,582** | **902,491,676** | **885,428** |
| Increases/Decreases | 96,066,161 | 112,207,277 | 2,955,000 |
| Transfers covering losses | | (23,841,599) | |
| Results for the year | | | |
| **Balance at 1st January 2009** | **308,272,743** | **990,857,353** | **3,840,428** |
| Increases/Decreases | - | - | 474,542 |
| Equity increase | 179,981,937 | 8,509,755 | |
| Transfers covering losses | (396,251,789) | (999,367,108) | - |
| Results for the year | - | - | - |
| **Balance at 31 December 2009** | **92,002,890** | **-** | **4,314,970** |

| Reserve for own equity | Reserve to cover losses | Other reserves | Accumulated losses and losses for the year | Totale |
|---|---|---|---|---|
| - | - | - | (185,382,601) | 930,201,364 |
| (6,186,581) | | | 177,471 | 205,219,327 |
| | | | 23,841,599 | 0 |
| | | | (981,324,220) | (981,324,220) |
| (6,186,581) | - | - | (1,142,687,751) | 154,096,191 |
| 6,186,581 | | (5,437,813) | | 1,223,310 |
| | | (1,810,640) | | 186,681,052 |
| - | 252,931,146 | | 1,142,687,751 | - |
| - | | | (248,253,761) | (248,253,761) |
| - | 252,931,146 | (7,248,453) | (248,253,761) | 93,746,793 |

## 11.4 Cash flow statement

| CASH FLOW STATEMENT | 31-Dec 2009 | 31-Dec 2008 |
|---|---|---|
| *(EUR)* | | |
| **OPERATIONS** | | |
| **Net result for the period** | **(248,253,760)** | **(981,324,220)** |
| *Adjustments for:* | | |
| Depreciation of tangible assets | 42,048 | 70,494 |
| Amortisation of intangible assets | 304,618 | 304,618 |
| Write-down of equity investments | 123,067,103 | 954,694,587 |
| Provisions for losses in subsidiaries | - | 19,639,918 |
| Provisions for funds at risk | 407,000 | - |
| Release of funds previously in provisions | 121,113,867 | (1,481,422) |
| Capital losses (gains) on the disposal of equity investments | (3,418,169) | 250,000 |
| Revenues paid in kind | (4,862,824) | - |
| Non monetary charges to staff severance fund | 163,982 | - |
| Stock Option costs | 263,809 | 2,481,207 |
| | **(11,172,326)** | **(5,364,818)** |
| (Increase)/Decrease in receivables | 9,921,679 | (217,923) |
| Increase/(Decrease) in payables to suppliers | (6,778,194) | 4,730,196 |
| Net changes in the provisions for risks and charges | (485,207) | - |
| Net changes in the staff severance indemnity fund | (232,640) | (73,608) |
| Changes in other liabilities | (35,647,359) | (128,021,345) |
| Changes in other assets | 301,244 | (872,303) |
| | **(32,920,477)** | **(124,454,983)** |
| **NET CASH FROM OPERATIONS** | **(44,092,803)** | **(129,819,801)** |
| **INVESTMENT ASSETS** | | |
| *- Changes in other financial assets* | (115,380,972) | (8,235,744) |
| *- Purchases of tangible fixed assets* | - | 2,099 |
| *- Purchases of intangible fixed assets* | - | - |
| *- Payments for the sale of financial fixed assets* | 4,244,982 | (342,508) |
| **NET CASH USED FOR INVESTMENT ASSETS** | **(111,135,990)** | **(8,576,153)** |
| **FINANCIAL ASSETS** | | |
| Changes in financial assets | - | - |
| Increase (decrease) in other non-current liabilities | (36,861) | (1,541,835) |
| Changes in shareholders' equity | 156,091,902 | 139,128,061 |
| **NET CASH ARISING FROM /(USED IN) FINANCIAL ASSETS** | **156,055,041** | **137,586,226** |
| Changes in assets disposed of and held for sale | 231,336 | - |
| **NET INCREASE/(DECREASE) IN NET CASH AND CASH EQUIVALENTS** | **1,057,584** | **(809,730)** |
| **CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE FINANCIAL YEAR** | **1,373,247** | **2,182,977** |
| **CASH AND CASH EQUIVALENTS** | **2,430,831** | **1,373,247** |

## 11.5 Notes on the Financial Statements

Tiscali S.p.A. is a limited company incorporated under the laws of the Republic of Italy at the Cagliari Companies' Register. The Tiscali Group offers telecommunications services on fixed networks in Italy. Tiscali offers integrated Internet access services, telephony and multimedia services and in particular is positioned in the segment of IP technology services that enable voice and internet traffic to be carried on the same technological platform.

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

The income statement and balance sheet, cash flow statement, statement of changes in shareholders' equity and values indicated in the notes to the financial statements are presented in EUR.

**Assessment of company continuity and foreseeable changes in management**

**Events and uncertainties about company continuity**

The financial statements for the year for Tiscali S.p.A. closed with a loss of EUR 248.3 million, which reduces the net equity to EUR 93.7 million.

The Tiscali Group incurred a consolidated loss for the financial year of EUR 387.0 million, of which EUR 372.3 million was related to disposals during the year, and has a deficit in consolidated net shareholders' equity of EUR 67.0 million, after the share capital increase completed in November 2009 for approximately EUR 180.0 million and after the effects of writing-off EUR 42.3 million in debt, in accordance with the restructuring agreements signed with financial institutions. In addition, as at 31 December 2009, the Group reports gross indebtedness of EUR 240.6 million and current liabilities which are greater than current (non-financial) assets by EUR 85.3 million.

At the date of 31 December 2008 the loss was equal to EUR 271.1 million (of which EUR 143.3 million arose from assets sold), and the overall net assets came to EUR 4.8 million and the gross financial indebtedness to EUR 644.8 million. At the same date the difference between assets and current (non financial) liabilities was negative to the tune of EUR 187.2 million.

The financial and economic disequilibrium of the Group, as already in evidence in the financial statements for year ended at 31 December 2008, caused the Directors in early 2009 to prepare a new Business Plan and related Financial Plan to enable the Tiscali Group to begin restructuring its debts in order to guarantee its long-term financial equilibrium.

Subsequently, during 2009 the Group undertook certain actions (overall referred to as the 'Restructuring Plan') aimed at achieving the long-term financial and economic equilibrium for the Group and to re-launch its commercial activities (as described in paragraph 4.4 of the Report on Operations, "Significant events during the year").

In particular, in the sphere of the Restructuring Plan the following action was started and completed which have had their asset, income and cash flow impact in the financial statements cut off at 31 December 2009:

1. The set-up of an reorganisation plan for 2009-2013 intended to seek out the long term income-asst balance of the Tiscali Group;

2. Sale of the subsidiary Tiscali UK Ltd for total consideration of EUR 245.4 million (as set out in Note 11 to the Consolidated Financial Statements); the earnings from the sale were mainly used to repay part of the group's debt;
3. Sale of the subsidiary Tiscali International Network for total consideration of EUR 30.9 million;
4. Renegotiation of the terms of the residual senior loan and the debt for the Sale and lease-back (as set out in the Management Report section 4.4 Significant Events during the Course of the year);
5. Launch and completion of an equity increase for payment offered as an option to Tiscali S.p.A. shareholders on the 11 November 2009 and immediately used to repay a further part of the financial loans in execution of the agreements made with the same lending institutions; based on the agreements the lending institutions have further removed a part of the residual debt equal to around EUR 42.3 million.

Furthermore, in the course of 2009 other action to improve management efficiency took place, in particular at the subsidiary Tiscali Italia S.p.A., amongst which should be mentioned:
- The sale of IPTV assets;
- The rationalisation of trading and operating costs;
- The implementation of an incentivised retirement plan which, together with other action to improve management efficiency, have produced a reduction in working cost of around EUR 7 million (EUR 12 million in the Group);
- The optimisation of loan recovery policies;
- Structural and corporate cost rationalisation.

The action referred to above has thus contributed significantly to the reduction of the gross financial indebtedness from EUR 644.8 million at 31 December 2008 to EUR 240.6 million at the end of December 2009. Furthermore, this action has made it possible to reduce debts to suppliers from EUR 181.1 million at 31 December 2008 to EUR 150.9 million at 31 December 2009.

Then, in the second half of 2009 the Company implemented a series of initiatives that have generated a reversal of the trend for client acquisition shown in the recent past. In fact the first half of 2009 saw. Alongside the action to recover management efficiency referred to above, a reduction of the volume of telecommunications product registrations; on the other hand in the second half, also because of renewed market confidence, there was an improvement in macroeconomic prospects and with a renewed brand image, an increase of ADSL and voice registrations was recorded of over 80% compared with the first half of 2009. This trend was maintained into the first few months of 2010.

On account of the aforegoing, the Directors, in assessing the existence of the condition of the Tiscali Group as a going concern in the current macro-economic context, has identified some factors that indicate the persistence of certain uncertainties:

i. The Group is still in a situation of financial and economic disequilibrium, which is made evident by a net consolidated deficit even after the execution of the debt write-off of EUR 42.3 million (although the partent company reports a positive shareholders' equity amounting to EUR 93.7 million), due to negative economic performance and the considerable burden of Group indebtedness.
ii. In fact, during the year 2009, the results of trading activity, even if greatly improved compared with the previous year (also by the effect of the debt reduction referred to above) is negative in the amount of roughly EUR 14.7 million for the Group. However it is noted that the Group operating result is positive in the amount of EUR 11.4 million thanks to the positive contribution from the subsidiary Tiscali Italia;
iii. The presence of gross financial indebtedness that, although significantly reduced during the year,

is still significant and subject to covenants and other contractual obligations (so-called 'default events") which, as is the practice with such contracts, could trigger the end of the benefit of the term (see Note 27 on this topic).

iv. achieving a situation of long-term financial and economic equilibrium for the Group is subject to achieving the results indicated in the Plan, in the context of the current uncertain economic scenario, and therefore connected to the achievement of the forecasts and assumptions contained in the Plan and, in particular, those concerning the evolution of the telecommunications market and the achievement of the growth objectives set in a market characterized by strong competitive pressures.

Thus the following depends on the possibility and capacity of executing the plan: a) the ability of re-establish an adequate level of shareholders funds, b) the recoverability of its assets, c) the ability to comply with the covenants and the other contractual commitments and thus to maintain the availability of the funding granted and to face up the group's obligations, d) achieve a long-term financial and economic equilibrium for the Group.

To these factors need to be added the litigation matters described in the notes to the financial statements, the outcomes of which although not reasonably predictable at the moment, nor be reasonably expected in the next twelve months following the balance sheet date, have been evaluated as potentially significant (see the paragraph "Disputes, potential liabilities and commitments".

**Final Assessment by the Board of Directors**

The Board of Directors, in assessing the items set out above, has considered that in the course of 2009 the Group has:

a) completed all the actions required by the Restructuring Plan, including the repayment of a significant portion of the financial debt and restructuring (under more favourable terms) of the residual debt, completion of the share capital increase, proof the confidence the market and financial institutions have in the company's business model;
b) positively launched the implementation of the 2009-2013 Plan, confirming, at present, both the main assumptions used for its drafting and the validity of the industrial strategy and the business model: in particular the Directors have observed how the trend for customer acquisition has been inverted and how the profit and loss account for the year, even if was negative overall, showed a considerable improvement, with a positive consolidated trading result (EUR 11.4 million) compared with the previous year's negative result (EUR 14.2 million) and with a consolidated loss from trading as a going concern, which was reduced from EUR 127.7 million in 2008 to EUR 14.7 million in 2009, thanks also to income from the removal of EUR 42.3 million of debt on the part of funding institutions, in line with what was provided in the agreements;
c) verified the consistency between the Restructuring Plan and the financial needs determined by the new debt structure and the suitability of the plan to fulfil the covenants and the other contractual commitments.

These items make it consider that the Group is reasonably positioned to implement the Business Plan and that this will enable it to achieve a situation of financial and economic equilibrium in the long-term.

In conclusion the Directors, in analysing what was already achieved in the context of a path aimed at allowing the Group and the Company to reach a long-term financial and economic equilibrium, recognise that, as of today's date uncertainties remain, as stated above, relating to events or circumstances that could give rise to significant doubts on the Group and the Company's ability to continue to operate on the basis of the assumption of a going-concern. However, after making the necessary checks and assessing the uncertainties identified in the light of the further items described, they have a reasonable expectation that the Group and the Company possess adequate resources to continue operations in the foreseeable future and have thus adopted the supposition of the going-concern assumption in preparing the financial statements.

**Format and content of accounting statements**

**Basis of presentation**

The 2009 statutory financial statements form the separate financial statements of the Parent Company Tiscali S.p.A. and have been drafted in compliance with the International Accounting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") as approved by the European Union, as well as the instructions issued by way of implementation of Section 9 of Italian Legislative Decree No. 38/2005. The IFRS are understood to include all the reviewed international accounting standards ("IAS") and all the interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), previously known as the Standing Interpretations Committee ("SIC").

Preparation of the financial statements requires management to make accounting estimates and in certain cases assumptions in the application of accounting standards. The areas of the financial statements which, under the circumstances, presuppose the adoption of applicative assumptions and those more fully characterized by estimates made, are described in the note Critical decisions in applying accounting standards and in the use of estimates.

**Financial Statement formats**

The financial statements are composed of accounting statements (Income Statement, Balance Sheet, Statement of changes in consolidated shareholders' equity, and Cash Flow Statement), with explanatory notes. The Income Statement was drawn up in line with the minimum contents fixed by IAS 1 – Presentation of Financial Statements – with costs assignment by nature; the Balance Sheet was drawn up by following the scheme pointing out division of "current/non-current" assets and liabilities; the Cash Flow Statement was drawn up by following the indirect method.

**Accounting standards**

### General principles

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

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

### Equity investments in subsidiaries

Equity investments in subsidiaries and affiliated companies are recognised at cost, adjusted for any impairment.

In application of IAS 36, the value of equity investments recognised at cost is reduced if there is impairment or if circumstances emerge that indicate that said cost is irrecoverable. If the impairment is discovered to no longer apply or is reduced, the book value is increased to the new estimated recoverable value, up to a maximum of the value recognised initially.

### Impairment of assets

The book value of Equity investments, Other intangible assets and Properties, plant and machinery is tested for impairment whenever events or changes in circumstance indicate that the book value may be impaired. The assets in question are tested annually or more frequently if there is any indication that those assets have suffered impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the Cash Generating Unit (CGU) to which the asset belongs. The recoverable amount is the higher between the ‘fair value’ less sales costs and its utilisation value. When assessing the utilisation value, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments on the value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash generating unit) is estimated to be less than its book value, the latter is written down to its recoverable amount. The relevant impairment is booked to the income statement under write-downs. If the reasons for impairment are considered to no longer apply in the current year, the book value of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but not beyond the net book value that would have been determined had no impairment been recognised for the asset in previous years. An impairment reversal is booked to the income statement.

### Other financial assets

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

### Foreign currency transactions

Transactions in foreign currency are recorded at the exchange rate in force at the time of the transaction. Monetary assets and liabilities stated in foreign currency are converted at the exchange rate in force at the financial statement reference date. Exchange rate differences generated by the extinguishment of currency postings or by their conversion at rates other than those at their initial noting in the year or at the end of the previous financial year are entered in the profit and loss account.

### Financing and loans

Tiscali S.p.A.’s loans are set out in the “other non current financial assets”, ‘loans to customers”, “other loans and sundry current assets” and “other current financial assets” items and are valued, if they have a fixed maturity, at the depreciated cost, using the actual interest rate method. When financial assets have no fixed expiry, they are estimated at the acquisition cost. Estimates are regularly carried out with the aim of making sure whether there is objective evidence that a financial asset or a group of assets have been subject to market value reduction. If there is objective evidence, the value loss must be recorded as cost in the income statement of the period.

### Cash and cash equivalents

Cash and cash equivalents include cash in hand, cash and short term deposits, and in the latter case with an original maturity date of no more than three months or less.

### Debts and financial liabilities

Tiscali S.p.A.'s debts and financial liabilities are set out in the "debts to banks and other financial institutions", "other non current liabilities and "debts to suppliers" items and are stated at face value. Financial debts are initially stated at cost, equal to the fair value of the consideration received, net of ancillary charges. Later on, those debts are valued at depreciated cost using the actual interest method, calculated considering the costs of issue and each further premium or discount due at maturity.

### Liabilities for pension obligations and staff severance

Defined benefit schemes (as classified by IAS 19), in particular the Staff Severance indemnities relating to employees of the parent company and the subsidiaries with registered offices in Italy, are based on valuations performed at the end of each financial year by independent actuaries. The liability recognised in the balance sheet is the current value of the obligation payable on retirement and accrued by employees at the balance sheet date. It should be specified that no assets are held in support of the above scheme.

As permitted under IFRS and IAS 19, the Tiscali Group has not adopted the corridor approach but has used the Unified Loan Projection method and thus the actuarial profits and losses are fully noted in the period in which they arise and are directly entered on the profit and loss account.

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

As from 1 January 2007, the 2007 Finance Act and relevant implementing decrees introduced remarkable changes in the staff severance indemnity regulation, including the worker's choice in relation to assigning one's indemnity to supplementary pension funds or to the "Treasury Fund" managed by the social security.

Therefore, the obligation vis-à-vis INPS and the contribution to the supplementary pension schemes takes on the form, as per IAS 19, of "Defined contribution schemes", while the portions recorded in the staff severance indemnity (TFR) remain "Defined benefit schemes".

Furthermore, the law changes taking place starting from 2007 implied a new calculation of actuarial assumptions, and of the consequent methods used to calculate staff severance indemnities, whose effects were directly ascribed to the income statement.

### Remuneration schemes involving interests in the share capital

The Group has assigned certain members of senior management and employees additional benefits via plans for interests in the share capital (stock option plans). Those plans are a component of the beneficiaries' remunerations.

The cost is the fair value of the stock options at the date of allocation, and for accounting purposes, it follows the rules fixed by "IFRS 2 – Payments based on shares"; the cost is reported in the income statement with countervalue relating directly to the shareholders' equity.

### Provisions for risks and charges

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

### Treasury Shares

Treasury shares are entered as a deduction from net assets.

### Revenue recognition

Revenues are recognised to the extent that it is probable that financial profits will flow to Tiscali S.p.A. and their amount can be reasonably estimated; they are represented net of discounts, allowances and returns.

Income for services provided are entered on the income statement with reference to the stage of completion of the service and only when the result of the service can be reasonably assessed.

### Financial income and charges

Interest received and paid is recognised using the actual interest method.

### Taxes

Income tax expense for the year includes the tax currently payable and deferred tax.

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

**Critical decisions in applying accounting standards and in the use of estimates**

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

The evaluation of recoverability of the main asset items is based on the estimate of residual and financial flows that the Group believes it will be able to generate in the future. As more amply explained in the note on "Assessment of corporate continuity", the achievement of the results stated in the Reorganisation and Financial Plan taken as reference for that assessment is subject to the achievement of the forecasts and the assumptions set out therein, partly also outside the control of the Directors and the Group Management, and in particular related to the changes in the telecommunications market and to the achievement of the growth targets set, in a market context denoted by high competitive pressure.

### Accounting estimates and relevant assumptions

### Provisions for risks and charges

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

If in relation to the final result of such judgements the Group is called upon to fulfil an obligation for a sum other than that estimated, the related effects are reflected in the income statement.

### Equity investments

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

### Fair value calculation

Depending on the instrument or financial statements item to be estimated, the directors identify the most suitable method, by taking into consideration market objective data as much as possible. In absence of market values, that is, quotations, estimating techniques are used, with reference to the ones which are most commonly used.

### Accounting principles, amendments and interpretations in force at 1 January 2009

The IFRS in force at the 1 January 2009 are stated and briefly illustrated below:

- Amendments to IAS 1 (Financial Statement Reporting). On the 17 December 2008, EC regulation no. 1274-2008 was published which incorporated the amendments made to IAS 1 (Financial Statement Reporting) into community law. The main amendments introduced provide for: The presentation in the statement of changes in Net Assets for all movements that arose from transactions with shareholders; and the statement of the changes in Net Assets (other than involving shareholders) as follows:
  - A single "Overall Income Statement' that sets out the revenues and income, costs and charges entered directly on the income statement, the profit (loss) for the year, and the detail of the income and costs directly entered under Net Assets (Other components of the overall income statement); that is
  - In two statements: one statement that sets out the components of the profit (loss) for the year (Separate Income Statement) and a second statement that starts from the profit (loss) from the year and shows the statement items for other overall income statement (Overall Income Statement).

The revised version of IAS 1 came into force on 1 January 2009. The adoption of the principle does not produce any effect from the point of view of the valuation of the financial statement items.

The principle was applied to the Tiscali Group retrospectively from the 1 January 2009, choosing to highlight all the changes generated by transactions with non-shareholders in two statements to measures progress in the period, called respectively the Income Statement and the Overall Income Statement. Accordingly the presentation of the Statement of charges to net assets was amended.

- Changed to IAS 23 (Financial Charges) on the 10 December 2008, EC regulation no. 1260-2008 was published which incorporated the amendments made to IAS 23 (Financial Statement Presentation) into community law. The main change made to IAS 23 involves the ending of the adoption present in the previous version of the principle which provided for financial charges to be entered in the income statement for the period in which they were incurred as an option to their capitalisation (permitted treatment). Thus in the revised version of IAS 23, financial charges that are directly attributable to the purchase, construction, or production of an assets that demands a significant period of time prior to being ready for use or sale (so-called qualifying assets) must be capitalised as part of the cost of the asset itself. However, no significant effects were noted after revision3 of this principle.
- Amendments to IFRS 2 (Share based payments) EC Regulation 1261-2008 has incorporated the amendments made to IFRS 2 (Share based payments) into European Community law. The principle specifies the definition of the "maturity conditions" and states the cases where the failure to achieve a condition involves noting the cancellation of the right assigned. On 31 December 2009 no accounting effects were noted to the extent that the stock option plans in existence do not provide for maturity terms different from service and performance, nor were there any cancellations of the IFRS 8 plans (Operating Segments). On the 21 November 2007, EC regulation no. 1358-2007 was published which incorporated IFRS 8 (Operating Segments) into European Community law. This standard demands that a body shall prepare information (qualitative and quantitative) about the related sectors that form the scope of information (reportable segments). Reportable segments are components of a body (operating segments or groups of operating segments) which separate information is available that form the scope of periodic assessment on the part of the so-called Chief Operating Decision Maker (CODM) with the purpose of allocating resources to the segment and assessing its results. Financial information must be presented with the same approaches and using the same criteria as in the internal reports intended for the CODM. IFRS 8 came into force fro the year 2009 and has replaced IAS 14 (Segment information). The adoption of the principle has not produced any effect from the point of view of the assessment of the financial statement items.
- IFRS 8 (Operating Segments). On the 21 November 2007, EC regulation no. 1358-2007 was published which incorporated IFRS 8 (Operating Segments) into European Community law. This standard demands that a body shall prepare information (qualitative and quantitative) about the related sectors that form the scope of information (reportable segments). Reportable segments are components of a body (operating segments or groups of operating segments) which separate information is available that form the scope of periodic assessment on the part of the so-called Chief Operating Decision Maker (CODM) with the purpose of allocating resources to the segment and assessing its results. Financial information must be presented with the same approaches and using the same criteria as in the internal reports intended for the CODM. IFRS 8 came into force from the year 2009 and has replaced IAS 14 (Sectoral information). The adoption of the principle has not produced any effect from the point of view of the assessment of the financial statement items.
- Amendment to IAS 32 (Financial instruments: presentation in the financial statements). On the 17 December 2008, EC regulation no. 53-2009 was published which incorporated the amendments made to IAS 32 (Financial instruments: presentation in the financial statements) and IAS 1 (Financial Statement Presentation) into community law. The changes to IAS 32 require, in the presence of certain conditions, that some financial instruments with options for sale (puttable instruments) or that place a duty on the body in the case of the liquidation of the same be entered under net assets. The changes to IAS 1 require certain specific information to be supplied about such instruments. It is not expected that the changes made will produce significant effects on the consolidated group financial statements.
- IFRIC 13 (Customer loyalty systems). On the 16 December 2008 EC regulation no. 1262-2008 was published which incorporated the interpretation document IFRIC 13 (Customer loyalty systems), which

provides general guidelines for accounting for customer loyalty schemes into community law This interpretation is denoted by the following items:

- Prize points offered to customers are considered as an item to be identified separately form the original sales of products or services with which they are associated and thus represent a right that a customer has implicitly paid for;
- The part of the consideration allocated to prize points must be valued by reference to their fair value (that is, to the value for which the prize points could have been sold separately) and accounted for as deferred revenues up to the moment in which the company meets its commitment.

The adoption of this principle is not applicable to the Tiscali Group as no customer loyalty programmes are operated.

### IFRS Improvements

On the 23 January 2009, EC regulation no. 70-2009 was published which incorporated the amendments made to International Financial Reporting Standards (IFRS) into community law. The following amendments to the principles, which came into force on the 1 January 2009, are highlighted:

- IAS 16 (Properties, plant and machinery): The amendment provides some extra detail on the classification and accounting treatment to be adopted on the part of a body that in the course of its own ordinary business sales property plant and machinery items owned for hire to third parties;
- IAS 19 (Employee benefits) The amendment introduced, to be applied in the future, clarifies the behaviour to be adopted in the case of variations in benefits to staff, defines the terms for noting the costs/revenues relating to the labour services provided and details the definition of the short term and long term benefits.
- IAS 28 (Shareholdings in associates): The amendment established that, in the case of shareholding valued using the net asset approach, any loss of value must not be allocated to single assets (and in particular to any goodwill) that make up the value borne by the shareholding, but to the value of the subsidiary overall. Thus, in the present of conditions for a later recovery of value, that recovery must be fully recognized.
- IAS 29 (Account reporting in hyperinflated economies): These are amendments to a principle currently not applicable to the Group;
- IAS 38 (Intangible assets): The amendment provides for the recognition in the income statement of promotional and advertising costs. It established that, in the case in which the company bears charges that have future income benefits without entering intangible assets, these must be attributed to an income account at the time in which the company itself ahs the right to access the asset, if it involves the purchase of assets, on in which the service is rendered, if it involves the purchase of services. Furthermore the principle was amended to clarify in which cases it is possible to adopt the “units produced approach” for depreciating fixed useful life intangible assets;
- IAS 39 (Financial instruments: reporting and valuation): The amendment clarifies how the new rate of actual return must be calculated for a financial instrument at the end of a fair value hedge; it also specifies the cases in which it is possible to reclass a derivative instrument within or outside the class of “fair value through the income account”;

Furthermore IFRS 5 (Non current assets held for sale and transferred operating assets) was amended: The amendment provides that if a body carries out a programme of sales that includes the loss of control if a subsidiary it must classify all the assets and liabilities in the said subsidiary as held for sale, regardless of the fact that, after the sale, it might retain a minority interest in the former subsidiary. The new version of IFRS 5 came into force on the 1 January 2010.
It is expected that the application of the “IFRS improvements” referred to above will not have a considerable impact on the consolidated Group financial statements.

**New Principles and interpretations Incorporated by the EU, Not Yet in Force, and Not Yet Adopted in Advance.**

As required by IAS 8 (accounting principles. Changes to accounting estimates and errors) the possible impact of the new principles or of the new interpretation on the consolidated financial statements is set out below. These principles which came into force after 31 December 2009, have not been applied by the Group in advance.

- Amendments to IFRS 3 (Business Combinations). On the 3 June 2009 the European Commission approved an updated version of IFRS 3 by regulation no. 495/2009. The main amendments made involve the removal of the commitment to value single assets and liabilities in a subsidiary at the fir value in all successive acquisitions, in the case of a purchase of subsidiary companies in stages. Goodwill will only be determined in the final acquisition stage and shall be equal to the difference between the value of any shareholdings immediately before the purchase, the transacted consideration and the fair value of the net assets purchased. Furthermore, in the case in which the Group were not to acquire 100% of the equity, the share of interest belonging to third parties may be value wither at fair value or using the approach already outlined under IFRS 3. The revised version of the principle provides, furthermore, that all costs connected with the company consolidation and the reporting at the date of purchase of liabilities for payments subject to conditions. The new rules must be applied in the future from the 1 January 2010.
- Amendments to IAS 27 (Consolidated and separate financial statement). By regulation no. 494/2009 on the 3 June 2009 the European Commission amended IAS 27, establishing that the amendments of the shares of interest that do not form a loss of control must be treated as equity transactions and thus must have the net assets as a cross-entry, excluding the possibility previously allowed of noting any goodwill or a capital value as the difference between the consideration paid/received and the value per share of the net assets purchased/sold. Furthermore, it is established that when a parent company transfers the control of its own subsidiary, by still continues to retain an interest in the company, it must value the shareholding retained at the fair value and allocate any revenues or losses arising from the loss if control to the income account. Lastly the amendment of IAS 27 demands that all losses attributable to minority partners shall be allocated to the interest share related to third parties, even when these exceed their actual shareholding in the equity of the subsidiary. The new rules must be applied from the 1 January 2010. Amendments to IFRS 5 (Non current assets held for sale and other operating assets sold). This principle establishes that, if a company is committed to a sales plan that includes the loss of control of a subsidiary, all the assets in the subsidiary company must be reclassified as assets intended for sale, even if after the sale the company will still only hold a minority stake in the subsidiary. The amendment must be applied from the 1 January 2010 onwards.
- Amendments to IAS 36 (Asset impairment). The amendment to this principle provides that additional information must be provided in the case in which the group determines the recoverable value of the cash generating units by using the updated cash flow approach.
- Amendments to IAS 24 (Transactions with Related parties) On the 4 November 2009, IASB issued a revised version of IAS 24 that gives information on transactions with related parties which simplifies the information requirements regarding related parties where public bodies are involved and clarifies the definition of "related parties"). As of the date of issue of the present document, the competent bodies of the European Union had not yet concluded the approval process necessary for its application.

**Revenues (note 1)**

Operating revenues are represented by:

| Revenues | 2009 | 2008 |
|---|---|---|
| *(EUR mln)* | | |
| Revenues from services provided to Group companies | 10,284 | 15,981 |
| Revenues from services to third parties | 480 | 1,444 |
| | **10,764** | **17,425** |

Revenues from services provided to Group companies mainly refer to the invoicing of services provided by the Company in favour of Group companies.

This item also includes charges for rights of use of the Tiscali brand name calculated as a percentage of sums invoiced by Group companies using the brand name.

Revenues from services provided to third parties also includes income from third parties of EUR 5 million arising from the partnership contract with the Google search engine which was active until September 2009, and which is allocated to and invoiced by the Parent Company. In application of the international accounting principles ("IFRS"), these revenues are set out net of the general group internal costs of assigning shares of the revenues for each of the Group companies, in the same amount. This kind of layout has been used in the year 2008 with an adjusted value of revenues of EUR 12 million wholly arising from group internal costs of the same amount. From the month of October 2009 the contract was renegotiated to come under the Italian subsidiary Tiscali Italia S.p.A.

The residua; item equal to EUR 0.5 million in 2009 (EUR 1.4 million in 2008) is represented by income of various kinds, cost recoveries and asset occurrences.

| Revenues by country | 2009 | | 2008 | |
|---|---|---|---|---|
| *(EUR 000)* | | | | |
| Revenues from services provided to Group companies | | 10,284 | | 15,981 |
| *- Italy* | 6,693 | | 6,149 | |
| *-The Netherlands:* | 169 | | 675 | |
| *- Germany:* | - | | 259 | |
| *- United Kingdom* | 3,422 | | 8,898 | |
| Revenues from services to third parties | | 480 | | 1,444 |
| *- Italy* | 480 | | 1,444 | |
| | | **10,764** | | **17,425** |

**Purchase of materials and outsourced services (note 2)**

Costs for the purchase of materials and outsourced services are equal in total to EUR 3.2 million, as against EUR 7.9 million in 2008, and are shown net of the group internal costs generated by the partnership contract with the Google search engine in the amount of EUR 5 million (EUR 12.5 million in 2008). For more details on this reclassification please refer to the comments on the Revenues item.

Outlay for services provided by third parties includes the costs of professional consultancy in the legal, administrative and financial field of EUR 2.1 million, marketing costs, insurance expenses and other general expenditure of EUR 1.1 million. The decrease from the previous year was justified by the smaller impact of expenditure for professional consulting connected with everyday management.

Costs for services acquired by group companies, net of the adjustment referred to above, came to EUR 0.2 million and are wholly attributable to the Italian subsidiary Tiscali Italia S.p.A. for overheads, transfer costs and outlay connected with personnel management.

**Payroll and related costs (note 3)**

Staff costs are stated in detail as:

| | 2009 | 2008 |
|---|---|---|
| *(EUR 000)* | | |
| Wages and salaries | 2,797 | 6,950 |
| Remunerative component from Stock Option plans | 324 | 2,481 |
| Other personnel costs | 2,222 | 4,817 |
| **Total** | **5,344** | **14,248** |

The decrease in the costs of wages and salaries with regard to the previous year, in the amount of EUR 4.1 million, is mainly explained by the economic effect of the resignation of the group Chief Executive Officer Tommaso Pompei which took place in February 2008, and that of the finance director Massimo Cristofori which took place in June 2008.

The remunerative item arising from Stock Option plans in the amount of EUR 0.3 million (as against EUR 2.5 million in 2008) refers to the figures of charges maturing in the year 2009 following plans allocated to company managers in consideration of cross-entries in the appropriate reserve in Net Assets. The reduction compared with the previous year of EUR 2.1 million was connected with the acceleration effects of the plan reserved for the former Chief Executive Officer and the former Finance director, who have maintained their rights, allocated even after leaving the Group, and were present in the figure at 31 December 2008.

It is also highlighted that the remuneration item arising from the Stock Option plans for managers employed in other group companies is not allocated to the income statement of the parent Company Tiscali S.p.A. but is allocated to increase the book value of the shareholdings in group companies that employ the managers that were assigned Stock option plans (representing a capital account contribution in their favour) with as a counterpart, an increase in the appropriate net Asset reserve.

Other staff costs, equal to EUR 2.2 million, show a decrease compared with the previous year equal to EUR 2.6 million due to EUR 2.4 million of provisions made for the process of the reviewing the organisational structure launched in the year 2008 and completed in the course of 2009.

At 31 December 2009, Tiscali S.p.A. had 20 employees.

The relevant categories are disclosed below together with the corresponding figure at 31 December 2008.

| Category | 2009 | 2008 |
|---|---|---|
| Senior managers | 9 | 11 |
| Middle managers | 4 | - |
| Office staff | 7 | 11 |
| **Total** | **20** | **22** |

**Other operating expenses (note 4)**

The table below shows a breakdown of these costs:

| | 2009 | 2008 |
|---|---|---|
| *(EUR 000)* | | |
| Other operating expenses | 3,384 | 1,769 |
| Capital losses on disposal of equity investments | - | - |
| **Total** | **3,384** | **1,769** |

Other operating costs includes sundry management costs of EUR 2.3 million EUR (of which EUR 1.9 million were towards the subsidiary Tiscali Italia S.p.A.) and contingent liabilities in the amount of EUR 1 million.

**Write-downs of receivables from customers and other write-downs (note 5)**

| | 2009 | 2008 |
|---|---|---|
| *(EUR 000)* | | |
| Write-downs of receivables from customers | 2 | - |
| Restructuring costs and other write-downs | 130,243 | 954,696 |
| Provisions for risks and charges | 121,521 | 17,350 |
| **Total** | **251,765** | **972,046** |

The costs of restructuring and other write-downs item in the amount of EUR 130 million (EUR 955 million in 2008) mainly includes the devaluation of the shareholding held in the World Online International N.V. Company in the amount of EUR 122.6 million in addition to the charges borne for restructuring the debts of the English subsidiary Tiscali UK Holdings Ltd of around EUR 7.3 million.

Provisions for risks and charges equal to EUR 121 million refers to the adjustment to the Fund to hedge subsidiary losses, of which EUR 135.5 million related to the increase in the fund attributable to the shareholding in World Online International NV, whilst EUR -8 million and EUR -5.8 million related to the release of the fund to hedge losses with regard to the subsidiary Tiscali Finance SA and Tiscali Deutschland Gmbh. For further details please refer to the statement under the Shareholdings item in note 11 and the Hedge Fund for subsidiary losses in note 20.

**Net financial income (charges) (note 6)**

| | 2009 | 2008 |
|---|---|---|
| *(EUR 000)* | | |
| ***Financial income*** | | |
| Interest on bank deposits | 55 | 202 |
| Other | 4,912 | 5 |
| ***Financial charges*** | | |
| Interest on bonds | | - |
| Interest and other charges due to banks | (131) | (135) |
| Other financial charges | (67) | (1,986) |
| | **(198)** | **(2,121)** |
| **Net financial income (charges)** | **4,770** | **(1,915)** |

Net financial income, positive to the tune of EUR 4.8 million, refers to the positive effect of the debt waiver (Facility D2) on the part of the Senior Financial Bodies of EUR 42.3 million previously borne by Tiscali UK Holdings Ltd and then passed on to Tiscali S.p.A. This positive effect has been partly offset by the waiver by the intercompany financial loan towards Tiscali UK Holdings Ltd, in the amount of EUR 37.5 million generated by the passing-on transaction referred to above, held to be the irrecoverable portion.

**Income Taxes (note 7)**

| | 2009 | 2008 |
|---|---|---|
| *(EUR 000)* | | |
| Current taxes | 185 | 263 |
| Tax advances (used) | - | - |
| **Net taxes for the year** | **185** | **263** |

The balance of current taxes includes IRAP (regional business tax) for 2009. The company has no Ires (Corporate income Tax) burden, having used the tax losses brought forward against the tax chargeable from the waiver of the D2 Facility.

At 31 December 2009, the company showed temporary differences of EUR 23.4 million EUR and tax losses that could be deferred indefinitely of EUR 10.6 million. No tax advances were generated in the financial statements.

**Operating assets disposed of and/or assets held for sale (note 8)**

| | 2009 | 2008 |
|---|---|---|
| *(EUR mln)* | | |
| Net capital gains (Losses) deriving from disposal of subsidiaries and/or asset disposals | 447 | (250) |
| **Result from assets disposed of and/or destined for disposal** | **447** | **(250)** |

The results of assets sold and/or intended for sale, which is positive to the tune of EUR 0.4 million, includes the positive effect of the capital value achieved on the sale of the 60% shareholding held in the Company Tiscali International Network S.p.A. (which took place in May 2009) equal to EUR 3.4 million net of the related charges of around EUR 0.4 million. The item also includes EUR 2.6 million of charges incurred on the occasion of the sale of the UK Company Tiscali UK Ltd, which was controlled indirectly, and which took place in July 2009 and was already amply commented upon in the Consolidated Management Report.

**Intangible assets with a finite useful life (note 9)**

Intangible asset movements for the year were as follows:

| Intangible assets | 31 December 2008 | Increases | Amortisation | (Decreases) and Other changes | 31 December 2009 |
|---|---|---|---|---|---|
| *(migliaia di euro)* | | | | | |
| Concessions, licenses and similar rights | 307 | - | (305) | - | 2 |
| **Total** | **307** | **-** | **(305)** | **-** | **2** |

Concessions, licenses and similar rights include a software license purchased at the end of 2004 for management of territorial information via a system based on vectorial mapping and a geo-referencing database.

**Property, plant and equipment (note 10)**

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

| | 31 December 2008 | Increases | Deprec. | (Decreases) and Other changes | 31 December 2009 |
|---|---|---|---|---|---|
| *(EUR 000)* | | | | | |
| **Historic cost** | | | | | |
| Land and buildings | 1,966 | - | - | - | 1,966 |
| Plant and machinery | 65 | - | - | - | 65 |
| Other assets | 470 | - | - | - | 470 |
| | **2,501** | **-** | **-** | **-** | **2,501** |
| **Accumulated depreciation** | **31 December 2008** | **Increases** | **Deprec.** | **(Decreases) and Other changes** | **31 December 2008** |
| Land and buildings | 1,963 | - | 1 | - | 1,964 |
| Plant and machinery | 57 | - | 2 | - | 59 |
| Other assets | 413 | - | 39 | - | 452 |
| | **2,432** | **-** | **42** | **-** | **2,475** |
| | **31 December 2008** | **Increases** | **Deprec.** | **(Decreases) and Other changes** | **31 December 2008** |
| Land and buildings | 3 | - | (1) | - | 2 |
| Plant and machinery | 9 | - | (2) | - | 7 |
| Other assets | 57 | - | (39) | - | 18 |
| **Total** | **69** | **-** | **(42)** | **-** | **27** |

**Equity investments (note 11)**

At the date of 31 December 2009 this item included the shareholdings in subsidiary and related companies, in the amount of EUR 112.0 million, compared with a value of EUR 235.7 million in the previous year. The changes in the year, including the devaluations made, is detailed in the following table:

| **SUBSIDIARIES** | **31-Dec-09** | | | **31-Dec-08** | | |
|---|---|---|---|---|---|---|
| | **Cost** | **Revaluations/ Write-downs** | **Book value** | **Cost** | **Revaluations/ Write-downs** | **Book value** |
| *(EUR 000)* | | | | | | |
| Energy Byte Srl in liquidation | 677 | (677) | - | 677 | (677) | - |
| Tiscali Deutschland Gmbh | 283,475 | (283,475) | - | 283,475 | (283,475) | - |
| Tiscali Finance SA | 22,218 | (22,218) | - | 125 | (125) | - |
| Tiscali Italia S.p.A. | 111,958 | - | 111,958 | 111,817 | - | 111,817 |
| Tiscali Motoring S.r.l. in liquidation | - | - | - | 500 | (500) | - |
| World Online International N.V. | 1,811,994 | (1,811,994) | - | 1,811,995 | (1,689,390) | 122,605 |
| Tiscali Int.l Network S.p.A. | - | - | - | 1,391 | (119) | 1,272 |
| Tiscali Financial Services Sa | 31 | - | 31 | 31 | - | 31 |
| Tiscali UK Holdings Ltd | - | - | - | - | - | - |
| | **2,230,353** | **(2,118,364)** | **111,989** | **2,210,011** | **(1,974,286)** | **235,725** |

Associated companies at 31 December 2009 are detailed as follows:

| **ASSOCIATED COMPANIES** | **31-Dec-09** | | | **31-Dec-08** | | |
|---|---|---|---|---|---|---|
| | **Cost** | **Revaluations/ Write-downs** | **Book value** | **Cost** | **Revaluations/ Write-downs** | **Book value** |
| *(EUR 000)* | | | | | | |
| STS Studi Tecnologie e Sistemi S.r.l. | - | - | - | 1,291 | (1,272) | 19 |
| | **-** | **-** | **-** | **1,291** | **(1,272)** | **19** |

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

| SUBSIDIARIES | Balance 31-Dec-08 | Increases | (Disposals) | *Revaluations/ Write-downs* | Decreases | Balance 31-Dec-09 |
|---|---|---|---|---|---|---|
| *(EUR 000)* | | | | | | |
| Energy Byte Srl in liquidation | - | 460 | - | (460) | - | - |
| Tiscali Deutschland Gmbh | - | - | - | - | - | - |
| Tiscali Finance SA | - | 22,093 | - | - | (22,093) | - |
| Tiscali Italia S.p.A. | 111,817 | 141 | - | - | - | 111,958 |
| Tiscali Motoring S.r.l. in liquidation | - | - | - | - | - | - |
| World Online International N.V. | 122,605 | - | - | (122,605) | - | - |
| Tiscali Int.l Network S.p.A. | 1,272 | 9 | (1,281) | - | - | - |
| Tiscali Financial Services Sa | 31 | - | | - | - | 31 |
| Tiscali UK Holdings Ltd | - | 172,960 | - | - | (172,960) | - |
| | **235,725** | **195,663** | **(1,281)** | **(123,065)** | **(195,053)** | **111,989** |

- Energy Byte Srl in liquidation This shareholding, entirely written off in previous years, has been further depreciated during the course of the year 2009 in the amount of EUR 0.5 million following loan waivers made in the closing stages of the liquidation procedures which took place in January 2010.
- Tiscali Deutschland Gmbh Held a significant part of the trading assets of the Tiscali Group in Germany, coming under Tiscali GmbH, sold in the first months of 2007. During the course of the year 2009 the full amount of EUR 5.8 million provided as a hedge fund against losses in the previous year was released because of the non occurrence of the circumstances that had had made the provision necessary.
- Tiscali Finance SA: This was the “vehicle’ used in 2006 for the issue of a convertible bond loan. The increase that took place during the year in the value of the shareholding refers to the waiver of loans made by Tiscali S.p.A. to the subsidiary. The value of the shareholding was later depreciated as it was held by the Directors to no longer be recoverable since the subsidiary itself was placed into liquidation.
- Tiscali Italia S.p.A.: The changes that took place over the year refer to the allocation of the figurative charge for the Stock Option plans issued to managers employed by the subsidiary company.
- Tiscali Motoring S.r.l: during the month of December 2009 the procedure for the liquidation of the company which was begun on the 11 July 2003 was completed.
- World Online International N.V.: A sub-holding company registered in Holland under which the Tiscali Group companies operating in the United Kingdom and the companies in the Ti Net Group came. Following the sale of the UK subsidiaries (Tiscali UK) and the Ti Net group, the shareholding has been fully depreciated.
- Tiscali International Network S.p.A. a 60% subsidiary of Tiscali S.p.A. (and 40% owned by the Dutch company Tiscali International Network B.V. controlled by World Online International N.V.) was in turn indirectly controlled by Tiscali S.p.A. and sold in May 2009 to the Talia S.r.l. Company for EUR 4.6 million. The sale of the same generated a capital gain for Tiscali S.p.A. in the amount of EUR 3.4 million.
- Tiscali UK Holdings Ltd; On the 26 November 2009, the shares in Tiscali UK Holdings Ltd were sold for an amount equal to EUR 1 to the Tiscali International BV Company. The changes during the year involved: (i) The full waiver of the loan made to the English company equal to EUR 135.5 million generated after the transfer of funds arising from the equity increase and intended for the payment of the D1 Facility; (ii) a partial waiver, equal to EUR 37.4 million, relating to the loan that arose from the passing on of the D2 Facility in the amount of EUR 42.3 million. The shareholding in question was later devalued as the value was held by directors to be irrecoverable.

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

| ASSOCIATED COMPANIES | Balance 31-Dec-08 | Increases | (Disposals) | *Revaluations/ Write-downs* | Decreases | Balance 31-Dec-09 |
|---|---|---|---|---|---|---|
| *(EUR 000)* | | | | | | |
| STS Studi Tecnologie e Sistemi S.r.l. | 19 | - | (19) | - | - | - |
| | **19** | **-** | **(19)** | **-** | **-** | **-** |

The STS Studi Tecnologie e Sistemi S.r.l. company, which was active in the sector of producing and developing software and information technology, was sold to the subsidiary  Tiscali Italia S.p.A. in March 2009.

### Checks of the value reductions in shareholdings in subsidiary companies

At the date of the financial statements, also in consideration of the presence of impairment indicators, a check of any losses of value of the assets as required by IAS 36 was carried out and was stated in the Document filed with the Bank of Italy / Consob / Isvap no. 4 in March 2010.
Tiscali Italia S.p.A.

Checks on any losses in value of asses by comparing the book value of the shareholding at 31 December 2009 with the value as a going concern was made only by reference to the subsidiary Tiscali Italia S.p.A. From that comparison no need to make any value reduction emerged.

Value as a going concern was determined based on the following fundamental items:

(i) Definition of the "cash generating units"

In order to check the reduction in value of the shareholdings held by Tiscali S.p.A. the same unites that generate cash flow were adopted for checking the value reduction of the goodwill in the consolidated financial statements. For this purpose, the group has identified the Cash Generating Units for the sectors that form the scope of the segment information specified and broken down by geographical area. Checking any losses in value of the assets was made by reference to the "Italy" Cash Generating Unit.

(ii) Recoverable value estimation criteria

The value as a going concern of a Cash Generating Unit (CGU) was determined using the cash flows arising form the last approved reorganisation Plan ("2009-2013 Plan").
From the point of view of economic/financial targets, the main assumptions involve:

- A specific forecast period equal to the residual term of the plan (4 years);
- EBITDA arising form the hypotheses of market and business changes;
- Investments to maintain the changes in business forecast and the levels of yield planned;
- Calculating the terminal value in perpetuity based on the projection from the last year of the Plan;
- WACC discounting rate determined on the basis of market assessments of the cost of money and the specific risks of the typical company business;
- Long Term Growth – LTG equal to 2%, in line with analyst predictions.

The cost of capital has been estimated considering the calculation criteria set out in the CAPM (Capital Asset Pricing Model). In particular, in calculating WACC:

a) The beta coefficient has been valued considering the value of Tiscali over various time horizons for a period greater than 12 months, and a panel of alternative operators in Europe adjusted to take account of Tiscali's financial structure;
b) The spread on risk free credit has been valued in line with the current terms of indebtedness;
c) The risk premium has been valued within a prudent range with regard to the current financial market conditions.

(iii) Sensitivity analysis for the results of the impairment test

With reference to the current and expected context and the results of the impairment tests carried out for the year ended on 31 December 2009, a sensitivity analysis on the estimated recoverable value using the discounted cash flow method was carried out. It is believed that the discount rate is a key parameter in estimating the recoverable value; an increase of 1% in that rate would reduce the positive difference between the estimated recoverable vale and the book value. In any event that difference would continue to be largely positive.

(iv) (iv) Considerations about the presence of outside indicators of the loss of value

Taking account of the current market position considerations have been made with regard to the existence of outside indicators of the loss of value with special reference to what has been expressed in the financial markets. To this end the market capitalisation of the Tiscali Group does not reveal any items that are at variance with those arising from the impairment procedure.

### Other group companies ("dormant" companies or in liquidation)

With regard to the other subsidiary companies a check of any loss of value of assets has been carried out by comparing the value of assets by means of comparing the value entered for the shareholding at 31st December 2009 and the book value of the net accounting assets in the shareholding, which was held as representative of the recoverable value in consideration of the fact that these are no longer operating companies ("dormant") or in liquidation. The checks carried out have not highlighted any losses of value to report.

## Other information

| SUBSIDIARIES | Country | Share Capital | Shareholders' equity | Result | % Held | Book value |
|---|---|---|---|---|---|---|
| *(EUR 000)* | | | | | | |
| Energy Byte S.r.l. in liquidation | Milano | 68 | - | 404 | 100% | - |
| Tiscali Deutschland Gmbh (ex Nikoma ) | Monaco | (5,978) | (177,367) | (2,353) | 100% | - |
| Tiscali Finance SA | Lussemburgo | 125 | 1 | (1,044)) | 100% | - |
| Tiscali Italia S.p.A. | Cagliari | 185,000 | 135,731 | 4,335 | 100% | 111,958 |
| World Online International N.V. (***) | Maarsen (NL) | 115,519 | (4,100) | (127,035) | 100% | - |
| Tiscali Financial Services Sa | Lussemburgo | 31 | (3,217) | (176) | 100% | 31 |
| Tiscali UK Holdings Ltd | Londra | 59 | (251,889) | (91,464) | | |
| **Total** | | | | | | **111,989** |

(***)Forecast balance sheet data at 31/12/2009

**Other non current financial assets (note 12)**

| | 31 December 2009 | 31 December 2008 |
|---|---|---|
| *(EUR 000)* | | |
| Receivables from Group companies | 22,120 | 4,061 |
| Other receivables | 484 | 1,435 |
| **Total** | **22,604** | **5,496** |

Other non current financial assets include financial loans to Group companies of EUR 22.1 million (EUR 4 million in 2008).

The increase compared with the cut-off of the previous year us mainly justified by the position with regard to the English subsidiary Tiscali UK Holdings Ltd in the amount of EUR 5.2 million representing, in part, the remainder of the waiver transaction set out in previous note 6.

The financial receivables due from Group companies are detailed below:

| | 31 December 2009 | 31 December 2008 |
|---|---|---|
| *(EUR 000)* | | |
| Energy Byte S.r.l | - | 112 |
| Tiscali Italia S.p.A. | 12,869 | 3,484 |
| Tiscali Media Srl | 465 | 465 |
| Tiscali Business Gmbh | 2,470 | - |
| Tiscali Gmbh | 204 | - |
| Tiscali Verwaltung Gmbh | 880 | - |
| Tiscali Uk Holding Ltd | 5,232 | - |
| **Total** | **22,120** | **4,061** |

**Receivables from customers (note 13)**

| | 31 December 2009 | 31 December 2008 |
|---|---|---|
| *(EUR 000)* | | |
| Receivables from customers | 16,009 | 24,283 |
| Write-down provision for losses | (500) | (500) |
| **Total** | **15,509** | **23,783** |

At 31 December 2009, receivables from customers totalled EUR 16 million, including receivables from Group companies of EUR 15.2 million and from third party customers of EUR 0.8 million.
Trade receivables due from Group companies are detailed below:

| | 31 December 2009 | 31 December 2008 |
|---|---|---|
| *(EUR 000)* | | |
| Tiscali Espana SLU | - | 314 |
| Tiscali UK Ltd | - | 9,382 |
| Tiscali UK Holdings Ltd | 774 | 774 |
| Tiscali Italia S.p.A. | 14,422 | 9,113 |
| **Total** | **15,196** | **19,583** |

The book value of trade receivables, in view of conditions regulating services provided by the Group, is approximate to their fair value. It is further highlighted that Loans to customers will be due within the next year and to not present any expired balances of any significant amounts.

The breakdown of Loans to customers by maturity date is as follows:

| | 31 December 2009 | 31 December 2008 |
|---|---|---|
| *(EUR 000)* | | |
| Within the year | 15,509 | 23,783 |
| 1-5 years | - | - |
| More than 5 years | - | - |
| Total | **15,509** | **23,783** |

**Other Receivables and other Current Assets**

| | 31 December 2009 | 31 December 2008 |
|---|---|---|
| *(EUR 000)* | | |
| Other receivables | 2,076 | 2,349 |
| Accrued income | 4 | 9 |
| Prepaid expense | 40 | 63 |
| **Total** | **2,120** | **2,421** |

Other receivables at 31 December 2009 came to EUR 2.1 million and include advances paid to suppliers of EUR 1.1 million and loans to the treasury for VAT in the amount of EUR 0.6 million.

Prepaid expense of EUR 0.04 million includes prepaid insurance and leasing costs.

**Other current financial assets (note 15)**

At 31 December 2008 the other current financial assets were an amount equal to EUR 2.6 million relating to the sums bound up with supporting the guarantees made in the context of the sale of the German assets that took place in 2007. These sums were under a lien following a dispute launched by the counter-party (Ecotel Communication AG) which was concluded in September 2009 by a settlement agreement that generated the release of the same. For further details please refer to what has been more amply described in the paragraph to the present additional notes devoted to Disputes and Potential liabilities.

**Cash and Cash equivalents (note 16)**

At the end of 2009, cash and cash equivalents totalled EUR 2.4 million and include the company's liquid resources, essentially held in bank current accounts. Reference should be made to the report on operations for a detailed analysis of the financial position.

**Shareholders' equity (note 17)**

| | 31 December 2009 | 31 December 2008 |
|---|---|---|
| *(EUR 000)* | | |
| Share capital | 92,003 | 308,273 |
| Share premium reserve | - | 990,857 |
| Stock option reserve | 4,315 | 3,841 |
| Reserve for own equity | - | (6,187) |
| Reserve to cover losses | 252,931 | - |
| Other reserves | (7,248) | - |
| Retained earnings | (248,254) | (1,142,688) |
| **Total** | **93,747** | **154,096** |

At 31 December 2008, with net assets equal to EUR 154.1 million, Tiscali S.p.A. was under the circumstances set out in section 2446 of the Civil Code for the reduction of corporate capital by more than one third.

The General Meeting of Shareholders held in April 2009, resolved upon the full use of the Share premium reserve (of EUR 990.8 million) to recover the accumulated losses at 31 December 2008, and provided for the carrying forward of the remainder of the loss in the amount of EUR 151.8 million..

Later, on the 30 June 2009, the General Meeting of Shareholders resolved to over the remaining losses at 31 December 2008, including the accumulated loss from the first quarter of 2009, by means of an equity reduction, which was reduced from EUR 308.2 million to EUR 156 million.

On the 1 October 2009, the former Chief Executive Officer of Tiscali S.p.A., Dr. Tommaso Pompei, waived 359,314 options to purchase the same number of ordinary Tiscali S.p.A. shares. Those options had been assigned to Dr. Pompei in the context of the stock option incentive plan passed by the Tiscali S.p.A.

shareholder's meeting on the 3 May 2007.

Thus in the month of October 2009 the Company arranged to reallocate, by means of market transactions, the 260,000 own shares it held in portfolio to service the incentive plan set out above.
In the month of November 2009 the equity increase resolved on the 30 June 2009 by the shareholder's meeting was completed with the issue of no. 1,799,819,371 ordinary Tiscali shares newly issued with 1,799,819,371 related warrants.

As the result of the subscriptions above the new Tiscali S.p.A. shareholder equity was thus equal to EUR 336,053,433.35 made up of no. 1,861,473,919 ordinary shares with no face value.

On the 22 December 2009 an Extraordinary General meeting decided to fully cover the accumulated losses at 1 December 2009, equal to EUR 252,560,297.48, by means of the full use of the share premium reserve of EUR 8,509,754.60 and the reduction of the share capital for the remaining EUR 244,050,542.88 with a resulting corporate equity reduction from EUR 336,053,433.35 to EUR 92,002,890.47 and the resulting amendment of clause 5 (Company equity and shares) in the Memorandum and Articles of incorporation.

| **Detailed statement of Shareholders' Equity items** | | | | | | Summary of uses in the last 3 accounting periods | |
|---|---|---|---|---|---|---|---|
| | Amount | Utilisation options | Available portion | Available portion with no tax effect | Available portion with tax effect | Loss coverage | Other |
| Share capital | 92,003 | | - | - | - | - | - |
| Share premium reserve | - | A,B | - | - | - | 1,253,663 | - |
| Stock option reserve | 4,315 | | | | | | |
| Reserve to cover losses | 252,931- | | | | | | |
| Retained earnings | (248,254) | | - | - | - | - | - |
| **Total** | **93,747** | | **--** | **-** | **-** | **1,253,663** | **-** |

Utilisation options – Key:
A For share capital increases
B For loss coverage
C For distribution to shareholders

**Other non current liabilities (note 18)**

| | 31 December 2009 | 31 December 2008 |
|---|---|---|
| *(EUR 000)* | | |
| Payables to Group companies | 2,090 | 3,108 |
| Other payables | - | 515 |
| **Total** | **2,090** | **3,623** |

The balance of Other non current liabilities involved financial debts to group companies for EUR 2 million made up mainly of Tiscali Italia S.p.A.

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

| | 31 December 2009 | 31 December 2008 |
|---|---|---|
| *(EUR 000)* | | |
| Energy Byte Srl in liquidation | 24 | - |
| Tiscali Italia S.p.A. | 2,066 | 3,092 |
| Tiscali International Network SA | - | 16 |
| **Total** | **2,090** | **3,108** |

The distribution by due date of Other non-current liabilities is as follows:

| | 31 December 2009 | 31 December 2008 |
|---|---|---|
| *(EUR 000)* | | |
| 1-5 years | 2,090 | 3,623 |
| More than 5 years | - | - |
| Total | **2,090** | **3,623** |

**Liabilities for pension obligations and staff severance indemnities (note 19)**

The table below shows the period movements:

| | 31 Dec 2008 | Increases | Decreases | Other variations | 31 Dec 2009 |
|---|---|---|---|---|---|
| *(EUR 000)* | | | | | |
| Staff severance | 271 | 163 | (232) | - | 203 |
| **Total** | **271** | **163** | **(232)** | **-** | **203** |

The staff severance fund of EUR 0.2 million, chiefly covering amounts payable to employees, relates to the parent company and subsidiaries operating in Italy.

In accordance with national regulations and laws, the amount due to each employee matures depending on the service provided, and has to be immediately disbursed when the employee leaves the company. At the end of the work relationship, the amount due is calculated pursuant to Italian civil and work law, on the basis of the duration of the work relationship itself and the taxable remuneration of each employee. The liability is annually adjusted in compliance with the official index of living cost, and with the interests fixed by law. It is not associated with any condition or period of accrual, or with any obligation of financial borrowing; therefore, there are no assets in the service of the provision. In compliance with IAS 19, the provision was recorded under “Plan with definite performances”. The following actuarial hypotheses used in the assessment are set out below.

### Financial assumptions

Inflation rate: 2.00%
Discount rate: 4.80%

**Demographic assumptions:**

| | |
|---|---|
| Mortality: | ISTAT 2002 M/F mortality tables with reference also to SIM 2002 and SIF 2002 |
| Disability: | INPS 1998 M/F disability tables |
| Resignation: | 3.50% from 20-65 years |
| Advance payments: | 3% from 20-65 years |
| Retirement: | 65 for men and 60 for women, with maximum length of service of 40 years |

**Provisions for risks and charges (note 20)**

The table below shows the period movements:

| | 31 Dec 2008 | Increases | Decreases | Other variations | 31 Dec 2009 |
|---|---|---|---|---|---|
| *(EUR 000)* | | | | | |
| Provision for employment risks and charges | 1.762 | - | (91) | 1,510 | 3,180 |
| Hedge fund to cover subsidiaries | 36,059 | 115,526 | (137,619) | (13,891) | 75 |
| Provision for restructuring charges | 2,400 | - | (394) | (2,006) | - |
| Other provisions for risks and charges | - | 407 | - | - | 407 |
| **Total** | **40,220** | **115,933** | **(138,104)** | **(14,387)** | **3,662** |

Il Fondo copertura perdite partecipate risulta così composto:

| | 31 Dec 2008 | Increases | Decreases | Other variations | 31 Dec 2009 |
|---|---|---|---|---|---|
| *(EUR 000)* | | | | | |
| World Online International N.V. | - | 115,526 | (115,526) | - | - |
| Tiscali Finance SA | 30,141 | - | (22,093) | (8,048) | - |
| Tiscali Deutschland Gmbh | 5,843 | - | - | (5,843) | - |
| Other minority shareholdings | 75 | | - | - | 75 |
| **Total** | **36,059** | **115,526** | **(137,619)** | **(13,891)** | **75** |

The Provision for restructuring charges, formed in the previous year to face up to the process of revising the organisational structure, has been used in the amount of EUR 0.4 million, reconverted in the amount of EUR 1.5 million in the Provision for employment risks and charges and released into the income statement for the difference being the reorganisation process that is now complete.

The changes in the provision hedge losses in subsidiaries of EUR 115.5 million is attributable to the value adjustment of the shareholding in World Online International N.V on the net accounting assets after the sale of the assets of the English company Tiscali UK Ltd (which took place in July 2009). In the course of the following months, the said increase was entirely used for waiving the financial loans made to the Tiscali UK Holdings Ltd company, in the amount of EUR 135.5 million and connected to the transfer of funds from the equity increase, whilst the excess balance from the waiver of EUR 19.9 million was debited to the income account.

The decrease in the amount of the Fund provided during the previous years fir the subsidiary Tiscali Finance Sa in the amount of EUR 30 million was connected to the conversion of the loan made to the same subsidiary of EUR 22 million with simultaneous conversion into the depreciation allowance and release of the difference into the income statement for around EUR 8 million.

A further release into the income statement was made for the entire amount of EUR 5.8 million set aside for the Tiscali Deutschland Gmbh subsidiary in the previous year. On the 31 December 2009 the circumstances that had made the provision necessary were lifted and thus the provision was fully released.

**Current financial liabilities (note 21)**

| | 31 December 2009 | 31 December 2008 |
|---|---|---|
| *(EUR 000)* | | |
| Payables to banks | 590 | 627 |
| **Total** | **590** | **627** |

The item only refers to bank overdrafts necessary for covering ordinary operating cash requirements.

**Payables to suppliers (note 22)**

| | 31 December 2009 | 31 December 2008 |
|---|---|---|
| *(EUR 000)* | | |
| Trade payables to third parties | 12,239 | 10,929 |
| Trade payables to Group companies for materials and services | 3,060 | 11,148 |
| | **15,299** | **22,077** |

Trade payables to third party suppliers relate mainly to payables for professional consulting services.

It should be mentioned that Trade payables are for settlement by the end of the next financial year and it is considered that their book value is approximate to their fair value.

Trade payables to Group companies are detailed below:

| | 31 December 2009 | 31 December 2008 |
|---|---|---|
| *(EUR 000)* | | |
| Tiscali Espana SLU | - | 5 |
| Tiscali UK Ltd | - | 7,956 |
| Tiscali Italia S.p.A. | 3,060 | 3,187 |
| **Total** | **3,060** | **11,148** |

**Other current liabilities (note 23)**

| | 31 December 2009 | 31 December 2008 |
|---|---|---|
| *(EUR 000)* | | |
| Accrued expenses | 21 | 15 |
| Deferred income | 2 | 2 |
| Other payables to Group companies | 36,014 | 45,753 |
| Other payables to third parties | 2,824 | 5,112 |
| **Total** | **38,861** | **50,883** |

The Other payables to group companies refers to the financial indebtedness towards the Tiscali International B.V. Company, a sub-holding company in the Tiscali group, due during the course of the year. The existing funding contract does not provide for the debiting of interest (not for profit funding).

The Other payables item mainly includes debts to the Treasury for staff deductions and towards provident institutions for around EUR 0.6 million, debts towards the staff of EUR 1.1 million and other debts in the total amount of EUR 1 million of which EUR 0.8 million are towards Directors for emoluments.

**Guarantees provided and commitments (note 24)**

Guarantees issued are detailed as follows:

| | 31 December 2009 | 31 December 2008 |
|---|---|---|
| *(EUR 000)* | | |
| Guarantees issued to third parties (Sureties) | 305,712 | 802,127 |
| Commitments | 7,096 | 8,376 |
| **Total** | **312,808** | **810,503** |

Sureties issued refer to EUR 158 million to the guarantee provided by the Parent Company for the loans granted by Banca Intesa San Paolo and JP Morgan in the context of the restructuring of the group debt carried out during the year as described in the paragraph in the present explanatory note “Assessment of company continuity and foreseeable changes in management”.

The same item includes the surety given by Tiscali S.p.A. to guarantee the amount of the loan granted for the sale & lease back transaction on the Sa Illetta property by the subsidiary Tiscali Italia S.p.A., totalling EUR 95 million.

The commitments item refers to EUR 2.9 million for maintaining credit lines granted to the subsidiary Tiscali Italia S.p.A., and to EUR 3.6 million of other legal guarantees connected to leasing contracts by the same subsidiary.

**Net Financial position (note 25)**

In accordance with the provisos of the Consob Communiqué no. DEM/6064293 of the 28 July 2006, it is pointed out the net financial position at 31 December 2009 is summed up in the following table, drafted on the basis of the system set out in the CESR Recommendations of the 10 February 2005 “Recommendations for the uniform implementation of the EURpean Community regulations on information tables”:

| | 31 December 2009 | 31 December 2008 |
|---|---|---|
| *(EUR 000)* | | |
| A. Cash | 6 | 1 |
| B. Other cash equivalents | 2,425 | 1,372 |
| C. Securities held for trading | - | - |
| **D. Cash and cash equivalents (A) + (B) + (C)** | **2,431** | **1,373** |
| **E. Current financial receivables (*)** | **2,120** | **5,026** |
| F. Current bank payables | (590) | (627) |
| G. Current portion of non-current debt | | |
| H. Other current financial payables | (36,014) | (45,753) |
| **I. Current financial debt (F) + (G) + (H)** | **(36,604)** | **(46,379)** |
| **J. Net current financial debt (I) – (E) – (D)** | **(32,053)** | **(39,981)** |
| K. Non-current bank payables | - | - |
| L. Bonds issued | - | - |
| M. Other non-current payables to Group companies | (2,090) | (3,108) |
| N. Other non-current payables to third parties | 0 | (515) |
| **O. Non-current financial debt (K) + (L) + (M) + (N)** | **(2,090)** | **(3,623)** |
| **P. Net financial debt (J) + (O)** | **(34,143)** | **(43,604)** |

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

| | 31 December 2009 | 31 December 2008 |
|---|---|---|
| *(EUR 000)* | | |
| **Net debt as per the Report on operations** | **(33,659)** | **(42,169)** |
| Non current financial receivables | (484) | (1,435) |
| **Net financial position** | **(34,143)** | **(43,605)** |

## Financial risk management

### Financial risk management objectives

The Group's Corporate Treasury division provides business services, co-ordinates access to the local and international financial markets, and monitors and handles the financial risk associated with Group operations by means of internal risk reports which analyze the exposures by degree and magnitude of the risk. These risks include market risks (inclusive of currency risks, fair value interest rate risks and price risks), credit risks and risks in cash flow interest rates.

### Market Risks

Group activities do not expose it primarily to the financial risk of changes in exchange rates for foreign currency and to the interest rate.

### Transactions with related parties

During 2009, the Tiscali S.p.A. had a number of dealings with related parties.
These were transactions regulated on an arms'-length basis; the table below summarises the balance sheet and income statement values recorded in the Parent Company's financial statements at 31 December 2009 arising from transactions with related parties.

The effects on the income statement are indicated as follows:

| INCOME STATEMENT | 2009 | of which: related parties | % change |
|---|---|---|---|
| *(EUR 000)* | | | |
| Revenues | 10,764 | 10,284 | 95.5% |
| Other income | - | | |
| Purchase of materials and outsourced services | (3,211) | (240) | 7.5% |
| Payroll and related costs | (5,344) | (324) | 6.1% |
| Other operating costs | (3,384) | (1,940) | 57.3% |
| Write-downs of receivables from customers | (2) | | |
| Other write-downs | (251,763) | | |
| Amortisation/depreciation | (347) | | |
| **Operating result** | **(253,287)** | **7,781** | |
| Portion of result of equity investments valued using the net asset approach | - | | |
| Net financial income (charges) | 4,771 | | |
| **Pre-tax result** | **(248,516)** | **7,781** | |
| Income taxes | (185) | | |
| **Net result from operating activities (on-going)** | **(248,701)** | **7,781** | |
| Result from assets disposed of and/or destined for disposal | 447 | | |
| **Net result** | **(248,254)** | **7,781** | |

| INCOME STATEMENT | 2009 | of which: related parties | % change |
|---|---|---|---|
| *(EUR 000)* | | | |
| Revenues | 17,425 | 15,981 | 92% |
| Other income | - | | |
| Purchase of materials and outsourced services | (7,883) | (1,835) | 23% |
| Payroll and related costs | (14,248) | (2,481) | 17% |
| Other operating costs | (1,769) | | |
| Write-downs of receivables from customers | - | | |
| Other write-downs | (972,046) | | |
| Amortisation/depreciation | (375) | | |
| **Operating result** | **(978,897)** | **11,665** | |
| Portion of result of equity investments carried at equity | - | | |
| Net financial income (charges) | (1,915) | | |
| **Pre-tax result** | **(980,812)** | **11,665** | |
| Income taxes | (263) | | |
| **Net result from operating activities (on-going)** | **(981,074)** | **11,665** | |
| Result from assets disposed of and/or destined for disposal | (250) | | |
| **Net result** | **(981,324)** | **11,665** | |

The effects on the balance sheet were as follows:

| BALANCE SHEET | 31 December 2009 | of which: related parties | % change |
|---|---|---|---|
| *(EUR 000)* | | | |
| *Non-current assets* | 134,623 | 22,120 | 16.4% |
| *Current assets* | 20,060 | 15,196 | 75.8% |
| Assets held for sale | - | - | |
| **Total Assets** | **154,683** | **37,317** | |
| **Shareholders' equity** | 93,747 | 4,315 | 4.6% |
| **Total Shareholders' equity** | **93,747** | **4,315** | |
| *Non-current liabilities* | 5,955 | 2,090 | 35.1% |
| *Current liabilities* | 54,751 | 36,014 | 65.8% |
| Liabilities directly related to assets held for sale | 231 | - | |
| **Total Liabilities and Shareholders' equity** | **154,683** | **42,419** | |

| BALANCE SHEET | 31 December 2008 | of which: related parties | % change |
|---|---|---|---|
| *(EUR 000)* | | | |
| *Non-current assets* | 241,616 | 4,061 | 1.7% |
| *Current assets* | 30,181 | 19,583 | 64.9% |
| Assets held for sale | - | - | |
| **Total Assets** | **271,797** | **23,644** | |
| | - | | |
| **Shareholders' equity** | 154,096 | 3,841 | 2.5% |
| **Total Shareholders' equity** | **154,096** | **3,841** | |
| *Non-current liabilities* | 44,115 | 3,108 | 7.0% |
| *Current liabilities* | 73,587 | 56,938 | 77.4% |
| Liabilities directly related to assets held for sale | - | - | |
| **Total Liabilities and Shareholders' equity** | **271,797** | **63,887** | |

The most significant balances, at 31 December 2009, summarized by supplier of the services, are as follows:

| INCOME STATEMENT VALUES | Notes | 31 December 2009 | | 31 December 2008 | |
|---|---|---|---|---|---|
| *Quinary S.p.A.* | | Costs | Revenues | Costs | Revenues |
| Tiscali International Network B.V. | 1 | - | - | - | 90 |
| Tiscali Deutschland Gmbh | 1 | - | 169 | - | 675 |
| Tiscali UK Ltd | 1 | - | - | - | 259 |
| Tiscali Italia S.p.A. | 1 | - | 3,422 | - | 8,898 |
| Total Group companies | 1 | (2,179) | 6,693 | (1,835) | 6,059 |
| CHIEF EXECUTIVE OFFICER and Mamanerg Stock Options | | **(2,179)** | **10,284** | **(1,835)** | **15,981** |
| Stock options CEO e dipendenti | 3 | (324) | - | (2,481) | - |
| Other related parties | | **(324)** | - | **(2,481)** | **-** |
| Total Group companies and other related parties | | **(2,503)** | **10,284** | **(4,316)** | **15,981** |

| BALANCE SHEET VALUES | Notes | 31 December 2009 | | | | | |
|---|---|---|---|---|---|---|---|
| *(EUR 000)* | | **Trade receivables** | **Financial receivables** | **Trade payables** | **Financial payables (within 12 months)** | **Financial payables (more than 12 months)** | **Stock Option reserve** |
| Energy Byte S.r.l | 1 | - | - | - | - | 24 | - |
| Tiscali Finance SA | 1 | - | - | - | - | - | - |
| Tiscali Business GmbH | 1 | - | 2,470 | - | - | - | - |
| Tiscali Verwaltungs Gmbh | 1 | - | 880 | - | - | - | - |
| Tiscali GmbH | 1 | - | 204 | - | - | - | - |
| Tiscali International BV | 1 | - | - | - | 36,014 | - | - |
| Tiscali Italia S.p.A. | 1 | 14,422 | 12,869 | 3,060 | - | 2,066 | - |
| Tiscali Media Srl | 1 | - | 465 | - | - | - | - |
| Tiscali Holdings UK Ltd | 1 | 774 | 5,233 | - | - | - | - |
| Total Group companies | | **15,196** | **22,120** | **3,060** | **36,014** | **2,090** | **-** |
| Bizzarri Francesco | 2 | - | - | 37 | - | - | - |
| Stock options | 3 | - | - | - | - | - | 4,315 |
| Other related parties | | | **-** | **37** | **-** | **-** | **4,315** |
| Total Group companies and other related parties | | **15,196** | **22,120** | **3,097** | **36,014** | **2,090** | **4,315** |

| BALANCE SHEET VALUES | Notes | 31 December 2009 | | | | | |
|---|---|---|---|---|---|---|---|
| (EUR 000) | | Trade receivables | Financial receivables | Trade payables | Financial payables (within 12 months) | Financial payables (more than 12 months) | Stock Option reserve |
| Energy Byte S.r.l | 1 | - | 112 | - | - | - | - |
| Tiscali Espana SLU | 1 | 314 | - | 5 | - | - | - |
| Tiscali International BV | 1 | - | - | - | 45,753 | - | - |
| Tiscali International Network SA | 1 | - | - | - | - | 16 | - |
| Tiscali Italia S.p.A. | 1 | 9,113 | 3,484 | 3,187 | - | 3,092 | - |
| Tiscali Media Srl | 1 | - | 465 | - | - | - | - |
| Tiscali Holdings UK Ltd | 1 | 774 | - | - | - | - | - |
| Tiscali UK Ltd | 1 | 9,382 | - | 7,957 | - | - | - |
| Total Group companies | | **19,583** | **4,061** | **11,149** | **45,753** | **3,108** | **-** |
| Bizzarri Francesco | 2 | - | - | 37 | - | - | - |
| Stock options | 3 | - | - | - | - | - | 3,841 |
| Other related parties | | **-** | **-** | **37** | **-** | **-** | **3,841** |
| Total Group companies and other related parties | | **19,583** | **4,061** | **11,186** | **45,753** | **3,108** | **3,841** |

**Ongoing disputes, contingent liabilities and commitments**

During the normal course of its business, the Tiscali Group is involved in a number of legal and arbitration proceedings, as well as being subject to tax assessments.

A summary of the main proceedings to which the Group is a party, is presented below.

### Ongoing Disputes

#### Vereniging van Effectenbezitters/ Stichting Van der Goen WOL Claims dispute

In July 2001, the Dutch association Vereniging van Effectenbezitters and the Stichting VEB-Actie WOL foundation, which represent a group of around 10,000 former minority shareholders of World Online International N.V, filed a suit against World Online International NV hereinafter referred to as WoL, (currently 99.5% owned by Tiscali) and the financial institutions tasked with the stock market listing of the Dutch subsidiary, disputing, in particular, the incomplete and incorrect nature, as per Dutch law, of certain information contained in the listing prospectus for WoL and of certain public statements made, immediately prior to and after the listing, by the company and by its chairman.

(1) Group companies
(2) Mr. F. Bizzarri, member of Tiscali Spa's Board of Directors, has made an IPTV consultancy contract with the Parent Company and with the subsidiary completed in June 2008. The entire cost has been transferred over to the subsidiary Tiscali Italia Spa, since the services are in its field, and thus the related income has been adjusted.
(3) Stock option – CHIEF EXECUTIVE OFFICER and employees. Cost recorded in the item Other provisions in the Parent Company's financial statements.

By means of ruling dated 17 December 2003, the first level Dutch court deemed that in certain press releases issued by WoL prior to 3 April 2000, sufficient clarity was not provided regarding the declarations made public by its former chairman at the time of listing relating to his shareholding. Consequently, WoL was held responsible vis-à-vis the parties who had subscribed the shares of the company at the time of the IPO on 17 March 2000 (start date of trading) and who acquired shares on the secondary market up to 3 April 2000 (date on which the press release was issued, specifying the effective shareholding held by the former chairman of WoL). WoL has filed an appeal against this decision and has argued the correctness of the information prospectus.

On 3 May 2007, the Amsterdam Court of Appeal partially amended the decision of the first level court, deeming that the prospectus used at the time of listing was incomplete in some of its parts and that WoL should have corrected certain information relating to the shareholding held by its former chairman, reported by the media before said listing; furthermore, it was deemed that the company had created optimist expectations regarding the activities of WoL.

On 24 July 2007, the Dutch association and the foundation mentioned above proposed an appeal before the Dutch Supreme Court against the decision of the Court of Appeal. On 2 November 2007, WoL and the financial institutions tasked with the stock market listing filed their own counter-appeal. The Dutch Supreme Court has made its final ruling in November 2009 confirming the Appeal ruling and thus establishing that the IPO prospectus was not complete in some respects and that the WoL management should have provided some additional information during the listing. It should be pointed out that the judgement limited itself to ascertaining certain profiles of WoL liability ad that of the financial institutions instructed to carry out the Stock Market listing with reference to the obligations for complete correctness of information in an IPO and set out a few principles that could be deemed applicable to any future judgements (e.g. with regard to the proof of a causal link), whilst it does not make any comments on the actual entitlement to any damages which should be due to form the scope of new, separate and independent proceedings made before the relevant Courts on the part of the investors; at present no such proceedings have been filed. A dispute of a similar nature to that described above was launched by another Dutch foundation, Stichting Van der Goen WOL Claims, in August 2001, and letters were subsequently received from other parties, in which the hypothesis of being able to proceed with similar action, if the conditions should apply.

These disputes are potentially significant; however there are at present no sufficiently defined details to be able to quantify the potential liability. Therefore, no provision was made in the financial statements.

### Mobistar dispute

The indirect subsidiary Tiscali International BV is involved in another dispute, launched in June 2006 by the Mobistar NV Company (a Wanadoo group company). The dispute is about the termination by Wanadoo Belgium, a company purchased in 2003 by Tiscali Belgium, of a dial-in traffic connection contract (hereinafter the Contract) with Mobistar NV. Even if the contract to sell the shares in Wanadoo Belgium from Wanadoo SA to Tiscali Belgium foresaw the possibility of an early termination of the contract, which circumstance has also been confirmed by Tiscali's legal advisors, Mobistar nevertheless opposed that early termination by launching the present proceedings. Subsequently, Tiscali Belgium sold Wanadoo Belgium to Scarlet whilst remaining liable with regard to Scarlet for Mobistar's claims.

Tiscali has brought before the courts (i) Wanadoo SA – responsible in accordance with the contract for the sale of the Wanadoo Belgium shares to Tiscali Belgium, (ii) the legal advisors for the purchase transaction – who issued an erroneous opinion on the possibility of terminating the Contract - and (iii) the respective insurance company.

The sum at stake amounts to EUR 4 million, nevertheless Tiscali believes that the same should be reduced (i) by around EUR 1 million on the basis of the correct interpretation of the Contract, (ii) by a further amount, since the summons before the court of Wanadoo and the legal advisors for Tiscali should at least minimize the profile of liability of the latter. Tiscali believes that it has no liability, but given the complexity of the dispute and the number of parties involved, a forecast of the probable outcome of the proceedings is complex and thus, there are negotiations in progress with the aim of reaching a possible settlement solution by the payment of Tiscali of an amount of about 270,000 EUR. Tiscali International BV and Tiscali S.p.A have a liability (already accounted for in previous years) equal overall to the amount of the possible settlement. No further provision has been made this year.

### Ecotel Communication AG/Tiscali

On 19 October 2007, Ecotel Communication AG (Ecotel) - the company to which the Tiscali Group during the first half of 2007 transferred its German B2B activities for around EUR 18.5 million, sent Tiscali a letter by means of which – in relation to the purchase/sale contracts stipulated with Tiscali Business GmbH on 3 February 2007 and signed by Tiscali in its capacity as guarantor – it challenged the company that certain income values pertaining to the activities acquired were not correctly represented during the negotiations and in the related purchase agreement and requested the Company to launch an independent appraisal into these values. Therefore, as a consequence of the alleged deviation from the real values, Ecotel assumes that it has suffered a loss during its activities, whose effective total it estimates as coming to at least EUR 15 million. The Company fully disputes the contents of the letters.

In accordance with the dispute settlement clause in the contract of sale of the German assets, on 21 April 2008 Ecotel started the arbitration proceedings citing Tiscali Business Gmbh and Tiscali as obliged to cover the balance. Ecotel is seeking the payment of damages assessed at a total of EUR 15.2 million in addition to any other damages and other ancillary charges. Tiscali and Tiscali Business Gmbh have formed a defence contesting the debits. The arbitration proceedings are being held in Frankfurt (Germany) and will have an estimated duration of about 24 months.

In September 2009, the dispute ended with the execution of the settlement agreement made by the Parties. This agreement resulted in the payment by Tiscali to Ecotel of about EUR 1.65 million and the simultaneous release by Ecotel in favour of Tiscali of the part of the consideration for the purchase of the German B2B assets still held in escrow, in the amount of about EUR 2.6 million.

### Talk Talk Group Limited /Tiscali

Fallowing the dispute between Tiscali and Talk Talk Limited (the purchase of the English group assets, hereinafter referred to as Talk Talk) about certain amounts referred to in the release of part of the consideration still held in escrow, at March 2010 the proceedings set out in the sale contract were put in action. The parties have identified a third party that will act as an expert and will determine the amount of the figures in question. In particular, in the various allegations Tiscali asserts that it is entitled to payment of further sums than provided in the sale contract since the actual working capital data turned out to be better that the amount guaranteed in the contract, whilst Talk Talk is complaining that the number of users actually transferred was less than guaranteed. With reference to the amount of consideration still in escrow, equal to about GBP 35 million, Tiscali is asking for a payment of about GBP 30 million whilst Talk Talk is advancing claims of about GBP 25 millions, also to be taken from the same figure in escrow as above.
In the accounts to the 31 December 2009, the Company, even though it believes its position is entirely sound, faced with the margins of uncertainty that are inherent in this kind of proceedings, has written down the amount in escrow by GBP 7.5 million.

### Tax assessments

The Dutch tax authorities forwarded to World On Line International NV (and the direct subsidiary Tiscali International BV) a number of notices of assessment concerning the alleged non-payment of withholding tax on remuneration and stock options acknowledged in previous years to Group executives. The total amount of these disputes is EUR 2 million, against which Tiscali International BV has made payments totalling around EUR 0.3 million. The residual amount mainly refers to stock options which are alleged to have been granted to Mr. Landefeld (a party what is more resident for tax purposes in Germany) and, in the opinion of Tiscali's tax advisors, not subject to taxation on the Netherlands. Given this circumstance and considering that this dispute is in the initial stages, it was decided that the liability cannot be considered likely and therefore no related provision was made.

**Remuneration of the Directors, Statutory Auditors and Executives with Strategic responsibility**

In accordance with Section 78 of regulations enforcing Italian Legislative Decree No. 58/1998, issued by CONSOB under Resolution No. 11971/99, the following tables indicate the fees paid to Directors and Statutory Auditors.

| First Name and Surname | Position | 2009 Term in Post | Emoluments for office | Benefits in kind | Other Remuneration |
|---|---|---|---|---|---|
| **Board of Directors** | | | | | |
| Mario Rosso | Chairman and Chief Executive Officer | Resigned from post as Chairman and MD on 12 11 2009 | 700,000 | 2,441 | |
| Mario Rosso | Director (a) | In post from 1/1 to 21/12/2009 | - | | |
| Massimo Cristofori | Director (a) | In post from 1/1 to 21/12/2009 | 24,328 | | |
| Francesco Bizzarri | Director (a) | In post from 1/1 to 21/12/2009 | 24,328 | | |
| Umberto De Iulio | Director (a) | In post from 1/1 to 21/12/2009 | 24,328 | | |
| Renato Soru | Director | In post from 19/3 to 12/11/2009 | 16,290 | | 136,425 |
| Renato Soru | Chairman and Chief Executive Officer Director (a) | In post from 12 /11 to 21/12/2009 | 37,562 | | |
| Renato Soru | Chairman and Chief Executive Officer | In post from 21/12/2009 until the approval of the financial statements to 31/12/2011 | 10,704 | | |
| Gabriele Racugno | Director | In post from 21/12/2009 until the approval of the financial statements to 31/12/2011 | 740 | | 61,800 |
| Luca Scano | Director | In post from 21/12/2009 until the approval of the financial statements to 31/12/2011 | 740 | 1,786 | 238,500 |
| Victor Uckmar | Director | In post from 21 /12/2009 until the approval of the financial statements to 31/12/2011 | 740 | | |
| Franco Grimaldi | Director | In post from 21/12/2009 until the approval of the financial statements to 31/12/2011 | 740 | | |
| Borghesi | Director | Resigned in February 2009 | 4,167 | | |

(a) In carica in regime di prorogatio dal 12 novembre al 21 dicembre 2009

| First Name and Surname | Position | 2009 Term in Post | Emoluments for office | Benefits in kind (Stock options) | Other forms of remune-ration |
|---|---|---|---|---|---|
| **Board of Statutory Auditors** | | | | | |
| Aldo Pavan | Chairman and Statutory Auditor | In post from 1 January to 12 November 2009 | 55,737 | | |
| Paolo Tamponi | Chairman | In post from 21 December 2009 until the approval of the financial statements to 31.12.2011 | 1,764 | | |
| Piero Maccioni | Statutory Auditor | In post from 1 January until the approval of the financial statements to 31.12.2011 | 42,969 | | |
| Andrea Zini | Statutory Auditor | In post from 1 January until the approval of the financial statements to 31.12.2011 | 42,969 | | |
| Rita Casu | Supplementary Auditor | In post from 1 January until the approval of the financial statements to 31.12.2011 | - | | |
| Giuseppe Biondo | Supplementary Auditor (a) | In post from 1 January until the approval of the financial statements to 31.12.2011 | 6,879 | | |

(a) Held the post of Chairman of the Board of Statutory Auditors for the period from 12 November to 21 December 2009.

## Significant events to be reported after the end of the year

### Tiscali Italia S.p.A.: New customer support system

On the 7 January 2010 Tiscali announced that, in the context of its own system for relaunching on the Italian market, through an improvement of the quality of service of technical and administrative assistance for customer and optimised use of internal resources, it has decided to handle those activities in-house. In-house pre- and post sales assistance represents one of the critical factors for success in the telecommunications sector, in addition to enabling cost savings.

### Other Significant Events

As state in the note on “Disputes, potential liabilities and commitments”, in the month of March 2010 a third party was assigned the remit for establishing the reference figures required for calculating the dispute between Tiscali and Talk Talk for the release of part of the consideration for the sale of the UK business still in escrow. No other significant events are reported since 31 December 2009.

**Attachment - Information pursuant to Section 149 duodecies of the Consob Issuers' Regulations**

The following table, drawn up in accordance with Section 149 duodecies of the Consob Issuers' Regulations, indicates the fees for 2009 for auditing services and those for other services provided by the independent auditing firm. There were no services provided by bodies belonging to its network.

| Type of service | Party providing the services | Fee (EUR 000) |
|---|---|---|
| Auditing accounts | Reconta Ernst & Young S.p.A. | 261 |
| Certification services (1) | Reconta Ernst & Young S.p.A. (1) | 10 |
| Information document for the sale of English subsidiaries (Tiscali UK) | Reconta Ernst & Young S.p.A. | 65 |
| Information prospectus for the equity increase | Reconta Ernst & Young S.p.A. | 150 |
| **Total** | | **486** |

*1) The certification services include the filing of the tax declarations.*

**Consolidated statutory financial statements certification under Section 81-ter of Consob Regulation no. 11971 of the 14 May 1999 and subsequent amendments and additions.**

The undersigned, Renato Soru as Chief Executive Officer, and Luca Scano as Director in charge of preparing the company accounting documents for Tiscali S.p.A., certify, taking account of the provisos of section 154-bis, paragraphs 3 and 4 of Italian Law Decree of the 24 February 1998, no. 58:

- The adequacy related to the company's features;
- And the actual application of the administrative and accounting procedures in preparing the Financial Statements for the year during the course of the year 2009.

Tiscali S.p.A. has adopted a reference framework for the definition and valuation of its own system of internal control, with special reference to the internal controls for preparing the financial statements, the Internal Control - Integrated Framework model issued by the Committee of Sponsoring Organizations of the Treadway Commission that represents a body of general reference principles for the system of internal controls generally accepted at international levels.

It is further certified that the financial statements at 31 December 2009:

- Correspond to the entries in the books and the accounting entries;
- Has been drafted in compliance with the International Financial Reporting Standards adopted by the European Union and the provisos of law and regulations in force in Italy; and
- And is appropriate to form a true and accurate portrayal of the asset, income and cash flow situation of the issuer.

Cagliari, 26 March 2010

**Chief Executive Officer**

Renato Soru

**The Executive appointed to draw up the corporate accounting documents**

Luca Scano

# 12. Appendix Glossary

## A

**Shared access**
Technique for shared access to a local network in which a former monopoly operator rents part of the capacity to other operators: In that portion of the bandwidth the operator can provide Broadband services, whilst the former monopoly operator on the portion of the bandwidth not hired out, continues to provide telephony services.

**ADSL**
Acronym for Asymmetric Digital Subscriber Line, (the available bandwidth in reception is greater than that available for transmission) to enable internet access at high speed.

**ADSL2+**
An ADSL technology that extends the ADSL base capacity by doubling the download bit flow. The bandwidth can reach 24Mbps in download and 1.5 Mbps in upload and depends on the distance between the DSLAM and the customer's location.

**Uncovered Areas**
Also called "indirect access areas" to identify the geographic areas which are not directly served by the network owned by Tiscali (see also Bitstream and Wholesale).

**ARPU**
Average returns for fixed and mobile telephony for the user calculated in the course of a given period for an average number of active (for other operators) or Tiscali Group customers in the same period.

## B

**Bitstream**
Bitstream (or digital flow) services: Service consisting of the supply on the part of an operator of access to the fixed public telephone network of the transmission capacity between an end user workstation and the point of presence of an operator or an ISP that wants to provide broadband services to the end user.

**Broadband**
Data transmission system in which data is no more sent simultaneously to increase the actual speed of transmission with a data flow equal to or greater than 1.5 Mbps.

**Broadcast**
Simultaneous transmission of information to all nodes on a network.

**Unique browsers**
Number of different browsers that, in any time span, can visit a site one or more times.

## C

**Access fee**
Is the amount debited by national operators for each minute of use of their network by the managers of other networks. This is also called "interconnection fee".

**Capex**
Acronym for Capital Expenditure. Identifies the outgoing cash flows generated by the investments in an operating structure.

**Carrier**
Company that physically makes a telecommunications network available.

**Co-location**
Dedicated spaces in the machine rooms of an incumbent operator for the installation by Tiscali of its own network devices.

**CPS**
Acronym for Carrier Pre Selection, a system for preselecting an operator. This enables an operator/supplier of local services to automatically route calls on the network of the carried selected by a client who no longer has to enter special selection codes.

**CS**
Acronym for Carrier Selection, a system for selecting an operator. Enables a client to select, by entering a special code, along distance national or international operator other than that with whom he/she has a network access subscription.

**Business clients**
SoHos, small medium and large businesses.

**Consumer customers**
Customers who subscribe to an offer intended for families.

# D

**Dial Up**
Narrowband internet connection by means of a normal telephone call, usually charge by time. Narrowband internet connection by means of a normal telephone call, usually charge by time.

**Digital**
This is the way of representing a physical variable in a language that uses only the figures 0 and 1, and the figures are transmitted in binary code as a series of impulses. Digital networks, which are rapidly replacing the old analogue networks, allow greater capacities and greater flexibility by using computerised technologies for the transmission and handling of calls. Digital systems offer less noise interference and can include encryption as protection from outside interference.

**Double Play**

Combined offering of access to the Internet and fixed telephony.

**DSL Network**
Acronym for Digital Subscriber Line Network, which is a network built from existing telephone lines using DSL technology instruments that, by using sophisticated modulation mechanisms, enable data packets to be sent along copper wires and thus the linking of a telephone handset to a modem at a home or in an office.

**DSLAM**
Acronym for Digital Subscriber Line Access Multiplexer, a device used in DLS technologies, to multiply the transmission of data at high capacities on telephone wires, where a multiplexer means a device that enables the transmission of information 9voice, data, videos) in flows by means of direct and continuous connections between tow different points on a network.

# F

**Fibre Optic**
Thin fibres of glass, silicon or plastic that form the basis of a data transmission infrastructure. A fibre optic cable contains various individual fibres, each capable of carrying a signal (light impulses) over a virtually limitless band length. They are usually used for long distance transmissions, for the transmission of "heavy data" so that the signal arrives protected from interference which it might encounter along its own path. A fibre optic cable's carrying capacity is considerably greater than that of traditional cables and copper wire twisted pairs.

## G

**GigaEthernet**
Term uses to describe the various technologies that implement the nominal speed of an Ethernet network (the standard protocol for cards and cables for high speed connections between a computer and a local network) of up to 1 gigabit per second.

## H

**Home Network**
Local network made up from various kinds of terminals, devices, systems and user networks, with related applications and services including all the apparatus installed at user premises.

**Hosting**
Service that consists of allocating on a web server the pages of a website, thus making it accessible from the internet network.

## I

**Incumbent**
Former monopoly operator active in the telecommunications field.

**IP**
Acronym for Internet Protocol, a protocol for interconnecting networks (Inter-Networking Protocol0 born for interconnecting disparate networks by technology, services and handling.

**IPTV**
Acronym for Internet Protocol Television, a technology suited for using the IP transport technology to carry television content in digital form, using internet connections.

**IRU**
Acronym for Indefeasible Right of Use, long term agreements that guarantee the beneficiary the option of using for a long period the grantor's fibre optic network.

**ISDN**
Acronym for Integrated Service Digital Network, a telecommunications protocol in Narrowband able to carry in an integrated from various kinds of information (voice, data, texts, and images) coded in digital form on the same transmission line.

**Internet Service Provider o ISP**
Company that provides Internet access to single users or organisations.

## L

**Leased lines**
Lines whose transmission capacity is made available through leasing contracts for the transmission capacity.

## M

**MAN**
Acronym for Metropolitan Area Network, a fibre optic network that extends across a metropolitan area and links a Core Network to an Access Network.

**Mbps**
Acronym for megabit per second, a unit of measurement that states the capacity (and thus the speed) of data transmission along a computer network.

**Modem**
Modulator/demodulator. It is a device that modulates digital data in order to permit its transmission along analogue circuits, usually made form telephone lines.

**MNO**
Acronym for Mobile Network Operator, an operator of proprietary telecommunications on a mobile network o\that offers its own services wholesale to all MVNOs (Mobile Virtual Network Operator).

**MPF**
Acronym for Metallic Path Facility, the pair of copper wires (unscreened twisted pair) that comes

from an exchange (MDF -Main Distribution Frame) in an operators telephone room and arrives at the users premises (individual or corporate). Connections can be Full or Shared. A Full type connection enables the use of the data service (broadband) in addition to voice traffic. A Shared kind of connection only enables the use of the data service (broadband). In a "shared access" service, the LLU operator (in disparate access) provides the ADSL services to the end user, whilst the incumbent operator provides the analogue telephony service using the same access line.

**MSAN**
Acronym for Multi-Service Access Node, a platform able to carry on an IP network a combination of traditional services and that supports a variety of access technologies such as for example a traditional telephone line (POTS), and ADSL2+ line, a symmetric SHDSL line, VDSL and VDSL2 over a copper or fibre-optic network.

**MVNO**
Acronym for Mobile Virtual Network Operators: A party that offers mobile telecommunications services to the public, using its own mobile network interconnection structures, its own HLR, its own mobile phone network code MNC, Mobile Network Code), its own customer handling (marketing, invoicing and support) and issuing its own SIM cards, but does not has assigned frequencies and takes advantage, for access, of agreements negotiated or regulated via one or more licensed mobile network operators.

## N

**Narrowband**
System for connecting to data networks, for example the Internet, by means of a telephone call. In this kind of connection all the bandwidth used for the means of transmission is used as a single channel. One single signal occupies all the available bandwidth. The bandwidth of a communications channel identifies the maximum quantity of data that can be carried by means of transmission of the unit over time. The capacity of a communication channel is limited by the frequency interval that the equipment can sustain and by the distance to be travelled. An example of a Narrowband connection is the common modem narrowband connection at 56 kbps.

## O

**OLO**
Acronym for Other Licensed Operators, operators other than the dominant one that operate in a national telecommunications services market.

**Opex**
Acronym for Operating Expenses which are direct and indirect costs that are recoded in the income statement.

## P

**Pay-Per-View**
System by which a spectator pays to view a single programme (such as a sporting event or a film or concert) at the time it is transmitted or broadcast.

**Pay TV**
TV channels on payment. To receive Pay TV or Pay-Per-view, you have to connect a decoder and have an access system subject to conditions.

**Platform**
It is the total of the inputs, including hardware, software and equipment for running and the procedures for production (production platform) or

for the management (management platform) or for a special service (service platform).

**POP**
Acronym for Point of Presence, a site at which telecommunications apparatus is installed and that forms a node on the network.

**Portal**
Website that forms a point of departure of an entry point for a major group of Internet resources or to an Intranet.

# R

**Router**
Hardware or in some cases software instrument that identifies the next point on the network to which a data packet is to be sent, and routes that data packet towards the end destination.

# S

**Service Provider**
Party that provides end users and content providers a range of service, including that of an owned, leased or third party service centre.

**Server**
Computer component that provides services to other components (typically called clients) access a network.

**Set-top-box o STB**
Party that provides end users and content providers a range of service, including that of an owned, leased or third party service centre.

**Syndication**
The sale of radio and TV transmissions by a media company that owns the rights and usually the delivery platform also.

**SoHo**
Acronym for Small office Home office, for small offices, mostly professional offices or small firms.

**SHDSL**
Acronym for Single-pair High-speed Digital Subscriber Line. SHDSL is a technology for telecommunications of the XDSL family and is made by using direct ULL interconnections and enables high speed connections to be made in a balanced way in both directions (transmission and reception).

**Single Play**
Service including only broadband data access, not combined with other multiplay components such as voice and IPTV services. Broadband access may be provided through LLU platforms, Wholesale or Bitstream.

**Single Play voice**
Service including only voice access, not combined with other multiplay components such as broadband and IPTV access. Voice service can also be provided by VOPI and CPS procedures.

**SMPF**
Acronym for Shared Metallic Path Facilities which is synonymous with Shared Access (ungrouped access).

# T

**Triple Play**
A combined offering of fixed and/or mobile telephony, Internet and/or TV made by a single operator.

# U

**Unbundling of the local loop or ULL**
Unbundled access to a local network, that is, the possibility that telephone operators have had, since the telecommunications market was liberalised, to use existing physical infrastructures built by another operator to offer its own services to customers, paying a rental to the operator that is the actual owner of the infrastructure.

# V

### VAS
Acronym for Value-Added Services; services with added value provide a greater level of function compared with the basic transmission services offered on a telecommunications network for the transfer of information between terminals. These include switched analogue voice communications via cable or wireless, a direct digital point to point network "unrestricted" at 9600 bits/s; packet switching (called virtual); analogue transmission and direct broadband of TV signals and extra services, such as closed user groups; call waiting; reverse charging; call announcement and identification of caller number. The value added services provided over a network, from terminals or specialist centres include exchange services, messaging (MHS) (which can also be used for commercial documents in accordance with a predetermined format); electronic user directories, network and terminal addresses; e=mail; fax, teletext, videotext and videophone. Value added services may also include voice telephony value added services such as free numbers or paid telephone services.

### VISP
Acronym for Virtual Internet Service provision (sometimes also called Wholesale ISP). This is selling on Internet services purchased wholesale from an Internet Service Provider (ISP) that has network infrastructure.

### VoD
Acronym for Video On Demand. It is the supply of television programs on request by a user for payment of a subscription or of a sum for each programme (a film, or a football match) purchased. Broadcast in a special way by satellite TV and for cable TV.

### VoIP
Acronym for Voice over internet Protocol, a digital technology that enables the transmission of voice packets through Internet, Intranet, Extranet and VPN networks. The packets are carried according to H.323 specifications, which are the ITU (International Telecommunications Union) standard that forms the basis for data, audio, video and communications on IP networks.

### VPN
Acronym for Virtual Private Network, which can be realised on Internet or Intranet. Data between workstations and the server of the private network is sent along common public Internet networks, but using protection technologies against any interception by unauthorised persons.

### Virtual Unbundling of local loops or VULL
Procedure for accessing a local analogue network by which, even in the absence of physical infrastructures, the conditions and terms of access under ULL terms are replicated. This is a temporary access system that is usually replaced by ULL.

# X

### xDSL
Acronym for Digital Subscriber Lines, a technology that, by means of a modem, uses the normal telephone twisted pair and transforms the traditional telephone line into a high speed digital connection for the transfer of data. ADSL, ADSL 2, and SHDSL etc belong to this family of technologies.

# W

### Wi-Fi
Service for connection to the internet at high speed wirelessly.

### Wi-Max
Acronym for Worldwide Interoperability for Microwave Access: it is a technology that enables access wireless access to broadband telecommunications. It ahs been defined by the WiMAX forum, a world-wide consortium made up of the largest companies in the fixed and mobile telecommunications field that has the purpose of developing, promoting and testing the interoperability of systems based on IEEE standard 802.16-2004 for

fixed access and IEEE.802.16e-2005 for fixed and mobile access.

**Wholesale**
Services that consist of the sale of access services to third parties.

**WLR**
Acronym for Wholesale Line Rental, selling on by an operator of the telecommunications service for lines affiliated with an Incumbent.

# 13. Reports

## Report of the board of statutory auditors to the shareholders' Meeting pursuant to article 153 of legislative decree no. 58/98 and Article 2429, paragraph 3, of the civil code.

**To the Shareholders' Meeting of Tiscali SpA**

During the financial year ending at 31 December 2009, we carried out our legally required oversight activity in accordance with the Code of Conduct for Boards of Statutory Auditors recommended by the National Council of Chartered Accountants.

While detailed analysis of the contents of the financial statement is not assigned to us, we report that we oversaw the general entries made to it and its compliance with the law in terms of preparation and structure.

In compliance with the CONSOB Notice of 6 April 2001, as implemented by the Notices of 4 April 2003 and 7 April 2006, we report as follows:

- We monitored compliance with the law and the Company Articles of Association.
- We obtained the required information from the Directors on activity and on transactions of major business, financial or equity significance, carried out by the Company or its subsidiaries, and we can reasonably assure you that the actions that were approved and implemented comply with the law, the bylaws and general criteria of business functionality, and therefore are not manifestly imprudent, hazardous or potentially in conflict of interest or contradictory to the decisions taken by the Shareholder Meeting, or likely to compromise the integrity of shareholder equity.
- Within our jurisdiction, we looked into and oversaw the adequacy of the organization of the Company, compliance with the principles of correct administration and the adequacy of the provisions issued by the company to its subsidiaries pursuant to Article 114, Paragraph 2 of Legislative Decree No. 58/98, by collecting information from the various managers and meetings with the independent auditors to exchange data and significant information. In this regard, we have no special comments to report.
- Article 2 of Law No. 262 of 28 December 2005 introduced a series of changes to Legislative Decree No. 58/98, including the provision in Paragraph 1 of Article 151, allowing the Board of Statutory Auditors of the Parent Company to request information on the progress of corporate operations or to inquire directly to administrative and supervisory bodies of subsidiaries about specific affairs. With regard to Article 2 of Law No. 262, the Board of Statutory Auditors has asked that the Board of Statutory Auditors of the subsidiary Tiscali Italia SpA send copies of the minutes of its meetings every six months, for the purposes of obtaining information about the administration and control systems and general trends at the subsidiary. In this regard, no significant data or information has emerged which must be shown in this report.
- We assessed and monitored the adequacy of the internal auditing system and the administrative and

accounting system as well as its reliability of the latter to present management facts correctly, by obtaining information from respective department managers, examining corporate documents, and analyzing the results of the work carried out by the independent auditing company, while overseeing the activity of the internal audit manager. In this regard we have no particular comments to report.

- The Company has adopted the "Model for Organization, Management and Control pursuant to Legislative Decree No. 231/2001". During the financial year, the Board of Statutory Auditors reported the need to re-establish full operational functionality according to this model, including the joint nature of the oversight body, which currently consists only of the internal audit manager. We note that the process of updating the organization model is in progress at this time, and will include the new cases of violations introduced with the most recent legal provisions.
- There have been no significant intercompany transactions reported to us pursuant to Article 150 of Legislative Decree No. 58/98.
- We did not detect the existence of unusual or atypical transactions with third parties, companies of the group or related parties. We note the existence of non-recurring transactions tied to the restructuring of financial debt, the effects of which are described in the consolidated financial statement under "Non-recurring transactions".
- Transactions with related parties were broken down in the management report, where the asset and business values were summarized; see the specific paragraph in the consolidated financial statement, entitled "Transactions with related parties".
- No violation reports were received pursuant to Article 2408 of the Civil Code, nor were there claims by third parties.
- Pursuant to Article 150, Paragraph 2, of Legislative Decree No. 58/98, we held meetings with representatives of the Independent Auditing Firm and no significant data or information emerged which must be shown in this report.
- The audit company Reconta Ernst & Young SpA is issuing its own reports on the company and consolidated financial statements, which contain information about business continuity and about some disputes that could be significant, concerning which we refer you to the aforesaid reports. We believe that the aforesaid information does not require additional comment on our part.
- In compliance with Article 149, No. 1(c)bis of Legislative Decree No. 58/98, we take note that in their Report on Corporate Governance, the Directors specified that the Tiscali group adheres to and complies with the Code for Self-Governance for Italian listed companies published in March 2006. We clearly noted compliance with the standards required by the aforesaid Code; in its various aspects, this compliance is the subject of the Report on Corporate Governance which the Board of Directors has made available to you, to which we refer you for more up-to-date and complete information on the subject.
- As indicated in the Report on Corporate Governance, we note that for almost all of 2009, the Internal Audit Committee consisted of only one member. The Committee was therefore re-established in December 2009, following the appointment of the new Board of Directors.
- During 2009, Reconta Ernst & Young SpA and other entities belonging to its network provided various professional services other than auditing the company and consolidated financial statements. Total fees accruing for 2009 may be summarized as follows:

| | **Euro/000** |
|---|---|
| Accounting audit (company and consolidated financial statements) | 561 |
| Other services (prospectus, etc.) | 407 |
| **Total** | **968** |

- During the accounting year, the Board of Statutory Auditors issued its own observations pursuant to

Article 2446 of the Civil Code, on 16 April 2009, 11 June 2009, and 11 December 2009, in addition to issuing its own opinion on the compensation of directors (Article 2389 of the Civil Code).

- On the subject of opinions required by law, the independent auditing firm Reconta Ernst & Young SpA issued its report on the half-year report as at 30 June 2009 and a report on provisional data contained in the prospectus for the authorized share capital increase filed with Consob on 9 October 2009.
- In accordance with Article 149, Paragraph 2 of Legislative Decree No. 58/98, the oversight activity described above was carried out in 13 meetings of the Board of Statutory Auditors, two meetings of the Internal Audit Committee, and participating in all 21 meetings of the Board of Directors.

During the oversight activity and based on information obtained from the independent auditing firm, we observed no omissions and/or censurable facts and/or irregularities or in any case facts significant enough to require reporting to the oversight bodies or mentioning in this report.

Within the scope of our duties, we express a favourable opinion, recommending approval of the company financial statement as at 31 December 2009, together with the management report as presented by the Board of Directors.

Pursuant to Article 144-quinquesdecies of the Regulation for Issuers (Consob Regulation implementing Legislative Decree No. 58/98), we have attached to this report the list of positions that each of the members of the Board of Directors held in companies per Book V, Title V, Chapters V, VI and VII of the Civil Code as at the date that this report was issued.

Cagliari, 12 April 2010

The Board of Statutory Auditors

**Paolo Tamponi**

**Piero Maccioni**

**Andrea Zini**

## List of positions in companies per Book v, Title V, Chapters V, VI and VII of the Civil Code held as At 12 april 2010, pursuant to article 144-quinquesdecies of the Regulation for Issuers (consob Regulation implementing Legislative Decree no. 58/98)

### Paolo Tamponi

| Company | Position | Expiry date |
|---|---|---|
| Cons. Marittimo Ogliastra s.c. a r.l. | Chairman of the Board of Directors | Until withdrawn |
| Auditors Associati Srl | Managing Director | Until withdrawn |
| Tiscali italia Srl | Statutory auditor | Until approval of the financial statements as at 31.12.2009 |
| Portovesme Srl | Statutory auditor | Until approval of the financial statements as at 31.12.2010 |
| CoopFin SpA | Chairman of the Board of Statutory Auditors | Until approval of the financial statements as at 31.12.2010 |
| Hosteras SpA | Statutory auditor | Until approval of the financial statements as at 31.12.2010 |
| Sarmed Srl | Statutory auditor | Until approval of the financial statements as at 31.12.2011 |

### Piero Maccioni

| Company | Position | Expiry date |
|---|---|---|
| Auditors Associati Srl | Chairman of the Board of Directors | Until withdrawn |
| Abbanoa SpA | Statutory auditor | Until approval of the financial statements as at 31.12.2011 |
| Hosteras SpA | Chairman of the Board of Statutory Auditors | Until approval of the financial statements as at 31.12.2010 |
| SAR-MED Srl | Chairman of the Board of Statutory Auditors | Until approval of the financial statements as at 31.12.2011 |
| Portovesme Srl | Statutory auditor | Until approval of the financial statements as at 31.12.2010 |
| Calacavallo SpA | Chairman of the Board of Statutory Auditors | Until approval of the financial statements as at 31.12.2011 |
| Casa di cura Villa Elena Srl | Statutory auditor | Until approval of the financial statements as at 31.12.2011 |

**Andrea Zini**

| Company | Position | Expiry date |
|---|---|---|
| Santa Barbara Investimenti Srl | Sole Director | Until withdrawn |
| Bareca Srl | Sole Director | Until withdrawn |
| 3G Italia SpA | Statutory auditor | Until approval of the financial statements as at 31.12.2010 |
| H3G SpA | Statutory auditor | Until approval of the financial statements as at 31.12.2010 |
| 3lettronica Industriale SpA | Statutory auditor | Until approval of the financial statements as at 31.12.2010 |
| Gabbiani Angelo SpA | Statutory auditor | Until approval of the financial statements as at 31.12.2010 |
| Immobiliare Diana SpA | Statutory auditor | Until approval of the financial statements as at 31.12.2011 |
| Immobiliare Sant'Angelo SpA | Chairman of the Board of Statutory Auditors | Until approval of the financial statements as at 31.12.2011 |
| Rivolta Carmignani SpA | Chairman of the Board of Statutory Auditors | Until approval of the financial statements as at 31.12.2012 |
| Nuova Iniziativa Editoriale SpA | Statutory auditor | Until approval of the financial statements as at 31.12.2010 |
| Manifattura Colombo Trecate SpA | Statutory auditor | Until approval of the financial statements as at 31.12.2010 |
| A.D. Srl | Statutory auditor | Until approval of the financial statements as at 31.12.2010 |
| FRAL Srl | Statutory auditor | Until approval of the financial statements as at 31.12.2011 |
| Nuova Società Editrice Finanziaria SpA | Statutory auditor | Until approval of the financial statements as at 31.12.2010 |

## Independent Auditor's Report to the Consolidated Financial Statements

ERNST & YOUNG

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**Independent auditors' report**
**pursuant to art. 156 of Legislative Decree n. 58 of February 24, 1998**
**(now art. 14 of Legislative Decree n. 39 of January 27, 2010)**
**(Translation from the original Italian text)**

To the Shareholders
of Tiscali S.p.A.

We have audited the consolidated financial statements of Tiscali S.p.A. as of and for the year ended December 31, 2009, comprising the statement of comprehensive income, the statement of financial position, the statement of cash flows, the statement of changes in equity and the related explanatory notes. The preparation of these financial statements in compliance with International Financial Reporting Standards as adopted by the European Union and with art. 9 of Legislative Decree n. 38/2005 is the responsibility of Tiscali S.p.A.' s management. Our responsibility is to express an opinion on these financial statements based on our audit.

Our audit was made in accordance with auditing standards and procedures recommended by CONSOB (the Italian Stock Exchange Regulatory Agency). In accordance with such standards and procedures, we planned and performed our audit to obtain the information necessary to determine whether the consolidated financial statements are materially misstated and if such financial statements, taken as a whole, may be relied upon. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, as well as assessing the appropriateness and correct application of the accounting principles and the reasonableness of the estimates made by management. We believe that our audit provides a reasonable basis for our opinion.

Our audit of the consolidated financial statements for the year ended December 31, 2009was made in accordance with the regulations in force during that year.

The consolidated financial statements of the prior year are presented for comparative purposes. As reported in the explanatory notes, management has restated certain comparative data related to the prior year with respect to the data previously presented, on which we issued our auditors' report dated April, 14 2009. We have examined the methods adopted to restate the comparative financial data and the information presented in the explanatory notes in this respect, for the purposes of expressing our opinion on the consolidated financial statements for the year ended December 31, 2009.

In our opinion, the consolidated financial statements of the Tiscali Group at December 31, 2009 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with art. 9 of Legislative Decree n. 38/2005; accordingly, they present clearly and give a true and fair view of the financial position, the results of operations and the cash flows of the Tiscali Group for the year then ended.

For a better understanding of the consolidated financial statements, we would like to bring to your attention the following matters described in the notes to the financial statements:

a). As indicated in the Note "Evaluation of the company as a going concern and future outlook", the Tiscali Group incurred a consolidated loss for the financial year of EUR 387.0 millions, of which EUR 372.3 millions was related to disposals during the year, and has a deficit in consolidated net shareholders' equity of EUR 67.0 millions, after the share capital increase completed in November 2009 for approximately EUR 180.0 millions and after the effects of writing-off EUR 42,3 millions in debt, in accordance with the restructuring agreements signed with financial institutions. In addition, as at December 31, 2009, the Group reports gross financial indebtedness of EUR 240,6 millions and current liabilities which are greater than current (non-financial) assets by EUR 85,3 millions.

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The financial and economic disequilibrium of the Group, as already in evidence in the financial statements for the year ending at December 31, 2008, caused the Directors in early 2009 to prepare a new Business Plan and related Financial Plan to enable the Tiscali Group to begin restructuring its debts in order to guarantee its long-term financial equilibrium.

Following this, during 2009, the Group undertook certain actions (overall referred to as , the "Restructuring Plan"), aimed at achieving the long-term financial and economic equilibrium of the Group and to re-launch its commercial activities.

The Directors describe the actions undertaken and identify factors that indicate continuing uncertainties which are linked to the following considerations: (i) the Group is still in a situation of financial and economic imbalance; (ii) gross financial indebtedness, although significantly reduced during the year, is still significant and subject to covenants and other contractual obligations which, as is the practice with such contracts, could trigger the end of the benefit of the term; (iii) achieving a situation of long-term financial and economic equilibrium for the Group is subject to achieving the results indicated in the Plan, in the context of the current uncertain economic scenario, and therefore connected to the achievement of the forecasts and assumptions contained in the Plan and, in particular, those concerning the evolution of the telecommunications market and the achievement of the growth objectives set in a market characterized by strong competitive pressures.

The Directors highlight that the ability to a) re-establish an adequate level of shareholders funds; b) recover its assets; c) respect covenants and other contractual obligations and thereby maintain the availability of financing to meet the other obligations of the Group; d) achieve a long-term financial and economic equilibrium for the Group, depend from the possibility and the capacity to achieve the Plan.

To these factors need to be added the litigation matters described in the notes to the financial statements, the outcomes of which although not reasonably predictable at the moment or in the next 12 months following the balance sheet date have been evaluated by the Directors as potentially significant.

The Directors point out that in evaluating the matters set out above, they have considered that during 2009, the Company and the Group: (a) completed the actions required by the Restructuring Plan; (b) launched positively the Plan for 2009-2013; (c) verified the consistency between the Business Plan and the financing requirements of the new debt structure, as well as the suitability of the Plan to respect the covenants and other contractual obligations. These elements have persuaded the Directors to conclude that the Group is reasonably positioned to implement the Business Plan and that this will enable it to achieve a situation of financial and economic equilibrium in the long-term.

In conclusion, the Directors in analyzing what was already achieved in the context of a Plan aimed at allowing the Group and the Company to achieve long-term financial and economic equilibrium, recognize that at this time uncertainties remain which could raise significant doubts about the ability of the Group and the Company to continue to operate on the assumption of a going concern, but after making the necessary checks and evaluating the uncertainties identified in view of the elements described above, they have the reasonable expectation that the Group and the Company have adequate resources to continue operating for the foreseeable future and therefore they have adopted the going concern principle in preparing the financial statements.

b).The Directors also report on some potentially significant litigation initiated by third parties against the Dutch subsidiary World Online International NV. The Dutch Supreme Court, in a final ruling in November 2009, confirmed certain aspects of liability of World Online International NV, but without ruling on the matter of potential damages, which should be the subject of a new, separate proceeding on the part of the injured third parties. To date no such proceeding appears to have been initiated. With respect to this litigation, the Directors believe that there are not sufficient elements present to quantify the potential liability and therefore they have not made any provision for this in the financial statements. The Directors also report that there are additional at risk situations connected with litigation in progress or threatened, for which they do not consider that the company will incur significant liabilities.

5. The management of Tiscali S.p.A. is responsible for the preparation of the Report on Operations and the Report on Corporate Governance and on the company's ownership structure in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency of the Report on Operations and the information reported in compliance with art. 123-bis of Legislative Decree n. 58/1998, paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b) presented in the Report on Corporate Governance and on the company's ownership structure, with the financial statements, as required by law. For this purpose, we have performed the procedures required under Auditing Standard 001 issued by the Italian Accounting Profession (CNDCEC) and recommended by CONSOB. In our opinion, the Report on Operations and the information reported in compliance with art. 123-bis of Legislative Decree n. 58/1998, paragraph 1, letters c), d), f), l), m) and paragraph 2), letter b) presented in the Report on Corporate Governance and on the company's ownership structure, are consistent with the consolidated financial statements of the Tiscali Group as of December 31, 2009.

Milano, April 12, 2010

Reconta Ernst & Young S.p.A.
signed by: Lapo Ercoli, partner

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**Independent auditors' report**
**pursuant to art. 156 of Legislative Decree n. 58 of February 24, 1998**
**(now art. 14 of Legislative Decree n. 39 of January 27, 2010)**
**(Translation from the original Italian text)**

To the Shareholders
of Tiscali S.p.A.

1. We have audited the financial statements of Tiscali S.p.A. as of and for the year ended December 31, 2009, comprising the statement of income, the statement of financial position, the statement of cash flows, the statement of changes in equity and the related explanatory notes. The preparation of these financial statements in compliance with International Financial Reporting Standards as adopted by the European Union and with art. 9 of Legislative Decree n. 38/2005 is the responsibility of Tiscali S.p.A.' s management. Our responsibility is to express an opinion on these financial statements based on our audit.

2. Our audit was made in accordance with auditing standards and procedures recommended by CONSOB (the Italian Stock Exchange Regulatory Agency). In accordance with such standards and procedures, we planned and performed our audit to obtain the information necessary to determine whether the financial statements are materially misstated and if such financial statements, taken as a whole, may be relied upon. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, as well as assessing the appropriateness and correct application of the accounting principles and the reasonableness of the estimates made by management. We believe that our audit provides a reasonable basis for our opinion.

   Our audit of the financial statements for the year ended December 31, 2009 was made in accordance with the regulations in force during that year.

   For our opinion on the financial statements of the prior year, which are presented for comparative purposes, reference should be made to our report dated April 14, 2009.

3. In our opinion, the financial statements of Tiscali S.p.A. at December 31, 2009 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with art. 9 of Legislative Decree n. 38/2005; accordingly, they present clearly and give a true and fair view of the financial position, the results of operations and the cash flows of Tiscali S.p.A. for the year then ended.

4. For a better understanding of the financial statements, we would like to bring to your attention the following matters described in the notes to the financial statements:

a. As indicated in the Note "Evaluation of the company as a going concern and future outlook", Tiscali S.p.A. incurred a loss for the year of EUR 248.3 millions, after which shareholder equity amounts to EUR 93,7 millions. At the same time, the Tiscali Group ended its financial year with a consolidated loss of EUR 387.0 millions, of which EUR 372.3 millions was related to disposals during the year, and with a deficit in consolidated net shareholders' equity of EUR 67,0 millions, after the share capital increase which took place in November 2009 for approximately EUR 180.0 millions and, after the effects of writing-off EUR 42.3 millions in debt, in accordance with the restructuring agreements signed with financial institutions. In addition, as at December 31, 2009, the Group reports gross financial indebtedness of EUR 240.6 millions and current liabilities which are greater than current (non-financial) assets by EUR 85.3 millions.

   The financial and economic disequilibrium of the Group, already in evidence in the financial statements for the year ending at December 31, 2008, caused the Directors in early 2009 to

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prepare a new Business Plan and a related Financial Plan to enable the Tiscali Group to begin to restructure its debts in order to guarantee its long-term financial equilibrium.

Following this, during 2009, the Group undertook certain actions (overall referred to as, the "Restructuring Plan"), aimed at achieving the long-term financial and economic equilibrium of the Group and to re-launch its commercial activities.

The Directors describe the actions undertaken and identify factors that indicate continuing uncertainties which are linked to the following considerations: (i) the Group is still in a situation of financial and economic imbalance; (ii) gross financial indebtedness, although significantly reduced during the year, is still significant and subject to covenants and other contractual obligations which, as is the practice with such contracts, could trigger the end of the benefit of the term; (iii) achieving a situation of long-term financial and economic equilibrium for the Group is subject to achieving the results indicated in the Plan, in the context of the current uncertain economic scenario, and therefore connected to the achievement of the forecasts and assumptions contained in the Plan and, in particular, those concerning the evolution of the telecommunications market and the achievement of the growth objectives set in a market characterized by strong competitive pressures.

The Directors highlight that the ability to a) re-establish an adequate level of shareholders funds; b) recover its assets; c) respect covenants and other contractual obligations and thereby maintain the availability of financing to meet the other obligations of the Group; d) achieve a long-term financial and economic equilibrium for the Group, depend from the possibility and the capacity to achieve the Plan.

To these factors need to be added the litigation matters described in the notes to the financial statements, the outcomes of which although not reasonably predictable at the moment or in the 12 months following the balance sheet date, have been evaluated by the Directors as potentially significant.

The Directors point out that in evaluating the matters set out above, they have considered that during 2009, the Company and the Group: (a) completed the actions required by the Restructuring Plan; (b) launched positively the Plan for 2009-2013; (c) verified the consistency between the Business Plan and the financing requirements of the new debt structure, as well as the suitability of the Plan to respect the covenants and other contractual obligations. These elements have persuaded the Directors to conclude that the Group is reasonably positioned to implement the Business Plan and that this will enable it to achieve a situation of financial and economic equilibrium in the long-term.

In conclusion, the Directors in analyzing what has already been achieved in the context of a Plan aimed at allowing the Group and the Company to achieve long-term financial and economic equilibrium, recognize that at this time uncertainties remain which could raise significant doubts about the ability of the Group and the Company to continue to operate on the assumption of continuity going concern, but after making the necessary checks and evaluating the uncertainties identified in view of the elements described above, they have the reasonable expectation that the Group and the Company have adequate resources to continue to operate for the foreseeable future and they have therefore adopted the going concern principle in preparing the financial statement.

b. The Directors also report on the existence of some potentially significant litigation initiated by third parties against the Dutch subsidiary, World Online International NV. The Dutch Supreme Court, in a final ruling in November 2009, confirmed certain aspects of liability of World Online International NV, but without ruling on the matter of potential damages, which should be the subject of a new, separate proceeding by the injured third parties. To date no such proceeding appears to have been initiated. With respect to this litigation, the Directors believe that there are not sufficient elements present to quantify the potential liability and therefore they have not made any provision for this in the financial statements. The Directors also report that there are additional at risk situations connected with litigation in progress or threatened, for which they do not consider that the company will incur significant liabilities.

5. The management of Tiscali S.p.A. is responsible for the preparation of the Report on Operations and the Report on Corporate Governance and on the company's ownership structure in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency of the Report on Operations and the information reported in compliance with art. 123-bis of Legislative Decree n. 58/1998, paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b) presented in the Report on Corporate Governance and on the company's ownership structure, with the financial statements, as required by law. For this purpose, we have performed the procedures required under Auditing Standard 001 issued by the Italian Accounting Profession (CNDCEC) and recommended by CONSOB. In our opinion, the Report on Operations and the information reported in compliance with art. 123-bis of Legislative Decree n. 58/1998, paragraph 1, letters c), d), f), l), m) and paragraph 2), letter b) presented in the Report on Corporate Governance and on the company's ownership structure, are consistent with the financial statements of Tiscali S.p.A. as of December 31, 2009.

Milano, April 12, 2010

Reconta Ernst & Young S.p.A.
signed by: Lapo Ercoli, partner

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