Tiscali Group
Annual Report as at 31 December 2010

Issue date: 31 December 2010

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TISCALI S.P.A.
Registered office: SS195 Km 2.3, Sa Illetta, Cagliari
Share Capital EUR 92,018,562.47
Cagliari Companies' Register and VAT No. 02375280928 Econ. & Admin. Roster - 191784

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Highlights

Income statement (EUR mln)	31.12.2010	31.12.2009	% change
· Revenues	278.2	290.4	(4.2%)
· Adjusted Gross Operating Result (EBITDA):	70.5	88.1	(20.0%)
· Gross Operating Result (EBITDA)	47.8	69.7	(31.5%)
· Operating result	(1.8)	11.4	(115.8%)

Balance sheet (EUR mln)	As at 31.12.2010	As at 31.12.2009	% change
· Total assets	366.9	428.6	(14.4%)
· Net Financial Debt	(197.6)	(211.2)	6.4%
· Net Financial Debt as per Consob	(204.3)	(224.4)	8.9%
· Shareholders' equity	(92.0)	(67.0)	(37.3%)
· Investments	35.7	40.8	(12.5%)

Operating figures (000)	As at 31.12.2010	As at 31.12.2009	% change
Internet Access and Voice users	**625.1**	609.5	2.6%
ADSL (broadband) users	**549.8**	570.2	(3.6%)
Of which: Direct ADSL users (LLU)	**375.3**	387.2	(3.1%)

1 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 income/charges

Gross Operating Result (EBITDA)

\+ Write-downs of receivables from customers

\+ Stock option plan cost

Gross Operating Result (Adjusted EBITDA)

2 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

Statutory Auditors

Rita Casu

Giuseppe Biondo

Executive in charge of drawing up the corporate accounting documents

Luca Scano

Independent Auditing Firm

Reconta Ernst & Young S.p.A.

[1] Appointed by the shareholders' meeting on 21 December 2009

Report on Operations

3 Report on Operations

3.1 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, VoIP, media, added-value services and communication services.
In addition, Tiscali is active in the digital media and on-line advertising segment mainly through its www.tiscali.it portal.

During 2010, operators on the one hand continued to compete with regard to price and level of service, as well as established increasingly aggressive win-back and upselling policies

Access to broadband from the fixed network continued its rising trend, albeit at a slower pace than in previous years; by contrast, a strong boost was seen with regard to mobile broadband provided by the growing adoption of smart phones and internet keys.

On the fixed network broadband market, dual-play access was confirmed as the most commonly used commercial proposal by consumers and business users.

With regard to Italy, the infrastructural adaptation of the transport and access fixed telecommunications network was a central theme. In fact, the increased request for services and contents generated a growing band requirement expressed by the end customer, whether consumer or business.

The broadband access market is characterised by the presence of 5 leading operators, in addition to Tiscali: Telecom Italy, Fastweb, Wind Infostrada, Vodafone, Tele-tu, within a framework of essential stability with respect to the previous year. Each of these operators mans the market using different marketing strategies and a differing sales channel mix; great importance is given to the promotional strategy on the price, and the advertising pressure exercised on the traditional and on-line media.

The on- line advertising market also disclosed a rising trend in 2010, going against the flow with respect to traditional media.

In this context, the new players of the web 2.0 and the social networks were of particular importance, capable of attracting an increasingly greater portion of advertising expenditure.

During 2010, Tiscali was primarily involved in rationalising its cost structure and at the same time it established a number of important projects for the evolution of the networks, aimed at increasing coverage a national level, improving the performances and implementing new services. Thus for the purpose of improving its position as innovative provider on the consumer market and, at the same time, lay the bases for the development of the business sector.

3.2 Regulatory framework

During 2010, AGCom concentrated on the following macro-areas of intervention:

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

The most significant measures originated by these activities are illustrated below:

Increase in wholesale access service fees on copper networks

During 2010, by means of resolution No. 578/10/CONS, AGCom completed the analysis of the wholesale access markets confirming Telecom Italy as SMP operator on both the physical and broadband markets (markets 4 and 5). The adoption of a BU LRIC costing method for the determination of the prices for the services for the three-year period 2010-2012 led to an increase in the most significant cost items for the services. In detail, as from 1 May 2010 prices increased from EUR 8.49 a month to EUR 8.70 a month for the LLU fee, from EUR 11.79 a month to EUR 12.15 a month for the WLR fee and from EUR 10.72 a month to EUR 10.87 a month for the naked Bitstream Access fee, due to the increase in the additional fee quota. By contrast, fees for the Shared Access services fell, from EUR 1.97 a month to EUR 1.74 a month, along with those for shared Bitstream, from EUR 8 a month to EUR 7.93 a month. Activation fees for the Bitstream service and the price of the ATM band also decreased.

Regulation of services for access to the new generation networks

2010 saw the joint presence of numerous initiatives regarding NGN undertaken by government and regulatory institutions, both national and European.

With regard to Europe, in September the European Commission issued the "Recommendation relating to regulated access to the new generation access networks" (SEC(2010) 1037).

In Italy, the government launched the "Italy Digital Plan". Within this sphere, on 10 November the Minister for Economic Development signed a Memorandum of Understanding with the twenty leading Italian TLC operators – including Tiscali – for the development of the new generation networks, which envisages investments for around EUR 8 billion over 10 years for the infrastructures and around EUR 2 billion for Electronics and Services software.

With regard to regulatory matters, the NGN committee concluded its activities without reaching an agreement on the guidelines with all the operators taking part. In conclusion, in January 2011 AGCom published the *"Proposal for the regulation of the services for access to the new generation networks"* (resolution No. 1/11/CONS), launching the related public consultation. In the meantime, the Authority - in consideration of the fact that the joint investment and the sharing of the infrastructures, together with a greater harmonisation of the norms on installation rights, may reduce the risks associated with the investment in fibre optics and therefore encourage the development of FTTx infrastructures - also launched a public consultation on a "Proposed regulation concerning electronic network installation rights for backbone connections and joint location and sharing of infrastructures" (Resolution No. 510/10/CONS).

Provisions concerning transfer charges

So as to improve the enforcement of the commitments undertaken by Telecom Italy regarding wholesale access and in particular relating to the equal treatment between internal divisions and competing operators (group of 8 commitments among those undertaken by Telecom Italy and approved by AGCom by means of resolution No. 718/08/CONS), AGCom launched a process for the review of the current norms for drawing up the regulatory accounts. The aim of the measure is to supplement the current discipline of the regulatory accounts and the internal service contracts (so-called transfer charges) so as to highlight the economic flows of the internal exchanges between the Telecom Italia sales offices and the business units tasked with the production of the services relating to Open Access. At present, the provision concerning the *"Guidelines relating to regulatory accounts for the fixed network and service contracts"* (resolution No. 2/11/CONS), is subject to public consultation.

Provisions concerning the price test

Alongside the regulations concerning the control of the wholesale service prices, the Authority continues to carry out the “price tests” on retail services, which makes it possible to check the technical-economic repeatability of Telecom Italia’s retail offers by alternative operators. During 2010, the norms which guide the price test checking activities were changed by means of resolution No. 499/10/CONS.

The new provisions concerning pure number portability

By means of Resolution No. 35/10/CIR, AGCom approved the norms which will discipline the Pure Portability procedure (pure NP). This new process refers to all the cases of changeover of the end customer numbers without the simultaneous migration of the intermediate access service. In detail the new process - which will be operative as from February 2011, with procedures similar to those already envisaged in the event of the migration of the number associated with the access resources as per Resolution No. 274/07/CONS (i.e. involving the migration/secret codes mechanism) - will also make it possible for customers who have a native number resource assigned by an alternative operator, to keep the number in the event of changing the service provider.

Customer protection and service quality

AGCom continued its activities, aimed at achieving greater user protection through the adoption of measures geared toward making the telecommunications market more transparent.

By means of resolution No. 25/11/CONS “Additional provisions concerning quality and service charters for mobile and personal communications offered to the public on electronic communication land-based mobile radio networks, amending and supplementing resolution No. *104/05*/CSP”, AGCom launched a procedure aimed at adapting the quality indicators of the mobile services, on a similar basis to that which occurred under resolution No. 244/08/CSP for the services provided on the fixed network.

Again in relation to the mobile market, the Authority - by means of resolution No. 326/10/CONS, took measures with regard to tariff transparency introducing anti-bill shock provisions for mobile data traffic which envisage an expenditure threshold and alert system for the customers.

Within the sphere of the quality of the internet access service, as envisaged by Resolution No. 244/08/CSP, AGCom established the system for checking the speed of the ADSL internet service for end users, “Misura internet”, entrusting the handling to the “Ugo Bordoni” Foundation.

Lastly, Italian Law No. 178/2010 introduced important changes to the regime for regulating telemarketing activities. In particular, as from 1 February 2010 users who do not want to be contacted for commercial promotions will have to subscribe to the “Opposition Register”, handled by the “Ugo Bordoni” Foundation. The public initiative is flanked by the spontaneous one adopted by the leading telephone operators – including Tiscali – who in December entered into a “Telemarketing self-governance code”.

In conclusion, it is worth mentioning the recent measure adopted by AGCom regarding tele-voting: so as to discipline an increasingly more common activity, by means of resolution No. 38/11/CONS, a procedure was launched aimed at defining “New regulations concerning the transparency and efficacy of the tele-voting service”.

New model for calculating the tariffs and the third cycle of the analysis of the mobile termination market

By means of resolution No. 670/10/CONS, after having defined a new model for the determination of the BU LRIC type mobile termination tariffs (resolution No. 509/10/CONS), AGCom launched a third cycle of analysis of the mobile termination market which should lead to a review of the glide path defined in 2008.

AGCom proposal for the regulation of copyrights

2010 saw an extensive debate on the subject of copyrights, within which the AGCom regulation proposal was introduced; this is based on two tiers: on the one hand, the promotion of a legal range of digital contents and on the other, the drawing up of enforcement measures, which impose - among other aspects - the selective removal of the content published in alleged violation of third party copyrights. The outline of the provision relating to “Provision lines concerning the exercise of the responsibilities of the authority in activities for protecting copyrights on electronic communications networks”, issued by means of resolution No. 668/10/CONS, is currently subject to public consultation.

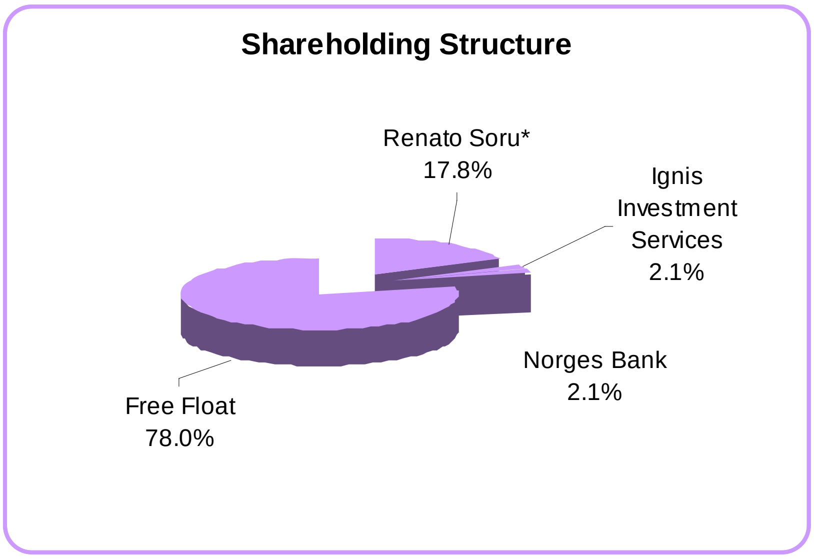
3.3 Tiscali shares

Tiscali shares have been listed on the Italian Stock market (Milan: TIS) since October 1999. At 31 December 2010, market capitalization came to EUR 149,477,820 million, calculated on the value of EUR 0,0803 per share as at that date.

At 31 December 2010, the number of shares representing the Group's share capital amounted to 1,861,492,160.

Tiscali's shareholder base at 31 December 2010 is illustrated below:

Fig 1 Tiscali shares



* Directly for around 15% and, indirectly through the investee companies Monteverdi Srl (1.8%), Cuccureddus Srl (0.9%) and Andalas Ltd (0.1%)
** It should be noted that on 7 January 2011, Ignis Investment Services increased its holding which in March 2011 thus came to 4.9%.

Source: Tiscali

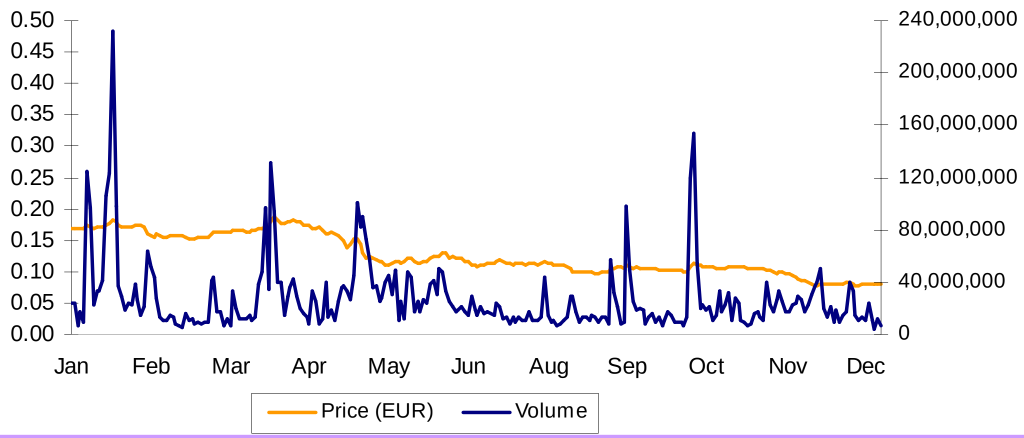
Share capital structure at 31 December 2010

SHARE CAPITAL STRUCTURE		
	No. of shares	As % of share capital
Ordinary shares	1,861,492,160	100%
OTHER FINANCIAL INSTRUMENTS		
	No. of warrants	Listing market
Tiscali 2009-2014 warrants ***	1,799,454,551	Regulated Italian market

*** The warrants – combined free of charge with newly issued shares relating to the increase in share capital launched in October 2009 and concluded successfully on 11 November 2009 – assign 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 for each new share.

The graph below illustrates Tiscali's share trend during 2010, characterised by sustained trading volumes, particularly in the months of January and October.

Fig. 2 - Tiscali's share performance in 2010



Source: Bloomberg data processing

The average monthly price in 2010 stood at EUR 0.127. The maximum price of EUR 0.187 for the period was recorded on 6 April 2010 and the minimum of EUR 0.078 on 1 December 2010.

Trading volumes stood at a daily average of about 27.3 million items, with a daily average trade value of EUR 3.5 million.

Average exchanges of Tiscali share on Borsa Italia (Italian Stock Exchange) in 2010		
	Price (Euro)	**Number of shares**
January	0.172	56,251,118
February	0.159	20,741,320
March	0.163	22,776,189
April	0.174	33,105,453
May	0.132	43,728,748
June	0.120	27,984,848
July	0.113	15,071,023
August	0.105	14,754,492
September	0.104	22,092,049
October	0.107	31,042,504
November	0.096	21,794,334
December	0.080	18,570,833
Average	**0.127**	**27,326,076**

3.4 Significant events during the financial year

Tiscali Italia S.p.A.: new organisation for the customer care activities

On 7 January 2010, within the sphere of the plan for re-launch on the Italian market, also by means of improving the quality of the technical and administrative customer care services and optimisation in the use of the human resources, Tiscali announced that it had decided to go ahead with the in-sourcing of these activities. The in-sourcing of the pre and post-sales care activities represents one of the key success factors in the telecommunications sector. This choice implies an increase in the payroll and related costs but will have positive effects on the control and rationalisation of the costs; the controllability of the process will by contrast ensure greater efficiency and quality of the service for the end customer.

Tiscali takes part in the "2010: Fibra per l'Italia" project

On 4 June 2010, Tiscali signed up for the "2010: Fibra per l'Italia" project, presented by Fastweb, Vodafone and Wind, with the aim of providing Italy with a sole new-generation fibre optics network infrastructure.

Conclusion of the Escrow Account assessment process relating to the disposal of the UK business activities

On 2 August 2010, the assessment process concluded in relation to the Escrow Account established at the time of finalisation of the disposal of Tiscali Uk Ltd to the TalkTalk Ltd Group on 3 July 2009.

Tiscali and the TalkTalk Group Ltd established the release in favour of Tiscali of a total of around EUR 24.6 million, of which EUR 21.6 million collected in August 2010 and EUR 1.5 million in November 2010. The remaining EUR 1.5 million was received in March 2011.

The deposit, which was restricted to the checking of certain operating and financial parameters, was recorded in the financial statements as at 31 December 2010 for EUR 31.4 million. The release of these restricted sums contributed to the process for reducing the net financial debt undertaken by means of the restructuring plan launched by the Tiscali Group in 2009.

Disposal of Ti Net

In September 2010, following the conclusion of the transaction relating to the sale of TiNet by the BS Fund to Neutral Tandem Inc, as contractually envisaged, the Group entered into an agreement for the release of the deferred part of the sales price (so-called "Vendor Loan") amounting to EUR 5.1 million and for the payment of an extra price ("Earn Out") totalling EUR 4.3 million. The total amount received in October 2010, amounting to EUR 9.4 million, will be used to repay the amount due to the banks during 2011. On the basis of the agreements entered into, on occurrence of certain contractual conditions pertaining to the sale of TiNet to Neutral Tandem Inc., the Tiscali Group may also be paid an additional Earn Out of around EUR 1.1 million (amount not recorded in the financial statements as at 31 December 2010).

Tiscali and Zte together for the ultra large band network in Sardinia

On 7 October 2011, Tiscali and ZTE, world leader for the supply of telecommunications equipment and network solutions, entered into a strategic partnership agreement aimed at speeding up the diffusion of the ultra large band in Italy, starting off with the development of a Fiber to the Home network in Sardinia.
The alliance established between the two companies envisages the creation of reciprocal collaboration, both from a technical, and commercial and financial standpoint, so as to assess, study and plan new generation services which Tiscali can supply to its customers.
During an initial phase, Tiscali and ZTE will work on the implementation of the fibre optics network in Sardinia using the gas pipelines being constructed in a vast area of the Cagliari hinterland, which comprises more than 50 thousand lines and elevated coverage under LLU.
The project which Tiscali and ZTE are putting together falls within a somewhat singular market context which sees the main alternative operators at the forefront in requesting the Government and the relevant institutions to create a company for the management of the fibre optic network, supporting the development thereof.

Other significant events during the financial year

The Board of Directors approves the 2009 draft financial statements

On 26 March 2010, the Board of Directors of Tiscali S.p.A., approved the 2009 draft financial statements which closed with increased EBITDA and EBIT. The results confirm the validity of the restructuring and commercial re-launch process undertaken.

The shareholders' meeting approves the 2009 financial statements

On 28 April 2010, Tiscali S.p.A.'s ordinary shareholders' meeting, held in Cagliari in second calling, approved the 2009 financial statements. The figures from the draft financial statements were confirmed, as approved by the Board of Directors on 26 March 2010.

3.5 Analysis of the Group economic, equity and financial position

Foreword

Founded in 1998, Tiscali is one the leading alternative telecommunications operators in Italy. With 625 thousand customers, as at 31 December 2010, Tiscali is one of the main providers of Broadband services with xDSL technology (around 550 thousand customers) and voice and Narrowband services (roughly 47 thousand 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, together with 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, the Group concentrated its operations in Italy, offering its products to consumers and business customers, mainly via five business lines: (i) the “Access” line, under Broadband (ULL; Wholesale/bitstream) and Narrowband; (ii) the “Voice” line, inclusive of both traditional (CS and CPS) and VoIP telephone tariff services; (iii) the “Mobile Telephone” line (so-called MVNO); (iv) the “Business Services” line (so-called B2B), which among other aspects includes VPN, Hosting, domain concession and Leased Line services, provided to businesses and, in conclusion, (v) the “Media and value added services” line, which covers media, advertising and other services.

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 (Gross Domestic Product), investor confidence in the economic system and interest rate trends. The progressive 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 significantly, 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 will depend 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 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 security system document is drawn up on an annual basis defining 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 handling of the same.

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. The continuous obtainment of adequate financing depends largely on the general conditions of the credit market and the Group's ability to correctly implement the economic and financial plan aimed at creating stable economic and financial balance conditions.

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.

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 manage 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 section 3.7 "Evaluation of the company as a going-concern and future outlook".

Risks associated with disputes and contingent liabilities

For further information please refer to the section “Ongoing disputes, contingent liabilities and commitments”.

Economic position

(EUR mln)				
CONSOLIDATED INCOME STATEMENT	**2010**	**2009**	**Change**	**% Change**
Revenues	278.2	290.4	(12.2)	(4.2%)
Other income	3.7	3.1	0.6	20.0%
Purchase of materials and outsourced services	169.5	159.1	10.5	6.6%
Payroll and related costs	43.2	39.2	4.0	10.1%
Other operating costs / (income)	(1.3)	7.1	(8.4)	(118.4%)
Adjusted Gross Operating Result (EBITDA)	**70.5**	**88.1**	**(17.7)**	**(20.0%)**
Write-downs of receivables from customers	22.6	17.9	4.7	26.1%
Stock option plan cost	0.1	0.5	(0.4)	(84.3%)
Gross Operating Result (EBITDA)	**47.8**	**69.7**	**(21.9)**	**(31.5%)**
Restructuring costs, provisions for risk reserves and write downs	(1.8)	11.7	(9.9)	(84.9%)
Amortisation/depreciation	47.8	46.7	1.1	2.5%
Operating result (EBIT)	**(1.8)**	**11.4**	**(13.1)**	**(115.8%)**
Portion of results of equity investments valued using the equity method	-	-	-	n.a.
Net financial income (charges)	(14.3)	(13.9)	(0.4)	3.2%
Pre-tax result	**(16.1)**	**(2.6)**	**(13.6)**	**528.8%**
Income taxes	(3.9)	(12.1)	8.2	(67.7%)
Net result from operating activities (on-going)	**(20.0%)**	**(14.7)**	**(5.3)**	**36.4%**
Result from assets disposed of and/or destined for disposal	(4.2)	(372.3)	368.1	**(98.9%)**
Net result	(24.3)	(387.0)	362.7	(93.7%)
Minority interests	-	(2.2)	2.2	(100.0%)
Group Net Result	**(24.3)**	**(384.8)**	**360.5**	**(93.7%)**

Tiscali Group revenues during the year came to EUR 278.2 million, down by 4.2% with respect to the balance of EUR 290.4 million recorded in 2009.

The change in revenues with respect to 2009, EUR 12.2 million, is essentially attributable to the following factors:

- reduction on the narrowband/dial-up segment, of EUR 7.2 million, in line with the sector trend;
- reduction in the termination tariffs (invoiced to Telecom Italy on Narrowband, VOIP and wholesale telephony products), as from 1 July 2010, with an impact in the second half of the year of around EUR 2.8 million;

- reduction in BTB revenues for EUR 3 million, of which roughly EUR 5 million attributable to the price decreases, volumes and penalties applied by the subsidiary Tiscali Italia S.p.A. on the supply of services to the former UK companies sold to TalkTalk in 2009, offset by higher revenues on other BTB services for EUR 2 million;
- termination of the revenues of Tiscali S.p.A. relating to the partnership with the search engine Google consequent to the disposal of the activities of the UK companies, with a negative impact on the period of EUR 4.6 million;
- reduction in the revenues relating to analogue voice services for EUR 2.2 million, attributable to the natural reduction in the number of customers;
- increase in revenues relating to the VOIP component, EUR 8.1 million, due to the significant increase in the number of customers.

During 2010, internet access and voice services – the Group's core business – represented around 83.4% of total turnover.

Costs for purchases of materials and services totalling EUR 169.5 million, increased EUR 10.5 million with respect to last year. This increase was mainly attributable to additional costs associated with VOIP Bitstream services and the rise in fixed costs associated with the development of the LLU network by means of the activation of new sites.

The Group's profitability decreased, with an adjusted Gross operating result (EBITDA) before provisions of EUR 70.5 million, down 20% with respect to 2009. The decrease in the Gross operating result was mainly attributable to the drop in revenues, as well as the rise in payroll and related costs.

The net operating result (EBIT) for the year, net of provisions, write-downs and restructuring costs, was a loss of EUR 1.8 million, a decrease with respect to the positive balance of EUR 11.4 million recorded in 2009.

As a result of the above, the result from operating activities (on-going), a loss of EUR 20 million, decreased with respect to 2009 and presented a negative balance of EUR 14.7 million.

The Result from assets disposed of and/or destined for disposal presented a negative balance of EUR 4.2 million (for details on the composition of this result, please see the related notes in the section "Accounting statements and explanatory notes").

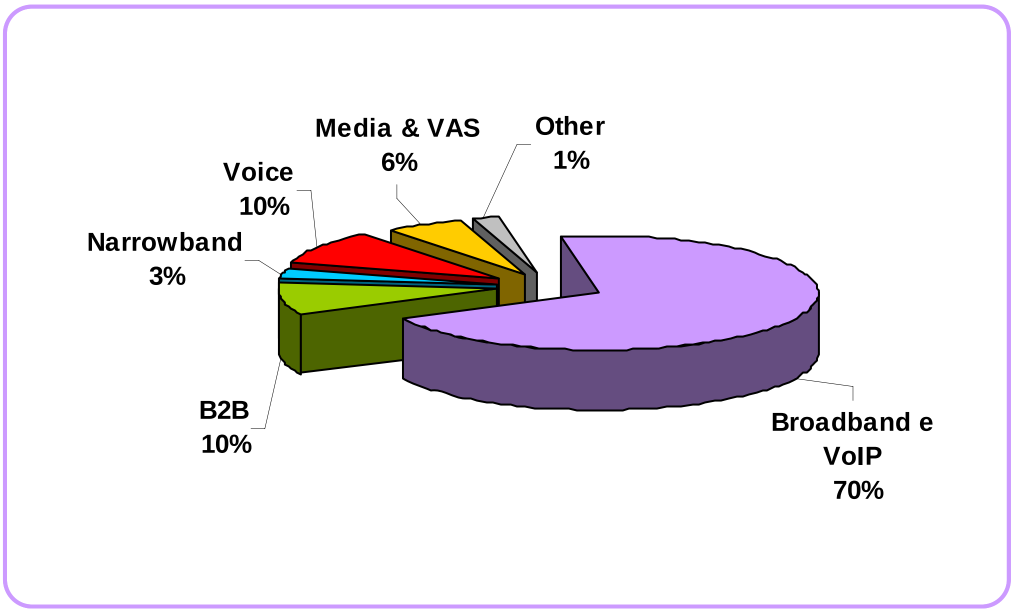
The Group's net result was a loss of EUR 24.3 million (a loss of EUR 384.8 million in 2009 due to the negative impact deriving from the sale of UK and TiNet totalling EUR 372.3 million recorded in last year's financial statements).

Operational income statement - Group

(EUR mln)	2010	2009
Revenues	**278.2**	**290.4**
Access revenues	131.7	135.8
of which: ADSL	*123.4*	*120.3*
Voice revenues	100.2	94.3
Of which dual play (traffic component)	*72.8*	*64.6*
Business service revenues	24.7	27.6
Media and value added service revenues	16.2	17.6
Other revenues	5.4	15.0
Gross operating margin	**133.9**	**169.7**
Indirect operating costs	**72.7**	**82.8**
Marketing and sales	10.4	16.7
Payroll and related costs	43.2	39.2
Other indirect costs	19.1	26.9
Other (income) / expense	(9.3)	(1.2)
Adjusted Gross Operating Result (EBITDA)	**70.5**	**88.1**
Write-down of receivables and other provisions	22.7	18.4
Gross Operating Result (EBITDA)	**47.8**	**69.7**
Amortisation/depreciation	47.8	46.7
Gross result (EBIT) before restructuring costs and provisions for risks	**-**	**23.0**
Operating result (EBIT)	**(1.8)**	**11.4**
Group Net Result	**(24.3)**	**(384.8)**

Revenues by business segment

Fig. 3 - Breakdown of revenues by business line and access mode



The figure above shows a breakdown by business segment which classifies dual play revenues with Broadband.

Source: Tiscali

<u>Access</u>

The segment in question, which includes revenues from Internet access services via narrowband (dial-up) and broadband (ADSL) and the flat component of the bundled ranges (access fees), in 2010 generated revenues of EUR 131.7 million, down by 3.1% with respect to the figure in the same period in 2009 (EUR 135.8 million). The reduction in revenues is mainly attributable to the natural reduction in the narrowband/dial-up segment (EUR 8.3 million as at 31 December 2010 compared with EUR 15.5 million at 31 December 2009, -46.8%). Revenues pertaining to ADSL Access services by contrast came to EUR 123.4 million, up 2.6% with respect to the same period last year, EUR 120.3 million.

As at 31 December 2010, direct ADSL customers decreased by around 20 thousand with respect to the comparable figure in 2009. This reduction was mainly attributable to the termination of around 40,000 ADSL lines during the last few months of 2010, due to the default of customers. This termination is in line with the more stringent debt recovery policies adopted by the Group during 2010. This cancellation will make it possible to obtain significant savings on line rental costs. Net of this termination, ADSL customers rose by around 20,000 (3.6% with respect to 31 December 2009).

Dual Play customers (data and voice via internet) by contrast increased by around 66.6 thousand, taking the total of double play customers to roughly 369.4 thousand, thanks to the success of the upsell policies applied to the customer base.

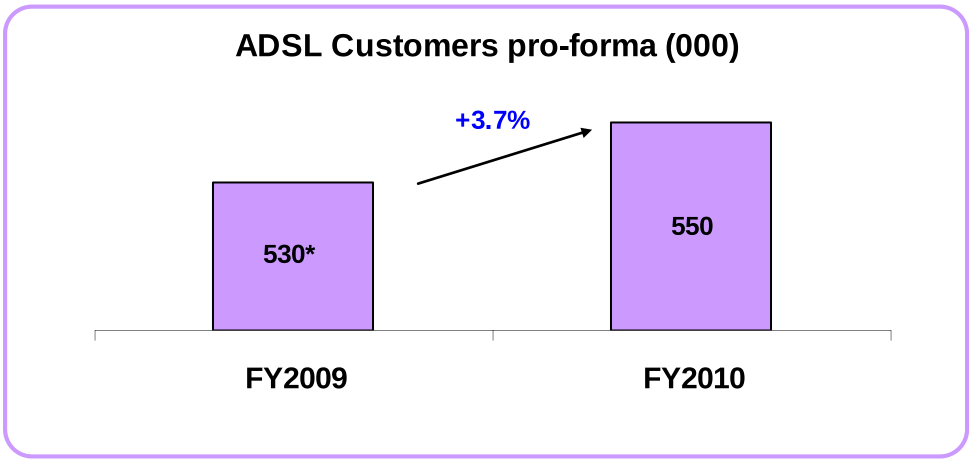
Total ADSL customers as at 31 December 2010 amounted to around 549.8 thousand, of which more than 375.3 thousand linked under unbundling.

The customer base using dial-up access (narrowband) and voice services stood at around 75 thousand users. The reduction in the narrowband customer base followed the market trend which saw a progressive replacement with broadband services in the proposals to customers.

Evolution of the customer base

(000)	31.12.2010	31.12.2009
ADSL customers	549.8	570.2
of which LLU	375.3	387.2
Narrowband and Voice customers	75.4	133.7
Dual play customers	369.4	302.8

The unbundling network coverage at 31 December 2010 amounted to 680 sites.



* The 2009 figure has been stated on a comparable basis with that for 2010, therefore it does not take into account the 40 thousand ADSL lines cancelled in 2010.

Voice

The voice segment includes both the traditional telephone service and the variable traffic component generated by voice services on IP offered in bundled mode with access to internet.

During 2010, a reduction was seen in revenues relating to analogue voice services, EUR 2.2 million (- 7.5%) with respect to the same period in 2009), attributable to the natural reduction in the number of customers, while the revenues relating to the VOIP component, equating to EUR 72.8 million as at 31 December 2010, rose 12.6% on 2009 (EUR 64.6 million), due to the significant increase in the number of customers (369.4 thousand at 31 December 2010, up 22% when compared with 31 December 2009).

The reduction in revenues is also attributable to the applicability, as from 1° July 2010, of lower reverse tariffs (invoiced to Telecom Italia), for a total of around EUR 2.8 million.

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 already included in their respective business segments, amounted in 2010 to EUR 24.7 million, down 10.7% with respect to the EUR 27.6 million in the same period of 2009. This was chiefly due to the negative effect on revenues of the Italian Group companies which decreased with the sale of Tiscali UK.

Media

During 2010, revenues for the Media and value added services segment (mainly concerning sales of advertising space) amounted to around EUR 16.2 million and were down with respect to the previous year (EUR 17.6 million). The balance as at 31 December 2009 included the revenues of Tiscali S.p.A. for EUR 4.6 million deriving from agreements with the search engine Google associated with the activities of the UK subsidiaries, no longer received due to the sale of the companies in July 2009.

Indirect operating costs during 2010 came to EUR 72.7 million (26.2% of revenues), a reduction in terms of proportion of revenues compared with last year's figure (EUR 82.8 million, 28.5% of revenues). Within indirect operating costs, **payroll and related costs** amounted to EUR 43.2 million (15.5% of revenues), up with respect to 2009 (EUR 39.2 million, 13.5% of revenues). The increase in payroll and related costs is essentially attributable to the in-sourcing of the call centre activities, previously acquired from third party suppliers. The in-sourcing of these services also made minor recourse to temporary employment possible. The increase in payroll costs is offset by the reduction in costs for recourse to outside call centres and temporary employment. Marketing costs amounted to around EUR 10.4 million and were down with respect to the previous year (EUR 16.7 million).

The effect of the above and other net income totalling EUR 9.3 million led to an **Adjusted Gross Operating Result (EBITDA)**, before provisions for risks, write-downs and amortisation/depreciation, totalling EUR 70.5 million (25.3% of revenues). This figure was down 20% with respect to the 2009 balance of EUR 88.1 million.

The **Gross operating result (EBITDA),** net of write-downs of receivables and other provisions came to EUR 47.7 million (17.2% of revenues), a decrease of 31.5% on the figure for 2009 (EUR 69.7 million, 24% of revenues).

Provisions to risk reserves and other provisions in 2010 totalled EUR 1.8 million (EUR 11.7 million in the same period of 2009).

Amortisation/depreciation came to EUR 47.8 million (EUR 46.7 million in the same period of 2009).

The **operating result (EBIT)** for the year, net of provisions, write-downs and restructuring costs, was a loss of EUR 1.8 million (0.6% of revenues), with respect to the balance for 2009, income of EUR 11.4 million (3.9% of revenues).

The result from operating activities (on-going), a loss of EUR 20 million as at 31 December 2010, decreased with respect to the previous year with a negative balance of EUR 14.7 million.

The **Group's net result** was a loss of EUR 24.3 million, compared with a loss in 2009 of EUR 384.8.3 million.

Equity and financial position

CONSOLIDATED BALANCE SHEET (in abridged form) (EUR mln)	31.12.2010	31.12.2009
Non-current assets	221.4	239.6
Current assets	145.5	188.9
Assets held for sale	-	-
Total Assets	**366.9**	**428.6**
Group shareholders' equity	(92.0)	(67.0)
Shareholders' equity pertaining to minority shareholders	-	-
Total Shareholders' equity	**(92.0)**	**(67.0)**
Non-current liabilities	206.9	239.3
Current liabilities	251.1	255.4
Liabilities directly related to assets held for sale	0.9	0.9
Total Liabilities and Shareholders' equity	**366.9**	**428.6**

Assets

Non-current assets

Non-current assets at 31 December 2010 amounted in total to EUR 221.4 million (EUR 239.6 million at 31 December 2009). The net change is attributable to the net effect of the amortisation and depreciation for the year and the investments made by the Group. Investments, amounting to around EUR 35.7 million, essentially refer to the extension and development of the unbundling network, the IT services and the connection and activation of new ADSL customers.

Current assets

Current assets at 31 December 2010 amounted in total to EUR 145.5 million (EUR 188.9 million at 31 December 2009). The reduction essentially takes into account the collection of the Escrow relating to the sale of Tiscali UK recorded in the financial statements as at 31 December 2010 for EUR 31.5 million.

Liabilities

Non-current liabilities

Non-current liabilities as at 31 December 2010 amounted to EUR 206.9 million, compared with a balance of EUR 239.3 million as at 31 December 2009 and include both the items pertaining to the financial position, with reference to which please see the comments made further on, the provision for risks and charges totalling EUR 6.0 million, the employee severance indemnity for EUR 4.2 million, medium/long-term payables to suppliers for EUR 1.8 million and payables to suppliers for the purchase of long-term rights for the use of transmission capacity (IRU) for EUR 10.1 million.

Current liabilities

Current liabilities amounted to EUR 251.1 million as at 31 December 2010 (compared with EUR 255.4 million as at 31 December 2009) and mainly include the current portion of financial payables, payables to suppliers, together with accrued expenses pertaining to the purchase of access services and line rental, the employee severance indemnity, the provision for risks and charges and the tax provision.

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

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

	31.12.2010	
(EUR 000)	**Net profit (loss)**	**Shareholders' equity**
Net profit (loss) and Shareholders' equity of Tiscali S.p.A.	**1,815**	**94,849**
Net profit and Shareholders' equity of consolidated companies net of minority interests	(40,474)	(96,159)
Book value of consolidated equity investments		(112,027)
Elimination of the write-down of intercompany financial receivables recorded in the subsidiary companies	14,213	181,620
Reversal of the goodwill recorded in the subsidiary companies		(160,250)
Other	170	
Net profit (loss) for the year and Shareholders' equity pertaining to the Parent Company	**(24,276)**	**(91,968)**
Net profit (loss) for the year and Shareholders' equity pertaining to minority shareholders		
Net profit (loss) for the year and Shareholders' equity as per the Consolidated Financial Statements	**(24,276)**	**(91,968)**

Financial position

At 31 December 2010, the Tiscali Group held cash and cash equivalents totalling EUR 10.3 million, against a net financial debt, at the same date, of EUR 197.6 million (EUR 211.2 million as at 31 December 2009).

(EUR mln)	Notes	**31.12.2010**	**31.12.2009**
A. Cash and Bank deposits		10.3	16.2
B. Other cash equivalents		0.4	0.6
C. Securities held for trading		-	-
D. Cash and cash equivalents (A) + (B) + (C)		***10.8***	***16.8***
E. Current financial receivables		***-***	***6.4***
F. Non-current financial receivables	(1)	6.3	12.7
G. Current bank payables	(2)	12.8	13.6
H. Current portion of non-current debt	(3)	17.0	10.9
I. Other current financial payables	(4)	1.5	10.8
J. Current financial debt (G) + (H) + (I)		***31.2***	***35.3***
K. Net current financial debt (J) – (E) – (D) - (F)		**14.2**	**(0.7)**
L. Non-current bank payables	(5)	124.7	152.9
M. Bonds issued		-	-
N. Other non-current payables	(6)	58.7	59.0
O. Non-current financial debt *(N) + (L) + (M)*		**183.4**	**211.8**
P. Net financial debt *(K) + (O)*		**197.6**	**211.2**

Notes:

(1) Includes the interest-bearing restricted deposit relating to the financial Sale & lease-back transaction on Sa Illetta;

(2) Includes the bank payables of Tiscali Italia S.p.A. and Tiscali S.p.A.;

(3) Includes the short-term component equal to EUR 17 million relating to payables to Senior Lenders (principal and interest portions repayable within 12 months);

(4) Includes EUR 1.5 million of short-term leasing of the subsidiary Tiscali Italia S.p.A.;

(5) The entire amount of EUR 24.7 million relates to the long-term component of the debt due to Senior Lenders;

(6) Includes the "Sale and Lease Back Sa Illetta" debt for EUR 57 million.

The above table includes guarantee deposits under other cash equivalents and non-current financial receivables. For completeness, the table below provides a reconciliation of the above financial position with the same statement prepared in accordance with Consob communication No. DEM/6064293 dated 28 July 2006 indicated in the explanatory notes.

(EUR mln)	31.12.2010	31.12.2009
Consolidated net financial debt	**197.6**	**211.2**
Other cash equivalents and non-current financial receivables	6.7	13.2
Consolidated net financial debt prepared on the basis of Consob communication No. DEM/6064293 dated 28 July 2006	**204.3**	**224.4**

3.6 Events subsequent to the end of the year

On 17 March 2011, the last portion of the escrow was collected, deriving from the sale of Tiscali Uk Ltd for a total of GBP 1,250,000.

3.7 Evaluation of the company as a going-concern and future outlook

Events and uncertainties regarding the business continuity

The Tiscali Group closed 2010 with a consolidated loss of EUR 24.3 million, of which EUR 4.2 million determined by the negative net result from assets disposed of, and with a negative consolidated shareholders' equity of EUR 92 million. Furthermore, as at 31 December 2010, the Group had a gross financial debt of EUR 214.7 million and current liabilities greater than current assets (non-financial) for EUR 86.2 million.

As at 31 December 2009, the loss came to EUR 387.0 million (of which EUR 372.3 million determined by assets disposed of); the negative shareholders equity came to EUR 67.0 million and gross financial debt totalled EUR 240.6 million. As at the same date, the difference between current assets and liabilities (non-financial) presented a negative balance of EUR 85.3 million.

During 2009, the Group implemented certain action with the aim of achieving the Group's economic, equity and financial balance over the long term (commonly known as the "Restructuring Plan"), and launching a phase of recovery for the sales activities. In detail, the 2009 - 2013 business plan was drawn up along with the associated financial plan and the sale of TiNet and the UK subsidiaries was completed, using the proceeds of the sale essentially to repay part of the Group's debt. Furthermore, the conditions of the residual Senior Loan (Group Facility Agreement) and the debt for the Sale & lease-back were renegotiated, in addition to the execution of the share capital increase in Tiscali S.p.A. used to repay another portion of the financial debts. The restructuring of the Group's debt in conclusion envisaged the write off of a portion of the residual debt by the financial institutions.

The following action was undertaken in 2010:

1) definition, on 2 August 2010, with TalkTalk Ltd (purchaser of the UK businesses) of the formalities and the timescales for the release of part of the fee for the sale deposited by way of guarantee. The amount due to Tiscali was established as GBP 20.4 million payable in three tranches: the first, amounting to GBP 17.9 million (EUR 21.7 million) was collected in August 2010, the second, totalling GBP 1.25 million (EUR 1.5 million) was collected in November 2010 and the third tranche, amounting to GBP 1.25 million, was collected in March 2011. With respect to the receivable recorded in the financial statements as at 31 December 2010, amounting to EUR 31.5 million, during 2010 a total loss was consequently recorded for EUR 6.8 million.

The collection on the UK Escrow account during 2010 (equating to EUR 23.2 million) also led to a significant improvement on the Group's net financial position as at 31 December 2010.

2) In September 2010, following the conclusion of the transaction relating to the sale of Tinet by the BS Fund to Neutral Tandem Inc, as contractually envisaged, the Group entered into an agreement for the release of the deferred part of the sales price (so-called "Vendor Loan") amounting to EUR 5.1 million and for the payment of an extra price ("Earn Out") totalling EUR 4.3 million. The total amount received in October 2010, amounting to EUR 9.4 million, will be used to repay the Group Facility Agreement during 2011. On the basis of the agreements entered into, on occurrence of certain contractual conditions pertaining to the sale of TiNet to Neutral Tandem Inc., the Tiscali Group may also be paid an additional Earn Out of around EUR 1.1 million (amount not recorded in the financial statements as at 31 December 2010).

3) From an operational point of view, action continued to improve efficiency, in particular via the rationalisation of the operating and commercial costs, the optimisation of the debt collection policies and the streamlining of the structure and the corporate costs. Such action included:

- the reduction in the customer care costs, made by means of minor recourse to outsourcers and the automation of many processes;
- the optimisation of the voice traffic flows and the network structure;
- the progressive migration of the customers to the newly-opened LLU sites, a transaction destined to be completed in 2011;
- the reduction in the advertising costs on traditional media channels without negative impacts on the volume of the registrations;
- the implementation of a massive debt recovery process also via recourse to outside legal advisors, which will come into full force during 2011.

Furthermore, during 2010, significant business results were achieved, including:

- an increase in the number of registrations of ADSL customers of 16.2%, a percentage which rises to 37% if one considers the VOIP lines, thanks to the launch of numerous cross and up-selling activities;
- an increase in the number of dual play customers amounting to 66.6 thousand during 2010; the VoIP revenues are in fact increasing to a significant extent, with a rise of EUR 8.2 million (+ 12.6%) compared with 2009;
- the inversion in the trend of Media revenues which rose from EUR 4.7 million in the second half of 2009 to EUR 8.7 million in the second half of 2010.

4) The 2009-2013 business plan was updated, extending it until 2017 so as to cover the entire period for the repayment of the financial debt. This 2011-2017 business plan, approved by the Board of Directors, despite incorporating the changed market and operating conditions of the Group, does not diverge from the 2009-2013 plan with regard to the essential strategic approaches. The update of the business plan hypothesises in 2014 the refinancing of part of the amount due to the banks for the portion exceeding the net cash flows generated in the plan period.

The most important, new elements of the updated plan for 2011 are as follows:

- re-pricing: Tiscali, in line with the market trend, increased the ADSL and Voip fee for more than 350 thousand customers by EUR 2 (VAT inclusive) as from 1° April 2011, thereby permitting the recovery of the increase in the rental fee for the copper line which took place as at 1° July 2010;
- increase in media revenues: during 2011, it is envisaged that the growth course launched during 2010 will be capitalised, thanks to the extension of the network and

the increase in the sales force. Furthermore, new advertising concessions were acquired which are expected to make it possible to improve the profit made from the audience, also thanks to the draw of the innovative platforms launched during 2010;

- saving in operating costs: during 2011, it is expected that the action implemented during the second half of 2010 will become fully effective, revealing its full effect over 12 months;
- launch of new products: in 2011, the Group will launch new service lines which will permit:
  - a profit to be made from the customer base existing by means of up-selling activities;
  - the outlining of a distinctive factor in the Tiscali product with respect to that of the competitors;
  - an efficient use of the network infrastructure and the data center. Reference is made to the Web TV, Tiscali Tv Box, Streaming services, and the Claud services for SOHO and PMI. The latter, in particular, are expected to be able to establish a strong growth potential in the business sector in which Tiscali has invested a great deal in terms of infrastructure and sales network.

On the basis of the above, the Directors, when evaluating the existence of the condition of the Tiscali Group as a going concern in the current macro-economic context, and in the current competitive scenario, identified a number of factors which indicate the persistence of a number of uncertainties:

i. the Group is still in an unbalanced equity, financial and economic situation, as shown by the negative consolidated shareholders' equity for EUR 92 million, due mainly to the past negative economic performance and weight of the Group's considerable debt;
ii. the presence of a gross financial debt which is still significant and subject to covenants and other contractual obligations (so-called "events of default") whose breach, as is standard practice for this type of contract, could lead to the invoking of the acceleration clause (see note 26);
iii. the establishing of a balanced equity, financial and economic situation for the Group over the long-term depends, in the context of uncertainty of the current economic scenario, on the achievement of the results set out in the business plan, and therefore on the realisation of forecasts and assumptions contained therein, and in particular, those relating to the evolution of the telecommunications market and achievement of the growth objectives set out in a market context characterised by heavy competitive pressure.

Therefore, the following depend on the potential and capacity for fulfilling the plan: a) the ability to rebuild an adequate supply of equity, b) the recoverability of asset items, c) the capacity to comply with covenants and other contractual obligations and therefore to maintain the availability of financing granted to meet other Group obligations, d) achievement of a balanced long-term equity, economic and financial situation for the Group.

Finally, these factors are coupled with ongoing disputes, whose outcomes, although not currently foreseeable, have been assessed as potentially significant (see the section "Disputes, contingent liabilities and commitments").

Final assessment of the Board of Directors

The Board of Directors, after lengthy discussion, has highlighted how the Group:

- concluded all the action envisaged by the Restructuring Plan in the second half of 2009, such as the repayment of a significant portion of the financial debt and the restructuring (with more favourable terms) of the residual debt, as well as the completion of the share capital increase, bearing witness to the confidence of the market and the financial institutions in the Group's business model;
- carried out the final assessment process relating to the Escrow Account established at the time of finalisation of the disposal of Tiscali Uk Ltd to the TalkTalk Ltd Group. This process, finalised on 2 August 2010, made it possible to collect EUR 23.2 million in 2010 and a further EUR 1.5 million in the first few months of 2011 thereby contributing to the process for reducing the Group's debt;
- in relation to the sale of TiNet, in October 2010, received a total of EUR 9.4 million, which will be used to repay the bank debt during 2011;
- continued with the implementation of the business plan, in any event confirming in 2010 a positive trend in acquiring customers already observed during the second half of 2009;
- updated the business plan for the period 2011-2017, verifying the coherence with the financial requirements determined by the debt structure.

These elements suggest that the Group is reasonably able to continue with the implementation of the business plan and that over the long-term this will make it possible to achieve a balanced equity, financial and economic situation.

In conclusion, when analyzing what has already been achieved within the sphere of a process aimed at enabling the Group to obtain long-term equity, financial and economic equilibrium, the Directors acknowledge that, as already indicated in the 2009 financial statements, at present uncertainties still remain, with regard to events and circumstances that may raise considerable doubt on the ability of the Group 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 the factors described, they have the reasonable expectation that the Group has adequate resources to continue operations in the near future and therefore have adopted the going-concern assumption when preparing the financial statements.

Cagliari, 25 March 2011

The Chief Executive Officer

Renato Soru

The Executive appointed to draw up the corporate accounting documents

Luca Scano

4 Report on Corporate Governance and the Company's Ownership Structure

4.1 Foreword

Pursuant to 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 dated 14 May 1999, and the current Instructions to the Regulations for Markets organized and run by Borsa Italiana S.p.A., Section 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 21 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. The first part fully illustrates the corporate governance model adopted by Tiscali and describes the directors and officers, as well as the shareholding structure and provides other information as per the afore-mentioned Article 123 *bis* of Italian Legislative Decree No. 58/98. 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.

4.2 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, majorities and minorities.

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 joint-stock companies the right to adopt models that depart from the traditional structure, the company has decided to keep its management and audit system 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 matters laid down by the Code.

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

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

Board of Directors

The shareholders' meeting held on 21 December 2009, appointed the current Board of Directors comprising:

Chairman and Chief Executive Officer	Renato Soru
Directors	Gabriele Racugno
	Luca Scano
	Victor Uckmar
	Franco Grimaldi
Company Secretary	Luca Naccarato

The office of Chairman and the powers of the Chief Executive Officer were granted to Renato Soru during the Board Meeting held on 21 December 2009. The appointment of the current Directors will expire with the approval of the 2011 annual financial statements.

Board of Statutory Auditors

On 21 December 2009, the ordinary shareholders' meeting took steps to supplement the Board of Statutory Auditors, replacing the outgoing Chairman of the previous Board of Statutory Auditors, Aldo Pavan, with the first of those not elected from the same list, Paolo Tamponi; therefore, the Board comprises:

Chairman	Paolo Tamponi
Statutory Auditors	Piero Maccioni
	Andrea Zini

Alternate Auditors Rita Casu

Giuseppe Biondo

The appointment of the current Auditors will expire with the approval of the 2011 annual financial statements.

Executive in charge of drawing up the Company's accounting documents

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 Luca Sano, already Director of the Company and General Manager 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 accounts auditing appointment was granted to Reconta Ernst & Young S.p.A. by the shareholders' meeting held on 29 April 2008. This appointment will expire with the approval of the 2016 annual financial statements by the shareholders' meeting.

Committees

During the Board Meeting held on 21 December 2009, following the appointment of the new Board of Directors, the following internal Committees were established:

- *Internal Audit Committee,* comprising Victor Uckmar (Chairman), Franco Grimaldi and Luca Scano.
- *Remuneration Committee*, comprising Franco Grimaldi (Chairman), Victor Uckmar and Gabriele Racugno.

In addition there is a Supervisory Body made up of Pasquale Lionetti who also covers the appointment of Head of Internal Auditing.

Shareholding structure

As at the date of this Report, the authorized share capital came to EUR 103,124,052.77, while that subscribed and paid-in totalled EUR 92,018,562.47; it is represented by 1,861,493,509 ordinary shares lacking par value, freely transferrable under the terms of the law without there being certificates which grant specific rights of control.

The following table contains indication of the name or corporate name of the shareholders with the right to vote who hold an equity investment of more than 2% and who have informed the Company and CONSOB of their equity investment. No restrictions on the right to vote are envisaged.

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	**90,954,392**	**4.89%**
asset management		
Norges Bank	**39,082,751**	**2.10%**

The remaining 75.22% of the share capital is held by the market. The Company is not aware of the existence of any shareholders' agreements or other similar arrangements with the exception of the matters specified below.

Warrants

The shareholders' meeting held on 30 June 2009, resolved the issue of warrants, together with the share capital increase. 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 of the Company at the ratio of 1 conversion share for every 20 warrants exercised at the price of EUR 0.80 per conversion share. Currently 391,800 warrants have been exercised and 19,590 shares have been issued against a share capital increase of EUR 15,672.80. The warrants can be exercised until 15 December 2014 in accordance with the Tiscali S.p.A. 2009-2014 Warrant Regulations which can be found in the "Investor relations" section on the website at www.tiscali.com.

Share Based Incentive Plans

On 3 May 2007 ,the shareholders' meeting approved a stock option plan in favour of the Chief Executive Officer at that time and key managers of the Company and its Italian subsidiaries, involving a maximum of 7,837,274 options before the reverse split, equating to 783,727 options after the reverse split transaction. Subsequently, the Board executed that resolution by allocating a total of

3,760,000 options to employees and 3,593,143 to the Chief Executive Officer at that time, in consideration of the shares pre-grouping. In the light of the waiver by Tommaso Pompei of all his options which took place on 1 October 2009, and on expiry of the rights of nearly all the beneficiaries, 43,000 options can currently be exercised allocated to three managers with an exercise price of EUR 0.827. The exercise price was adjusted after the share capital 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 company website www.tiscali.it as described in further detail in the note on “Stock Options” in the 2009 Financial Statements.

Authorised increases pursuant to Article 2443 of the Italian Civil Code

The shareholders’ meeting held on 30 June 2009 resolved to grant the Board of Directors the faculty to increase the share capital against payment, in one or more tranches, over a maximum period of three years as from the authorising resolution, up to a maximum amount of EUR 25 million by means of the issue of ordinary shares lacking par value to be offered under option to shareholders in proportion to the shares held by each one of them in pursuance of Article 2441.1 of the Italian Civil Code.

The Board of Directors may carry out the increase if the TalkTalk Group, which is the purchaser of the Group's UK business, is granted a certain payout on the funds deriving from the sale of Tiscali UK still under guarantee. During 2010, an agreement was formally drawn up with the TalkTalk Group in relation to the payouts on the funds under guarantee, therefore the same were released in favour of the Company with a deduction which does not give rise to the above condition. Therefore, the increase should not be carried out and shall cease on expiry.

Shareholders’ agreements

With regard to the existence of shareholders’ agreements as per Article 122 of Italian Legislative Decree No. 58/98, it is pointed out that on the 15 May 2009, the Company and Renato Soru entered into a shareholders’ agreement concerning the exercise of the voting rights in the Company. In particular, Renato Soru has made a commitment, as regards the investment he holds in total directly or indirectly in Tiscali S.p.A., to approve any proposal by the Board of Directors of the Company during shareholders’ meetings within the sphere of the debt restructuring transaction for Tiscali S.p.A., and its subsidiaries.

Amendments to significant company agreements following the change of control.

In the case of a change of control in the Company or some of the Group companies significant in accordance with the loan agreements with the Senior Lenders, the amendment of the these loan agreements is envisaged. In particular the change of control involves the obligation to make prepayments with reference to the loan agreements referred to above as described in further detail in the table in the note “Non-current financial liabilities” in the 2010 Financial Statements.

4.3 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 Management Body) in 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 (Management of the Company) of the Articles of Association states that the Board of Directors may comprise between three and eleven members, as decided by the Shareholders' Meeting.

As at the date of this Report, the Board of Directors comprised 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 Directors receive all necessary documentation, well in advance, to allow the Board to knowledgeably discuss the business under examination.

The Articles of Association also state that the Board of Directors, within legal limits, may appoint one or more Chief Executives, establishing the powers within the sphere due to them and within legal limits.

The Board of Directors has granted executive powers to the Chief Executive Officer. CEO powers may be exercised up to a maximum value of EUR 25 million.

The Chairman and CEO report to the other Directors and to the Board of Statutory Auditors during Board meetings and on other occasions, held at least once a quarter, on operations of significant economic or financial value performed by the Company or its subsidiaries. They also 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 operations implemented within the scope of powers and duties conferred upon the CEO. 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 up to 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.

At present, the Board of Directors is made up of five Directors: Renato Soru, Chief Executive Officer and Chairman, is the only Director with executive powers delegated by the Board.

As envisaged by Article 3 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.

At present, following the appointment of new Board of Directors by the ordinary shareholders' meeting held on 21 December 2009, two of the Directors in office, Victor Uckmar and Franco Grimaldi, possess the independence requisites compliant with the matters indicated by the applicative principles and criteria as per Article 3 of the Code and as per Article 148 of the Consolidated Finance Law.

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:	Director - Banco di Sardegna S.p.A.
Victor Uckmar:	Chairman - Class Editori S.p.A. - Director - Merck Serono S.p.A.
Franco Grimaldi:	-

In the specific "investor relations" section of the website at www.tiscali.com, 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 2010 the Board of Directors met four times, so as to discuss and approve the periodic accounting figures. During 2011, and up until the date of this Report, the Board met once for the approval of the draft financial statement on 25 March in the presence of all the Directors and Statutory Auditors. All the Directors and the members of the Board of Statutory Auditors took part in the afore-mentioned meetings, as illustrated by the breakdown shown below.

Meetings during 2010	**26 March 2010**	**11 May 2010**	**27 August 2010**	**12 November 2010**
Directors present	5	5	5	5
Percentage	100%	100%	100%	100%
Statutory Auditors present	3	3	3	3
Percentage	100%	100%	100%	100%

On 12 November 2010, the Board of Directors approved the calendar of its meetings for 2011.

The meetings scheduled in 2011 are as follows:

- 25 March 2011 (Approval of the draft annual financial statements at 31 December 2010),
- 12 May 2011 (Approval of the Quarterly Report at 31 March 2011),Quarterly Report at 31 March 2011),
- 26 August 2011 (Approval of the Half-year Report at 30 June 2011),
- 11 November 2011 (Approval of the Quarterly Report at 30 September 2011).

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.

Shareholders are entitled to present lists if, alone or together with other shareholders, they represent at least the percentage of the share capital envisaged by applicable legislation. 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 appointment of the Directors takes place 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, two, 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 thus 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 lists containing the proposals for appointment to the office of Director must be filed at the Company's registered office at least fifteen days prior to the date envisaged for the Shareholders' Meeting in first calling, 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 exist, as essentially 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 operations attached to the financial statements at 31 December 2010 contains an overview of the Board Members' remuneration system (see the note "Remuneration of Directors, Statutory Auditors and managers with strategic responsibilities" in the 2010 financial statements).

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, pursuant to and in accordance with law must be made available to them at the registered offices when meetings are due to be held, the Company has made said information available in a special "investor relations" section of its website www.tiscali.com, 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 shareholders' meeting called to approve the 2010 annual financial statements, shall be presented with a up-date to the AGM Regulations.

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.

Pursuant to Article 2370 of the Italian Civil Code and Article 8 (Participation in shareholders' meetings) of the Articles of Association, shareholders can take part in meetings if they have provided the Company, at least two days before the dated fixed for the meeting in first calling, with the communication sent by the authorised broker as per current provisions, proving ownership of the shares and the right to vote, as well as any voting proxy. At the time of approval of the 2010 financial statements, the Articles of Association as amended in accordance with Italian Legislative Decree No. 27/2010, shall be submitted for the attention of the meeting in extraordinary session. In detail, the new version of Article 8 of the Articles of Association envisages reference to applicable legislation for participation in the shareholders' meeting. The new version of the Articles of Association, as approved by the shareholders' meeting, shall be applied by the subsequent shareholders' meeting.

Board of Statutory Auditors

Appointment and composition

Consistent with Article 10 of the Code, in relation to the appointment of Statutory Auditors, Article 18 (Board of Statutory Auditors) of the Articles of Association 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. Five candidates must be indicated on each list, by means of a consecutive number, in order of professional seniority of the candidates. Each shareholder may submit, or jointly submit, one list only and each candidate may be listed in one list only or be disqualified. The lists containing the proposals for appointment must be filed at the Company's registered office at least fifteen days prior to the date envisaged for the Shareholders' Meeting in first calling, 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 exist.

Each shareholder may vote for just one list. The Auditors 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 May 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. Following the presentation of the lists, Aldo Pavan, Piero Maccioni and Andrea Zini were appointed as Statutory Auditors. Rita Casu and Giuseppe Biondo were elected as Deputy Auditors. Aldo Pavan was elected Chairman of the Board of Auditors.

Following the resignation of the Chairman of the Board of Statutory Auditors, Aldo Pavan, on 12 November 2009, the ordinary shareholders' meeting held on 21 December 2009 took steps to supplement the Board of Statutory Auditors, replacing the outgoing Chairman Aldo Pavan with the first of those not elected from the same list, Paolo Tamponi. Therefore, the Board of Statutory Auditors currently comprises Paolo Tamponi (Chairman), Piero Maccioni and Andrea Zini (Statutory Auditors), Rita Casu and Giuseppe Biondo (Deputy Auditors).

Requisites

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 at www.tiscali.com, 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 the following section Internal Auditing.

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 Chief Executive Officers and those who cover specific offices, as well as, upon the indication of the CEOs, 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.

During the Board Meeting held on 21 December 2009, the newly appointed Board established an internal Remuneration Committee, comprising the two independent Directors Franco Grimaldi and Victor Uckmar, as well as the Director Gabriele Racugno, who does not cover any executive position within the Company or the Group. The Director Franco Grimaldi was appointed Chairman of the Committee. The Committee expressed an opinion on the appropriateness of the administration agreement for the Chief Executive Officer Renato Soru, approved by the Board on 26 March 2010.

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 by 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 on 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 CEO 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 CEO, 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 CEO. The provision of suitable means required by the Internal Audit Coordinator and therefore the Internal Audit department, is included in the CEO'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 CEO 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:

- orientations for the updating of the "Organisational, management and control model" for the main Companies in the Group;
- following the appointment received from the Executive in charge of drawing up the accounting documents, the Internal Audit department devoted itself to checking the adequacy of the administrative and accounting procedures for the formation of the 2010 financial statements for the purpose of assessing the related efficacy. This work also has the aim of issuing the certificate as per Article 154 *bis* of the Consolidated Finance Law, introduced by Italian Decree Law No. 262/2005 as amended by Decree Law No. 303/2006 *et seq*.;
- during 2010, the testing stage continued on the checks as per Article 154 *bis* of the Consolidated Finance Law, introduced by Italian Decree Law No. 262/2005 relating to the 2010 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 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 internal audit system and periodically verify its adequacy and correct functioning, ensuring that the main business risks are identified and appropriately handled;

b) assessing the work plan prepared by the Internal Audit Coordinator and receiving the Coordinator's periodic reports;

c) together with the Company's administration managers and independent auditing firm, verifying adequacy of the accounting standards used and their uniformity for the purpose of drafting the consolidated financial statements;

d) assessing proposals submitted by auditing firms 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 proposals of an advisory nature formulated by the independent auditing firm - or its affiliated companies - in favour of Group companies;

f) assessing proposals 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 designated by the Chairman, take part in the Committee's work.

Two of the members of the Committee are qualified as independent. Should it not be possible to guarantee that the composition of the Internal Audit Committee has a majority of non-executive and independent Directors, the Committee will have just two members, including at least one who is independent. 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 CEO and other parties, e.g. the independent auditing firm, the General Manager, if appointed, and the CFO, 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. The work of the meetings is in any event summarised in written minutes.

During the Board Meeting held on 21 December 2009, the newly appointed Board established an Internal Audit Committee internally, comprising the two independent Directors Franco Grimaldi and

Victor Uckmar, as well as the Director Luca Scano, who has proven experience with regard to accounting and finance as required by the Code. The Director Victor Uckmar was appointed Chairman of the Committee.

During 2010, the Internal Audit Committee met six times on the following dates: 23 February, 26 March; 18 June; 27 August; 24 October; 12 November; and in 2011 on: 24 March 2011. The Board of Statutory Auditors, or some of its members, attended all these meetings. In addition to the ordinary audit activities, during 2010 the Committee concluded the up-dating of the "Organisation, management and control model pursuant to Italian Legislative Decree No. 231/2001" availing itself of the activities of an Internal Audit team and the services of an outside consultant; the new Model was approved by the Committee and the Board of Directors on 12 November 2010.

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 risk management process is close and clear, being the process for identifying and analysing those factors that might prejudice the attainment of corporate goals, with the purpose 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 the reliability, accuracy, fairness and timeliness of the accounting and financial information.

<u>Description of the main features of the risk management and internal control systems in existence with regard to the financial information process</u>

A) Stages of the risk management and internal control system 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, subsequently, by the analysis of risks that reside in 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 statement and the rules for selection with internal relevance thresholds. Considering qualitative elements is not excluded: ii) Identifying significant processes, associated with material data and information, that is accounting items in relation to 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, rights and obligations and 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.

Assessment of 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 in relation to identified risks

First of all attention is paid 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 repercussion 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.

Assessment of checks in relation to 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 Executive in Charge of the accounting document preparation.

B) Roles and functions involved:

The Executive in Charge is in essence at the top of a system that supervises the formation of the financial information and takes steps to inform the senior management in this connection. With the purpose of pursuing his/her assignment, the Executive in Charge has the option of specifying the organisational lines for an appropriate structure in the context of his/her own 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 Executive in Charge sets up a systematic and fertile relationship with said functions. The Executive 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 Accounts Function serves as an intermediate level and as a link between the Executive in Charge and the individual Administrative Reporters for checking defined relevancies within the Tiscali Group and arranging to gather, check, assemble, and monitor the information received from the latter. The Consolidated Accounts Function cooperates with the Executive 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 Accounts Function, and by means of the latter the Executive 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 emerging 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.

4.4 Organization, management and control model pursuant to Italian Legislative Decree No. 231/2001.

The Company has for some time adopted the “Organisation, management and control model pursuant to Italian Legislative Decree No. 231/2001” (hereinafter the Model); during 2010, the up-dating process was concluded, mainly aimed at adapting the Model to the new legislative measures and the new Company and Tiscali Group set-up. The new model, together with the new Code of Ethics, was approved by the Board of Directors on 12 November 2010. The Supervisory Body operates without interrupting its supervisory activities on the functioning and the observance of said Model.

It should be noted that, in consideration of its specificities and its particular exposure to risk, the leading Italian subsidiary, Tiscali Italia S.p.A., also up-dated its “Organisation, management and control model", by means of resolution of the Board of Directors dated 17 November 2010; the Supervisory Body already appointed continued to operate without interruption.

Related Parties

On 12 November 2010, further to the affirmative opinion of the independent directors, the Company’s Board of Directors approved the new Regulations for Transactions with Related Parties as per Article 2391 *bis* of the Italian Civil Code and Consob Regulation No. 17221 dated 12 March 2010. The regulations discipline Transactions with related parties carried out by Tiscali S.p.A. and its subsidiary or associated companies, and came into force as from 1° January 2011 as published on the Company website, in the Investor Relations section. Following the issue of the Regulations, the Group entered into three Transactions with related parties which were approved by the Board of Directors on 25 March 2011 having been approved by the Committee for Minor Transactions made up of Victor Uckmar, acting as Chairman, Gabriele Racugno and Franco Grimaldi.

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 communiqué, it carries out the internal approval procedure jointly with the Legal and Company Affairs department. Furthermore, it concerns itself with publication, also 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 at www.tiscali.com 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 subsidiaries are obliged to observe 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 *bis* 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, the date of registration, and the date of any updates to information relating to that person.

4.5 Security System Document

Pursuant to attachment B, point 26, of Italian Legislative Decree No. 196/2003 containing the Data protection act, the Directors formally acknowledge that the Company has complied with the measures concerning the protection of personal details, in light of the Provisions introduced by Italian Legislative Decree No. 196/2003 as per the terms and formalities indicated therein. Specifically, the Security System Document, filed at the registered offices, has been up-dated.

4.6 Shares held by Directors and Statutory Auditors

As required by current legislation, and specifically by Article 79 of the regulation implementing Italian Legislative Decree 58/1998 issued by CONSOB under Resolution No. 11971/99, 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 December 2009	No. of shares purchased/subscribed	No. of shares sold	No. of shares held at 31 December 2010
Renato Soru	Chairman and Chief Executive Officer	331,133,617	-	-	331,133,617
Luca Scano	Director	-	-	-	-
Victor Uckmar	Director	-	-	-	-
Franco Grimaldi	Director	-	-	-	-
Gabriele Racugno	Director	-	-	-	-

Board of Statutory Auditors

Name - Surname	Position	No. of shares held at 31 December 2009	No. of shares purchased/ subscribed	No. of shares sold	No. of shares held at 31 December 2010
Paolo Tamponi	Chairman	-	-	-	-
Piero Maccioni	Statutory Auditor	-	-	-	-
Andrea Zini	Statutory Auditor	-	-	-	-
Rita Casu	Alternate Auditor	50	-	-	50
Giuseppe Biondo	Alternate Auditor	6	-	6	-

Tiscali S.p.A. Consolidated financial statements at 31 December 2010

5 Consolidated Financial Statements and Explanatory Notes

5.1 Income Statement

	Notes	2010	2009
(EUR 000)			
Revenues	*1*	278,153	290,353
Other income	*2*	3,717	3,097
Purchase of materials and outsourced services	*3*	169,507	159,052
Payroll and related costs	*4*	43,209	39,230
Stock option plan cost	*5*	73	465
Other operating (income) charges	*6*	(1,297)	7,054
Write-downs of receivables from customers	*7*	22,595	17,919
Restructuring costs and other write-downs	*8*	1,775	11,723
Amortisation/depreciation	*14-15*	47,801	46,655
Operating result		**(1,792)**	11,353
Portion of results of equity investments valued using the equity method		-	(33)
Net financial income (charges)	*9*	(14,325)	(13,883)
Pre-tax result		**(16,118)**	**(2,563)**
Income taxes	*10*	(3,924)	(12,135)
Net result from operating activities (on-going)		**(20,041)**	**(14,698)**
Result from assets disposed of and/or destined for disposal	*11*	(4,235)	(372,313)
Net result for the period	*12*	**(24,276)**	**(387,012)**
Attributable to:			
- Result pertaining to the parent company		**(24,276)**	**(384,826)**
- Minority interests		-	(2,186)
Earnings (Losses) per share			
Loss per share from operating activities and those disposed of:			
- Basic		(0.01)	(0.55)
- Diluted		(0.01)	(0.55)
Loss per share from operating activities:			
- Basic		(0.01)	(0.02)
- Diluted		(0.01)	(0.02)

5.2 Statement of comprehensive income

(EUR 000)	Notes	2010	2009
Result for the period		**(24,276)**	**(387,012)**
Translation differences on the financial statements of foreign companies		-	-
Total statement of comprehensive income result after tax		**(24,276)**	**(387,012)**
Total comprehensive income after tax			
Attributable to:			
Shareholders of the parent company		(24,276)	(384,826)
Minority shareholders		-	(2,186)
		(24,276)	**(387,012)**

5.3 Statement of financial position

(EUR 000)	Notes	31.12.2010	31.12.2009
Non-current assets			
Intangible assets	*14*	86,808	85,187
Properties, plant and machinery	*15*	124,369	137,737
Other financial assets	*17*	10,217	16,723
		221,394	**239,647**
Current assets			
Inventories	*19*	557	1,892
Receivables from customers	*20*	108,403	112,246
Other receivables and other current assets	*21*	24,722	27,087
Other current financial assets	*22*	1,540	31,484
Cash and cash equivalents	*23*	10,326	16,220
		145,548	**188,928**
Assets held for sale		-	**31**
Total Assets		**366,942**	**428,606**

Share Capital and reserves			
Share Capital		92,017	92,003
Stock option reserve		4,388	4,315
Results from previous periods and other reserves		(164,097)	221,528
Result pertaining to the Group		(24,276)	(384,826)
Group shareholders' equity	*24*	**(91,968)**	**(66,980)**
Minority interests		-	-
Shareholders' equity pertaining to minority shareholders	*25*	**-**	**-**
Total Shareholders' equity		**(91,968)**	**(66,980)**
Non-current liabilities			
Payables to banks and to other lenders	*26*	124,691	152,875
Payables for financial leases	*26*	58,721	58,952
Other non-current liabilities	*27*	13,299	14,234
Liabilities for pension obligations and staff severance indemnities	*28*	4,250	4,218
Provisions for risks and charges	*29*	5,977	9,002
		206,939	**239,281**
Current liabilities			
Payables to banks and other lenders	*30*	29,789	24,453
Payables for financial leases	*30*	1,461	4,349
Payables to suppliers	*31*	153,092	150,894
Other current liabilities	*32*	66,772	75,678
		251,114	**255,374**
Liabilities directly related to assets held for sale		856	930
Total Shareholders' equity and Liabilities		**366,942**	**428,606**

5.4 Statement of Cash flow

	31.12.2010	31.12.2009
(EUR 000)		
OPERATIONS		
Result from operating activities	**(20,041)**	**(14,698)**
Adjustments for:		
Depreciation of tangible assets	20,011	26,403
Amortisation of intangible assets	27,790	290,353
Allowance for bad debt provision	22,595	17,919
Capital gains on disposal of non-current assets	(2,108)	(2,113)
Prepaid taxes released	-	10,507
Income taxes	3,924	1,628
Write-down of fixed assets	-	165
Valuation of equity investments carried at equity	-	33
Release of provisions for risks	(4,988)	(1,237)
Figurative Stock Option cost	73	465
Facility D2 Senior Lenders write-off	-	(42,322)
Fair value of financial instruments	-	7,218
Release of provisions and other	(6,401)	4,362
Financial income/charges	14,325	48,987
Cash flow from operations before changes in working capital	**55,180**	**77,569**
Change in receivables	(17,484)	(1,527)
Change in inventory	1,334	117
Change in payables to suppliers	11,751	(31,878)
Net change in the provisions for risks and charges	(713)	(2,273)
Net change in provision for staff severance indemnities	(2,189)	(2,737)
Changes in other liabilities	(11,413)	(2,549)
Changes in other assets	3,393	(1,201)
Changes in working capital	**(15,319)**	**(42,048)**
CASH FLOWS GENERATED BY OPERATIONS	**39,861**	**35,520**
INVESTMENT ACTIVITIES		
Change in other financial assets	28,146	1,839
Purchases of tangible fixed assets	(6,601)	(14,985)
Purchases of intangible fixed assets	(29,055)	(25,833)
Payments for the sale of financial fixed assets	(0)	233,837

Payments for the sale of assets (earn out)	4,368	-
NET CASH USED FOR THE INVESTMENT ACTIVITIES	**(3,142)**	**194,858**
FINANCIAL ACTIVITIES		
Change in loans from banks	(35,569)	(351,709)
of which:		
Repayment of capital and interest on Senior loans	(31,730)	(342,833)
Increase/Decrease in current account overdrafts	(3,839)	(8,876)
Repayment/Acceptance of finance leases	(4,656)	(8,823)
Increase (decrease) in other non-current liabilities	(1,603)	662
Changes in shareholders' equity	(785)	155,283
(Purchase)/Disposal of treasury shares		749
NET CASH GENERATED BY FINANCIAL ACTIVITIES	**(42,612)**	**(203,839)**
Effect of changes in foreign currency exchange rates	-	-
Cash flow generated /Absorbed by assets sold/held for sale	-	(16,556)
NET CASH GENERATED BY FINANCIAL ACTIVITIES including cash flow generated/absorbed by assets sold/held for sale	**(42,612)**	**(220,395)**
NET INCREASE/(DECREASE) IN NET CASH AND CASH EQUIVALENTS	**(5,894)**	**9,984**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE FINANCIAL YEAR	16,220	**6,236**
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR	**10,326**	**16,220**

5.5 Statement of changes in equity

(EUR 000)	Share Capital	Share premium reserve	Stock option reserve	Accumulated losses and Other reserves	Group shareholders' equity	Minority interests	Total
Balance at 31 December 2009	**92,003**	**-**	**4,315**	**(163,298)**	**(66,980)**	**-**	**(66,980)**
Share capital increase	15			(800)	**(786)**		**(786)**
Increases /(Decreases)			73		**73**		**73**
Period result				(24,276)	**(24,276)**		**(24,276)**
Balance at 31 December 2010	**92,017**	**-**	**4,388**	**(188,374)**	**(91,969)**	**-**	**(91,969)**

(EUR 000)	Share Capital	Share premium reserve	Stock option reserve	Accumulated losses and Other reserves	Group shareholders' equity	Minority interests	Total
Balance at 1 January 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**
Cost of stock options	-	-	475	-	**475**	-	**475**
Buying / Selling own shares	-	-	-	749	**749**	-	**749**
Transfer to cover losses	(396,252)	(999,367)	-	1,395,619	**-**	-	**-**
Exchange differences arising on translation of foreign financial statements and changes in consolidation	-	-	-	119,119	**119,119**	8,231	**127,350**
Net Result	-	-	-	(384,826)	**(384,826)**	(2,186)	**(387,012)**
Balance at 31 December 2009	**92,003**	**-**	**4,315**	**(163,297)**	**(66,980)**	**-**	**(66,980)**

5.6 Income Statement pursuant to Consob Resolution No. 15519 dated 27 July 2006

(EUR 000)	Notes	2010	of which: related parties	2009	of which: related parties
Revenues	*1*	278,153	369	290,353	404
Other income	*2*	3,717		3,097	
Purchase of materials and outsourced services	*3*	169,507	371	159,052	1,148
Payroll and related costs	*4*	43,209		39,230	
Stock option plan cost	*5*	73		465	
Other operating (income) charges	*6*	(1,297)		7,054	2
Write-downs of receivables from customers	*7*	22,595		17,919	
Restructuring costs and other write-downs	*8*	1,775		11,723	
Amortisation/depreciation	*14-15*	47,801		46,655	
Operating result		**(1,792)**	**(2)**	**11,353**	**(746)**
Portion of results of equity investments valued using the equity method				(33)	
Net financial income (charges)	*9*	(14,325)		(13,883)	(1,520)
Pre-tax result		**(16,118)**	**(2)**	**(2,563)**	**(2,266)**
Income taxes	*10*	(3,924)		(12,135)	
Net result from operating activities (on-going)		**(20,041)**	**(2)**	**(14,698)**	**(2,266)**
Result from assets disposed of and/or destined for disposal	*11*	(4,235)		(372,313)	
Net result for the period	*12*	**(24,276)**	**(2)**	**(387,012)**	**(2,266)**
Attributable to:					
- Result pertaining to the parent company		**(24,276)**		**(384,826)**	
- Minority interests				(2,186)	
Earnings (Losses) per share					
Earnings per share from operating activities and those disposed of:		(0.01)		(0.55)	
- Basic		(0.01)		(0.55)	
- Diluted					
Earnings per share from operating activities:					
- Basic		(0.01)		(0.02)	
- Diluted		(0.01)		(0.02)	

5.7 Statement of financial position pursuant to Consob Resolution No. 15519 dated 27 July 2006

(EUR 000)	Notes	**31.12.2010**	**of which: related parties**	**31.12.2009**	**of which: related parties**
Non-current assets					
Intangible assets	*14*	86,808		85,187	
Properties, plant and machinery	*15*	124,369		137,737	
Other financial assets	*17*	10,217		16,723	
		221,394		**239,647**	
Current assets					
Inventories	*19*	557		1,892	
Receivables from customers	*20*	108,403	443	112,246	516
Other receivables and other current assets	*21*	24,722		27,087	
Other current financial assets	*22*	1,540		31,484	
Cash and cash equivalents	*23*	10,326		16,220	
		145,548	**443**	**188,928**	**516**
Assets held for sale		-		31	
Total Assets		**366,942**	**443**	**428,606**	**516**
Share Capital and reserves					
Share Capital		92,017		92,003	
Stock option reserve		4,388		4,315	
Results from previous periods and Other reserves		(164,097)		221,528	
Result pertaining to the Group		(24,276)		(384,826)	
Group shareholders' equity	*24*	**(91,968)**		**(66,980)**	
Minority interests					
Shareholders' equity pertaining to minority shareholders	*25*				
Total Shareholders' equity		**(91,968)**		**(66,980)**	
Non-current liabilities					
Payables to banks and to other lenders	*26*	124,691		152,875	
Payables for financial leases	*26*	58,721		58,952	
Other non-current liabilities	*27*	13,299		14,234	
Liabilities for pension obligations and staff severance indemnities	*28*	4,250		4,218	
Provisions for risks and charges	*29*	5,977		9,002	
		206,939		**239,281**	

Current liabilities						
Payables to banks and other lenders	*30*	29,789		24,453	
Payables for financial leases	*30*	1,461		4,349	
Payables to suppliers	*31*	153,092	154	150,894	1,355
Other current liabilities	*32*	66,772		75,678	
		251,114	154	**255,374**	**1,355**
Liabilities directly related to assets held for sale		856		930	
Total Shareholders' equity and Liabilities		**366,942**	**154**	**428,606**	**1,355**

5.8 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 range of innovative services and its strong brand, Tiscali has achieved a strategic position in the market of telecommunications.

The financial statements are presented in Euro (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 principles detailed below.

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

5.9 Evaluation of the company as a going-concern and future outlook

Events and uncertainties regarding the business continuity

The Tiscali Group closed 2010 with a consolidated loss of EUR 24.3 million, of which EUR 4.2 million determined by the negative net result from assets disposed of, and with a negative consolidated shareholders' equity of EUR 92 million. Furthermore, as at 31 December 2010, the Group had a gross financial debt of EUR 214.7 million and current liabilities greater than current assets (non-financial) for EUR 86.2 million.

As at 31 December 2009, the loss came to EUR 387.0 million (of which EUR 372.3 million determined by assets disposed of); the negative shareholders equity came to EUR 67.0 million and gross financial debt totalled EUR 240.6 million. As at the same date, the difference between current assets and liabilities (non-financial) presented a negative balance of EUR 85.3 million.

During 2009, the Group implemented certain action with the aim of achieving the Group's economic, equity and financial balance over the long term (commonly known as the "Restructuring Plan"), and launching a phase of recovery for the sales activities. In detail, the 2009 - 2013 business plan was drawn up along with the associated financial plan and the sale of TiNet and the UK subsidiaries was completed, using the proceeds of the sale essentially to repay part of the Group's debt. Furthermore, the conditions of the residual Senior Loan (Group Facility Agreement) and the debt for the Sale & lease-back were renegotiated, in addition to the execution of the share capital increase in Tiscali S.p.A. used to repay another portion of the financial debts. The restructuring of the Group's debt in conclusion envisaged the write off of a portion of the residual debt by the financial institutions.

The following action was undertaken in 2010:

1) definition, on 2 August 2010, with TalkTalk Ltd (purchaser of the UK businesses) of the formalities and the timescales for the release of part of the fee for the sale deposited by way of guarantee. The amount due to Tiscali was established as GBP 20.4 million payable in three tranches: the first, amounting to GBP 17.9 million (EUR 21.7 million) was collected in August 2010, the second, totalling GBP 1.25 million (EUR 1.5 million) was collected in November 2010 and the third tranche, amounting to GBP 1.25 million, was collected in March 2011. With respect to the receivable recorded in the financial statements as at 31 December 2010, amounting to EUR 31.5 million, during 2010 a total loss was consequently recorded for EUR 6.8 million.

   The collection on the UK Escrow account during 2010 (equating to EUR 23.2 million) also led to a significant improvement on the Group's net financial position as at 31 December 2010.

2) In September 2010, following the conclusion of the transaction relating to the sale of Tinet by the BS Fund to Neutral Tandem Inc, as contractually envisaged, the Group entered into an agreement for the release of the deferred part of the sales price (so-called "Vendor Loan") amounting to EUR 5.1 million and for the payment of an extra price ("Earn Out") totalling EUR 4.3 million. The total amount received in October 2010, amounting to EUR 9.4 million, will be used to repay the Group Facility Agreement during 2011. On the basis of the agreements entered into, on occurrence of certain contractual conditions pertaining to the sale of TiNet to Neutral Tandem Inc., the Tiscali Group may also be paid an additional Earn Out of around EUR 1.1 million (amount not recorded in the financial statements as at 31 December 2010).

3) From an operational point of view, action continued to improve efficiency, in particular via the rationalisation of the operating and commercial costs, the optimisation of the debt collection policies and the streamlining of the structure and the corporate costs. Such action included:

   - the reduction in the customer care costs, made by means of minor recourse to outsourcers and the automation of many processes;
   - the optimisation of the voice traffic flows and the network structure;
   - the progressive migration of the customers to the newly-opened LLU sites, a transaction destined to be completed in 2011;
   - the reduction in the advertising costs on traditional media channels without negative impacts on the volume of the registrations;
   - the implementation of a massive debt recovery process also via recourse to outside legal advisors, which will come into full force during 2011.

   Furthermore, during 2010, significant business results were achieved, including:

   - an increase in the number of registrations of ADSL customers of 16.2%, a percentage which rises to 37% if one considers the VOIP lines, thanks to the launch of numerous cross and upselling activities;
   - an increase in the number of dual play customers amounting to 66.6 thousand during 2010; the VoIP revenues are in fact increasing to a significant extent, with a rise of EUR 8.2 million (+ 12.6%) compared with 2009;
   - the inversion in the trend of Media revenues which rose from EUR 4.7 million in the second half of 2009 to EUR 8.7 million in the second half of 2010.

4) The 2009-2013 business plan was updated, extending it until 2017 so as to cover the entire period for the repayment of the financial debt. This 2011-2017 business plan, approved by the Board of Directors, despite incorporating the changed market and operating conditions of the Group, does not diverge from the 2009-2013 plan with regard to the essential strategic approaches. The update of the business plan hypothesises in 2014 the refinancing of part of the amount due to the banks for the portion exceeding the net cash flows generated in the plan period.

The most important, new elements of the updated plan for 2011 are as follows:

- repricing: Tiscali, in line with the market trend, increased the ADSL and Voip fee for more than 350 thousand customers by EUR 2 (VAT inclusive) as from 1° April 2011, thereby permitting the recovery of the increase in the rental fee for the copper line which took place as at 1° July 2010;
- increase in media revenues: during 2011, it is envisaged that the growth course launched during 2010 will be capitalised, thanks to the extension of the network and the increase in the sales force. Furthermore, new advertising concessions were acquired which are expected to make it possible to improve the profit made from the audience, also thanks to the draw of the innovative platforms launched during 2010;
- saving in operating costs: during 2011, it is expected that the action implemented during the second half of 2010 will become fully effective, revealing its full effect over 12 months;
- launch of new products: in 2011, the Group will launch new service lines which will permit:
    - a profit to be made from the customer base existing by means of upselling activities;
    - the outlining of a distinctive factor in the Tiscali product with respect to that of the competitors;
    - an efficient use of the network infrastructure and the data center. Reference is made to the Web TV, Tiscali Tv Box, Streaming services, and the Claud services for SOHO and PMI. The latter, in particular, are expected to be able to establish a strong growth potential in the business sector in which Tiscali has invested a great deal in terms of infrastructure and sales network.

On the basis of the above, the Directors, when evaluating the existence of the condition of the Tiscali Group as a going concern in the current macro-economic context, and in the current competitive scenario, identified a number of factors which indicate the persistence of a number of uncertainties:

i. the Group is still in an unbalanced equity, financial and economic situation, as shown by the negative consolidated shareholders' equity for EUR 92 million, due mainly to the past negative economic performance and weight of the Group's considerable debt;

ii. the presence of a gross financial debt which is still significant and subject to covenants and other contractual obligations (so-called "events of default") whose breach, as is standard practice for this type of contract, could lead to the invoking of the acceleration clause (see note 24);

iii. the establishing of a balanced equity, financial and economic situation for the Group over the long-term depends, in the context of uncertainty of the current economic scenario, on the achievement of the results set out in the business plan, and therefore on the realisation of forecasts and assumptions contained therein, and in particular, those relating to the evolution of the telecommunications market and achievement of the growth objectives set out in a market context characterised by heavy competitive pressure.

Therefore, the following depend on the potential and capacity for fulfilling the plan: a) the ability to rebuild an adequate supply of equity, b) the recoverability of asset items, c) the capacity to comply with covenants and other contractual obligations and therefore to maintain the availability of financing granted to meet other Group obligations, d) achievement of a balanced long-term equity, economic and financial situation for the Group.

Finally, these factors are coupled with ongoing disputes, whose outcomes, although not currently foreseeable, have been assessed as potentially significant (see the section "Disputes, contingent liabilities and commitments").

Final assessment of the Board of Directors

The Board of Directors, after lengthy discussion, has highlighted how the Group:

- concluded all the action envisaged by the Restructuring Plan in the second half of 2009, such as the repayment of a significant portion of the financial debt and the restructuring (with more favourable terms) of the residual debt, as well as the completion of the share capital increase, bearing witness to the confidence of the market and the financial institutions in the Group's business model;
- carried out the final assessment process relating to the Escrow Account established at the time of finalisation of the disposal of Tiscali Uk Ltd to the TalkTalk Ltd Group. This process, finalised on 2 August 2010, made it possible to collect EUR 23.2 million in 2010 and a further EUR 1.5 million in the first few months of 2011 thereby contributing to the process for reducing the Group's debt;
- in relation to the sale of TiNet, in October 2010, received a total of EUR 9.4 million, which will be used to repay the bank debt during 2011;
- continued with the implementation of the business plan, in any event confirming in 2010 a positive trend in acquiring customers already observed during the second half of 2009;
- updated the business plan for the period 2011-2017, verifying the coherence with the financial requirements determined by the debt structure.

These elements suggest that the Group is reasonably able to continue with the implementation of the business plan and that over the long-term this will make it possible to achieve a balanced equity, financial and economic situation.

In conclusion, when analyzing what has already been achieved within the sphere of a process aimed at enabling the Group to obtain long-term equity, financial and economic equilibrium, the Directors acknowledge that, as already indicated in the 2009 financial statements, at present uncertainties still remain, with regard to events and circumstances that may raise considerable doubt on the ability of the Group 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 the factors described, they have the reasonable expectation that the Group has adequate resources to continue operations in the near future and therefore have adopted the going-concern assumption when preparing the financial statements.

Form and content of the accounting statements

Basis of preparation

The 2010 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 European Union, and the measures issued in conformity with Article 9 of Italian Legislative Decree No. 38/2005. IFRS also include all the reviewed international accounting standards ("IAS") and all the interpretations by the International Financial Reporting Interpretations Committee ("IFRIC") previously called 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 financial statement areas which, under the circumstances, presuppose the adoption of applicative assumptions and those more greatly characterised by the making of estimates 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 methods for presentation of the consolidated financial statements as at 31 December 2010 were adapted following the enforcement of IAS 1 – "Presentation of Financial Statements". This standard lays down new names for the various financial statements 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 indication, in two separate items, of the "Assets sold/held for sale" and "Liabilities related to assets sold/held for sale";
- Statement of comprehensive income: 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.
    - An income statement schedule that reports only revenues and costs classified by nature;
    - A statement of comprehensive income that reports charges and income posted directly under shareholders' equity net of tax effects.
- - 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 the cash flows 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 Euro.

The data from the previous financial statements, provided for comparative purposes, is restated to take into account the changes introduced by IAS 1 and the disposals of company assets in 2009, as prescribed by IFRS 5 and described more fully hereunder.

Segment reporting

With Regulation (EC) No. 1358/2007 of 21 November 2007, the European 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 essentially requires one 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 in which the Group's activities are segmented 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. The geographic areas are represented in particular by:

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

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 in this financial statement item 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 originally acquired exclusively with a view to resale.

The income statement item entitled ‘Results from assets disposed of and/or destined to be disposed of’ contains the following, in a single item and net of the related tax effects:

- The period results achieved by subsidiaries held for sale, including any adjustment of their 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.

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 de-consolidated 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 however. 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 consolidated subsidiaries are listed in the note *List of subsidiaries included in the consolidation area*. Changes in the consolidation area during 2010, when compared with the consolidated financial statements at 31 December 2009, are illustrated as follows.

Companies removed from the consolidation area by sale:

- Tiscali Finance BV: on 7 January 2010, the liquidation process concluded with the consequent discharge of the company;
- Energy Byte S.r.l.: on 18 March 2010, the liquidation process concluded with the consequent discharge of the company.
- STUD Soc. Consortile a.r.l.: on 15 February 2010, the liquidation process concluded with the consequent discharge of the company.

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 portions pertaining to minority shareholders) that 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 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 fair value of the acquiree's identifiable assets, liabilities and contingent liabilities, exceeds the cost of the business combination, the excess is booked directly to the income statement.

The interest of minority shareholders in the acquiree is initially stated at the minority's proportion of the 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 Euro 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 at 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 Euro, are translated into Euro 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 emerging from intra-group receivable/payable transactions of a financial nature are recorded in the shareholders' equity special conversion reserve.

The main exchange rates used for translation of the 2010 and 2009 financial statements for foreign companies into Euro were:

	31.12.2010		31.12.2009	
	Average	**final**	**average**	**final**
GB pound	0.84813	0.8602	0.89104	0.88810

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

For the purpose of an improved accounting representation of the costs to activate the services for customers, in accordance with the principle of cost/revenue correlation, the Company amended the criteria for representing the costs incurred for the activation of the customers (Subscriber Acquisition Costs – SACs). On a consistent basis with the best practices in the sector, these costs which up until 1° July 2010 were discounted over 24 months, as from 1 July 2010, were capitalised and amortised over a period of 24 months (corresponding to the minimum contractual commitment envisaged by the sale contract).

Properties, plant and machinery

Properties, plant and machinery are stated at purchase or production cost, including accessory charges, 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:

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 financial leases if all the risks and benefits of ownership are transferred to the lessee. All other leases are considered operating leases.

Assets held under financial 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 financial 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 financial 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 and total assets 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 maturing beyond 12 months, unprofitable receivables, and receivables accruing interest 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 impairment. If there is objective evidence, the impairment must be recorded as a cost in the income statement for 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 financial 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 should be referred to.

Derivative financial instruments

If necessary, 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 derivative 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 the 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. The hedge is recognised by means of recording in the income statement the changes in value referring to both the hedged item with regard to the changes caused by the underlying risk, and the hedging instrument. 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.

If the conditions for the application of hedge accounting do not apply, the effects deriving from the fair value assessment of the financial derivative are booked directly 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 contribution 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 booked 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' remuneration.

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 a matching balance directly under 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 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 over 24 months. Amounts relating to other financial periods are recorded under other current liabilities as deferred income.

Financial income and charges

Interest received and paid, including interest on bond issues, 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 year 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 the reversal of these timing differences and it is unlikely that the timing difference will reverse in the foreseeable future.

Deferred tax assets, arising from timing 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 timing 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 timing 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 assets 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, considered reasonable under the circumstances.

Assessment of whether primary assets reported can be recovered is based on the estimate of income and financial flows the Group feels it will be able to generate in the future. As more fully described in the note "Assessment of the business as a going-concern", 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 beyond the control of the Directors and the 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

Activation costs and customer acquisition costs

The costs incurred for customer activation (Subscriber Acquisition Costs – SACs) were capitalised and amortised over a period of 24 months (corresponding to the minimum contractual commitment envisaged by the sales contract).

Losses in value on assets (Impairment)

The impairment test is carried out 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 timing 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 timing 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 timing 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 assets 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 receivables is assessed taking into account the risk of not collecting them, their ageing 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 objective market 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

As required by IAS 8 (*Accounting standards, changes in the accounting estimates and errors*), a brief description of the IFRS in force starting from 1 January 2010 is presented below.

- IFRIC 12 (*Service concession arrangements*): IFRIC 12 addresses operators in the private sector involved in the supply of services typical to the public sector (e.g. roads, airports. electricity and water supplies by virtue of a concession agreement). Within the sphere of these agreements, the assets under concession are not necessarily controlled by the private operators, who however are responsible for the activities achieved as well as the operations and the maintenance of the public infrastructure. Within the sphere of these agreements, the assets may not be recognised as tangible fixed assets in the financial statements of the private operators, but rather as financial assets and/or intangible fixed assets according to the nature of the agreement. There are no impacts on the financial statements consequent to the application of this interpretation.
- IFRIC 15 (*Agreements for the construction of real estate*): this interpretation provides the guidelines for determining whether an agreement for the construction of real estate units falls within the sphere of IAS 11 “Construction contracts” or IAS 18 “Revenues”, defining the moment when the revenue must be recognised. In light of this interpretation, the residential development activities fall within the sphere of IAS 18 “Revenues” leading to the recognition of the revenue at the time the deed is drawn up; the tertiary development activities, if carried out on the basis, of the technical specifications of the customer, fall within the sphere of application of IAS 11 “Construction contracts”. There are no impacts on the financial statements consequent to the application of this interpretation.
- IFRIC 16 (*Hedges of a net investment in a foreign operation*): this interpretation clarifies a number of matters relating to the accounting treatment, in the consolidated financial statements, of the hedges of net investments in foreign operations, specifying which types of risk have the requisites for the application of hedge accounting. In detail, it establishes that hedge accounting is only applicable for the exchange differences which emerge between the functional currency of the foreign entity and the functional currency of the parent company, and not between the functional currency of the foreign entity and the currency used for the consolidated financial statements. There are no impacts on the financial statements following the application of this interpretation.
- IFRIC 17 (*Distribution to shareholders of non-cash assets*): this interpretation clarifies that: (i) the amounts payable for dividends must be recorded when the dividend has been adequately authorised and no longer at the discretion of the entity; (ii) the amounts payable for dividends must be gauged at the fair value of the net assets which will be distributed; (iii) the difference between the dividends paid and the book value of the net assets distributed must be recorded in the income statement. There are no impacts on the financial statements following the application of this interpretation.
- IFRIC 18 (*Transfer of assets from customers*): this interpretation clarifies the requisites which must be observed in the event that agreements are entered into on the basis of which an entity receives from a customer an asset which the entity itself uses for connecting the customer to a network or for ensuring the customer on-going access to the supply of goods and services (such as from example the supply of electricity, water or gas). There are no impacts on the financial statements following the application of this interpretation.

- Amendments to IFRS 3 (*Business combinations*): the changes concern the valuation of the non-controlling interests, the accounting of the transaction costs, the initial recognition and the subsequent valuation of any supplementary payments (“contingent consideration”). There are no impacts on the financial statements following the application of this interpretation.
- Amendments to IAS 27 (*Consolidated and separate financial statements*): this requires that a change in the ownership set up of a subsidiary (without loss of control) be recognised as a transaction between shareholders. Therefore, these transactions no longer generate goodwill, gains or losses. There are no impacts on the financial statements following the application of this interpretation.
- Amendments to IAS 39 (*Financial instruments: recognition and measurement*): this clarifies that an entity is permitted to designate a portion of the changes in the fair value or the cash flows of a financial instrument as a hedged item. The amendment also includes the designation of the inflation as hedged risk or as a portion of the risk in particular situations. There are no impacts on the financial statements following the application of this interpretation.
- IFRS 1 reviewed (First-time adoption of the IFRS): IFRS 1 has been subject to numerous changes following the issue of new standards or changes to existing standards, which have compromised the clarity thereof. The review of IFRS 1 has not led to changes in the essence with respect to the previous version, but has changed the structure. There are no impacts on the financial statements following the application of this interpretation.
- The IASB has issued an amendment to IFRS 2 which clarifies the purpose and the accounting of group transactions with payments based on shares settled in cash. There are no impacts on the financial statements following the application of this interpretation.

Improvements to the IFRS

Within the sphere of the project launched in 2007, the IASB issued a series of amendments to the following 12 principles in force:

- IFRS 2 (*Share-based payments*): the amendments state that, following the changes made by IFRS 3 to the definition of the business combination, the conferral of a business at the time of establishment of a joint venture and the combination of entities or activities under mutual control is excluded from the sphere of application of IFRS 2.
- IFRS 5 (*Non-current assets held for sale and discontinued operations*)): the amendment, to be applied on a forecast basis, specifies the disclosure requirements relating to non-current assets (or groups undergoing disposal) held for sale and discontinued operations. It establishes that IFRS 5 and the other IFRS which specifically refer to these assets contain all the reference standards for the financial statement disclosure of the same.
- IFRS 8 (*Operating segments*): the amendment of IFRS 8 specifies that the company must report the amount of the totals for each operating segment only if this information is supplied regularly at the highest operative decision-making level. Before, this information had in any event to be provided for each operating segment.
- IAS 1 (*Presentation of the financial statements*): the amendment specifies that an entity must classify a liability as current when it does not have an unconditional right to defer the payment for a period of time of at least 12 months from the financial statement reference date, thus also if at the discretion of the counterpart the payment of the liability can be carried out by means of the issue of equity instruments.

- IAS 7 (*Cash flow statement*): the amendment specifies that the costs relating to assets not recognised in the financial statements must be classified in the cash flow statement within the sphere of the cash flow from investment activities.
- IAS 17 (*Leasing*): the amendment concerns the classification of the leasing of land and buildings. When the leasing concerns both land and a building, the entity must separately assess each element for the purpose of their classification as financial or operating lease. As of the date of application of the amendment, the classification of all the leasing agreements outstanding must be reviewed for the part concerning land. The reclassification from "operating" lease to "financial" lease must be recorded retrospectively.
- IAS 18 (*Revenues*): amendments relating to the definition of the characteristics useful for determining whether an entity acts as agent (for example, it is not exposed to significant risks and benefits associated with the transaction) or on its own account (for example it is exposed to significant risks and benefits associated with the transaction).
- IAS 36 (*Impairment of assets*): the amendments concern the methods for allocating the goodwill to the cash flow generating units (or to the groups of cash flow generating units) of a purchaser in the case of a business combination and for the purposes of the impairment test. In detail, it is stated that each cash flow generating unit (or group of cash flow generating units) to which the goodwill is allocated must not be greater than the operating segment of the purchaser (as defined by IFRS 8) before the combination.
- IAS 38 *(Intangible assets*): amendments consequent to the review of IFRS 3 relating to the gauging of the fair value of an intangible assets acquired within the sphere of a business combination.
- IAS 39 (*Financial instruments: Recognition and Measurement*): the main changes, to be applied on a forecast basis to all the agreements outstanding, concern: (i) the specification concerning the exclusion of forward agreements for the purchase/sale of a business which will form part of a business combination within the sphere of application of IAS 39; (ii) the early repayment option incorporated in an underlying debt agreement: in the event that the exercise price of the early repayment option is close to the current value of the interest lost for the residual duration of the debt agreement, this option must be considered strictly correlated to the primary agreement and consequently is not accounted for separately.
- IFRIC 9 (*Reassessment of embedded derivatives*): the amendments, applicable on a forecast basis, exclude from the sphere of application of IFRIC 9 derivatives embedded in the agreements acquired in a business combination, in an entity or business combination under mutual control as well as at the time of formation of a joint venture.
- IFRIC 16 (*Hedges of a net investment in a foreign operation*: the amendments concern the elimination of the restriction to the charge of the foreign operation of holding the instruments which ensure the hedging of the same foreign operation.

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 standards, changes in the accounting estimates and errors*), a brief description of the Standards and interpretations in force starting from 1 January 2011 is presented below.

- IAS 24 revised (*Related party disclosures*): on 4 November 2009, the IASB published the revised version of IAS 24. The amendments introduced by this review of IAS 24 simplify the definition of «related party» at the same time eliminating certain inconsistencies, and release the public bodies from certain disclosure requirements relating to transactions with related parties.

- Amendments to IAS 32 (*Financial instruments: statement – classification of the issues of rights*): these amendments concern the issue of rights - such as for example options and warrants – denominated in a currency other than the issuer's reporting currency. Previously, these issues of rights were recorded as derivative financial liabilities. If certain conditions are satisfied, it is possible to classify these issues of rights as net equity instruments irrespective of the currency in which the exercise price is denominated. These changes were approved by the European Union in December 2009 (EU Regulation No. 1293/2009) and apply as from 1° January 2011. Impacts on the financial statements following the future application of said amendments are not envisaged.
- Amendments to IFRIC 14 (*Advance payments relating to a minimum funding requirement*): on 15 November 2009, the International Financial Reporting Interpretations Committee (IFRIC) published the amendments to the IFRIC 14 interpretation. The aim of the amendments is to eliminate an undesired consequence in the cases where an entity subject to a minimum funding requirement makes an early payment of contributions so that, in specific circumstances, the entity who makes this early payment would be obliged to record a cost. In the event that a defined benefit plan is subject to a minimum funding requirement, the amendment to IFRIC 14 lays down that it is necessary to handle this early payment as an asset in the same way as any other early payment. Impacts on the financial statements following the future application of said amendments are not envisaged.
- IFRIC 19 (*Extinguishing financial liabilities with equity instruments*): on 26 November 2009, IFRIC published the IFRIC 19 interpretation the purpose of which is to provide guidelines on the recording, by the debtor, of the instruments representing capital issued to fully or partially extinguish a financial liability after the renegotiation of the related conditions. Impacts on the financial statements following the future application of said amendments are not envisaged.

Revenues (note 1)

(EUR 000)	**2010**	**2009**
Revenues	278,153	290,353

For greater details on the drop in revenues, please refer to the Report on operations.

Other income (note 2)

(EUR 000)	**2010**	**2009**
Other income	3,717	3,097

Other income is mainly represented by the release, totalling EUR 2.1 million, of the pertinent portion of the capital gains generated via the Sale and lease back transaction on the Cagliari headquarters (Sa Illetta). Furthermore, this item includes the amount of the VAT recovered on terminated customers of the subsidiary Tiscali Italia S.p.A. for EUR 1.6 million.

Purchase of materials and outsourced services (note 3)

(EUR 000)	**2010**	**2009**
Purchase of materials and outsourced services	14	295
Line/traffic rental and interconnection costs	112,357	93,135
Costs for use of third party assets	4,611	4,687
Portal services	8,806	12,687
Marketing costs	10,403	16,708
Other services	33,317	31,540
Total	**169,507**	**159,052**

The increase in Line/traffic rental and interconnection costs is linked to the increase in the tariffs applied by the incumbent during 2010 as well as the development of the network infrastructure by means of the creation of new LLU sites.

The reduction in portal services and marketing costs should be placed in relation to the drop in revenues and the application of stringent industrial cost cutting policies.

Payroll and related costs (note 4)

(EUR 000)	**2010**	**2009**
Wages and salaries	29,041	26,796
Other personnel costs	14,168	12,434
Total	**43,209**	39,230

The increase in payroll and related costs is the consequence of the in-sourcing of the call center services, which saw the employment of 235 individuals by the subsidiary Tiscali Contact S.r.l., and the increase of the sales force on the business services and on the media division.

At 31 December 2010, the Tiscali Group had 1,017 employees. The breakdown by category and the corresponding balance at 31 December 2009 are presented below.

Number of employees

	2010	**2009**
Executives	22	25
Middle managers	96	84
Office staff	887	634
Blue-collar workers	3	1
Temporary workers	9	-
Total	**1,017**	**744**

Stock option plan cost (note 5)

(EUR 000)	**2010**	**2009**
Stock option plan cost and other provisions	73	465
Total	**73**	**465**

The amount reflects the provision made for charges relating to the stock option plan of the Italian companies, Tiscali S.p.A. and Tiscali Italia S.p.A.. The reduction is correlated to the waiver by a beneficiary of the plan as described in the section Stock Options.

Other operating (income) charges (note 6)

(EUR 000)	**2010**	**2009**
Other operating expenses	4,266	5,200
Contingencies, capital losses and other non recurrent charges (income)	(5,563)	1,853
Total	**(1,297)**	**7,054**

The item “Contingencies, capital losses and other non recurrent charges (income)” during 2010 mainly comprised:

- the release of provisions for risks and charges of a German subsidiary in relation to the settlement during 2010 of a dispute outstanding relating to the rental agreement on the property which houses the offices of Tiscali Business GmbH. The transaction established the entity of the liability payable by the Group as EUR 3.6 million, consequently the portion set aside in excess in previous year amounting EUR 3.2 million was freed up.
- the release of provisions for risks and charges amounting to EUR 1.0 million following the redefinition of the entity of the probable liabilities payable by a Group subsidiary;
- the write-off of payables due to suppliers which have fallen into prescription.

Write-downs of receivables from customers (note 7)

(EUR 000)	**2010**	**2009**
Write-downs of receivables from customers	22,595	17,919
Total	**22,595**	**17,919**

The write-down of receivables from customers represents around 8.1% of revenues, up with respect to the percentage in the same period of 2009 (6.2%). See the note “Receivables from customers” for further details.

Restructuring costs and other write-downs (note 8)

(EUR 000)	**2010**	**2009**
Restructuring costs and other write-downs	1,775	11,723
Total	**1,775**	**11,723**

Restructuring costs and other write-downs, totalling EUR 1.8 million, include consultancy charges relating to the up-date of the business plan for EUR 0.5 million, charges relating to employee disputes for EUR 0.3 million and charges relating to the deactivation of suspended customers for EUR 0.4 million.

Net financial income (charges) (note 9)

A breakdown of net financial income (charges) for the year, presenting a negative balance of EUR 14.3 million, is provided below.

(EUR 000)	**2010**	**2009**
Financial income		
Interest on bank deposits	67	171
Facility D2 write-off	-	42,322
Other financial income	287	226
Total	**354**	**42,719**
Financial charges		
Interest and other charges due to banks	10,555	43,836
Other financial charges	4,124	12,766
Total	**14,679**	**56,602**
Net financial income (charges)	**(14,325)**	**(13,883)**

The item Financial income in 2009 included income from the Facility D2 write-off by Senior Lenders amounting to Euro 42.3 million, including interest calculated through 18 November 2009.

In 2010, Financial income was mainly represented by interest income accrued on the Vendor Loan established at the time of the sale of TiNet, collected in full in October 2010.

The item Financial charges amounting to around EUR 14.7 million mainly includes the following elements:

- interest expense, amounting to EUR 9.6 million on the loan to Senior Lenders.
- Interest expense, amounting to EUR 0.8 million due to banks and attributable to Tiscali Italia S.p.A.;
- interest expense on financial leasing for around EUR 1.5 million, attributable to Tiscali Italia S.p.A.;
- bank charges for EUR 2.4 million.

Income taxes (note 10)

(EUR 000)	**2010**	**2009**
Current taxes	3,944	1,628
Deferred taxes	(21)	10,507
Total	**(3,924)**	**(12,135)**

The balance includes the cost of the current taxes for the year represented by IRAP (regional business tax) payable by the Italian companies and the provision for the notice of assessment for taxes (VAT and IRAP) received by the parent company Tiscali S.p.A. and the subsidiary Tiscali Italia S.p.A for a total of EUR 1.5 million.

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

The "Result from operating assets disposed of and/or assets held for sale" with a loss of EUR 4.2 million, includes the following elements:

- Additional sales price (so-called Earn Out) of EUR 4.3 million paid, following the closure of the transaction for the sale of Ti net by the BS Foundation to Neutral Tandem, (see the section "Significant events during the financial year 2010" and the note "Assessment of the business as a going-concern");
- Write-down of the Escrow relating to the sale of the UK subsidiaries for a total of EUR 6.9 million so as to adjust the amount recorded in the financial statements as at 31 December 2010 (EUR 31.4 million) in line with that defined in the agreements entered into on 2 August 2010 with the company TalkTalk - purchaser of the UK activities (see the section "Significant events during the financial year 2010" and the note "Assessment of the business as a going-concern");
- Write-down of tax receivables for around EUR 1.1 relating to a German subsidiary no longer operative;
- Other charges (for consulting and legal costs) relating to the sale of the UK subsidiaries for a total of EUR 0.4 million.

Earnings (Losses) per share (note 12)

The result from operating activities was nil. This amount was calculated by dividing the net loss for the year attributable to the ordinary shareholders of the parent company, amounting to EUR 20,041,275, by the weighted average number of ordinary shares in circulation during the year, totalling 1,861,492,160.

The result from operating activities and those disposed of was nil. This amount was calculated by dividing the loss from operating activities and those disposed of, amounting to EUR 24,276,121, by the weighted average number of ordinary shares in circulation during the year.

The potential shares deriving from the conversion of stock options have a diluting effect and therefore are not considered in the calculation of the result per share.

Impairment test on assets (note 13)

As mentioned in the previous section on accounting policies, as 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 Bank of Italy / Consob / ISVAP document.

The impairment test on assets was performed by comparing the value of assets reported at 31 December 2010 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 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 the recoverable amount

The utilization value of the Cash Generating Units (CGU) was determined by discounting the cash flows deriving from the last 2011-2017 Business Plan approved by the Board of Directors.

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

- Explicit forecast period equating to the remaining plan duration (5 years);
- EBITDA emerging from market and business development hypothesis;
- Investments to maintain the 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 on the basis of 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 1.5%.

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:

- the beta coefficient was valued considering both the value of Tiscali over various timescales for a period of more than twelve months;
- the spread of the credit on the risk free element was valued in line with the conditions of current debt;
- 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 8.9%.

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.

(iii) Sensitivity analysis of the impairment test result

In consideration of the current scenario and the results of the impairment tests performed for the year ended 31 December 2010, 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.

(iv) 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, the market capitalization of the Tiscali Group does not give rise to elements departing from the results of the impairment tests.

Intangible assets (note 14)

Intangible asset movements for the year 2010 were as follows:

Intangible assets (EUR 000)	**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**
HISTORIC COST						
1 January 2010	**4,641**	**88,373**	**40,667**	**24,562**	**6,882**	**165.126**
Increases		7,113	21,078	167	697	29,055
Other changes						
Asset sold						
Reclassifications		3,984			(6,561)	(2,577)
31 December 2010	**4,641**	**99,470**	**61,746**	**24,729**	**1,018**	**191,605**
ACCUMULATED AMORTISATION						
01 January 2010	**3,753**	**34,569**	**31,382**	**10,234**		**79,939**
Increases in amortisation and reclassifications	537	8,531	10,978	14,213		24,858
31 December 2010	**4,290**	**43,100**	**42,360**	**15,047**		**104,797**
NET VALUE						
31 December 2009	**888**	**53,805**	**9,285**	**14,328**	**6,882**	**85,187**
31 December 2010	**351**	**56,371**	**19,385**	**9,683**	**1,018**	**86,808**

The intangible fixed assets mainly concern the operating subsidiary Tiscali Italia S.p.A. and are analysed as follows.

The item “Computers, software and development costs”, whose balance amounts to EUR 351 million, includes the capitalization of development costs for applications software personalized for the exclusive use of the company.

The balance of “Concessions and similar rights”, amounting to EUR 56.4 million, includes about EUR 47.5 million relating to rights and costs connected with the acquiring of conveying ability, on a long-term basis, in the shape of concession contracts for the use of the same (IRU/Indefeasible Rights of Use), licences and software for EUR 5.3 million and EUR 3.6 million for patents. The total increase of EUR 11 million mainly concerns software licences and new IRU contracts entered into with reference to the expansion of the LLU network achieved during 2010.

The item “Broadband service activation costs”, amounting to 19.4 million, relates to the capitalization of the customer acquisition and ADSL service activation costs incurred in 2010. These costs are amortised over a period of 24 months.

Other intangible fixed assets, amounting to EUR 9.7 million, mainly comprise costs for the development of the new UNIT2 platform for EUR 7.8 million, and round EUR 1.2 million in costs relating to the mobile project (MVNO).

The item Intangible assets in course of acquisition and prepayments, totalling EUR 1 million, refers to the activation of fibre optics and the installation of LLU sites as part of the Tiscali network development project. Reclassifications, amounting in total to EUR 6.6 million, concern:

- EUR 3.9 million in IRU contracts entered into in 2009 and activated in 2010, recorded in the item “Concessions and similar rights”;
- EUR 2.6 thousand relating to LLU site installation and expansion costs, made available during the year and recorded in the item “Plant and machinery” (Tangible fixed assets).

Properties, plant and machinery (note 15)

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

Tangible assets (EUR 000)	**Properties**	**Plant and machinery**	**Other tangible assets**	**Tangible assets in course of construction**	**Total**
<u>HISTORIC COST</u>					
1 January 2010	**64,260**	**239,188**	**4,657**	**8,877**	**316,982**
Increases		5,969	223	410	6,601
Other changes		166	(236)		(70)
Reclassifications		8,013		(5,437)	2,577
31 December 2010	**64,260**	**253,336**	**4,644**	**3,850**	**326,090**
<u>ACCUMULATED DEPRECIATION</u>					
1 January 2010	**8,126**	**168,959**	**2,160**		**179,245**
Increases in depreciation	1,868	20,976	422		23,266
Other changes		(554)	(235)		(790)
Reclassifications					
31 December 2010	**9,995**	**189,380**	**2,347**		**201721**

NET VALUE					
31 December 2009	**56,134**	**70,229**	**2,497**	**8,877**	**137,737**
31 December 2010	**54,265**	**63,956**	**2,297**	**3,850**	**124,369**

The tangible fixed assets mainly concern the operating subsidiary Tiscali Italia S.p.A. and are analysed as follows.

The item "Properties", amounting to EUR 54.3 million, mainly relates to the Cagliari headquarters (Sa Illetta), which was subject to a Sale & Lease back financial transaction in 2007.

Plant and machinery (EUR 64 million) includes specific network equipment such as routers, DSLAM, servers, and transmission devices installed at the LLU sites. The EUR 14 million increase reflects the significant investments concerning the development of the infrastructure that are necessary to support the ADSL service supply in the unbundling mode. The increase includes EUR 8.0 million represented by the following reclassifications:

- from the category "Other tangible assets in course of construction and prepayments" for EUR 5.4 million relating to costs for transmission equipment and DSLAM installed as part of the project for developing the LLU network;
- from the category "Other tangible assets in course of construction and prepayments" for EUR 2.6 thousand relating to LLU site installation and expansion costs, made available during the year.

The "Other tangible assets", whose balance amounts to EUR 2.3 million, include furniture and furnishings, electronic and electromechanical office equipment as well as motor vehicles.

The item Tangible assets in course of construction and prepayments whose balance comes to EUR 3.9 million, includes transmission equipment and DSLAM for a total of EUR 2.3 million which will be installed in the first few months of 2011 to complete the LLU site expansion plan launched in 2010. The remainder of the item includes modems in stock at the warehouse, destined to be loaned to customers free-of-charge.

Equity investments (note 16)

As at 31 December 2010, equity investments, carried at equity, amounted to zero. The following table presents the list of equity investments as at 31 December 2010:

Company name	Registered Offices	Investment held by	Forecast statutory values as at 31 December 2010			% investment
			Share Capital	Shareholders' equity	Net result	
Tiscali S.p.A.	Italy	Parent Company	92,017	94,849	1,815	n.a.
Tiscali Italia S.p.A.	Italy	Tiscali S.p.A.	185,000	108,386	(27,345)	100.0%
Tiscali Media Srl	Italy	Tiscali Italia S.p.A.	10	33	(33)	100.0%
Tiscali Contact S.r.l.	Italy	Tiscali Italia S.p.A.	10	38	28	100.0%
Tiscali Finance SA (in liquidation) (*)	Luxemburg	Tiscali S.p.A.	125	(5)	(7)	100.0%
Tiscali Financial Services Sa (*)	Luxemburg	Tiscali S.p.A.	31	(3,376)	(159)	100.0%
Tiscali Deutschland GmbH (*)	Germany	Tiscali Deutschland	555	(33,478)	(395)	100.0%
Tiscali GmbH (*)	Germany	Tiscali S.p.A.	26	(144,858)	(634)	100.0%
Tiscali Business GmbH (*)	Germany	Tiscali Business UK Ltd	2,046	(204,701)	5,075	99.5%
Tiscali Verwaltungs GmbH (*)	Germany	Tiscali Deutschland	25	(13)	(4)	100.0%
Tiscali Holdings UK Ltd (*)	UK	Tiscali S.p.A.	59	(271,892)	(20,003)	100.0%
World Online International Nv (*)	The Netherlands	Tiscali S.p.A.	115,519	-	-	99.5%
Tiscali International BV (*)	The Netherlands	World Online International Nv	115,469	351,894	(4,604)	99.5%
Tiscali B.V Tiscali (*)	The Netherlands	Tiscali International Bv	91	3,338	123	99.5%
Wolstar B.V. (in liquidation) (*)	The Netherlands	Tiscali International Bv	-	-	-	49.7%
Tiscali International Network B.V (*)	The Netherlands	Tiscali International Bv	18	25,714	2,578	99.5%
Tiscali International Network SA (in liquidation) (*)	France	Tiscali International Network B.V.	1	(7,505)	30	99.5%
Tiscali Business UK Ltd (*)	UK	Tiscali International Bv	70	(7)	(7)	99.5%

(*) preliminary figures relating to the financial statements as at 31 December 2010

Other non-current financial assets (note 17)

(EUR 000)	**31.12.2010**	**31.12.2009**
Guarantee deposits	6,738	6.877
Other receivables	1,147	7,514
Equity investments in other companies	2,332	2,332
Total	**10,217**	**16,723**

Guarantee deposits amounting to EUR 6.7 million, include EUR 6.3 million relating to the sale and lease back transaction on the Cagliari (Sa Illetta) property and EUR 0.3 million relating to the Luxembourg subsidiary Tiscali Financial Service SA.

The item Equity investments in other companies mainly comprises the equity investment held by Tiscali Italia S.p.A. in Janna S.c.p.a., a consortium company which is involved in the management of an underwater fibre optics cable between Sardinia and the mainland and between Sardinia and Sicily.

Deferred tax assets (note 18)

At 31 December 2010 and 31 December 2009, there were no prepaid tax assets recorded in the financial statements.

As at the balance sheet date,, the Group had tax losses which could be carried forward to subsequent years for a total of EUR 731.2 million and deductible timing differences for EUR 113.8 million. The timing differences are entirely attributable to the Italian companies.

The taxes losses refer to:

- the Parent company and the Italian subsidiaries for a total of EUR 154.8 million;
- Tiscali International Bv and the Dutch subsidiaries for a total of EUR 150.7 million;
- the German subsidiaries for a total of EUR 256.5 million;
- Tiscali Uk Holdings for a total of EUR 165.6 million;
- the French subsidiary for EUR 3.6 million.

The maturity of the tax losses is shown in the following table.

(EUR 000)	Total as at 31.12.2010	Year of maturity				
		2011	2012	2013	After 2013	Indefinite
Total previous tax losses	731,201	203,332	87,453	14,617	102	425,697

Indefinite tax losses refer to the German companies and Tiscali UK Holdings (companies no longer operative).

The Group does not record prepaid taxes, while the theoretical tax benefit calculated on the basis of an estimated average rate of 28.3% would amount to Euro 239 million Although the Group business plan forecasts net profits over the next five-year period, considering the maturity and distribution of timing differences and losses amongst the various companies of the Group, and the forecast profitability of each subsidiary, Tiscali S.p.A.'s directors deemed it necessary not to allocate prepaid taxes in the financial statements.

Inventories (note 19)

As at 31 December 2010, inventories amounted in total to EUR 0.5 million and were represented by "contract work in progress" commissioned by third parties relating to the IT projects carried out by the subsidiary Tiscali Italia S.p.A..

Receivables from customers (note 20)

(EUR 000)	**31.12.2010**	**31.12.2009**
Receivables from customers	159,737	173,683
Write-down provision	(51,333)	(61,437)
Total	**108,403**	112,246

At 31 December 2010, receivables from customers totalled EUR 108.4 million, after write-downs of EUR 51.3 million. These receivables accrued from the sale of internet services, billing of network access services, inverse interconnection traffic, advertising revenues and business customer and telephone services provided 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 the ageing (gross of the receivables write-down provision) at 31 December 2010 and 31 December 2009, respectively:

(EUR 000)	**31.12.2010**	**31.12.2009**
not due	44,405	31,335
1 – 180 days	19,998	33,396
181 – 360 days	14,401	19,912
over 360 days	80,933	89,040
Total receivables from customers	**159,737**	**173,683**
Receivable write-down provision	(51,333)	(61,437)
Total Receivables from customers net of provision	**108,403**	112,246

The following table shows aging net of the receivable write-down provision at 31 December 2010.

(EUR 000)	31.12.2010	31.12.2009
not due	44,405	31,335
1 – 180 days	18,634	31,907
181 – 360 days	13,259	17,368
over 360 days	32,105	31,637
Total	**108,403**	**112,246**

The following table illustrates the changes in the receivable write-down provision during respective financial years.

(EUR 000)	31.12.2010	31.12.2009
Write-down provision at start of period	**(61,437)**	**(82,576)**
Exchange differences		-
Disposals/Consolidation area change		32,452
Provision	(22,595)	(17,919)
Utilisation	32,698	6,606
Write-down provision at end of period	**(51,333)**	**(61,437)**

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

Other Receivables and other Current Assets (note 21)

Other Receivables and other Current Assets

(EUR 000)	31.12.2010	31.12.2009
Other receivables	6,617	13,996
Accrued income	4,597	2,276
Prepaid expense	13,508	10,815
Total	**24,722**	**27,087**

Other Receivables, amounting to about EUR 6.7 million, mainly include VAT receivables for Euro 2.8 million, advances to suppliers amounting to approximately EUR 1 million and other receivables due from tax authorities for EUR 2 million.

Accrued income (EUR 4.6 million) mainly relates to portions of revenues for the sale of ADSL services pertaining to the period but not yet invoiced.

Prepaid expenses, whose balance comes to EUR 13.5 million, up with respect to the 2009 figures (EUR 10.8 million), relate to costs already incurred and deferred to the following financial year, mainly associated with multi-year line rental contracts, hardware and software maintenance costs and advertising costs.

Other current financial assets (note 22)

(EUR 000)	**31.12.2010**	**31.12.2009**
Guarantee deposits	1,453	31,454
Other receivables	87	30
Total	**1,540**	**31,484**

Other current financial assets include the restricted guarantee deposit relating to the UK sale, amounting to Euro 1.4 million which was collected in March 2011.

Cash and cash equivalents (note 23)

Cash and cash equivalents at 31 December 2010 amounted to EUR 10.3 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 24)

(EUR 000)	**31.12.2010**	**31.12.2009**
Share capital	92,017	92,003
Share premium reserve	-	-
Stock Options reserve	4,388	4,315
Accumulated losses and other reserves	(164,097)	221,528
Result for the period	(24,276)	(384,826)
Minority interests	-	-
Total Shareholders' equity	**(91,968)**	**(66,980)**

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

At 31 December 2010, the share capital amounted to EUR 92 million corresponding to 1,861,492,160 ordinary shares lacking par value.

Shareholders' equity pertaining to minority shareholders (note 25)

The shareholders' equity pertaining to minority shareholders as at 31 December 2010 was nil.

Current and non-current financial liabilities (note 26)

Net financial position

The Group's net financial position, around EUR 204.3 million, is illustrated in the following table:

(EUR mln)	31.12.2010	31.12.2009
A. Cash and Bank deposits	10,326	16,220
B. Other cash equivalents		
C. Securities held for trading		
D. Cash and cash equivalents (A) + (B) + (C)	***10,326***	***16,220***
E. Current financial receivables		
F. Non-current financial receivables		
G. Current bank payables	12,791	13,573
H. Current portion of non-current debt	16,997	10,880
I. Other current financial payables (*)	1,461	4,349
J. Current financial debt (G) + (H) + (I)	***31,250***	***28,802***
K. Net current financial debt *(J) – (E) – (D) - (F)*	**20,924**	**12,582**
L. Non-current bank payables	124,691	152,875
M. Bonds issued		
N. Other non-current payables (**)	58,721	58,952
O. Non-current financial debt *(N) + (L) + (M)*	**183,412**	**211,827**
P. Net Financial Debt *(K) + (O)*	**204,336**	**224,410**

(*) includes short-term leasing payables

(**) includes long-term leasing payables

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

The table below shows the reconciliation between the net financial position drawn up on the basis of the Consob communication and the net financial position as show in the Report on operations.

(EUR mln)	31.12.2010	31.12.2009
Consolidated net financial debt	**197.6**	**211.2**
Other cash equivalents and non-current financial receivables	6.7	13.2
Consolidated net financial debt prepared on the basis of Consob communication No. DEM/6064293 dated 28 July 2006.	**204.3**	**224.4**

Financial indebtedness mainly comprises:

- amounts owed to banks mainly in relation to the loan agreement signed on 2 July 2009 following the Group debt restructuring ("Group Facilities Agreement " - or GFA);
- amounts for financial leasing contracts mainly in relation to the sale and lease back agreement stipulated for the Cagliari office (Sa Illetta).

<u>Payables to banks</u>

Amounts owed to banks, totalling EUR 154.5 million (of which EUR 29.8 million current and EUR 124.7 million non-current), mainly refer to:

- Group Facility Agreement (GFA) for EUR 141.7 million (equating to a nominal EUR 128.8 million increased by interest capitalised as at 31 December 2010 and net of the repayments made during 2010);
- Current bank payables for account overdrafts amounting to EUR 12.8 million.

The amount owed to banks represented by the GFA loan was as follows as at 31 December 2010:

- **tranche A**: nominal residual amount of EUR 97.5 million (maturing in 2014); nominal EUR 100 million as at 31 December 2009 net of EUR 2.5 million paid on 5 July 2010);
- **tranche B**: nominal residual amount of EUR 31.3 million (maturing in 2015); nominal EUR 38.5 million as at 31 December 2009 net of EUR 5.7 million paid on 8 October 2010 and EUR 1.5 million paid on 31 November 2010;

The following tranches were repaid during 2010:

- **Tranche A**: EUR 2.5 million paid on 5 July 2010;
- **Tranche B**: EUR 5.7 million paid on 8 October 2010 and EUR 1.5 million paid on 23 November 2010;

Tranche C subscribed for a nominal EUR 20 million was paid off during 2010 by means of a payment of around EUR 5 million on 16 March 2010 and a payment of roughly EUR 15 million on 8 October 2010.

The repayments made in October 2010 were carried out using the funds released by the Escrow Account established at the time of the sale of Tiscali UK.

The following table summarizes the main elements of the loan.

Loan	Amount	Year of maturity	Financial institution	Borrower	Guarantor
Facility A	EUR 97.5 million (*)	2014	JP Morgan Chase Bank	Tiscali UK Holdings Ltd	Tiscali S.p.A.
Facility B	EUR 31.3 million (*)	2015	Intesa Sanpaolo S.p.A.		Tiscali Italia S.p.A.
			Rabobank		Tiscali International BV
			Goldman Sachs		Tiscali Financial Services Sa
			Credit Suisse International		
			Silver Point Lux Plat Sarl		
			Sothic Cap		

(*) nominal amounts excluding the interest capitalised net of the repayments made in 2010

The loan agreement also provides for:

- Informational covenants that essentially 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 pre-established maturities. 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 repayments and instalments envisaged in the financial plan.
- 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 of a particular size, such as the disposal of important assets, transfer of ownership, 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 of all or part of the loan. Among these is default on certain contract obligations, namely the exceeding of the financial and operational covenants and failure to pay the amounts due according to the payment schedule. In addition, the Group Facility Agreement envisages 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 payment 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 on the Group, there have been no events or circumstances that would be considered an "event of default" as defined in the Group Facility Agreement.

As already mentioned, the 2009-2013 business plan was updated, extending it until 2017 so as to cover the entire period for the repayment of the financial debt. Within the sphere of this plan, the covenant and other contractual obligations have been observed with reference to the date of 31 December 2010 and for 2011. With regard to subsequent years, some covenants have not been observed. The Directors have what is more already taken steps to request the lending banks to revise the covenants also for the purpose of making them more coherent with the assumptions of the business plan.

The update of the business plan hypothesises in 2014 the refinancing of part of the amount due to the banks for the portion exceeding the net cash flows generated in the plan period.

With regard to the guarantees provided, 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 provide 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 Euro 110 million.

The amortisation plan established by the GFA provides for repayment of Facilities 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 stages 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 maturity of each tranche ("PIK" interest).

Payables for financial leases

The Group's 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 Euro 57 million;
- Other financial leases for a total of Euro 3.2 million.

Under the debt restructuring plan, the "Sales & Lease Back" agreement was subject to a restructuring agreement stipulated on 2 July 2009, which provided new payment terms and their deadlines. The new agreement envisages interest expense 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.

(EUR 000)	Minimum payments due		Current value of minimum payments due	
	31 December 2010	31 December 2009	31 December 2010	31 December 2009
Less than 1 year	4,672	6,948	1,460	4,349
Between 1 and 5 years	28,340	24,421	14,809	4,484
More than 5 years	51,525	59,459	43,913	54,468
Total	**84,537**	**90,829**	**60,182**	**63,301**
Less future financial charges	(24,355)	(27,528)		
Current value of minimum payments	**60,182**	**63,301**	**60,182**	**63,301**
Included in the balance sheet				
Payables for current financial leases			1,461	4,349
Payables for non-current financial leases			58,721	58,952
			60,182	**63,301**

The financial leases are recorded under fixed assets in accordance with the applicable international accounting standards, as shown in the table below.

Leasing included in Tangible assets (EUR 000)	**Properties**	**Plant and machinery**	**Other assets**	**Total**
NET VALUE				
31 December 2009	56,027	15,754		**71,781**
31 December 2010	54,186	10,976		**65,161**

Payments envisaged by the operating lease contracts are indicated below:

(EUR 000)	**31.12.2010**	**31.12.2009**
Minimum payments due for leasing	1,346	1,402
Subleasing payments	-	-
Total	**1,346**	**1,402**

Total commitments relating to payments due for operating lease transactions which cannot be cancelled, are presented in the following table.

(EUR 000)	**31.12.2010**	**31.12.2009**
Less than 1 year	1,173	1,031
Between 1 and 5 years	1,034	930
More than 5 years	311	
Total	**2,518**	**1,961**

Breakdown of current and non-current debt

As per the following table.

	Debt at 31.12.2010	Current debt	Non-current debt
Amounts owed to banks for loans (*)			
Facility A	**106,456**	5,384	101,072
Facility B	**35,232**	11,613	23,619
Facility C			
Total amounts owed to banks for loans	**141,688**	**16,997**	**124,691**
Total current bank payables (**)	**12,791**	**12,791**	**-**
Total amounts owed to banks	**154,479**	**29,788**	**124,691**
Amounts owed to leasing firms			
Sale and lease back – Sa Illetta	**56,990**		*56,990*
Other financial leases	**3,192**	*1,461*	*1,732*
Total amounts owed to leasing firms	**60,182**	**1,461**	**58,721**
Total indebtedness	**214,661**	**31,249**	**183,412**

(*) The amount is for the GFA loan amounting to a nominal EUR 128.8 million in addition to capitalised interest accrued at 31 December 2010 and net of the repayments during 2010.

(**) Amounts owed for bank overdrafts

The current portion of amounts owed to banks for loans, totalling EUR 17 million, is represented by:

- part of the cash deriving from the release of the restricted account relating to the sale of Tiscali UK for a total of GBP 1.2 million (EUR 1.4 million) and the sale of Tinet by the BS Fund to Neutral Tandem Inc, for a total of EUR 9.4 million; these funds will be used to repay the amounts due to banks during 2010;
- a portion of principal, maturing on 4 July 2010 referring to Facility A and amounting to EUR 2.5 million;
- a portion of interest accrued referring to the cash amount envisaged by the agreement and due within 12 months.

Other non-current liabilities (note 27)

(EUR 000)	**31.12.2010**	**31.12.2009**
Payables to suppliers	11,812	12,651
Other payables	1,487	1,583
Total	**13,299**	**14,234**

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.

Liabilities for pension obligations and staff severance indemnities (note 28)

The table below shows the changes during the period:

(EUR 000)	**31.12.2009**	**Provisions**	**Utilisation**	**31.12.2010**
Staff severance	4,218	2,221	(2,189)	4,250
Total	**4,218**	**2,221**	**(2,189)**	**4,250**

The staff severance provision, which comprises the indemnities accrued in favour of employees, amounts to EUR 4.3 million 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 cost of living index, and with the interest established by law. It is not associated with any condition or period of accrual, or with any financial funding obligation; therefore, there are no assets serving the provision. In compliance with IAS 19, the provision was recorded under “Defined benefit plans”.

In compliance with the new rules introduced by Italian Legislative Decree No. 252/2005, and by Italian Law No. 296/2006 (Finance Act 2007), for the companies with at least 50 employees, the staff severance indemnities accrued from 2007 are assigned either to the Social Security Institute (INPS) Treasury Fund (from 1 January) or to the supplementary pension forms (from the option month), and acquire the nature of “Defined contribution plans”. However, the revaluations of the provision existing at 31 December 2006 (carried out on the basis of the official cost of living index and the legal interest) and the quotas accrued with companies with less that 50 employees remain as staff severance indemnities.

Further to 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).

<u>Financial assumptions</u>

Inflation rate:	2.0%
Discount rate:	4.6%
Salary increase rate:	2.5%

<u>Demographic assumptions:</u>

Mortality:	ISTAT 2002 mortality tables differentiated by gender
Disability:	INPS 1998 disability tables differentiated by gender
Resignation:	3.5% from 18 to 65 years of age
Advance payments:	3.0% from 18 to 65 years of age
Retirement:	*65 for men and 60 for women, with maximum length of service 40 years*

Provisions for risks and charges (note 29)

A breakdown of the provisions covering risks and charges is as follows:

(EUR 000)	31.12.2009	Provisions	Utilisation/Release	31.12.2010
Provisions for risks and charges	9,002	2,675	(5,701)	5,977
Total	**9,002**	**2,675**	**(5,701)**	**5,977**

The provision for risks as at 31 December 2010 mainly included the provision for employee disputes, EUR 3.3 million, a tax provision for EUR 1.5 million and risk provisions for other charges totalling EUR 1 million.

The provision concerns the assessment with compliance for IRAP (regional business tax) on Tiscali Italia S.p.A. for EUR 1.5 million and provisions for employee disputes totalling EUR 0.8 million.

The utilisations made during 2010 are mainly attributable to :

- the release of provisions for risks and charges amounting to EUR 1 million following the redefinition of the entity of the probable liabilities payable by a Group subsidiary;
- the release of provisions for risks and charges of a German subsidiary in relation to the settlement during 2010 of a dispute outstanding relating to a property;
- cash utilisations relating to employee disputes for EUR 0.7 million.

Current financial liabilities (note 30)

(EUR 000)	31.12.2010	31.12.2009
Payables to banks and other lenders:		
Payables to banks	29,789	24,453
Payables for financial leases (short-term)	1,461	4,349
Total	**31,250**	**28,802**

<u>Payables to banks and to other lenders</u>

The item “Payables to banks”, amounting to around EUR 29.8 million, , includes bank debts owed by the Italian subsidiary Tiscali Italia S.p.A. (EUR 12.4 million), the parent company Tiscali S.p.A. (EUR 0.5 million) and Tiscali UK Holding for EUR 17 million (short-term portion of Senior Lender restructured loans, see note 27 for details).

<u>Payables for financial leases</u>

Payables for financial leases, amounting to EUR 1.5 million, refer to the short-term portion of payables due to leasing companies for financial lease agreements. For further details, see note 27.

Payables to suppliers (note 31)

(EUR 000)	31.12.2010	31.12.2009
Payables to suppliers	153,092	150,894
Total	**153,092**	**150,894**

Payables to suppliers mainly refer to trade payables for the supply of telephone traffic, data traffic, materials, technology and services of a commercial nature.

The balance also includes around EUR 9.6 million for the purchase of IRU (Indefeasible Rights of Use) concerning investments for the unbundling project.

Other current liabilities (note 32)

(EUR 000)	31.12.2010	31.12.2009
Accrued expenses	1,456	6,541
Deferred income	45,163	50,118
Other payables	20,153	19,020
Total	**66,772**	**75,678**

Accrued expenses include EUR 1.4 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 capital gain on disposal relating to the sale & lease back transaction on the Sa Illetta property, amounting to around EUR 23.4 million which is released pro-rata depending on the duration of the lease agreement;
- the deferral of the revenues deriving from the sale of transmission capacity pertaining to future periods, for around EUR 14.3 million;
- the deferral of the revenues for the activation of the ADSL service in relation to the non-pertinent portion, for around EUR 6 million;

The item Other payables, totalling Euro 20.1 million, mainly includes payables due to the tax authorities (essentially VAT) for EUR 13 million, together with payables due to employees totalling Euro 3.6 million and other payables for the remaining balance.

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 risks

Group activities expose it primarily to the financial risk of changes in exchange rates for foreign currency and to the interest rate.

Risk management linked with interest rate

The Tiscali 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 2010, the financial debt amounted to EUR 204.3 million, of which EUR 141.7 million (EUR 128.8 million nominal) is at a fixed interest rate.

The financial debt relating to the Sa Illetta lease, amounting to EUR 57 million at 31 December 2010, is at a variable interest rate. However, the company does not feel that the risk related to fluctuating interest rates is significant and therefore it is not necessary to perform any risk hedging transactions.

Handling of the liquidity risk

The following table considers the maturity of the financial investments for the next five years with particular indication of the amounts to be paid in 2011.

31.12.2010	Book value	Outgoing cash flows	less than 1 year	between 1 and 5 years	more than 5 years
(EUR 000)					
Secured bank loans	141,688	172,755	16,997	155,758	
Payables to suppliers and other payables	186,589	186,589	173,290	13,299	
Bank account overdrafts	12,791	12,791	12,791		

31.12.2009	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	-	-

Financial instruments

Fair value

The following tables show the valuations respectively at 31 December 2010 and at 31 December 2009, of financial instruments present as of the balance sheet date:

31.12.2010	**Book value**	**Fair value**
(EUR 000)		
Secured bank loans	141,688	121,040
Unsecured bank loans	12,791	12,791
Payables for financial leases	60,182	53,408

31.12.2009	**Book value**	**Fair value**
(EUR 000)		
Secured bank loans	163,754	150,127
Unsecured bank loans	13,573	13,573
Payables for financial leases	63,301	58,631

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 contractual 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 envisages the 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 own shares which the Company will carry out on the market in compliance with Article 2357 of the Italian Civil Code and on the basis of the authorization granted by the shareholders' meeting. On 10 May 2007, the Board of Directors assigned the Chief Executive Officer all the options due him in a single tranche. 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 allocated a total of 3,760,000 options to 26 managers (376,000 following the reverse split of shares). After the expiry of the term, in full or in part, of the options of many of the beneficiaries and the reverse split, the beneficiaries left are now 3, involving a total number of 43,000 options (post reverse split) to be exercised by 13 November 2011. The exercise price was adjusted after the share capital increases in February 2008 and November 2009 and of the reverse split of shares in September 2009. Following the reverse split and the share capital increase in 2009, as at the date of this version of the Plan the exercise price for the 43,000 options allocated to the employees by the Board on 12 May 2008 was fixed as EUR 0.827;
- on 7 August 2008, amended the Stock Option Plan regulations so as to confirm for Mr. Cristofori the right to exercise the options despite the interruption of his employment with 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 relationship 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).

The following table shows the changes in the number of options during 2010:

No. Options	**as at 31 December 2010**
In circulation as at 1 January 2010	252,000
Assigned	-
Waived	36,000
Expired	173,000
In circulation as at 31 December 2010	**43,000**
Exercisable as at 31 December 2010	-

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's responsibility and that of 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 was furthered, if the conditions should apply.

With regard to a preliminary settlement agreement reached in November 2010 between the financial institutions tasked with the stock market listing and the foundations, the Tiscali Group, also taking into account the specific insurance coverage taken out, is exploring the eventual possibility of a settlement.

These disputes are potentially significant; however, at present there are not enough sufficiently defined elements for quantifying the potential liability. Therefore, no provision has been made at present in the financial statements.

Mobistar dispute

The indirect subsidiary, Tiscali International BV, was 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 in Spring 2003 by Tiscali Belgium - of a dial-in traffic termination agreement (hereinafter the “Contract”) with Mobistar NV. Even if the contract for the sale of the Wanadoo Belgium shares from Wanadoo SA to Tiscali Belgium envisaged possibility of early termination of the Contract, a circumstance also confirmed by Tiscali’s legal advisors, Mobistar however opposed this early termination and filed 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 million, nevertheless Tiscali believes that the same should be reduced (i) by around € 1 million on the basis of the correct interpretation of the Contract, (ii) by a further amount, since the summons of Wanadoo and the legal advisors by Tiscali should at least mitigate the latter’s liability. In accordance with the previous information, the Parties have reached a settlement currently being signed which envisages the payment by the Group company involved of a total of EUR 264,000. Tiscali International Bv and Tiscali S.p.A. have liabilities in their financial statements amounting in total to the sum of the possible settlement. No further provision had been made as at 31 December 2010.

Tax assessments

The Dutch tax authorities forwarded World On Line International NV (and the direct subsidiary Tiscali International BV) a number of notices of assessment concerning the alleged non-payment of withholdings 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 the Dutch tax authorities have not sent the company any formal letter or document in the years following receipt of the notice of dispute indicated above (received in 2003), it is not deemed that the liability can be considered probable and, consequently, no further provision has been made.

Segment reporting

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. Following the disposal of the UK activities in 2009, the business sector is essentially represented by the Italian subsidiaries.

Income statement

31.12.2010 (EUR 000)	Italy	Other	Corporate	HFS/ Discontinued	Cancellation adjustments	Total
Revenues						
From third parties	277,541	67	546	-	-	278,153
Intra-group	1,183	5,853	6,263	-	(13,298)	-
Total revenues	**278,723**	**5,920**	**6,809**	**-**	**(13,298)**	**278,153**
Operating result	**(8,632)**	**3,264**	**3,576**	**-**	**-**	**(1,792)**
Portion of results of equity investments carried at equity						**-**
Net financial income (charges)						(14,325)
Pre-tax result						(16,118)
Income taxes						(3,924)
Net result from operating activities (on-going)						(20,041)
Result from assets disposed of and/or destined for disposal						(4,235)
Net profit (loss)						**(24,276)**

31.12.2009 (EUR 000)	Italy	Other	Corporate	HFS/ Discontinued	Cancellation adjustments	Total
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 profit (loss)						**(387,012)**

Balance Sheet

31.12.2010 (EUR 000)	Italy	Other	Corporate	HFS/ Discontinued	Total
Assets					
Segment assets	353,584	3,723	7,303	-	364,610
Equity investments carried at equity	-	-	-	-	-
Equity investments in other companies	2,332	-	-	-	2,332
Goodwill	-	-	-	-	-
Total consolidated assets	**355,916**	**3,723**	**7,303**	**-**	**366,942**
Liabilities					
Segment liabilities	286,480	8,157	163,416	856	458,910
Total consolidated liabilities	**286,480**	**8,157**	**163,416**	**856**	**458,910**

31.12.2009 (EUR 000)	Italy	Other	Corporate	HFS/ Discontinued	Total
Assets					
Segment assets	361,858	12,130	52,255	31	426,274
Equity investments carried at equity	-	-	-	-	-
Equity investments in other companies	2,332	-	-	-	2,332
Goodwill	-	-	-	-	-
Total consolidated assets	**364,190**	**12,130**	**52,255**	**31**	**428,606**
Liabilities					
Segment liabilities	294,277	11,676	188,675	31	494,628
Total consolidated liabilities	**294,277**	**11,676**	**188,675**	**31**	**494,628**

Commitments and other guarantees

A breakdown of guarantees given during 2010 is shown in the table below.

(EUR 000)	31.12.2010	31.12.2009
Guarantee given to third parties (sureties)	260,620	257,816
Commitments	2,500	7,096
Total	**263,120**	**264,912**

Sureties given include EUR 128.8 million in relation to the guarantee given by the parent company for the loans granted by financial institutions as part of the restructuring of the Group's debt carried out 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., and the amount of EUR 32 million for guarantees given mainly by the parent company for credit facilities and leasing to 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 ones in favour of the Janna consortium to guarantee commitments undertaken when subscribing the share capital increase for EUR 2.3 million and in favour of Sardinia Regional Authority for the UNISOFIA project, EUR 1.3 million.

The item commitments includes EUR 2.5 million for the maintenance of credit facilities granted to the subsidiary Tiscali Italia S.p.A..

One-off transactions

Pursuant to Consob Resolution No. 15519 dated 27 July 2006, during 2010 the transfer of usage rights was achieved with an impact in the income statement for around EUR 2 million, and have been allocated tax against a tax assessment of approximately EUR 1.5 million.

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 the respective reference markets, taking into account the characteristics of the goods and services provided.

The table below summarises the balance sheet and income statement values recorded in the Tiscali Group's consolidated financial statements at 31 December 2010 arising from transactions with related parties.

The most significant balances, at 31 December 2010, summarized by supplier of the services, are as follows:

INCOME STATEMENT VALUES (EUR 000)	Notes	**31.12.2010**	**31.12.2009**
Interoute	2		(739)
Studio Racugno	4	(71)	(2)
Nuove Iniziative Editoriali S.p.A.	5	68	(5)
TOTAL SUPPLIERS OF MATERIALS AND SERVICES		**(2)**	**(746)**
Andalas SA	6		(1,520)

TOTAL		**(2)**	**2,266**

BALANCE SHEET VALUES (EUR 000)	Notes	**31.12.2010**	**31.12.2009**
Shardna	1		331
Interoute	2		(1,125)
Francesco Bizzarri	3		(37)
Studio Racugno	4	(71)	(2)
Nuove Iniziative Editoriali S.p.A.	5	359	(5)
TOTAL SUPPLIERS OF MATERIALS AND SERVICES		**289**	**(838)**
TOTAL		**289**	**(838)**

(1) Shardna S.p.A.: investee company of the majority shareholder Renato Soru until 30 November 2009, when he sold his shareholding. The dealings, maintained by the Parent Company, relate to the sub-letting of the Tiscali offices in the suburbs of Cagliari.

(2) Interoute: group wholly controlled by the Sandoz Family Foundation, a Tiscali shareholder. The Sandoz Family Foundation, the parent company of Interoute, reduced its shareholding in the company below any significant level and reported a holding of about 0.21% on 16 November 2009.

(3) Mr. F. Bizzarri, member of Tiscali Spa'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) Studio Racugno: the director Gabriele Racugno, member of Tiscali S.p.A.'s Board of Directors, since 21 December 2009, provides Tiscali Italia S.p.A. with legal and out-of-court assistance.

(5) Nuove Iniziative Editoriali S.p.A.: investee company of the majority shareholder, Renato Soru; the dealings refer to an advertising concession and the provision of telecommunications services. It should be mentioned that the investment held by Renato Soru was in the name of Gabriele Racugno by virtue of a deed of trust. The latter was appointed 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 (a company invested in by the shareholder 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.

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. in relation to the performance of their functions, in the parent company and other consolidated subsidiaries, is presented below:

(EUR 000)	2010	2009
Directors	712	913
Statutory Auditors	255	190
Total remuneration	**967**	**1,103**

The total value of the cost incurred in 2010 for the remuneration due to executives with strategic responsibility amounted to roughly EUR 1.3 million. This liability includes the following amounts:

- the figurative cost of the stock option plans 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.

Company name	Registered Offices	% investment
Tiscali S.p.A.	Italy	
Tiscali Italia S.p.A.	Italy	100.00%
Tiscali Media S.r.l.	Italy	100.00%
Tiscali Contact S.r.l.	Italy	100.00%
Tiscali Holdings UK Ltd	UK	100.00%
Tiscali Finance Sa in liquidation	Luxemburg	100.00%
Tiscali Financial Services SA	Luxemburg	100.00%
Tiscali Deutschland GmbH	Germany	100.00%
Tiscali GmbH	Germany	100.00%
Tiscali Verwaltungs Gmbh	Germany	100.00%
World Online International NV	The Netherlands	99.50%
Tiscali International BV	The Netherlands	99.50%
Tiscali B.V.	The Netherlands	99.50%
Wolstar B.V. (in liquidation)	The Netherlands	49.75%
Tiscali Finance BV (disposed of on 7 January 2010)	The Netherlands	99.50%
Tiscali International Network B.V.	The Netherlands	99.50%
Tiscali International Network SA (in liquidation)	France	99.50%
Tiscali Business UK Ltd	UK	99.50%
Tiscali Business GmbH	Germany	99.50%
Energy Byte S.r.l. (disposed of on 18 March 2010)	Italy	100.00%

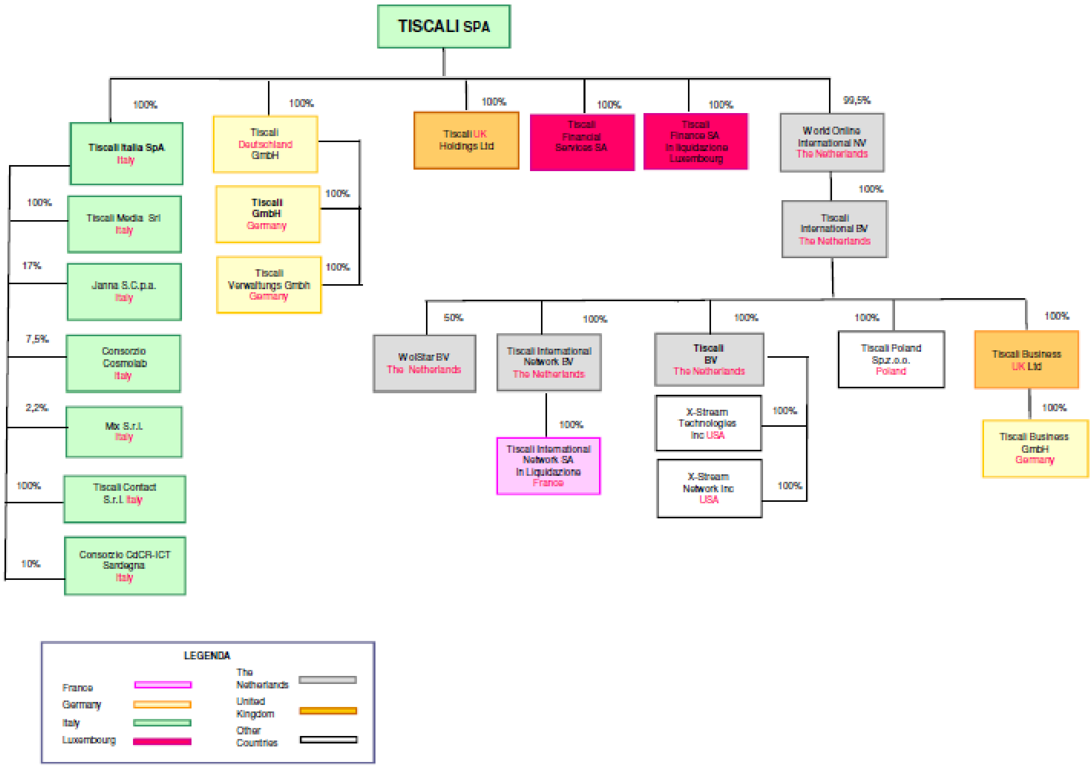
List of equity investments carried at equity

Company name	Registered Offices	% investment
STUD Soc. Consortile a.r.l. (disposed of on 15 February 2010)	Italy	33.33%

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 Tecnologies Inc	USA
Tiscali Poland Sp Z.O.O.	Poland

Group at 31 December 2010



Events subsequent to the end of the year

On 17 March 2011, the last portion of the escrow was collected, deriving from the sale of Tiscali UK Ltd for a total of GBP 1,250,000.

Positions and transactions deriving from atypical and/or unusual operations

There were no positions or transactions deriving from atypical and/or unusual operations in 2010.

Annex - Information pursuant to Article 149 *duodecies* of the Consob Issuers' Regulations.

Type of service	Party providing the services	Beneficiary	Fee (EUR 000)
Accounts auditing	Reconta Ernst & Young S.p.A.	Parent Company - Tiscali S.p.A.	303
	Reconta Ernst & Young S.p.A.	Subsidiary companies	114
Certification services	Reconta Ernst & Young S.p.A.	Parent Company - Tiscali S.p.A.	3
Other professional services (1)	Reconta & Young LLP	Parent Company - Tiscali S.p.A.	161
Other professional services	Studio Legale Tributario Ernst & Young	Parent Company - Tiscali S.p.A.	21
Other professional services	Reconta Ernst & Young S.p.A.	Subsidiary companies	4
Total			**607**

(1) Procedures carries out with reference to the arbitration with TalkTalk Limited (purchaser of the Group's UK activities).

Cagliari, 25 March 2011

The Chief Executive Officer

Renato Soru

Renato Soru

The Executive appointed to draw up the corporate accounting documents

Luca Scano

Luca Scano

2010 consolidated financial statements certification pursuant to Article 81 *ter* of CONSOB Regulation No. 11971 dated 14 May 1999 and subsequent amendments and additions

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 2010.

It is also hereby certified that the consolidated financial statements at 31 December 2010:

- 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;
- are consistent with the results of accounting books and entries;
- are suitable for providing a true and fair view of the equity, economic and financial situation of the issuer and all the companies included in the consolidation area.

In conclusion, it is hereby certified that the Report on operations includes a reliable analysis of the references to important events which have taken place during the year and their effect on the consolidated financial statements, together with a description of the main risks and uncertainties.

Cagliari, 25 March 2011

The Chief Executive Officer

Renato Soru

Renato Soru

The Executive appointed to draw up the corporate accounting documents

Luca Scano

Luca Scano

Tiscali S.p.A. financial statements as at 31 December 2010

6 Tiscali S.p.A. – 2010 financial statements

6.1 Analysis of the income statement, balance sheet and cash flow statement of Tiscali S.p.A.

Foreword

The statements presented below have been drawn up on the basis of the statutory financial statements at 31 December 2010, to which reference should be made. In this connection, note that the 2010 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 Article 9 of Italian Legislative Decree No. 38/2005. The IFRS are understood to be all the reviewed international accounting standards ("IAS") and all the interpretations by the International Financial Reporting Interpretations Committee ("IFRIC") previously called the Standing Interpretations Committee ("SIC").

Income statement

(EUR 000)	**31.12.2010**	**31.12.2009**
Value adjustments on equity investments (Other write-downs)	-	(123,065)
Net financial income (charges)	(239)	4,771
Revenues from services and other income	6,050	10,764
Payroll and related costs, services and other operating costs	(1,943)	(12,286)
Other write-downs	(4,012)	(128,700)
Income taxes	(232)	(185)
Result from assets disposed of and/or destined for disposal	2,190	447
Net profit (loss)	**1,815**	**(248,254)**

Value adjustments on equity investments, with a zero balance in 2010, last year included the write-down of the investment held in World Online International N.V amounting to EUR 123 million.

Net financial charges, disclosing a negative balance of EUR 0.2 million, refer mainly to default interest expense, exchange losses and other bank charges. Last year, the same item - disclosing income of EUR 4.8 million - included the positive effect of the waiver of the debt (Facility D2) by Senior Lenders for EUR 42.3 million previously pertaining to Tiscali Holdings UK Ltd and then taken over by Tiscali S.p.A. This positive effect was partially offset by the waiver of the intercompany financial receivable due to Tiscali UK Holdings for a total of EUR 37.5 million, generated for the above take-over transaction.

Revenues from services mainly comprise (EUR 5.4 million) the fees deriving from 'Corporate' services for the subsidiary company Tiscali Italia S.p.A. including the payments for licences to use the Tiscali trademark calculated as a percentage of the sales revenues generated by the company using said trademark.

The most significant cost component was represented by payroll and related costs, which amounted to EUR 1.9 million, compared with EUR 5.3 million last year. The decrease, of EUR 3.4 million, was essentially justified by the completion of the process for reorganising the corporate structure launched in previous years.

The same item includes other costs for external management consulting services and professional expenses considerably lower with respect to the previous year (EUR 0.04 million compared with EUR 3.2 million in 2009) mainly as a result of the process for rationalising and containing this cost category.

Other write-downs include the write-down of credit positions deemed unrecoverable vis-à-vis Group companies for a total of EUR 3.1 million, as well as provisions for risks and charges for potential liabilities and disputes amounting to EUR 0.5 million.

Taxes payable for the year amounting to EUR 0.2 million are classified in the item taxes.

The result from assets disposed of and/or destined for disposal, disclosing a positive balance of EUR 2.2 million, includes the effect of the integration of the sales price for the equity investment held in Tiscali International Network S.p.A. (in May 2009) amounting to EUR 2.6 million, as well as the charges incurred for the definition of the arbitration following the disposal of the UK company Tiscali Holdings UK Ltd in July 2009 for EUR 0.4 million.

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6.2 Balance sheet and cash flow statement

(EUR 000)	**31.12.2010**	**31.12.2009**
Non-current assets	137,283	134,623
Current assets	21,627	20,060
Assets held for sale	-	-
Total Assets	**158,910**	**154,683**
	-	-
Shareholders’ equity	94,849	93,747
Total Shareholders’ equity	**94,849**	**93,747**
Non-current liabilities	9,826	5,955
Current liabilities	54,003	54,750
Liabilities directly related to assets held for sale	231	231
Total Liabilities and Shareholders’ equity	**158,910**	**154,683**

Assets

<u>Non-current assets</u>

Non-current assets include controlling equity investments for a total of EUR 112 million and other financial assets amounting to EUR 25 million essentially represented by financial receivables due to Group companies.

<u>Current assets</u>

Current assets include Receivables from customers for EUR 17.5 million (all of which due from Group companies), compared with EUR 15.5 million last year (of which EUR 15.2 million due from Group companies).

The same item also includes “Other receivables and other current assets” for EUR 1 million essentially relating to tax receivables, accrued income and prepayments on services and “Cash and cash equivalents” for EUR 3 million.

Liabilities

Non-current liabilities

Non-current liabilities, in addition to items relating to the financial position for which reference should be made to the next note, include provisions for risks and charges of EUR 3.3 million generated from provisions set aside for disputes and contingent liabilities.

Current liabilities

Current liabilities not relating to the financial position are mainly represented by payables to suppliers for EUR 9.8 million (of which EUR 0.8 million due to Group companies) compared with EUR 15.3 million last year (EUR 3 million of which due to Group companies).

Cash flow statement

The Parent Company's financial position is summarised in the table below.

(EUR 000)	31.12.2010	31.12.2009
A. Cash and bank deposit	3,062	2,431
B. Other cash equivalents	-	-
C. Securities held for trading	-	-
D. Cash and cash equivalents (A) + (B) + (C)	**3,062**	**2,431**
E. Current financial receivables	**1,002**	**2,120**
F. Non-current financial receivables (*)	**-**	**484**
G. Current bank payables	(424)	(590)
H. Current portion of non-current debt	-	-
I. Other current financial payables	(36,115)	(36,014)
J. Current financial debt (G) + (H) + (I)	**(36,539)**	**(36,604)**
K. Net current financial debt (J) – (E) – (F) - (D)	**(32,474)**	**(31,569)**
L. Non-current bank payables		
M. Bonds issued		
N. Other non-current payables to Group companies	(6,318)	(2,090)
O. Other non-current payables to third parties	-	-
P. Non-current financial debt (L) + (M) + (N) + (O)	**(6,318)**	**(2,090)**
Q. Net Financial Debt (K) +(P)	**(38,792)**	**(33,659)**

(*) The table presented in note 24, Net financial position, in accordance with Consob Communication DEM/6064293 dated 28 July 2006, does not include non-current financial receivables.

Other current financial payables relate mainly to financial payables to the subsidiary Tiscali International B.V., a sub-holding company of the Tiscali Group.

Tiscali S.p.A.
Accounting Statements and Explanatory Notes

7 Tiscali S.p.A. – Accounting Statements and Explanatory Notes

7.1 Income statement

(EUR)	Notes	2010	2009
Revenues	*1*	6,050,065	10,764,130
Other income		-	-
Purchase of materials and outsourced services	*2*	(39,726)	(3,211,228)
Payroll and related costs	*3*	(1,899,772)	(5,343,961)
Other operating (costs) / income	*4*	15,582	(3,384,065)
Write-down of receivables	*5*	(3,101,019)	(1,814)
Other write-downs	*5*	(910,803)	(251,763,462)
Amortisation/depreciation		(18,822)	(346,666)
Operating result		**95,506**	**(253,287,066)**
Portion of result of equity investments carried at equity		-	
Net financial income (charges)	*6*	(239,366)	4,770,678
Pre-tax result		**(143,860)**	**(248,516,388)**
Income taxes	*7*	(231,638)	(184,683)
Result from operating activities (on-going)		**(375,497)**	**(248,701,071)**
Result from assets disposed of and/or destined for disposal	*8*	2,190,187	447,311
Result for the year		**1,814,689**	**(248,253,761)**

7.2 Statement of comprehensive income

(EUR 000)	**31.12.2010**	**31.12.2009**
Result for the period	1,815	(248,254)
Translation differences on the financial statements of foreign companies	-	-
Total comprehensive income after tax	1,815	(248,254)

7.3 Statement of financial position

(EUR)	Notes	31.12.2010	31.12.2009
Non-current assets			
Intangible assets	9	1,036	2,348
Properties, plant and machinery	10	11,702	26,509
Equity investments	11	112,007,292	111,989,572
Other financial assets	12	25,262,577	22,604,609
		137,282,607	**134,623,038**
Current assets			
Receivables from customers	13	17,562,482	15,509,490
Other receivables and other current assets	14	1,002,378	2,119,874
Other current financial assets		-	-
Cash and cash equivalents	15	3,062,347	2,430,831
		21,627,207	**20,060,194**
Assets held for sale		-	-
Total Assets		**158,909,814**	**154,683,232**
Share Capital and reserves			
Share Capital		92,017,483	92,002,890
Stock option reserve		4,388,058	4,314,970
Loss coverage reserve		4,677,385	252,931,146
Other reserves		(8,048,828)	(7,248,453)
Result from previous periods			
Result for the year		1,814,689	(248,253,761)
Total Shareholders' equity	**16**	**94,848,788**	**93,746,793**
Non-current liabilities			
Other non-current liabilities	17	6,318,277	2,090,062
Liabilities for pension obligations and staff severance indemnities	18	166,667	202,530
Provisions for risks and charges	19	3,341,349	3,662,273
		9,826,292	5,954,865
Current liabilities			
Payables to banks and other lenders	20	423,696	589,964
Payables to suppliers	21	9,873,448	15,299,020
Other current liabilities	22	43,706,254	38,861,256
		54,003,398	54,750,239
Liabilities directly related to assets held for sale		231,336	11,702
Total Liabilities and Shareholders' equity		**158,909,814**	154,683,232

7.4 Statement of changes in shareholders' equity (EUR)

(EUR)	Share Capital	Share premium reserve	Stock option reserve	Reserve for treasury shares	Loss coverage reserve	Other reserves	Accumulated losses and Loss for the period	Total
Balance at 1 January 2009	**308,272,743**	**990,857,353**	**3,840,428**	**(6,186,581)**	**-**	**-**	**(1,142,687,751)**	**154,096,191**
Increases /Decreases	-	-	474,542	6,186,581		(5,437,813)		**1,223,310**
Share capital increase	179,981,937	8,509,755				(1,810,640)		**186,681,052**
Transfers covering losses	(396,251,789)	(999,367,108)	-	-	252,931,146		1,142,687,751	**-**
Result for the year	-	-	-	-			(248,253,761)	**(248,253,761)**
Balance at 1 January 2010	**92,002,890**	**-**	**4,314,970**	**-**	**252,931,146**	**(7,248,453)**	**(248,253,761)**	**93,746,793**
Increases /Decreases	14,593	-	73,088	-	-	(800,375)	-	**(712,694)**
Transfers covering losses	-	-	-	-	(248,253,761)	-	248,253,761	**-**
Result for the year	-	-	-	-	-	-	1,814,689	**1,814,689**
Balance at 31 December 2010	**92,017,483**	**-**	**4,388,058**	**-**	**4,677,385**	**(8,048,828)**	**1,814,689**	**94,848,788**

7.5 Cash flow statement

CASH FLOW STATEMENT (EUR)	31.12.2010	31.12.2009
OPERATIONS		
Result from operating activities	**(375,498)**	**(248,701,071)**
Adjustments for:		
Depreciation of tangible assets	17,509	42,048
Amortisation of intangible assets	1,312	304,618
Receivable write-down provision	3,101,019	-
Provision for write-down of equity investments	-	123,067,103
(Capital gains) / Capital losses on disposal of non-current assets - equity investments	-	-
Release of provisions for risks previously provided	(511,365)	121,113,867
Stock Option costs	55,368	263,809
Release of provisions and other	(852,302)	(4,862,824)
Non-monetary income	-	-
Cash flow from operations before changes in working capital	**1,436,043**	**(8,201,468)**
(Increase)/Decrease in receivables	(5,154,011)	9,921,679
Increase/(Decrease) in payables to suppliers	(3,961,989)	(9,749,173)
Net changes in provisions for risks and charges	(713,800)	(485,207)
Net change in provision for staff severance indemnities	(130,780)	(232,640)
Changes in other liabilities	9,073,214	(35,647,238)
Changes in other assets	1,117,496	301,244
Changes in working capital	**230,130**	**(35,891,335)**
CASH FLOWS GENERATED BY OPERATIONS	**1,666,173**	**(44,092,803)**
INVESTMENT ACTIVITIES		
- Changes in other financial assets	(2,657,968)	(115,381,093)
- Purchases of tangible fixed assets	(2,702)	-
- Purchases of intangible fixed assets	-	-
- Payments for the sale of assets	2,578,064	4,244,982
NET CASH USED IN INVESTING ACTIVITIES	**(82,606)**	**(111,136,112)**
FINANCING ACTIVITIES		
Changes in financial assets	-	-
Increase (decrease) in other non-current liabilities	(166,268)	(36,861)
Changes in shareholders' equity	(785,783)	156,092,024
NET CASH DERIVING FROM/(USED IN) FINANCING ACTIVITIES	**(952,051)**	**156,055,041**
Changes in assets disposed of and held for sale		231,336

NET INCREASE/(DECREASE) IN NET CASH AND CASH EQUIVALENTS	**631,516**	**1,057,584**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE FINANCIAL YEAR	**2,430,831**	**1,373,247**
CASH AND CASH EQUIVALENTS	**3,062,347**	**2,430,831**

7.6 Notes to 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 provides telecommunications services on the fixed network in Italy. Tiscali offers integrated Internet access services, telephony and multimedia services and in particular is positioned in the segment of IP technology services which makes it possible to provide voice and internet traffic on the same technological platform.

The financial information included in these statements is presented in Euro (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 are presented in Euro while the values indicated in the explanatory notes are presented in thousands of Euro.

Evaluation of the company as a going-concern and future outlook

Events and uncertainties regarding the business continuity

Tiscali S.p.A. closed the financial statements with a profit of EUR 1.8 million and shareholders' equity of EUR 94.8 million; the company heads up a group (the "Tiscali Group") which, as at the same date, closed 2010 with a consolidated loss of EUR 24.3 million and negative consolidated shareholders' equity of EUR 92 million. Furthermore, as at 31 December 2010, the Group had a gross financial debt of EUR 214.7 million and current liabilities greater than current assets (non-financial) for EUR 86.2 million.

As at 31 December 2009, the loss came to EUR 387.0 million (of which EUR 372.3 million determined by assets disposed of); the negative shareholders equity came to EUR 67.0 million and gross financial debt totalled EUR 240.6 million. As at the same date, the difference between current assets and liabilities (non-financial) presented a negative balance of EUR 85.3 million.

During 2009, the Group implemented certain action with the aim of achieving the Group's economic, equity and financial balance over the long term (commonly known as the "Restructuring Plan"), and launching a phase of recovery for the sales activities. In detail, the 2009 - 2013 business plan was drawn up along with the associated financial plan and the sale of TiNet and the UK subsidiaries was completed, using the proceeds of the sale essentially to repay part of the Group's debt. Furthermore, the conditions of the residual Senior Loan (Group Facility Agreement) and the debt for the Sale & lease-back were renegotiated, in addition to the execution of the share capital increase in Tiscali S.p.A. used to repay another portion of the financial debts. The restructuring of the Group's debt in conclusion envisaged the write off of a portion of the residual debt by the financial institutions.

The following action was undertaken in 2010:

1) definition, on 2 August 2010, with TalkTalk Ltd (purchaser of the UK businesses) of the formalities and the timescales for the release of part of the fee for the sale deposited by way of guarantee. The amount due to Tiscali was established as GBP 20.4 million payable in three tranches: the

first, amounting to GBP 17.9 million (EUR 21.7 million) was collected in August 2010, the second, totalling GBP 1.25 million (EUR 1.5 million) was collected in November 2010 and the third tranche, amounting to GBP 1.25 million, was collected in March 2011. With respect to the receivable recorded in the financial statements as at 31 December 2010, amounting to EUR 31.5 million, during 2010 a total loss was consequently recorded for EUR 6.8 million.

The collection on the UK Escrow account during 2010 (equating to EUR 23.2 million) also led to a significant improvement on the Group's net financial position as at 31 December 2010.

2) In September 2010, following the conclusion of the transaction relating to the sale of Tinet by the BS Fund to Neutral Tandem Inc, as contractually envisaged, the Group entered into an agreement for the release of the deferred part of the sales price (so-called "Vendor Loan") amounting to EUR 5.1 million and for the payment of an extra price ("Earn Out") totalling EUR 4.3 million. The total amount received in October 2010, amounting to EUR 9.4 million, will be used to repay the Group Facility Agreement during 2011. On the basis of the agreements entered into, on occurrence of certain contractual conditions pertaining to the sale of TiNet to Neutral Tandem Inc., the Tiscali Group may also be paid an additional Earn Out of around EUR 1.1 million (amount not recorded in the financial statements as at 31 December 2010).

3) From an operational point of view, action continued to improve efficiency, in particular via the rationalisation of the operating and commercial costs, the optimisation of the debt collection policies and the streamlining of the structure and the corporate costs. Such action included:

- the reduction in the customer care costs, made by means of minor recourse to outsourcers and the automation of many processes;
- the optimisation of the voice traffic flows and the network structure;
- the progressive migration of the customers to the newly-opened LLU sites, a transaction destined to be completed in 2011;
- the reduction in the advertising costs on traditional media channels without negative impacts on the volume of the registrations;
- the implementation of a massive debt recovery process also via recourse to outside legal advisors, which will come into full force during 2011.

Furthermore, during 2010, significant business results were achieved, including:

- an increase in the number of registrations of ADSL customers of 16.2%, a percentage which rises to 37% if one considers the VOIP lines, thanks to the launch of numerous cross and upselling activities;
- an increase in the number of dual play customers amounting to 66.6 thousand during 2010; the VoIP revenues are in fact increasing to a significant extent, with a rise of EUR 8.2 million (+ 12.6%) compared with 2009;
- the inversion in the trend of Media revenues which rose from EUR 4.7 million in the second half of 2009 to EUR 8.7 million in the second half of 2010.

4) The 2009-2013 business plan was updated, extending it until 2017 so as to cover the entire period for the repayment of the financial debt. This 2011-2017 business plan, approved by the Board of Directors, despite incorporating the changed market and operating conditions of the Group, does not diverge from the 2009-2013 plan with regard to the essential strategic approaches. The update of the business plan hypothesises in 2014 the refinancing of part of the amount due to the banks for the portion exceeding the net cash flows generated in the plan period.

The most important, new elements of the updated plan for 2011 are as follows:

- o repricing: Tiscali, in line with the market trend, increased the ADSL and Voip fee for more than 350 thousand customers by EUR 2 (VAT inclusive) as from 1° April 2011, thereby permitting the recovery of the increase in the rental fee for the copper line which took place as at 1° July 2010;
- o increase in media revenues: during 2011, it is envisaged that the growth course launched during 2010 will be capitalised, thanks to the extension of the network and the increase in the sales force. Furthermore, new advertising concessions were acquired which are expected to make it possible to improve the profit made from the audience, also thanks to the draw of the innovative platforms launched during 2010;
- o saving in operating costs: during 2011, it is expected that the action implemented during the second half of 2010 will become fully effective, revealing its full effect over 12 months;
- o launch of new products: in 2011, the Group will launch new service lines which will permit:
  - ▪ a profit to be made from the customer base existing by means of up-selling activities;
  - ▪ the outlining of a distinctive factor in the Tiscali product with respect to that of the competitors;
  - ▪ an efficient use of the network infrastructure and the data center. Reference is made to the Web TV, Tiscali Tv Box, Streaming services, and the Claud services for SOHO and PMI. The latter, in particular, are expected to be able to establish a strong growth potential in the business sector in which Tiscali has invested a great deal in terms of infrastructure and sales network.

On the basis of the above, the Directors, when evaluating the existence of the condition of the Tiscali Group as a going concern in the current macro-economic context, and in the current competitive scenario, identified a number of factors which indicate the persistence of a number of uncertainties:

i. the Group is still in an unbalanced equity, financial and economic situation, as shown by the negative consolidated shareholders' equity for EUR 92 million, due mainly to the past negative economic performance and weight of the Group's considerable debt;

ii. the presence of a gross financial debt which is still significant and subject to covenants and other contractual obligations (so-called "events of default") whose breach, as is standard practice for this type of contract, could lead to the invoking of the acceleration clause (see note 24);

iii. the establishing of a balanced equity, financial and economic situation for the Group over the long-term depends, in the context of uncertainty of the current economic scenario, on the achievement of the results set out in the business plan, and therefore on the realisation of forecasts and assumptions contained therein, and in particular, those relating to the evolution of the telecommunications market and achievement of the growth objectives set out in a market context characterised by heavy competitive pressure.

Therefore, the following depend on the potential and capacity for fulfilling the plan: a) the ability to rebuild an adequate supply of equity, b) the recoverability of asset items, c) the capacity to comply with covenants and other contractual obligations and therefore to maintain the availability of financing granted to meet other Group obligations, d) achievement of a balanced long-term equity, economic and financial situation for the Group.

Finally, these factors are coupled with ongoing disputes, whose outcomes, although not currently foreseeable, have been assessed as potentially significant (see the section "Disputes, contingent liabilities and commitments").

Finally, these factors are coupled with ongoing disputes, whose outcomes, although not currently foreseeable, have been assessed as potentially significant (see the section "Disputes, contingent liabilities and commitments").

Final assessment of the Board of Directors

The Board of Directors, after lengthy discussion, has highlighted how the Group:

- concluded all the action envisaged by the Restructuring Plan in the second half of 2009, such as the repayment of a significant portion of the financial debt and the restructuring (with more favourable terms) of the residual debt, as well as the completion of the share capital increase, bearing witness to the confidence of the market and the financial institutions in the Group's business model;
- carried out the final assessment process relating to the Escrow Account established at the time of finalisation of the disposal of Tiscali Uk Ltd to the TalkTalk Ltd Group. This process, finalised on 2 August 2010, made it possible to collect EUR 23.2 million in 2010 and a further EUR 1.5 million in the first few months of 2011 thereby contributing to the process for reducing the Group's debt;
- in relation to the sale of TiNet, in October 2010, received a total of EUR 9.4 million, which will be used to repay the bank debt during 2011;
- continued with the implementation of the business plan, in any event confirming in 2010 a positive trend in acquiring customers already observed during the second half of 2009;
- updated the business plan for the period 2011-2017, verifying the coherence with the financial requirements determined by the debt structure.

These elements suggest that the Group is reasonably able to continue with the implementation of the business plan and that over the long-term this will make it possible to achieve a balanced equity, financial and economic situation.

In conclusion, when analyzing what has already been achieved within the sphere of a process aimed at enabling the Group to obtain long-term equity, financial and economic equilibrium, the Directors acknowledge that, as already indicated in the 2009 financial statements, at present uncertainties still remain, with regard to events and circumstances that may raise considerable doubt on the ability of the Group 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 the factors described, they have the reasonable expectation that the Group has adequate resources to continue operations in the near future and therefore have adopted the going-concern assumption when preparing the financial statements.

Form and content of the accounting statements

Basis of preparation

The 2010 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 Article 9 of Italian Legislative Decree No. 38/2005. The IFRS are understood to be all the reviewed international accounting standards ("IAS") and all the interpretations by the International Financial Reporting Interpretations Committee ("IFRIC") previously called 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 consolidated 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 the division of "current/non-current" assets and liabilities; the Cash Flow Statement was drawn up by following the indirect method.

Accounting standards

<u>General principles</u>

The financial statements were prepared in compliance with the IAS/IFRS 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 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 subsequent note of this section.

<u>Equity investments in subsidiaries</u>

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 not recoverable. If the impairment is discovered to no longer apply or is reduced, the book value is increased to the new estimated recoverable value, within the limits of the value recognised initially.

<u>Impairment of assets</u>

The book value of equity investments, other intangible assets and properties, plant and machinery is tested for impairment whenever there is an indication that the asset may have suffered impairment. 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 reinstated in the following periods if the reasons for the 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 discharge of currency items or by their conversion at rates other than those at their initial recording in the year or at the end of the previous financial year are booked to the income statement.

Loans and receivables

Tiscali S.p.A.'s loans are stated under 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 amortised cost, using the effective interest rate method. When financial assets have no fixed expiry, they are stated at 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 impairment. If there is objective evidence, the impairment must be recorded as a cost in the income statement for 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

Tiscali S.p.A.'s payables and financial liabilities are stated under the "payables to banks and other financial institutions", "other non-current liabilities and "payables to suppliers" items and are recorded 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.

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 contribution 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 booked 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' remuneration.

The cost, represented by the fair value of the stock options as of the date of 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 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.

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.

Financial income and charges

Interest received and paid is recognised using the effective interest rate 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, considered reasonable under the circumstances.

Assessment of whether primary assets reported can be recovered is based on the estimate of income and financial flows the Group feels it will be able to generate in the future. As more fully described in the note "Assessment of the business as a going-concern", 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 achieved. Some of these variables are beyond the control of the Directors and the Group management and especially with regards to developments in the telecommunications market and achieving the growth objectives set in an extremely competitive market.

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 previously 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 objective market 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

As required by IAS 8 (*Accounting standards, changes in the accounting estimates and errors*), a brief description of the IFRS in force starting from 1 January 2010 is presented below.

- IFRIC 12 (*Service concession arrangements*): IFRIC 12 addresses operators in the private sector involved in the supply of services typical to the public sector (e.g. roads, airports. electricity and water supplies by virtue of a concession agreement). Within the sphere of these agreements, the assets under concession are not necessarily controlled by the private operators, who however are responsible for the activities achieved as well as the operations and the maintenance of the public infrastructure. Within the sphere of these agreements, the assets may not be recognised as tangible fixed assets in the financial statements of the private operators, but rather as financial assets and/or intangible fixed assets according to the nature of the agreement. There are no impacts on the financial statements consequent to the application of this interpretation.
- IFRIC 15 (*Agreements for the construction of real estate*): this interpretation provides the guidelines for determining whether an agreement for the construction of real estate units falls within the sphere of IAS 11 “Construction contracts” or IAS 18 “Revenues”, defining the moment when the revenue must be recognised. In light of this interpretation, the residential development activities fall within the sphere of IAS 18 “Revenues” leading to the recognition of the revenue at the time the deed is drawn up; the tertiary development activities, if carried out on the basis, of the technical specifications of the customer, fall within the sphere of application of IAS 11 “Construction contracts”. There are no impacts on the financial statements consequent to the application of this interpretation.
- IFRIC 16 (*Hedges of a net investment in a foreign operation*): this interpretation clarifies a number of matters relating to the accounting treatment, in the consolidated financial statements, of the hedges of net investments in foreign operations, specifying which types of risk have the requisites for the application of hedge accounting. In detail, it establishes that hedge accounting is only applicable for the exchange differences which emerge between the functional currency of the foreign entity and the functional currency of the parent company, and not between the functional currency of the foreign entity and the currency used for the consolidated financial statements. There are no impacts on the financial statements following the application of this interpretation.
- IFRIC 17 (*Distribution to shareholders of non-cash assets*): this interpretation clarifies that: (i) the amounts payable for dividends must be recorded when the dividend has been adequately authorised and no longer at the discretion of the entity; (ii) the amounts payable

for dividends must be gauged at the fair value of the net assets which will be distributed; (iii) the difference between the dividends paid and the book value of the net assets distributed must be recorded in the income statement. There are no impacts on the financial statements following the application of this interpretation.

- IFRIC 18 (*Transfer of assets from customers*): this interpretation clarifies the requisites which must be observed in the event that agreements are entered into on the basis of which an entity receives from a customer an asset which the entity itself uses for connecting the customer to a network or for ensuring the customer on-going access to the supply of goods and services (such as from example the supply of electricity, water or gas). There are no impacts on the financial statements following the application of this interpretation.
- Amendments to IFRS 3 (*Business combinations*): the changes concern the valuation of the non-controlling interests, the accounting of the transaction costs, the initial recognition and the subsequent valuation of any supplementary payments ("contingent consideration"). There are no impacts on the financial statements following the application of this interpretation.
- Amendments to IAS 27 (*Consolidated and separate financial statements*): this requires that a change in the ownership set up of a subsidiary (without loss of control) be recognised as a transaction between shareholders. Therefore, these transactions no longer generate goodwill, gains or losses. There are no impacts on the financial statements following the application of this interpretation.
- Amendments to IAS 39 (*Financial instruments: recognition and measurement*): this clarifies that an entity is permitted to designate a portion of the changes in the fair value or the cash flows of a financial instrument as a hedged item. The amendment also includes the designation of the inflation as hedged risk or as a portion of the risk in particular situations. There are no impacts on the financial statements following the application of this interpretation.
- IFRS 1 reviewed (First-time adoption of the IFRS) Over time, IFRS 1 has been subject to numerous changes following the issue of new standards or changes to existing standards, which have compromised the clarity thereof. The review of IFRS 1 has not led to changes in the essence with respect to the previous version, but has changed the structure. There are no impacts on the financial statements following the application of this interpretation.
- The IASB has issued an amendment to IFRS 2 which clarifies the purpose and the accounting of group transactions with payments based on shares settled in cash. There are no impacts on the financial statements following the application of this interpretation.

Improvements to the IFRS

Within the sphere of the project launched in 2007, the IASB issued a series of amendments to the following 12 principles in force:

- IFRS 2 (*Share-based payments*): the amendments state that, following the changes made by IFRS 3 to the definition of the business combination, the conferral of a business at the time of establishment of a joint venture and the combination of entities or activities under mutual control is excluded from the sphere of application of IFRS 2.
- IFRS 5 (*Non-current assets held for sale and discontinued operations*): the amendment, to be applied on a forecast basis, specifies the disclosure requirements relating to non-current assets (or groups undergoing disposal) held for sale and discontinued operations. It

establishes that IFRS 5 and the other IFRS which specifically refer to these assets contain all the reference standards for the financial statement disclosure of the same.

- IFRS 8 (*Operating segments*): the amendment of IFRS 8 specifies that the company must report the amount of the totals for each operating segment only if this information is supplied regularly at the highest operative decision-making level. Before, this information had in any event to be provided for each operating segment.
- IAS 1 (*Presentation of the financial statements*): the amendment specifies that an entity must classify a liability as current when it does not have an unconditional right to defer the payment for a period of time of at least 12 months from the financial statement reference date, thus also if at the discretion of the counterpart the payment of the liability can be carried out by means of the issue of equity instruments.
- IAS 7 (*Cash flow statement*): the amendment specifies that the costs relating to assets not recognised in the financial statements must be classified in the cash flow statement within the sphere of the cash flow from investment activities.
- IAS 17 (*Leasing*): the amendment concerns the classification of the leasing of land and buildings. When the leasing concerns both land and a building, the entity must separately assess each element for the purpose of their classification as financial or operating lease. As of the date of application of the amendment, the classification of all the leasing agreements outstanding must be reviewed for the part concerning land. The reclassification from “operating” lease to “financial” lease must be recorded retrospectively.
- IAS 18 (*Revenues*): amendments relating to the definition of the characteristics useful for determining whether an entity acts as agent (for example, it is not exposed to significant risks and benefits associated with the transaction) or on its own account (for example it is exposed to significant risks and benefits associated with the transaction).
- IAS 36 (*Impairment of assets*): the amendments concern the methods for allocating the goodwill to the cash flow generating units (or to the groups of cash flow generating units) of a purchaser in the case of a business combination and for the purposes of the impairment test. In detail, it is stated that each cash flow generating unit (or group of cash flow generating units) to which the goodwill is allocated must not be greater than the operating segment of the purchaser (as defined by IFRS 8) before the combination.
- IAS 38 (*Intangible assets*): amendments consequent to the review of IFRS 3 relating to the gauging of the fair value of an intangible asset acquired within the sphere of a business combination.
- IAS 39 (*Financial instruments: Recognition and Measurement*): the main changes, to be applied on a forecast basis to all the agreements outstanding, concern: (i) the specification concerning the exclusion of forward agreements for the purchase/sale of a business which will form part of a business combination within the sphere of application of IAS 39; (ii) the early repayment option incorporated in an underlying debt agreement: in the event that the exercise price of the early repayment option is close to the current value of the interest lost for the residual duration of the debt agreement, this option must be considered strictly correlated to the primary agreement and consequently is not accounted for separately.
- IFRIC 9 (*Reassessment of embedded derivatives*): the amendments, applicable on a forecast basis, exclude from the sphere of application of IFRIC 9 derivatives embedded in the agreements acquired in a business combination, in an entity or business combination under mutual control as well as at the time of formation of a joint venture.
- IFRIC 16 (*hedging of a net investment in a foreign operation)*: the amendments concern the elimination of the restriction to the charge of the foreign operation of holding the instruments which ensure the hedging of the same foreign operation.

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 standards, changes in the accounting estimates and errors*), a brief description of the Standards and interpretations in force starting from 1 January 2011 is presented below.

- IAS 24 revised (*Related party disclosures*): on 4 November 2009, the IASB published the revised version of IAS 24. The amendments introduced by this review of IAS 24 simplify the definition of «related party» at the same time eliminating certain inconsistencies, and release the public bodies from certain disclosure requirements relating to transactions with related parties.
- Amendments to IAS 32 (*Financial instruments; financial statement presentation – classification of the issues of rights*): these amendments concern the issue of rights - such as for example options and warrants – denominated in a currency other than the issuer's reporting currency. Previously, these issues of rights were recorded as derivative financial liabilities. If certain conditions are satisfied, it is possible to classify these issues of rights as net equity instruments irrespective of the currency in which the exercise price is denominated. These changes were approved by the European Union in December 2009 (EU Regulation No. 1293/2009) and apply as from 1° January 2011. Impacts on the financial statements following the future application of said amendments are not envisaged.
- Amendments to IFRIC 14 (*Advance payments relating to a minimum funding requirement*): on 15 November 2009, the International Financial Reporting Interpretations Committee (IFRIC) published the amendments to the IFRIC 14 interpretation. The aim of the amendments is to eliminate an undesired consequence in the cases where an entity subject to a minimum funding requirement makes an early payment of contributions so that, in specific circumstances, the entity who makes this early payment would be obliged to record a cost. In the event that a defined benefit plan is subject to a minimum funding requirement, the amendment to IFRIC 14 lays down that it is necessary to handle this early payment as an asset in the same way as any other early payment. Impacts on the financial statements following the future application of said amendments are not envisaged.
- IFRIC 19 (*Extinguishing financial liabilities with equity instruments*): on 26 November 2009, IFRIC published the IFRIC 19 interpretation the purpose of which is to provide guidelines on the recording, by the debtor, of the instruments representing capital issued to fully or partially extinguish a financial liability after the renegotiation of the related conditions. Impacts on the financial statements following the future application of said amendments are not envisaged.

Revenues (note 1)

Operating revenues are represented by:

Revenues (EUR 000)	**2010**	**2009**
Revenues from services provided to Group companies	5,447	10,284
Revenues from services to third parties	603	480
	6,050	**10,764**

Revenues from services provided to Group companies mainly refer to the invoicing of services provided by the Company in favour of the operating subsidiary Tiscali Italia S.p.A., including the charges for the licence to use the Tiscali trademark calculated as a percentage of the sales revenue of the company using said trademark.

Last year, this item also included the amounts due from the UK subsidiary Tiscali Uk Ltd for EUR 3.4 million, sold off in July 2009, and from Tiscali International Network BV for EUR 0.2 million.

The residual balance of EUR 0.6 million (EUR 0.5 million in 2009) comprises sundry revenues, costs recharged and out-of-period income.

Revenues by country (EUR 000)	**2010**	**2009**
Revenues from services provided to Group companies	**5,447**	**10,284**
- *Italy*	5,447	6,693
- *The Netherlands*	-	169
- *United Kingdom*	-	3,422
Revenues from services to third parties	**603**	**480**
- *Denmark*	26	-
- *South Africa*	37	-
- *Switzerland*	10	-
- *Italy*	530	480
	6,050	**10,764**

Purchase of materials and outsourced services (note 2)

Costs for the purchase of materials and outsourced services fell considerably with respect to the previous year and amounted to EUR 40 thousand (EUR 3.2 million in 2009) partly thanks to the process for rationalising and containing this cost category implemented during the year. This process generated a minor cost balance for professional consulting, amounting to EUR 0.1 million (EUR 2.1 million in 2009), and for other general expenses, totalling EUR 0.5 million (EUR 0.9 million in 2009).

Payroll and related costs (note 3)

Payroll and related costs are stated in detail as follows:

(EUR 000)	2010	2009
Wages and salaries	1,535	2,797
Remunerative component from Stock Option plans	55	324
Other personnel costs	310	2,222
Total	**1,900**	5,344

The decrease in payroll and related costs amounting to EUR 3.4 million, is justified by the drop in the item Wages and salaries (EUR 1.3 million) and the item Other personnel costs (EUR 1.6 million), both linked to the completion of the process for the reorganisation of the corporate structure launched in previous years. The item Other personnel costs was also influenced by a positive component totalling EUR 0.7 million consequent to the adjustments on bonuses provided in excess in previous years.

At 31 December 2010, Tiscali S.p.A. had 11 employees.

The relevant categories are disclosed below together with the corresponding figures at 31 December 2009.

Category	2010	2009
Executives	5	9
Middle managers	2	4
Office staff	4	7
Total	**11**	**20**

Other operating (cost)/ income (note 4)

The table below shows a breakdown of these costs:

EUR 000	2010	2009
Other operating (cost) / income	(16)	(3,384)
Total	**(16)**	**(3,384)**

The reduction in other operating charges with respect to the previous year is essentially attributable to lower operating liabilities.

Write-downs of receivables and other write-downs (note 5)

EUR 000	2010	2009
Write-down of receivables	3,101	2
Restructuring costs and other write-downs	518	130,243
Provisions for risks and charges	393	121,521
Total	**4,012**	**251,765**

The item Write-down of receivables includes the write-down of the receivable due from the German subsidiary Tiscali Business GmbH amounting to EUR 3.1 million.

Restructuring costs and other write-downs, amounting to EUR 0.5 million (EUR 130 million in 2009), refer to charges relating to the drawing up of the business plan. In 2009, the restructuring costs amounting to EUR 130.2 million mainly concerned the write-down of the investment held in World Online International N.V..

Financial income (charges) (note 6)

EUR 000	2010	2009
Financial income		
Interest on bank deposits	-	55
Other	19	4,912
	19	**4,968**
Financial charges		
Interest on bonds		
Interest and other charges due to banks	(78)	(131)
Other financial charges	(180)	(67)
	(257)	**(198)**
Net financial income (charges)	**(238)**	**4,770**

Net financial charges, disclosing a negative balance of EUR 0.2 million, refer mainly to interest expense on bank current accounts, exchange losses and other financial charges. During 2009, financial income of EUR 4.8 million mainly concerned the write-off of the financial positions vis-à-vis Tiscali UK.

Income taxes (note 7)

EUR 000	**2010**	**2009**
Current taxes	232	185
Prepaid taxes	-	-
Net taxes for the year	**232**	**185**

The balance of current taxes essentially includes IRAP (regional business tax) for the year.

Result from assets disposed of and/or destined for disposal (note 8)

EUR 000	**2010**	**2009**
Profit from assets disposed of and/or destined for disposal	2,578	-
Net (capital gains)/Losses deriving from disposal of subsidiaries and/or asset disposals	(388)	447
Result from assets disposed of and/or destined for disposal	**2,190**	**447**

The result from assets disposed of and/or destined for disposal, disclosing a positive balance of EUR 2.2 million, includes the effect of the earn out on the equity investment held in Tiscali International Network S.p.A. amounting to EUR 2.6 million. The item also includes the charges incurred for the settlement of the arbitration for the sale of the UK company Tiscali Holdings UK Ltd, an indirect subsidiary, for a total of EUR 0.4 million.

Intangible assets with a finite useful life (note 9)

Intangible asset movements for the year were as follows:

Intangible assets (EUR 000)	31.12.2009	Increases	Amortisation	(Decreases) and Other changes	31.12.2010
Concessions, licenses and similar rights	2	-	(1)	-	1
Total	**2**	**-**	**(1)**	**-**	**1**

Properties, plant and machinery (note 10)

The table below shows the movements occurring during the year:

(EUR 000)	31.12.2009	Increases	Depreciation	(Decreases) and Other changes	31.12.2010
Historic cost					
Land and Buildings	1,966	-	-	-	1,966
Plant and machinery	65	-	-	-	65
Other assets	470	2	-	(246)	226
	2,501	**2**	**-**	**(246)**	**2,257**
Accumulated depreciation	**31.12.2009**	**Increases**	**Depreciation**	**(Decreases) and Other changes**	**31.12.2010**
Land and Buildings	1,964	-	1	-	1,965
Plant and machinery	58	-	2	-	60
Other assets	452	-	15	(246)	221
	2,474	**-**	**18**	**(246)**	**2,246**
Net value	**31.12.2009**	**Increases**	**Depreciation**	**(Decreases) and Other changes**	**31.12.2010**
Land and Buildings	2	-	(1)	-	1
Plant and machinery	7	-	(2)	-	5
Other assets	18	2	(15)	1	6
Total	**27**	**2**	**(18)**	**1**	**12**

Equity investments (note 11)

At 31 December 2010, this item included equity investments in subsidiaries, for a total of EUR 112 million, essentially unchanged with respect to the previous year.

SUBSIDIARIES	31.12.2010			31.12.2009		
(EUR 000)	*Cost*	*Revaluations/ (Write-downs)*	*Book value*	*Cost*	*Revaluations/ (Write-downs)*	*Book value*
Energy Byte Srl *in liquidation*	-	-	-	677	(677)	-
Tiscali Deutschland Gmbh	283,475	(283,475)	-	283,475	(283,475)	-
Tiscali Finance SA	22,218	(22,218)	-	22,218	(22,218)	-
Tiscali Italia S.p.A.	111,976	-	111,976	111,958	-	111,958
World Online International N.V.	1,811,994	(1,811,994)	-	1,811,994	(1,811,994)	-
Tiscali Financial Services Sa	31	-	31	31	-	31
Tiscali UK Holdings Ltd	-	-	-	-	-	-
	2,229,695	**(2,117,688)**	**112,007**	**2,230,353**	**(2,118,365)**	**111,989**

The table below indicates the changes during the period for each investment in subsidiary companies.

SUBSIDIARIES (EUR 000)	Balance 31.12.2009	Increases	(Disposals)	*Revaluations/ (Write-downs)*	Other changes	Balance 31.12.2010
Energy Byte Srl *in liquidation*	-	-	-	-	-	-
Tiscali Deutschland Gmbh	-	-	-	-	-	-
Tiscali Finance SA	-	-	-	-	-	-
Tiscali Italia S.p.A.	111,958	18	-	-	-	111,976
World Online International N.V.	-	-	-	-	-	-
Tiscali Financial Services Sa	31	-	-	-	-	31
Tiscali UK Holdings Ltd	-	-	-	-	-	-
	111,989	**18**	**-**	**-**	**-**	**112,007**

The change during the period refers to the booking of the figurative charge for the Stock Option plans assigned to managers who are employees of the subsidiary Tiscali Italia S.p.A.

Checks on the value reductions in equity investments in subsidiary companies

As mentioned in the previous section on accounting policies, as 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 Bank of Italy / Consob / ISVAP document.

The impairment test on assets was performed by comparing the value of assets reported at 31 December 2010 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 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 the recoverable amount

The utilization value of the Cash Generating Units (CGU) was determined by discounting the cash flows deriving from the last 2011-2017 Business Plan approved by the Board of Directors.

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

- Explicit forecast period equating to the remaining plan duration (5 years);
- EBITDA emerging from market and business development hypothesis;
- Investments to maintain the 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 on the basis of market valuations of the cost of money and specific risks related to the company’s core business;
- LongTerm Growth - LTG) equal to 1.5%, 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:

- the beta coefficient was valued considering both the value of Tiscali over various timescales for a period of more than twelve months;
- the spread of the credit on the risk free element was valued in line with the conditions of current debt;
- 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 8.9%.

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.

(iii) Sensitivity analysis of the impairment test result

In consideration of the current scenario and the results of the impairment tests performed for the year ended 31 December 2010, 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.

(iv) 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, the market capitalization of the Tiscali Group does not give rise to elements departing from the results of the impairment tests.

Other information

SUBSIDIARIES (EUR 000)	Registered Offices	Share Capital	Shareholders' equity	Result	% Held	Book value
Tiscali Deutschland (*)	Munich	555	(33,478)	(395)	100%	-
Tiscali Finance SA (*)	Luxemburg	125	(5)	(7)	100%	-
Tiscali Italia S.p.A.	Cagliari	185,000	108,386	(27,345)	100%	111,976
World Online International N.V (*)	Maarsen (NL)	115,519	-	-	100%	-
Tiscali Financial Services Sa (*)	Luxemburg	31	(3,376)	(159)	100%	31
Tiscali UK Holdings Ltd (*)	London	59	(271,892)	(20,110)	100%	-
Total						**112,007**

(*) *preliminary figures relating to the financial statements as at 31 December 2010*

Other Group companies (dormant or in liquidation)

With regard to the other subsidiary companies, a check on the impairment of the assets was carried out by comparing the recognition value of the investment at 31 December 2010 and the book value of the shareholders' equity of the investee companies deemed to be representative of the recoverable value in consideration of the fact that these companies no longer operate (dormant) or are in liquidation. The check carried out did not reveal any impairment losses to be reported.

Other non-current financial assets (note 12)

(EUR 000)	31.12.2010	31.12.2009
Receivables from Group companies	25,263	22,120
Other receivables	-	484
Total	**25,263**	**22,604**

Other non-current assets include financial receivables due from Group companies amounting to EUR 25.3 million (EUR 22 million in 2009).

The financial receivables due from Group companies are detailed below:

(EUR 000)	31.12.2010	31.12.2009
Tiscali Business GmbH	-	2,470
Tiscali Business UK Ltd	3	-
Tiscali Contact S.r.l.	252	-
Tiscali Deutschland GmbH	550	-
Tiscali GmbH	-	204
Tiscali Italia S.p.A.	19,373	12,870
Tiscali Media S.r.l.	125	465
Tiscali UK Holdings Ltd	4,479	5,232
Tiscali Verwaltungs GmbH	480	880
	25,263	**22,120**

The recoverability of the financial receivables pertaining to the UK and the German subsidiaries has been assessed as part of a project for reorganising the intercompany entries currently being studied by the Tiscali Group which envisages the transfer of these receivables to TiNet BV and the subsequent offsetting of the receivable which arises with the latter with the payables due to TiNet BV recorded in the company's financial statements.

Receivables from customers (note 13)

(EUR 000)	31.12.2010	31.12.2009
Receivables from customers	18,062	16,009
Write-down provision for losses	(500)	(500)
Total	**17,562**	**15,509**

At 31 December 2010, receivables from customers totalled EUR 17.6 million and mainly included receivables from Group companies analysed in the following table.

(EUR 000)	31.12.2010	31.12.2009
Tiscali UK Holdings Ltd	774	774
Tiscali Italia S.p.A.	16,728	14,422
Total	**17,502**	**15,196**

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 receivables from customers will be due within 12 months and do not present any overdue balances of a significant amount.

The breakdown of receivables from customers, net of bad debt, by maturity is as follows:

(EUR 000)	31.12.2010	31.12.2009
Within 12 months	17,562	15,509
Between 1 and 5 years	-	-
Beyond 5 years	-	-
Total	**17,562**	**15,509**

Other Receivables and other current assets (note 14)

(EUR 000)	31.12.2010	31.12.2009
Other receivables	969	2,076
Accrued income	-	4
Prepaid expense	33	40
Total	**1,002**	**2,120**

Other receivables at 31 December 2010 amounted to EUR 1 million and mainly include amounts due from the tax authorities.

Cash and cash equivalents (note 15)

At the end of 2010, cash and cash equivalents totalled EUR 3 million and included 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 16)

(EUR 000)	**31.12.2010**	**31.12.2009**
Share capital	92,017	92,003
Stock option reserve	4,388	4,315
Loss coverage reserve	4,677	252.931
Other reserves	(8,049)	(7,248)
Result from previous periods	-	-
Result for the year	1,815	(248,254)
Total	**94,849**	**93,747**

Changes in the various shareholders' equity items are detailed in the relevant table, to which reference should be made.

The number of shares representing the Parent Company's share capital amount to 1,861,492,160, lacking par value, compared with 1,861,473,919 shares as at 31 December 2009. The increase during the year, equating to 18,241 shares, was justified by the issues consequent to the exercise of the Tiscali S.p.A. 2009 - 2014 warrants convertible into Tiscali shares combined with the share capital increase in November 2009. Following these issues, the share capital as at 31 December 2010 came to EUR 92,017,483.27.

The Stock Option reserve totalling EUR 4.3 million includes the matching balance of the remunerative component deriving from the stock option plans assigned to the company managers.

The cumulative losses as at 31 December 2009 were covered in full by means of the partial use of the specific reserve established during the shareholders' meeting held on 22 December 2009. This reserve still presents a balance of EUR 4.7 million.

The following table shows the composition of the shareholders' equity with reference to availability and its distributable nature:

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	92,017		-	-	-	-	-
Share premium reserve	-	A,B	-	-	-	1,005,166	-
Stock option reserve	4,388						
Reserve for loss coverage	4,677	B				248,254	
Retained earnings	1,815		-	-	-	-	-
Total	**94,849**		**--**	**-**	**-**	**1,253,420**	**-**

Utilisation options – Key:
A For share capital increases
B For loss coverage
C For distribution to shareholders

Other non-current liabilities (note 17)

(EUR 000)	31.12.2010	31.12.2009
Payables to Group companies	6,318	2,090
Other payables	-	-
Total	**6,318**	**2,090**

The balance of Other non-current liabilities primarily concerns financial payables due to group companies for EUR 6.3 million, mainly represented by Tiscali Italia S.p.A..

The analysis of financial payables due to Group companies is as follows:

(EUR 000)	31.12.2010	31.12.2009
Energy Byte S.r.l in liquidation	-	24
Tiscali GmbH	111	-
Tiscali Italia S.p.A.	6,207	2,066
Total	**6,318**	**2,090**

The breakdown of Other non-current liabilities by maturity is as follows:

(EUR 000)	31.12.2010	31.12.2009
Between 1 and 5 years	6,318	2,090
Beyond 5 years	-	-
Total	**6,318**	**2,090**

Liabilities for pension obligations and staff severance indemnities (note 18)

The table below shows the changes during the period:

(EUR 000)	31.12.2009	Increases	Decreases	Other changes	31.12.2010
Staff severance indemnities	203	94	(130)	-	167
Total	**203**	**94**	**(130)**	**-**	**167**

The staff severance provision, which comprises the indemnities accrued mainly in favour of employees, amounts to EUR 0.2 million.

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 employment 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 cost of living index, and with the interest established by law. It is not associated with any condition or period of accrual, or with any financial funding obligation; therefore, there are no assets serving the provision. In compliance with IAS 19, the provision was recorded under "Defined benefit plans". The main actuarial hypotheses used in the assessment are set out below.

Financial assumptions
Inflation rate: *2.00%*
Discount rate: *4.60%*

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 18 to 65 years of age*

Advance payments: 3% from 18 to 65 years of age
Retirement: 65 for men and 60 for women, with maximum length of service 40 years

Provisions for risks and charges (note 19)

The table below shows the changes during the period:

(EUR 000)	31.12.2009	Increases	Decreases	31.12.2010
Provisions for employee dispute risks and charges	3,180	263	(713)	2,730
Provision to cover losses of investee companies	75	-	(75)	-
Other provisions for risks and charges	407	204	-	611
Total	**3,662**	**467**	**(788)**	**3,341**

The provision for employee dispute risks and charges refers to legal disputes with third parties or former employees furthered in previous years or in the year just ended. The provisions, amounting to EUR 0.3 million, represent the estimate of the potential liabilities generated by the disputes as of the year end date, while the uses, totalling EUR 0.7 million, relate to the settlement of disputes which arose in previous years. Other provisions for risks and charges include a provision equating to EUR 0.2 million, linked to a notice of assessment served on the company during the year, relating to the 2005 tax year.

Payables to banks and other lenders (note 20)

(EUR 000)	31.12.2010	31.12.2009
Payables to banks	424	590
Total	**424**	**590**

The item only refers to payables for bank current account overdrafts necessary for covering ordinary operating cash requirements.

Payables to suppliers (note 21)

EUR 000	31.12.2010	31.12.2009
Trade payables to third parties	9,053	12,239
Trade payables to Group companies for materials and services	820	3,060
	9,873	**15,299**

Trade payables to third party suppliers relate mainly to payables for professional consulting services.

It should be mentioned that Trade payables are due within 12 months and it is considered that their book value is approximate to their fair value.

Trade payables due to Group companies are detailed below:

(EUR 000)	31.12.2010	31.12.2009
Tiscali Italia S.p.A.	820	3,060
	820	**3.060**

Other current liabilities (note 22)

(EUR 000)	31.12.2010	31.12.2009
Accrued expenses	11	21
Deferred income	6	2
Other payables to Group companies	36,115	36,014
Other payables to third parties	7,575	2,824
Total	**43,706**	**38,861**

Other payables to group companies refer to the financial indebtedness towards Tiscali International B.V., a sub-holding company in the Tiscali group, due within the year. The loan agreement does not envisage interest expense being charged (interest-free loan).

The item Other payables mainly includes payables due to the tax authorities for VAT totalling EUR 5.4 million and for IRAP (regional business tax) for the year of EUR 0.2 million, payables to social security and welfare institutions for around EUR 0.3 million and payables due to employees totalling Euro 0.6 million.

Guarantees given and commitments (note 23)

Guarantees given are detailed as follows:

(EUR 000)	31.12.2010	31.12.2009
Guarantees given to third parties (sureties)	256,155	305,712
Commitments	2,500	7,096
Total	**258,655**	**312,808**

Sureties given include EUR 129 million in relation to the guarantee given by the parent company for the loans granted by financial institutions as part of the restructuring of the Group's debt carried out during the year, as described in the section of these explanatory notes "Evaluation of the company as a going-concern and future outlook".

The same item includes the surety given by Tiscali S.p.A. to guarantee the amount of the loan associated with the sale & lease back transaction on the Sa Illetta property, totalling EUR 95 million, carried out by the subsidiary Tiscali Italia S.p.A.

The entire balance of the item commitments concerns the maintenance of the credit facilities granted to the subsidiary Tiscali Italia S.p.A..

Net financial position (note 24)

In accordance with the provisions of the Consob Communication No. DEM/6064293 dated 28 July 2006, it is pointed out the net financial position at 31 December 2010 is summarised in the following table, drafted on the basis of the format envisaged by the CESR Recommendation dated 10 February 2005 “Recommendations for the uniform implementation of the European Community regulations on information prospectuses:

(EUR 000)	31.12.2010	31.12.2009
A. Cash and bank deposits	3,062	2,431
B. Other cash equivalents	-	-
C. Securities held for trading	-	-
D. Cash and cash equivalents (A) + (B) + (C)	**3,062**	**2,431**
E. Current financial receivables (*)	**-**	**-**
F. Current bank payables	(424)	(590)
G. Current portion of non-current debt		
H. Other current financial payables	(36,115)	(36,014)
I. Current financial debt (F) + (G) + (H)	**(36,539)**	**(36,604)**
J. Net current financial debt (I) – (E) – (D)	**(33,477)**	**(34,173)**
K. Non-current bank payables	-	-
L. Bonds issued	-	-
M. Other non-current payables to Group companies	(6,318)	(2,090)
N. Other non-current payables to third parties	-	-
O. Non-current financial debt (K) + (L) + (M) + (N)	**(6,318)**	**(2,090)**
P. Net financial debt (J) + (O)	**(39,795)**	**(36,263)**

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 expose it primarily to the financial risk of changes in exchange rates for foreign currency and to the interest rate.

Risks associated with business continuity

For further information please refer to section 3.7 “Evaluation of the company as a going-concern and future outlook”.

Risks associated with disputes and contingent liabilities

For further information please refer to the section “Ongoing disputes, contingent liabilities and commitments”.

Transactions with related parties

During 2010, 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 2010 arising from transactions with related parties.

The effects on the income statement are indicated as follows:

INCOME STATEMENT	**2010**	**of which: related parties**
(EUR 000)		
Revenues	6,050	5,447
Other income	-	
Purchase of materials and outsourced services	(40)	(170)
Payroll and related costs	(1,900)	(55)
Other operating costs	16	(407)
Write-downs of receivables from customers	(3,101)	(3,101)
Other write-downs	(911)	
Amortisation/depreciation	(19)	
Operating result	**96**	**1,714**
Portion of results of equity investments carried at equity	-	
Net financial income (charges)	(239)	
Pre-tax result	**(144)**	**1,714**
Income taxes	(232)	
Net result from operating activities (on-going)	**(375)**	**1,714**
Result from assets disposed of and/or destined for disposal	2,190	
Net profit (loss)	**1,815**	**1,714**

INCOME STATEMENT	2009	of which: related parties
(EUR 000)		
Revenues	10,764	10,284
Other income	-	
Purchase of materials and outsourced services	(3,211)	(240)
Payroll and related costs	(5,344)	(324)
Other operating costs	(3,384)	(1,940)
Write-downs of receivables from customers	(2)	
Other write-downs	(251,763)	
Amortisation/depreciation	(347)	
Operating result	**(253,287)**	**7,781**
Portion of results of equity investments carried at equity	-	
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 profit (loss)	**(248,254)**	**7,781**

The effects on the balance sheet were as follows:

BALANCE SHEET (EUR 000)	**31.12.2010**	**of which: related parties**
Non-current assets	137,283	25,263
Current assets	21,627	17,502
Assets held for sale	-	
Total Assets	**158,910**	**42,765**
Shareholders' equity	94,849	4,388
Total Shareholders' equity	**94,849**	**4,388**
Non-current liabilities	9,826	6,318
Current liabilities	54,004	36,935
Liabilities directly related to assets held for sale	231	
Total Liabilities and Shareholders' equity	**158,910**	**47,641**

BALANCE SHEET (EUR 000)	31.12.2009	of which: related parties
Non-current assets	134,623	22,120
Current assets	20,060	15,196
Assets held for sale	-	-
Total Assets	**154,683**	**37,317**
Shareholders' equity	93,747	4,315
Total Shareholders' equity	**93,747**	**4,315**
Non-current liabilities	5,955	2,090
Current liabilities	54,751	36,014
Liabilities directly related to assets held for sale	231	-
Total Liabilities and Shareholders' equity	**154,683**	**42,419**

The most significant balances, at 31 December 2010, summarized by supplier of the services, are as follows:

INCOME STATEMENT VALUES	Notes	2010			2009	
(EUR 000)		Costs	Write-downs	Revenues	Costs	Revenues
Tiscali Business GmbH	1		(3,101)			
Tiscali International Network B.V.	1	-	-	-	-	169
Tiscali Uk Ltd	1	-	-	-	-	3,422
Tiscali Italia S.p.A.	1	(576)	-	5,447	-2,179	6,693
Total Group companies		**(576)**	**(3,101)**	**5,447**	**-2,179**	**10,284**
Stock options - employees	2	(55)	-	-	-324	-
Other related parties		**(55)**	**-**	**-**	**-324**	**-**
Total Group companies and other related parties		**(631)**	**(3,101)**	**5,447**	**-2,503**	**10,284**

BALANCE SHEET VALUES (EUR 000)	Note	31.12.2010					
		Trade receivables	Financial receivables	Trade payables	Financial payables (within 12 months)	Financial payables (beyond 12 months)	Stock Option reserve
Tiscali Business UK Ltd	1	-	3	-	-	-	-
Tiscali Contact S.r.l.	1	-	252	-	-	-	-
Tiscali Deutschland GmbH	1	-	550	-	-	-	-
Tiscali GmbH	1	-	-	-	-	111	-
Tiscali International BV	1	-	-	-	36,115	-	-
Tiscali International Network BV	1	-	-	-	-	6,192	-
Tiscali Italia S.p.A.	1	16,728	19,373	820	-	-	-
Tiscali Media Srl	1	-	125	-	-	-	-
Tiscali UK Holdings Ltd	1	774	4,479	-	-	-	-
Tiscali Verwaltungs GmbH	1	-	480	-	-	-	-
Total Group companies		**17,502**	**25,263**	**820**	**36,115**	**6,303**	
Stock options	2						4,388
Other related parties							**4,388**
Total Group companies and other related parties		**17,502**	**25,263**	**820**	**36,115**	**6,303**	**4,388**

BALANCE SHEET VALUES

(EUR 000)	Note	31.12.2009					
		Trade receivables	Financial receivables	Trade payables	Financial payables (within 12 months)	Financial payables (beyond 12 months)	Stock Option reserve
Energy Byte S.r.l	1	-	-	-	-	24	-
Tiscali Finance SA	1	-	-	-	-	-	-
Tiscali Business GmbH	1	-	2,470	-	-	-	-
Tiscali Verwaltung 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 UK Holdings Ltd	1	774	5,233	-	-	-	-
Total Group companies		**15,196**	**22,120**	**3.060**	**36,014**	**2,090**	**-**
Francesco Bizzarri		-	-	37	-	-	-
Stock options	2	-	-	-	-	-	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**

(1) Group companies.

(2) Stock option – CEO and employees. Cost recorded in the item Payroll and related costs in the Parent Company's financial statements.

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's responsibility and that of 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 was furthered, if the conditions should apply.

With regard to a preliminary settlement agreement reached in November 2010 between the financial institutions tasked with the stock market listing and the foundations, the Tiscali Group, also taking into account the specific insurance coverage taken out, is exploring the eventual possibility of a settlement.

These disputes are potentially significant; however, at present there are not enough sufficiently defined elements for quantifying the potential liability. Therefore, no provision has been made at present in the financial statements.

Mobistar dispute

The indirect subsidiary, Tiscali International BV, was 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 in Spring 2003 by Tiscali Belgium - of a dial-in traffic termination agreement (hereinafter the “Contract”) with Mobistar NV. Even if the contract for the sale of the Wanadoo Belgium shares from Wanadoo SA to Tiscali Belgium envisaged possibility of early termination of the Contract, a circumstance also confirmed by Tiscali’s legal advisors, Mobistar however opposed this early termination and filed 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 million, nevertheless Tiscali believes that the same should be reduced (i) by around € 1 million on the basis of the correct interpretation of the Contract, (ii) by a further amount, since the summons of Wanadoo and the legal advisors by Tiscali should at least mitigate the latter’s liability. In accordance with the previous information, the Parties have reached a settlement currently being signed which envisages the payment by the Group company involved of a total of EUR 264,000. Tiscali International Bv and Tiscali S.p.A. have liabilities in their financial statements amounting in total to the sum of the possible settlement. No further provision had been made as at 31 December 2010.

<u>Tax assessments</u>

The Dutch tax authorities forwarded World On Line International NV (and the direct subsidiary Tiscali International BV) a number of notices of assessment concerning the alleged non-payment of withholdings 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 the Dutch tax authorities have not sent the company any formal letter or document in the years following receipt of the notice of dispute indicated above (received in 2003), it is not deemed that the liability can be considered probable and, consequently, no further provision has been made.

Remuneration of the directors, statutory auditors and executives with strategic responsibility

In accordance with Article 78 of the 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.

Name and surname	Position	2010 Term of office	Emoluments for office	Benefits in kind	Other forms of remuneration
				Other benefits	
Board of Directors					
Renato Soru	Chairman and Chief Executive Officer	in office since 1 January until approval of the financial statements as at 31 December 2011	350,000	38,000	
Gabriele Racugno	Director	in office since 1 January until approval of the financial statements as at 31 December 2011	25,000		70,559
Luca Scano	Director	in office since 1 January until approval of the financial statements as at 31 December 2011	25,000	1,840	221,950
Victor Uckmar	Director	in office since 1 January until approval of the financial statements as at 31 December 2011	25,000		
Franco Grimaldi	Director	in office since 1 January until approval of the financial statements as at 31 December 2011	25,000		

Name and surname	Position	2010 Term of office	Emoluments for office	Benefits in kind	Other forms of remuneration
Paolo Tamponi	Chairman	in office since 1 January until approval of the financial statements as at 31 December 2011	61,972		
Piero Maccioni	Statutory Auditor	in office since 1 January until approval of the financial statements as at 31 December 2011	41,317		
Andrea Zini	Statutory Auditor	in office since 1 January until approval of the financial statements as at 31 December 2011	42,317		
				-	-

7.7 Events subsequent to the end of the year

On 17 March 2011, the last portion of the escrow was collected, deriving from the sale of Tiscali Uk Ltd for a total of GBP 1,250,000.

Annex - Information pursuant to Article 149 *duodecies* of the Consob Issuers' Regulations.

The following table, drawn up in accordance with Article 149 *duodecies* of the Consob Issuers' Regulations, indicates the fees for 2010 for auditing services and those for other services provided by the independent auditing firm.

Type of service	Party providing the services	Fee (EUR 000)
Accounts auditing	Reconta Ernst & Young S.p.A.	303
Certification services (1)	Reconta Ernst & Young S.p.A.	3
Other services	Reconta & Young LLP) (1)	161
Other services	Studio Legale Tributario Ernst & Young	21
Total		**448**

(1) Procedures carried out with reference to the arbitration with TalkTalk Limited (purchaser of the Group's UK activities in July 2009).

Statutory financial statements certification pursuant to Article 81 *ter* of CONSOB Regulation No. 11971 dated 14 May 1999 and subsequent amendments and additions

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 2010.

It is also hereby certified that the financial statements at 31 December 2010:

- were prepared in compliance with the International Financial Reporting Standards (IFRS) adopted by the European Union as well as the legislative and regulatory provisions in force in Italy;
- are consistent with the results of accounting books and entries;
- are suitable for providing a true and fair view of the equity, economic and financial situation of the issuer.

Cagliari, 25 March 2011

The Chief Executive Officer

Renato Soru

The Executive appointed to draw up the corporate accounting documents

Luca Scano

8 Glossary

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 over a given period for an average number of active (for other operators) or Tiscali Group customers in the same period.
Bitstream	Bitstream (or digital flow) services: service consisting of the supply by 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 lots of data is 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 a specific time span, can visit a site one or more times.
Access fee	This is the amount debited by national operators for each minute of use of their network by the operators of other networks. This is also called the "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 carrier 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, a long distance national or international operator other than that with whom he/she has a network access subscription.
Business customers	SoHos, small medium and large businesses.
Consumer customers	Customers who subscribe to an offer intended for households.
Dial Up	Narrowband internet connection by means of a normal telephone call, usually charged on a time basis.
Digital	This is the way of representing a physical variable in a language that uses only the figures 0 and 1. 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 offer 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 (voice, data, videos) in flows by means of direct and continuous connections between two different points on a network.

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.

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.

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.

Incumbent Former monopoly operator active in the telecommunications field.

IP Acronym for Internet Protocol, a protocol for interconnecting networks (Inter-Networking Protocol), created for interconnecting ungrouped 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 form various kinds of information (voice, data, texts, and images) coded in digital form on the same transmission line.
Internet Service Provider or ISP	Company that provides Internet access to single users or organisations.
Leased lines	Lines whose transmission capacity is made available through leasing contracts for the transmission capacity.
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 up of telephone lines.
MNO	Acronym for Mobile Network Operator, an operator of proprietary telecommunications on a mobile network 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 operator's telephone room and arrives at the user's 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 ungrouped 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 a combination of traditional services on an IP network 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 have assigned frequencies and takes advantage, for access, of agreements negotiated or regulated via one or more licensed mobile network operators.
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.
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.
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 or an entry point for a major group of Internet resources or an Intranet.

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.
Service Provider	Party that provides end users and content providers with 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 client calls) via a network.
Set-top-box or STB	Device able to handle and route data, voice and television connections, installed at the end user's premises.
Syndication	The sale of radio and TV transmissions wholesale 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 LLU 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 VoIP and CPS procedures.
SMPF	Acronym for Shared Metallic Path Facilities which is synonymous with Shared Access (ungrouped access).
Triple Play	A combined offering of fixed and/or mobile telephony, Internet and/or TV made by a single operator.
Local loop unbundling or LLU	Unbundled access to a local network, in other words, the possibility that telephone operators have had, since the telecommunications market was deregulated, 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.

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) service; analogue and direct broadband transmission of TV signals and extra services, such as closed user groups; call waiting; reverse charging; call announcement and identification of the number called. 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 of Internet services purchased wholesale from an Internet Service Provider (ISP) that has the 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 local loop unbundling or VLLU	Procedure for accessing a local analogue network by which, even in the absence of physical infrastructures, the conditions and terms of access under LLU terms are replicated. This is a temporary access system that is usually replaced by LLU.

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.
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 wireless access to broadband telecommunications networks. It has 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.

REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE SHAREHOLDERS PURSUANT TO ARTICLE 153 OF ITALIAN LEGISLATIVE DECREE NO. 58/98 AND ARTICLE 2429.3 OF THE ITALIAN CIVIL CODE

To the Shareholders' meeting of Tiscali SpA,

During the financial year ended as at 31 December 2010, we performed the supervisory activities envisaged by law, in accordance with the standards of conduct for Boards of Statutory Auditors recommended by the Italian Accounting Profession.

Bearing in mind that the analytical check in this connection on the contents of the financial statements is not entrusted to this Board, we report that we have overseen the general layout assigned to said statements as well as the compliance with the law with regard to the form and structure thereof.

Also in observance of the indications provided by CONSOB as per its communication dated 6 April 2001, subsequently integrated by the communications No. DEM/3021582 dated 4 April 2003 and No. DEM/6031329 dated 7 April 2006, we hereby reveal the following:

a) We have overseen the observance of the law and the Articles of Association.

b) We obtained the due information on the activities carried out and on the transactions of greatest economic, financial and equity importance entered into by the company also via its subsidiaries, from the Directors as per the frequency envisaged by Article 14 of the Articles of Association, and we can reasonably ensure that the action resolved and adopted complies with the law, the Articles of Association and general criteria of economic rationality and that therefore it is not manifestly imprudent, in potential conflict of interest or in contrast with the resolutions adopted by the Shareholders' meeting or such that it compromises the integrity of the company's equity.

c) We have gained awareness of and overseen, in as far as it is our responsibility, the adequacy of the company's organisational structure and the suitability of the provisions imparted by the Company to the subsidiaries as per Article 114.2 of Italian Legislative Decree No. 58/98, by means of gathering information from the various division heads and meetings with the independent auditing firm for the purpose of a reciprocal exchange of significant data and information, and in this connection we have no particular observations to make.

d) This Board has obtained periodic information from the Board of Statutory Auditors of the subsidiary Tiscali Italy SpA with regard to the management and audit systems and the general performance of the subsidiary company. No significant data or information emerged in this connection, as would have to be highlighted in this report.

e) We have assessed and overseen the adequacy of the internal audit system and the administrative-accounting system as well as the reliability of the latter to correctly represent the operating events, by means of obtaining information from the heads of the respective divisions, the examination of the corporate documents and the analysis of the work carried out by the independent auditing firm, overseeing the activities of the head of internal auditing, and in this connection we have no particular observations to make.

f) During the year, the company adopted the new "Organization, management and control model pursuant to Italian Legislative Decree No. 231/2001" on the administrative liability of bodies which acknowledges new types of offences. The Supervisory Body - currently comprising just the head of internal auditing, and because thus we have once again indicated the need to re-establish a joint body - reported on the activities carried out during 2010 without indicating events or situations which must be highlighted in this report.

g) In the report on operations and the explanatory notes to the statutory and consolidated financial statements, the Board of Directors provided in-depth illustration of the transactions entered into with subsidiaries and related parties, clarifying the economic effects. Transactions with related parties have been analytically indicated in the report on operations where the balance sheet and income statement balances are summarised; therefore, reference should be made to the specific section in the consolidated financial statements "*Transactions with related parties*". We have not become aware of the existence of any atypical or unusual transactions with third parties, Group companies or related parties.

h) During the year, we received a complaint pursuant to Article 2408 of the Italian Civil Code relating to an alleged violation by company representatives of the communication obligations vis-à-vis a shareholder. On conclusion of its examination, the Board of Statutory Auditors concluded on the groundlessness of the complaint and that in the circumstances there had not been any violations of the communication and transparency obligations in dealing with the Shareholders, committed by the structure in general. No complaints have been received from third parties.

i) We held meetings with the representatives of the independent auditing firm, as per Article 150.2 of Italian Legislative Decree No. 58/98 and Article 19.1 of Italian Legislative Decree No. 39/10, during the course of which no significant data or information emerged which must be indicated in this Report.

j) The independent auditing firm Reconta Ernst & Young SpA issued its reports on the statutory financial statements and the consolidated financial statements at 31 December 2010 as of today's date, drawn up in compliance with the International Financial Reporting Standards (IFRS) adopted by the European Union. These reports express a positive opinion and include references to information on the subject of the business as a going concern and on certain potentially significant disputes outstanding, in relation to which we refer you to said reports.

k) The independent auditing firm issued the Report pursuant to Article 19.3 of Italian Legislative Decree No. 39/10 as of today's date (questions emerging during the legal audit).

l) In pursuance of Article 149.1, letter c) *bis* of Italian Legislative Decree No. 58/98, we formally acknowledge that the Directors in their report on Corporate governance state that the Tiscali Group complies and conforms with the Code of Conduct for Italian listed companies, published in March 2006. Compliance with the legislation envisaged by the afore-mentioned Code has been effectively ascertained by this Board and has been covered, with regard to its various aspects, in the report on Corporate governance which the Board of Directors makes available to yourselves, to which we make reference for more suitable and complete disclosure in this connection.

m) During 2010, Reconta Ernst & Young SpA - as well as other entities belonging to its network - carried out professional services other than the legal audit of the statutory and consolidated financial statements. The total of the fees due for 2010 has been summarised below:

	EUR 000
Legal audit (statutory and consolidated financial statements)	417
Other services	190
Total	607

Having taken into account: (i) the declaration of independence issued by Reconta Ernst & Young SpA as per Article 17.9 of Italian Legislative Decree No. 39/10, (ii) the transparency report produced by the same as per Article 18.1 of Italian Legislative Decree No. 39/10 as published on the website and (iii) the appointments granted to the same and to the other companies belonging to its network by Tiscali and by the other Group companies, the Board of Statutory Auditors does not believe that critical aspects exist with regard to the independence of Reconta Ernst & Young SpA.

n) During the year, this Board issued its opinion pursuant to Article 2389 of the Italian Civil Code.

o) With regard to the opinions envisaged by law, the independent auditing firm Reconta Ernst & Young SpA issued its report on the half-year report as at 30 June 2010.

p) The supervisory activities described above have been carried out during eleven meeting of this Board, six meeting of the Internal Audit Committee and attending all the four Board of Directors meetings, as per Article 149.2 of Italian Legislative Decree No. 58/98.

q) During the supervisory activities carried out and on the basis of the information obtained from the independent auditing firm, no omissions and/or reprehensible action and/or irregularities have been revealed or in any event significant events which would require reporting to the audit bodies or mentioning in this Report.

In as far as it falls within our responsibilities, we express a favourable opinion for the approval of the financial statements as at 31 December 2010 together with the Report on operations and the resolution proposals drawn up by the Board of Directors.

Cagliari, Italy, 5 April 2011

THE BOARD OF STATUTORY AUDITORS

PAOLO TAMPONI

PIERO MACCIONI

ANDREA ZINI

Pursuant to Article 144 *quinquesdecies* of the Issuers' Regulations (Consob Regulation implementing Italian Legislative Decree No. 58/98), a list is attached to this report of the appointments which each member of the Board of Statutory Auditors covers in the companies pursuant to Book V, Section V, Parts V, VI and VII of the Italian Civil Code as of the issue date of this report (the financial statements on whose approval the appointment expires is indicated in brackets).

Paolo Tamponi: Chairman of the Board of Statutory Auditors of CoopFin SpA (2010); Statutory Auditor in the companies: Portovesme Srl (2010), Sarmed Srl (2011), Euromix Srl (2012), Hosteras SpA (2010); Chief Executive Officer of the company Auditors Associati Srl (until removal).

Piero Maccioni: Chairman of the Board of Statutory Auditors of the companies: Hosteras SpA (2010), Sarmed Srl (2011), Calacavallo SpA (2011); Statutory Auditor in the companies: Portovesme Srl (2010), Abbanoa SpA (2011), Casa di cura Villa Elena Srl (2011); Chairman of the Board of Directors of the company Auditors Associati Srl (until removal).

Andrea Zini: Chairman of the Board of Statutory Auditors of the companies: Immobiliare Sant'Angelo SpA (2011); Rivolta Carmignani SpA (2012); Sardinia Green Island (2013); Statutory Auditor in the companies: 3G Italy SpA (2010); H3G SpA (2010); 3lettronica Industriale SpA (2010); Gabbiani Angelo SpA (2010); Immobiliare Diana SpA (2011); Nuova Iniziativa Editoriale SpA (2010); Manifattura Colombo Trecate SpA (2010); FRAL Srl (2011); Sole Director of the companies: Santa Barbara Investimenti Srl (until removal); Bareca Srl (until removal).

Independent auditors' report
pursuant to art. 14 and 16 of Legislative Decree n. 39 dated January 27, 2010
(Translation from the original Italian text)

To the Shareholders
of Tiscali S.p.A.

1. We have audited the consolidated financial statements of Tiscali S.p.A. and its subsidiaries, ("Tiscali Group") as of and for the year ended December 31, 2010, comprising the statement of income, 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.

2. Our audit was performed in accordance with auditing standards recommended by CONSOB (the Italian Stock Exchange Regulatory Agency). In accordance with such standards, 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.

   For the opinion on the consolidated financial statements of the prior year, which are presented for comparative purposes, reference should be made to our report dated April 12, 2010.

3. In our opinion, the consolidated financial statements of the Tiscali Group at December 31, 2010 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.

4. For a better understanding of the consolidated financial statements, we would like to bring to your attention the following matters described in the explanatory notes:

   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 24.3 millions, of which EUR 4.2 millions determined by the negative net result from discontinued operations and with a deficit in consolidated net shareholders' equity of EUR 92 millions; in addition, as at December 31, 2010, the Tiscali Group reports gross financial indebtedness of EUR 214.7 millions and current liabilities which are greater than current (non-financial) assets by EUR 86.2 millions.

      The Directors described the factors that indicate continuing uncertainties which are linked to a reported deficit, financial and economic imbalance, significant gross financial indebtedness, subject to covenants and other contractual obligations. The Directors believe that the achievement, in the long-term, of a financial and economic equilibrium is subject to obtaining the results indicated in the Tiscali Group's business plan in the context of the current uncertain economic scenario, and therefore connected to the realization of the forecasts and assumptions underlying the business plan (in particular those concerning the evolution of the telecommunications market) and the achievement of the growth objectives set in a market characterised by strong competitive pressures. Further, the litigation matters described in point b. below, are to be considered. The outcomes of these matters, although not predictable at the moment, have been evaluated by the Directors as potentially significant.

The Directors, in evaluating the matters set out above, described the actions undertaken, on the basis of which they believe the Tiscali Group is reasonably in a position to implement the business plan and that this will enable the achievement of a financial and economic equilibrium in the long-term. In conclusion, the Directors recognise that, currently, uncertainties remain which could raise significant doubts about the ability of the Tiscali Group to continue to operate as 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 Tiscali Group has adequate resources to continue to operate for the foreseeable future and they have therefore adopted the going concern principle in preparing the financial statements.

b) The Directors 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, without ruling on the matter of potential damages, which should be the subject of new and separate proceedings from the injured third parties; to date no such proceeding appears to have been initiated. The progress of the situation is described in the explanatory notes. With respect to this litigation, the Directors believe that there are not sufficient elements to quantify the contingent liability and, therefore, no provisions have been made in the financial statements.

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 the Company's Ownership Structure in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency with the financial statements of the Report on Operations and the information included therein 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 the Company's Ownership Structure, as required by the 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 therein 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 the Company's Ownership Structure, are consistent with the consolidated financial statements of the Tiscali Group as of December 31, 2010.

Milan, April 5, 2011

Reconta Ernst & Young S.p.A.

Signed by: Luca Pellizzoni, partner

Independent auditors' report
pursuant to art. 14 and 16 of Legislative Decree n. 39 dated 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, 2010, comprising the statement of income, 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.
2. Our audit was performed in accordance with auditing standards recommended by CONSOB (the Italian Stock Exchange Regulatory Agency). In accordance with such standards, 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.

   For the opinion on the financial statements of the prior year, which are presented for comparative purposes, reference should be made to our report dated April 12, 2010.
3. In our opinion, the financial statements of Tiscali S.p.A. at December 31, 2010 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 consolidated financial statements, we would like to bring to your attention the following matters described in the explanatory notes:
   a) as indicated in the note "Evaluation of the company as a going concern and future outlook", Tiscali S.p.A., which profit for the year is EUR 1.8 millions and the shareholder equity amounts to EUR 94,8 millions, is the parent company of a Group ("Tiscali Group") which, at the same time, incurred a consolidated loss for the financial year of EUR 24.3 millions, of which EUR 4.2 millions determined by the negative net result from discontinued operations and with a deficit in consolidated net shareholders' equity of EUR 92 millions; in addition, as at December 31, 2010, the Tiscali Group reports gross financial indebtedness of EUR 214.7 millions and current liabilities which are greater than current (non-financial) assets by EUR 86.2 millions.

      The Directors described the factors that indicate continuing uncertainties which are linked to a reported deficit, financial and economic imbalance, significant gross financial indebtedness, subject to covenants and other contractual obligations. The Directors believe that the achievement, in the long-term, of a financial and economic equilibrium is subject to obtaining the results indicated in the Tiscali Group's business plan in the context of the current uncertain economic scenario, and therefore connected to the realization of the forecasts and assumptions underlying the business plan (in particular those concerning the evolution of the telecommunications market) and the achievement of the growth objectives set in a market characterised by strong competitive pressures. Further, the litigation matters described in point b. below, are to be considered. The outcomes of these matters, although not predictable at the moment, have been evaluated by the Directors as potentially significant.

The Directors, in evaluating the matters set out above, described the actions undertaken, on the basis of which they believe the Tiscali Group is reasonably in a position to implement the business plan and that this will enable the achievement of a financial and economic equilibrium in the long-term. In conclusion, the Directors recognise that, currently, uncertainties remain which could raise significant doubts about the ability of the Tiscali Group to continue to operate as 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 Tiscali Group has adequate resources to continue to operate for the foreseeable future and they have therefore adopted the going concern principle in preparing the financial statements.

b) The Directors 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, without ruling on the matter of potential damages, which should be the subject of new and separate proceedings from the injured third parties; to date no such proceeding appears to have been initiated. The progress of the situation is described in the explanatory notes. With respect to this litigation, the Directors believe that there are not sufficient elements to quantify the contingent liability and, therefore, no provisions have been made in the financial statements.

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 the Company's Ownership Structure in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency with the financial statements of the Report on Operations and the information included therein 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 the Company's Ownership Structure, as required by the 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 therein 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 the Company's Ownership Structure, are consistent with the financial statements of Tiscali S.p.A. as of December 31, 2010.

Milan, April 5, 2011

Reconta Ernst & Young S.p.A.

Signed by: Luca Pellizzoni, partner