Tiscali Group
Annual financial report as at 31 December 2011

Issue date: 31 December 2011

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

Tiscali S.p.A.

Registered office: SS 195 Km 2.3, Sa Illetta, Cagliari, Italy

Share Capital EUR 92,019,488.07

Cagliari Companies' Register and VAT No. 02375280928 Econ. & Admin. Roster - 191784

Table of contents

Highlights

Income statement (EUR mln)	2011	2010
· Revenues	267.6	278.2
· Gross Operating Result (EBITDA) - adjusted	71.7	70.5
· Gross Operating Result (EBITDA)	35.9	47.8
· Operating result	(21.3)	(1.8)

Balance sheet (EUR mln)	31 December 2011	31 December 2010
· Total assets	307.1	366.9
· Net Financial Debt	(193.5)	(197.6)
· Net Financial Debt as per Consob	(200.0)	(204.3)
· Shareholders' equity	(130.0)	(92.0)
· Investments	28.3	35.7

Operating figures (000)	31 December 2011	31 December 2010
ADSL (broadband) users	494.3	549.8
Of which: Direct ADSL users (LLU)	344.3	375.3
Voice	52.7	77.8

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

Alternate 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 via its www.tiscali.it portal and other web properties which are marketed by the concessionary agent Tiscali ADV.

With regard to broadband access from the fixed network, during 2011 grow was extremely modest with trends typical of a market close to saturation point.

The 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. Furthermore, the adoption of loyalty retention policies took on an increasingly important role, for the purpose of contrasting the tendency in a rise in the churn rate.

Dual-play access was confirmed as the most commonly used commercial proposal by consumers and business users, even if the phenomenon of mobile only customers is opening up a new market opportunity.

Internet access from mobile devices by contrast continues to rise sharply, drawn along by new devices (Tablets and Smartphones) and by internet keys.

The broadband access market is characterised by the presence of 5 leading operators, in addition to Tiscali: Telecom Italia, Fastweb, Wind Infostrada, Vodafone and Tele-tu. 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 during 2011, going against the flow with respect to traditional media.

The players of the web 2.0 and specifically the social networks were of particular importance, capable of attracting an increasingly greater portion of advertising expenditure.

During 2011, Tiscali continued its rationalisation and cutting of costs, already started during the second half of 2010. In detail, action was undertaken, such as the mass disconnection of defaulting customers, a price increase for specific customer categories and rationalisation of the customer service. This made it possible to maintain a margin also in the face of the slight rise in revenues, mainly attributable to the termination of the contract for IT services regarding former Tiscali UK.

By contrast, Tiscali continued to maintain a heavy managerial focus on the areas with high growth potential, such as the media sector, which reported growth higher than that of the market, and Over The Top services. Among these, Indoona and Streamago merit a specific mention.

The development of these products and services characterises Tiscali as a singular operator on the Italian TLC market, thanks to the strong complementarity of the access products with web-based services.

3.2 Regulatory framework

During 2011, AGCom concentrated on the following macro-areas of intervention:

- Regulation of services for access to the new generation fixed networks;

- Regulatory provisions concerning the mobile market regarding the transfer of utilities and termination tariffs;
- Consumer protection;
- Copyrights;
- Neutrality of the network.

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

Regulation of services for access to the new generation networks

In January 2011, AGCom published the first *"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, 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, it also launched a public consultation on a proposed regulation concerning network installation and sharing of infrastructures rights. The two procedures concluded between the end of 2011 and the beginning of 2012, respectively with resolutions 1/12/CONS concerning "*Identification of the regulatory obligations relating to new generation networks access services*" and 622/11/CONS concerning "*Regulations regarding backbone connections and joint location of infrastructures*". The procedures relating to the definition of the new generation network access obligations also required a double public consultation, since AGCom deemed it necessary to acknowledge a number of observations of the Operators and the European Commission made during the first consultation.
In short, the Authority imposed obligations for TI relating to:

- Access to dark fibre and to passive infrastructures;
- Unbundling of the fibre at a price oriented to cost albeit specifying that this applies "where technically possible". Alternatively, an *ad hoc* supply service is envisaged for the "end to end" type fibre connection and a virtual access services with equal economic and quality conditions, the so-called VULA;
- Bitstream at a price oriented to cost in non-competitive geographic areas and at an equal and reasonable price in competitive areas.

Furthermore, in order to encourage efficient investments and the reduction of costs - and of risks - for the creation of the networks, mechanisms are envisaged for sharing investments (e.g. scheduling of orders), joint location and sharing of the infrastructures. Resolution 1/12/CONS is linked to a further two procedures which the Authority will launch in the near future for the definition of the economic conditions of the wholesale services on fibre and the assessment of the existence of the conditions for imposition of symmetrical access obligations on alternative Operators.

On the subject of the NGNs, furthermore the following were registered: the Government initiative to launch a "Digital Agenda Strategic Project", presented in December 2011 and subject to public consultation, and the AGCom report to Parliament and the Government, "*Un'agenda digitale per l'Italia*", by means of which the Authority suggested a number of supplementary measures to the Government's initiative with the aim of increasing demand for digital contents and services (e.g. improve digital literacy, further on-line transactions, e-money and e-commerce) and encourage the creation of new generation networks (e.g. simplifying the administrative framework for the infrastructural creations and, above all else, seeking to reduce and rationalise excavation costs).

Definition of the regulations for transition to the fixed interconnection regime using IP technology

By means of resolution 128/11/CIR AGCom outlined the road map for technological transition which by the end of 2013 will lead to the replacement of the current interconnection method between alternative Operators and TI, TDM type: the IP interconnection will make it possible to complete the process for the convergence of the networks and services towards a completely all IP configuration. Furthermore, during the year AGCom also launched the procedures for the definition of the fixed termination tariffs for 2012, which will be symmetrical and based on an incremental cost model (BU LRIC).

New glide path of the mobile termination values

In December 2011, the Authority concluded the third cycle of analysis of the mobile termination markets, confirming the obligations to check costs pertaining to all the infrastructured mobile operators and defining a new glide path for the termination values for the three-year period 2012-2015. The tariffs have been defined using a cost-oriented approach, by means of an incremental efficient costs model (BU LRIC), on a consistent basis with the matters laid down by EU regulations regarding termination tariffs (see European Recommendation dated 7 May 2009 on the regulation of termination tariffs on fixed and mobile networks in the EU No. 2009/396/CE). According to the matters established by resolution 621/11/CONS, the termination tariffs will follow a scheduled reduction process as from July 2012, with decrease rates of more than 50% with respect to the current ones.

The new provisions concerning number portability

In order to acknowledge the provisions of the new European regulatory framework (European directive 2009/136/CE and 2009/140/CE), AGCom took steps to change the regulations concerning MNP (mobile number portability) in particular redefining the timescales of the portability process for mobile customers, so as to reduce the migration timescales for the customer from one operator to another from the current 3 days to just 1 business day. (See resolution 147/11/CIR).

Regulations concerning automatic compensation

Within the sphere of consumer protection, the Authority took steps (by means of resolution 73/11/CONS) to set up an automatic compensation mechanism by the operator vis-à-vis the consumer for certain types of inefficiencies among the most common and serious (e.g. failure to or delayed activation of the line). The resolution also contains additional policy elements regarding the economic values which can be applied by way of compensation for many other types of inefficiencies.

AGCom proposal for the regulation of copyrights

The exchange of views within the regulatory sphere regarding copyrights continued throughout 2011. In July, the Authority submitted a second draft of regulations for public consultation which, confirming the layout of the first proposal (promotion of a legal offer of digital contents and enforcement measures, which among other aspects impose the selective removal of the content published in alleged violation of copyrights), partly amends the "notice and take down" process with a view to greater guarantees for the parties involved and balance between the interests of the various stakeholders. The conclusion of the second public consultation relating to the "*Regulatory scheme concerning the protection of copyrights on electronic communication networks*" launched by means of resolution No. 398/11/CONS, has still not led to any final provision and no additional proposal of resolutions has been made so far by AGCom, confirming the complexity of the matter which what is more is constantly subject to measures, debates and sentences within the sphere of IT law at both national, European and global level.

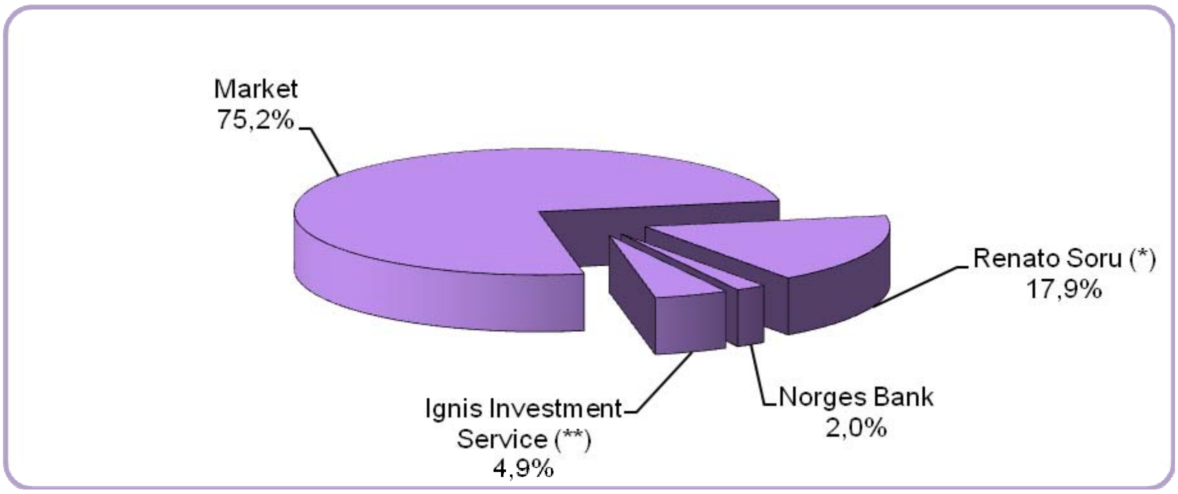
Launch of a survey on the subject of network neutrality

By means of resolutions 39/11/CONS and 40/11/CONS, AGCom launched a survey cycle on topics associated with net neutrality, including traffic management and VoIP on the mobile network, with regard to the aspect of protection of the end customer on the one hand and the competitive set-up of the markets on the other.

3.3 Tiscali shares

Tiscali shares have been listed on the Italian Stock market (Milan: TIS) since October 1999. At 31 December 2011, market capitalization came to EUR 63,104,669 million, calculated on the value of EUR 0.0339 per share as at that date.
At 31 December 2011, the number of shares representing the Group's share capital amounted to 1,861,494,666.
Tiscali's shareholder base at 31 December 2011 is illustrated below:

Fig. 1 Tiscali shares



Source: Tiscali

(*) Directly for around 15% and, indirectly through the investee companies Monteverdi Srl (1.8%), Cuccureddus Srl (0.9%) and Andalas Ltd (0.1%).
(**) On 7 February 2012, Ignis Investment Service reduced its equity investment under the threshold of 2%, with 32,684,177.

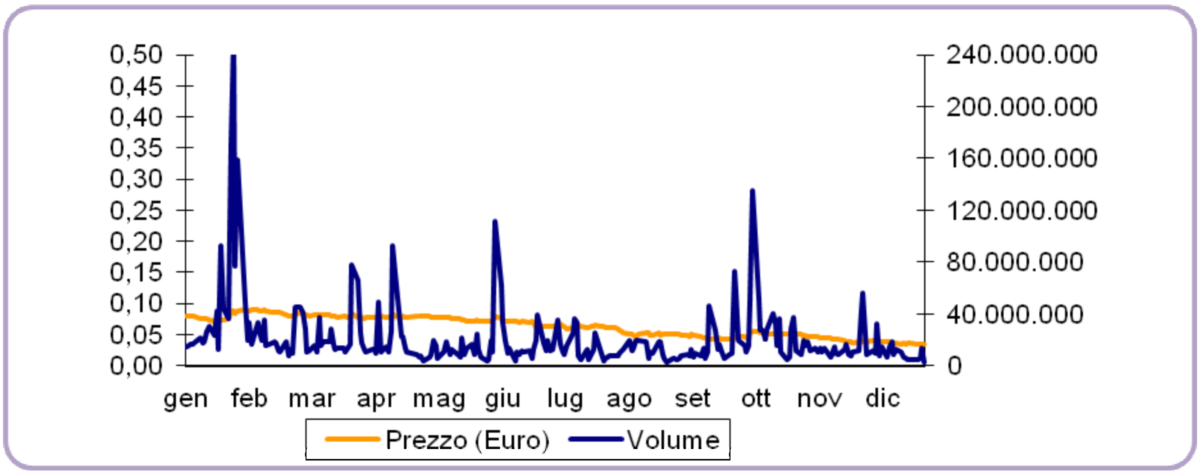
Share capital structure at 31 December 2011

SHARE CAPITAL STRUCTURE		
	No. of shares	**As % of share capital**
Ordinary shares	1,861,494,666	100%
OTHER FINANCIAL INSTRUMENTS		
	No. of warrants	**Listing market**
Tiscali 2009-2014 warrants ***	1,799,404,431	Organised 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 2011, characterised by sustained trading volumes, particularly in the months of January, June and October.

Fig. 2 - Tiscali's share performance in 2011



Jan Feb Mar Apr May Jun Aug Sep Oct Nov Dec
Price (EUR) Volume

Source: Bloomberg data processing

The average monthly price in 2011 stood at EUR 0.063. The maximum price of EUR 0.0896 for the period was recorded on 31 January 2011 and the minimum of EUR 0.0339 on 30 December 2011. Trading volumes stood at a daily average of about 21.1 million items, with a daily average trade value of EUR 1.3 million.

Average exchanges of Tiscali share on Borsa Italiana (Italian Stock Exchange) in 2011

	Price (EUR)	**No. of shares**
January	0.078	55,782,460
February	0.086	22,943,973
March	0.080	22,967,900
April	0.078	21,851,230
May	0.075	11,378,758
June	0.069	21,330,192
July	0.063	14,183,478
August	0.052	10,949,848
September	0.045	17,186,402
October	0.051	28,993,771
November	0.042	15,344,913
December	0.037	10,759,070
Average	**0.063**	**21,139,333**

3.4 Significant events during the financial year

Collection of the last portion of the Tiscali UK Escrow

On 17 March 2011, the last portion of the escrow was collected, deriving from the sale of Tiscali UK Ltd for a total of EUR 1.4 million. This amount, in accordance with the financial debt restructuring agreements dated July 2009 ("Group Facility Agreement" or "GFA"), is intended to repay the debt outstanding with the financial institutions.

Partial repayment of the Senior Loan

During 2011, all the due dates envisaged by the GFA loan agreement were observed and a total of EUR 13.3 million paid by way of repayment of the principal portion.

West Hugo (former Sambrosan) reimbursement transaction

During 2011, a total of EUR 3.6 million was repaid in accordance with the agreement entered into with West Hugo (former Sambrosan) settling the transactions relating to a dispute arising on the property which houses the Tiscali Business Gmbh headquarters.

Solidarity pact

On 18 October 2011, the Company signed a Solidarity Pact with the workers and the representatives of the trade union organisations SLC-CGIL, FISTel-CISL and UILCOM-UIL. The aim of the agreement is the temporary reduction of the payroll and related costs envisaged to an extent equal to around EUR 5 million, to be achieved by means of a reduction in work activities (in variable percentages in relation to the company sector concerned). The Solidarity pact has a duration of 24 months, effective as from 7 November 2011.

Other significant events during the financial year

The Board of Directors approves the 2010 draft financial statements

On 25 March 2011, Tiscali's Board of Directors approved the 2010 draft financial statements.

The shareholders' meeting approves the 2010 financial statements

On 29 April 2011, Tiscali S.p.A.'s ordinary shareholders' meeting, held in Cagliari in second calling, approved the 2010 financial statements.

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 547 thousand customers (of which 52.7 thousand represented by voice and narrowband users), as at 31 December 2011, Tiscali is one of the main providers of Broadband services with xDSL technology

(494 thousand customers) and voice and Narrowband services. Thanks to a cutting edge network based on IP technology, Tiscali provides its customers with a wide range of services, from broadband and narrowband internet access, together with more specific and hi-tech products. 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).
The Group offers its products to consumer and business customers on the Italian Market, mainly via five business lines:
(i) "Access", in Broadband modes (LLU, Bitstream), inclusive of VoIP and mobile telephone services (so-called MVNO;
(ii) Narrowband;
(iii) "Voice", inclusive of traditional telephone traffic services (CS and CPS) and Wholesale;
(iv) Business services (so-called B2B), which include VPN, Hosting, domain connection and leased line services, provided to companies and, lastly,
(v) Media and value added services, which include 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 2011.
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 Group's economic, equity and financial position.

Risks connected with the performance of the telecommunications market

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

Risks connected with the dependence on technology of the telecommunications sector

The Group, which operates in a highly complex market from a technological point of view, is exposed to a high risk regarding IT and ICT systems. As regards the management of the risks connected with the damage to and malfunctioning of said systems, on which the business management is based, the Group invests adequate resources aimed at protecting all IT tools and processes. The core business systems are all highly reliable; the data centre in the Cagliari headquarters is equipped with safety systems such as 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 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 consignments, 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 Group'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	2011	2010	Change
Revenues	267.6	278.2	(10.5)
Other income	11.3	3.7	7.6
Purchase of materials and outsourced services	163.9	169.5	(5.6)
Payroll and related costs	38.0	43.2	(5.2)
Other operating costs / (income)	(5.3)	(1.3)	6.6
Adjusted Gross Operating Result (EBITDA)	**71.7**	**70.5**	**1.3**
Write-downs of receivables from customers	35.8	22.6	13.2
Stock option plan cost	-	0.1	(0.1)
Gross Operating Result (EBITDA)	**35.9**	**47.8**	**(11.9)**
Restructuring costs, provisions for risk reserves and write-downs	2.1	1.8	0.3
Amortisation/depreciation	55.1	47.8	7.3
Operating result (EBIT)	**(21.3)**	**(1.8)**	**(19.5)**
Net financial income (charges)	(15.1)	(14.3)	(0.8)
Pre-tax result	**(36.4)**	**(16.1)**	**(20.3)**
Income taxes	(1.8)	(3.9)	2.1
Net result from operating activities (on-going)	**(38.2)**	**(20.0)**	**(18.2)**
Result from assets disposed of and/or destined for disposal	0.1	(4.2)	4.3
Net result	(38.1)	(24.3)	(13.9)
Minority interests	-	-	-
Group Net Result	**(38.1)**	**(24.3)**	**(13.9)**

Tiscali Group revenues during 2011 came to EUR 267.6 million, down by 3.8% with respect to the balance of EUR 278.2 million in 2010. The change, EUR 10.5 million, is essentially attributable to the following factors:

- a reduction of EUR 2.5 million (-1.2%) in revenues for the "Access and VoIP" segment essentially due to the drop in the number of customers, largely associated with the mass disconnections also made during 2011 so as to rationalise the customer base and lower the cost of the lines. This impact was partly offset by the increase, as from February 2011, in the ADSL and VoIP fee, which had an effect amounting to around EUR 6 million;
- a reduction of EUR 4.1 million (-50.3%) in revenues for "narrowband" internet access which, in line with the market trend, is being progressively replaced with the broadband access method (ADSL);
- a rise of around EUR 1.9 million (+7.4%) in revenues for telephone services mainly represented by wholesale services provided to other operators in the sector;

- a rise of EUR 4.7 million (+28.9%) in revenues for the Media segment thanks to the additional volumes of traffic registered on the Tiscali.it portal;
- a drop of EUR 9.6 million (-39%) in the revenues of the “Business” segment essentially due to the cessation of revenues relating to Tiscali UK.

During 2011, internet access and voice services – the Group’s core business – represented around 83.2% of total turnover.

Other income amounting to EUR 11.3 million mainly included the out-of-period income deriving from the issue of credit notes for the recovery of VAT on receivables not collected from disconnected customers.

Costs for purchases of materials and services totalling EUR 163.9 million, decreased EUR 5.6 million with respect to last year. This decrease was essentially attributable to commercial agreements entered into with the main suppliers of traffic in the second half of the year.

The Gross Operating Result (EBITDA) adjusted before provisions, totalling EUR 71.7 million, reported a slight increase with respect to 2010.

The net operating result (EBIT), net of provisions, write-downs and restructuring costs, was a loss of EUR 21.3 million, registering a decrease with respect to the negative balance of EUR 1.8 million recorded in 2010. This deterioration was essentially attributable to the write-down of receivables and the additional amortisation/depreciation for the year.

As a result of the above, the result from operating activities, a loss of EUR 38.2 million, decreased with respect to the 2010 loss of EUR 20 million.

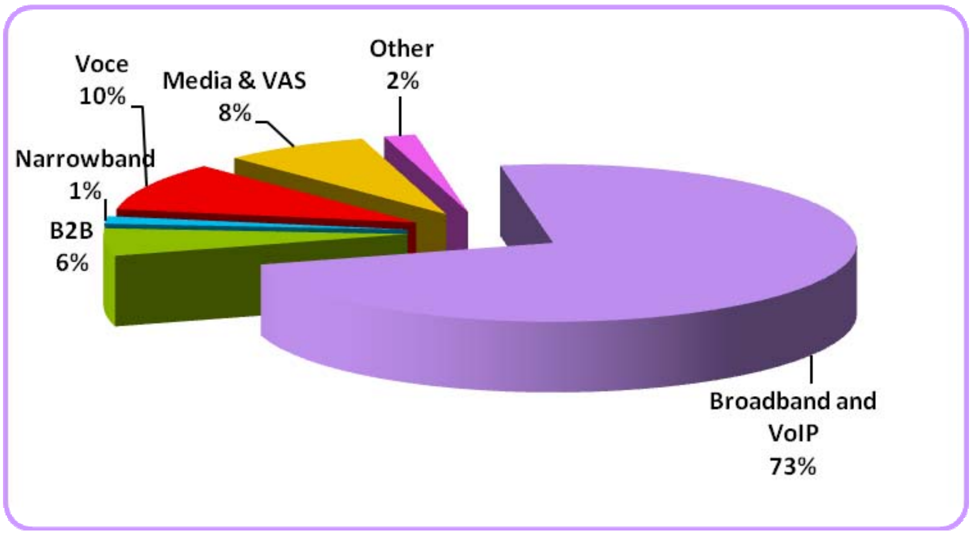
The Net result was a loss of EUR 38.1 million (a loss of EUR 24.3 million in 2010).

Operational income statement - Group

(EUR mln)	2011	2010
Revenues	**267.6**	**278.2**
Access revenues (including VoIP)	196.2	198.7
of which: ADSL	*116.0*	*123.4*
of which VoIP	*76.3*	*72.8*
Dial Up revenues (narrowband)	*4.1*	*8.3*
Voice revenues	26.8	24.9
Business service revenues	15.1	24.7
Media and value added service revenues	20.9	16.2
Other revenues	4.5	5.4
Gross operating margin	**127.3**	**133.9**
Indirect operating costs	**67.0**	**72.7**
Marketing and sales	12.4	10.4
Payroll and related costs	38.0	43.2
Other indirect costs	16.5	19.1
Other (income) / expense	(11.4)	(9.3)
Adjusted Gross Operating Result (EBITDA)	**71.7**	**70.5**
Write-down of receivables and other provisions	35.8	22.7
Gross Operating Result (EBITDA)	**35.9**	**47.8**
Amortisation/depreciation	55.1	47.8
Gross result (EBIT) before restructuring costs and provisions for risks	**(19.2)**	**(0.0)**
Operating result (EBIT)	**(21.3)**	**(1.8)**
Group Net Result	**(38.1)**	**(24.3)**

Revenues by business segment

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



Source: Tiscali

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

<u>Access</u>

The segment in question, which includes revenues from Internet access services via broadband (ADSL), the flat component of the bundled ranges (access fees) and VoIP services, in 2011 generated revenues of EUR 196.2 million, down by 1.2% with respect to the figure in the same period in 2010 (EUR 198.7 million). The decrease in revenues is mainly attributable to the ADSL access services (EUR 116 million as of 31 December 2011 compared with EUR 123.4 million as of 31 December 2010) partly offset by the increase in the VoIP segment (EUR 76.3 million as at 31 December 2011 compared with EUR 72.7 million at 31 December 2010, +4.9%).

As at 31 December 2011, ADSL customers came to around 494 thousand of which 344 thousand under direct LLU (Local Loop Unbundling). As at 31 December 2010, ADSL customers fell by around 56 thousand when compared with 31 December 2010; this decrease was essentially due to the mass termination of around 38 thousand ADSL lines during the year. This termination is in line with the more stringent debt recovery policies adopted by the Group and will make it possible to obtain significant savings in line rental costs.

ADSL customers include around 349 thousand so-called “Dual Play” users (who are provided with both an internet access service and telephone service on broadband); this figure decreased by around 20 thousand with respect to the previous year. The customers who use a dial-up access (narrowband) and analogical voice service stood at around 53 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 December 2011	31 December 2010
ADSL customers	494.3	549.8
of which LLU	*344.3*	*375.3*
Narrowband and Voice customers (*)	52.7	77.8
Dual play customers	349.3	369.4

(*) As from the third quarter of 2011, this segment included "Dual Play Voice" customers who were previously excluded.

The LLU network coverage at 31 December 2011 amounted to 688 sites.

Voice

Voice revenues relate to analogue line telephone services and wholesale services provided to other operators in the sector. During 2011, an increase was reported in "Voice" revenues of EUR 1.8 million (+7.4%) mainly generated by wholesale revenues.

Narrowband

The narrowband segment was naturally down and passed from 8.3 million as at 31 December 2010 to 4.1 million at the end of 2011.

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, as at 31 December 2011 amounted to EUR 15 million, down 39% with respect to the EUR 24.7 million in the same period of 2010. The decrease is mainly attributable to the loss in revenues relating to Tiscali UK.

Media

During 2011, revenues for the Media and value added services segment (mainly concerning sales of advertising space) amounted to around EUR 21 million and were up with respect to the previous year (EUR 16.2 million). The increase is attributable to growth in advertising concession activities generated thanks to focusing the editorial product on the IT segment and the improved profitability of traffic.

Other revenues

Other revenues totalling EUR 4.5 million mainly concern the recharging to customers of costs relating to billing.

Indirect operating costs during 2011 came to EUR 67 million (25% of revenues), a reduction in terms of proportion of revenues compared with last year's figure (EUR 72.7 million, 26.2% of revenues). Indirect operating costs include **marketing costs** amounting to around EUR 12.4 million, up with respect to the previous year (EUR 10.4 million) in relation to the additional turnover of the Media segment. **Payroll and related costs** amounted to EUR 38 million (14.2% of revenues), down with respect to 2010 (EUR 43.2 million, 15.5% of revenues) consequent to the decrease in the workforce, in particular temporary staff. Other **indirect costs** include lease instalments and general operating expenses. **Other net income** amounting to EUR 11.4 million includes around EUR 7.4 million for out-of-period income deriving from the issue of credit notes for the recovery of VAT on receivables not collected from disconnected customers.

The effect of the above led to an Adjusted Gross Operating Result (EBITDA), before provisions for risks, write-downs and amortisation/depreciation, totalling EUR 71.7 million (26.8% of revenues). This balance was up slightly with respect to the same figure as at 31 December 2010, amounting to EUR 70.5 million.

The Gross operating result (EBITDA), net of write-downs of receivables and other provisions came to EUR 35.9 million in 2011 (13.4% of revenues), a decrease of 24.8% on the figure for 2010 (EUR 47.8 million, 17.2% of revenues).

The write-down of receivables and other provisions in 2011 totalled EUR 35.8 million (EUR 22.7 million in the same period of 2010). The increase with respect to the previous year is consequent to the additional write-down of receivables linked to the mass cancellation of lines during the year.

Amortisation/depreciation came to EUR 55.1 million (EUR 47.8 million in the same period of 2010): the increase includes the effect of the investments during the year and the bringing onto stream of the items recorded under fixed assets in progress as at 31 December 2010.

The operating result (EBIT) for 2011, net of provisions, write-downs and restructuring costs, was a loss of EUR 21.3 million (7.9% of revenues), with respect to the balance in 2010, a loss of EUR 1.8 million (0.6% of revenues).

The result from operating activities (on-going), a loss of EUR 38.2 million as at 31 December 2011, decreased with respect to the previous year with a negative balance of EUR 20 million, mainly as a result of the write-down of the receivables and additional amortisation/depreciation.

The Group's net result was a loss of EUR 38.1 million, compared with a loss in 2010 of EUR 24.3 million.

Equity and financial position

CONSOLIDATED BALANCE SHEET (in abridged form) (EUR mln)	31 December 2011	31 December 2010
Non-current assets	194.4	221.4
Current assets	112.7	145.5
Total Assets	**307.1**	**366.9**
Group shareholders' equity	(130.0)	(92.0)
Shareholders' equity pertaining to minority shareholders	-	-
Total Shareholders' equity	**(130.0)**	**(92.0)**
Non-current liabilities	197.4	206.9
Current liabilities	239.6	251.1
Total Liabilities and Shareholders' equity	**307.1**	**366.9**

Assets

Non-current assets

Non-current assets at 31 December 2011 amounted in total to EUR 194.4 million (EUR 221.4 million at 31 December 2010). 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 28.3 million, essentially refer to the extension and development of the network, IT services and the connection and activation of new ADSL customers.

Current assets

Current assets at 31 December 2011 amounted in total to EUR 112.7 million (EUR 145.5 million at 31 December 2010). The reduction is mainly attributable to the decrease in net receivables due from customers for around EUR 20 million, the reduction in other receivables and other current assets for around EUR 8 million.

Liabilities

Non-current liabilities

Non-current liabilities as at 31 December 2011 amounted to EUR 197.4 million, compared with a balance of EUR 206.9 million as at 31 December 2010 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 3.4 million, the employee severance indemnity for EUR 4.2 million, and payables to suppliers for the purchase of long-term rights for the use of transmission capacity (IRU) for EUR 5.9 million.

Current liabilities

Current liabilities amounted to EUR 239.6 million as at 31 December 2011 (compared with EUR 251.1 million as at 31 December 2010) 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.

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.

EUR 000

	Results for the year 2011	Shareholders' equity 31 December 2011
Net profit (loss) and Shareholders' equity of Tiscali S.p.A.	**(29,934)**	**65,055**
Net profit and Shareholders' equity of consolidated companies	(219,994)	(265,108)
Book value of consolidated equity investments	-	(130,997)
Elimination of expense provisions and write-downs of intercompany receivables	211,787	201,065
Consolidated financial statements Tiscali Group	**(38,140)**	**(129,985)**

Financial position

At 31 December 2011, the Tiscali Group held cash and cash equivalents totalling EUR 6.6 million, against a net financial debt, at the same date, of EUR 193.5 million (EUR 197.6 million as at 31 December 2010).

(EUR mln)	Notes	31 December 2011	31 December 2010
A. Cash and Bank deposits		6.6	10.3
B. Other cash equivalents		0.1	0.4
C. Securities held for trading		-	-
D. Cash and cash equivalents (A) + (B) + (C)		***6.7***	***10.8***
E. Current financial receivables		***-***	***-***
F. Non-current financial receivables	(1)	6.3	6.3
G. Current bank payables	(2)	14	12.8
H. Current portion of non-current debt	(3)	9.6	17
I. Other current financial payables (*)	(4)	0.6	1.5
J. Current financial debt (G) + (H) + (I)		***24.0***	***31.2***
K. Net current financial debt *(J)–(E)–(D)–(F)*		**11.0**	**14.2**
L. Non-current bank payables	(5)	124.4	124.7
M. Bonds issued		-	-
N. Other non-current payables (**)	(6)	58.1	58.7
O. Non-current financial debt *(N) + (L) + (M)*		**182.5**	**183.4**
P. Net Financial Debt *(K) + (O)*		**193.5**	**197.6**

(*) includes short-term leasing payables

(**) includes long-term leasing payables

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 9.6 million relating to payables to Senior Lenders (principal and interest portions repayable within 12 months);
(4) Includes EUR 0.6 million of short-term leasing of the subsidiary Tiscali Italia S.p.A.;
(5) The entire amount of EUR 124.4 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 57.5 million.

The above table includes guarantee deposits under other cash equivalents and non-current financial receivables. The table below provides a reconciliation of the above financial position with the same statement prepared in accordance with Consob resolution No. DEM/6064293 dated 28 July 2006 and included in the Explanatory Notes.

(EUR mln)	31 December 2011	31 December 2010
Consolidated net financial debt	**193.5**	**197.6**
Other cash equivalents and non-current financial receivables	6.4	6.7
Consolidated net financial debt prepared on the basis of Consob communication No. DEM/6064293 dated 28 July 2006	**200.0**	**204.3**

3.6 Events subsequent to the end of the year

Payment of interest on the Senior Loan

On 3 January 2012, interest on the principal was paid for EUR 1.5 million.

Merger via incorporation of Tiscali Contact S.r.l.

With effect as from 1 January 2012, Tiscali Contact S.r.l. was absorbed within Tiscali Italia S.p.A..

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

Events and uncertainties regarding the business continuity

The Tiscali Group (hereinafter the "Group") closed 2011 with a consolidated loss of EUR 38.1 million and negative consolidated shareholders' equity of EUR 130 million. Furthermore, as at 31 December 2011, the Group had a gross financial debt of EUR 206.6 million and current liabilities greater than current assets (non-financial) for EUR 109.6 million.

As at 31 December 2010, the loss came to EUR 24.3 million; the negative shareholders equity came to EUR 92 million and gross financial debt totalled EUR 214.7 million. As at the same date, the difference between current assets and liabilities (non-financial) presented a negative balance of EUR 86.2 million.

During 2009, the Group implemented action with the aim of achieving economic, equity and financial balance over the long term, and launching a phase of recovery for the sales activities. In detail, the business plan was drawn up along with the associated financial plan and the sales of Tinet and the UK subsidiaries were completed, using the proceeds of the sale to repay part of the Group's debt. Gross financial debt passed from EUR 240.6 million as at 31 December 2009 to EUR 206.6 million at 31 December 2011.

In a recessionary context, during 2011 the following events took place emphasising the transformation underway for some years on the telecommunications market, leading to greater competitiveness and erosion of the margin for the operators:

a. progressive level of saturation for the broadband market and, thanks to the possibility for customers to migrate from one operator to another with minimum inconvenience and costs, greater acceptance by customers of promotions. These factors led to a significantly higher customer turnover rate, ensuing in greater competitiveness between operators and higher customer acquisition/retention costs;

b. increase in the local loop access tariffs for all the alternative operators who use the copper infrastructure of Telecom Italia and reduction in the revenue for incoming traffic, factors which have eroded the margins of alternative operators such as Tiscali.

In the presence of such factors (and other collateral ones such as the progressive replacement of the fixed lines with mobile ones, the increasing weight of the costs linked to customer service, the establishment of the so-called Over the Top), Tiscali, like the other operators in the sector, has rationalised its internal processes implementing rigorous cost cutting programmes to preserve margins and maintain the competitive position.

During 2011, in particular we can reveal that from an operational point of view, action by the Group continued aimed at improving efficiency via the rationalisation of the operating and commercial costs and the streamlining of the structure:

- a commercial agreement was entered into with the main network and traffic suppliers, which permits the Group, as from 1 August 2011, to obtain savings of around EUR 1 million a month until 31 December 2012. It is believed that this saving may also be consolidated in the years to come;
- on 18 October 2011 a Solidarity Agreement was entered into with the employees as per Italian Law No. 863 dated 1984. This agreement has a duration of 24 months and makes it possible to lower payroll and related costs by means of the reduction of working activities. All the employees of the Group's Italian companies are affected, with the exclusion of certain strategic departments. The reduction of staff costs envisaged for 2012, amounts to around EUR 5 million;
- the migration of customers to newly opened LLU sites was only carried out in the fourth quarter of 2011 due to a number of delays and, consequently, was unable to produce the expected benefits during the year but is in any event destined to have positive impacts in 2012;
- the strategy for the rationalisation and control of the customer base started in 2010 continued, for the purpose of improving the quality of the customer base and the consequent cash flows over the next few years via:
    - the mass termination carried out in 2011 of around 38 thousand lines of customers in default, with a consequent negative impact on the write-down of the receivables. This cancellation will what is more make it possible to obtain savings on line rental costs;
    - the precautionary screening of the customer base and the monitoring of the position via an automatic dunning system integrated with the ERP system;
    - the progressive reduction of the customers who pay via post office paying-in slip or credit transfer, who present greater rates of insolvency, to the benefit of automatic payment methods (direct debit and credit cards);
- the insourcing and rationalisation of the customer care structures has permitted a considerable savings, as well as greater control of the quality of the service for the end customer;

From the point of view of the business results for the year, in detail we can reveal that:

- in line with the market trend, during 2011 the Group increased the price of the ADSK and VoIP fee by EUR 2 (VAT included) for around 380 thousand customers, thereby permitting the recovery of the increase in the copper line rental fee applicable as from 1 July 2010. The impact on access and voice revenues came to around EUR 6.3 million in 2011;

- the expansion of the network and the sales force in the “Media” sector led to an increase in the related revenues of 28.9% when compared with 2010.
- the Group continued to focus on innovation, as witnessed by the launch of new products and services, among which “Indoona” merits particular mention, a rich communication service dedicated to smartphones, tablets and PCs which confirms the historic positioning of Tiscali as innovative operator in the sphere of internet services.

The action described above made it possible to improve the cash flows of the operating activities before the changes in net working capital, which rose from EUR 53.6 million in 2010 to EUR 60.1 million in 2011, contributing towards reducing the financial debt. Operations generated cash making it possible to fully honour the due dates relating to financial debt, both in terms of principal and interest. The operating result, with a negative balance of EUR 21.3 million and the loss for the year, totalling EUR 38.1 million, were significantly affected by the write-down of receivables during the year.

The Group’s business plan was also updated, covering the entire period for the repayment of the financial debt. This 2012-2017 business plan, approved by the Board of Directors on 30 March 2012, hypothesises, in 2014, the rescheduling of the part of financial debt in excess with respect to the cash flows which is envisaged will be generated over the plan’s duration.

The plan for 2012 in particular envisages:

- overall turnover essentially in line with 2011 (within the sphere of which, what is more, mention is made of the increase in “Media” revenues);
- the significant reduction in operating costs, mainly thanks to the action described above and also to the drop in the mobile termination cost and the Ip transit cost.

On the basis of the matters set forth above, the Directors, when evaluating the existence of the condition of the 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 130 million, due mainly to the negative economic performance and weight of the 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 and financial 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:

- in March 2011, collected the last portion of the escrow deriving from the sale of Tiscali UK for a total of EUR 1.4 million. This amount is intended to repay the debt outstanding with the financial institutions;
- once again in 2011, respected all the obligations and due dates envisaged by the financial plan. The cash flows as described, present a clear improvement with respect to last year;
- updated the business plan, verifying the coherence with the financial requirements determined by the debt structure, considering its rescheduling in 2014;
- in 2011, undertook specific action for the recovery of the margins described above whose effects will be fully felt throughout 2012;
- focused the commercial policy, preferring the acquisition of customers in direct areas with respect to those who use Bitstream;
- continued to focus on certain sector with high growth potential, such as the media sector, where an increase in revenues was seen of 29% when compared with 2010, and on particularly innovative projects;
- reported an essential improvement in the cash flows of the operating activities, which rose from EUR 53.6 million in 2010 to EUR 60.1 million in 2011.

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 2010 financial statements, at present uncertainties still remain, with regards 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, Italy, 30 March 2012

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, 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. In accordance with the Code, on 30 March 2012 the Board of Directors assessed the size, composition and functioning of said Board and its Committees deeming them to be in line with the operational and organisational needs of the Company also taking into account the professional, experience-related and managerial characteristics of its components as well as the presence, out of a total of five members, of four non-executive directors, of which two non-executive, independent Directors. In this assessment, the Board also took into account the appointments covered by the Directors in other companies.

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**"), approved by the Corporate Governance Committee in March 2006, as updated from time to time. 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 organisational 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; the Company believes that this system permits a clear division of the roles and responsibilities entrusted to the directors and auditors and efficient management of the Company.

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, Director of the Company and General Manager of the Italian subsidiary Tiscali Italia S.p.A., as executive in appointed to draw up the Company's accounting documents. The office will expire with the renewal of the Board of Directors following approval of the 2011 annual financial statements.

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.

Obviously, these Committees will expire together with the Board of Directors or with approval of the financial statements as of 31 December 2011.

Supervisory Body

The Supervisory Body, previously made up of Pasquale Lionetti, was added to during the board meeting held on 5 August 2011 and now comprises the lawyer Michele Schirò, an external member acting as Chairman, Mr. Carlo Mannoni, head of the regulatory affairs division of the Company, and Mr. Pasquale Lionetti who also covers the appointment of head of Internal Auditing. The Supervisory Body remains in office until approval of the financial statements as of 31 December 2011 and carries out supervisory functions also for the subsidiary Tiscali Italia S.p.A..

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 92,019,488.07; it is represented by 1,861,494,666 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%

The remaining 82.21% of the share capital is held by the market. The Company is not aware of the existence of any shareholders' or other similar agreements.

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 414,940 warrants have been exercised and 20,747 shares have been issued against a share capital increase of EUR 16,597.60. 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 "Shares" 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 right of nearly all the beneficiaries, there are no convertible options to-date. The Stock Option plan will expire on 3 May 2012 on expiry of the fifth year of validity. No new incentive plans are envisaged at present.

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 Talk Talk 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 Talk Talk 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 as of 30 June 2012.

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 had entered into a shareholders' agreement concerning the exercise of the voting rights in the Company. In particular, Renato Soru had 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. On completion of the plan for reorganising the Tiscali Group, to which the Agreement was functionally linked, the same has fulfilled its function and has ceased to be effective between the Parties as communicated to the general public and the competent authorities in the legal forms on 2 July 2011. Therefore, no shareholders' agreements exist to-date, as far as the Company is aware.

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 2011 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 organisational 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.

Given the limited composition of the Board of Directors and the particular operating needs of the Company, the circumstance that the offices of Chief Executive Officer and Chairman of the Board of Directors are both covered by Renato Soru is deemed functional for management purposes. The constant presence of the Directors and the Auditors during board meetings, the valence of the Internal Audit Committee and its on-going activities and participation in company operations along with the incisiveness and efficacy of the control action carried out by the independent directors, suggest that the co-existence of the two offices covered by the same Renato Soru cannot cause any detriment for the Company's governance. Different solutions may be evaluated at the time of renewal of the Board of Directors.

Non-executive, minority and independent directors

In compliance with the provisions of Italian Law No. 262/2005 and subsequent amendments, 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. The Company in any event complies with the Code and, at present, there are two independent directors with a Board of 5 members of which just Renato Soru, Chief Executive Officer and Chairman, is in possession of the executive powers delegated by the Board. 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.

As envisaged by 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. It is hereby confirmed that two of the independent directors, Victor Uckmar and Franco Grimaldi, possess the independence requisites compliant with the matters indicated by the applicative principles and criteria as per the Code and the Consolidated Finance Law.

In relation to the management and audit appointments in other companies, the Board did not consider it necessary to define general criteria regarding the maximum number of offices compatible with efficient performance of the role of director in the Company, without prejudice to the duty of each

Director to assess the compatibility of the offices of director and auditor, covered in other companies listed on organised markets, in finance, banking and insurance companies or those of a significant size, with the diligent performance of the duties undertaken as Company Director. 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.

Roles in boards of directors of other listed companies, banks and insurance companies and businesses of a significant size	
Renato Soru:	Chairman and Chief Executive Officer Tiscali Italia S.p.A.
Luca Scano:	-
Gabriele Racugno:	Director - Banco di Sardegna S.p.A. – Director Sogaer S.p.A.
Victor Uckmar:	Chairman - Class Editori S.p.A. - Director - Xerox Italia S.p.A.
Franco Grimaldi:	-

In the specific “governance” section of the website, 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 also outside executives and consultants are called to take part in the meetings of the Board of Directors depending on the specificities of the matters dealt with. As can be seen in the tables below, during 2011 the Board of Directors met four times, so as to discuss and approve the periodic accounting figures. During 2012, the Board met twice, inclusive of the session which approved this report. All the Directors and the members of the Board of Statutory Auditors took part in the majority of the meetings, as illustrated by the breakdown shown below.

2011-2012 Board meetings	**25 March 2011**	**12 May 2011**	**5 August 2011**	**10 November 2011**	**28 February 2012**	**30 March 2012**
Directors present	5	5	5	4	5	4
Percentage	100%	100%	100%	80%	100%	80%
Statutory Auditors present	3	3	2	3	3	3
Percentage	100%	100%	66.6%	100%	100%	100%

The average duration of the Board meetings was 90 minutes. The Board of Directors and the Board of Statutory Auditors are sent draft copies of the documents to be approved beforehand, together with all the disclosure documentation instrumental to the various resolutions. The sending of the documentation is seen to by the Company Secretariat which takes steps to collate the documents from the appointed sectors and forward them with the utmost notice possible; tendentially the documentation is sent in one go together with the calling of the board meeting; by way of exception, if they are not available, certain documents can be sent after the calling but always with suitable notice before the meeting.

On 10 November 2011, the Board of Directors approved the calendar of its meeting for 2012, thus modified subsequently:

- 30 March 2012 (Approval of the draft annual financial statements at 31 December 2011);
- 10 May 2012 (Approval of the Quarterly Report at 31 March 2012);
- 15 May 2012 (Annual shareholders' meeting);
- 2 August 2012 (Approval of the Half-year Report at 30 June 2012);
- 13 November 2012 (Approval of the Quarterly Report at 30 September 2012).

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 twenty-five days prior to the date envisaged for the Shareholders' Meeting, together with the professional CVs of individuals appearing on the lists and a declaration from each accepting their candidature and declaring the inexistence of reasons for ineligibility or incompatibility and that the honourable and professional qualifications required under applicable law and by the Articles of Association exist, as essentially in line with the principles and application criteria contained in Article 5 of the Code. The lists and the accompanying documentation must be made public in accordance with the legal formalities at least twenty-one days before the date envisaged for the Meeting. 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, to-date it has not been 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. In light of the imminent renewal of the Board of Directors, envisaged with the approval of the financial statements as at 31 December 2011, and the Committees within the Board, the possible unification of the Appointments Committee with the Remuneration Committee will be assessed.

The report on operations attached to the financial statements at 31 December 2011 contains an overview of the Board Members' remuneration system (see the note "Remuneration of Directors, Statutory Auditors and managers with strategic responsibilities" in the 2011 financial statements); for greater disclosure, reference should be made to the Remuneration Report which will be submitted to the shareholders' meeting called to approve the financial statements as of 31 December 2011.

Subsequent to the enforcement of Italian Law No. 120/2011, the Company will take steps to appoint its corporate bodies in compliance with said law. To-date, the Board has ascertained not to adopt a plan for the succession of the executive directors.

Shareholders' meetings

Consistent with the principles and application criteria contained in Article 9 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 at www.tiscali.com, allowing said information to be downloaded in electronic format.

As indicated in application criteria 3 of Article 9 of the Code, on 16 July 2001 the Shareholders' Meeting adopted its own AGM Regulations, subsequently updated by the shareholders' meeting held on 29 April 2011, also available on the Company website. The AGM Regulations were adopted with the aim of ensuring an orderly and functional performance of the shareholders' meetings, precisely defining rights and duties of all the participants and establishing clear and unambiguous rules without wishing in any way to limit or prejudice the right of each shareholder to express their opinions and formulate requests for clarification on the business placed on the agenda. 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 with the communication sent by the authorised broker as per current provisions, proving ownership of the shares as of the so-called record dates, as well as any voting proxy.

Board of Statutory Auditors

<u>Appointment and composition</u>

Consistent with Article 8 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 list of nominations must be filed at the Company's registered office at least twenty-five days prior to the date of the next Shareholders' Meeting, together with the professional CVs of individuals appearing on the lists and a declaration from each accepting the candidature and declaring the inexistence of reasons for ineligibility or incompatibility and that the honourable and professional qualifications required under applicable law and by the Articles of Association are met. The lists and the accompanying documentation must be made public in accordance with the legal formalities at least twenty-one days before the date envisaged for the Meeting.

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

On 30 April 2009, the ordinary shareholders' meeting applied the voting list mechanism described above for the appointment of the current Board of Statutory Auditors, which will remain in office until the date of the meeting called to approve the annual financial statements at 31 December 2011. 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 8 of the Code.

Subsequent to the enforcement of Italian Law No. 120/2011, the Company will take steps to appoint its corporate bodies in compliance with said law.

Board of Directors internal committees

As recommended by the provisions of Article 4 of the Code, the Board of Directors has set up its own Internal Audit Committee and Remuneration Committee. Subsequent to the appointment of the new

Board of Directors, which will take place during the shareholders' meeting for the approval of the financial statements as of 31 December 2011, steps will be taken to re-establish the committees within the Board as per the Code and, therefore, the Risk Management Committee (which in fact incorporates the functions currently carried out by the Internal Audit Committee), the Remuneration Committee, the Appointments Committee in the most efficient forms with respect to the structure of the Company's management body and with possible unification of the latter two; along with the appointment of the Lead Independent Directors and the Director appointed to oversee the Internal Audit System (which might be the same Chairman of the Risk Management Committee). Furthermore, the Executive appointed to draw up the Company's accounting documents and the Supervisory Body will also be appointed, both expiring with the approval of the financial statements as of 31 December 2011.

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 6 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 Remuneration Committee makes proposals to the Board of Directors for the remuneration of the Chief Executive Officer and the other Directors who cover specific offices; it makes general recommendations to the Board of Directors regarding the remuneration of the executives with strategic responsibility for the Group, aids the Board of Directors in the preparation and implementation of any remuneration plans based on shares or financial instruments, and assesses the adequacy and application of the Remuneration Policy. 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 proposed the terms of the administration agreement with the Chief Executive Officer Renato Soru, approved by the Board on 26 March 2010. Furthermore, the Remuneration Committee prepared the Remuneration Report, subsequently approved by the Board of Directors, to which reference is made for further information.

Appointments Committee

To-date, 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. Further to the coming renewal of the Board of Directors, the Company will take steps to possibly establish the Appointments Committee.

Internal auditing

Back in October 2001, the Company formalized the internal audit organisational 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 organisational 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 7 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. To-date, 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:

- checking the implementation of the updating of the "Organisational, management and control model" for the main companies in the Group and activities relating to the integration of the Group's Supervisory Body which took place during the Board meeting held on 5 August 2011;
- achievement of the 2011 audit plan, in particular, with checking of certain controls and related activities and finalisation of the related audit report;
- drafting of the 2012 audit plan;
- activities for checking the adequacy of the administrative and accounting procedures for the formation of the 2011 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.*.

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 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 2011, the Internal Audit Committee met four times during the Board meetings for approval of the accounting reports: 24 March, 12 May, 5 August and 10 November; in 2012, 30 March. All the Committee meetings, except that held on 30 March 2012, where two of the members of the Committee were present, were attended by all the members and the Board of Statutory Auditors was represented by all or two of its members.

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 weighty correlation with the risk management process is evident, consisting in the process for identifying and analysing those factors that might prejudice the attainment of corporate goals; the main purpose is to determine how those risks can be handled and adequately monitored and made innocuous as far as possible. 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) <u>Stages of the risk management and internal control system in existence with regard to the financial information process.</u>

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 Organisation, 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.

The Board Meeting held on 5 August 2011 supplemented the composition of the Supervisory Body pursuant to Italian Decree Law No. 231/2001, appointing the lawyer Michele Schirò as external member acting as Chairman, and Mr. Carlo Mannoni, head of the Company's Regulatory Affairs, who join Mr. Pasquale Lionetti, tasked with Internal Auditing and already a member of the Supervisory Committee. The Body thus made up expires with the approval of the 2011 financial statements and until that date also operates on behalf of the subsidiary Tiscali Italia S.p.A.

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 30 March 2012 having been approved by the Committee for Minor Transactions made up of Victor Uckmar, acting as Chairman, Gabriele Racugno and Franco Grimaldi. The Regulations for transactions with related parties are available on the Company website www.tiscali.com in the section "Documents/Disclosure Documents".

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.

Tiscali S.p.A. Consolidated financial statements at 31 December 2011

5 Consolidated Financial Statements and Explanatory Notes

5.1 Income statement

	Notes	31 December 2011	31 December 2010
(EUR 000)			
Revenues	*1*	267,605	278,153
Other income	*2*	11,342	3,717
Purchase of materials and outsourced services	*3*	163,864	169,507
Payroll and related costs	*4*	38,032	43,209
Stock option plan cost	*5*	-	73
Other operating (income) charges	*6*	5,310	(1,297)
Write-downs of receivables from customers	*7*	35,819	22,595
Restructuring costs and other write-downs	*8*	2,065	1,775
Amortisation/depreciation	*14-15*	55,126	47,801
Operating result		**(21,268)**	**(1,792)**
Net financial income (charges)	*9*	(15,120)	(14,325)
Pre-tax result		**(36,387)**	**(16,118)**
Income taxes	*10*	(1,821)	(3,924)
Net result from operating activities (on-going)		**(38,208)**	**(20,041)**
Result from assets disposed of and/or destined for disposal	*11*	68	(4,235)
Net result for the period	*12*	**(38,140)**	**(24,276)**
Attributable to:			
- Result pertaining to the parent company		**(38,140)**	**(24,276)**
- Minority interests		-	-
Earnings (Losses) per share			
Earnings per share from operating activities and those disposed of:			
- Basic		**(0.02)**	**(0.01)**
- Diluted		**(0.02)**	**(0.01)**
Earnings per share from operating activities:			
- Basic		**(0.02)**	**(0.01)**
- Diluted		**(0.02)**	**(0.01)**

5.2 Statement of comprehensive income

(EUR 000)	Notes	31 December 2011	31 December 2010
Result for the period		**(38,140)**	**(24,276)**
Total statement of comprehensive income result		**(38,140)**	**(24,276)**
Attributable to:			
Shareholders of the parent company		**(38,140)**	**(24,276)**
Minority shareholders		-	-
		(38,140)	**(24,276)**

5.3 Statement of financial position

(EUR 000)	Notes	31 December 2011	31 December 2010
Non-current assets			
Intangible assets	*14*	77,385	86,808
Properties, plant and machinery	*15*	106,932	124,369
Other financial assets	*17*	10,076	10,217
		194,393	**221,394**
Current assets			
Inventories	*19*	648	557
Receivables from customers	*20*	88,574	108,403
Other receivables and other current assets	*21*	16,750	24,722
Other current financial assets	*22*	168	1,540
Cash and cash equivalents	*23*	6,564	10,326
		112,704	**145,548**
Assets held for sale		-	**-**
Total Assets		**307,097**	**366,942**
Share Capital and reserves			
Share capital		92,019	92,017
Stock option reserve		-	4,388
Results from previous periods and Other reserves		(183,864)	(164,097)
Result pertaining to the Group		(38,140)	(24,276)

Group shareholders' equity	*24*	**(129,985)**	**(91,968)**
Minority interests		-	-
Shareholders' equity pertaining to minority shareholders	*25*	**-**	**-**
Total Shareholders' equity		**(129,985)**	**(91,968)**
Non-current liabilities			
Payables to banks and to other lenders	*26*	124,417	124,691
Payables for financial leases	*26*	58,068	58,721
Other non-current liabilities	*27*	7,373	13,299
Liabilities for pension obligations and staff severance indemnities	*28*	4,209	4,250
Provisions for risks and charges	*29*	3,379	5,977
		197,447	**206,939**
Current liabilities			
Payables to banks and other lenders	*30*	23,459	29,789
Payables for financial leases	*30*	581	1,461
Payables to suppliers	*31*	152,800	153,092
Other current liabilities	*32*	62,795	66,772
		239,634	**251,114**
Liabilities directly related to assets held for sale		-	856
Total Liabilities and Shareholders' equity		**307,097**	**366,942**

5.4 Statement of cash flows

(EUR 000) OPERATIONS	**31 December 2011**	**31 December 2010**
Result from operating activities	**(38,208)**	**(20,041)**
Adjustments for:		
Depreciation of tangible assets	21,121	20,011
Amortisation of intangible assets	34,004	27,790
Allowance for bad debt provision	35,819	22,595
Capital gains on disposal of non-current assets	(2,111)	(2,108)
Income taxes	1,821	3,924
Release of provisions for risks	(559)	(4,988)
Figurative Stock Option cost	-	73
Other changes	(6,879)	(8,001)
Financial income/charges	15,120	14,325

Cash flow from operations before changes in working capital	**60,128**	***53,580***
Change in receivables	(8,464)	(15,884)
Change in inventory	(91)	1,334
Change in payables to suppliers	(1,638)	11,751
Change in long-term payables to suppliers	(6,416)	(1,603)
Net change in the provisions for risks and charges	(2,759)	(713)
Net change in provision for staff severance indemnities	(698)	(2,189)
Changes in other liabilities	(3,688)	(11,413)
Changes in other assets	7,971	3,393
Changes in working capital	***(15,781)***	***(15,322)***
CASH FLOWS GENERATED BY OPERATIONS	**44,347**	**38,258**
INVESTMENT ACTIVITIES		
Change in other financial assets	1,475	28,146
Purchases of tangible fixed assets	(3,685)	(6,601)
Purchases of intangible fixed assets	(24,582)	(29,055)
Payments for the sale of assets	320	4,368
NET CASH USED FOR THE INVESTMENT ACTIVITIES	**(26,471)**	**(3,142)**
FINANCIAL ACTIVITIES		
Change in loans from banks	(18,487)	(35,569)
of which:		
Repayment of capital and interest on Senior loans	(15,557)	(31,730)
Increase/Decrease in current account overdrafts	(2,930)	(3,839)
Repayment/Acceptance of finance leases	(3,293)	(4,656)
Exchange differences	19	-
Other changes and variations in shareholders' equity	123	(785)
NET CASH GENERATED BY/(USED IN) FINANCIAL ACTIVITIES	**(21,638)**	**(41,010)**
Effect of changes in foreign currency exchange rates	-	-
Cash flow generated /Absorbed by assets sold/held for sale	-	-
NET CASH GENERATED BY/(USED IN) FINANCIAL ACTIVITIES including cash flow generated/absorbed by assets sold/held for sale	**(21,638)**	**(41,010)**
NET INCREASE/(DECREASE) IN NET CASH AND CASH EQUIVALENTS	**(3,762)**	**(5,894)**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE FINANCIAL YEAR	**10,326**	**16,220**
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR	**6,564**	**10,326**

5.5 Statement of changes in shareholders' equity

	Share capital	Share premium reserve	Stock option reserve	Accumulated losses and Other reserves	Group shareholders' equity	Minority interests	Total
Balance at 31 December 2010	**92,017**	**-**	**4,388**	**(188,374)**	**(91,968)**	**-**	**(91,968)**
Share capital increase	2				**2**		**2**
Increases /(Decreases)			(4,388)	4,509	**121**		**121**
Result for the period				(38,140)	**(38,140)**		**(38,140)**
Balance at 31 December 2011	**92,019**	**-**	**-**	**(222,004)**	**(129,985)**	**-**	**(129,985)**

(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**
Result for the period				(24,276)	**(24,276)**	-	**(24,276)**
Balance at 31 December 2010	**92,017**	**-**	**4,388**	**(188,374)**	**(91,969)**	**-**	**(91,969)**

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

	Notes	2011	of which: related parties	2010	of which: related parties
(EUR 000)					
Revenues	*1*	267,605	266	278,153	369
Other income	*2*	11,342		3,717	
Purchase of materials and outsourced services	*3*	163,864	1,308	169,507	371
Payroll and related costs	*4*	38,032		43,209	
Stock option plan cost	*5*	-		73	
Other operating (income) charges	*6*	5,310		(1,297)	
Write-downs of receivables from customers	*7*	35,819		22,595	
Restructuring costs and other write-downs	*8*	2,065		1,775	
Amortisation/depreciation	*14-15*	55,126		47,801	
Operating result		**(21,268)**	**(1,042)**	**(1,792)**	**(2)**
Net financial income (charges)	*9*	(15,120)		(14,325)	
Pre-tax result		**(36,387)**	**(1,042)**	**(16,118)**	**(2)**
Income taxes	*10*	(1,821)		(3,924)	
Net result from operating activities (on-going)		**(38,208)**	**(1,042)**	**(20,041)**	**(2)**
Result from assets disposed of and/or destined for disposal	*11*	68		(4,235)	
Net result for the period	*12*	**(38,140)**	**(1,042)**	**(24,276)**	**(2)**
Attributable to:					
- Result pertaining to the parent company		**(38,140)**		**(24,276)**	
- Minority interests					
Earnings (Losses) per share					
Earnings per share from operating activities and those disposed of:					
- Basic		**(0.02)**		**(0.01)**	
- Diluted		**(0.02)**		**(0.01)**	
Earnings per share from operating activities:					
- Basic		**(0.02)**		**(0.01)**	
- Diluted		**(0.02)**		**(0.01)**	

5.7 Balance Sheet pursuant to Consob Resolution No. 15519 dated 27 July 2006

(EUR 000)	Notes	31 December 2011	of which: related parties	31 December 2010	of which: related parties
Non-current assets					
Intangible assets	*14*	77,385		86,808	
Properties, plant and machinery	*15*	106,932		124,369	
Other financial assets	*17*	10,076		10,217	
		194,393		**221,394**	
Current assets					
Inventories	*19*	648		557	
Receivables from customers	*20*	88,574	75	108,403	443
Other receivables and other current assets	*21*	16,750		24,722	
Other current financial assets	*22*	168		1,540	
Cash and cash equivalents	*23*	6,564		10,326	
		112,704	**75**	**145,548**	**443**
Assets held for sale		-		-	
Total Assets		**307,097**	**75**	**366,942**	**443**
Share Capital and reserves					
Share capital		92,019		92,017	
Stock option reserve				4,388	
Results from previous periods and Other reserves		(183,864)		(164,097)	
Result pertaining to the Group		(38,140)		(24,276)	
Group shareholders' equity	*24*	**(129,985)**		**(91,968)**	
Minority interests					
Shareholders' equity pertaining to minority shareholders	*25*				
Total Shareholders' equity		**(129,985)**		**(91,968)**	
Non-current liabilities					
Payables to banks and to other lenders	*26*	124,417		124,691	
Payables for financial leases	*26*	58,068		58,721	
Other non-current liabilities	*27*	7,373		13,299	
Liabilities for pension obligations and staff severance indemnities	*28*	4,209		4,250	

Provisions for risks and charges	*29*	3,379		5,977	
		197,447		**206,939**	
Current liabilities					
Payables to banks and other lenders	*30*	23,459		29,789	
Payables for financial leases	*30*	581		1,461	
Payables to suppliers	*31*	152,800	346	153,092	154
Other current liabilities	*32*	62,795		66,772	
		239,634	**346**	**251,114**	**154**
Liabilities directly related to assets held for sale		-		856	
Total Shareholders' equity and Liabilities		**307,097**	**346**	**366,942**	**154**

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 (hereinafter the "Group") closed 2011 with a consolidated loss of EUR 38.1 million and negative consolidated shareholders' equity of EUR 130 million. Furthermore, as at 31 December 2011, the Group had a gross financial debt of EUR 206.6 million and current liabilities greater than current assets (non-financial) for EUR 109.6 million.

As at 31 December 2010, the loss came to EUR 24.3 million; the negative shareholders equity came to EUR 92 million and gross financial debt totalled EUR 214.7 million. As at the same date, the difference between current assets and liabilities (non-financial) presented a negative balance of EUR 86.2 million.

During 2009, the Group implemented action with the aim of achieving economic, equity and financial balance over the long term, and launching a phase of recovery for the sales activities. In detail, the business plan was drawn up along with the associated financial plan and the sales of Tinet and the UK subsidiaries were completed, using the proceeds of the sale to repay part of the Group's debt. Gross financial debt passed from EUR 240.6 million as at 31 December 2009 to EUR 206.6 million at 31 December 2011.

In a recessionary context, during 2011 the following events took place emphasising the transformation underway for some years on the telecommunications market, leading to greater competitiveness and erosion of the margin for the operators:

a. progressive level of saturation for the broadband market and, thanks to the possibility for customers to migrate from one operator to another with minimum inconvenience and costs, greater acceptance by customers of promotions. These factors led to a significantly higher customer turnover rate, ensuing in greater competitiveness between operators and higher customer acquisition/retention costs;

b. increase in the local loop access tariffs for all the alternative operators who use the copper infrastructure of Telecom Italia and reduction in the revenue for incoming traffic, factors which have eroded the margins of alternative operators such as Tiscali.

In the presence of such factors (and other collateral ones such as the progressive replacement of the fixed lines with mobile ones, the increasing weight of the costs linked to customer service, the establishment of the so-called Over the Top), Tiscali, like the other operators in the sector, has rationalised its internal processes implementing rigorous cost cutting programmes to preserve margins and maintain the competitive position.

During 2011, in particular we can reveal that from an operational point of view, action by the Group continued aimed at improving efficiency via the rationalisation of the operating and commercial costs and the streamlining of the structure:

- a commercial agreement was entered into with the main network and traffic suppliers, which permits the Group, as from 1 August 2011, to obtain savings of around EUR 1 million a month until 31 December 2012. It is believed that this saving may also be consolidated in the years to come;
- on 18 October 2011 a Solidarity Agreement was entered into with the employees as per Italian Law No. 863 dated 1984. This agreement has a duration of 24 months and makes it possible to lower payroll and related costs by means of the reduction of working activities. All the employees of the Group's Italian companies are affected, with the exclusion of certain strategic departments. The reduction of staff costs envisaged for 2012, amounts to around EUR 5 million;
- the migration of customers to newly opened LLU sites was only carried out in the fourth quarter of 2011 due to a number of delays and, consequently, was unable to produce the expected benefits during the year but is in any event destined to have positive impacts in 2012;
- the strategy for the rationalisation and control of the customer base started in 2010 continued, for the purpose of improving the quality of the customer base and the consequent cash flows over the next few years via:
    - the mass termination carried out in 2011 of around 38 thousand lines of customers in default, with a consequent negative impact on the write-down of the receivables. This cancellation will what is more make it possible to obtain savings on line rental costs;
    - the precautionary screening of the customer base and the monitoring of the position via an automatic dunning system integrated with the ERP system;
    - the progressive reduction of the customers who pay via post office paying-in slip or credit transfer, who present greater rates of insolvency, to the benefit of automatic payment methods (direct debit and credit cards);

- the insourcing and rationalisation of the customer care structures has permitted a considerable savings, as well as greater control of the quality of the service for the end customer;

From the point of view of the business results for the year, in detail we can reveal that:

- in line with the market trend, during 2011 the Group increased the price of the ADSK and VoIP fee by EUR 2 (VAT included) for around 380 thousand customers, thereby permitting the recovery of the increase in the copper line rental fee applicable as from 1 July 2010. The impact on access and voice revenues came to around EUR 6.3 million in 2011;
- the expansion of the network and the sales force in the “Media” sector led to an increase in the related revenues of 28.9% when compared with 2010.
- the Group continued to focus on innovation, as witnessed by the launch of new products and services, among which “Indoona” merits particular mention, a rich communication service dedicated to smartphones, tablets and PCs which confirms the historic positioning of Tiscali as innovative operator in the sphere of internet services.

The action described above made it possible to improve the cash flows of the operating activities before the changes in net working capital, which rose from EUR 53.6 million in 2010 to EUR 60.1 million in 2011, contributing towards reducing the financial debt. Operations generated cash making it possible to fully honour the due dates relating to financial debt, both in terms of principal and interest. The operating result, with a negative balance of EUR 21.3 million, and the loss for the year, totalling EUR 38.1 million, were significantly affected by the write-down of receivables during the year.

The Group’s business plan was also updated, covering the entire period for the repayment of the financial debt. This 2012-2017 business plan, approved by the Board of Directors on 30 March 2012, hypothesises, in 2014, the rescheduling of the part of financial debt in excess with respect to the cash flows which is envisaged will be generated over the plan’s duration.

The plan for 2012 in particular envisages:

- o overall turnover essentially in line with 2011 (within the sphere of which, what is more, mention is made of the increase in “Media” revenues);
- o the significant reduction in operating costs, mainly thanks to the action described above and also to the drop in the mobile termination cost and the Ip transit cost.

On the basis of the matters set forth above, the Directors, when evaluating the existence of the condition of the 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 130 million, due mainly to the negative economic performance and weight of the 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 and financial 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:

- in March 2011, collected the last portion of the escrow deriving from the sale of Tiscali UK for a total of EUR 1.4 million. This amount is intended to repay the debt outstanding with the financial institutions;
- once again in 2011, respected all the obligations and due dates envisaged by the financial plan. The cash flows as described, present a clear improvement with respect to last year;
- updated the business plan, verifying the coherence with the financial requirements determined by the debt structure, considering its rescheduling in 2014;
- in 2011, undertook specific action for the recovery of the margins described above whose effects will be fully felt throughout 2012;
- focused the commercial policy, preferring the acquisition of customers in direct areas with respect to those who use Bitstream;
- continued to focus on certain sector with high growth potential, such as the media sector, where an increase in revenues was seen of 29% when compared with 2010, and on particularly innovative projects;
- reported an essential improvement in the cash flows of the operating activities, which rose from EUR 53.6 million in 2010 to EUR 60.1 million in 2011.

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 2010 financial statements, at present uncertainties still remain, with regards 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 2011 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 2011 were adapted following the enforcement of IAS 1 – "Presentation of financial statements" reviewed in 2007. 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.
- Statement of Cash Flows: 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 July 2006 with regard 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.

Segment reporting

With Regulation (EC) No. 1358/2007 dated 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.

<u>Assets held for sale and discontinued operations</u>

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 results for the period achieved by subsidiaries held for sale, including any adjustment of their net assets to market value (fair value);
- The result of the 'discontinued' operations, including the result for the period 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 (Investments in associates) and by IAS 31 (Interests 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 policies, 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).
- intra-group 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 of 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.

<u>Changes in the consolidation area</u>

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 2011, when compared with the consolidated financial statements at 31 December 2010, are illustrated as follows.

Companies removed from the consolidation area:

- Tiscali B.V.: on 29 December 2011, the process for the merger via incorporation within Tiscali International B.V. was completed;
- Tiscali Media S.r.l.: on 15 July 2011, the process for the merger via incorporation within Tiscali Italia S.p.A. was completed;
- X-Stream Netwok Inc (USA): discontinuation of the company;
- X-Stream Netwok Tecnologies Inc (USA): discontinuation 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 2011 and 2010 financial statements for foreign companies into Euro were:

	31 December 2011		31 December 2010	
	average	**final**	**average**	**final**
GB pound	0.84405	0.8353	0.84813	0.8602

Other intangible assets

Computer software – Development costs

Acquired computer software licenses are capitalised and included among intangible assets at purchase cost and are amortised on a straight-line basis over their estimated useful lives.

Internally-generated intangible assets arising from costs supported for the development of applications software under Group control and directly associated with the production of services, in particular with regard to 'technological platforms' for access and management of the Tiscali network, are recognised if:

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

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

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

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

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

Broadband service activation costs

These costs are capitalised and amortised over a period of 24 months.

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 minimum and maximum depreciation rates applied during 2011 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.

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 balance sheet 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

The Group does not use derivative instruments.

<u>Liabilities for pension obligations and staff severance indemnities</u>

Defined benefit plans (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 defined contribution pension schemes are booked to the income statement in the period in which they are due. The Group does not recognise post-employment benefit plans, 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 plans", while the portions recorded in the staff severance indemnity (TFR) remain "Defined benefit plans".

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 – Share-based payment"; 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 “Evaluation of the company 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.

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 2011

As from 1 January 2011, the following new standards and interpretations were issued, as listed below:

- ***IAS 24 Related party disclosures***: this clarifies the definition of related party emphasising the symmetry in the identification of the related parties and more clearly defines under what circumstances individuals and executives with strategic responsibility must been deemed as related parties. Secondly, the amendment introduces an exemption from the general disclosure requirements on related parties for transactions with a government and with bodies controlled by, under the joint control or under the significant influence of the government like the entity itself. The amendment in question has not had any impact on the financial position or result of the Group.
- ***IAS 32 Financial instruments: presentation:*** this includes an amendment to the definition of financial liability for the purpose of the classification of the issue of rights in foreign currency (and of certain options and warrants) as instruments representative of capital in the cases where these instruments are attributable on a *pro rata* basis to all the holders of the same class of an instrument (not derivative), or for the purchase of a fixed number of instruments representative of capital of the entity for a fixed amount in any currency. The amendment in question has not had any impact on the financial position or result of the Group.
- **IFRS 1 reviewed – First time adoption of the IFRS**: this amendment exempts one from providing - on first time adoption of the IFRS - comparative balances of the additional disclosures requested by IFRS 7 relating to the gauging of the fair value and the liquidity risk.
- ***IFRIC 14 Prepayments of a minimum funding requirement:*** The amendment removes an unintentional consequence which occurs when an entity is subject to minimum contribution requirements and takes steps to make an advance payment so as to cover these requisites. The amendment permits an entity to treat the advance payments relating to a minimum funding requirement as an asset. The amendment in question has not had any impact on the financial position or result of the Group.
- ***IFRIC 19 (Extinguishing financial liabilities with equity instruments):*** the purpose of this 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. The amendment in question has not had any impact on the financial position or result of the Group.
- ***Improvements to the IFRS* (issued by the IASB in May 2010):**
  - ***IFRS 3 Business combinations:*** The options available for the gauging of minority interests (NCI) have been amended. It is possible to value just the components of minority interests - which represent an effective interest holding which guarantees the holders a proportional interest in the net assets of a company in the event of liquidation - at fair value or alternatively in relation to the proportional interests of the identifiable net assets of the company acquired. All the other components must be valued at fair value as of the acquisition date.
  - **IAS 1 Presentation of financial statements:** the amendment clarifies that the analysis of each of the components of the statement of comprehensive income can be included, alternatively, in the statement of changes in shareholders' equity or the notes to the financial statements.

- **IFRS 3 Business combinations:** payments based on shares (replaced voluntarily or not replaced) and their accounting treatment within the context of a business combination.
- **IFRIC 13 Customer loyalty programmes:** when determining the fair value of the rewards, an entity must consider discounts and incentives which would otherwise be offered to customers not participating in loyalty programmes.

- There are no significant impacts on the Group's consolidated financial statements following the application of these amendments.

Revenues (note 1)

(EUR 000)	31 December 2011	31 December 2010
Revenues	267,605	278,153

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

Other income (note 2)

(EUR 000)	31 December 2011	31 December 2010
Other income	11,342	3,717

Other income includes the release, totalling EUR 2.1 million, of the pertinent portion of the capital gain generated via the Sale and lease back transaction on the Cagliari headquarters (Sa Illetta). This item also includes the amount of the VAT recovered on terminated customers of the subsidiary Tiscali Italia S.p.A. for EUR 7.4 million, consequent to the process for the mass disconnection of customers.

Purchase of materials and outsourced services (note 3)

(EUR 000)	31 December 2011	31 December 2010
Purchase of materials and outsourced services	-	14
Line/traffic rental and interconnection costs	108,253	112,357
Costs for use of third party assets	5,197	4,611
Portal services	9,420	8,806
Marketing costs	12,434	10,403
Other services	28,559	33,317
Total	**163,864**	**169,507**

The decrease in Line/traffic rental and interconnection costs is linked to the reduction in the volumes and the reduction in the tariffs deriving from commercial agreements with the main suppliers of services.
The increase in costs for portal services reflects the rise in revenues for the Media segment.

Payroll and related costs (note 4)

(EUR 000)	**31 December 2011**	**31 December 2010**
Wages and salaries	25,200	29,041
Other personnel costs	12,832	14,168
Total	**38,032**	**43,209**

The increase in payroll costs with respect to the 2010 is essentially attributable to the reduction in the workforce.

At 31 December 2011, the Tiscali Group had 917 employees. The breakdown by category and the corresponding balance at 31 December 2010 are presented below.

Number of employees

	2011	**2010**
Executives	18	22
Middle managers	93	96
Office staff	794	887
Blue-collar workers	12	3
Total	**917**	**1,008**

Stock option plan cost (note 5)

(EUR 000)	**31 December 2011**	**31 December 2010**
Stock option plan costs and other provisions	-	73
Total	**-**	**73**

Other operating (income) charges (note 6)

(EUR 000)	**31 December 2011**	**31 December 2010**
Other operating costs	5,394	4,266
Other operating (income)	(84)	(5,563)
Total	**5,310**	**(1,297)**

Other operating costs mainly refer to general management costs, ministerial contributions and costs for the control and recovery of receivables.

Write-downs of receivables from customers (note 7)

(EUR 000)	31 December 2011	31 December 2010
Write-downs of receivables from customers	35,819	22,595
Total	**35,819**	**22,595**

The write-down of receivables from customers represents around 13.4% of revenues, up with respect to the percentage in the same period of 2010 (8.1%). Please refer to the note "Receivables from customers" for further details. This increase is to be placed in relation mainly with the strategy for the rationalisation and control of the customer base implemented as from 2010, for the purpose of improving the quality of the customer base and the consequent cash flows over the next few years. This strategy led among other things to the mass termination of around 38 thousand lines of defaulting customers during 2011, a cancellation which will make it possible to obtain significant savings in line rental costs. The mass disconnection process in question also permitted the issue of credit notes for the recovery of VAT for an amount equating to EUR 7.4 million during 2011.

Restructuring costs and other write-downs (note 8)

(EUR 000)	31 December 2011	31 December 2010
Restructuring costs and other write-downs	2,065	1,775
Total	**2,065**	**1,775**

Restructuring costs and other write-downs, amounting to EUR 2 million, are essentially attributable to provisions on disputes with employees and charges relating to the disconnection of customers.

Net financial income (charges) (note 9)

A breakdown of net financial income (charges) for the year, presenting a negative balance of EUR 15.1 million, is provided below.

(EUR 000)	31 December 2011	31 December 2010
Financial income		
Interest on bank deposits	98	67
Other financial income	137	287
Total	**235**	**354**
Financial charges		
Interest and other charges due to banks	8,709	10,555
Other financial charges	6,645	4,124
Total	**15,354**	**14,679**
Net financial income (charges)	**(15,120)**	**(14,325)**

The item Financial charges amounting to around EUR 15.1 million mainly includes the following elements:

- interest expense, relating to the loan from Senior Lenders ("Group Facility Agreement") amounting to EUR 7.9 million;
- interest expense on ordinary current accounts for EUR 0.8 million;
- interest expense on financial leasing for around EUR 1.8 million;
- bank charges for EUR 3.3 million.

Income taxes (note 10)

(EUR 000)	**31 December 2011**	**31 December 2010**
Current taxes	1,821	3,944
Deferred taxes	-	(21)
Total	**(1,821)**	**(3,924)**

The balance includes the cost of the current taxes for the year essentially represented by IRAP (regional business tax) payable by the Italian companies.

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" was not significant as of 31 December 2011.

Earnings (Losses) per share (note 12)

The result per share of "operating activities" was calculated by dividing the net loss for the year attributable to the ordinary shareholders of the parent company, amounting to EUR 38,208,297, by the weighted average number of ordinary shares in circulation during the year, totalling 1,861,494,666.
The result per share from "operating activities and those disposed of" was calculated by dividing the loss from operating activities and those disposed of, amounting to EUR 38,139,932, 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 2011 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 Unit "Italy" (essentially corresponding to 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 2012-2017 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) equal 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 equal to 9.23%.

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 2011, 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 2011 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 2011	**4,641**	**99,470**	**61,746**	**24,729**	**1,018**	**191,605**
Increases		3,675	18,349	359	1,671	24,053
Other changes						
Reclassifications		1,443	989		(1,903)	528
31 December 2011	**4,641**	**104,588**	**81,083**	**25,088**	**786**	**216,186**
ACCUMULATED AMORTISATION						
1 January 2011	**4,290**	**43,100**	**42,360**	**15,047**		**104,797**
Increases in amortisation	261	9,476	19,515	4,752		34,004
Other changes						
Reclassifications						
31 December 2011	**4,552**	**52,576**	**61,875**	**19,799**		**138,801**
NET VALUE						
31 December 2010	**351**	**56,371**	**19,385**	**9,683**	**1,018**	**86,808**
31 December 2011	**89**	**52,012**	**19,208**	**5,289**	**786**	**77,385**

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 89 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 52 million, includes about EUR 42.8 million relating to rights and costs connected with the acquiring of conveying capacity, 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 3.8 million for patents. The total increase of EUR 3.7 million mainly concerns software licences and patents.

The item “Broadband service activation costs”, amounting to EUR 19.2 million, relates to the capitalization of the customer acquisition and ADSL service activation costs incurred in 2011. These costs are amortised over a period of 24 months.

"Other intangible fixed assets", amounting to EUR 5.3 million include costs for the development of the UNIT2 platform for EUR 3.8 million, and round EUR 0.8 million in costs relating to the development of the mobile telephone project (MVNO).

The item "Intangible assets in course of acquisition and prepayments", totalling EUR 0.8 million, refers to investments made as part of the fibre optic network development project. Reclassifications, amounting to EUR 1.9 million, concern the allocation to the categories "Concessions and similar rights" and "Broadband service activation costs" of deferred charges relating to assets entering service during 2011.

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**
HISTORIC COST					
1 January 2011	**64,260**	**253,336**	**4,644**	**3,850**	**326,090**
Increases		2,216	397	1,598	4,210
Other changes					
Reclassifications		3,147		(3,675)	(528)
31 December 2011	**64,260**	**258,698**	**5,040**	**1,773**	**329,771**
ACCUMULATED DEPRECIATION					
1 January 2011	**9,995**	**189,380**	**2,347**		**201,721**
Increases in depreciation	1,868	18,798	455		21,121
Other changes		(3)			(3)
Reclassifications					
31 December 2011	**11,863**	**208,175**	**2,802**		**222,840**
NET VALUE					
31 December 2010	**54,265**	**63,956**	**2,297**	**3,850**	**124,369**
31 December 2011	**52,397**	**50,523**	**2,238**	**1,773**	**106,932**

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 52.4 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 50.5 million) includes specific network equipment such as routers, DSLAM, servers, and transmission devices installed at the LLU sites. The EUR 5.3 million increase reflects the investments concerning the development of the infrastructure that are necessary to support the ADSL service supply in the unbundling mode for EUR 2.2 million. The increase comprises EUR 3.1 million of plant reclassified from the category "Other tangible assets in course of construction and prepayments" relating to costs for transmission equipment and DSLAM installed as part of the project for developing the network which started to be depreciated during 2011.

"Other tangible assets", whose balance amounts to EUR 2.2 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 1.7 million, includes transmission equipment and DSLAM which will be installed in the first few months of 2012, as well as modems in inventory destined to be loaned out to customers.

Equity investments (note 16)

The following table presents the list of equity investments as at 31 December 2011:

Company name	Registered Offices	Investment held by	Forecast statutory values as at 31 December 2011			% investment
			Share Capital	Shareholders' equity	Net result	
Tiscali S.p.A.	Italy	Parent Company	92,019	65,055	(29,934)	n.a.
Tiscali Italia S.p.A.	Italy	Tiscali S.p.A.	185,000	32,706	(112,221)	100.0%
Tiscali Contact S.r.l. (merger via incorporation with effect in 2012)	Italy	Tiscali Italia S.p.A.	10	208	161	100.0%
Tiscali Finance SA (in liquidation) (*)	Luxemburg	Tiscali S.p.A.	125	(19)	(14)	100.0%
Tiscali Financial Services SA (*)	Luxemburg	Tiscali S.p.A.	31	(3,544)	(168)	100.0%
Tiscali Deutschland Gmbh (*)	Germany	Tiscali S.p.A.	555	(33,816)	(338)	100.0%
Tiscali GmbH (*)	Germany	Tiscali Deutschland Gmbh	26	(146,434)	(1,576)	100.0%
Tiscali Business GmbH (*)	Germany	Tiscali Business UK Ltd	2,046	(206,845)	(2,144)	99.5%
Tiscali Verwaltungs Gmbh (*)	Germany	Tiscali Deutschland Gmbh	25	(20)	(6)	100.0%
Tiscali Holdings UK Ltd (*)	UK	Tiscali S.p.A.	59	(283,762)	(11,870)	100.0%
World Online International N.V. (*)	The Netherlands	Tiscali S.p.A.	115,519			99.5%
Tiscali International B.V. (*)	The Netherlands	World Online International N.V.	115,469	273,352	(81,880)	99.5%
Tiscali International Network B.V. (*)	The Netherlands	Tiscali International B.V.	18	15,427	(10,287)	99.5%
Tiscali International Network SA (in liquidation) (*)	France	Tiscali International Network B.V.	4,919	(2,993)	(406)	99.5%
Tiscali Business UK Ltd (*)	UK	Tiscali International B.V.	72	(15)	(8)	99.5%

(*) preliminary figures relating to the financial statements as at 31 December 2011

Other non-current financial assets (note 17)

(EUR 000)	31 December 2011	31 December 2010
Guarantee deposits	6,444	6,738
Other receivables	1,299	1,147

Equity investments in other companies	2,332	2,332
Total	**10,076**	**10,217**

Guarantee deposits mainly relate to the Sale and lease back contract on the property in Cagliari (Sa Illetta).

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 2011, 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 697.9 million and deductible timing differences for EUR 96.2 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 186.2 million;
- Tiscali International B.V. and the Dutch subsidiaries for a total of EUR 81.8 million;
- the German subsidiaries for a total of EUR 262.3 million;
- Tiscali UK Holdings for a total of EUR 164 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 December 2011**	**Year of maturity**				
		2012	**2013**	**2014**	**After 2014**	**Indefinite**
Total previous tax losses	697,917	38,347	10,943	-	32,557	616,070

The tax losses have an indefinite expiry, with the exception of the losses relating to Tiscali International B.V. and the Dutch subsidiaries.

The Group does not record prepaid taxes, while the theoretical tax benefit calculated on the basis of an estimated average rate of 28.2% would amount to Euro 223.8 million. Despite the Group's business plan having indicated profits for the next five years, Tiscali S.p.A.'s Directors have not provided for prepaid taxes in the financial statements as at 31 December 2011.

Inventories (note 19)

As at 31 December 2011, inventories amounted in total to EUR 0.6 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 December 2011	31 December 2010
Receivables from customers	124,550	159,737
Write-down provision	(35,977)	(51,333)
Total	**88,574**	**108,403**

At 31 December 2011, receivables from customers totalled EUR 88.5 million, after write-downs of EUR 36 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 2011 and 31 December 2010, respectively:

(EUR 000)	31 December 2011	31 December 2010
not due	31,722	44,405
1 – 180 days	21,736	19,998
181 – 360 days	15,843	14,401
over 360 days	55,249	80,933
Total receivables from customers	**124,550**	**159,737**
Receivable write-down provision	(35,977)	(51,333)
Total Receivables from customers net of provision	**88,574**	**108,403**

The following table shows aging net of the receivable write-down provision at 31 December 2011:

(EUR 000)	31 December 2011	31 December 2010
not due	31,722	44,405
1 – 180 days	21,074	18,634
181 – 360 days	14,661	13,259
over 360 days	21,116	32,105
Total	**88,574**	**108,403**

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

(EUR 000)	31 December 2011	31 December 2010
Write-down provision at start of period	**(51,333)**	**(61,437)**

Exchange differences		
Disposals/Consolidation area change		
Provision	(35,819)	(22,595)
Utilisation	51,175	32,698
Write-down provision at end of period	**(35,977)**	**(51,333)**

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

Other Receivables and other Current Assets (note 21)

(EUR 000)	31 December 2011	31 December 2010
Other receivables	4,946	6,617
Accrued income	2,132	4,597
Prepaid expense	9,673	13,508
Total	**16,750**	**24,722**

Other Receivables, amounting to about EUR 4.9 million, mainly include VAT receivables for Euro 1.9 million (relating to the German subsidiaries), advances to suppliers amounting to approximately EUR 1 million, receivables due from tax authorities for EUR 0.8 million and other sundry receivables for EUR 1.2 million.

Accrued income (EUR 2.1 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 9.6 million, down with respect to the 2010 figures (EUR 13.5 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 December 2011	31 December 2010
Guarantee deposits	-	1,453
Other receivables	168	87
Total	**168**	**1,540**

The restricted guarantee deposit relating to the sale of Tiscali UK, amounting to Euro 1.4 million, was collected in March 2011.

Cash and cash equivalents (note 23)

Cash and cash equivalents at 31 December 2011 amounted to EUR 6.5 million and include the Group's cash, essentially held in bank current accounts. For greater details, please refer to the statement of cash flows.

Shareholders' equity (note 24)

(EUR 000)	31 December 2011	31 December 2010
Share capital	92,019	92,017
Stock Options reserve	-	4,388
Accumulated losses and other reserves	(183,864)	(164,097)
Result for the period	(38,140)	(24,276)
Minority interests	-	-
Total Shareholders' equity	**(129,985)**	**(91,968)**

Changes in the various shareholders' equity items are detailed in the relevant table.
At 31 December 2011, the share capital amounted to EUR 92 million corresponding to 1,861,494,666 ordinary shares lacking par value.

Shareholders' equity pertaining to minority shareholders (note 25)

The shareholders' equity pertaining to minority shareholders as at 31 December 2011 was nil.

Current and non-current financial liabilities (note 26)

Net financial position

The Group's net financial position is illustrated in the following table:

(EUR mln)	31 December 2011	31 December 2010
A. Cash and Bank deposits	6,564	10,326
B. Other cash equivalents	-	-
C. Securities held for trading	-	-
D. Cash and cash equivalents (A) + (B) + (C)	***6,564***	***10,326***
E. Current financial receivables	**-**	**-**
F. Non-current financial receivables		
G. Current bank payables	13,835	12,791
H. Current portion of non-current debt	9,625	16,997
I. Other current financial payables (*)	581	1,461
J. Current financial debt (G) + (H) + (I)	***24,040***	***31,250***
K. Net current financial debt *(J) – (E) – (D) - (F)*	**17,476**	**20,924**
L. Non-current bank payables	124,417	124,691
M. Bonds issued		
N. Other non-current payables (**)	58,068	58,721
O. Non-current financial debt *(N) + (L) + (M)*	**182,485**	**183,412**
P. Net Financial Debt *(K) + (O)*	**199,961**	**204,336**

(*) 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 December 2011	31 December 2010
Consolidated net financial debt	**193.5**	**197.6**
Other cash equivalents and non-current financial receivables	6	6.7
Consolidated net financial debt prepared on the basis of Consob communication No. DEM/6064293 dated 28 July 2006	**200.0**	**204.3**

Financial indebtedness 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).

Payables to banks

Amounts owed to banks, totalling EUR 147.8 million (of which EUR 23.4 million current and EUR 124.4 million non-current), mainly refer to:

- Group Facility Agreement (GFA) for EUR 134 million (equating to a nominal EUR 115.5 million increased by interest capitalised as at 31 December 2011 and net of the repayments made during 2011);
- Current bank payables for account overdrafts amounting to EUR 13.8 million.

The amount owed to banks represented by the GFA loan was as follows as at 31 December 2011:

- **Tranche A**: nominal residual amount of EUR 95 million (maturing in 2014); nominal EUR 97.5 million as at 31 December 2010 net of EUR 2.5 million paid on 4 July 2011);
- **Tranche B**: nominal residual amount of EUR 20.5 million (maturing in 2015); nominal EUR 31.3 million as at 31 December 2010 net of EUR 1.4 million paid on 22 March 2011, EUR 5.5 million paid on 10 May 2011, EUR 1,2 million paid on 27 May 2011; EUR 1.2 million paid on 9 June 2011 and EUR 1.5 million paid on 4 July 2011.

During 2011, all the due dates envisaged by the GFA loan agreement were observed and EUR 13.3 million paid by way of repayment of the principal portion.

The following table summarizes the main elements of the loan.

Loan	Amount	Year of maturity	Financial institution	Borrower	Guarantor
Facility A **Facility B**	EUR 95 million (*) EUR 20.5 million (*)	2014 2015	Intesa Sanpaolo London Rabobank Int'l Goldman Sachs Intl BK Credit Suisse International Silver Point Lux Plat Sarl Sothic Cap Deutsche Bank London	Tiscali UK Holdings Ltd	Tiscali S.p.A. Tiscali Italia S.p.A. Tiscali International B.V. Tiscali Financial Services SA

(*) nominal amounts as at 31 December 2011 excluding capitalised interest.

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 illustrated, the business plan has been updated; within the sphere of this plan, the covenant and other contractual obligations have been observed with reference to the date of 31 December 2011 and for subsequent plan years.

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 B.V. and Tiscali Financial Services SA are the entities that provide them under the loan agreement.

The amortisation plan established by the GFA provides for repayment of Facilities A, B and C for 85% directly on expiry. 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 57.4 million;
- Other financial leases for a total of Euro 1.1 million.

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 2011	**31 December 2010**	**31 December 2011**	**31 December 2010**
Less than 1 year	3,526	4,672	580	1,460
Between 1 and 5 years	24,991	28,340	14,156	14,809
More than 5 years	51,527	51,525	43,913	43,913
Total	**80,045**	**84,537**	**58,649**	**60,182**
Less future financial charges	21,396	24,355		
Current value of minimum payments	**58,649**	**60,182**	**58,649**	**60,182**
Included in the balance sheet				
Payables due to current finance leases			581	1,461
Payables for non-current financial leases			58,068	58,721
			58,649	**60,182**

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				
31.12.2010	54,186	10,976		**65,161**
31.12.2011	52,344	5,817		**58,161**

Payments envisaged by the operating lease contracts are indicated below:

(EUR 000)	31 December 2011	31 December 2010
Minimum payments due for leasing	1,528	1,346
Total	**1,528**	**1,346**

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

(EUR 000)	31 December 2011	31 December 2010
Less than 1 year	1,106	1,173
Between 1 and 5 years	727	1,034
More than 5 years	-	311
Total	**1,833**	**2,518**

Breakdown of current and non-current debt

As per the following table.

	Debt as at 31 December 2011	Current debt	Non-current debt
Amounts owed to banks for loans (*)			
Facility A	108,559	8,753	99,806
Facility B	25,483	872	24,611
Total amounts owed to banks for loans	**134,042**	**9,625**	**124,417**
Total current bank payables (**)	**13,835**	**13,835**	**-**
Total amounts owed to banks	147,876	**23,459**	**124,417**
Amounts owed to leasing firms			
Sale and lease back – Sa Illetta	57,494		*57,494*
Other financial leases	1,155	*581*	*574*
Total amounts owed to leasing firms	**58,649**	**581**	**58,068**
Total indebtedness	**206,525**	**24,040**	**182,485**

(*) The amount is for the GFA loan amounting to a nominal EUR 115.5 million in addition to capitalised interest accrued at 31 December 2011 and net of the repayments during 2011.

(**) Amounts owed for bank overdrafts

The current portion of amounts owed to banks for loans, totalling EUR 9.6 million, is represented by:

- a portion of principal, maturing in July 2012 referring to Facility A and amounting to EUR 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 December 2011	31 December 2010
Payables to suppliers	5,985	11,812
Other payables	1,388	1,487
Total	**7,373**	**13,299**

Payables to suppliers are mainly represented by the medium/long-term portion of the debt contracted for the purchase of the rights to use the fibre optic network (“*Indefeasible right of use*” or “IRU”).

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

The table below shows the changes during the period:

(EUR 000)	31 December 2010	Provisions	Utilisation	Other changes	2011
Staff severance indemnities	4,250	2,258	(698)	(1,628)	4,209
Total	**4,250**	**2,258**	**(698)**	**(1,628)**	**4,209**

The staff severance provision, which comprises the indemnities accrued in favour of employees, amounts to EUR 4.2 million as at 31 December 2011 and refers to the Parent Company and the subsidiaries operating in Italy. Other changes concern the reclassification of part of the staff severance provision intended for supplementary welfare funds.

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 than 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 the future performances takes into account any foreseeable increases corresponding to a further length of service, and to the alleged growth of the remuneration received at the date of estimate, 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:	5.25%
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 20 to 65 years of age
Advance payments:	3.0% from 20 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)

(EUR 000)	31 December 2010	Provisions	Utilisation	31 December 2011
Provisions for risks and charges	5,977	720	(3,318)	3,379
Total	**5,977**	**720**	**(3,318)**	**3,379**

The provision for risks and charges as at 31 December 2011 essentially includes provisions for tax assessments totalling EUR 1.0 million and provisions for disputes with employees for the remaining balance. During the year, the provisions for risks and charges were used mainly for the employee reorganisation programme.

Current financial liabilities (note 30)

(EUR 000)	31 December 2011	31 December 2010
Payables to banks	23,459	29,789
Payables for financial leases (short-term)	581	1,461
Total	**24,040**	**31,250**

Payables to banks and to other lenders

The item "Payables to banks", amounting to around EUR 23.5 million, , includes bank debts owed by the Italian subsidiary Tiscali Italia S.p.A. (EUR 13.7 million), the parent company Tiscali S.p.A. (EUR 0.1 million) and Tiscali UK Holding for EUR 9.6 million (short-term portion of Senior Lender restructured loans, see note 27 for details).

Payables for financial leases

Payables for financial leases, amounting to EUR 0.5 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 December 2011	31 December 2010
Payables to suppliers	152,800	153,092
Total	**152,800**	**153,092**

Payables to suppliers 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 8.7 million for the purchase of IRU (Indefeasible Rights of Use) concerning investments for the network structure.

Other current liabilities (note 32)

(EUR 000)	31 December 2011	31 December 2010
Accrued expenses	2,991	1,456
Deferred income	41,484	45,163
Other payables	18,320	20,153
Total	**62,795**	**66,772**

Accrued expenses refer to charges for staff and costs for professional consultancy.

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 21.2 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 12.8 million;
- the deferral of the revenues for the activation of the ADSL and VoIP services in relation to the non-pertinent portion, for around EUR 5.9 million.

The item Other payables, totalling Euro 18.3 million, mainly includes the balance of the payable for VAT for EUR 5.5 million, payables to the tax authorities and social security and welfare institutions for around EUR 7.1 million, payables due to employees totalling Euro 1.6 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.

Risk management linked with interest rate

Group policy is to maintain a correct ratio between fixed-rate debt and floating-rate debt.

Consequently, the company does not feel that the risk related to fluctuating interest rates is significant and therefore has not entered into 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 2012.

31 December 2011	Book value	Outgoing cash flows	less than 1 year	between 1 and 5 years	more than 5 years
(EUR 000)					
Secured bank loans	134,042	155,905	8,166	147,739	
Payables to suppliers and other payables	178,497	178,497	171.124	7,373	
Bank account overdrafts	13,835	13,835	13,835		

31 December 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		

Financial instruments

Fair value

The following tables show the valuations respectively at 31 December 2011 and at 31 December 2010, of financial instruments present as of the balance sheet date:

31 December 2011	Book value	Fair value
(EUR 000)		
Secured bank loans	134,042	106,939
Unsecured bank loans	13,835	13,835
Payables for financial leases	58,649	49,901

31 December 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

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 Group, 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 assignment to the Chief Executive Officer of 3,593,143 options for the purchase of the same number of ordinary shares of the Company and to 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.
As at 31 December 2011, there were no options exercisable since the exercise right, relating to the 43,000 options existing as at 1 January 2011, had expired on 13 November 2011. The Stock Option plan will expire on 3 May 2012 on expiry of the fifth year of validity.
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 2011:

No. of options	**as at 31 December 2011**
In circulation as at 1 January 2011	43,000
Assigned	-
Waived	-
Expired	43,000
In circulation as at 31 December 2011	**-**
Exercisable as at 31 December 2011	-

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.

<u>Disputes</u>

Vereniging van Effectenbezitters/ Stichting Van der Goen WOL Claims dispute

In July 2001, the Dutch association Vereniging van Effectenbezitters and the Stichting VEB-Actie WOL foundation, which represent a group of around 10,000 former minority shareholders of World Online International N.V. (hereinafter "WOL"), summonsed WOL (currently 99.5% owned by Tiscali) and the financial institutions tasked with the stock market listing of the Dutch subsidiary, disputing, in particular, the incomplete and incorrect nature, as per Dutch law, of certain information contained in the 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 the settlement agreements reached in November 2010 and in July 2011 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 carrying out negotiations aimed at a settlement of the dispute.

You are also hereby informed that Stichting Van der Goen WOL Claims in December 2011 made a further request for compensation representing 29 shareholders or those entitled, in which the hypothesis of proceedings with legal action was furthered. As things stand, so far no proceedings have been launched.

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.

Tax assessments

The Dutch tax authorities forwarded World On Line International NV (and the direct subsidiary Tiscali International B.V.) 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 B.V. 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 in 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

Income statement as at 31 December 2011

(EUR 000)	Italy	Other	Corporate	HFS/ Discontinued	Cancellation adjustments	Total
Revenues						
From third parties	267,131	29	444	-	-	267,605
Intra-group	1,058	5,676	4,878	-	(11,611)	-
Total revenues	**268,189**	**5,705**	**5,322**	**-**	**(11,611)**	**267,605**
Operating result	**(103,800)**	**(10,148)**	**(118,812)**	**-**	**211,492**	**(21,268)**
Portion of results of equity investments carried at equity						**-**
Net financial income (charges)						(15,120)
Pre-tax result						(36,387)
Income taxes						(1,821)
Net result from operating activities (on-going)						(38,208)
Result from assets disposed of and/or destined for disposal						68
Net profit (loss)						**(38,140)**

Income statement as at 31 December 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)**

Balance Sheet

31 December 2011 (EUR 000)	**Italy**	**Other**	**Corporate**	**HFS/ Discontinued**	**Cancellation adjustments**	**Total**
Assets						
Segment assets	300,180	2,215	2,370	-		304,765
Equity investments in other companies	2,332	-	-	-		2,332
Total consolidated assets	**302,512**	**2,215**	**2,370**	**-**		**307,097**
Liabilities						
Segment liabilities	317,332	5,061	334,030	-	(219,341)	437,081
Total consolidated liabilities	**317,332**	**5,061**	**334,030**	**-**	**(219,341)**	**437,081**

31 December 2010 (EUR 000)	**Italy**	**Other**	**Corporate**	**HFS/ Discontinued**	**Cancellation adjustments**	**Total**
Assets						
Segment assets	353,584	3,723	7,303	-		364,610
Equity investments in other companies	2,332	-	-	-		2,332
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**

Commitments and other guarantees

A breakdown of guarantees given during 2011 is shown in the table below.

(EUR 000)	**31 December 2011**	**31 December 2010**
Guarantees given to third parties (sureties)	237,793	260,620
Commitments	2,500	2,500
Total	**240,293**	**263,120**

Sureties given mainly refer to the guarantee given 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 25 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 1.4 million and in favour of the Inland Revenue for EUR 0.5 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, there were no significant non-recurrent transactions during 2011.

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 2011 arising from transactions with related parties.

The most significant balances, at 31 December 2011, summarized by supplier of the services, are as follows:

INCOME STATEMENT VALUES *(EUR 000)*	Notes	**2011**	**2010**
Studio Racugno	1	(70)	(71)
Nuove Iniziative Editoriali S.p.A.	2	(972)	68
TOTAL SUPPLIERS OF MATERIALS AND SERVICES		**(1,042)**	**(2)**
TOTAL		**(1,042)**	**(2)**

BALANCE SHEET VALUES (EUR 000)	Notes	31 December 2011	31 December 2010
Studio Racugno	1	(70)	(71)
Nuove Iniziative Editoriali S.p.A.	2	(201)	359
TOTAL SUPPLIERS OF MATERIALS AND SERVICES		**(271)**	**289**
TOTAL		**(271)**	**289**

(1) 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.

(2) 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.

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. and Tiscali Italia S.p.A. in 2011 in relation to the performance of their functions, in the parent company and other consolidated subsidiaries, is presented below:

(EUR 000)	2011	2010
Directors	707	712
Statutory Auditors	230	255
Total remuneration	**937**	**967**

The total value of the cost incurred in 2011 for the remuneration due to executives with strategic responsibility amounted to roughly EUR 1.3 million. This liability also includes the Group's contributions to public and corporate welfare funds for EUR 0.4 million.

List of subsidiaries included in the consolidation area

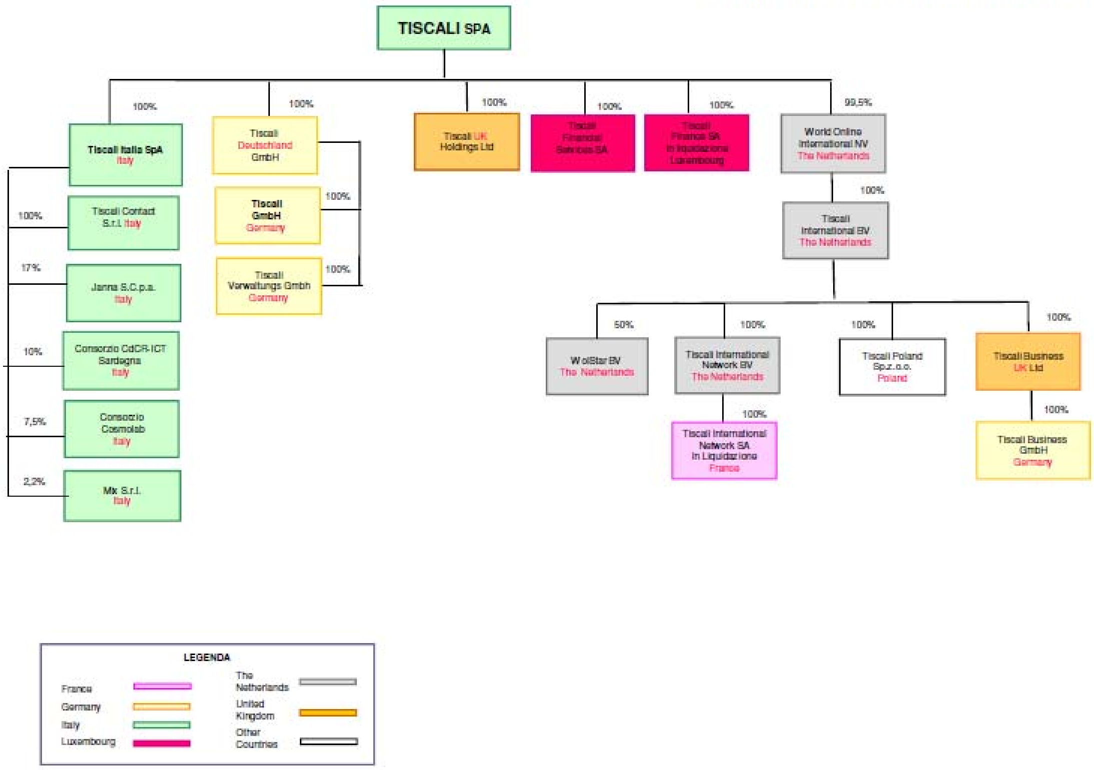
A list of the subsidiary companies included within the consolidation area is presented below.

Company name	Registered Offices	% investment
Tiscali S.p.A.	Italy	
Tiscali Italia S.p.A.	Italy	100.00%
Tiscali Media S.r.l. (merger via incorporation as of 15 July 2011)	Italy	100.00%
Tiscali Contact S.r.l. (merger via incorporation in 2012)	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 N.V.	The Netherlands	99.50%
Tiscali International B.V.	The Netherlands	99.50%
Tiscali B.V. (merger via incorporation as at 29 December 2011)	The Netherlands	99.50%
Wolstar B.V. (in liquidation)	The Netherlands	49.75%
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%

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
Tiscali Poland Sp Z.O.O.	Poland

Group at 31 December 2011



Events subsequent to the end of the year

Payment of interest on the Senior Loan

On 3 January 2012, interest on the principal was paid for EUR 1.5 million.

Positions and transactions deriving from atypical and/or unusual operations

There were no positions or transactions deriving from atypical and/or unusual operations in 2011.

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.	258
	Reconta Ernst & Young S.p.A.	Subsidiary companies	185
Total			**443**

Fees inclusive of the audit of the consolidated financial statements and the limited audit on the interim report

Cagliari, Italy, 30 March 2012

The Chief Executive Officer

Renato Soru

The Executive appointed to draw up the corporate accounting documents

Luca Scano

2011 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 2011.

It is also hereby certified that the financial statements at 31 December 2011:

- have been drawn up 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 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, Italy, 30 March 2012

The Chief Executive Officer

Renato Soru

The Executive appointed to draw up the corporate accounting documents

Luca Scano

Tiscali S.p.A. financial statements as at 31 December 2011

6 Tiscali S.p.A. – 2011 financial statements

6.1 Analysis of the income statement, balance sheet and statement of cash flows 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 2011, to which reference should be made. In this connection, note that the 2011 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)	31/12/2011	31/12/2010
Revenues from services and other income	11,694	6,050
Payroll and related, service and other operating costs	(4,226)	(1,943)
Other write-downs	(37,386)	(4,012)
Net financial income (charges)	(79)	(239)
Income taxes	(117)	(232)
Result from assets disposed of and/or destined for disposal	180	2,190
Net profit (loss)	**(29,934)**	**1,815**

Revenues from services and other income mainly refer to 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. Other income includes the positive effects of the cancellation of debt positions between companies.

The most significant cost component was represented by payroll and related costs, which amounted to EUR 2 million, in line with the figure for the previous year (EUR 1.9 million), as well as costs for external management consulting services and professional expenses amounting to EUR 0.9 million.

Other write-downs include the write-down of credit positions deemed unrecoverable vis-à-vis Group companies for a total of EUR 20.6 million, as well as provisions to the reserve for reorganisation costs amounting to EUR 17 million. Both the items are attributable to the impact on Tiscali S.p.A. of the re-allocation, in the jointly-liable companies, of the debt due to the financial institutions of Tiscali UK Holdings. This re-allocation has not affected the consolidated financial statements of the Tiscali Group.

6.2 Statement of financial position

(EUR 000)	**31 December 2011**	**31 December 2010**
Non-current assets	137,129	137,283
Current assets	829	21,627
Total Assets	**137,958**	**158,910**
Shareholders' equity	65,055	94,849
Total Shareholders' equity	**65,055**	**94,849**
Non-current liabilities	20,509	9,826
Current liabilities	52,394	54,003
Liabilities directly related to assets held for sale	-	231
Total Liabilities and Shareholders' equity	**137,958**	**158,910**

Assets

Non-current assets

Non-current assets include controlling equity investments for a total of EUR 131 million and other financial assets amounting to EUR 6 million essentially represented by financial receivables due to Group companies.

Current assets

Current assets include "Receivables from customers" for EUR 0.06 million and "Other receivables and other current assets" for EUR 0.8 million essentially relating to tax receivables, accrued income and prepayments on services.

Liabilities

Non-current liabilities

Non-current liabilities, other than items relating to the financial position for which reference should be made to the next note, include provisions for risks and charges of EUR 18 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 7.8 million (of which EUR 0.4 million due to Group companies) compared with EUR 9.8 million last year (EUR 0.8 million of which due to Group companies).

Statement of cash flows

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

(EUR 000)	**31.12.2011**	**31.12.2010**
A. Cash	10	6
B. Other cash equivalents	-	3,056
C. Securities held for trading	-	-
D. Cash and cash equivalents (A) + (B) + (C)	**10**	**3,062**
E. Current financial receivables	**758**	**1,002**
F. Non-current financial receivables (*)	**-**	**-**
G. Current bank payables	(109)	(424)
H. Current portion of non-current debt	-	-
I. Other current financial payables	(35,901)	(36,115)
J. Current financial debt (G) + (H) + (I)	**(36,009)**	**(36,539)**
K. Net current financial debt (J) – (E) – (F) - (D)	**(35,241)**	**(32,474)**
L. Non-current bank payables		
M. Bonds issued		
N. Other non-current payables to Group companies	(2,382)	(6,318)
O. Other non-current payables to third parties	-	-
P. Non-current financial debt (L) + (M) + (N) + (O)	**(2,382)**	**(6,318)**
Q. Net Financial Debt (K) +(P)	**(37,623)**	**(38,792)**

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	**31 Dec. 2011**	**31 Dec. 2010**
Revenues	*1*	5,321,975	6,050,065
Other income	*1*	6,372,408	-
Purchase of materials and outsourced services	*2*	(989,359)	(39,726)
Payroll and related costs	*3*	(2,093,678)	(1,899,772)
Other operating costs (income)	*4*	(1,135,693)	15,582
Write-down of receivables	*5*	(20,587,485)	(3,101,019)
Other write-downs	*5*	(16,798,978)	(910,803)
Amortisation/depreciation		(7,043)	(18,822)
Operating result		**(29,917,853)**	**95,506**
Portion of result of equity investments carried at equity		-	-
Net financial income (charges)	*6*	(78,746)	(239,366)
Pre-tax result		**(29,996,598)**	**(143,860)**
Income taxes	*7*	(117,290)	(231,638)
Result from operating activities (on-going)		**(30,113,888)**	**(375,497)**
Result from assets disposed of and/or destined for disposal	*8*	180,060	2,190,187
Result for the year		**(29,933,828)**	**1,814,689**

7.2 Statement of financial position

(EUR)	Notes	31.12.2011	31.12.2010
Non-current assets			
Intangible assets	9	-	1,036
Properties, plant and machinery	10	5,694	11,702
Equity investments	11	130,987,422	112,007,292
Other financial assets	12	6,135,899	25,262,577
		137,129,015	**137,282,607**
Current assets			
Receivables from customers	13	61,199	17,562,482
Other receivables and other current assets	14	757,558	1,002,378
Cash and cash equivalents	15	10,398	3,062,347
		829,154	**21,627,207**
Total Assets		**137,958,169**	**158,909,814**
Share Capital and reserves			
Share capital		92,019,488	92,017,483
Stock option reserve		-	4,388,058
Loss coverage reserve		6,401,340	4,677,385
Other reserves		(3,431,678)	(8,048,828)
Result for the year		(29,933,828)	1,814,689
Total Shareholders' equity	**16**	**65,055,321**	**94,848,788**
Non-current liabilities			
Other non-current liabilities	17	2,382,051	6,318,277
Liabilities for pension obligations and staff severance indemnities	18	150,251	166,667
Provisions for risks and charges	19	17,976,869	3,341,349
		20,509,170	**9,826,292**
Current liabilities			
Payables to banks and other lenders	20	108,510	423,696
Payables to suppliers	21	7,840,141	9,873,448
Other current liabilities	22	44,445,028	43,706,254
		52,393,679	**54,003,398**
Total Liabilities and Shareholders' equity		**137,958,169**	**158,909,814**

7.3 Statement of changes in shareholders' equity (EUR)

(EUR)	Share Capital	Legal reserve	Stock option reserve	Loss coverage reserve	Other reserves	Accumulated losses and Result for the period	Total
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 1 January 2011	**92,017,483**	**-**	**4,388,058**	**4,677,385**	**(8,048,828)**	**1,814,689**	**94,848,788**
Increases /Decreases	2,005	-	(4,388,058)	-	4,526,415	-	**140,362**
Transfers covering losses	-	90,734	-	1,723,955	-	(1,814,689)	**-**
Result for the year	-	-	-	-	-	(29,933,828)	**(29,933,828)**
Balance at 31 December 2011	**92,019,488**	**90,734**	**-**	**6,401,340**	**(3,522,412)**	**(29,933,828)**	**65,055,321**

7.4 Statement of cash flows

STATEMENT OF CASH FLOWS *(EUR)*	31 December 2011	31 December 2010
OPERATIONS		
Result from operating activities	**(30,113,888)**	**(375,498)**
Adjustments for:		
Depreciation of tangible assets	6,008	17,509
Amortisation of intangible assets	1,035	1,312
Receivable write-down provision	20,587,485	3,101,019
Release of provisions for risks previously provided	(201,022)	(511,365)
Stock Option costs	-	55,368
Provisions and other changes	16,798,280	(852,302)
Cash flow from operations before changes in working capital	**7,077,898**	**1,436,043**
(Increase)/Decrease in receivables	(2,029,792)	(5,154,011)
Increase/(Decrease) in payables to suppliers	(1,990,898)	(3,961,989)
Net changes in the provisions for risks and charges	(2,163,458)	(713,800)
Net change in provision for staff severance indemnities	(88,441)	(130,780)
Changes in other liabilities	(3,197,452)	9,073,214
Changes in other assets	244,820	1,117,496
Changes in working capital	**(9,225,221)**	**230,130**
CASH FLOWS GENERATED BY OPERATIONS	**(2,147,323)**	**1,666,173**
INVESTMENT ACTIVITIES		
- Changes in other financial assets	(909,863)	(2,657,968)
- Purchases of tangible fixed assets	-	(2,702)
- Purchases of intangible fixed assets	-	-
- Payments for the sale of financial fixed assets	180,060	2,578,064
NET CASH USED IN INVESTING ACTIVITIES	**(729,803)**	**(82,606)**
FINANCING ACTIVITIES		
Changes in financial assets	-	-
Increase (decrease) in other non-current liabilities	(315,186)	(166,268)
Changes in shareholders' equity	140,363	(785,783)
NET CASH DERIVING FROM/(USED IN) FINANCING ACTIVITIES	**(174,823)**	**(952,051)**
NET INCREASE/(DECREASE) IN NET CASH AND CASH EQUIVALENTS	**(3,051,949)**	**631,516**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE FINANCIAL YEAR	**3,062,347**	**2,430,831**
CASH AND CASH EQUIVALENTS	**10,398**	**3,062,347**

7.5 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. Tiscali S.p.A. is the Parent Company of the Tiscali Group which offers integrated Internet access services, telephony and multimedia services in particular positioning itself 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, statement of cash flows, statement of changes in shareholders' equity are presented in Euro while the values indicated in the explanatory notes are presented in thousands of Euro.

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

Events and uncertainties regarding the business continuity

The financial statements of Tiscali S.p.A. closed with a loss of EUR 29.9 million, and thus the shareholders' equity came to EUR 65.1 million

The Tiscali Group (hereinafter the "Group") closed 2011 with a consolidated loss of EUR 38.1 million and negative consolidated shareholders' equity of EUR 130 million. Furthermore, as at 31 December 2011, the Group had a gross financial debt of EUR 206.6 million and current liabilities greater than current assets (non-financial) for EUR 109.6 million.

As at 31 December 2010, the loss came to EUR 24.3 million; the negative shareholders equity came to EUR 92 million and gross financial debt totalled EUR 214.7 million. As at the same date, the difference between current assets and liabilities (non-financial) presented a negative balance of EUR 86.2 million.

During 2009, the Group implemented action with the aim of achieving economic, equity and financial balance over the long term, and launching a phase of recovery for the sales activities. In detail, the business plan was drawn up along with the associated financial plan and the sales of Tinet and the UK subsidiaries were completed, using the proceeds of the sale to repay part of the Group's debt. Gross financial debt passed from EUR 240.6 million as at 31 December 2009 to EUR 206.6 million at 31 December 2011.

In a recessionary context, during 2011 the following events took place emphasising the transformation underway for some years on the telecommunications market, leading to greater competitiveness and erosion of the margin for the operators:

a. progressive level of saturation for the broadband market and, thanks to the possibility for customers to migrate from one operator to another with minimum inconvenience and costs, greater acceptance by customers of promotions. These factors led to a significantly higher customer turnover rate, ensuing in greater competitiveness between operators and higher customer acquisition/retention costs;

b. increase in the local loop access tariffs for all the alternative operators who use the copper infrastructure of Telecom Italia and reduction in the revenue for incoming traffic, factors which have eroded the margins of alternative operators such as Tiscali.

In the presence of such factors (and other collateral ones such as the progressive replacement of the fixed lines with mobile ones, the increasing weight of the costs linked to customer service, the establishment of the so-called Over the Top), Tiscali, like the other operators in the sector, has rationalised its internal processes implementing rigorous cost cutting programmes to preserve margins and maintain the competitive position.

During 2011, in particular we can reveal that from an operational point of view, action by the Group continued aimed at improving efficiency via the rationalisation of the operating and commercial costs and the streamlining of the structure:

- a commercial agreement was entered into with the main network and traffic suppliers, which permits the Group, as from 1 August 2011, to obtain savings of around EUR 1 million a month until 31 December 2012. It is believed that this saving may also be consolidated in the years to come;
- on 18 October 2011 a Solidarity Agreement was entered into with the employees as per Italian Law No. 863 dated 1984. This agreement has a duration of 24 months and makes it possible to lower payroll and related costs by means of the reduction of working activities. All the employees of the Group's Italian companies are affected, with the exclusion of certain strategic departments. The reduction of staff costs envisaged for 2012, amounts to around EUR 5 million;
- the migration of customers to newly opened LLU sites was only carried out in the fourth quarter of 2011 due to a number of delays and, consequently, was unable to produce the expected benefits during the year but is in any event destined to have positive impacts in 2012;
- the strategy for the rationalisation and control of the customer base started in 2010 continued, for the purpose of improving the quality of the customer base and the consequent cash flows over the next few years via:
    - the mass termination carried out in 2011 of around 38 thousand lines of customers in default, with a consequent negative impact on the write-down of the receivables. This cancellation will what is more make it possible to obtain savings on line rental costs;
    - the precautionary screening of the customer base and the monitoring of the position via an automatic dunning system integrated with the ERP system;
    - the progressive reduction of the customers who pay via post office paying-in slip or credit transfer, who present greater rates of insolvency, to the benefit of automatic payment methods (direct debit and credit cards);
- the insourcing and rationalisation of the customer care structures has permitted a considerable savings, as well as greater control of the quality of the service for the end customer;

From the point of view of the business results for the year, in detail we can reveal that:

- in line with the market trend, during 2011 the Group increased the price of the ADSK and VoIP fee by EUR 2 (VAT included) for around 380 thousand customers, thereby permitting the recovery of the increase in the copper line rental fee applicable as from 1 July 2010. The impact on access and voice revenues came to around EUR 6.3 million in 2011;
- the expansion of the network and the sales force in the "Media" sector led to an increase in the related revenues of 28.9% when compared with 2010.
- the Group continued to focus on innovation, as witnessed by the launch of new products and services, among which "Indoona" merits particular mention, a rich communication service dedicated to smartphones, tablets and PCs which confirms the historic positioning of Tiscali as innovative operator in the sphere of internet services.

The action described above made it possible to improve the cash flows of the operating activities before the changes in net working capital, which rose from EUR 53.6 million in 2010 to EUR 60.1 million in 2011, contributing towards reducing the financial debt. Operations generated cash making it possible to fully honour the due dates relating to financial debt, both in terms of principal and interest.

The operating result, with a negative balance of EUR 21.3 million, and the loss for the year, totalling EUR 38.1 million, were significantly affected by the write-down of receivables during the year.

The Group's business plan was also updated, covering the entire period for the repayment of the financial debt. This 2012-2017 business plan, approved by the Board of Directors on 30 March 2012, hypothesises, in 2014, the rescheduling of the part of financial debt in excess with respect to the cash flows which is envisaged will be generated over the plan's duration.

The plan for 2012 in particular envisages:

- overall turnover essentially in line with 2011 (within the sphere of which, what is more, mention is made of the increase in "Media" revenues);
- the significant reduction in operating costs, mainly thanks to the action described above and also to the drop in the mobile termination cost and the Ip transit cost.

On the basis of the matters set forth above, the Directors, when evaluating the existence of the condition of the 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 130 million, due mainly to the negative economic performance and weight of the 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;
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 and financial 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:

- in March 2011, collected the last portion of the escrow deriving from the sale of Tiscali UK for a total of EUR 1.4 million. This amount is intended to repay the debt outstanding with the financial institutions;
- once again in 2011, respected all the obligations and due dates envisaged by the financial plan. The cash flows as described, present a clear improvement with respect to last year;
- updated the business plan, verifying the coherence with the financial requirements determined by the debt structure, considering its rescheduling in 2014;

- in 2011, undertook specific action for the recovery of the margins described above whose effects will be fully felt throughout 2012;
- focused the commercial policy, preferring the acquisition of customers in direct areas with respect to those who use Bitstream;
- continued to focus on certain sector with high growth potential, such as the media sector, where an increase in revenues was seen of 29% when compared with 2010, and on particularly innovative projects;
- reported an essential improvement in the cash flows of the operating activities, which rose from EUR 53.6 million in 2010 to EUR 60.1 million in 2011.

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 2010 financial statements, at present uncertainties still remain, with regards 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 2011 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 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.*

Financial statement formats

The consolidated financial statements are composed of accounting statements (Income Statement, Balance Sheet, Statement of changes in consolidated shareholders' equity, and Statement of Cash Flows), 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 Statement of Cash Flows was drawn up by following the indirect method.

Accounting standards

General principles

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 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 the subsequent note of this section.

Equity investments in subsidiaries

Equity investments in subsidiaries and affiliated companies are recognised at cost, adjusted for any impairment.

In application of IAS 36, the value of equity investments recognised at cost is reduced if there is impairment or if circumstances emerge that indicate that said cost is 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.

Impairment of assets

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 estimated at the acquisition cost. Estimates are regularly carried out with the aim of making sure whether there is objective evidence that a financial asset or a group of assets have been subject to 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 plans (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 defined contribution pension schemes are booked to the income statement in the period in which they are due. The Group does not recognise post-employment benefit plans, 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 plans", while the portions recorded in the staff severance indemnity (TFR) remain "Defined benefit plans".

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- Share-based payment" 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 "Evaluation of the company 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 2011

As from 1 January 2011, the following new standards and interpretations were issued, as listed below:

- ***IAS 24 Related party disclosures:*** this clarifies the definition of related party emphasising the symmetry in the identification of the related parties and more clearly defines under what circumstances individuals and executives with strategic responsibility must been deemed as related parties. Secondly, the amendment introduces an exemption from the general disclosure requirements on related parties for transactions with a government and with bodies controlled by, under the joint control or under the significant influence of the government like the entity itself. The amendment in question has not had any impact on the financial position or result of the Group.
- ***IAS 32 Financial instruments: presentation:*** : this includes an amendment to the definition of financial liability for the purpose of the classification of the issue of rights in foreign currency (and of certain options and warrants) as instruments representative of capital in the cases where these instruments are attributable on a *pro rata* basis to all the holders of the same class of an instrument (not derivative), or for the purchase of a fixed number of instruments representative of capital of the entity for a fixed amount in any currency. The amendment in question has not had any impact on the financial position or result of the Group.
- **IFRS 1 reviewed – First time adoption of the IFRS**: this amendment exempts one from providing - on first time adoption of the IFRS - comparative balances of the additional disclosures requested by IFRS 7 relating to the gauging of the fair value and the liquidity risk.
- ***IFRIC 14 Prepayments of a minimum funding requirement:*** The amendment removes an unintentional consequence which occurs when an entity is subject to minimum contribution requirements and takes steps to make an advance payment so as to cover these requisites. The amendment permits an entity to treat the advance payments relating to a minimum funding requirement as an asset. The amendment in question has not had any impact on the financial position or result of the Group.
- ***IFRIC 19 (Extinguishing financial liabilities with equity instruments):*** the purpose of this 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. The amendment in question has not had any impact on the financial position or result of the Group.

- ***Improvements to the IFRS*** **(issued by the IASB in May 2010):**
  - ***IFRS 3 Business combinations:*** The options available for the gauging of minority interests (NCI) have been amended. It is possible to value just the components of minority interests - which represent an effective interest holding which guarantees the holders a proportional interest in the net assets of a company in the event of liquidation - at fair value or alternatively in relation to the proportional interests of the identifiable net assets of the company acquired. All the other components must be valued at fair value as of the acquisition date.
  - **IAS 1 Presentation of financial statements:** the amendment clarifies that the analysis of each of the components of the statement of comprehensive income can be included, alternatively, in the statement of changes in shareholders' equity or the notes to the financial statements.
  - **IFRS 3 Business combinations:** payments based on shares (replaced voluntarily or not replaced) and their accounting treatment within the context of a business combination.
  - **IFRIC 13 Customer loyalty programmes:** when determining the fair value of the rewards, an entity must consider discounts and incentives which would otherwise be offered to customers not participating in loyalty programmes.

There are no significant impacts on Tiscali S.p.A.'s financial statements following the application of these amendments.

Calling of the shareholders' meeting

In accordance with the Articles of Association provisions and those as per the law, given that the Company is obliged to draw up consolidated financial statements, the shareholders' meeting called to approve the 2011 financial statement will be held in sole calling on 15 May 2012. Given that with the approval of the 2011 financial statement the corporate bodies will be renewed, the change in date became appropriate so as to ensure the maximum participation of the shareholders in the renewal resolutions.

Revenues and Other income (note 1)

Operating revenues are represented by:

Revenues *(EUR 000)*	2011	2010
Revenues from services provided to Group companies	4,878	5,447
Revenues from services to third parties	444	603
Revenues	**5,322**	**6,050**
Other income	6,372	-
Other income	**6,372**	**-**
Total	**11,694**	**6,050**

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.

The residual balance of EUR 0.4 million (EUR 0.6 million in 2010) comprises sundry revenues, costs recharged and out-of-period income.

Other income includes the positive effect of the waiver of the receivable due from the Dutch subsidiary Tiscali International Network B.V. to the Parent Company Tiscali S.p.A. for a total of EUR 6.4 million.

Revenues by country *(EUR 000)*	2011	2010
Revenues from services provided to Group companies	**4,878**	**5,447**
- Italy	4,878	5,447
Revenues from services to third parties	**444**	**603**
- Denmark	26	26
- South Africa	40	37
- Switzerland	10	10
- Italy	368	530
	5,322	**6,050**

Purchase of materials and outsourced services (note 2)

Costs for the purchase of materials and outsourced services amount to EUR 0.9 million and essentially include (EUR 0.8 million) the costs incurred for legal advice, tax advice as well as other general expenses.

Payroll and related costs (note 3)

Payroll and related costs are stated in detail as follows:

(EUR 000)	**2011**	**2010**
Wages and salaries	1,459	1,535
Remunerative component from Stock Option plans	-	55
Other personnel costs	635	310
Total	**2,094**	**1,900**

At 31 December 2011, Tiscali S.p.A. had 9 employees. The relevant categories are disclosed below together with the corresponding figures at 31 December 2010.

Category	**2011**	**2010**
Executives	5	5
Middle managers	1	2
Office staff	3	4
Total	**9**	**11**

Other operating costs (note 4)

The table below shows a breakdown of these costs:

EUR 000	**2011**	**2010**
Other operating expenses	1,136	(16)
Total	**1,136**	**(16)**

Other operating costs include sundry operating charges for EUR 1.1 million and mainly refer to the amounts recharged by the subsidiary Tiscali Italia S.p.A..

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

EUR 000	2011	2010
Write-down of receivables	20,587	3,101
Restructuring costs and other write-downs	-	518
Provisions for risks and charges	16,799	393
Total	**37,386**	**4,012**

At 31 December 2011, the Tiscali Group had a payable due to financial institutions amounting to EUR 134 million. This payable is recorded for accounting purposes in the financial statements of Tiscali UK Holdings Ltd ("TUK"), the main party liable for payment on the basis of the debt restructuring agreement entered into in July 2009 ("Group Facility Agreement" or "GFA"). On the basis of the GFA, the companies Tiscali S.p.A., Tiscali Italia S.p.A., Tiscali International B.V. and Tiscali Financial Services SA are jointly liable together with TUK.

During 2009 and 2010, TUK honoured all the commitments vis-à-vis the financial institutions using its own resources, while, as from 2011, these payments only became possible by means of the transfer of resources from other jointly liable companies.

The Directors of the jointly liable companies, as a result of the matters stated above and in observance of the reference accounting standards, have divided the entire obligation up, over the respective financial statements as at 31 December 2011, amounting to EUR 132.6 million (represented by the payable for the GFA net of the cash funds of TUK), via:

- the signing of an agreement between Tiscali S.p.A. and Tiscali Italia S.p.A. with the Dutch company Tiscali International B.V. on the basis of which the latter undertakes to allocate receivables due from Italian companies to service the GFA (of which EUR 35.9 million vis-à-vis Tiscali S.p.A.). On the basis of the GFA, these receivables are subject to pledge to the financial institutions;

- the provision of specific risk reserves in the Italian companies (the amount recorded in Tiscali S.p.A. totals EUR 17.0 million) as well as the write-down of intercompany items for EUR 20.6 million.

The above has not affected the consolidated financial statements of the Tiscali Group.

Financial income (charges) (note 6)

EUR 000	2011	2010
Financial income		
Interest on bank deposits	-	-
Other	157	19
	157	**19**
Financial charges		
Interest on bonds		
Interest and other charges due to banks	(36)	(78)
Other financial charges	(199)	(180)
	(235)	**(257)**
Net financial income (charges)	**(78)**	**(238)**

Net financial charges, disclosing a negative balance of EUR 0.08 million, refer mainly to interest expense on bank current accounts and other financial charges.

Income taxes (note 7)

EUR 000	2011	2010
Current taxes	117	232
Prepaid taxes	-	-
Net taxes for the year	**117**	**232**

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

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

EUR 000	2011	2010
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)
Result from assets disposed of and/or destined for disposal	**-**	**2,190**

Intangible assets with a finite useful life (note 9)

Intangible asset movements for the year were as follows:

Intangible assets *(EUR 000)*	31 December 2010	Increases	Amortisation	(Decreases) and Other changes	31 December 2011
Concessions, licenses and similar rights	1	-	(1)	-	-
Total	**1**	**-**	**(1)**	**-**	**-**

Properties, plant and machinery (note 10)

The table below shows the movements occurring during the year:

(EUR 000)	31 December 2010	Increases	Depreciation	(Decreases) and Other changes	31 December 2011
Historic cost					
Land and Buildings	1,966	-	-	-	1,966
Plant and machinery	65	-	-	-	65
Other assets	227	-	-	-	227
	2,258	**-**	**-**	**-**	**2,258**
Accumulated depreciation	**31.12.2010**	**Increases**	**Depreciation**	**(Decreases) and Other changes**	**31.12.2011**
Land and Buildings	1,965	-	1	-	1,966
Plant and machinery	60	-	1	-	61
Other assets	221	-	4	-	225
	2,246	**-**	**6**	**-**	**2,252**
Net value	**31.12.2010**	**Increases**	**Depreciation**	**(Decreases) and Other changes**	**31.12.2011**
Land and Buildings	1	-	(1)	-	-
Plant and machinery	5	-	(1)	-	4
Other assets	6	-	(4)	-	2
Total	**12**	**-**	**(6)**	**-**	**6**

Equity investments (note 11)

At 31 December 2011, this item included equity investments in subsidiaries, for a total of EUR 131 million.

SUBSIDIARIES (EUR 000)	31.12.2011 Cost	Revaluations /(Write-downs)	Book value	31.12.2010 Cost	Revaluations /(Write-downs)	Book value
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.	130,956	-	130,956	111,976	-	111,976
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	-	-	-	-	-	-
	2,248,675	**(2,117,688)**	**130,987**	**2,229,695**	**(2,117,688)**	**112,007**

The table below indicates movements in the period.

SUBSIDIARIES (EUR 000)	Balance 31.12.2010	Increases	(Disposals)	Revaluations/ (Write-downs)	Other changes	Balance 31.12.2011
Tiscali Deutschland Gmbh	-	-	-	-	-	-
Tiscali Finance SA	-	-	-	-	-	-
Tiscali Italia S.p.A.	111,976	18,980	-	-	-	130,956
World Online International N.V.	-	-	-	-	-	-
Tiscali Financial Services SA	31	-	-	-	-	31
Tiscali UK Holdings Ltd	-	-	-	-	-	-
	112,007	**18,980**	**-**	**-**	**-**	**130,987**

The change during the year refers to the waiver of the receivable due from the subsidiary Tiscali Italia S.p.A. intended for future share capital increases for a total of EUR 18.9 million as per the resolution of the Board of Directors dated 12 May 2011.

Checks on the value reductions in equity investments in subsidiary companies

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 2011 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 Unit “Italy” (essentially corresponding to 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 2012-2017 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) equal 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 9.23%.

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 2011, 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 Gmbh (*)	Munich	555	(33,815)	(338)	100%	-
Tiscali Finance SA (*)	Luxemburg	125	(19)	(14)	100%	-
Tiscali Italia S.p.A. (**)	Cagliari	185,000	32,705	(112,221)	100%	130,956
World Online International N.V. (*)	Maarsen (NL)	115,519	-	-	100%	-
Tiscali Financial Services SA (*)	Luxemburg	31	(3,544)	(168)	100%	31
Tiscali UK Holdings Ltd (*)	London	59	(283,762)	(11,870)	100%	-
Total						**130,987**

(*) *preliminary figures relating to the financial statements as at 31/12/2011*

(**) The result of Tiscali Italia as at 31 December 2011 was significantly affected by the re-allocation, in the jointly-liable companies, of the debt due to the financial institutions of Tiscali UK Holdings. This re-allocation has not affected the consolidated financial statements of the Tiscali Group.

Other non-current financial assets (note 12)

(EUR 000)	31 December 2011	31 December 2010
Receivables from Group companies	6,136	25,263
Other receivables	-	-
Total	**6,136**	**25,263**

Other non-current assets include financial receivables due from Group companies amounting to EUR 6.1 million (EUR 25.3 million in 2010).

The financial receivables due from Group companies are detailed below:

(EUR 000)	31.12.2011	31.12.2010
Tiscali Business Gmbh	3,611	-
Tiscali Business UK Ltd	3	3
Tiscali Contact S.r.l.	1,480	252
Tiscali Deutschland Gmbh	550	550
Tiscali Finance SA	12	-
Tiscali Italia S.p.A.	-	19,373
Tiscali Media S.r.l.	-	125
Tiscali UK Holdings Ltd	-	4,479
Tiscali Verwaltungs Gmbh	480	480
	6,136	**25,263**

The significant decrease with respect to last year is justified by the waiver of the receivable due from the subsidiary Tiscali Italia S.p.A. intended for future share capital increases.

Financial receivables due from the UK subsidiary Tiscali UK Holdings Ltd as at 31 December 2011 amount to EUR 19.8 million, however they have been written down in full since they are deemed no longer recoverable.

The receivable due from Tiscali Business Gmbh is consequent to the payment, by the Parent Company, of the amount owed by the German company on conclusion of the negotiations for the definition of a number of outstanding disputes. The recoverability of this receivable has been valued taking into account the assets of the German companies which also include amounts due from the same Tiscali S.p.A..

Receivables from customers (note 13)

(EUR 000)	31 December 2011	31 December 2010
Receivables from customers	1,335	18,062
Write-down provision for losses	(1,274)	(500)
Total	**61**	**17,562**

Receivables from customers of Tiscali S.p.A. are mainly associated with intercompany positions as summarised in detail in the following table:

(EUR 000)	31 December 2011	31 December 2010
Tiscali UK Holdings Ltd	-	774
Tiscali Italia S.p.A.	-	16,728
Total	**-**	**17,502**

The breakdown of receivables from customers by maturity is as follows:

(EUR 000)	31 December 2011	31 December 2010
Within 12 months	61	17,562
Between 1 and 5 years	-	-
Beyond 5 years	-	-
Total	**61**	**17,562**

The book value of trade receivables 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.

Other Receivables and other current assets (note 14)

(EUR 000)	31 December 2011	31 December 2010
Other receivables	729	969
Accrued income	-	-
Prepaid expense	28	33
Total	**757**	**1,002**

Other receivables at 31 December 2011 amounted to EUR 0.7 million and mainly include amounts due from the tax authorities.

Cash and cash equivalents (note 15)

At the end of 2011, cash and cash equivalents totalled EUR 10.3 thousand and include the company's liquid resources, essentially held in bank current accounts. Reference should be made to the report on operations for a detailed analysis of the financial position.

Shareholders' equity (note 16)

EUR 000	31 December 2011	31 December 2010
Share capital	92,019	92,017
Stock option reserve	-	4,388
Loss coverage reserve	6,401	4,677
Other reserves	(3,432)	(8,049)
Result from previous periods	-	-
Result for the year	(29,934)	1,815
Total	**65,055**	**94,849**

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 1,861,494,666, lacking par value, compared with 1,861,492,160 shares as at 31 December 2010. The increase during the year, equating to 20,747 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 2011 came to EUR 92,019,488.07.

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	92,019		-	-	-	-	-
Share premium reserve	-	A, B	-	-	-	981,324	-
Legal reserve	91	B					
Stock option reserve	-						
Reserve for loss coverage	6,401	B				248,254	
Other reserves	(3,432)						
Result for the year	(29,934)		-	-	-	-	-
Total	**65,055**		**--**	**-**	**-**	**1,229,578**	**-**

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 December 2011	31 December 2010
Payables to Group companies	2,382	6,318
Other payables	-	-
Total	**2,382**	**6,318**

The balance of Other non-current liabilities primarily concerns financial payables due to group companies for EUR 2.4 million, illustrated in detail in the table below:

(EUR 000)	31 December 2011	31 December 2010
Tiscali Financial Services SA	202	-
Tiscali Gmbh	2,030	111
Tiscali Italia S.p.A.	150	6,207
Total	**2,382**	**6,318**

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

(EUR 000)	31 December 2011	31 December 2010
Between 1 and 5 years	2,382	6,318
Beyond 5 years	-	-
Total	**2,382**	**6,318**

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

The table below shows the changes during the period:

(EUR 000)	31 December 2010	Increases	Decreases	Other changes	31 December 2011
Staff severance indemnities	167	88	(19)	(85)	150
Total	**167**	**88**	**(19)**	**(85)**	**150**

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 of 40 years*

Provisions for risks and charges (note 19)

The table below shows the changes during the period:

EUR 000	31 December 2010	Increases	Decreases	31 December 2011
Provisions for employee dispute risks and charges	2,730	-	(2,163)	567
Provision for reorganisation charges	-	17,000		17,000
Other provisions for risks and charges	611	-	(201)	410
Total	**3,341**	**17,000**	**(2,364)**	**17, 977**

The provision for employee dispute risks and charges refers to legal disputes with third parties or former employees furthered in previous years. Decreases with respect to the previous year amounting to EUR 2.2 million refer to the uses for transactions concluded in the year.

See note 5 for details relating to the amount set aside to the “Provision for reorganisation charges”.

Payables to banks and other lenders (note 20)

EUR 000	31 December 2011	31 December 2010
Payables to banks	109	424
Total	**109**	**424**

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 December 2011	31 December 2010
Trade payables to third parties	7,418	9,053
Trade payables to Group companies for materials and services	422	820
	7,840	**9,873**

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 December 2011	31 December 2010
Tiscali Italia S.p.A.	422	820
	422	**820**

Other current liabilities (note 22)

EUR 000	31 December 2011	31 December 2010
Accrued expenses	2	11
Deferred income	6	6
Other payables to Group companies	35,901	36,115
Other payables to third parties	8,536	7,575
Total	**44,445**	**43,706**

Other payables to group companies refer to the financial indebtedness towards Tiscali International B.V.. As indicated in the previous note 5, on the basis of agreements and in observance of the contractual clauses of the GFA, Tiscali International B.V. undertakes to allocate the amounts collected deriving from receivables due from Italian companies to service the amounts due to financial institutions (of which EUR 35.9 million vis-à-vis Tiscali S.p.A.).

The item Other payables is essentially represented by amounts due to the tax authorities and social security and welfare institutions.

Guarantees given and commitments (note 23)

Guarantees given are detailed as follows:

EUR 000	31 December 2011	31 December 2010
Guarantees given to third parties (sureties)	235,698	256,155
Commitments	2,500	2,500
Total	**238,198**	**258,655**

Sureties given include EUR 115 million in relation to the guarantee given by the parent company for the loans granted by Banca Intesa San Paolo and JP Morgan as part of the restructuring of the Group's debt carried out during the previous year.

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 2011 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)	**31.12.2011**	**31.12.2010**
A. Cash	-	6
B. Other cash equivalents	10	3,056
C. Securities held for trading	-	-
D. Cash and cash equivalents (A) + (B) + (C)	**10**	**3,062**
E. Current financial receivables (*)	**758**	**1,002**
F. Current bank payables	(109)	(424)
G. Current portion of non-current debt		
H. Other current financial payables	(35,901)	(36,115)
I. Current financial debt (F) + (G) + (H)	**(36,009)**	**(36,539)**
J. Net current financial debt (I) – (E) – (D)	**(35,241)**	**(32,474)**
K. Non-current bank payables	-	-
L. Bonds issued	-	-
M. Other non-current payables to Group companies	(2,382)	(6,318)
N. Other non-current payables to third parties	-	-
O. Non-current financial debt (K) + (L) + (M) + (N)	**(2,382)**	**(6,318)**
P. Net financial debt (J) + (O)	**(37,623)**	**(38,792)**

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.

Transactions with related parties

During 2011, 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 2011 arising from transactions with related parties.

The effects on the income statement are indicated as follows:

INCOME STATEMENT	2011	of which: related parties	% change
(EUR 000)			
Revenues	5,322	4,878	91.7%
Other income	6,372		
Purchase of materials and outsourced services	(989)	(111)	11.2%
Payroll and related costs	(2,094)	-	
Other operating costs	(1,136)	(411)	36.2%
Write-downs of receivables from customers	(20,587)	(20,587)	100.0%
Other write-downs	(16,799)		
Amortisation/depreciation	(7)		
Operating result	**(29,918)**	**(16,231)**	
Portion of result of equity investments carried at equity	-		
Net financial income (charges)	(79)	84	
Pre-tax result	**(29,997)**	**(16,148)**	
Income taxes	(117)		
Net result from operating activities (on-going)	**(30,114)**	**(16,148)**	
Result from assets disposed of and/or destined for disposal	180		
Net profit (loss)	**(29,934)**	**(16,148)**	

INCOME STATEMENT	2010	of which: related parties	% change
(EUR 000)			
Revenues	6,050	5,447	90.0%
Other income	-		
Purchase of materials and outsourced services	(40)	(170)	427.9%
Payroll and related costs	(1,900)	(55)	2.9%
Other operating costs	16	(407)	
Write-downs of receivables from customers	(3,101)	(3,101)	100%
Other write-downs	(911)		
Amortisation/depreciation	(19)		
Operating result	**96**	**1,714**	
Portion of results of equity inv. 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 result	**1,815**	**1,714**	

The effects on the balance sheet were as follows:

BALANCE SHEET (EUR 000)	31 December 2011	of which: related parties	% change
Non-current assets	137,129	6,136	4.5%
Current assets	829		
Total Assets	**137,958**	**6,136**	
Shareholders' equity	65,055		
Total Shareholders' equity	**65,055**		
Non-current liabilities	20,509	2,382	11.6%
Current liabilities	52,395	35,901	68.5%
Total Liabilities and Shareholders' equity	**137,958**	**38,283**	

BALANCE SHEET *(EUR 000)*	**31 December 2010**	**of which: related parties**	**% change**
Non-current assets	137,283	25,263	18.4%
Current assets	21,627	17,502	80.9%
Assets held for sale	-		
Total Assets	**158,910**	**42,765**	
Shareholders' equity	94,849	4,388	4.6%
Total Shareholders' equity	**94,849**	**4,388**	
Non-current liabilities	9,826	6,318	64.3%
Current liabilities	54,004	36,115	66.9%
Liabilities directly related to assets held for sale	231		
Total Liabilities and Shareholders' equity	**158,910**	**46,822**	

The most significant balances, at 31 December 2011, summarized by supplier of the services, are as follows:

INCOME STATEMENT VALUES	Notes	31 December 2011				31 December 2010		
EUR 000		Costs	Write-downs	Interest earned /(expense)	Revenues	Costs	Write-downs	Revenues
Tiscali Business Gmbh	1	-	-	21	-	-	(3,101)	-
Tiscali Financial Services SA	1	-	-	(2)	-	-	-	-
Tiscali Gmbh	1	-	-	(9)	-	-	-	-
Tiscali International B.V.	1	-	-	(0)	-	-	-	-
Tiscali International Network B.V.	1	-	-	(63)	-	-	-	-
Tiscali Italia S.p.A.	1	(522)	-	-	4,878	(576)	-	5,447
Tiscali UK Holdings Ltd	1	-	(20,587)	136	-	-	-	-
Total Group companies		**(522)**	**(20,587)**	**84**	**4,878**	**(576)**	**(3,101)**	**5,447**
Stock option – CEO and employees	4	-	-	-	-	(55)	-	-
Other related parties		**-**	**-**	**-**	**-**	**(55)**	**-**	**-**
Total Group companies and other related parties		**(522)**	**(20,587)**	**84**	**4,878**	**(631)**	**(3,101)**	**5,447**

BALANCE SHEET VALUES	Notes	31 December 2011					
EUR 000		Trade receivables	Financial receivables	Trade payables	Financial payables (within 12 months)	Financial payables (beyond 12 months)	Stock Option reserve
Tiscali Business Gmbh	1	-	3,611	-	-	-	-
Tiscali Business UK Ltd	1	-	4	-	-	-	-
Tiscali Contact S.r.l.	1	-	1,480	-	-	-	-
Tiscali Deutschland Gmbh	1	-	550	-	-	-	-
Tiscali Finance SA	1	-	12	-	-	-	-
Tiscali Financial Services SA	1	-	-	-	-	201	-
Tiscali Gmbh	1	-	-	-	-	2,030	-
Tiscali International B.V.	1	-	-	-	35,901	-	-
Tiscali International Network B.V.	1	-	-	-	-	-	-
Tiscali Italia S.p.A.	1	-	-	422	-	150	-
Tiscali UK Holdings Ltd	1	-	-	-	-	-	-
Tiscali Verwaltungs Gmbh	1	-	480	-	-	-	-
Total Group companies		**-**	**6,136**	**422**	**35,901**	**2,382**	**-**
Other related parties							
Other related parties		**-**	**-**	**-**	**-**	**-**	**-**
Total Group companies and other related parties		**-**	**6,136**	**422**	**35,901**	**2,382**	**-**

BALANCE SHEET VALUES

EUR 000

	Notes	31 December 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 B.V.	1	-	-	-	36,115	-	-
Tiscali International Network B.V.	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**

(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, Tiscali S.p.A. and the Tiscali Group were 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 N.V. (hereinafter “WOL”), summonsed WOL (currently 99.5% owned by Tiscali) and the financial institutions tasked with the stock market listing of the Dutch subsidiary, disputing, in particular, the incomplete and incorrect nature, as per Dutch law, of certain information contained in the 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 the settlement agreements reached in November 2010 and in July 2011 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 carrying out negotiations aimed at a settlement of the dispute.

You are also hereby informed that Stichting Van der Goen WOL Claims in December 2011 made a further request for compensation representing 29 shareholders or those entitled, in which the hypothesis of proceedings with legal action was furthered. As things stand, so far no proceedings have been launched.

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.

Tax assessments

The Dutch tax authorities forwarded World On Line International NV (and the direct subsidiary Tiscali International B.V.) 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 B.V. 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 in 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 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	2011 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		
Luca Scano	Director	in office since 1 January until approval of the financial statements as at 31 December 2011	25,000	1,840	216,711
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	2011 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	50,000		
Piero Maccioni	Statutory Auditor	in office since 1 January until approval of the financial statements as at 31 December 2011	35,000		
Andrea Zini	Statutory Auditor	in office since 1 January until approval of the financial statements as at 31 December 2011	35,000		
				-	-

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 2011 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. (1)	258
Total		**258**

(1) Fees inclusive of the audit of the consolidated financial statements and the limited audit on the interim report

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 2011.

Tiscali S.p.A. has adopted the Internal Control Model - Integrated Framework issued by the Committee of Sponsoring Organisations of the Treadway Commission as the reference framework for the definition and valuation of its internal audit system, with particular reference to the internal controls for the formation of the financial statements: this model represents a body of general reference principles for the internal audit system generally accepted at international level.

It is also hereby certified that the financial statements at 31 December 2011:

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

Cagliari, Italy, 30 March 2012

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 24 Mbps 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 used 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 recorded 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 9,600 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.

9 Reports

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 2011, 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 and the Articles of Association 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 Italia S.p.A. 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 not particular observations to make;

f) we have taken note and obtained information on the organisational and procedural activities entered into as per Italian Legislative Decree No. 231/2011 and subsequent amendments and additions on the administrative liability of Entities for the offences envisaged by said legislation. These activities are illustrated in the Report on corporate governance and ownership structure. The Supervisory Body - whose composition has once again been established in joint form by means of resolution adopted by the Board of Directors on 5 August 2011, and approved by the Board of Statutory Auditors - reported on the activities carried out during 2011 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 - as per the Regulations for carrying out related party transactions, which came into force on 1 January 2011 - 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) no charges/complaints pursuant to Article 2408 of the Italian Civil Code were received during the year;

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) on 20 April 2012, the independent auditing firm Reconta Ernst & Young S.p.A. issued its reports on the statutory financial statements and the consolidated financial statements at 31 December 2011, 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) on 20 April 2012, the independent auditing firm issued the Report pursuant to Article 19.3 of Italian Legislative Decree No. 39/10;

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 2011, Reconta Ernst & Young S.p.A. carried out professional services relating to the legal audit of the statutory and consolidated financial statements. Services other than the legal audit have not been provided, and nor have services been provided by other parties belonging to the network of said auditing firm. The total of the fees due for 2011 has been summarised below:

	EUR 000
Audit services:	
Parent Company - Tiscali Spa	258
Subsidiary companies	185
Total	443

Having taken into account: (i) the declaration of independence issued by Reconta Ernst & Young S.p.A. 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 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 S.p.A.;

n) the independent auditing firm Reconta Ernst & Young S.p.A. did not issue any opinion required by law, with the exception of its report on the half-year period as at 30 June 2011;

o) the supervisory activities described above have been carried out during ten meetings of this Board, four meetings 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;

p) 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 2011 together with the Report on operations and the resolution proposals drawn up by the Board of Directors.

Cagliari, Italy, 23 April 2012

The Board of Statutory Auditors

PAOLO TAMPONI

PIERO MACCIONI

ANDREA ZINI

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Relazione della società di revisione
ai sensi degli artt. 14 e 16 del D.Lgs. 27.1.2010, n. 39

Agli Azionisti
della Tiscali S.p.A.

1. Abbiamo svolto la revisione contabile del bilancio consolidato, costituito dai prospetti di conto economico, di conto economico complessivo e della situazione patrimoniale e finanziaria, dal rendiconto finanziario, dal prospetto delle variazioni del patrimonio netto e dalle relative note esplicative, della Tiscali S.p.A. e sue controllate ("Gruppo Tiscali") chiuso al 31 dicembre 2011. La responsabilità della redazione del bilancio in conformità agli International Financial Reporting Standards adottati dall'Unione Europea, nonché ai provvedimenti emanati in attuazione dell'art. 9 del D. Lgs. n. 38/2005, compete agli Amministratori della Tiscali S.p.A.. E' nostra la responsabilità del giudizio professionale espresso sul bilancio e basato sulla revisione contabile.

2. Il nostro esame è stato condotto secondo i principi e i criteri per la revisione contabile raccomandati dalla Consob. In conformità ai predetti principi e criteri, la revisione è stata pianificata e svolta al fine di acquisire ogni elemento necessario per accertare se il bilancio consolidato sia viziato da errori significativi e se risulti, nel suo complesso, attendibile. Il procedimento di revisione comprende l'esame, sulla base di verifiche a campione, degli elementi probativi a supporto dei saldi e delle informazioni contenuti nel bilancio, nonché la valutazione dell'adeguatezza e della correttezza dei criteri contabili utilizzati e della ragionevolezza delle stime effettuate dagli Amministratori. Riteniamo che il lavoro svolto fornisca una ragionevole base per l'espressione del nostro giudizio professionale.

   Per il giudizio relativo al bilancio consolidato dell'esercizio precedente, i cui dati sono presentati ai fini comparativi, si fa riferimento alla relazione da noi emessa in data 5 aprile 2011.

3. A nostro giudizio, il bilancio consolidato del Gruppo Tiscali al 31 dicembre 2011 è conforme agli International Financial Reporting Standards adottati dall'Unione Europea, nonché ai provvedimenti emanati in attuazione dell'art. 9 del D. Lgs. n. 38/2005; esso pertanto è redatto con chiarezza e rappresenta in modo veritiero e corretto la situazione patrimoniale e finanziaria, il risultato economico ed i flussi di cassa del Gruppo Tiscali per l'esercizio chiuso a tale data.

4. A titolo di richiamo di informativa si segnalano i seguenti aspetti, più diffusamente descritti nelle note esplicative:

   a. come indicato nella nota "Valutazione sulla continuità aziendale ed evoluzione prevedibile della gestione", il Gruppo Tiscali ha chiuso l'esercizio con una perdita consolidata di 38,1 milioni di Euro e con un patrimonio netto consolidato negativo di 130 milioni di Euro; inoltre, al 31 dicembre 2011, il Gruppo Tiscali mostra un indebitamento finanziario lordo di 206,6 milioni di Euro e passività correnti superiori alle attività correnti (non finanziarie) per 109,6 milioni di Euro.

      Gli Amministratori hanno descritto i fattori che indicano il permanere di incertezze legate ad una situazione di squilibrio patrimoniale, finanziario ed economico, in presenza di un indebitamento finanziario lordo ancora rilevante, soggetto a covenant ed altri obblighi contrattuali. Gli Amministratori ritengono che il raggiungimento di una situazione di equilibrio patrimoniale, economico e finanziario nel lungo termine sia subordinato, nel contesto di incertezza dell'attuale scenario economico e finanziario, al conseguimento dei risultati previsti nel piano industriale del Gruppo Tiscali per il periodo 2012 - 2017 e dunque al realizzarsi delle previsioni e delle assunzioni ivi contenute, in particolare, di quelle relative all'evoluzione del mercato delle telecomunicazioni e al raggiungimento degli obiettivi di

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crescita fissati (in un contesto di mercato caratterizzato da una forte pressione competitiva). Il piano industriale ipotizza inoltre, nel 2014, il riscadenziamento della parte di debito finanziario eccedente i flussi di cassa che è previsto vengano generati nel periodo di piano. A tali fattori si affianca la presenza di situazioni di contenzioso, di seguito descritte al punto b., i cui esiti, ancorché ritenuti non prevedibili, sono stati valutati dagli stessi Amministratori potenzialmente significativi.

Gli Amministratori, nel valutare gli elementi sopra indicati, hanno descritto le azioni poste in essere, sulla base delle quali ritengono che il Gruppo Tiscali sia ragionevolmente in grado di proseguire l'implementazione del piano industriale e che questo consenta nel lungo periodo di raggiungere una situazione di equilibrio patrimoniale, finanziario ed economico. In conclusione gli Amministratori riconoscono che alla data attuale permangono incertezze che potrebbero far sorgere dubbi significativi sulla capacità del Gruppo Tiscali di continuare ad operare sulla base del presupposto della continuità aziendale, ma dopo aver effettuato le necessarie verifiche e aver valutato le incertezze individuate alla luce degli elementi descritti, hanno la ragionevole aspettativa che il Gruppo Tiscali abbia adeguate risorse per continuare l'esistenza operativa in un prevedibile futuro ed hanno pertanto adottato il presupposto della continuità aziendale nella preparazione del bilancio;

b. gli Amministratori segnalano l'esistenza di alcuni contenziosi potenzialmente significativi intentati da terzi nei confronti della controllata olandese World Online International NV. La Corte Suprema Olandese ha emesso la sentenza definitiva nel mese di novembre 2009, confermando alcuni profili di responsabilità di World Online International NV, senza peraltro pronunciarsi in merito agli eventuali danni, che dovrebbero essere oggetto di un nuovo e separato procedimento da parte dei terzi danneggiati; allo stato non risulta avviato alcun procedimento del genere. Nelle note esplicative viene descritta l'evoluzione della situazione in essere. A fronte di tali contenziosi gli Amministratori ritengono che non sussistano elementi sufficientemente definiti per quantificare la passività potenziale e, pertanto, non hanno effettuato accantonamenti in bilancio.

5. La responsabilità della redazione della relazione sulla gestione e della relazione sul governo societario e gli assetti proprietari in conformità a quanto previsto dalle norme di legge e dai regolamenti compete agli Amministratori della Tiscali S.p.A.. E' di nostra competenza l'espressione del giudizio sulla coerenza della relazione sulla gestione e delle informazioni di cui al comma 1, lettere c), d), f), l), m) e al comma 2, lettera b) dell'art. 123-bis del D.Lgs. 58/98, presentate nella relazione sul governo societario e gli assetti proprietari, con il bilancio, come richiesto dalla legge. A tal fine, abbiamo svolto le procedure indicate dal principio di revisione 001 emanato dal Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili e raccomandato dalla Consob. A nostro giudizio la relazione sulla gestione e le informazioni di cui al comma 1, lettere c), d), f), l), m) e al comma 2, lettera b) dell'art. 123-bis del D.Lgs. 58/98 presentate nella relazione sul governo societario e gli assetti proprietari sono coerenti con il bilancio consolidato del Gruppo Tiscali al 31 dicembre 2011.

Milano, 20 aprile 2012

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2

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Relazione della società di revisione
ai sensi degli artt. 14 e 16 del D.Lgs. 27.1.2010, n. 39

Agli Azionisti
della Tiscali S.p.A.

1. Abbiamo svolto la revisione contabile del bilancio d'esercizio, costituito dai prospetti di conto economico, di conto economico complessivo e della situazione patrimoniale e finanziaria, dal rendiconto finanziario, dal prospetto delle variazioni del patrimonio netto e dalle relative note esplicative, della Tiscali S.p.A. chiuso al 31 dicembre 2011. La responsabilità della redazione del bilancio in conformità agli International Financial Reporting Standards adottati dall'Unione Europea, nonché ai provvedimenti emanati in attuazione dell'art. 9 del D. Lgs. n. 38/2005, compete agli Amministratori della Tiscali S.p.A.. E' nostra la responsabilità del giudizio professionale espresso sul bilancio e basato sulla revisione contabile.

2. Il nostro esame è stato condotto secondo i principi e i criteri per la revisione contabile raccomandati dalla Consob. In conformità ai predetti principi e criteri, la revisione è stata pianificata e svolta al fine di acquisire ogni elemento necessario per accertare se il bilancio d'esercizio sia viziato da errori significativi e se risulti, nel suo complesso, attendibile. Il procedimento di revisione comprende l'esame, sulla base di verifiche a campione, degli elementi probativi a supporto dei saldi e delle informazioni contenuti nel bilancio, nonché la valutazione dell'adeguatezza e della correttezza dei criteri contabili utilizzati e della ragionevolezza delle stime effettuate dagli Amministratori. Riteniamo che il lavoro svolto fornisca una ragionevole base per l'espressione del nostro giudizio professionale.

   Per il giudizio relativo al bilancio dell'esercizio precedente, i cui dati sono presentati ai fini comparativi, si fa riferimento alla relazione da noi emessa in data 5 aprile 2011.

3. A nostro giudizio, il bilancio d'esercizio della Tiscali S.p.A. al 31 dicembre 2011 è conforme agli International Financial Reporting Standards adottati dall'Unione Europea, nonché ai provvedimenti emanati in attuazione dell'art. 9 del D. Lgs. n. 38/2005; esso pertanto è redatto con chiarezza e rappresenta in modo veritiero e corretto la situazione patrimoniale e finanziaria, il risultato economico ed i flussi di cassa della Tiscali S.p.A. per l'esercizio chiuso a tale data.

4. A titolo di richiamo di informativa si segnalano i seguenti aspetti, più diffusamente descritti nelle note esplicative:

   a. come indicato nella nota "Valutazione sulla continuità aziendale ed evoluzione prevedibile della gestione", Tiscali S.p.A. che chiude il bilancio d'esercizio con una perdita di 29,9 milioni di Euro ed un patrimonio netto di 65,1 milioni di Euro è a capo di un gruppo (il "Gruppo Tiscali") che chiude l'esercizio 2011 con una perdita consolidata di 38,1 milioni di Euro e con un patrimonio netto consolidato negativo di 130 milioni di Euro; inoltre, al 31 dicembre 2011, il Gruppo Tiscali mostra un indebitamento finanziario lordo di 206,6 milioni di Euro e passività correnti superiori alle attività correnti (non finanziarie) per 109,6 milioni di Euro.

      Gli Amministratori hanno descritto i fattori che indicano il permanere di incertezze legate ad una situazione di squilibrio patrimoniale, finanziario ed economico, in presenza di un indebitamento finanziario lordo ancora rilevante, soggetto a covenant ed altri obblighi contrattuali. Gli Amministratori ritengono che il raggiungimento di una situazione di equilibrio patrimoniale, economico e finanziario nel lungo termine sia subordinato, nel contesto di incertezza dell'attuale scenario economico e finanziario, al conseguimento dei risultati previsti nel piano industriale del Gruppo Tiscali per il periodo 2012 - 2017 e dunque al realizzarsi delle previsioni e delle assunzioni ivi contenute, in particolare, di quelle relative all'evoluzione del mercato delle telecomunicazioni e al raggiungimento degli obiettivi di

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Gli Amministratori, nel valutare gli elementi sopra indicati, hanno descritto le azioni poste in essere, sulla base delle quali ritengono che il Gruppo Tiscali sia ragionevolmente in grado di proseguire l'implementazione del piano industriale e che questo consenta nel lungo periodo di raggiungere una situazione di equilibrio patrimoniale, finanziario ed economico. In conclusione gli Amministratori riconoscono che alla data attuale permangono incertezze che potrebbero far sorgere dubbi significativi sulla capacità del Gruppo Tiscali di continuare ad operare sulla base del presupposto della continuità aziendale, ma dopo aver effettuato le necessarie verifiche e aver valutato le incertezze individuate alla luce degli elementi descritti, hanno la ragionevole aspettativa che il Gruppo Tiscali abbia adeguate risorse per continuare l'esistenza operativa in un prevedibile futuro ed hanno pertanto adottato il presupposto della continuità aziendale nella preparazione del bilancio;

b. gli Amministratori segnalano l'esistenza di alcuni contenziosi potenzialmente significativi intentati da terzi nei confronti della controllata olandese World Online International NV. La Corte Suprema Olandese ha emesso la sentenza definitiva nel mese di novembre 2009, confermando alcuni profili di responsabilità di World Online International NV, senza peraltro pronunciarsi in merito agli eventuali danni, che dovrebbero essere oggetto di un nuovo e separato procedimento da parte dei terzi danneggiati; allo stato non risulta avviato alcun procedimento del genere. Nelle note esplicative viene descritta l'evoluzione della situazione in essere. A fronte di tali contenziosi gli Amministratori ritengono che non sussistano elementi sufficientemente definiti per quantificare la passività potenziale e, pertanto, non hanno effettuato accantonamenti in bilancio.

5. La responsabilità della redazione della relazione sulla gestione e della relazione sul governo societario e gli assetti proprietari in conformità a quanto previsto dalle norme di legge e dai regolamenti compete agli Amministratori della Tiscali S.p.A.. E' di nostra competenza l'espressione del giudizio sulla coerenza della relazione sulla gestione e delle informazioni di cui al comma 1, lettere c), d), f), l), m) e al comma 2, lettera b) dell'art. 123-bis del D.Lgs. 58/98, presentate nella relazione sul governo societario e gli assetti proprietari, con il bilancio, come richiesto dalla legge. A tal fine, abbiamo svolto le procedure indicate dal principio di revisione 001 emanato dal Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili e raccomandato dalla Consob. A nostro giudizio la relazione sulla gestione e le informazioni di cui al comma 1, lettere c), d), f), l), m) e al comma 2, lettera b) dell'art. 123-bis del D.Lgs. 58/98 presentate nella relazione sul governo societario e gli assetti proprietari sono coerenti con il bilancio d'esercizio della Tiscali S.p.A. al 31 dicembre 2011.

Milano, 20 aprile 2012

Reconta Ernst & Young S.p.A.

Luca Pellizzoni
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2