Consolidated financial report as at 30 June 2012

Issue date: 30 June 2012

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TISCALI S.P.A.

Registered offices: 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

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1 Highlights

Income statement (EUR mln)	**30 June 2012**	**30 June 2011**
· Revenues	118.5	140.1
· Adjusted Gross Operating Result (EBITDA)	39.0	38.0
· Gross Operating Result (EBITDA)	26.0	19.6
· Operating result	5.2	(8.7)

Balance sheet (EUR mln)	**30 June 2012**	**31 December 2011**
· Total assets	286.7	307.1
· Net Financial Debt	(186.4)	(193.5)
· Net Financial Debt as per Consob	(192.8)	(200.0)
· Shareholders' equity	(132.3)	(130.0)
· Investments	12.0	28.3

Operating figures (000)	**30 June 2012**	**31 December 2011**
ADSL (broadband) users	468.7	494.3
Of which: Direct ADSL users (LLU)	332.3	344.3
Voice	42.3	52.7

2 Alternative performance indicators

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

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

Pre-tax result and result deriving from assets destined to be disposed of

+ Financial charges

- Financial income

+/- Income/Charges from equity investments in associated companies

Operating result

+ Restructuring costs

+ Amortisation/depreciation

+/- Atypical income/charges

Gross Operating Result (EBITDA)

+ Write-downs of receivables from customers

+ Stock option plan cost

Gross Operating Result (Adjusted EBITDA)

3 Directors and Auditors

Board of Directors

Chairman and Chief Executive Officer: Renato Soru

Directors

Franco Grimaldi

Gabriele Racugno

Luca Scano

Victor Uckmar

Board of Statutory Auditors

Chairman

Paolo Tamponi

Statutory Auditors

Piero Maccioni

Andrea Zini

Alternate Auditors

Rita Casu

Giuseppe Biondo

Executive in charge of drawing up the corporate accounting documents

Pasquale Lionetti

Independent Auditing Firm

Reconta Ernst & Young S.p.A.

Interim report on operations

4 Interim report on operations

4.1 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 and the first half of 2012, trends typical of a market close to saturation point were detected, with increasingly greater importance acquired by customer loyalty retention policies so as to contrast the tendency of 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 single play is proving to be an interesting alternative for mobile only customers.

Internet access from mobile devices by contrast continues to rise sharply, drawn along by Tablets and Smartphones, by internet keys and the increasingly greater development of mobile applications both by media on-line and companies.

With regard to the broadband access market, coverage by the traditional operators continues (Telecom Italia, Fastweb, Wind Infostrada, Vodafone, Tele-tu) who compete in the market place with different price, communication and added value service strategies.

In relation to the on-line advertising market, the growth trend going against the performance registered with regard to traditional media also continued in the first half of 2012, partly thanks to the massive shift of a good portion of the communications budgets by advertising investors towards classic on-line media and social networks.

Within this market context, Tiscali continues its rationalisation activities, for the purpose of increasing margins and generating cash to service the commercial and financial debt, in a particularly challenging market context and recessionary macro-economic scenario.

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 complementary nature of the access products with web-based services.

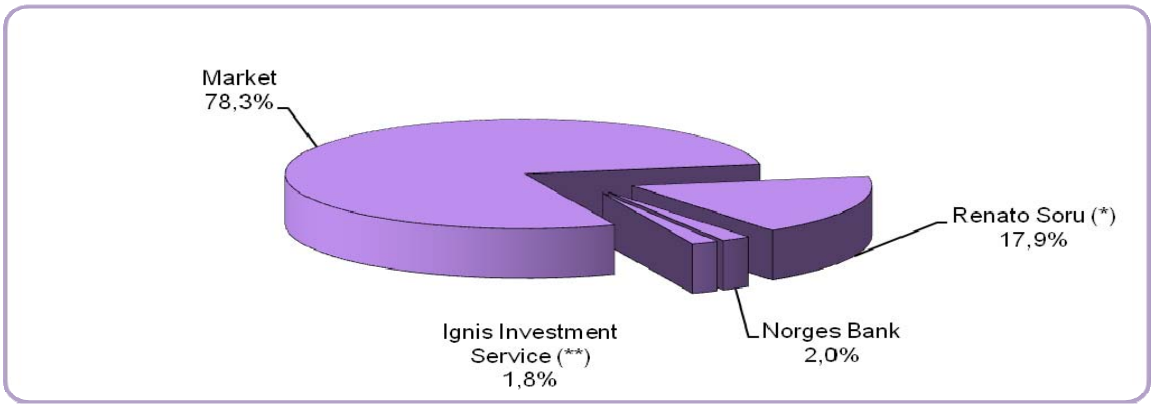
4.2 Tiscali shares

Tiscali shares have been listed on the Italian Stock market (Milan: TIS) since October 1999. At 30 June 2012, market capitalization came to around EUR 57.8 million, calculated on the value of EUR 0.03 per share as at that date.

At 30 June 2012, the number of shares representing the Group's share capital amounted to 1,861,494,666.

Tiscali's shareholder base at 30 June 2012 is illustrated below.

Pie chart 4.1- 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.

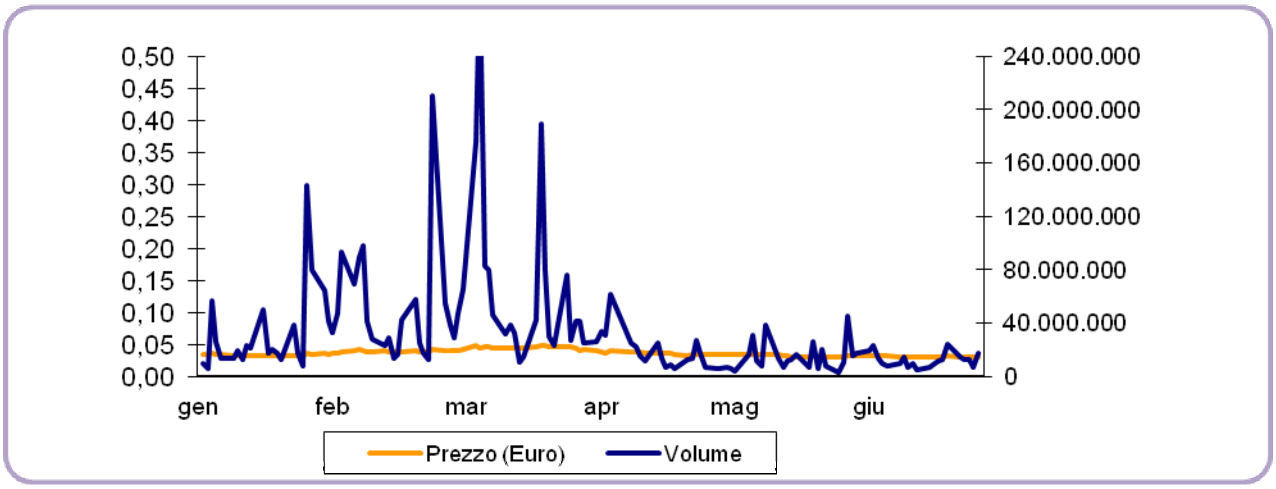
Share capital structure at 30 June 2012

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 the first half of 2012.

Chart 4.2 - Tiscali's share performance during the first half of 2012



Key: Jan – Feb – Mar – Apr – May – June – Price - Volume

Source: Bloomberg data processing

The average monthly price in the period stood at EUR 0.037. The maximum price of EUR 0.0494 for the period was recorded on 20 March 2012, and the minimum of EUR 0.0298 on 27 June 2012.

Trading volumes stood at a daily average of about 33 million items, with a daily average trade value of around EUR 1.2 million.

Average Tiscali stock trading on the Italian Stock Exchange in the first half of 2012

	Price (EUR)	No. of shares
January	0.034	32,534,652
February	0.039	51,211,429
March	0.045	68,137,627
April	0.037	19,712,568
May	0.033	14,925,556
June	0.031	12,807,682
Average	**0.037**	**33,221,586**

4.3 Significant events during the first half of 2012

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, the subsidiary Tiscali Contact S.r.l. was absorbed within Tiscali Italia S.p.A.

Tiscali S.p.A.: 2011 draft financial statements approved

On 30 March 2012, Tiscali's Board of Directors approved the 2011 draft financial statements.

The shareholders' meeting approves the 2011 financial statements

On 15 May 2012, Tiscali S.p.A.'s ordinary shareholders' meeting, held in Cagliari in sole calling, approved the 2011 financial statements.

Establishment of new companies

On 15 May 2012, the following companies wholly-owned by Tiscali Italia S.p.A. were established:

- Veesible S.r.l. (destined to receive the spin-off of the activities of the Advertising division);
- Indoona S.r.l. (destined to receive the activities relating to the Indoona project);
- Istella S.r.l. (destined to receive the activities relating to the Istella project - a new Tiscali search engine).

4.4 Analysis of the Group economic, equity and financial position

Foreword

Tiscali is one of the main alternative suppliers of telecommunications services in Italy.

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 for the Group

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.

The activities, strategies and prospects of the Tiscali Group are influenced by this state of play, consequently also the economic, equity and financial position is.

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 Group 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 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.

The Group has 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.

For further information please refer to section 4.8 "Assessment of the business as a going-concern and business outlook".

Risks associated with fluctuations in interest and exchange rates

The Tiscali Group operates essentially in Italy. Some supplies, even though for insignificant amounts, are denominated in foreign currency; therefore, the risk of exchange rate fluctuations which the Group is exposed to is minimum. The Tiscali Group is exposed to risks deriving from changes in the interest rates which could have a negative impact on the 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 4.8 "Assessment of the business as a going-concern and business outlook".

Risks associated with disputes and contingent liabilities

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

Consolidated income statement

EUR mln **CONSOLIDATED INCOME STATEMENT**	**30 June 2012**	**30 June 2011**	**Change**
Revenues	118.5	140.1	(21.6)
Other income	1.1	1.1	(0.1)
Purchase of materials and outsourced services	68.3	88.9	(20.6)
Payroll and related costs	16.6	18.7	(2.1)
Other operating costs / (income)	(4.3)	(4.3)	0.0
Adjusted Gross Operating Result (EBITDA)	**39.0**	**38.0**	**1.1**
Write-downs of receivables from customers	13.1	18.4	(5.3)
Gross Operating Result (EBITDA)	**26.0**	**19.6**	**6.4**
Restructuring costs, provisions for risk reserves and write-downs	0.7	1.4	(0.7)
Amortisation/depreciation	20.0	26.8	(6.8)
Operating result (EBIT)	**5.2**	**(8.7)**	**13.9**
Net financial income (charges)	(6.8)	(7.9)	1.1
Pre-tax result	**(1.6)**	**(16.6)**	**15.0**
Income taxes	(0.7)	(0.9)	0.2
Net result from operating activities (on-going)	**(2.3)**	**(17.5)**	**15.2**
Result from assets disposed of and/or destined for disposal	(0.0)	0.0	(0.0)
Net result	(2.3)	(17.4)	15.2
Minority interests	0.0	0.0	0.0
Group Net Result	**(2.3)**	**(17.4)**	**15.2**

Tiscali Group revenues during the first half of 2012 came to EUR 118.5 million, down with respect to the balance of EUR 140.1 million recorded in the first half of 2011. The revenue mix by business line changed, as described below:

- a reduction of EUR 12.6 million (12.3%) in revenues for the “Access and VoIP” segment essentially due to the drop in the number of customers;
- Media revenues rose EUR 2.4 million (increase of 23.2%) thanks to the greater volumes of traffic on the network sites;
- analogue voice revenues decreased EUR 9.4 million (drop of 59.6%) mainly due to the reduction in the volume of wholesale services for EUR 7.3 million. The decrease was the result of the Group’s strategic choice, laid down by the low margins on wholesale down with respect to 2011.

During the first half of 2012, internet access and voice revenues – the Group’s core business – represented around 81.3% of total turnover.

Costs for purchases of materials and services totalling EUR 68.3 million, decreased EUR 20.6 million with respect to the first half of last year. This decrease was attributable in part to the reduction in volumes determined by the decrease in the number of customers (and consequent reduction in Telecom line rental costs), and in part to the positive effect deriving from the commercial agreements entered into with the main traffic suppliers from the second half of 2011, which made it possible to achieve a saving of around EUR 1 million a month.

The Gross Operating Result (EBITDA) came to EUR 39 million, up with respect to the previous year (EUR 38 million).

The operating result (EBIT) for the first half of 2012, net of provisions, write-downs and amortisation/depreciation, was a profit of EUR 5.2 million, up with respect to the corresponding balance for 2011, a loss of EUR 8.7 million.

The improvement in the result, in addition to the factors described above, takes into account the minor provision for the write-down of receivables which, during the first half of 2011, had been significantly affected by the processes for rationalisation and mass disconnection of customers.

Furthermore, as more fully described in the section "Format and content of the accounting statements", the reduction in amortisation/depreciation (EUR 6.8 million when compared with the first half of 2011) includes EUR 4.8 million attributable to the extension from 24 to 36 months of the duration of the amortisation of customer acquisition and activation costs and EUR 0.7 million attributable to the extension from 5 to 7 years of the useful life of the transmission equipment.

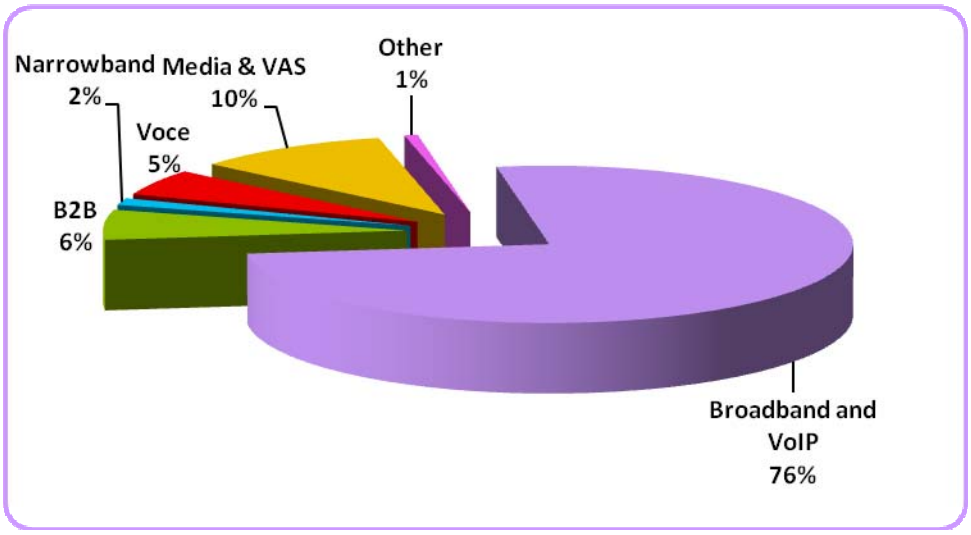
The Group's net result was a loss of EUR 2.3 million, up with respect to the comparable figure in the first half of 2011 which presented a loss of EUR 17.5 million. The period result essentially takes into account a lower provision for accumulated amortisation/depreciation for EUR 5.5 million, consequent to the afore-mentioned review of the useful life of certain categories of fixed assets. In detail, the adoption of the amortisation/depreciation criteria applied last year would have led to a loss for the interim period of EUR 7.8 million rather than a loss of EUR 2.3 million.

Operational income statement - Group

EUR mln	**30 June 2012**	**30 June 2011**
Revenues	**118.5**	**140.1**
Access revenues (including VOIP)	89.9	102.6
of which: ADSL	*51.7*	*61.4*
of which VOIP	*36.3*	*39.3*
Dial Up revenues (narrowband)	*1.7*	*2.3*
Voice revenues	6.4	15.8
Business service revenues	7.3	7.5
Media and value added service revenues	12.4	10.0
Other revenues	0.8	2.0
Gross operating margin	**61.3**	**64.7**
Indirect operating costs	**27.6**	**32.2**
Marketing and sales	4.2	5.6
Payroll and related costs	16.6	18.7
Other indirect costs	6.9	7.9
Other (income) / expense	(5.4)	(5.4)
Adjusted Gross Operating Result (EBITDA)	**39.0**	**38.0**
Write-down of receivables and other provisions	13.1	18.4
Gross Operating Result (EBITDA)	**26.0**	**19.6**
Amortisation/depreciation	20.0	26.8
Gross result (EBIT) before restructuring costs and provisions for risks	**5.9**	**(7.3)**
Operating result (EBIT)	**5.2**	**(8.7)**
Group Net Result	**(2.3)**	**(17.4)**

Revenues by business line

Pie chart 3 - Breakdown of revenues by business line and access mode



Source: Tiscali

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

Access

The segment in question, which includes revenues from Internet access services via narrowband (dial-up) and broadband (ADSL) and the flat component of the bundled ranges (access fees), in the first half of the year generated revenues of around EUR 90 million, down by 12.3% with respect to the figure in the same period in 2011 (EUR 102.6 million). The decrease in revenues is mainly attributable to the ADSL access services (EUR 51.7 million as of 30 June 2012 compared with EUR 61.4 million as of 30 June 2011) and the VOIP segment (EUR 36.3 million as at 30 June 2012 compared with EUR 39.3 million at 30 June 2011).

As at 30 June 2012, direct ADSL customers decreased by 56.6 thousand with respect to the comparable figure in the first half of 2011.

Total ADSL customers at the end of the period amounted to around 468.7 thousand, of which 332.3 thousand linked under unbundling.

The customer base using dial-up access (narrowband) and analogue voice services stood at around 42.3 thousand users (of which around 10 thousand using WLR). 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)	**30 June 2012**	**30 June 2011**
ADSL customers	468.7	521.2
of which LLU	*332.3*	*360.4*
Narrowband and Voice customers	42.3	65.3
Dual play customers	335	358.5

The unbundling network coverage at 30 June 2012 amounted to 688 sites.

Voice

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

During the first half of 2012, there was a decrease in revenues relating to analogue voice services, equating to EUR 9.4 million (-59.6% with respect to the first half of last year) and VOIP revenues amounting to EUR 2.9 million (-7.6% with respect to the first half of 2011), essentially attributable to the reduction in volumes of wholesale services (-81.5%) due to a precise strategic choice, determined by the fact that the margins on this type of services are progressively decreasing and of an irrelevant overall value.

Business services

Revenues from business services (VPN, housing, hosting services, domains and leased lines), excluding those from access and/or voice products for the same customer base already included in their respective business segments, amounted in the first half of 2012 to EUR 7.3 million, down 2.1% with respect to the EUR 7.5 million in the first six months of 2011.

Media

During the first half of 2012, revenues for the Media and value added services segment (mainly concerning sales of advertising space) amounted to around EUR 12.4 million and were up 23.2% with respect to the same period in the previous year (EUR 10 million). The increase in Media revenues is essentially attributable to the rise in traffic on the Tiscali.it portal and on other network sites, as well as the improved performance of the sales network.

Indirect operating costs during the first half of 2012 came to EUR 27.6 million (23.3% of revenues), down when compared with the balance for the first half of 2011 (EUR 32.2 million, 23% of revenues). Within indirect operating costs, **payroll and related costs** during the first half of 2012 amounted to EUR 16.5 million (14% of revenues), down with respect to the first six months of 2011 (EUR 18.6 million, 13.3% of revenues). This reduction was essentially attributable to the savings deriving from the implementation of the Solidarity pact, signed with the organisations representing the employees in 2011 which came into force as from 7 November 2011.

The **adjusted Gross Operating Result (EBITDA)**, before provisions for risks, write-downs, depreciation and amortisation, came to EUR 39 million (32.9% of revenues), up with respect to the first six months of 2011 (EUR 38 million, 27.1% of revenues).

Provisions to risk reserves, write-downs of receivables and other provisions in the first six months of 2012 totalled EUR 13.1 million (EUR 18.4 million in the same period of 2011).

The **Gross operating result (EBITDA)**, net of write-downs of receivables and other provisions came to EUR 26 million in the first half of 2012 (21.9% of revenues), an increase of 32.6% on the comparable figure for 2011 (EUR 19.6 million, 14% of revenues).

Amortisation/depreciation in the first half of 2011 came to EUR 20 million (EUR 26.8 million in the first half of 2011). As indicated above, the reduction in amortisation and depreciation is attributable to the extension of the amortisation/depreciation period for certain categories of fixed assets (in this connection see the matters fully described in the section "Format and content of the accounting statements").

The **operating result (EBIT)** for the first half of 2012, net of provisions, write-downs and restructuring costs, was a profit of EUR 5.2 million, with respect to the corresponding balance for 2011, a loss of EUR 8.7 million.

The **result from operating activities (on-going)**, a loss of EUR 2.3 million, improved with respect to the same balance in the first half of the previous year, disclosing a loss of EUR 17.5 million.

The **Group's net result** was a loss of EUR 2.3 million (a loss of EUR 17.4 million in the first half of 2011).

Equity and financial position

CONSOLIDATED BALANCE SHEET (in abridged form) *EUR mln*	**30 June 2012**	**31 December 2011**
Non-current assets	186.4	194.4
Current assets	100.3	112.7
Total Assets	**286.7**	**307.1**
Group shareholders' equity	(132.3)	(130.0)
Shareholders' equity pertaining to minority shareholders	-	-
Total Shareholders' equity	**(132.3)**	**(130.0)**
Non-current liabilities	199.2	197.4
Current liabilities	219.8	239.6
Total Liabilities and Shareholders' equity	**286.7**	**307.1**

Assets

Non-current assets

Non-current assets at 30 June 2012 amounted in total to EUR 186.4 million (EUR 194.4 million at 31 December 2011). The net change is essentially attributable to the amortisation and depreciation charge on intangible and tangible fixed assets in the first half of 2012. Investments, amounting to around EUR 12 million, essentially refer to the activation of new ADSL customers.

Current assets

Current assets at 30 June 2012, amounted in total to EUR 100.3 million, down with respect to 31 December 2011 (EUR 112.7 million). Receivables from customers as at 30 June 2012 amounted in total to EUR 72 million, compared with EUR 88.5 million at 31 December 2011. Other receivables and other current assets, amounting to EUR 14.8 million, include prepaid expense for service costs, accrued income on access services, sundry receivables and VAT credits.

Liabilities

Non-current liabilities

Non-current liabilities at 30 June 2012 amounted in total to EUR 199.2 million, up with respect to 31 December 2011 (EUR 197.4 million). The balance includes both the items pertaining to the financial position, with reference to which please see the matters illustrated below, the provision for risks and charges for EUR

3.4 million, the provision for employee severance indemnities for EUR 4.1 million and payables to suppliers for the purchase of long-term rights for the use of transmission capacity (IRU) for EUR 4.7 million, along with the provision for taxation.

Current liabilities

Current liabilities amounted to EUR 219.8 million as at 30 June 2012 (compared with EUR 239.6 million as at 31 December 2011) 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.

Financial position

As at 30 June 2012, the Tiscali Group held cash, cash equivalents and bank deposits totalling EUR 12.8 million, against net financial debt, at the same date, of EUR 186.4 million (EUR 193.5 million as at 31 December 2011).

EUR mln	**Notes**	**30 June 2012**	**31 December 2011**
A. Cash and Bank deposits		12.8	6.6
B. Other cash equivalents		0.1	0.1
C. Securities held for trading		-	-
D. Cash and cash equivalents (A) + (B) + (C)		***12.9***	***6.7***
E. Current financial receivables		***-***	***-***
F. Non-current financial receivables	(1)	6.3	6.3
G. Current bank payables	(2)	11.4	14
H. Current portion of non-current debt	(3)	8.6	9.6
I. Other current financial payables (*)	(4)	0.2	0.6
J. Current financial debt (G) + (H) + (I)		***20.2***	***24***
K. Net current financial debt *(J) – (E) – (D) - (F)*		**1.0**	**11.0**
L. Non-current bank payables	(5)	127.1	124.4
M. Bonds issued		-	-
N. Other non-current payables (**)	(6)	58.4	58.1
O. Non-current financial debt *(N) + (L) + (M)*		**185.4**	**182.5**
P. Net Financial Debt *(K) + (O)*		**186.4**	**193.5**

(*) includes short-term financial leasing payables

(**) includes long-term financial 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 8.6 million relating to payables to Senior Lenders (principal and interest portions repayable within 12 months);*

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

(5) *The entire amount of EUR 127.1 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 57.7 million.*

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

EUR mln	**30 June 2012**	**31 December 2011**
Consolidated net financial debt	**186.4**	**193.5**
Other cash equivalents and non-current financial receivables	6.4	6.5
Consolidated net financial debt prepared on the basis of Consob communication No. DEM/6064293 dated 28 July 2006	**192.8**	**200**

4.5 Related Parties

The Regulations for transactions with related parties drawn up in pursuance of Article 2391 *bis* of the Italian Civil Code and Consob Regulation No. 17221 dated 12 March 2010 came into force as from 1 January 2011 as published on the Company website, in the Investor Relations section.

4.6 Significant events after the half year end

<u>Partial repayment of the Senior Loan</u>

On 3 July 2012, EUR 5 million was repaid in full with regard to the Senior Loan already reclassified under short-term financial liabilities, along with the payment of the interest on the principal for EUR 1.4 million.

4.7 Business outlook and prospects

In a macro-economic context characterised by uncertainties and a decrease in levels of consumption, and in a competitive context characterised by heavy pressure on prices, Tiscali will continue to pay primary attention to rationalising operations and generating cash to service the commercial and financial debt.

With regard to the consumer telecommunications sector, the greatest focus will be placed on acquisitions in the direct area, so as to saturate the network infrastructures and generate greater cost efficiencies, and at the same time provide the best quality service. From a commercial standpoint, low cost changes will continue to be preferred, first and foremost the web, with a selective use of the high-cost push channels. In the business sector, the focus will be placed on the development of trade relations undertaken with key customers and the commercial diffusion of new products such as Open-net and EFM, which are meeting with reasonable success on the market.

In the Media segment, development of trade relations with customers will continue, also benefiting from the recent creation of the new Veesible sales structure, so as to continue the revenue growth trend.

On a parallel, the considerable managerial commitment on innovation will continue, with specific focus on the Indoona and Steamago products, where attempts will be made to considerably extend the customer base.

4.8 Assessment of the business as a going-concern and business outlook

Events and uncertainties regarding the business continuity

The Tiscali Group closed the first half of 2012 with a consolidated loss of EUR 2.3 million and negative consolidated shareholders' equity of EUR 132.3 million. Furthermore, as at 30 June 2012, the Group had a gross financial debt of EUR 205.6 million and current liabilities greater than current assets (non-financial) for EUR 112.2 million.

As of 31 December 2011, the consolidated loss amounted to EUR 38.1 million, with 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.

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 205.6 million at 30 June 2012.

In a recessionary context, 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:

- progressive 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;
- 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 the first half of 2012, 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 overheads, in particular:

- industrial costs were positively affected by the savings deriving from agreements entered into as from 1 August 2011 with the main network and traffic suppliers, which make it possible 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;
- payroll and related costs were positively affected by the decrease deriving from the application of the Solidarity Agreement with the employees (pursuant to Italian Law No. 863 dated 1984) entered into during the second half of 2011, with a duration of 24 months. The reduction in staff costs with respect to the first half of 2011 amounts to around EUR 2.1 million;

- the strategy continued for the application of more stringent control policies on the incoming customer base, which led to a reduction in volumes, but at the same time an improvement in the quality of the customer base and the consequent cash flows. In detail, action continued for 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);
- as from 1 July 2012, the decrease in the mobile termination tariff (both at cost and revenue level), sanctioned by means AGCOM resolution, will lead to a further positive effect, with impacts in the second half of 2012.

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

- Media revenues increased 23.2% with respect to the first half of the previous year, thanks to the improvement in the editorial product (news oriented) and the innovation of the add-ons and sales strategies (theme-based channels, interactivity with social networks and with the mobile internet, etc.), factors which made it possible to make traffic on the portal more profitable;
- the Group continues its focus on innovation, in particular with reference to the launch, in the second half of 2011, of Indoona (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 31.5 million in the first half of 2011 to EUR 34.1 million in the first half of 2012, contributing towards reducing the financial debt. Operations generated cash making it possible to honour the due dates relating to financial debt, both in terms of principal and interest. Furthermore, as envisaged by the financial plan ("Group Facility Agreement" or "GFA"), on 3 July 2012, the Group made a payment to the financial institutions amounting to EUR 6.4 million (of which EUR 5 million for repayment of the principal and EUR 1.4 million for interest).

The Group's business plan was also updated, covering the entire period for the repayment of the financial debt. This up-date of the 2012-2017 business plan, which takes into account the results for the first half of 2012, does not differ with regard to the essential strategic lines from the plan approved by the Board of Directors on 30 March 2012 and, hypothesises, in 2014 - year in which the repayment of a significant portion of the financial debt is envisaged (equating to a nominal EUR 82.5 million plus the portion of capitalised PIK interest) - the rescheduling of the part of the debt in excess with respect to the cash flows which it is envisaged will be generated over the plan's duration.

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 132.3 million, due mainly to the prior negative economic performance and weight of the considerable debt;

ii. the presence of a significant commercial and financial debt, the latter 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 23);

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 envisaged 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. The business plan also 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.

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:

- respected all the obligations and due dates envisaged by the financial plan. As established by the GFA, during the first half of 2012, interest was paid over to the financial institutions for a total of EUR 1.4 million and, on 3 July 2012, the Group made a payment of EUR 6.4 million (of which EUR 5 million for repayment of the principal and EUR 1.4 million for interest);
- reported an improvement in the cash flows of the operating activities net of investment activities, which rose from EUR 31.5 million in the first half of 2011 to EUR 34.1 million in the second half of 2012;
- updated the business plan, verifying the coherence with the financial requirements determined by the debt structure, hypothesising its rescheduling in 2014;
- continued to focus on certain sectors with high growth potential, such as the media sector, where an increase in revenues was seen of 23.2% when compared with the first half of 2011, and on particularly innovative projects.

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 2011 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.

Condensed consolidated half-yearly financial statements as at 30 June 2012

5 Consolidated financial statements and explanatory notes

5.1 Income statement

(EUR 000)	Notes	First half of 2012	First half of 2011
Revenues	*1*	118,533	140,134
Other income	*2*	1,062	1,126
Purchase of materials and outsourced services	*3*	68,298	88,945
Payroll and related costs	*4*	16,552	18,654
Other operating (income) charges	*5*	(4,295)	(4,306)
Write-downs of receivables from customers	*6*	13,081	18,398
Restructuring costs and other write-downs	*7*	734	1,412
Amortisation/depreciation	*13-14*	20,035	26,823
Operating result		**5,189**	**(8,665)**
Net financial income (charges)	*8*	(6,797)	(7,935)
Pre-tax result		**(1,608)**	**(16,599)**
Income taxes	*9*	(660)	(856)
Net result from operating activities (on-going)		**(2,268)**	**(17,456)**
Result from assets disposed of and/or destined for disposal	*10*	(8)	29
Net result for the period	*11*	**(2,275)**	**(17,427)**
Attributable to:			
- Result pertaining to the parent company		**(2,275)**	**(17,427)**
- Minority interests		0.00	0.0
Earnings (Losses) per share			
Earnings per share from operating activities and those disposed of:			
- Basic		(0.00)	**(0.01)**
- Diluted		(0.00)	**(0.01)**
Earnings per share from operating activities:			
- Basic		(0.00)	**(0.01)**
- Diluted		(0.00)	**(0.01)**

5.2 Statement of comprehensive income

(EUR 000)	Notes	First half of 2012	First half of 2011
Result for the period		**(2,275)**	**(17,427)**
Total statement of comprehensive income result		**(2,275)**	**(17,427)**
Attributable to:			
Shareholders of the parent company		**(2,275)**	**(17,427)**
Minority shareholders		-	-
		(2,275)	**(17,427)**

5.3 Statement of financial position

(EUR 000)	Notes	30 June 2012	31 December 2011
Non-current assets			
Intangible assets	*13*	75,978	77,385
Properties, plant and machinery	*14*	100,313	106,932
Other financial assets	*15*	10,116	10,076
		186,406	**194,393**
Current assets			
Inventories	*16*	438	648
Receivables from customers	*17*	72,032	88,574
Other receivables and other current assets	*18*	14,829	16,750
Other current financial assets	*19*	194	168
Cash and cash equivalents	*20*	12,818	6,564
		100,310	**112,704**
Assets held for sale		-	**-**
Total Assets		**286,717**	**307,097**
Share Capital and reserves			
Share capital		92,019	92,019
Stock option reserve		-	-
Results from previous periods and Other reserves		(222,007)	(183,864)
Result pertaining to the Group		(2,275)	(38,140)
Group shareholders' equity	*21*	**(132,262)**	**(129,985)**
Minority interests		-	-

Shareholders' equity pertaining to minority shareholders	*22*	**-**	**-**
Total Shareholders' equity		**(132,262)**	**(129,985)**
Non-current liabilities			
Payables to banks and to other lenders	*23*	127,066	124,417
Payables for financial leases	*23*	58,360	58,068
Other non-current liabilities	*24*	6,200	7,373
Liabilities for pension obligations and staff severance indemnities	*25*	4,117	4,209
Provisions for risks and charges	*26*	3,461	3,379
		199,204	**197,447**
Current liabilities			
Payables to banks and other lenders	*23*	20,038	23,459
Payables for financial leases	*23*	185	581
Payables to suppliers	*27*	133,781	152,800
Other current liabilities	*28*	65,772	62,795
		219,775	**239,634**
Liabilities directly related to assets held for sale		-	-
Total Liabilities and Shareholders' equity		**286,717**	**307,097**

5.4 Cash flow statement

	First half of 2012	First half of 2011
(EUR 000)		
OPERATIONS		
Result from operating activities	**(2,268)**	**(17,456)**
Adjustments for:		
Depreciation of tangible assets	8,006	10,589
Amortisation of intangible assets	12,029	16,233
Allowance for bad debt provision	13,081	18,398
Capital gains on disposal of non-current assets	(1,054)	(1,054)
Income taxes	660	856
Release of provisions for risks	(156)	(201)
Other changes	(2,982)	(3,802)
Financial income/charges	6,797	7,935
Cash flow from operations before changes in working capital	***34,113***	***31,499***
Change in receivables	3,349	(9,912)
Change in inventory	210	44

Change in payables to suppliers	(18,599)	2,173
Change in long-term payables to suppliers	1,433	(480)
Net change in the provisions for risks and charges	(12)	(1,489)
Net change in provision for staff severance indemnities	(937)	(1,169)
Changes in other liabilities	3,371	1,275
Changes in other assets	1,921	2,799
Changes in working capital	***(9,263)***	***(6,759)***
CASH FLOWS GENERATED BY OPERATIONS	**24,849**	**24,739**
INVESTMENT ACTIVITIES		
Change in other financial assets	(66)	1,693
Purchases of tangible fixed assets	(1,388)	(760)
Purchases of intangible fixed assets	(10,621)	(14,061)
Payments for the sale of assets	(8)	300
NET CASH USED FOR THE INVESTMENT ACTIVITIES	**(12,082)**	**(12,828)**
FINANCIAL ACTIVITIES		
Change in loans from banks	(5,686)	(11,628)
of which:		
Repayment of capital and interest on Senior loans	(1,470)	(10,435)
Increase/Decrease in current account overdrafts	(4,215)	(1,193)
Repayment/Acceptance of finance leases	(817)	(1,567)
Exchange differences	(8)	18
Changes in shareholders' equity	(2)	111
NET CASH GENERATED BY/(USED IN) FINANCIAL ACTIVITIES	**(6,513)**	**(13,066)**
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	**(6,513)**	**(13,066)**
NET INCREASE/(DECREASE) IN NET CASH AND CASH EQUIVALENTS	**6,253**	**(1,155)**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE FINANCIAL YEAR	**6,564**	**10,326**
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR	**12,818**	**9,171**

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 2011	**92,019**			**(222,004)**	**(129,985)**		**(129,985)**
Share capital increase							
Increases /(Decreases)							
Period result				(2,275)	**(2,275)**		**(2,275)**
Balance at 30 June 2012	**92,019**			**(224,280)**	**(132,260)**		**(132,260)**

(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 2010	**92,017**		**4,388**	**(188,374)**	**(91,968)**		**(91,968)**
Share capital increase	2				**2**		**2**
Increases /(Decreases)				108	**108**		**108**
Period result				(17,427)	**(17,427)**		**(17,427)**
Balance at 30 June 2011	**92,019**		**4,388**	**(205,692)**	**(109,284)**		**(109,284)**

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

(EUR 000)	Notes	First half of 2012	of which: related parties	First half of 2011	of which: related parties
Revenues	*1*	118,533	40	140,134	198
Other income	*2*	1,062		5,426	
Purchase of materials and outsourced services	*3*	68,298	486	88,945	740
Payroll and related costs	*4*	16,552		18,654	
Other operating (income) charges	*5*	(4,295)		(6)	
Write-downs of receivables from customers	*6*	13,081		18,398	
Restructuring costs and other write-downs	*7*	734		1,412	
Amortisation/depreciation	*13-14*	20,035		26,823	
Operating result		**5,189**	**(447)**	**(8,665)**	**(542)**
Net financial income (charges)	*8*	(6,797)		(7,935)	
Pre-tax result		**(1,608)**	**(447)**	**(16,599)**	**(542)**
Income taxes	*9*	(660)		(856)	
Net result from operating activities (on-going)		**(2,268)**	**(447)**	**(17,456)**	**(542)**
Result from assets disposed of and/or destined for disposal	*10*	(8)		29	
Net result for the period	*11*	**(2,275)**	**(447)**	**(17,427)**	**(542)**
Attributable to:					
- Result pertaining to the parent company		**(2,275)**		**(17,427)**	
- Minority interests					
Earnings (Losses) per share					
Earnings per share from operating activities and those disposed of:					
- Basic		(0.00)		**(0.01)**	
- Diluted		(0.00)		**(0.01)**	
Earnings per share from operating activities:					
- Basic		(0.00)		**(0.01)**	
- Diluted		(0.00)		**(0.01)**	

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

(EUR 000)	Notes	30 June 2012	of which: related parties	31 December 2011	of which: related parties
Non-current assets					
Intangible assets	*13*	75,978		77,385	
Properties, plant and machinery	*14*	100,313		106,932	
Other financial assets	*15*	10,116		10,076	
		186,406		**194,393**	
Current assets					
Inventories	*16*	438		648	
Receivables from customers	*17*	72,032	2	88,574	75
Other receivables and other current assets	*18*	14,829		16,750	
Other current financial assets	*19*	194		168	
Cash and cash equivalents	*20*	12,818		6,564	
		100,310	**2**	**112,704**	**75**
Assets held for sale		-		-	
Total Assets		**286,717**	**2**	**307,097**	**75**
Share Capital and reserves					
Share capital		92,019		92,019	
Stock option reserve					
Results from previous periods and Other reserves		(222,007)		(183,864)	
Result pertaining to the Group		(2,275)		(38,140)	
Group shareholders' equity	*21*	**(132,262)**		**(129,985)**	
Minority interests					
Shareholders' equity pertaining to minority shareholders	*22*				
Total Shareholders' equity		**(132,262)**		**(129,985)**	
Non-current liabilities					
Payables to banks and to other lenders	*23*	127,066		124,417	
Payables for financial leases	*23*	58,360		58,068	
Other non-current liabilities	*24*	6,200		7,373	
Liabilities for pension obligations and staff severance indemnities	*25*	4,117		4,209	
Provisions for risks and charges	*26*	3,461		3,379	
		199,204		**197,447**	
Current liabilities					
Payables to banks and other lenders	*23*	20,038		23,459	

Payables for financial leases	*23*	185		581	
Payables to suppliers	*27*	133,781	282	152,800	346
Other current liabilities	*28*	65,772		62,795	
		219,775	**282**	**239,634**	**346**
Liabilities directly related to assets held for sale		-		-	
Total Liabilities and Shareholders' equity		**286,717**	**282**	**307,097**	**346**

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, along with high technology content telecommunications services and solutions.

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 an important position in the market of Italian telecommunications.

These condensed consolidated half-yearly financial statements (the financial statements) are presented in thousands of 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.

The half-yearly financial report has been approved by the Board of Directors on 28 August 2012, which authorised the publication of the same as per the formalities and legal deadlines.

Events and uncertainties regarding the business continuity

The Tiscali Group closed the first half of 2012 with a consolidated loss of EUR 2.3 million and negative consolidated shareholders' equity of EUR 132.3 million. Furthermore, as at 30 June 2012, the Group had a gross financial debt of EUR 205.6 million and current liabilities greater than current assets (non-financial) for EUR 112.2 million.

As of 31 December 2011, the consolidated loss amounted to EUR 38.1 million, with 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.

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 205.6 million at 30 June 2012.

In a recessionary context, 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:

- progressive 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;
- 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 the first half of 2012, 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 overheads, in particular:

- industrial costs were positively affected by the savings deriving from agreements entered into as from 1 August 2011 with the main network and traffic suppliers, which make it possible 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;
- payroll and related costs were positively affected by the decrease deriving from the application of the Solidarity Agreement with the employees (pursuant to Italian Law No. 863 dated 1984) entered into during the second half of 2011, with a duration of 24 months. The reduction in staff costs with respect to the first half of 2011 amounts to around EUR 2.1 million;
- the strategy continued for the application of more stringent control policies on the incoming customer base, which led to a reduction in volumes, but at the same time an improvement in the quality of the customer base and the consequent cash flows. In detail, action continued for 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);
- as from 1 July 2012, the decrease in the mobile termination tariff (both at cost and revenue level), sanctioned by means AGCOM resolution, will lead to a further positive effect, with impacts in the second half of 2012.

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

- Media revenues increased 23.2% with respect to the first half of the previous year, thanks to the improvement in the editorial product (news oriented) and the innovation of the add-ons and sales strategies (theme-based channels, interactivity with social networks and with the mobile internet, etc.), factors which made it possible to make traffic on the portal more profitable;
- the Group continues its focus on innovation, in particular with reference to the launch, in the second half of 2011, of Indoona (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 31.5 million in the first half of 2011 to EUR 34.1 million in the first half of 2012, contributing towards reducing the financial debt. Operations generated cash making it possible to honour the due dates relating to financial debt, both in terms of principal and interest. Furthermore, as envisaged by the financial plan (“Group Facility Agreement” or “GFA”), on 3 July 2012, the Group made a payment to the financial institutions amounting to EUR 6.4 million (of which EUR 5 million for repayment of the principal and EUR 1.4 million for interest).

The Group’s business plan was also updated, covering the entire period for the repayment of the financial debt. This up-date of the 2012-2017 business plan, which takes into account the results for the first half of 2012, does not differ with regard to the essential strategic lines from the plan approved by the Board of Directors on 30 March 2012 and, hypothesises, in 2014 - year in which the repayment of a significant portion of the financial debt is envisaged (equating to a nominal EUR 82.5 million plus the portion of capitalised PIK interest) - the rescheduling of the part of the debt in excess with respect to the cash flows which it is envisaged will be generated over the plan's duration.

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 132.3 million, due mainly to the prior negative economic performance and weight of the considerable debt;

ii. the presence of a significant commercial and financial debt, the latter 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 23);

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 envisaged 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. The business plan also 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.

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:

- respected all the obligations and due dates envisaged by the financial plan. As established by the GFA, during the first half of 2012, interest was paid over to the financial institutions for a total of EUR 1.4 million and, on 3 July 2012, the Group made a payment of EUR 6.4 million (of which EUR 5 million for repayment of the principal and EUR 1.4 million for interest);
- reported an improvement in the cash flows of the operating activities net of investment activities, which rose from EUR 31.5 million in the first half of 2011 to EUR 34.1 million in the second half of 2012;
- updated the business plan, verifying the coherence with the financial requirements determined by the debt structure, hypothesising its rescheduling in 2014;
- continued to focus on certain sectors with high growth potential, such as the media sector, where an increase in revenues was seen of 23.2% when compared with the first half of 2011, and on particularly innovative projects.

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 2011 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 presentation and consolidation

This condensed consolidated half-yearly financial statements have been drawn up by following the International Accounting Standards (“IFRS”) issued by the Accounting Standards Board (“IASB”) and ratified by the European Union. 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”).

The form and content of these condensed consolidated half-yearly financial statements is compliant with the disclosure envisaged by International Accounting Standard No. 34 Interim financial statements (IAS 34).

The notes have been drawn up in abridged form, applying the faculty envisaged by IAS 34 and therefore they do not include the information required for annual financial statements drawn up in accordance with the IFRS.

In accordance with applicable legal rules and provisions, the condensed consolidated half-yearly financial statements were drawn up on a consolidated basis and were subject to a limited audit by Reconta Ernst & Young S.p.A..

The consolidation principles, the accounting standards and calculation methods used for the preparation of the half-yearly statements have been applied consistently also at the time of preparation of the half-yearly statements as at 30 June 2011 and the consolidated financial statements as at 31 December 2011, presented for comparative purposes. For a complete illustration of the accounting standards and the calculation methods used, reference should be made to the explanatory notes to the consolidated financial statements as at 31 December 2011.

Preparation of the half-yearly financial statements and the related notes in accordance with the IFRS requires management to make a number of estimates and in certain cases adopt assumptions in the application of accounting standards. Within the sphere of the drafting of the half-year financial statements, the significant assessments made by company management regarding the application of the accounting standards and the main sources of uncertainty regarding the estimates, comply with those applied for the preparation of the consolidated financial statements for the year ended as at 31 December 2011.

Consolidation area

The consolidation area of the Group includes the financial statements of Tiscali S.p.A. (parent company) and the companies the latter directly or indirectly controls starting from the date on which it was acquired and until the date on which control ceases.

These consolidated subsidiaries are listed in the note *List of subsidiaries included in the consolidation area*.

Changes in the consolidation area during the first half of 2012 are illustrated as follows:

Companies removed from the consolidation area:

- Tiscali Contact S.r.l.: on 7 May 2012 the process for the merger via incorporation within Tiscali Italia S.p.A. was completed, with accounting effect as from 1 January 2012;

Companies joining the consolidation area:

- Veesible S.r.l.: on 15 May 2012, wholly-owned by Tiscali Italia S.p.A.;

- Indoona S.r.l.: on 15 May 2012, wholly-owned by Tiscali Italia S.p.A.;
- Istella S.r.l.: on 15 May 2012, wholly-owned by Tiscali Italia S.p.A.;

Changes in accounting estimates

The amortisation/depreciation rates for fixed assets are reviewed by the directors annually and are amended if the current useful life differs from that estimated previously. The effects of these changes are reflected in the income statement on a forecast basis.

During the first half of 2012, taking into account the contractual change made during 2011 which laid down - in the event of withdrawal of ADSL customers - the obligation to pay a disconnection contribution in favour of the Tiscali Group (the previous contract envisaged this obligation only if the withdrawal was exercised within 24 months of the date of taking the contract out), the Directors analysed the expected duration of the relationship with the customers recalculating the useful life of the acquisition and activation costs of the customers from 24 to 36 months. In the first half of 2012, this change led to a reduction in the amortisation charge on intangible fixed assets equal to around EUR 4.8 million.

Furthermore, within the sphere of a process for checking the functioning of the network equipment, achieved with the support of an outside technical professional (who issued a specific report in this connection), the Directors also reviewed the estimate of the useful life of the transmission equipment from 5 to 7 years. In the first half of 2012, this review led to a reduction in the depreciation charge on tangible fixed assets equal to around EUR 0.7 million.

Overall, during the first half of 2012 the review of the useful lives indicated above led to lower amortisation/depreciation of intangible fixed assets and tangible fixed assets for EUR 5.5 million; the adoption of the amortisation/depreciation criteria applied last year would have led to a loss for the interim period of EUR 7.8 million rather than a loss of EUR 2.3 million.

Revenues (note 1)

(EUR 000)	First half of 2012	First half of 2011
Revenues	118,533	140,134

Revenues during the first half of 2012 decreased with respect to those in the first half of 2011. For greater details, reference should be made to the Interim report on operations.

Other income (note 2)

(EUR 000)	First half of 2012	First half of 2011
Other income	1,062	1,126

Other income includes the release, totalling around EUR 1 million, of the pertinent portion of the capital gain generated via the sale and lease back transaction on the Cagliari headquarters (Sa Illetta).

Purchase of materials and outsourced services (note 3)

(EUR 000)	First half of 2012	First half of 2011
Line/traffic rental and interconnection costs	40,952	59,405
Costs for use of third party assets	2,919	2,453
Portal services	5,067	4,604
Marketing costs	4,202	5,630
Other services	15,157	16,853
Total	**68,298**	**88,945**

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)	First half of 2012	First half of 2011
Wages and salaries	11,095	12,816
Other personnel costs	5,457	5,838
Total	**16,552**	**18,654**

The decrease in payroll and related costs with respect to the first half of 2011 is attributable to the savings deriving from the enforcement of the Solidarity Pact signed with the bodies representing the employees at the end of 2011.

The breakdown of the employees by category and the corresponding balance at 30 June 2011 are presented below.

Number of employees

	30 June 2012	30 June 2011
Executives	18	18
Middle managers	82	97
Office staff	782	808
Manual workers	3	3
Total	**884**	**926**

Other operating (income) charges (note 5)

The breakdown is as follows:

(EUR 000)	First half of 2012	First half of 2011
Other operating (income) charges	(4,295)	(4,306)
Total	**(4,295)**	**(4,306)**

Other operating income includes around EUR 4 million of write-offs of amounts due to suppliers, of which EUR 2.8 million relating to payables relating to the French subsidiary and the remaining balance relating to the payables of the parent company Tiscali S.p.A.

Write-downs of receivables from customers (note 6)

(EUR 000)	First half of 2012	First half of 2011
Write-downs of receivables from customers	13,081	18,398
Total	**13,081**	**18,398**

The provision for the first half of 2011 included the impact deriving from the procedure for rationalising and disconnecting customers carried out by the Group.

The provision for the first half of 2012 refers to both the portion pertaining to the period (amounting to around 5% of sales revenue) and the write-down of prior receivables in relation to which action for recovery did not produce the desired effects.

See the note “Receivables from customers” for further details (Note 17).

Restructuring costs and other write-downs (note 7)

(EUR 000)	First half of 2012	First half of 2011
Restructuring costs and other write-downs	734	1,412
Total	**734**	**1,412**

Restructuring costs and other write-downs, amounting to EUR 0.7 million, are essentially attributable to provisions on disputes with employees.

Financial income (charges) (note 8)

Net financial income (charges)

A breakdown of net financial income (charges) for the year, presenting a negative balance of EUR 6.7 million, is provided below.

(EUR 000)	First half of 2012	First half of 2011
Financial income		
Interest on bank deposits	30	46
Other financial income	(86)	88
Total	**(56)**	**134**
Financial charges		
Interest and other charges due to banks	3,623	4,851
Other financial charges	3,118	3,217
Total	**6,741**	**8,068**
Net financial income (charges)	**(6,797)**	**(7,935)**

The balance of Net financial income (charges) mainly included bank interest on the Senior Loan for EUR 3.1 million, interest on leasing for EUR 0.7 million, interest on current accounts for EUR 0.8 million, bank charges for EUR 1.3 million and default interest payable for EUR 0.2 million.

Income taxes (note 9)

(EUR 000)	First half of 2012	First half of 2011
Current taxes	660	856
Deferred taxes	-	-
Total	**(660)**	**(856)**

Current taxes are essentially represented by IRAP (regional business tax) payable by the Italian companies.

Operating assets disposed of and/or assets held for sale (note 10)

The “Result from operating assets disposed of and/or assets held for sale” was not significant as of 30 June 2012.

Earnings (Losses) per share (note 11)

The result per share was nil.

Impairment test on assets (note 12)

In consideration of 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 30 June 2012 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. 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 2012-2017 Plan, drawn up by management incorporating the current data for the first half of 2012 and carrying out the appropriate sensitivity analysis.

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 8.78%.

The result of the impairment test, both for CGU Italy and the Group, shows a positive difference between the recoverable value and book value, thus the company feels that it is not necessary to write down any of the balance sheet 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 period ended 30 June 2012, 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 positive. Sensitivity analysis was also carried out so as to take into account, over the duration of the plan, the impacts deriving from the results for the interim period. Again in this case, the difference between the estimate recoverable value and the book value would be 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 13)

At 30 June 2012, intangible assets amounted in total to EUR 76 million.

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**
<u>NET VALUE</u>						
31 December 2011	**89**	**52,012**	**19,208**	**5,289**	**786**	**77,385**
30 June 2012	**1**	**50,551**	**20,718**	**3,107**	**1,601**	**75,978**

Investments in the period ended at 30 June 2012 amounted in total to around EUR 10.5 million.

The item “Computers, software and development costs” was not significant and includes the capitalization of development costs for applications software personalized for the exclusive use of the Group companies.

The balance of “Concessions and similar rights”, amounting to EUR 50.5 million, includes EUR 40.3 million relating to rights and costs connected with the acquiring of conveying ability, on a several-year basis, in the shape of concession contracts for the use of the same (IRU/Indefeasible Rights of Use) and around EUR 10.2 million relating the licences, software and patents. Investments for the period in this category amounted to around EUR 3.1 million and mainly concerned licences and software.

The item “Broadband service activation costs”, equalling EUR 20.7 million, relates to the capitalization of the acquisition and activation costs of customers concerning the ADSL service. Capitalisation in the first half of 2012 came to around EUR 6.5 million. As illustrated in the section “Format and content of the accounting statements”, during the first half of 2012, the Directors analysed the expected duration of the relationship with the customers recalculating the useful life of the acquisition and activation costs of the customers from 24 to 36 months. This change led to a reduction in the amortisation charge on intangible fixed assets equal to around EUR 4.8 million.

“Other intangible assets” amounting to EUR 3.1 million, were mainly made up of costs for the development of the UNIT2 IT platforms and the costs relating to the development of mobile telephone services (MVNO).

“Intangible assets in course of construction and prepayments” amounted to EUR 1.6 million and include software development projects not yet completed at 30 June 2012.

Properties, plant and machinery (note 14)

At 30 June 2012, tangible assets amounted in total to EUR 100.3 million.

Tangible assets (EUR 000)	**Properties**	**Plant and machinery**	**Other tangible assets**	**Tangible assets in course of construction**	**Total**
NET VALUE					
31 December 2011	**52,397**	**50,523**	**2,238**	**1,773**	**106,932**
30 June 2012	**51,465**	**45,777**	**2,023**	**1,048**	**100,313**

The item “Properties”, amounting to EUR 51.5 million, mainly relates to the Cagliari headquarters (Sa Illetta) of the Italian subsidiary, which was subject to a Sale & Lease back financial transaction in 2007.

The net book value of “Plant and machinery” (EUR 45.7 million) includes LLU site extension and installation costs and network and transmission equipment (routers, *DSLAM*, servers). The EUR 1 million increase reflects the investments concerning the development of the network infrastructure.

As fully described in the section “Format and content of the accounting statements”, the Directors reviewed the estimate of the useful life of transmission equipment from 5 to 7 years. In the first half of 2012, this review led to a reduction in the depreciation charge on tangible fixed assets equal to around EUR 0.7 million.

The “Other tangible assets”, whose balance amounts to EUR 2 million, include furniture and furnishings, office equipment and motor vehicles.

The item Tangible assets in course of construction and prepayments whose balance comes to EUR 1 million, includes modems in inventory destined to be loaned out to customers for the connection of ADSL lines.

Other non-current financial assets (note 15)

(EUR 000)	**30 June 2012**	**31 December 2011**
Guarantee deposits	6,414	6,444
Other receivables	1,370	1,299
Equity investments in other companies	2,332	2,332
Total	**10,116**	**10,076**

Guarantee deposits mainly relate to the financial lease contract on the registered offices of the Tiscali Group in Cagliari (Sa Illetta).

Equity investments in other companies are mainly represented by 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. Other financial receivables are due from the same consortium company Janna S.c.p.a.

Inventories (note 16)

At 30 June 2012, inventories totalled EUR 0.4 million and mainly relate to internet keys intended to be sold.

Receivables from customers (note 17)

(EUR 000)	30 June 2012	31 December 2011
Receivables from customers	103,109	124,550
Write-down provision	(31,077)	(35,977)
Total	**72,032**	**88,574**

Receivables from customers as at 30 June 2012 amounted in total to EUR 72 million, net of write-downs for a total of EUR 31.1 million.

An analysis of the receivables is periodically carried out and the receivables write-down provision is calculated by adopting a specific policy which takes into account experience and past trends. As the Group's credit exposure is spread over a very large customer base, there is no particular credit concentration risk. During the interim period, total use of the receivables write-down provision was made for 18 million. The provision for the period came to EUR 13.1 million.

Other Receivables and other Current Assets (note 18)

(EUR 000)	30 June 2012	31 December 2011
Other receivables	3,846	4,946
Accrued income	1,240	2,132
Prepaid expense	9,743	9,673
Total	**14,829**	**16,750**

Other Receivables, amounting to about EUR 3.8 million, include VAT receivables for around Euro 1.9 million, advances to suppliers amounting to approximately EUR 0.9 million and other receivables due from tax authorities for around EUR 0.8 million.

Accrued income (EUR 1.2 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 9.7 million, include costs already incurred and deferred to the following financial year, mainly associated with multi-year line rental contracts, hardware and software maintenance costs and insurance costs.

Other current financial assets (note 19)

(EUR 000)	30 June 2012	31 December 2011
Other receivables	194	168
Total	**194**	**168**

Cash and cash equivalents (note 20)

Cash and cash equivalents at 30 June 2012 amounted to EUR 12.8 million and include the Group's cash, essentially held in bank current accounts.

Shareholders' equity (note 21)

(EUR 000)	30 June 2012	31 December 2011
Share capital	92,019	92,019
Accumulated losses and other reserves	(222,007)	(183,864)
Result for the period	(2,275)	(38,140)
Minority interests		-
Total Shareholders' equity	**(132,262)**	**(129,985)**

Changes in the various shareholders' equity items are detailed in the relevant table. At 30 June 2012, the share capital amounted to EUR 92,019,488.07 million (corresponding to 1,861,494,666 ordinary shares).

The item Accumulated losses and Other reserves included EUR 29.8 million in other reserves and EUR 192 million in accumulated losses pertaining to previous years.

Shareholders' equity pertaining to minority shareholders (note 22)

The shareholders' equity pertaining to minority shareholders was nil, since there are no minority interests.

Current and non-current financial liabilities (note 23)

The net financial position is shown in the table below:

EUR 000	30 June 2012	31 December 2011
A. Cash and Bank deposits	12,818	6,564
B. Other cash equivalents		
C. Securities held for trading		
D. Cash and cash equivalents (A) + (B) + (C)	***12,818***	***6,564***
E. Current financial receivables		**-**
F. Non-current financial receivables		
G. Current bank payables	11,428	13,835
H. Current portion of non-current debt	8,610	9,625
I. Other current financial payables (*)	185	581
J. Current financial debt (G) + (H) + (I)	***20,222***	***24,040***
K. Net current financial debt *(J) – (E) – (D) - (F)*	**7,405**	**17,476**
L. Non-current bank payables	127,066	124,417
M. Bonds issued		
N. Other non-current payables (**)	58,360	58,068
O. Non-current financial debt *(N) + (L) + (M)*	**185,426**	**182,485**
P. Net Financial Debt *(K) + (O)*	**192,831**	**199,961**

(*) includes short-term financial leasing payables
(**) includes long-term financial 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 shown in the interim Report on operations.

EUR mln	30 June 2012	31 December 2011
Consolidated net financial debt	**186.4**	**193.5**
Other cash equivalents and non-current financial receivables	6.4	6.5
Consolidated net financial debt prepared on the basis of Consob communication No. DEM/6064293 dated 28 July 2006	**192.8**	**200.0**

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 and other providers of finance, totalling EUR 147.1 million (of which EUR 20 million current and EUR 127.1 million non-current), mainly refer to:

- Group Facility Agreement (GFA) for EUR 135.7 million (equating to a nominal EUR 115.5 million increased by interest capitalised as at 3 January 2012);
- Current bank payables for account overdrafts amounting to EUR 11.4 million.

The amount owed to banks represented by the GFA loan was as follows as at 30 June 2012:

- **tranche A**: nominal residual amount of EUR 95 million (of which EUR 5 million maturing in July 2012; EUR 7.5 million maturing in 2013 and EUR 82.5 million maturing in 2014);
- **tranche B**: nominal residual amount of EUR 20.5 million (maturing in 2015);

On 3 January 2012, interest was paid for EUR 1.5 million. Furthermore, on 3 July 2012, EUR 5 million was paid over to reimburse the principal portion and corresponding interest for EUR 1.4 million.

The following table summarizes the main elements of the loan:

Loan	Nominal residual 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 BV Tiscali Financial Services SA

(*) nominal amounts excluding the interest capitalised net of the repayments made in the first half of 2012

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).

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.

The covenants and other contractual obligations have been observed with reference to the date of 30 June 2012.

As already illustrated, the business plan has been updated; within the sphere of this plan and for the whole of 2012, the covenants and other contractual obligations have been observed. This up-date of the business plan hypothesises, in 2014 - year in which the repayment of a significant portion of the debt is envisaged (equating to a nominal EUR 82.5 million plus the portion of capitalised PIK interest) - the rescheduling of the part of the financial debt in excess with respect to the cash flows which it is envisaged will be generated over the plan’s duration.

With regard to the guarantees provided, the parent company Tiscali S.p.A. and subsidiaries Tiscali Italia S.p.A., Tiscali International BV and Tiscali Financial Services SA are the entities that provide them under the loan agreement.

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 in Cagliari, whose debt at 30 June 2012 amounted to Euro 57.7 million;
- other financial leases for the remaining balance.

Breakdown of current and non-current financial debt

Current and non-current financial liabilities at 30 June 2012 are presented in the following table:

(EUR 000)	**30 June 2012**	**31 December 2011**
Non-current financial liabilities		
Payables to banks and other lenders:		
Payables to banks	127,066	124,417
Payables for financial leases (short-term)	58,360	58,068
Total	**185,426**	**182,485**
Current financial liabilities		
Payables to banks and other lenders:		
Payables to banks	20,038	23,459
Payables for financial leases (short-term)	185	581
Total	**20,222**	**24,040**

	Debt at 30 June 2012	**Current debt**	**Non-current debt**
Amounts owed to banks for loans (*)			
Facility A	109,982	7,926	102,056
Facility B	25,694	684	25,010
Total amounts owed to banks for loans	135,676	**8,610**	**127,066**
Total current bank payables (**)	11,428	**11,428**	**-**
Total amounts owed to banks	147,104	**20,038**	**127,066**
Amounts owed to leasing firms			
Sale and lease back – Sa Illetta	57,746		*57,746*
Other financial leases	799	*185*	*614*
Total amounts owed to leasing firms	58,545	**185**	**58,360**
Total indebtedness	205,648	**20,222**	**185,426**

(*) The amount is for the GFA loan amounting to a nominal EUR 115.5 million in addition to capitalised interest accrued at 30 June 2012.

(**) Amounts owed for bank overdrafts

The current portion of amounts owed to banks for loans, totalling EUR 8.6 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 due within the next 12 months.

The payments envisaged as at 3 July 2012 have been regularly made.

Other non-current liabilities (note 24)

(EUR 000)	30 June 2012	31 December 2011
Payables to suppliers	4,721	5,985
Other payables	1,479	1,388
Total	**6,200**	**7,373**

Payables to suppliers are mainly represented by the medium/long-term portion of the debt deriving from 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 25)

The staff severance provision, which comprises the indemnities accrued, amounted to EUR 4.1 million at 30 June 2012.

Provisions for risks and charges (note 26)

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

(EUR 000)	31 December 2011	Provisions	Utilisation	30 June 2012
Provisions for risks and charges	3,379	250	(168)	3,461
Total	**3,379**	**250**	**(168)**	**3,461**

The provision for the year, amounting to EUR 0.2 million, refers to charges for employee-related disputes. The provision for risks and charges as at 30 June 2012 include EUR 2 million for charges for employee-related disputes and EUR 1.5 million for charges for the tax provision.

Payables to suppliers (note 27)

(EUR 000)	30 June 2012	31 December 2011
Payables to suppliers	133,781	152,800
Total	**133,781**	**152,800**

Payables to suppliers refer essentially to trade payables relating to the supply of telephone traffic services and other telecommunications services.

Other current liabilities (note 28)

(EUR 000)	30 June 2012	31 December 2011
Accrued expenses	2,897	2,991
Deferred income	39,622	41,484
Other payables	23,253	18,320
Total	**65,772**	**62,795**

Accrued expenses essentially concern charges for employees pertaining to the period.

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 20.3 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 12.5 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 5.4 million;

The item Other payables, totalling EUR 23.2 million, includes payables due to the tax authorities for VAT amounting to around EUR 9.6 million, amounts due to social security and welfare institutions for around EUR 8 million, payables due to employees totalling around EUR 2 million and other payables for EUR 3.6 million (of which around EUR 2.8 million due to ministerial bodies).

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 expired on 3 May 2012 on expiry of the fifth year of validity.

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 NV (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 courts 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 an additional request for compensation representing a further 29 shareholders or those entitled, in which the hypothesis of proceedings with legal action was furthered. This request for compensation does not fall within the afore-mentioned negotiations which the Tiscali Group is finalising with the financial institutions for the transactional component of the dispute. To-date, what is more no proceedings appear to 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

In 2003, the Dutch tax authorities notified WOL and the direct subsidiary Tiscali International BV with regard to the alleged non-payment of withholdings on remuneration and stock options acknowledged to a number of company executives. The total amount of these disputes is EUR 2 million, against which payments were made totalling around EUR 0.3 million. The residual amount mainly refers to withholdings on stock options which, in the opinion of the Group's tax advisors, would not be subject to taxation in the Netherlands. Given this circumstance and considering that the Dutch tax authorities have not sent any formal letter or document in the years following receipt of the notice of dispute, 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. Segment reporting is presented on the basis of the following segments:

- Italy;
- Other countries;
- Corporate.

Income statement

Income statement as at 30 June 2012

First half of 2012 (EUR 000)	**Italy**	**Other**	**Corporate**	**HFS/ Discontinued**	**Cancellation adjustments**	**Total**
Revenues						
From third parties	118,489	-	43	-	-	118,533
Intra-group	221	-	2,178	-	(2,399)	-
Total revenues	**118,710**	**-**	**2,221**	**-**	**(2,399)**	**118,533**
Operating result	**818**	**2,756**	**1,614**	**-**	**-**	**5,189**
Portion of results of equity inv. carried at equity						**-**
Net financial income (charges)						(6,797)
Pre-tax result						(1,608)
Income taxes						(660)
Net result from operating activities (on-going)						(2,268)
Result from assets disposed of and/or destined for disposal						(8)
Net profit (loss)						**(2,275)**

Income statement as at 30 June 2011

First half of 2011 (EUR 000)	Italy	Other	Corporate	HFS/ Discontinued	Cancellation adjustments	Total
Revenues						
From third parties	140,092	-	43	-	-	140,134
Intra-group	508	2,861	2,542	-	(5,911)	-
Total revenues	**140,600**	**2,861**	**2,584**	**-**	**(5,911)**	**140,134**
Operating result	**(9,433)**	**(128)**	**1,026**	**-**	**(130)**	**(8,665)**
Portion of results of equity inv. carried at equity						**-**
Net financial income (charges)						(7,935)
Pre-tax result						(16,599)
Income taxes						(856)
Net result from operating activities (on-going)						(17,456)
Result from assets disposed of and/or destined for disposal						29
Net profit (loss)						**(17,427)**

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 first half of 2012, the Tiscali Group had a number of dealings with related parties, regulated under market conditions (arms'-length basis), 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 half-yearly financial statements at 30 June 2012 arising from transactions with related parties.

INCOME STATEMENT VALUES (EUR 000)	Notes	First half of 2012	First half of 2011
Studio Racugno	1	(36)	(35)
Nuove Iniziative Editoriali S.p.A.	2	(411)	(507)
TOTAL SUPPLIERS OF MATERIALS AND SERVICES		**(447)**	**(542)**
TOTAL		**(447)**	**(542)**

BALANCE SHEET VALUES (EUR 000)	Notes	**30 June 2012**	**31 December 2011**
Studio Racugno	1	(47)	(70)
Nuove Iniziative Editoriali S.p.A.	2	(233)	(201)
TOTAL SUPPLIERS OF MATERIALS AND SERVICES		**(280)**	**(271)**
TOTAL		**(280)**	**(271)**

(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 services for legal , judicial 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, member of the Board of Directors of Tiscali S.p.A. since 21 December 2009.

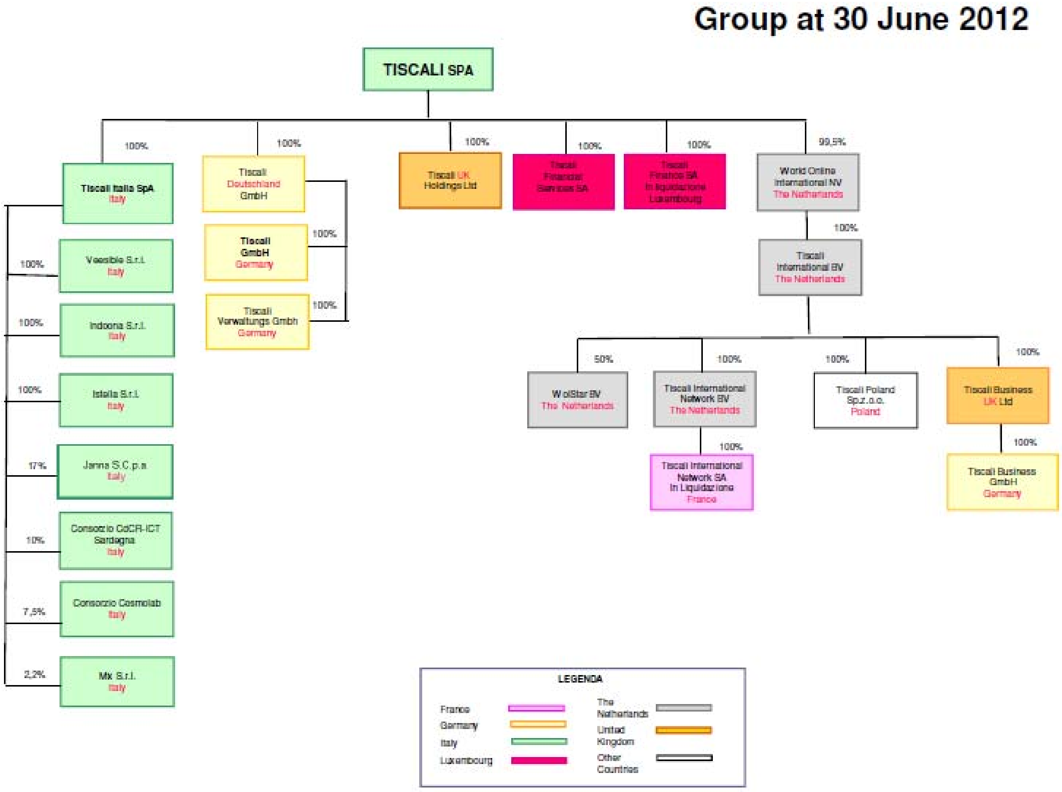
List of subsidiaries included in the consolidation area

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%
Veesible S.r.l.	Italy	100.00%
Indoona S.r.l.	Italy	100.00%
Istella S.r.l.	Italy	100.00%
Tiscali Contact S.r.l. (merger via incorporation as of 7 May 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 NV	The Netherlands	99.50%
Tiscali International BV	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



Legenda: key - In liquidazione: in liquidation

Non-recurrent significant transactions and events

Pursuant to Consob Resolution No. 15519 dated 27 July 2006, it is hereby disclosed that during the first half of 2012 payables were written off for a total of EUR 4 million of which EUR 2.8 million relating to payables prescribed in relation to the French subsidiary and the remaining balance relating to payables of the parent company Tiscali S.p.A. subject to negotiations with suppliers.

Positions and transactions deriving from atypical and/or unusual operations

There were no positions or transactions deriving from atypical and/or unusual operations in the first half of 2012.

On behalf of the Board of Directors

Chairman and Chief Executive Officer

Renato Soru

Renato Soru

5.9 Certification of the consolidated financial report as at 30 June 2012 pursuant to Article 154 *bis* of Italian Legislative Decree No. 58/98

The undersigned, Renato Soru in his capacity as Chief Executive Officer, and Pasquale Lionetti, 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 and
- the effective application

of the administrative and accounting procedures for the formation of the condensed consolidated half-yearly financial statements for the period ended 30 June 2012.

It is also hereby certified that the condensed consolidated half-yearly financial statements for the period ended 30 June 2012:

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

In conclusion, it is hereby certified that the interim report on operations includes a reliable analysis of the references to important events which have taken place during the first six months of the year and their effect on the condensed consolidated half-yearly financial statements, together with a description of the main risks and uncertainties for the remaining six months of the year. The interim report on operations also includes a reliable analysis of the information on significant transactions with related parties.

Cagliari, 28 August 2012

The Chief Executive Officer

Renato Soru

The Executive appointed to draw up the company accounting documents

Pasquale Lionetti

6 Independent auditors' report

Independent auditors' report
on the limited audit of the condensed consolidated half-yearly financial statements

To the shareholders of

Tiscali S.p.A.

1. We have carried out a limited audit on the condensed consolidated half-yearly financial statements, comprising the income statement, statement of comprehensive income and balance sheet, the cash flow statement, the statement of changes in shareholders' equity and the related explanatory notes, of Tiscali S.p.A. and its subsidiaries ("Tiscali Group") as of 30 June 2012. The drawing up of the condensed half-yearly consolidated financial statements in compliance with the international accounting standard applicable for interim financial reporting (IAS 34) adopted by the European Union, is the responsibility of Tiscali S.p.A.'s directors. Our responsibility is to draw up this report based on our limited audit.

2. Our work was carried out according to the standards for limited audits recommended by Consob under Resolution No. 10867 dated 31 July 1997. A limited audit mainly entails gathering together information on the various items in the condensed half-yearly consolidated financial statements and on the consistency of the accounting standards by means of interviews with the Company's management and analysis of the figures contained in the afore-mentioned consolidated financial statements. A limited audit excludes certain auditing procedures such as compliance checking and validity checks or procedures on assets and liabilities. It also entails a considerably narrower scope of work compared with a full audit carried out according to generally accepted auditing standards. As a result, unlike what we normally do in the case of the full-year consolidated financial statements, we do not express any opinion of the condensed consolidated half-yearly financial statements.

   With regard to information relating to the consolidated financial statements for the previous year and the condensed half-yearly consolidated financial statements for last year presented for comparative purposes, reference should be made to our reports issued on 20 April 2012 and 8 August 2011, respectively.

3. Based on the audit work we have performed, we did not become aware of any material elements which lead us to believe that the condensed half-yearly consolidated financial statements of the Tiscali Group as of 30 June 2012 have not been drawn up - with regard to all the significant aspects - in compliance with the international accounting standard applicable for interim financial reporting (IAS 34) adopted by the European Union.

4. By way of disclosure, the following aspects are pointed out, more fully dealt with in the explanatory notes:

   a. as indicated in the section "Assessment of the business as a going-concern and business outlook", the Tiscali Group closed the interim period with a consolidated loss of EUR 2.3 million and negative consolidated shareholders' equity of EUR 132.3 million; furthermore, as of 30 June 2012, the Tiscali Group had a gross financial debt of EUR 205.6 million and current liabilities greater than current assets (non-financial) for EUR 112.2 million.

      The Directors have described the factors which indicate the continuation of uncertainties linked to a situation of equity, economic and financial imbalance, in the presence of significant gross commercial and financial debt (the financial debt what is more is subject to covenants and other contractual obligations). The Directors believe that the achievement of a balanced equity, financial and economic situation 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 Tiscali Group's business plan for the period 2012-2017, and therefore on the realisation of forecasts and assumptions contained therein, in particular, those relating to the evolution of the telecommunications market and the achievement of the growth objectives established (in a market context characterised by heavy competitive pressure). The business plan also hypothesises, in 2014 - year in which the repayment of a significant portion of the financial debt is envisaged (equating to a nominal EUR 82.5 million plus the portion of capitalised interest) - the rescheduling of the part of the debt in excess with respect to the cash flows which it is envisaged will be generated over the plan’s duration. These factors are coupled with ongoing disputes, described below in point b., whose outcomes, although not currently foreseeable, have been assessed as potentially significant by the Directors.

The Directors, when assessing the elements indicated above, have described the action taken, on the basis of which they believe that the Tiscali 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, the Directors acknowledge that at present uncertainties still remain, that may raise considerable doubt on the ability of the Tiscali 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 to operate in the near future and therefore have adopted the going-concern assumption when preparing the financial statements;

b. the Directors reveal the existence of a number of potentially significant disputes brought by third parties vis-à-vis the Dutch subsidiary World Online International NV. The Dutch Supreme Court issued its final sentence in November 2009, confirming some of the profiles of responsibility of World Online International NV, without however passing sentence with regard to any damages, which would have to be covered by new and separate proceedings by the injured third parties; as things stand, no proceedings of this type appear to have been launched. Developments in the current situation are described in the explanatory notes. With regard to these disputes, the Directors believe that elements sufficiently defined for quantifying the potential liability do not exist and, therefore, have not made any provision in the financial statements.

Milan, Italy, 29 August 2012

Reconta Ernst & Young S.p.A.

Signed: Luca Pellizzoni
(Partner)

7 Attachment - 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 uses to describe the various technologies that implement the nominal speed of an Ethernet network (the standard protocol for cards and cables for high speed connections between a computer and a local network) of up to 1 gigabit per second.
Home Network	Local network made up from various kinds of terminals, devices, systems and user networks, with related applications and services including all the apparatus installed at user premises.
Hosting	Service that consists of allocating on a web server the pages of a website, thus making it accessible from the internet network.
Incumbent	Former monopoly operator active in the telecommunications field.
IP	Acronym for Internet Protocol, a protocol for interconnecting networks (Inter-Networking Protocol), created for interconnecting ungrouped networks by technology, services and handling.
IPTV	Acronym for Internet Protocol Television, a technology suited for using the IP transport technology to carry television content in digital form, using internet connections.
IRU	Acronym for Indefeasible Right of Use, long term agreements that guarantee the beneficiary the option of using for a long period the grantor's fibre optic network.
ISDN	Acronym for Integrated Service Digital Network, a telecommunications protocol in Narrowband able to carry in an integrated form various kinds of information (voice, data, texts, and images) coded in digital form on the same transmission line.
Internet Service Provider or ISP	Company that provides Internet access to single users or organisations.
Leased lines	Lines whose transmission capacity is made available through leasing contracts for the transmission capacity.

MAN	Acronym for Metropolitan Area Network, a fibre optic network that extends across a metropolitan area and links a Core Network to an Access Network.
Mbps	Acronym for megabit per second, a unit of measurement that states the capacity (and thus the speed) of data transmission along a computer network.
Modem	Modulator/demodulator. It is a device that modulates digital data in order to permit its transmission along analogue circuits, usually made up of telephone lines.
MNO	Acronym for Mobile Network Operator, an operator of proprietary telecommunications on a mobile network that offers its own services wholesale to all MVNOs (Mobile Virtual Network Operator).
MPF	Acronym for Metallic Path Facility, the pair of copper wires (unscreened twisted pair) that comes from an exchange (MDF -Main Distribution Frame) in an operator's telephone room and arrives at the user's premises (individual or corporate). Connections can be Full or Shared. A Full type connection enables the use of the data service (broadband) in addition to voice traffic. A Shared kind of connection only enables the use of the data service (broadband). In a "shared access" service, the LLU operator (in ungrouped access) provides the ADSL services to the end user, whilst the incumbent operator provides the analogue telephony service using the same access line.
MSAN	Acronym for Multi-Service Access Node, a platform able to carry a combination of traditional services on an IP network and that supports a variety of access technologies such as for example a traditional telephone line (POTS), and ADSL2+ line, a symmetric SHDSL line, VDSL and VDSL2 over a copper or fibre-optic network.
MVNO	Acronym for Mobile Virtual Network Operators: A party that offers mobile telecommunications services to the public, using its own mobile network interconnection structures, its own HLR, its own mobile phone network code MNC, Mobile Network Code), its own customer handling (marketing, invoicing and support) and issuing its own SIM cards, but does not have assigned frequencies and takes advantage, for access, of agreements negotiated or regulated via one or more licensed mobile network operators.

Narrowband	System for connecting to data networks, for example the Internet, by means of a telephone call. In this kind of connection all the bandwidth used for the means of transmission is used as a single channel. One single signal occupies all the available bandwidth. The bandwidth of a communications channel identifies the maximum quantity of data that can be carried by means of transmission of the unit over time. The capacity of a communication channel is limited by the frequency interval that the equipment can sustain and by the distance to be travelled. An example of a Narrowband connection is the common modem narrowband connection at 56 kbps.
OLO	Acronym for Other Licensed Operators, operators other than the dominant one that operate in a national telecommunications services market.
Opex	Acronym for Operating Expenses which are direct and indirect costs that are recoded in the income statement.
Pay-Per-View	System by which a spectator pays to view a single programme (such as a sporting event or a film or concert) at the time it is transmitted or broadcast.
Pay TV	TV channels on payment. To receive Pay TV or Pay-Per-view, you have to connect a decoder and have an access system subject to conditions.
Platform	It is the total of the inputs, including hardware, software and equipment for running and the procedures for production (production platform) or for the management (management platform) or for a special service (service platform).
POP	Acronym for Point of Presence, a site at which telecommunications apparatus is installed and that forms a node on the network.
Portal	Website that forms a point of departure or an entry point for a major group of Internet resources or an Intranet.
Router	Hardware or in some cases software instrument that identifies the next point on the network to which a data packet is to be sent, and routes that data packet towards the end destination.
Service Provider	Party that provides end users and content providers with a range of service, including that of an owned, leased or third party service centre.
Server	Computer component that provides services to other components (typically client calls) via a network.
Set-top-box or STB	Device able to handle and route data, voice and television connections, installed at the end user's premises.

Syndication	The sale of radio and TV transmissions wholesale by a media company that owns the rights and usually the delivery platform also.
SoHo	Acronym for Small office Home office, for small offices, mostly professional offices or small firms.
SHDSL	Acronym for Single-pair High-speed Digital Subscriber Line. SHDSL is a technology for telecommunications of the XDSL family and is made by using direct LLU interconnections and enables high speed connections to be made in a balanced way in both directions (transmission and reception).
Single Play	Service including only broadband data access, not combined with other multiplay components such as voice and IPTV services. Broadband access may be provided through LLU platforms, Wholesale or Bitstream.
Single Play voice	Service including only voice access, not combined with other multiplay components such as broadband and IPTV access. Voice service can also be provided by VOPI and CPS procedures.
SMPF	Acronym for Shared Metallic Path Facilities which is synonymous with Shared Access (ungrouped access).
Triple Play	A combined offering of fixed and/or mobile telephony, Internet and/or TV made by a single operator.
Local loop unbundling or LLU	Unbundled access to a local network, in other words, the possibility that telephone operators have had, since the telecommunications market was deregulated, to use existing physical infrastructures built by another operator to offer its own services to customers, paying a rental to the operator that is the actual owner of the infrastructure.
VAS	Acronym for Value-Added Services; services with added value provide a greater level of function compared with the basic transmission services offered on a telecommunications network for the transfer of information between terminals. These include switched analogue voice communications via cable or wireless, a direct digital point to point network “unrestricted” at 9600 bits/s; packet switching (called virtual) service; analogue and direct broadband transmission of TV signals and extra services, such as closed user groups; call waiting; reverse charging; call announcement and identification of the number called. The value added services provided over a network, from terminals or specialist centres include exchange services, messaging (MHS) (which can also be used for commercial documents in accordance with a predetermined format); electronic user directories, network and terminal addresses; e-mail; fax, teletext, videotext and videophone. Value added services may also include voice telephony value added services such as free numbers or paid telephone services.

VISP	Acronym for Virtual Internet Service provision (sometimes also called Wholesale ISP). This is selling of Internet services purchased wholesale from an Internet Service Provider (ISP) that has the network infrastructure.
VoD	Acronym for Video On Demand. It is the supply of television programs on request by a user for payment of a subscription or of a sum for each programme (a film, or a football match) purchased. Broadcast in a special way by satellite TV and for cable TV.
VoIP	Acronym for Voice over internet Protocol, a digital technology that enables the transmission of voice packets through Internet, Intranet, Extranet and VPN networks. The packets are carried according to H.323 specifications, which are the ITU (International Telecommunications Union) standard that forms the basis for data, audio, video and communications on IP networks.
VPN	Acronym for Virtual Private Network, which can be realised on Internet or Intranet. Data between workstations and the server of the private network is sent along common public Internet networks, but using protection technologies against any interception by unauthorised persons.
Virtual local loop unbundling or VLLU	Procedure for accessing a local analogue network by which, even in the absence of physical infrastructures, the conditions and terms of access under LLU terms are replicated. This is a temporary access system that is usually replaced by LLU.
xDSL	Acronym for Digital Subscriber Lines, a technology that, by means of a modem, uses the normal telephone twisted pair and transforms the traditional telephone line into a high speed digital connection for the transfer of data. ADSL, ADSL 2, and SHDSL etc. belong to this family of technologies.
WI-FI	Service for connection to the internet at high speed wirelessly.
Wi-Max	Acronym for Worldwide Interoperability for Microwave Access: it is a technology that enables wireless access to broadband telecommunications networks. It has been defined by the WiMAX forum, a world-wide consortium made up of the largest companies in the fixed and mobile telecommunications field that has the purpose of developing, promoting and testing the interoperability of systems based on IEEE standard 802.16-2004 for fixed access and IEEE.802.16e-2005 for fixed and mobile access.
Wholesale	Services that consist of the sale of access services to third parties.
WLR	Acronym for Wholesale Line Rental, selling on by an operator of the telecommunications service for lines affiliated with an Incumbent.