Tiscali Group
Annual financial report as at 31 December 2013

Issue date: 31 December 2013

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

Tiscali S.p.A.

Registered office: SS195 Km 2.3, Sa Illetta, Cagliari, Italy

Share Capital EUR 92,022,830.47

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

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Highlights

Income statement *(EUR mln)*	2013	2012 Restated*
· Revenues	223.4	233.8
· Adjusted Gross Operating Result (EBITDA)	67.1	70.6
· Gross Operating Result (EBITDA)	52.4	44.3
· Operating result	9.3	(0.1)
Balance sheet (EUR mln)	**31 December 2013**	**31 December 2012 Restated***
· Total assets	222.7	254.0
· Net Financial Debt	(191.6)	(186.5)
· Net Financial Debt as per Consob	(198.5)	(192.9)
· Shareholders' equity	(151.9)	(147.2)
· Investments	24.8	26.1
Operating figures (000)	**31 December 2013**	**31 December 2012 Restated***
ADSL (broadband) users	498.2	479.1
Of which: Direct ADSL users (LLU)	357.9	344.8
Narrowband and Voice users	43.3	39.0

(*) The figures as at 31 December 2012 have been recalculated so as to assimilate the effect of the application, as from 1 January 2013 (retrospectively), of the new revised IAS 19 accounting standard (employee benefits); for further details please see the section "Form and content of the accounting statements".

1 Alternative performance indicators

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

The Gross Operating Result (EBITDA) and the operating result before the write-down of receivables (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

Gross Operating Result (Adjusted EBITDA)

2 Directors and Auditors

Board of Directors

Chairman and Chief Executive Officer: Renato Soru

Directors
Franco Grimaldi
Gabriele Racugno
Luca Scano
Assunta Brizio

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.

Report on Operations

3 Report on Operations

The Tiscali Group availed itself of the faculty to present the Parent Company report on operations and the consolidated report on operations in a single document, assigning greater importance, where appropriate, to the significant questions for all the companies included in the scope of consolidation.

3.1 Tiscali's position within the market scenario

Tiscali is one of the leading alternative telecommunications operators in Italy offering a wide range of services to its private and business customers: internet access through DSL, Voice, VoIP, media, added-value services, communication and Over The Top 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 2013 a further reduction was seen in the growth of the market (just over 1.1% compared with nearly 1.7% in 2012). Therefore, the essential saturation of the segment is confirmed, making the price and loyalty retention policies increasingly important so as to combat the tendency of an increase in the churn rate and gain customers from direct competitors. During the year, Tiscali took its market share to 3.7%, up slightly with respect to the previous 3.6%.

Dual-play access was confirmed as the most commonly used commercial proposal by consumers and business users, even if single play represents an interesting alternative for mobile only customers.

By contrast, Internet access from mobile devices 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. As from the second half of 2013, Tiscali launched new and competitive products which bode well with regard to the extension of the customer base in 2014.

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.

As far as the on-line advertising market is concerned, despite a good first half in 2013 with a growth trend going against the performance recorded in comparison with traditional media, during the second half an evident curbing was seen in growth as the result of an unfavourable economic situation but also a counteroffensive in terms of the price of the traditional media which contained the constant shift 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 and lastly Istella deserve a special mention, the latter having been presented during 2013.

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

Research & Development Activities

During 2013, the Company continued with activities for the development of Over The Top products/services (Indoona/ Streamago/ Istella) mentioned above.

Indoona is an application which integrates voice with social networks for calling, video calling and sending multimedia messages from smartphones and PCs. During 2013, a new version of Indoona was launched (2.2), with a new “live streaming” function which makes it possible to post videos created on the Indoona notice board in real time. This feature strengthens the “social” nature of Indoona, which integrates personal communication, social communication and sharing in just one instrument. As at 31 December 2013, Indoona recorded 1.7 million downloads and 0.62 million registered users.

Streamago is a platform which enables live streaming and broadcast recording vis-à-vis any fixed device (PC and MAC) or mobile device. After the success of the consumer version, in 2012 the Company launched a version addressing the business segment (in particular public institutions / media).

Istella is a search engine for the Italian web, which is not intended to replace existing engines, but represents an instrument for extending and expanding knowledge. The objective of arranging and spreading Italian cultural heritage, among other aspects, has in fact been created. Both Italian and leading international domains have been indexed for a total of over 4.5 billion pages to date and 200 terabytes of data. It differs from other search engines present on the Internet, since all the users can add to the database sharing files, documents, photos, images, videos and audio. Istella was launched in March 2013.

3.2 Regulatory background

2013 saw regulatory activities focus on the two main wholesale service markets: access and interconnection as well as several times undergo interruptions to the procedures, in relation to critical findings put forward by the European Commission with regard to the AGCOM regulation proposals, the latter being a factor which led to an undoubted slowdown in regulatory activities.

In particular, during 2013, AGCOM focused on the following macro-areas of intervention:

- regulatory framework of the wholesale access services and sales of dedicated capacity circuits;
- fixed network interconnection tariffs;
- quality of the ADSL services;
- surveys on the sector of internet and on-line advertising services .

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

Market analysis of the wholesale access services

During the year, AGCOM continued with the activities of the third cycle of market analysis on the wholesale access services (LLU, Bitstream and WLR) aimed at defining the competition regulations for the three-year period 2013-2015. The procedure, launched in the second half of 2012, underwent a re-modelling at the beginning of 2013.

The Authority in fact decided to go ahead with the definition of the economic conditions of the access services for 2013 separately from the process of market analysis, leaving the latter to the period 2014-2016. Accordingly, AGCOM wished to ensure the market operators economic certainty for 2013, avoiding that the protraction of the market analysis procedure should compromise the scheduling of the investments and the financial year. What is more, this would have made it possible to carry out the analysis of the market with greater serenity and in a more in-depth manner, also in light of important elements which emerged during the year, amongst which first and foremost the declaration made in May by TI of wishing to go ahead with the separation of the network and the plans to develop vectoring technology for the wideband on the copper network.

Again in relation to its singularity, the procedure was subject to findings by the European Commission (EC) followed by the opening of the so-called “phase II” which led to a standstill in the regulatory activities for around three months. In particular, this is an exceptional procedure envisaged by the European legislative framework which enables the EC - should it have strong doubts with regard to the regulatory proposal of a national Authority - to submit the proposal for the further assessment of the board of European regulators (BEREC).

The values relating to 2013 (with retroactive applicability as from 1 January), which were published definitively in January 2014, will also represent the basis of the price shift for the three-year period 2014-2016 which will be defined at the end of the market analysis.

Market analysis of the dedicated capacity services

In the last few months of the year, AGCOM launched the third cycle of market analysis on the dedicated capacity circuits, proceeding with an initial collection of data care of the market operators for the purpose of drawing up a draft of regulations to be submitted for public consultation.

Definition of the fixed interconnection tariff system for the three-year period 2013 - 2015

At year end, AGCOM achieved the final approval of the fixed termination tariffs for the three-year period 2013-2015. The procedure, launched in 2012, led to the definition of efficient tariffs (set on the basis of a LRIC BU type accounting-engineering cost model), symmetric for all the operators and valid for both IP and TDM technology interconnections. These tariffs were applicable as from 1 July 2013.

Customer protection, relating to the quality of the assistance services

The Authority constantly focused its attention on issues relating to service quality, comparability and transparency of commercial offers, especially in relation to ADSL services, enhancing the “MisuraInternet” functions, i.e. an instrument made available to the user in order to assess the performance of their internet connection.

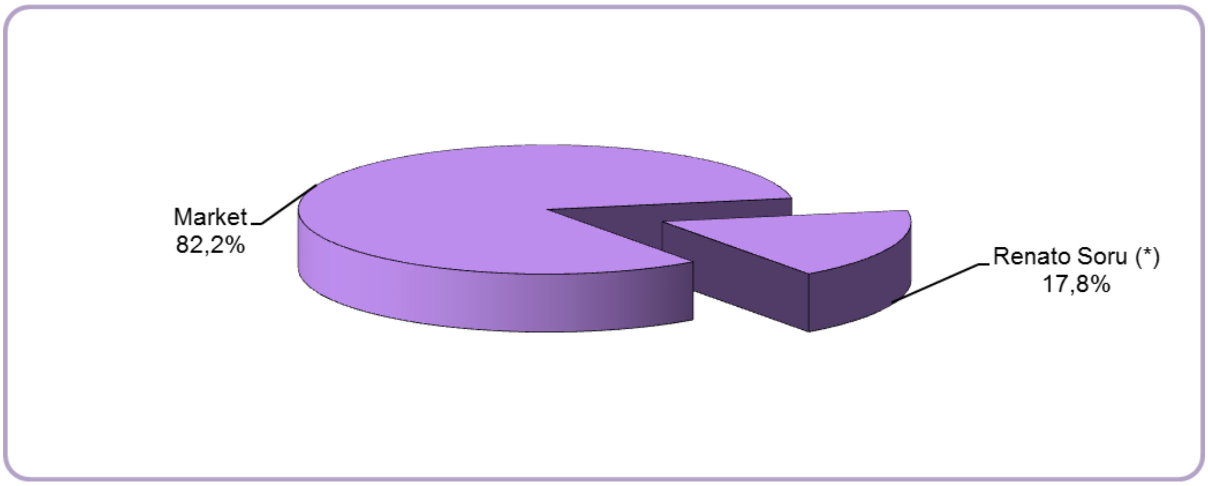
Surveys on the sector of internet and on-line advertising services

AGCOM carried out an important survey on the internet services and advertising revenues markets in the digital ecosystems. This task, which lasted the whole year long, consisted of a survey of the entire digital ecosystem, focussing in particular on advertising revenues, with the aim of both understanding the competitive structure in those sectors making up the supply chain and offering a prospective evaluation of the entire internet ecosystem and the related critical issues. In fact, the Authority has expertise in the field of competition protection also as far as media type services are concerned, which in the ecosystem of audio-visual communications intertwine with issues of informative pluralism and equality.

3.3 Tiscali shares

Tiscali shares have been listed on the Italian Stock market (Milan: TIS) since October 1999. At 31 December 2013, market capitalization came to around EUR 79,672,148 million, calculated on the value of EUR 0.0428 per share as at that date.
At 31 December 2013, the number of shares representing the Group's share capital amounted to 1,861,498,780.
Tiscali's shareholder base at 31 December 2013 is illustrated below:

Fig. 1 Tiscali shares



[Market 82.2%; Renato Soru (*) 17.8%]

Source: Tiscali

(*) Directly for around 15% and, indirectly through the investee companies Monteverdi Srl (0.9%), Cuccureddus Srl (1.8%) and Andalas Ltd (0.1%).

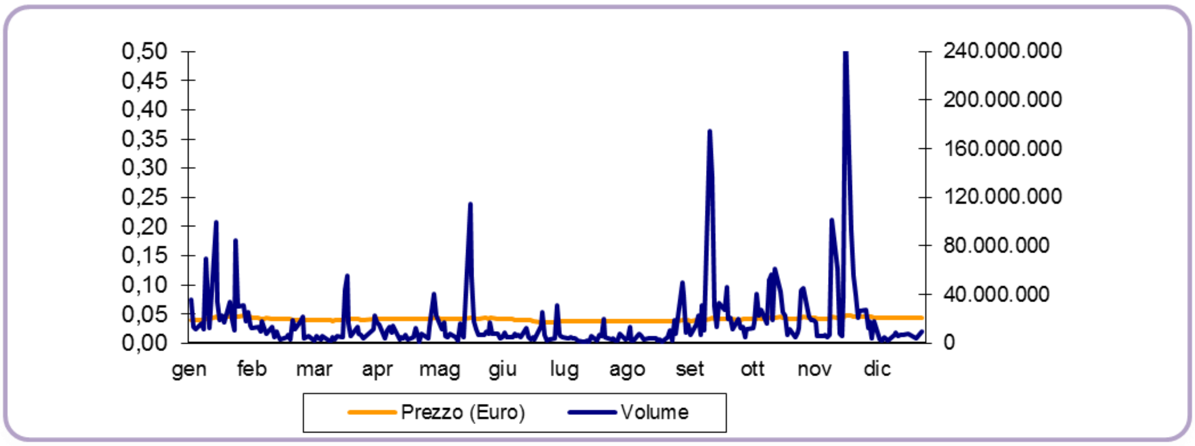
Share capital structure at 31 December 2013

SHARE CAPITAL STRUCTURE		
	No. of shares	**As % of share capital**
Ordinary shares	1,861,498,780	100%
OTHER FINANCIAL INSTRUMENTS		
	No. of warrants	**Listing market**
Tiscali 2009-2014 warrants ***	1,799,322,151	Italian regulated 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 2013, characterised by sustained trading volumes, particularly in the months of September and December.

Fig. 2 - Tiscali's share performance in 2013



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

Source: Bloomberg data processing

The average monthly price in 2013 stood at EUR 0.041. The maximum price of EUR 0.0483 for the period was recorded on 25 November 2013 and the minimum of EUR 0.0354 on 26 July 2013.

Trading volumes stood at a daily average of about 17.2 million items, with a daily average trade value of EUR 0.7 million.

Average exchanges of Tiscali share on Borsa Italiana (Italian Stock Exchange) in 2013		
	Price (EUR)	**No. of shares**
January	0.044	31,105,620
February	0.042	10,432,898
March	0.040	10,362,808
April	0.042	9,096,049
May	0.043	18,190,014
June	0.039	7,189,867
July	0.038	5,902,629
August	0.038	5,574,061
September	0.041	35,407,030
October	0.043	23,779,933
November	0.044	40,978,414
December	0.044	8,590,785
Average	**0.041**	**17,217,509**

3.4 Significant events during the financial year

Istella Launch

On 21 March 2013, Istella became accessible, the search engine developped for archiving, researching and sharing archives and contents which avails itself of the participation of users, institutions and companies. Istella is not intended to replace existing search engines, but rather systematize the national cultural heritage by index-linking the Italian domains with particular care.

Tiscali S.p.A.: 2012 draft financial statements approved

- On 29 March 2013, Tiscali's Board of Directors approved the 2012 draft financial statements.
- On 30 April 2013, Tiscali S.p.A.'s ordinary shareholders' meeting, held in Cagliari in sole calling, approved the 2012 financial statements.

Payment of interest and principal on the Senior Loan

During 2013, the following payments were made:

- on 3 January 2013, cash interest on the senior debt was paid for EUR 0.9 million;
- on 3 July 2013, EUR 7.5 million was repaid in full with regard to the Senior Loan along with the payment of the interest on the principal for EUR 0.5 million.

WOL settlement agreement signed

On 7 August 2013, the Dutch company belonging to the Tiscali Group, World Online International NV ("WOL") entered into a settlement agreement with the financial institutions, on the basis of which the same financial institutions waive all compensatory action vis-à-vis WOL relating to the transactions carried out by them with the shareholders' associations (for further details see the section "Disputes, contingent liabilities and commitments" in the explanatory notes to these financial statements). In accordance with the afore-mentioned agreement, on 19 September 2013 the Tiscali Group made a disbursement of EUR 1.8 million.

Renewal of the solidarity pact

The new agreement was signed with the Trade Union Representations on 21 November, effective as from 22 November 2013 until 21 November 2015. This agreement involves 821 Company employees.

3.5 Analysis of the Group economic, equity and financial position

Introduction

Founded in 1998, Tiscali is one the leading alternative telecommunications operators 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 to which Tiscali S.p.A. and the Group are exposed

Risks relating to the general economic situation

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

The activities, strategies and prospects of the Tiscali Group are influenced by this state of play, and as a result this also affects the economic, equity and financial position.

Risks connected with the performance of the telecommunications market

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

The success of the Group's activities depends on the capacity to maintain and increase shares of the market in which it currently operates through high quality, innovative services that guarantee adequate levels of profitability. If the 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 on-going attainment of adequate financing depends on both the general conditions of the credit market but above all the Group's ability to manage to finalise the restructuring of the debt outstanding with the Financing Institutions maturing in 3 July 2014 and subsequent years, and correctly implement the economic and financial plan aimed at creating stable economic and financial balance conditions.

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

Risks associated with fluctuations in interest and exchange rates

The Tiscali Group operates essentially in Italy. Some supplies, even though for insignificant amounts, could be 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 3.7 "Evaluation of the company as a going-concern and future outlook".

Risks associated with disputes and contingent liabilities

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

Economic position

(EUR mln)

CONSOLIDATED INCOME STATEMENT	**2013**	**2012 Restated***	**Change**
Revenues	223.4	233.8	(10.4)
Other income	2.1	2.4	(0.3)
Purchase of materials and outsourced services	128.5	133.3	(4.8)
Payroll and related costs	34.6	34.4	0.3
Other operating costs / (income)	(4.7)	(2.1)	(2.6)
Adjusted Gross Operating Result (EBITDA)	**67.1**	**70.6**	**(3.5)**
Write-downs of receivables from customers	14.6	26.3	(11.7)
Gross Operating Result (EBITDA)	**52.4**	**44.3**	**8.2**
Restructuring costs, provisions for risk reserves and write-downs	3.4	1.6	1.8
Amortisation/depreciation	39.8	42.8	(3.0)
Operating result (EBIT)	**9.3**	**(0.1)**	**9.4**
Net financial income (charges)	(13.2)	(13.2)	(0.0)
Pre-tax result	**(3.9)**	**(13.3)**	**9.3**

Income taxes	(0.8)	(2.5)	1.7
Net result from operating activities (on-going)	**(4.8)**	**(15.8)**	**11.0**
Result from assets disposed of and/or destined for disposal	0.0	(0.0)	0.0
Net result	(4.8)	(15.8)	11.1
Minority interests	0.0	0.0	0.0
Group Net Result	**(4.8)**	**(15.8)**	**11.1**

(*) The figures as at 31 December 2012 of the schedules represented in this Annual Financial Report have been recalculated so as to assimilate the effect of the application, as from 1 January 2013 (retrospectively), the new revised IAS 19 accounting standard (employee benefits); for further details please see the section "Form and content of the accounting statements".

Tiscali Group revenues during 2013 came to EUR 223.4 million, down by 4.5% with respect to the balance of EUR 233.8 million in 2012. The net change, EUR 10.4 million, is essentially attributable to the following factors:

- a reduction of EUR 12.8 million (-7.3%) in revenues for the "Access and VOIP" segment essentially due to the drop in the ARPU relating to the ADSL segment, caused by the additional promotions on the prices of the services with respect to 2012, in an increasingly more competitive market scenario;
- analogue Voice revenues increased EUR 1.3 million (rise of 8.5%) mainly due to the increase in the volume of wholesale services for EUR 1.1 million;
- Media revenues rose EUR 0.4 million (increase of 1.5%) despite the sharp drop in the advertising market.

During 2013, internet access and voice services – the Group's core business – represented around 80% of turnover.

Costs for purchases of materials and services totalling EUR 128.5 million, decreased EUR 4.8 million with respect to last year.

The effects illustrated above led to a drop in the Gross Operating Result (EBITDA) adjusted before provisions, totalling EUR 67.1 million (EUR 70.6 million in 2012).

The net operating result (EBIT), net of provisions, write-downs and restructuring costs, was a profit of EUR 9.3 million, registering an improvement with respect to the negative balance of EUR 0.1 million recorded in 2012.

During 2013, amounts were set aside for restructuring charges for EUR 3.4 million. These are mainly professional costs provided for in the presence of the reorganisation of the Group and the restructuring of senior debt (for EUR 1.3 million), as well as charges relating to the settlement of a dispute pertaining to the Dutch subsidiary (for EUR 1.8 million).

The result from operating activities (on-going), a loss of EUR 4.8 million, improved with respect to the same figure in the previous year, presenting a negative balance of EUR 15.8 million.

The Group's net result was a loss of EUR 4.8 million, an improvement with respect to the comparable figure in the previous year, a loss of EUR 15.8 million.

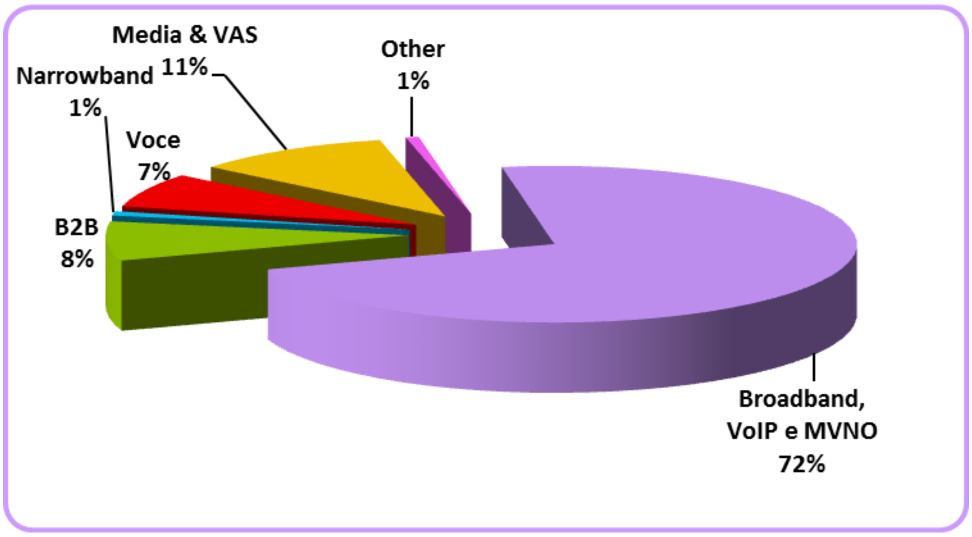
Operational income statement - Group

(EUR mln)	**2013**	**2012 Restated***
Revenues	**223.4**	**233.8**
Access revenues (including VoIP)	161.9	174.7
of which: ADSL	*93.0*	*101.3*
of which VOIP	*66.4*	*69.7*
of which MVNO	*2.6*	*3.7*
Dial Up revenues (narrowband)	*2.0*	*3.1*
Voice revenues	15.9	14.6
Business service revenues	18.1	16.4
Media and value added service revenues	23.8	23.4
Other revenues	1.7	1.5
Gross operating margin	**117.2**	**123.9**
Indirect operating costs	**57.0**	**57.8**
Marketing and sales	8.9	8.2
Payroll and related costs	34.6	34.4
Other indirect costs	13.4	15.2
Other (income) / expense	(6.8)	(4.5)
Adjusted Gross Operating Result (EBITDA)	**67.1**	**70.6**
Write-down of receivables	14.6	26.3
Gross Operating Result (EBITDA)	**52.4**	**44.3**
Amortisation/depreciation	39.8	42.8
Gross result (EBIT) before restructuring costs and provisions for risks	**12.6**	**1.5**
Operating result (EBIT)	**9.3**	**(0.1)**
Group Net Result	**(4.8)**	**(15.8)**

(*) The figures as at 31 December 2012 have been recalculated so as to assimilate the effect of the application, as from 1 January 2013 (retrospectively), of the new revised IAS 19 accounting standard (employee benefits); for further details please see the section "Form and content of the accounting statements".

Revenues by business segment

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



Source: Tiscali

<u>Access</u>

The segment in question, which includes revenues from Internet access services via broadband (ADSL) and narrowband (dial-up), the flat component of the bundled ranges (access fees) and mobile telephone revenues, in 2013 generated revenues of around EUR 161.9 million, down by 7.3% with respect to the figure in the same period in 2012 (EUR 174.7 million).

The decrease in revenues is mainly attributable to the ADSL access services (EUR 93 million as at 31 December 2013 compared with EUR 101.3 million as at 31 December 2012) and the VOIP segment (EUR 66.4 million as at 31 December 2013 compared with EUR 69.7 million at 31 December 2012).

As at 31 December 2013, ADSL customers came to around 498.2 thousand of which 357.9 thousand under direct LLU (Local Loop Unbundling). Direct ADSL customers increased by around 19 thousand with respect 31 December 2012.

The customers who use a dial-up access (narrowband) and analogical voice service stood at around 43.3 thousand users (of which around 26.1 thousand in WLR mode), up by around 4.3 thousand with respect to the previous year.

Evolution of the customer base

(000)	31 December 2013	31 December 2012
ADSL customers	498.2	479.1
of which LLU	*357.9*	*344.8*
Narrowband and Voice customers	43.3	39.0
Dual play customers	366.7	347.9

The LLU network coverage at 31 December 2013 amounted to 688 sites.

Voice

The Voice segment includes traditional telephone and wholesale services.

During 2013, there was an increase in revenues relating to analogue voice services, equating to EUR 1.3 million (+8.5% with respect to 2012,) essentially attributable to the rise in volumes of wholesale services (+22%).

Narrowband

The narrowband segment was naturally down and passed from 3.1 million in 2012 to 2 million in 2013.

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 2013 to EUR 18.1 million, up 10% with respect to the EUR 16.4 million in 2012.

Media

During 2013, revenues for the Media and value added services segment (mainly concerning sales of advertising space) amounted to around EUR 23.8 million and were up with respect to the previous year (EUR 23.4 million in 2012). 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 2013 came to EUR 57 million, a reduction with respect to the same figure in 2012 (EUR 57.8 million). Within indirect operating costs, **marketing costs** amounted to around EUR 8.9 million and were up with respect to the previous year (EUR 8.2 million).

Payroll and related costs amounted to EUR 34.6 million (15.5% of revenues), up slightly with respect to 2012 (EUR 34.4 million, 14.7% of revenues). Other **indirect costs** include lease instalments and general operating expenses.

The effect of the above led to an Adjusted Gross Operating Result (EBITDA), before provisions for risks, write-downs and amortisation/depreciation, totalling EUR 67.1 million (30% of revenues). This balance was down slightly with respect to 2012, amounting to EUR 70.6 million.

The Gross operating result (EBITDA), net of write-downs of receivables and other provisions came to EUR 52.4 million in 2013 (23.5% of revenues), an increase of 18.5% on the figure for 2012 (EUR 44.3 million, 18.9% of revenues).

The write-down of receivables and other provisions in 2013 totalled EUR 14.6 million (EUR 26.3 million in the same period of 2012).

Amortisation/depreciation came to EUR 39.8 million (EUR 42.8 million in the same period of 2012).

The operating result (EBIT) for 2013, net of provisions, write-downs and restructuring costs, was a profit of EUR 9.3 million (4.2% of revenues), with respect to the balance in the same period of 2012, a loss of EUR 0.1 million.

The Group's net result was a loss of EUR 4.8 million, compared with a loss in 2012 of EUR 15.8 million.

Equity and financial position

CONSOLIDATED BALANCE SHEET (in abridged form) *(EUR mln)*	**31 December 2013**	**31 December 2012 Restated***
Non-current assets	163.4	177.7
Current assets	59.3	76.3
Total Assets	**222.7**	**254.0**
Group shareholders' equity	(151.9)	(147.2)
Shareholders' equity pertaining to minority shareholders	0.0	0.0
Total Shareholders' equity	**(151.9)**	**(147.2)**
Non-current liabilities	64.1	193.8
Current liabilities	310.5	207.3
Total Liabilities and Shareholders' equity	**222.7**	**254.0**

(*) The figures as at 31 December 2012 have been recalculated so as to assimilate the effect of the application, as from 1 January 2013 (retrospectively), the new revised IAS 19 accounting standard (employee benefits); for further details please see the section "Form and content of the accounting statements".

Assets

Non-current assets

Non-current assets at 31 December 2013 amounted in total to EUR 163.4 million (EUR 177.7 million at 31 December 2012). The net change is attributable to the amortisation and depreciation charge on tangible and intangible fixed assets during 2013. Investments, amounting to around EUR 24.8 million, essentially refer to the extension and development of the network, IT services and the connection and activation of new ADSL customers, as well as the purchase of machinery for the new Istella and Indoona projects.

Current assets

Current assets at 31 December 2013 amounted in total to EUR 59.3 million (EUR 76.3 million at 31 December 2012). The reduction is mainly attributable to the decrease in net receivables due from customers for around EUR 15.2 million.

Liabilities

Non-current liabilities

Non-current liabilities as at 31 December 2013 amounted to EUR 64.1 million, compared with a balance of EUR 193.8 million as at 31 December 2012 and include both the items pertaining to the financial position, with reference to which please see the comments made further on, the provision for risks and charges totalling EUR 1.9 million, the employee severance indemnity for EUR 5.1 million, and payables to suppliers for the purchase of long-term rights for the use of transmission capacity (IRU) for EUR 1.9 million.

Current liabilities

Current liabilities amounted to EUR 310.6 million as at 31 December 2013 (compared with EUR 207.3 million as at 31 December 2012) and mainly include the current portion of financial payables, the current portion of the Sa Illetta Sale and Lease back payable, payables to suppliers, together with accrued expenses pertaining to the purchase of access services and line rental.

In particular, it is pointed out that the liability for the GFA due to Financing Institutions was classified under current liabilities as at 31 December 2013 due to the failure to observe the financial covenants envisaged by the loan agreements.

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

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

	31 December 2013	
EUR 000	**Net result**	**Shareholders' equity**
Shareholders' equity and net profit (loss) of Tiscali S.p.A.	**(778)**	**61,101**
Net profit and Shareholders' equity of consolidated companies	(8,960)	(389,372)
Book value of consolidated equity investments	0	(131,612)
Consolidation entries	4,956	307,988
Shareholders' equity and net profit (loss) for the year pertaining to the Parent Company	(4,782)	(151,896)
Shareholders' equity and net profit (loss) for the year pertaining to minority shareholders		
Shareholders' equity and net profit (loss) for the year as per the Consolidated Financial Statements	(4,782)	(151,896)

Financial position

At 31 December 2013, the Tiscali Group held cash and cash equivalents totalling EUR 3.1 million, against a net financial debt, at the same date, of EUR 191.6 million (EUR 186.5 million as at 31 December 2012).

(EUR mln)	**Notes**	**31 December 2013**	**31 December 2012**
A. Cash and Bank deposits		3.1	4.4
B. Other cash equivalents		0.0	0.1
C. Securities held for trading		-	-
D. Cash and cash equivalents (A) + (B) + (C)		***3.1***	***4.5***
E. Current financial receivables		***0.1***	***-***
F. Non-current financial receivables	(1)	6.9	6.3
G. Current bank payables	(2)	11.9	6.3
H. Current portion of non-current debt	(3)	131.8	9.5
I. Other current financial payables (*)	(4)	4.3	0.1
J. Current financial debt (G) + (H) + (I)		***148.0***	***16***
K. Net current financial debt (J) – (E) – (D) - (F)		**137.9**	**5.1**
L. Non-current bank payables		0.0	122.7
M. Bonds issued		-	-
N. Other non-current payables (**)	(5)	53.7	58.6
O. Non-current financial debt (N) + (L) + (M)		**53.7**	**181.3**
P. Net Financial Debt (K) + (O)		**191.6**	**186.5**

(*) includes short-term financial leasing payables
(**) includes long-term financial leasing payables

Notes:

(1) Essentially 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., Tiscali S.p.A. and Veesible S.r.l.;
(3) Includes the entire amount of the debt due to Senior Lenders;
(4) Essentially includes the short-term portion of the Sale and Lease Back – Sa Illetta payable;
(5) Essentially includes the long-term portion of the Sale and Lease Back – Sa Illetta payable;

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

(EUR mln)	**31 December 2013**	**31 December 2012**
Consolidated net financial debt	**191.6**	**186.5**
Other cash equivalents and non-current financial receivables	6.9	6.4
Consolidated net financial debt prepared on the basis of Consob communication No. DEM/6064293 dated 28 July 2006.	**198.5**	**192.9**

3.6 Events subsequent to the end of the year

Payment of interest on the Senior Loan

On 3 January 2014, cash interest on the senior debt was paid for EUR 0.5 million.

Tender for the supply of connectivity services to the Public Administration Authorities (BTB Services)

On 15 May 2014, the opening of the envelopes containing the Bid of the Consip Spa tender (BTB Services) took place, for the awarding of the connectivity services within the sphere of the Public Connectivity System (SPC) and Tiscali was the company with the best bid. The tender concerned an outline " multi-supplier" contract for the provision of services throughout the whole of Italy for an overall duration of 7 years.
On conclusion of the tender procedure, which envisages the legal checks on the bids and the fulfilments for drawing up a final ranking, Tiscali may be awarded a minimum quota of 52% up to a maximum of 60%.

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

Events and uncertainties regarding the business continuity

The Tiscali Group closed the financial statements at 31 December 2013 with a consolidated loss of EUR 4.8 million and negative consolidated shareholders' equity of EUR 151.9 million. Furthermore, as at 31 December 2013, the Group had a gross financial debt of EUR 201.7 million and current liabilities greater than current assets (non-financial) for EUR 106.5 million.

As of 31 December 2012, the consolidated loss amounted to EUR 15.8 million, with negative consolidated shareholders' equity of EUR 147.2 million. Furthermore, as at 31 December 2012, the Group had a gross financial debt of EUR 197.2 million and current liabilities greater than current assets (non-financial) for EUR 119.6 million.

As from 2009, the Group, after having completed the disposal of Tinet and the UK subsidiaries, allocating the proceeds of the sale to the repayment of part of the debt, 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, which has been reflected in the business and financial plan.

In a recessionary context, the transformation underway for some years in the telecommunications market has led to greater competitiveness and erosion of the revenues and the margin for the operators.

Progressive saturation for the fixed network broadband market, the sharp competition of the data proposals on the mobile networks and the possibility for customers to migrate from one operator to another with minimum inconvenience and costs, led to greater acceptance by customers of promotions, and as a consequence a tendency for prices to drop.

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 products), Tiscali, like the other telecommunications companies, has rationalised its internal processes implementing rigorous cost cutting programmes to preserve margins and maintain the competitive position, as well as to try and diversify its revenue streams in web and Over-The-Top services.

During 2013, 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:

- management continued with action aimed at containing costs and, therefore, the greater profitability of the telecommunications services;
- in November 2013, the Solidarity Agreement was renewed with the employees (as per Italian Law No. 863 dated 1984) for a further 24 months, having been originally entered into in 2011;
- the strategy continued for the application of more stringent control policies on the incoming customers, which led to an improvement in the customer base and the consequent cash flows. In detail, once again in 2013, 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);
- management adopted specific action for improving the working capital aimed at reducing the average collection days.

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

- thanks to the aggressive sales policies and the optimum performance of the web sales channels, the decreasing trend in the customer base reversed (both single and double play) with a pick-up in the same with respect to last year (the sales policies in question what is more led to a reduction on the ARPU of the ADSL with related impacts on the revenues of the Access and VOIP segment);
- media revenues disclosed a trend essentially in line with that last year, despite the sharp drop in the advertising market which also affected the digital media segment;
- revenues deriving from business services (VPN, housing, domains and leased lines) disclosed an increase of 10% with respect to last year;
- the Group continued to focus on innovation:
  - on 19 April 2013, the official launch took place for the search engine “Istella”, presented to market operators and analysts. Istella is an innovative search engine dedicated to the Italian language which facilitates the active contribution by users;
  - Indoona (a rich communications service dedicated to smartphones, tablets and PCs), which achieved more than 1.7 million downloads, confirms the historic positioning of Tiscali as innovative operator in the sphere of internet services;
  - Streamago was completely overhauled.

During the year, the Group also benefited from:

- the closure of a number of settlement transactions with the leading suppliers of network services which had a positive effect for around EUR 8.5 million, and
- the improvement in the regulatory conditions on access services on the fixed network which permitted a saving of around EUR 8 million (and which will permit savings also in coming years).

All the activities listed above made it possible to generate cash and cash equivalents from operating activities for around EUR 32 million, contributing towards reducing the Group's overall debt.

In detail, during the year the Group honoured the due dates relating to financial debt deriving from the loan agreement taken out by the Group companies on 2 July 2009 ("Group Facility Agreement" or "GFA"), both in terms of principal and interest. As envisaged by the GFA and reflected in the financial plan, during 2013 the Group made payments to the related financing institutions amounting to EUR 9 million (of which EUR 1.5 million for interest).

As at 31 December 2013, however, certain of the financial parameters envisaged by the same GFA were not observed. In accordance with the provisions of the GFA, these violations represent a so-called Event of Default further to which the financing institutions could decide - with the favourable vote of parties which overall hold more than two thirds of the debt deriving from the GFA - to declare the entire amount of the loans due and collectable and therefore request the repayment of all that is due as per the GFA. On the basis of the matters set forth above, the Directors, when evaluating the existence of the conditions of the Group as a going concern in the current macro-economic context, and in the current competitive scenario, identified the following factors which indicate the existence of a number of significant uncertainties:

i. the unbalanced equity, financial and economic situation which the Group is headed into, as shown by the negative consolidated shareholders' equity for EUR 151.9 million, due mainly to the negative economic performance and weight of the considerable debt;

ii. the afore-mentioned presence of a so-called Event of Default as per the GFA, deriving from the violation of the financial parameters envisaged therein;

iii. the approach of the expiry date of Tranche A of the loan disbursed as per the GFA (i.e. 3 July 2014), when the Company should repay the entire residual amount of this tranche amounting to around EUR 82.5 million for principal plus PIK interest accrued as of the date of 3 July 2014. At 31 December 2013, this interest amounted to EUR 22 million.

In light of these factors of uncertainty, the establishment of a balanced equity, financial and economic situation for the Group over the long-term depends on the need to finalise a restructuring transaction with the financing institutions for the Tiscali Group's financial debt, which envisages amongst other aspects: (1) the waiver by the financing institutions of availing themselves of the contractual remedies envisaged by the GFA in the presence of the occurrence of the afore-mentioned Events of Default, (2) the rescheduling of the debt deriving from the GFA currently falling due in July 2014 and July 2015, for an amount of around EUR 104.9 million and EUR 26.9 million, respectively, (3) the redefinition of the financial covenants on the basis of the results envisaged in the business plan, approved by the Board of Directors on 13 June 2014, which in turn presupposes the realisation of forecasts and assumptions contained therein, and in particular, with reference to the evolution of the telecommunications market and achievement of the growth objectives set out (in a market context characterised by heavy competitive pressure).

In this context:

- as from the first few months of 2013, the Company - also in the interests of the other Tiscali Group companies - made a number of preliminary assessments and launched the first negotiations with said financing institutions as per the GFA so as to reschedule the debt;

- in April 2013, the Company submitted a debt restructuring proposal to all the creditors as per the GFA;
- in June 2013, a financial advisor was appointed to support the Tiscali Group with the restructuring of its financial debt;
- further to the negative response from some of the financing institutions, the Company drew up - with the support of the financial advisor - a new restructuring proposal which was submitted to the financing institutions during the first few days of August 2013;
- despite the positive responses of the Group's two main financial creditors, in October 2013 it emerged that the proposal had not met with the unanimous consent of the financing institutions as per the provisions of the GFA;
- after various meetings and further discussions with the financing institutions as per the GFA, in March 2014 a number of these financing institutions presented the Group with a restructuring proposal which the Group deemed somewhat impracticable since it would have led to a considerable disparity in the treatment of the various Group creditors and would have made it practically impossible to obtain the necessary consent of the creditors penalised the most, as well as unfairly; on 13 March and then on 20 March 2014, the Company therefore drew up and sent to all the financing institutions as per the GFA two different drafts of a Term Sheet containing the main terms and conditions of a new proposal for a debt restructuring transaction which takes into account, as far as possible, the last proposal sent by the financing institutions;
- despite obtaining the compliance of the two leading financial creditors of the Group, the proposal containing the afore-mentioned Term Sheet was rejected by the others which, on 27 March 2014 and then on 7 April 2014, submitted two new proposals to the Group which, however, did not obtain the consent of the main financial creditor of the Group;
- following further discussions between the Group and the financing institutions, on 2 May 2014 the Group's financial advisor, in an attempt to reconcile the interests of all the parties involved, sent the Financing Institutions a new Term Sheet drawn up on the basis of the last one proposed by the former, having taken into account all the aspects which had not emerged as acceptable;
- this was followed by an additional, structured and intense period of negotiation with the financing institutions, which ended up in the drawing up, by the Company, of various new drafts of the afore-mentioned Term Sheet, the last of which was sent to the financing institutions by the Group's financial advisor on 6 June 2014;
- this last draft of the Term Sheet contained a new proposal as things stand not binding, which on the one hand could give rise to a recapitalisation of the group and on the other will lead to a partial rescheduling of the debt and the re-wording of the financial covenants currently envisaged by the GFA in line with the Group performances envisaged in the new financial and business plan;
- the restructuring proposal containing the last draft of the term Sheet, was accepted, albeit in a non-binding manner and subject to the approval of the decision-making bodies of the financing institutions, by all the financial backers as per the GFA therefore permitting the Group to pursue a consensual hypothesis of restructuring its financial debt;
- the Board of Directors, during the meeting held on 13 June 2014, approved the updated version of the 2014-2018 business plan, hypothesising a restructuring of the debt in line with the restructuring transaction proposed in the last draft of the Term Sheet. This up-date of the plan, which takes into account both the results for 2013 and the first few months of 2014, does not differ with regard to the essential strategic lines from the plan approved on 29 March 2013

and, hypothesises, amongst other aspects, in relation to the projections of the 2014-2018 cash flows, the rescheduling of the part of the debt deriving from the GFA falling due in 2017 in excess with respect to the net cash flows generated over the plan's duration;

Therefore, the following depend on the possibility of managing to finalise the restructuring transaction for the financial debt of the Tiscali Group described in summary form previously and the possibility of achieving the forecasts contained in the business plan: a) the ability to rebuild an adequate supply of equity, b) the recoverability of asset items, c) the capacity to comply with the financial covenants as per the GFA and other contractual obligations relating to the Group's financial debt and therefore to maintain the availability of financing granted thus being able to meet other Group obligations, d) achievement of a balanced long-term equity, economic and financial situation for the Group.

Final assessment of the Board of Directors

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

- has observed all the payment obligations envisaged by the financial plan and by the GFA, having paid the related financial institutions, during 2013, a total amount of EUR 9 million (of which EUR 7.5 million for repayment of the principal and EUR 1.5 million for interest); In January 2014, in accordance with the GFA, interest was also repaid for EUR 0.5 million;
- has generated cash and cash equivalents of around EUR 32 million;
- has reduced its exposure to the suppliers;
- during 2013, achieved a growing trend in the telecommunications services customer base;
- updated the 2014-2018 financial and business plan having taken into account the results for 2013 and the first few months of 2014, on a consistent basis with the envisaged debt restructuring transaction deriving from the GFA;
- continued to focus on certain sectors with high growth potential, such as the media sector and on Over-The-Top products with high growth potential.

Furthermore, the Directors - despite disclosing how the finalisation of the debt restructuring transaction deriving from the GFA envisaged in the afore-mentioned Term Sheet is subordinate to the occurrence of specific conditions, including:

- the waiver by the financing institutions of the adoption of the contractual remedies envisaged by the GFA in the event of so-called Events of Default, until all the necessary contractual documentation has been signed;
- the completion of the authorisation process for the competent decision-making bodies of the compliant financing institutions; and
- the definition of the contractual documentation necessary for the implementation of said transaction under satisfactory terms for all the financing institutions,

on the basis of the matters indicated above, reasonably believe that the afore-mentioned Group debt restructuring transactions can be finalised, so as to be able to proceed with the implementation of the Group financial and business plan, thereby permitting over the long-term the achievement of a balanced equity, financial and economic situation.

In conclusion, when analysing what has already been achieved within the sphere of the process aimed at enabling the Group to obtain long-term equity, financial and economic equilibrium, the Directors acknowledge that, as already indicated in the financial statements relating to 2012, 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, and having taken into account the afore-mentioned outline consent expressed by all the financing institutions with regard to the proposed restructuring of the debt as per the GFA, they have the reasonable expectation that the definition of the transaction can be reached for the rebalancing of the Group's financial structures on a consistent basis with the expected cash flows and suitable for supporting the operating activities laid out in the afore-mentioned financial and business plans and 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.

This assessment is naturally the result of a subjective opinion, which has compared - with respect to the events indicated above - the degree of probability of their occurrence with the opposite situation. Therefore, obviously it must be emphasised, in as far as it is obvious, that the prognostic opinion underlying the decision of the board, is liable to be contradicted by the evolution of events. Precisely because it is aware of the intrinsic limits of its decision, the Board of Directors will constantly monitor the evolution of the factors taken into consideration (as well as any other additional circumstance which takes on significance), so as to be able to promptly adopt the necessary measures, also in terms of recourse to the procedures envisaged by the law for business crisis situations.

One-off transactions

Pursuant to Consob Resolution No. 15519 dated 27 July 2006, it is hereby revealed in particular that during 2013 agreements were reached with the main suppliers of network services which had a positive impact for around EUR 8.5 million and costs were also provided for, for a total of EUR 3 million, linked essentially to the process for restructuring the senior debt and the definition of the prior WOL dispute.

Atypical and/or unusual operations

Pursuant to Consob Communication dated 28 July 2006, it is hereby specified that during 2013 the Company did not enter into any atypical and/or unusual transactions, as defined by said Communication.

Transactions with related parties

Dealings with non-consolidated Group companies

During the year, the Tiscali Group had a number of dealings with related parties, under conditions considered normal on the respective reference markets, taking into account the characteristics of the goods and services provided.

Related parties with whom transactions were concluded in 2013 included:

- Studio Racugno: the director Gabriele Racugno, member of Tiscali S.p.A.'s Board of Directors, since 21 December 2009, provides Tiscali Italia S.p.A. with legal and out-of-court assistance.
- Nuova Iniziativa Editoriali S.p.A.: investee company of the majority shareholder, Renato Soru; the dealings refer to an advertising concession and the provision of telecommunications services. It should be mentioned that the investment held by Renato Soru was in the name of Gabriele Racugno by virtue of a deed of trust. The latter was appointed member of the Board of Directors of Tiscali S.p.A. from 21 December 2009 to January 2010.

Income statement and balance sheet transactions with related parties are detailed in the section "Related Party transactions" in the explanatory notes to the 2013 financial statements.

Compliance with the Tax Consolidation scheme

The Company exercised the option for consolidated taxation headed up by the parent company Tiscali S.p.A. for the following companies:

- Tiscali S.p.A.
- Tiscali Italia S.p.A.
- Veesible S.r.l.
- Indoona S.r.l.
- Istella S.r.l.

The dealings deriving from compliance with the consolidation scheme are disciplined by means a specific "Regulation" agreement, which envisages a common procedure for the application of the legislative and regulatory provisions.

Cagliari, Italy, 13 June 2014

The Chief Executive Officer	**The Executive appointed to draw up the corporate accounting documents**
Renato Soru	Pasquale Lionetti

4 Corporate Governance Report and Ownership Structure

4.1 Introduction

Pursuant to Article 123 *bis* of Italian Legislative Decree No. 58/1998, as implemented by Article 89 *bis* of the Issuers' Regulations, adopted by Consob under resolution No. 11971 dated 14 May 1999, listed companies are obliged to draw up an annual disclosure report on their Corporate Governance system and on compliance with the Code's recommendations (as defined below). This report shall be made available to the shareholders at least 21 days before the shareholders' meeting for the approval of the annual financial statements and published in the "Investor Relations" section of the Company website, www.tiscali.com.

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

Therefore, the Report is split into two parts. The first part fully illustrates the corporate governance model adopted by Tiscali and describes the directors and officers, as well as the shareholding structure and provides other information as per the afore-mentioned Article 123 *bis* of Italian Legislative Decree No. 58/98. The second part by contrast provides detailed disclosure regarding compliance with the Code's recommendations by means of a comparison between the choices made by the Company and said recommendations of the Code. On 13 June 2014, in accordance with the Code the Board of Directors assessed the size, composition and functioning of said Board and its Committees deeming them to be in line with the operational and organisational needs of the Company. The Board took into account the professional, experience-related and managerial characteristics of its members and examined the effective functioning of the corporate bodies during 2013. Of the five Directors, four are without powers delegated by said Board, three are non-executive and two are non-executive and independent. In this assessment, the Board also took into account the appointments covered by the Directors in other companies and the effective commitment of the Directors in corporate operations.

4.2 Corporate Governance structure

General principles

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

In order to ensure the transparency of management's operations, correct market disclosure and protection of the socially relevant interests, the corporate governance system adopted by Tiscali fully draws on the recommendations of the Code of Conduct (the "**Code**"), approved by the Corporate Governance Committee in March 2006, as updated in December 2011. The Company adopts practices and principles of conduct, formalized in procedures and codes, in line with Borsa Italiana S.p.A.'s indications, CONSOB recommendations and with the best practice seen at national and international level; furthermore, Tiscali has equipped itself with an organizational structure suitable for correctly handling business risks and potential conflicts of interest which may occur between Directors and shareholders, majorities and minorities and between the various stakeholders.

Adopted model

In relation to the system of management and control, the Company has adopted the traditional model, which envisages the presence of the Board of Directors and the Board of Statutory Auditors; the Company believes that this system enables a clear division of the roles and responsibilities entrusted to the directors and auditors and efficient management of the Company.

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

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

Board of Directors

At present, the Company's Board of Directors is made up of:

Chairman and Chief Executive Officer	Renato Soru
Directors	Assunta Brizio * (Independent Director)
	Gabriele Racugno
	Luca Scano
	Franco Grimaldi (Independent Director)
Company Secretary	Luca Naccarato

** Co-opted in August 2012 following the resignation of the Director Victor Uckmar*

The current Board will fall from office with the approval of the financial statements for 2014 and was appointed on 15 May 2012 by the shareholders' meeting called for the approval of the financial statements as of 31 December 2011. The office of Chairman and the powers of the Chief Executive Officer were granted to Renato Soru during the Board Meeting held on 15 May 2012. In August 2012, Victor Uckmar, appointed by the afore-mentioned shareholders' meeting, handed in his resignation and, on 28 August 2012, Assunta Brizio was co-opted as independent director; the shareholders' meeting held on 30 April 2013 confirmed the appointment.

Board of Statutory Auditors

At present, the Company's Board of Statutory Auditors is made up of:

Chairman	Paolo Tamponi
Statutory Auditors	Piero Maccioni
	Andrea Zini

Alternate Auditors	Rita Casu
	Giuseppe Biondo

The Board of Statutory Auditors was appointed on 15 May 2012 by the shareholders' meeting called for the approval of the financial statements as of 31 December 2011, and will fall from office with the approval of the financial statements as of 31 December 2014.

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

As envisaged by Article 14 of the Articles of Association and in pursuance of the provisions of Italian Law No. 262/2005, on 15 May 2012 the Board of Directors took steps to appoint the Director Pasquale Lionetti, Company Director, as executive in charge of drawing up the Company's accounting documents, an individual who possesses the necessary requisites and proven experience regarding accounting and financial matters. The office of Mr. Lionetti will expire with the renewal of the Board of Directors following approval of the 2014 annual financial statements.

Independent Auditing Firm

The accounts auditing appointment was granted to Reconta Ernst & Young S.p.A. by the shareholders' meeting held on 29 May 2008. This appointment will expire with the approval of the 2016 annual financial statements by the shareholders' meeting.

Committees

During the Board Meeting held on 15 May 2012, following the appointment of the new Board of Directors, the following internal Committees were established, which replace the previous Internal Audit Committee and Remuneration Committee:

- *Audit and Risk Committee*, comprising Franco Grimaldi (Chairman), Victor Uckmar and Luca Scano. Following the resignation of Prof. Uckmar in August 2012, he was replaced by the independent director Assunta Brizio.

- *Appointments and Remuneration Committee*, comprising Franco Grimaldi (Chairman), Victor Uckmar and Gabriele Racugno. Following the resignation of Prof. Uckmar in August 2012, he was replaced by the independent director Assunta Brizio.

Obviously, these Committees will expire together with the Board of Directors at the time of approval of the financial statements as of 31 December 2014.

Supervisory Body

During the board meeting held on 15 May 2012, the new Supervisory Body of the Company was appointed, comprising Maurizio Piras (lawyer), external member acting as Chairman, Carlo Mannoni, head of the Company's regulatory affairs division, and Paolo Sottili, head of the Company's HR division. The Supervisory Body will remain in office until approval of the financial statements as of 31 December 2014 and carries out supervisory functions also for the subsidiaries Tiscali Italia SpA and Veesible Srl.

Lead Independent Director

In line with the matters recommended by the Code of Conduct for listed companies, during the board meeting held on 15 May 2012, the Board of Directors appointed Franco Grimaldi Lead Independent Director; this office is envisaged by the Code of conduct for listed companies in which the same party covers the office of Chairman of the Board and Chief Executive Officer or the latter is the reference shareholder. The office will expire with the renewal of the Board of Directors following approval of the 2014 annual financial statements.

Director in charge of the internal audit and risk management system

In line with the matters recommended by the Code of Conduct for listed companies, during the board meeting held on 15 May 2012, the Director Luca Scano was appointed as the Director in charge of the internal audit and risk management system (hereinafter also the Appointed Director). The office will expire with the renewal of the Board of Directors following approval of the 2014 annual financial statements.

Shareholding structure

As at the date of this Report, the authorized share capital came to EUR 101,001,987.27, while that subscribed and paid-in totalled EUR 92,022,830.47; it is represented by 1,861,498,844 ordinary shares lacking par value, freely transferrable under the terms of the law without there being securities which grant specific rights of control.

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

Shareholder	**Shares held**	**Percentage**
Renato Soru	**331,133,617**	**17.79%**
*directly**	278,928,283	14.98%
via Andalas Ltd	1,483,109	0.08%
via Monteverdi S.r.l.	17,609,873	0.95%
via Cuccureddus S.r.l.	33,112,352	1.78%

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

Warrants

The shareholders' meeting held on 30 June 2009, resolved the issue of warrants, together with the share capital increase. In the light of the execution of the above mentioned increase, in November

2009, the Company issued 1,799,819,371 warrants 1,799,819,371 Warrants. Warrant holders are entitled to subscribe ordinary shares of the Company at the ratio of 1 conversion share for every 20 warrants exercised at the price of EUR 0.80 per conversion share. Currently 498,500 warrants have been exercised and 24,925 shares have been issued against a share capital increase of EUR 19,940. The warrants can be exercised until 15 December 2014 in accordance with the Tiscali S.p.A. 2009-2014 Warrant Regulations which can be found in the "Shares" section on the website at www.tiscali.com.

Share Based Incentive Plans

There are no share based incentive plans.

Delegated increases pursuant to Article 2443 of the Italian Civil Code

To-date, there are no delegated increases already resolved.

Shareholders' agreements

No shareholders' agreements exist as of the date of this report, as far as the Company is aware.

Amendments to significant company agreements following the change of control.

In the case of a change of control in the Company or some of the Group companies significant in accordance with the loan agreements with the Senior Lenders, the amendment of the these loan agreements is envisaged. In particular the change of control involves the obligation to make prepayments with reference to the loan agreements referred to above as described in further detail in the table in the note "Current financial liabilities" in the 2013 Financial Statements.

4.3 Disclosure on compliance with the recommendations contained in the Code of Conduct for Listed Companies

Board of Directors

Role

The Board of Directors has a prominent role to play in Company life, being the body responsible for running the Company, providing strategic and organizational guidelines and, as such, for identifying Company objectives and monitoring their achievement.

This body is invested with all ordinary and extraordinary powers of administration pursuant to Article 14 (Powers of the Management Body) in the Company's Articles of Association. The Board of Directors examines and approves strategic, industrial and financial plans for the Company and the Group to which it belongs, and reports to the Board of Statutory Auditors on a quarterly basis on activities carried out by the Company or its subsidiaries and operations which are of major significance from an economic, financial and equity perspective. The powers and duties exercised by the Company's Board of Directors in its role as provider of strategic guidelines, supervisor and monitoring body for Company Activities, as set out in the Company's Articles of Associations and implemented in corporate codes of practice, are largely consistent with what is laid down by Article 1 of the Code.

Composition

Article 10 (Management of the Company) of the Articles of Association envisages that the Board of Directors may comprise between three and eleven members, as decided by the Shareholders' Meeting; however, the gender mainstreaming as per current legislation is ensured. As at the date of this Report, the Board of Directors comprised five members. The Board of Directors also includes a Audit and Risk Committee and an Appointments and Remuneration Committee and has identified a Lead Independent Director and the Appointed Director.

Chairman of the Board of Directors and Chief Executive Officer

In accordance with the Company's Articles of Association, the Chairman of the Board of Directors calls and conducts board meetings and coordinates its activities. For Board meetings, the Chairman ensures that Directors receive all necessary documentation, well in advance, to allow the Board to knowledgeably discuss the business under examination.

The Articles of Association also state that the Board of Directors, within legal limits, may appoint one or more Chief Executives, establishing the powers within the sphere due to them and within legal limits. The Board of Directors has granted executive powers to the Chief Executive Officer. Generally, CEO powers may be exercised up to a maximum value of EUR 25 million.

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

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

Non-executive, minority and independent directors

In compliance with the provisions of Italian Law no. 262/2005 and subsequent amendments, the Articles of Association envisage the presence of at least one independent director if the Board is made up of up to seven members, and at least two independent directors if the Board is made up of more than seven members. The Company in any event complies with the Code and, at present, there are two independent directors with a Board of 5 members of which just Renato Soru, Chief Executive Officer and Chairman, is in possession of the executive powers delegated by the Board. Furthermore, the list voting mechanism envisaged by the Articles of Association for the election of the members of the Board ensures the appointment of at least one director taken from the list which has obtained the second greatest number of votes and which is not in any way associated with the shareholders who have presented or voted for said list.

As envisaged by the Code should the same individual covers the office of Chairman of the Board and Chief Executive Officer or the latter is the reference shareholder, during the meeting on 15 May 2012, the Board of Directors appointed Franco Grimaldi Lead Independent Director. The latter represents the point of encounter and co-ordination for the requests and contributions of the non-executive Directors and, in particular, the independent ones. The Lead Independent Director: (i) works together with the Chairman of the Board for the best functioning of the Board and for a complete and prompt information flow, (ii) may call, independently or upon the request of other directors, meetings of just the independent directors regarding aspects pertaining to the governance of the Company.

At the time of appointment and in any event once a year when this Report is prepared, the Board evaluates the Directors' independence on the basis of information provided by the Directors themselves, and provides the market with appropriate information in this respect by publishing said Report. In light of such analysis, the existence of the independence requisites is confirmed with regard to Assunta Brizio and Franco Grimaldi. In line with the recommendations of the Code, the independent directors met in the absence of the other directors on 28 March 2014, upon calling by the Lead Independent Director. On this occasion, the existence of the independence requisites was examined and the Corporate Governance system and the related-party transactions entered into during 2013 assessed; the existence of any conflicts of interest in relation to the executive directors was also examined.

In relation to the management and audit appointments in other companies, the Board did not consider it necessary to define general criteria regarding the maximum number of offices compatible with efficient performance of the role of director in the Company, without prejudice to the duty of each Director to assess the compatibility of the offices of director and auditor, possibly covered in other companies listed on organised markets, in finance, banking and insurance companies or those of a significant size, with the diligent performance of the duties undertaken as Company Director. The offices covered by the current Board members in their capacity as directors of other listed companies, banks or financial and insurance companies or businesses of a significant size, are listed below. It is hereby disclosed that none of the Directors cover roles in boards of statutory auditors of other listed companies, banks, financial or insurance companies or businesses of a significant size.

Roles in boards of directors of other listed companies, banks or insurance companies and businesses of a significant size	
Renato Soru:	Chairman and Chief Executive Officer of Tiscali Italia S.p.A.
Luca Scano:	Director of Tiscali Italia S.p.A., Chairman of Veesible Srl
Gabriele Racugno:	Director of Banco di Sardegna S.p.A.* – Director of Sogaer S.p.A.
Franco Grimaldi:	Director of Tiscali Italia S.p.A.**
Assunta Brizio	-

* Position covered until 30 April 2013

** Position covered as from 14 October 2013

In the specific “governance” section of the website, the Company publishes the professional résumés of its Directors, so that the shareholders and investors can assess the professional experience and the authoritativeness of the Board members.

Board meetings

The Board of Directors meets regularly and in any event at the time of the approval of the quarterly reports, the half year report and the draft annual financial statements. It is consolidated practice that also outside executives and consultants are called to take part in the meetings of the Board of Directors depending on the specificities of the matters dealt with. As summarised in the table which follows, during 2013 the Board of Directors met five times, while during 2014 the Board of Directors had met seven times, as of the date of this report. All the Directors and the members of the Board of Statutory Auditors took part in the majority of the meetings, as illustrated by the breakdown shown below.

Board meetings 2013	**29 March 2013**	**14 May 2013**	**28 August 2013**	**24 September 2013**	**14 November 2013**
Directors present	5	5	5	3	5
Percentage	100%	100%	100%	60%	100%
Statutory Auditors present	3	3	3	3	3
Percentage	100%	100%	100%	100%	100%

Board meetings 2014	**28 March 2014**	**29 April 2014**	**16 May 2014**	**29/30 May 2014**	**4/5/6 June 2014**	**9 June 2014**	**13 June 2014**
Directors present	5	5	4	3	4	5	4
Percentage	100%	100%	80%	60%	80%	100%	80%
Statutory Auditors present	3	3	3	2	2	3	3
Percentage	100%	100%	100%	66%	66%	100%	100%

The average duration of the Board meetings was approximately 70 minutes. The Board of Directors and the Board of Statutory Auditors are sent draft copies of the documents to be approved beforehand, together with all the disclosure documentation instrumental to the various resolutions. The sending of the documentation is seen to by the Company Secretariat which takes steps to collate the documents from the appointed sectors and forward them with the utmost notice possible; tendentially the documentation is sent in one go together with the calling of the board meeting; by way of exception, if they are not available, certain documents can be sent after the calling but always with suitable notice before the meeting.

On 14 November 2013, the Board of Directors approved the calendar of its meeting for 2014:

- 28 March 2014 (Approval of the draft annual financial statements at 31 December 2013),
- 29 May 2014 (Annual shareholders' meeting),
- 14 May 2014 (Approval of the Quarterly Report at 31 March 2014),
- 28 August2014 (Approval of the Half-year Report at 30 June 2014),
- 13 November 2014 (Approval of the Quarterly Report at 30 September 2014).

Subsequently, a number of changes to this calendar were communicated. During the meeting held on 28 March 2014, the Board, pending the definition of the negotiations for the restructuring of the Group's senior debt, resolved to postpone the approval of the draft financial statements as at 31 December 2013 and the calling of the related shareholders' meeting. During the meeting held on 29 April 2014, the Board then resolved to postpone the approval of the quarterly report as at 31 March 2014 as well. Subsequently, the Board met another six times approving the annual report as at 31 December 2013 in the meeting held on 13 June 2014.

<u>Appointment of Directors</u>

Article 11 (Board of Directors) of the Articles of Association specifies a voting list for the appointment of Directors, guaranteeing the appointment of a certain number of Directors from those listed who have not obtained the majority of votes, and ensuring transparency and correctness of the appointment procedure. Shareholders are entitled to present lists if, alone or together with other shareholders, they represent at least the percentage of the share capital envisaged by applicable legislation. This mechanism ensures, therefore, that even minority Shareholders have the power to submit their own lists. Everyone with a voting right may vote for one list only. The Company took steps to adapt the appointment mechanisms in line with Italian Law No. 120/2011 regarding gender balance with regard to access to the management and audit bodies of companies listed on organised markets; therefore, each list must present a number of candidates belonging to the gender represented the least equal to the minimum number required by current legislation.

The appointment of the Directors takes place as follows (a) five sevenths of Directors are appointed from the list receiving the majority of votes expressed by Shareholders; (b) the remaining Directors are appointed from the other lists. For this purpose, the votes obtained by the lists are progressively divided by one, two, three, four, five, etc., according to the number of Directors to be elected. The quotients obtained thus are then progressively assigned to candidates on each list, in accordance with their respective order. The quotients assigned thus to candidates on the various lists are compiled into a single list in descending order. Those elected are the candidates with the highest quotients, in any event after appointment of the candidate first on the list receiving the second highest number of votes, and who is in no way connected with that first list, and after the appointment of one or two independent directors, depending on whether the Board comprises more or less than seven members, in accordance with Italian Law No. 262/2005, as amended by Italian Legislative Decree No. 303/2006.

In any event, if the Board of Directors elected as above does not permit the observance of the balance between genders envisaged by the afore-mentioned legislation, the last members elected from the majority list of the gender represented the most fall from office and are replaced by the first candidates not elected on the same list of the gender represented the least. In the absence of candidates of the gender represented the least on the majority list in a number sufficient to go ahead with replacement, the afore-mentioned criteria will apply to the minority lists progressively voted for the most from which the elected candidates have been taken. On a residual basis, the shareholders' meeting takes steps to supplement the Board of Directors so as to ensure the satisfaction of the requirements of balance between genders envisaged by current legislation.

Pursuant to the aforementioned Article 11 (Board of Directors), the lists containing the proposals for appointment to the office of Director must be filed at the Company's registered office at least twenty-five days prior to the date envisaged for the Shareholders' Meeting, together with the professional CVs of individuals appearing on the lists and a declaration from each accepting their candidature and declaring the inexistence of reasons for ineligibility or incompatibility and that the honourable and professional qualifications required under applicable law and by the Articles of Association exist, as essentially in line with the principles and application criteria contained in Article 5 of the Code. The lists and the accompanying documentation must be made public in accordance with the legal formalities at least twenty-one days before the date envisaged for the Meeting. In the event of resolution to appoint individual members of the Board of Directors, the voting list appointment mechanism is not applicable, Article 11 (Board of Directors) of the Articles of Association specifying its use only in the event of integral renewal of the Board.

Even if on the basis of the provisions of the aforementioned Article 11 (Board of Directors) and the above considerations, the Directors' appointment mechanism ensures an impartial and fair system with respect to minority shareholders, the Board in any event deemed it appropriate that the Remuneration Committee adopt the functions also in relation to appointments, thereby becoming the Appointments and Remuneration Committee. The report on operations attached to the financial statements at 31 December 2013 contains an overview of the Board Members' remuneration system (see the note "Remuneration of Directors, Statutory Auditors and managers with strategic responsibilities" in the 2013 financial statements); for greater disclosure, also with reference to the information required by Article 123 *bis*, section 1, letter i), reference should be made to the Remuneration Report which will be submitted to the shareholders' meeting called to approve the financial statements as of 31 December 2013.

To-date, the Board has ascertained not to adopt a plan for the succession of the executive directors.

Shareholders' meetings

Consistent with the principles and application criteria contained in Article 9 of the Code, the Company encourages and facilitates the participation of shareholders in meetings, providing any Company-related information requested by the shareholders in accordance with regulations governing price-sensitive communications. To facilitate the receipt of information and attendance at meetings by its shareholders, and to facilitate access to documentation which, pursuant to and in accordance with law must be made available to them at the registered offices when meetings are due to be held, the

Company has made said information available in a special "investor relations" section of its website at www.tiscali.com, allowing said information to be downloaded in electronic format.

As suggested in application criteria 3 of Article 9 of the Code, the Shareholders' Meeting adopted its own AGM Regulations, last version dated 29 May 2011, also available on the Company website. The AGM Regulations were adopted with the aim of ensuring an orderly and functional performance of the shareholders' meetings, precisely defining rights and duties of all the participants and establishing clear and unambiguous rules without wishing in any way to limit or prejudice the right of each shareholder to express their opinions and formulate requests for clarification on the business placed on the agenda. The Board of Directors believes that minority Shareholders' prerogatives have been respected when adopting resolutions, in so far as the current Articles of Association do not provide for majorities other than those laid down by law.

Pursuant to Article 2370 of the Italian Civil Code and Article 8 (Participation in shareholders' meetings) of the Articles of Association, shareholders can take part in meetings if they have provided the Company with the communication sent by the authorised broker as per current provisions, proving ownership of the shares as of the so-called record dates, as well as any voting proxy.

Board of Statutory Auditors

<u>Appointment and composition</u>

Consistent with Article 8 of the Code, in relation to the appointment of Statutory Auditors, Article 18 (Board of Statutory Auditors) of the Articles of Association envisages a voting list system which guarantees the transparency and correctness of the appointment procedure and protects minority shareholders' rights.

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

Each shareholder may vote for just one list. The Auditors are elected as follows: a) two Statutory Auditors and two Deputy Auditors are elected, in the order in which they appear on the list receiving the most votes; b) the third Statutory Auditor is the first candidate on the list receiving the second highest number of votes. In accordance with Italian Law No. 262/2005, as amended by Italian Legislative Decree No. 303/2006, the person appearing first on the list receiving the second highest number of votes is appointed Chairman of the Board of Statutory Auditors. Also with regard to the Board of Statutory Auditors, the Company took steps to supplement the appointment mechanism so as to ensure, in any event, the observance of Italian Law No. 120/2011 on so-called gender balance.

Requisites

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

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

Activities

The members of the Board of Statutory Auditors operate independently, in constant liaison with the Audit and Risk Committee, regularly attending its meetings, and with the Internal Audit Department, in accordance with the principles and application criteria indicated in Article 8 of the Code.

Board of Directors internal committees and other governance bodies

As recommended by the principles as per Article 4 of the Code, the newly appointed Board of Directors, during the meeting on 15 May 2012, established an internal Audit and Risk Committee and the Appointments and Remuneration Committee; it also took steps to appoint the Lead Independent Director, the Director Appointed with the Internal Audit System, the Executive appointed to draw up the Company accounting Documents, the Internal Audit Coordinator and the Supervisory Body.

Audit and Risk Committee (reference)

With regard to the Audit and Risk Committee, reference should be made to the following section Internal Auditing.

Appointments and Remuneration Committee

Since March 2001 the Company's Board of Directors has set up its own Remuneration Committee, as recommended by Article 6 of the Code and relevant application criteria. During the meeting held on 15 May 2012, the newly appointed Board of Directors established an internal Remuneration Committee, also assigning the same proposal-making and advisory functions regarding appointments. Therefore, the two independent Directors Franco Grimaldi and Victor Uckmar, as well as the Director Gabriele Racugno, who does not cover any executive position within the Company or the Group, were therefore appointed as members of the Appointments and Remuneration Committee. The Director Franco Grimaldi was appointed Chairman of the Committee. Following the resignation of Victor Uckmar, in August 2012, the independent director Assunta Brizio joined the Committee.

The Committee makes proposals to the Board of Directors for the remuneration of the Chief Executive Officer and the other Directors who cover specific offices, and in general makes general recommendations regarding the remuneration of the executives with strategic responsibility for the Group, aids the Board of Directors in the preparation and implementation of any remuneration plans based on shares or financial instruments, and assesses the adequacy and application of the Remuneration Policy. Furthermore, the Committee makes proposals with regard to the appointment of directors, in the event of co-opting, for the Company's senior management and other corporate figures. As part of its functions, the Committee may avail itself of outside consultants, at the Company's expense. The Committee meets when it considers it necessary, upon the request of one or more members. The provisions of the Articles of Association, in as far as they are compatible, apply for the calling of said committee and the business of its meetings.

During 2013 and as of the date of this report, the Appointments and Remuneration Committee had met four times: 29 March 2013, 24 September 2013, 14 November 2013, 28 March 2014. The Appointments and Remuneration Committee examined and approved the annual reports on remuneration, subsequently approved by the Board of Directors and submitted to the shareholders' meeting, and the supplementary agreement to the management contract with the Managing Director and the agreement which disciplines certain cases of termination of the business relationship with the General Manager of Tiscali Italia S.p.a. Luca Scano were discussed and approved, submitting them therefore to the Board of Directors, as more fully described in the 2013 Report on Remuneration. All the members took part in all the Committee meetings, and also the entire Board of Statutory Auditors in two meetings. The meetings had an average duration of 30 minutes.

Internal auditing

Back in October 2001, the Company formalized the internal audit organizational set-up. Following the amendments to the Code of Conduct for listed companies and the suggestions of Borsa Italiana S.p.A., on 25 March 2004 the Board of Directors took steps to up-date the organizational set-up of the Company's internal audit system. The current internal audit set-up is in line with the matters envisaged by the principles and applicative criteria contained in Article 7 of the Code.

<u>Internal audit system</u>

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

The internal audit system is the senior responsibility of the Board of Directors, which sets guidelines for the system and periodically verifies its adequacy and correct functioning, ensuring that the main business risks are identified and appropriately managed. On the basis of the checks carried out, the Board of Directors deemed the internal audit system to be adequate for the Company's needs, as well as in line with current legislation and the Code's recommendations.

The Audit and Risk Committee covers a fundamental role in the internal audit system; with regard to its duties and functioning, please refer to the following paragraph. The other bodies forming part of the internal audit system included the Appointed Director, the Internal Audit Co-ordinator and the Internal Audit division.

The Appointed Director operatively implements the indications of the Board of Directors concerning internal auditing proceeding, also, with the effective identification and handling of the main corporate risks submitting them for the assessment of the Board of Directors. He proposes the appointment of the Internal Audit Co-ordinator and the Head of the Internal Audit division to the Board of Directors, availing of the support of the same for the performance of his functions.

The Internal Audit Coordinator is equipped with means suitable for carrying out his functions and has no line manager; he reports directly to the CEO and the Board of Directors, as well as the Audit and Risk Committee and the Board of Statutory Auditors at least once every three months. The Internal Audit Coordinator has operational responsibility for coordinating activities within the Internal Audit department, since he has no direct line manager and is in possession of the professional skills necessary to perform his duties as recommended by the Code. For the purpose of further strengthening the independence requisite, the Internal Audit Coordinator, and, therefore, the Internal Audit division, reports to the Chairman of the Audit and Risk Committee while, from an administrative standpoint, reporting is made to the CEO whose powers include providing said coordinator and division with suitable means. The Audit and Risk Committee, when examining the work plan drawn up by the Internal Audit Coordinator, also assesses the suitability of the means and resources granted to the Internal Audit Coordinator and the Internal Audit division. Upon the proposal of the Appointed Director and subject to the opinion of the Audit and Risk Committee, the Appointments and Remuneration Committee and the Board of Statutory Auditors, the Board of Directors on 15 May 2012 appointed Carlo Mannoni, Group executive responsible for Regulatory Affairs and member of the Supervisory Body, as Internal Audit Coordinator and head of the Internal Audit division.

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

- appraisal of the Group's governance and the activities carried out by the various audit bodies;
- drafting of the interim reports on behalf of the Board of Directors with regard to governance activities;
- assessment of the activities of the Supervisory Body and the up-dating, disclosure and application of the Group's "Organisation, management and control model" pursuant to Italian Decree Law No. 231/2001;
- drawing up of the 2013 audit plan, in particular with the checking of the procedures overseeing the contract system and activation of the customers, the purchases of goods and services for the Company's requirements and the collection and recovery of amounts due from customers;
- drafting of the 2014 audit plan;
- checking the adequacy of the administrative and accounting procedures for the formation of the half-year report and 2013 financial statements for the purpose of assessing the related efficacy. These activities are also aimed at the issue of the certificate as per Article 154 bis of the Consolidated Finance Law (TUF).

<u>Audit and Risk Committee</u>

In accordance with the recommendations of the Code, the Board of Directors has set up an Audit and Risk Committee to provide advice and recommendations, comprising three Directors without powers granted by the Board, of which two independent. The Audit and Risk Committee advises and recommends, with the objective of improving the effectiveness and strategic guidance capacity of the Board of Directors with regard to the Internal Audit system. In particular:

a) helping the Board of Directors to set guidelines for the internal audit system and periodically verify its adequacy and correct functioning, ensuring that the main business risks are identified and appropriately handled;

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

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

d) assessing proposals submitted by auditing firms for the role of independent auditor, and the proposed work plan for the independent audit and the results expressed in the report and letter of recommendations, along with the day-to-day contact with the independent auditing firm;

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

f) assessing proposals of an advisory nature in favour of Group companies that are for significant amounts;

g) reporting to the Board of Directors on tasks performed and on the adequacy of the internal audit system, at least once every six months on approval of the annual and half-year reports;

h) performing additional tasks as assigned by the Board of Directors.

The entire Board of Statutory Auditors, its Chairman or a Statutory Auditor designated by the Chairman, take part in the Committee's work. Two of the members of the Committee are qualified as independent. Should it not be possible to guarantee that the composition of the Audit and Risk Committee has a majority of non-executive and independent Directors, the Committee will have just two members, including at least one who is independent. This solution is preferable to having a majority of non-independent Directors, albeit temporary. If for a certain period the Audit and Risk Committee is composed of two members only, the entire Board of Statutory Auditors is always invited to attend committee meetings. In addition, if for a certain period the Committee membership is reduced to two members only, and the number of votes is equal, then the independent Director has the casting vote. In light of the matters dealt with as and when, the Chairman of the Audit and Risk Committee may invite the CEO and other parties, e.g. the independent auditing firm, the General Manager, the CFO and the Executive in charge of drawing up the accounting and financial documents, etc. to Committee meetings.

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

During the Board Meeting held on 15 May 2012, the newly appointed Board re-established the Audit and Risk Committee internally, comprising the two independent Directors Franco Grimaldi and Victor Uckmar, as well as the Director Luca Scano, who has proven experience with regard to accounting and finance as required by the Code. The Director Franco Grimaldi was appointed Chairman of the Committee. As from August 2012, the independent director Assunta Brizio took over from the out-going director Victor Uckmar.

During 2013 and as of the date of this report, the Audit and Risk Committee met seven times on the following dates: 29 March, 14 May, 28 August, 24 September and 14 November; in 2014, 28 March and 13 June. All the Committee meetings, except that held on 29 March and 24 September 2013, when Luca Scano was absent, were attended by all the members; the Board of Statutory Auditors was always presents with all its members. In accordance with the business on the agenda, the following took part in the meetings: the Head of Internal auditing, the Supervisory Body and the Executive in charge of drawing up the Company's accounting documents and the representatives of the independent auditing firm. The meetings had an average duration of 40 minutes.

4.4 Internal checking relating to accounting and financial information

Introduction

The Internal Audit System on company information must be understood as a process which, as it involves several company functions, provides reasonable assurances about the reliability of the financial information, the fairness of the accounting documents and compliance with the applicable regulations. The weighty correlation with the risk management process is evident, consisting in the process for identifying and analysing those factors that might prejudice the attainment of corporate goals; the main purpose is to determine how those risks can be handled and adequately monitored and made innocuous as far as possible. An ideal and effective risk management system can in fact mitigate any negative impact on company goals, amongst which the reliability, accuracy, fairness and timeliness of the accounting and financial information.

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

A) Stages of the risk management and internal control system in existence with regard to the financial information process.

Identifying risks on financial information

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

This work includes: i) defining the quantitative criteria with regard to the income and asset contributions provided by individual companies in the last accounting statement and the rules for selection with internal relevance thresholds. Considering qualitative elements is not excluded: ii) identifying significant processes, associated with material data and information, that is accounting items in relation to which a possibility exists that is not remote for the containment of errors with a potential significant impact on financial information.

For each significant account, the identification of the most relevant 'statements" is made, in constant compliance with assessments based on risk analysis. The account statements are represented by the existence, completeness, needfulness, valuation, rights and obligations and presentation and information. Risks thus refer to the possibility that one or more account statements may not be correctly represented, with a consequential impact on the information itself.

Assessment of risks on financial information

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

Identifying checks in relation to identified risks

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

Assessment of checks in relation to identified risks

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

B) Roles and functions involved.

The Executive in charge is in essence at the top of a system that supervises the formation of the financial information and takes steps to inform the senior management in this connection. With the purpose of pursuing his/her assignment, the Executive in charge has the option of specifying the organisational lines for an appropriate structure in the context of his/her own duties; he/she has the resources and tools to carry out the work; and has the option of working with other organisation units.

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

The Consolidated Accounts Function serves as an intermediate level and as a link between the Executive in charge and the Administrative Reporters within the Tiscali Group, arranging to gather, check, assemble, and monitor the information received from the latter. The Consolidated Accounts Function cooperates with the Executive in charge with regard to the documentation of the accounting processes and their related updating over time. The Administrative Reporters of the Group gather the operating information, check it and guarantee the appropriate information flows with regard to compliance with the outside regulations involved from time to time.

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

It is believed that the model used will enable sufficient guarantees to be provided for correct accounting and financial information.

4.5 Organisation, management and control model pursuant to Italian Legislative Decree No. 231/2001

The Company has for some time adopted the "Organisation, management and control model pursuant to Italian Legislative Decree No. 231/2001" (hereinafter the Model); during 2010, the up-dating process was concluded, mainly aimed at adapting the Model to the new legislative measures and the new Company and Tiscali Group set-up. The new Model and the new Code of Ethics, was approved by the Board of Directors on 12 November 2010. Subsequently, during the meeting held on 14 May 2013, the Board approved the new Model up-dated with regard to the normative measures mainly regarding offences against Public Administration Authorities, individual status, safety in the workplace and the environment. The Model applies also to the other operating subsidiaries of the Group, Tiscali Italia SpA and Veesible Srl, in accordance with their specificity and risk profile.

The board meeting held on 15 May 2012 appointed the new Supervisory Body which replaces that which had previously expired at the time of approval of the 2011 financial statements. Current members of the Supervisory Body pursuant to Italian Legislative Decree No. 231/2001 include Maurizio Piras, an external member who acts as the Chairman, Carlo Mannoni, head of the Company's Regulatory Affairs and Internal Audit Coordinator and Paolo Sottili, head of the Company's HR division. The Body thus made up expires with the approval of the 2014 financial statements and until that date also operates on behalf of the subsidiaries Tiscali Italia S.p.A. and Veesible S.r.l..

4.6 Regulations for transactions with related parties

On 12 November 2010, further to the affirmative opinion of the independent directors, the Company's Board of Directors approved the new Regulations for Transactions with Related Parties as per Article 2391 *bis* of the Italian Civil Code and Consob Regulation No. 17221 dated 12 March 2010. The regulations discipline Transactions with related parties carried out by Tiscali S.p.A. and its subsidiary or associated companies, and came into force as from 1° January 2011 as published on the Company website, in the Investor Relations section. During 2013, the Group entered into three transactions with related parties which were approved by the Board of Directors on 13 June 2014 having been approved by the Committee for Minor Transactions made up of Franco Grimaldi, acting as Chairman, Gabriele Racugno and Assunta Brizio. The Regulations for transactions with related parties are available on the Company website www.tiscali.com in the section "Documents/Disclosure Documents".

4.7 Handling of confidential information and market communications. Investor Relations

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

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

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

The company managers and, in any event, all the employees and collaborators are obliged to keep price sensitive information and documents acquired because of and during their activities confidential and not to communicate such information to others except for official or professional reasons, unless these documents or information have already been made public in the prescribed forms. The above parties are not allowed to give interviews to press bodies, or make public declarations in general, containing information on significant events that may be qualified as “privileged” as per Article 181 of Italian Legislative Decree No. 58/1998, unless such information has been included in press releases or documents already disclosed to the public, or expressly authorized by the Investor Relations office. In compliance with the matters indicated by Article 114.2 of Italian Legislative Decree No. 58/1998, the Company has established the procedures for the communication by the various company divisions of events deemed price sensitive to the Investor Relations office. In enactment of Article 115 *bis* of Italian Legislative Decree No. 58/1998 on keeping a register of persons with access to privileged information, the Company established a register of persons (held by the Investor Relations Office) who, based on their business or profession or in relation to duties performed, have access to such information. In accordance with the aforementioned legislation, the IT-managed register contains: the identity of each person with access to privileged information, the reason that person was entered on the register, the date of registration, and the date of any updates to information relating to that person.

Tiscali S.p.A. Consolidated financial statements at 31 December 2013

5 Consolidated financial statements and explanatory notes

5.1 Income statement

(EUR 000)	Notes	2013	2012 Restated*
Revenues	*1*	223,371	233,784
Other income	*2*	2,125	2,406
Purchase of materials and outsourced services	*3*	128,494	133,307
Payroll and related costs	*4*	34,627	34,377
Other operating (income) charges	*5*	(4,708)	(2,089)
Write-downs of receivables from customers	*6*	14,636	26,330
Restructuring costs and other write-downs	*7*	3,366	1,582
Amortisation/depreciation	*13-14*	39,797	42,767
Operating result		**9,283**	**(84)**
Net financial income (charges)	*8*	(13,226)	(13,187)
Pre-tax result		**(3,943)**	**(13,271)**
Income taxes	*9*	(839)	(2,536)
Net result from operating activities (on-going)		**(4,782)**	**(15,807)**
Result from assets disposed of and/or destined for disposal	*10*	0	(37)
Net result for the period	*11*	**(4,782)**	**(15,844)**
Attributable to:			
- Result pertaining to the parent company		**(4,782)**	**(15,844)**
- 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)**

(*) The figures as at 31 December 2012 have been recalculated so as to assimilate the effect of the application, as from 1 January 2013 (retrospectively), the new revised IAS 19 accounting standard (employee benefits); for further details please see the section "Form and content of the accounting statements".

5.2 Statement of comprehensive income

(EUR 000)	Notes	2013	2012 Restated*
Result for the period		**(4,782)**	**(15,844)**
Other components of comprehensive income:			
Other components of comprehensive income which will be subsequently reclassified under profit/loss for the period		0	0
Other components of comprehensive income which will not be subsequently reclassified under profit/(loss) for the period		102	(1,396)
(Loss)/profit from revaluation on defined benefit plans		**102**	**(1,396)**
Total other components of comprehensive income:		**102**	**(1,396)**
Total statement of comprehensive income result		**(4,680)**	**(17,240)**
Attributable to:			
Shareholders of the parent company		**(4,680)**	**(17,240)**
Minority shareholders		0	0
		(4,680)	**(17,240)**

(*) The figures as at 31 December 2012 have been recalculated so as to assimilate the effect of the application, as from 1 January 2013 (retrospectively), of the new revised IAS 19 accounting standard (employee benefits); for further details please see the section "Form and content of the accounting statements".

5.3 Statement of financial position

(EUR 000)	Notes	31 December 2013	31 December 2012 Restated*
Non-current assets			
Intangible assets	*13*	67,792	72,849
Property, plant and equipment	*14*	84,934	94,773
Other financial assets	*15*	10,713	10,080
		163,440	**177,702**
Current assets			
Inventories	*17*	744	309
Receivables from customers	*18*	45,213	60,439
Other receivables and other current assets	*19*	10,128	10,981
Other current financial assets	*20*	97	118
Cash and cash equivalents	*21*	3,112	4,406
		59,293	**76,253**
Assets held for sale		(0)	**(0)**
Total Assets		**222,733**	**253,954**
Share Capital and reserves			
Share Capital		92,023	92,020
Results from previous periods and Other reserves		(239,136)	(223,395)
Result pertaining to the Group		(4,782)	(15,844)
Group shareholders' equity	*22*	**(151,896)**	**(147,219)**
Minority interests		0	0
Shareholders' equity pertaining to minority shareholders	*23*	**0**	**0**
Total Shareholders' equity		**(151,896)**	**(147,219)**
Non-current liabilities			
Payables to banks and to other lenders	*24*	(0)	122,711
Payables for financial leases	*24*	53,742	58,618
Other non-current liabilities	*25*	3,346	4,732
Liabilities for pension obligations and staff severance indemnities	*26*	5,146	5,312

	Note		
Provisions for risks and charges	*27*	1,863	2,458
		64,097	**193,831**
Current liabilities			
Payables to banks and other lenders	*28*	143,730	15,869
Payables for financial leases	*28*	4,208	95
Payables to suppliers	*29*	94,001	128,633
Other current liabilities	*30*	68,592	62,746
		310,531	**207,343**
Liabilities directly related to assets held for sale		(0)	(0)
Total Liabilities and Shareholders' equity		**222,733**	**253,954**

(*) The figures as at 31 December 2012 have been recalculated so as to assimilate the effect of the application, as from 1 January 2013 (retrospectively), of the new revised IAS 19 accounting standard (employee benefits); for further details please see the section "Form and content of the accounting statements".

5.4 Cash flow statement

(EUR 000)	31 December 2013	Restated 31 December 2012*
OPERATIONS		
Result from operating activities	**(4,782)**	**(15,807)**
Adjustments for:		
Depreciation of tangible assets	13,541	15,811
Amortisation of intangible assets	26,256	26,956
Allowance for bad debt provision	14,636	26,330
Capital gain on disposal of non-current assets	(2,108)	(2,108)
Income taxes	839	2,536
Release of provisions for risks	(155)	(1,213)
Other changes	(7,548)	(5,263)
Financial income/charges	13,226	13,187
Cash flow from operations before changes in working capital	***53,905***	***60,429***
Change in receivables	(2,415)	(808)
Change in inventory	(435)	339
Change in payables to suppliers	(21,516)	(19,124)
Change in long-term payables to suppliers	(1,787)	(251)
Net change in provisions for risks and charges	(1,953)	(708)

Net change in provision for staff severance indemnities	(230)	(1,322)
Changes in other liabilities	5,108	(477)
Changes in other assets	853	5,733
Changes in working capital	***(22,375)***	***(16,619)***
CASH AND CASH EQUIVALENTS DERIVING FROM OPERATIONS	**31,530**	**43,810**
INVESTMENT ACTIVITIES		
Change in other financial assets	(612)	45
Purchases of tangible fixed assets	(3,702)	(3,652)
Purchases of intangible fixed assets	(21,199)	(22,420)
Payments for the sale of assets	0	(0)
NET CASH AND CASH EQUIVALENTS USED FOR THE INVESTMENT ACTIVITIES	**(25,514)**	**(26,027)**
FINANCIAL ACTIVITIES		
Change in loans from banks	(6,417)	(18,740)
of which:		
Repayment of capital and interest on Senior loans	(8,972)	(7,852)
Increase/Decrease in current account overdrafts	2,554	(10,888)
Repayment/Acceptance of finance leases	(924)	(1,189)
Exchange differences	28	(12)
OIC reserve	0	(0)
Changes in shareholders' equity	4	(1)
NET CASH AND CASH EQUIVALENTS GENERATED BY/(USED IN) FINANCIAL ACTIVITIES	**(7,310)**	**(19,942)**
Effect of changes in foreign currency exchange rates	-	-
Cash flow generated /Absorbed by assets disposed of/held for sale	-	-
NET CASH AND CASH EQUIVALENTS GENERATED BY/(USED IN) FINANCIAL ACTIVITIES including cash flow generated/absorbed by assets disposed of/held for sale	**(7,310)**	**(19,942)**
NET INCREASE/(DECREASE) IN NET CASH AND CASH EQUIVALENTS	**(1,293)**	**(2,159)**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE FINANCIAL YEAR	**4,406**	**6,564**
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR	**3,112**	**4,406**

(*) The figures as at 31 December 2012 have been recalculated so as to assimilate the effect of the application, as from 1 January 2013 (retrospectively), of the new revised IAS 19 accounting standard (employee benefits); for further details please see the section "Form and content of the accounting statements".

5.5 Statement of changes in shareholders' equity

	Share Capital	Share premium reserve	Stock option reserve	Reserves for employee benefits	Accumulated losses and Other reserves	Group shareholders' equity	Minority interests	Total
Balance at 31 December 2012 Restated*	**92,020**			**(1,396)**	**(237,842)**	**(147,219)**		**(147,219)**
Share capital increase	1					**1**		**1**
Increases /(Decreases)	2					**2**		**2**
Statement of comprehensive income result				*102*	(4,782)	**(4,680)**		**(4,680)**
Balance at 31 December 2013	**92,023**			**(1,294)**	**(242,624)**	**(151,896)**		**(151,896)**

	Share Capital	Share premium reserve	Stock option reserve	Reserves for employee benefits	Accumulated losses and Other reserves	Group shareholders' equity	Minority interests	Total
Balance at 31 December 2011 (published)	**92,019**				**(222,004)**	**(129,985)**		**(129,985)**
Effect of Revised IAS 19					6	**6**		**6**
Balance at 1 January 2012 Restated*	**92,019**				**(221,998)**	**(129,979)**		**(129,979)**
Share capital increase								
Increases /(Decreases)								
Statement of comprehensive income result				(1,396)	(15,844)	**(17,240)**		**(17,240)**
Balance at 31 December 2012 Restated*	**92,020**			**(1,396)**	**(237,842)**	**(147,219)**		**(147,219)**

(*) The figures as at 31 December 2012 have been recalculated so as to assimilate the effect of the application, as from 1 January 2013 (retrospectively), of the new revised IAS 19 accounting standard (employee benefits); for further details please see the section "Form and content of the accounting statements".

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

	Notes	2013	of which: related parties	2012 Restated*	of which: related parties
(EUR 000)					
Revenues	*1*	223,371	16	233,784	77
Other income	*2*	2,125		2,406	
Purchase of materials and outsourced services	*3*	128,494	311	133,307	761
Payroll and related costs	*4*	34,627		34,377	
Other operating (income) charges	*5*	(4,708)		(2,089)	
Write-downs of receivables from customers	*6*	14,636		26,330	
Restructuring costs and other write-downs	*7*	3,366		1,582	
Amortisation/depreciation	*13-14*	39,797		42,767	
Operating result		**9,283**	**(294)**	**(84)**	**(684)**
Net financial income (charges)	*8*	(13,226)		(13,187)	
Pre-tax result		**(3,943)**	**(294)**	**(13,271)**	**(684)**
Income taxes	*9*	(839)		(2,536)	
Net result from operating activities (on-going)		**(4,782)**	**(294)**	**(15,807)**	**(684)**
Result from assets disposed of and/or destined for disposal	*10*			(37)	
Net result for the period	*11*	**(4,782)**	**(294)**	**(15,844)**	**(684)**
Attributable to:					
- Result pertaining to the parent company		**(4,782)**		**(15,844)**	
- 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)**

(*) The figures as at 31 December 2012 have been recalculated so as to assimilate the effect of the application, as from 1 January 2013 (retrospectively), of the new revised IAS 19 accounting standard (employee benefits); for further details please see the section "Form and content of the accounting statements".

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

(EUR 000)	Notes	**31 December 2013**	**of which: related parties**	**31 December 2012 Restated***	**of which: related parties**
Non-current assets					
Intangible assets	*13*	67,792		72,849	
Property, plant and equipment	*14*	84,934		94,773	
Other financial assets	*15*	10,713		10,080	
		163,440		**177,702**	
Current assets					
Inventories	*17*	744		309	
Receivables from customers	*18*	45,213		60,439	45
Other receivables and other current assets	*19*	10,128		10,981	
Other current financial assets	*20*	97		118	
Cash and cash equivalents	*21*	3,112		4,406	
		59,293		**76,253**	**45**
Assets held for sale		(0)		**(0)**	
Total Assets		**222,733**		**253,954**	**45**
Share Capital and reserves					
Share Capital		92,023		92,020	
Results from previous periods and Other reserves		(239,136)		(223,395)	
Result pertaining to the Group		(4,782)		(15,844)	
Group shareholders' equity	*22*	**(151,896)**		**(147,219)**	
Minority interests					
Shareholders' equity pertaining to minority shareholders	*23*				
Total Shareholders' equity		**(151,896)**		**(147,219)**	
Non-current liabilities					
Payables to banks and to other lenders	*24*	()		122,711	
Payables for financial leases	*24*	53,742		58,618	

Other non-current liabilities	*25*	3,346		4,732	
Liabilities for pension obligations and staff severance indemnities	*26*	5,146		5,312	
Provisions for risks and charges	*27*	1,863		2,458	
		64,097		**193,831**	
Current liabilities					
Payables to banks and other lenders	*28*	143,730		15,869	
Payables for financial leases	*28*	4,208		95	
Payables to suppliers	*29*	94,001	150	128,633	422
Other current liabilities	*30*	68,592		62,746	
		310,531	**150**	**207,343**	**422**
Liabilities directly related to assets held for sale		(0)		(0)	
Total Liabilities and Shareholders' equity		**222,733**	**150**	**253,954**	**422**

(*) The figures as at 31 December 2012 have been recalculated so as to assimilate the effect of the application, as from 1 January 2013 (retrospectively), of the new revised IAS 19 accounting standard (employee benefits); for further details please see the section "Form and content of the accounting statements".

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 consolidated financial statements (the financial statements) are drawn up using the Euro as the reporting currency since this is the currency used to conduct most of the Group's operations; all the balances are rounded off to thousands of EUR unless otherwise indicated. 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 Board of Directors, on 13 June 2014, authorised the publication of these financial statements.

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

Events and uncertainties regarding the business continuity

The Tiscali Group closed the financial statements at 31 December 2013 with a consolidated loss of EUR 4.8 million and negative consolidated shareholders' equity of EUR 151.9 million. Furthermore, as at 31 December 2013, the Group had a gross financial debt of EUR 201.7 million and current liabilities greater than current assets (non-financial) for EUR 106.5 million.

As of 31 December 2012, the consolidated loss amounted to EUR 15.8 million, with negative consolidated shareholders' equity of EUR 147.2 million. Furthermore, as at 31 December 2012, the Group had a gross financial debt of EUR 197.2 million and current liabilities greater than current assets (non-financial) for EUR 119.6 million.

As from 2009, the Group, after having completed the disposal of Tinet and the UK subsidiaries, allocating the proceeds of the sale to the repayment of part of the debt, 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, which has been reflected in the business and financial plan.

In a recessionary context, the transformation underway for some years in the telecommunications market has led to greater competitiveness and erosion of the revenues and the margin for the operators.

Progressive saturation for the fixed network broadband market, the sharp competition of the data proposals on the mobile networks and the possibility for customers to migrate from one operator to another with minimum inconvenience and costs, led to greater acceptance by customers of promotions, and as a consequence a tendency for prices to drop.

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 products), Tiscali, like the other telecommunications companies, has rationalised its internal processes implementing rigorous cost cutting programmes to preserve margins and maintain the competitive position, as well as to try and diversify its revenue streams in web and Over-The-Top services.

During 2013, 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:

- management continued with action aimed at containing costs and, therefore, the greater profitability of the telecommunications services;
- in November 2013, the Solidarity Agreement was renewed with the employees (as per Italian Law No. 863 dated 1984) for a further 24 months, having been originally entered into in 2011;
- the strategy continued for the application of more stringent control policies on the incoming customers, which led to an improvement in the customer base and the consequent cash flows. In detail, once again in 2013, 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);
- management adopted specific action for improving the working capital aimed at reducing the average collection days.

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

- thanks to the aggressive sales policies and the optimum performance of the web sales channels, the decreasing trend in the customer base reversed (both single and double play) with a pick-up in the same with respect to last year (the sales policies in question what is more led to a reduction on the ARPU of the ADSL with related impacts on the revenues of the Access and VOIP segment);
- media revenues disclosed a trend essentially in line with that last year, despite the sharp drop in the advertising market which also affected the digital media segment;
- revenues deriving from business services (VPN, housing, domains and leased lines) disclosed an increase of 10% with respect to last year;

- the Group continued to focus on innovation:
    - on 19 April 2013, the official launch took place for the search engine “Istella”, presented to market operators and analysts. Istella is an innovative search engine dedicated to the Italian language which facilitates the active contribution by users;
    - Indoona (a rich communications service dedicated to smartphones, tablets and PCs), which achieved more than 1.7 million downloads, confirms the historic positioning of Tiscali as innovative operator in the sphere of internet services;
    - Streamago was completely overhauled.

During the year, the Group also benefited from:

- the closure of a number of settlement transactions with the leading suppliers of network services which had a positive effect for around EUR 8.5 million, and
- the improvement in the regulatory conditions on access services on the fixed network which permitted a saving of around EUR 8 million (and which will permit savings also in coming years).

All the activities listed above made it possible to generate cash and cash equivalents from operating activities for around EUR 32 million, contributing towards reducing the Group’s overall debt.

In detail, during the year the Group honoured the due dates relating to financial debt deriving from the loan agreement taken out by the Group companies on 2 July 2009 (“Group Facility Agreement” or “GFA”), both in terms of principal and interest. As envisaged by the GFA and reflected in the financial plan, during 2013 the Group made payments to the related financing institutions amounting to EUR 9 million (of which EUR 1.5 million for interest).

As at 31 December 2013, however, certain of the financial parameters envisaged by the same GFA were not observed. In accordance with the provisions of the GFA, these violations represent a so-called Event of Default further to which the financing institutions could decide - with the favourable vote of parties which overall hold more than two thirds of the debt deriving from the GFA - to declare the entire amount of the loans due and collectable and therefore request the repayment of all that is due as per the GFA. On the basis of the matters set forth above, the Directors, when evaluating the existence of the conditions of the Group as a going concern in the current macro-economic context, and in the current competitive scenario, identified the following factors which indicate the existence of a number of significant uncertainties:

i. the unbalanced equity, financial and economic situation which the Group is headed into, as shown by the negative consolidated shareholders’ equity for EUR 151.9 million, due mainly to the negative economic performance and weight of the considerable debt;

ii. the afore-mentioned presence of a so-called Event of Default as per the GFA, deriving from the violation of the financial parameters envisaged therein;

iii. the approach of the expiry date of Tranche A of the loan disbursed as per the GFA (i.e. 3 July 2014), when the Company should repay the entire residual amount of this tranche amounting to around EUR 82.5 million for principal plus PIK interest accrued as of the date of 3 July 2014. At 31 December 2013, this interest amounted to EUR 22 million.

In light of these factors of uncertainty, the establishment of a balanced equity, financial and economic situation for the Group over the long-term depends on the need to finalise a restructuring transaction with the financing institutions for the Tiscali Group’s financial debt, which envisages amongst other aspects: (1) the waiver by the financing institutions of availing themselves of the contractual remedies envisaged by the GFA in the presence of the occurrence of the afore-mentioned Events of Default, (2) the rescheduling of the debt deriving from the GFA currently falling due in July 2014 and July 2015, for an amount of around EUR 104.9 million and EUR 26.9 million, respectively, (3) the redefinition of the financial covenants on the basis of the results envisaged in the business plan, approved by the Board of Directors on 13 June 2014, which in turn presupposes the realisation of forecasts and assumptions contained therein, and in particular, with reference to the evolution of the telecommunications market and achievement of the growth objectives set out (in a market context characterised by heavy competitive pressure).

In this context:

- as from the first few months of 2013, the Company - also in the interests of the other Tiscali Group companies - made a number of preliminary assessments and launched the first negotiations with said financing institutions as per the GFA so as to reschedule the debt;
- in April 2013, the Company submitted a debt restructuring proposal to all the creditors as per the GFA;
- in June 2013, a financial advisor was appointed to support the Tiscali Group with the restructuring of its financial debt;
- further to the negative response from some of the financing institutions, the Company drew up - with the support of the financial advisor - a new restructuring proposal which was submitted to the financing institutions during the first few days of August 2013;
- despite the positive responses of the Group's two main financial creditors, in October 2013 it emerged that the proposal had not met with the unanimous consent of the financing institutions as per the provisions of the GFA;
- after various meetings and further discussions with the financing institutions as per the GFA, in March 2014 a number of these financing institutions presented the Group with a restructuring proposal which the Group deemed somewhat impracticable since it would have led to a considerable disparity in the treatment of the various Group creditors and would have made it practically impossible to obtain the necessary consent of the creditors penalised the most, as well as unfairly; on 13 March and then on 20 March 2014, the Company therefore drew up and sent to all the financing institutions as per the GFA two different drafts of a Term Sheet containing the main terms and conditions of a new proposal for a debt restructuring transaction which takes into account, as far as possible, the last proposal sent by the financing institutions;
- despite obtaining the compliance of the two leading financial creditors of the Group, the proposal containing the afore-mentioned Term Sheet was rejected by the others which, on 27 March 2014 and then on 7 April 2014, submitted two new proposals to the Group which, however, did not obtain the consent of the main financial creditor of the Group;
- following further discussions between the Group and the financing institutions, on 2 May 2014 the Group's financial advisor, in an attempt to reconcile the interests of all the parties involved, sent the Financing Institutions a new Term Sheet drawn up on the basis of the last one proposed by the former, having taken into account all the aspects which had not emerged as acceptable;
- this was followed by an additional, structured and intense period of negotiation with the financing institutions, which ended up in the drawing up, by the Company, of various new drafts of the afore-mentioned Term Sheet, the last of which was sent to the financing institutions by the Group's financial advisor on 6 June 2014;
- this last draft of the Term Sheet contained a new proposal as things stand not binding, which on the one hand could give rise to a recapitalisation of the group and on the other will lead to a partial rescheduling of the debt and the re-wording of the financial covenants currently envisaged by the GFA in line with the Group performances envisaged in the new financial and business plan;

- the restructuring proposal containing the last draft of the term Sheet, was accepted, albeit in a non-binding manner and subject to the approval of the decision-making bodies of the financing institutions, by all the financial backers as per the GFA therefore permitting the Group to pursue a consensual hypothesis of restructuring its financial debt;
- the Board of Directors, during the meeting held on 13 June 2014, approved the updated version of the 2014-2018 business plan, hypothesising a restructuring of the debt in line with the restructuring transaction proposed in the last draft of the Term Sheet. This up-date of the plan, which takes into account both the results for 2013 and the first few months of 2014, does not differ with regard to the essential strategic lines from the plan approved on 29 March 2013 and, hypothesises, amongst other aspects, in relation to the projections of the 2014-2018 cash flows, the rescheduling of the part of the debt deriving from the GFA falling due in 2017 in excess with respect to the net cash flows generated over the plan's duration;

Therefore, the following depend on the possibility of managing to finalise the restructuring transaction for the financial debt of the Tiscali Group described in summary form previously and the possibility of achieving the forecasts contained in the business plan: a) the ability to rebuild an adequate supply of equity, b) the recoverability of asset items, c) the capacity to comply with the financial covenants as per the GFA and other contractual obligations relating to the Group's financial debt and therefore to maintain the availability of financing granted thus being able to meet other Group obligations, d) achievement of a balanced long-term equity, economic and financial situation for the Group.

Final assessment of the Board of Directors

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

- has observed all the payment obligations envisaged by the financial plan and by the GFA, having paid the related financial institutions, during 2013, a total amount of EUR 9 million (of which EUR 7.5 million for repayment of the principal and EUR 1.5 million for interest); In January 2014, in accordance with the GFA, interest was also repaid for EUR 0.5 million;
- has generated cash and cash equivalents of around EUR 32 million;
- has reduced its exposure to the suppliers;
- during 2013, achieved a growing trend in the telecommunications services customer base;
- updated the 2014-2018 financial and business plan having taken into account the results for 2013 and the first few months of 2014, on a consistent basis with the envisaged debt restructuring transaction deriving from the GFA;
- continued to focus on certain sectors with high growth potential, such as the media sector and on Over-The-Top products with high growth potential.

Furthermore, the Directors - despite disclosing how the finalisation of the debt restructuring transaction deriving from the GFA envisaged in the afore-mentioned Term Sheet is subordinate to the occurrence of specific conditions, including:

- the waiver by the financing institutions of the adoption of the contractual remedies envisaged by the GFA in the event of so-called Events of Default, until all the necessary contractual documentation has been signed;
- the completion of the authorisation process for the competent decision-making bodies of the compliant financing institutions; and
- the definition of the contractual documentation necessary for the implementation of said transaction under satisfactory terms for all the financing institutions,

on the basis of the matters indicated above, reasonably believe that the afore-mentioned Group debt restructuring transactions can be finalised, so as to be able to proceed with the implementation of the Group financial and business plan, thereby permitting over the long-term the achievement of a balanced equity, financial and economic situation.

In conclusion, when analysing what has already been achieved within the sphere of the process aimed at enabling the Group to obtain long-term equity, financial and economic equilibrium, the Directors acknowledge that, as already indicated in the financial statements relating to 2012, 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, and having taken into account the afore-mentioned outline consent expressed by all the financing institutions with regard to the proposed restructuring of the debt as per the GFA, they have the reasonable expectation that the definition of the transaction can be reached for the rebalancing of the Group's financial structures on a consistent basis with the expected cash flows and suitable for supporting the operating activities laid out in the afore-mentioned financial and business plans and 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.

This assessment is naturally the result of a subjective opinion, which has compared - with respect to the events indicated above - the degree of probability of their occurrence with the opposite situation. Therefore, obviously it must be emphasised, in as far as it is obvious, that the prognostic opinion underlying the decision of the board, is liable to be contradicted by the evolution of events. Precisely because it is aware of the intrinsic limits of its decision, the Board of Directors will constantly monitor the evolution of the factors taken into consideration (as well as any other additional circumstance which takes on significance), so as to be able to promptly adopt the necessary measures, also in terms of recourse to the procedures envisaged by the law for business crisis situations.

Form and content of the accounting statements

Basis of preparation

The 2013 consolidated financial statements were drawn up by following both the International Accounting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and ratified by the European Union, and the measures issued in conformity with Article 9 of Italian Legislative Decree No. 38/2005. IFRS also include all the reviewed international accounting standards ("IAS") and all the interpretations by the International Financial Reporting Interpretations Committee ("IFRIC") previously called the Standing Interpretations Committee ("SIC").

Preparation of the financial statements requires management to make accounting estimates and in certain cases assumptions in the application of accounting standards. The financial statement areas which, under the circumstances, presuppose the adoption of applicative assumptions and those more greatly characterised by the making of estimates are described in *Critical decisions in applying accounting standards and in the use of estimates*.

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

Financial statement formats

The methods for presentation of the consolidated financial statements as at 31 December 2013 were adapted following the enforcement of IAS 1 – "Presentation of Financial Statements" reviewed in 2007. This standard lays down new names for the various financial statements schedules, namely:

- The balance sheet: according to IFRS, assets and liabilities are to be posted as current and non-current or, alternatively, according to the order of their liquidity. The Group chose current and non-current classification with indication, in two separate items, of the “Assets sold/held for sale” and “Liabilities related to assets disposed of/held for sale”;

- Statement of comprehensive income: IFRS require that this includes all economic effects for the period, regardless of whether these were posted to the income statement or shareholders' equity, and a classification of items based on their nature or destination, in addition to separating the economic results of operating assets from the net result of “Assets disposed of/held for sale”. The Group decided to use two schedules.
    - An income statement schedule that reports only revenues and costs classified by nature;
    - A statement of comprehensive income that reports charges and income posted directly under shareholders’ equity net of tax effects.
- The amendment to IAS 1, in force as from 1 January 2013 lays down that, in the section of the other comprehensive income components (OCI), a distinction must be made between the elements which in the future will be reclassified in the income statement (so-called “recycling”) and those which will not be reclassified in the income statement.

- Cash Flow Statement: IAS 7 prescribes that the cash flow statement should report cash flow classified between assets for operations, investment and financing and posting separately the total of the cash flows deriving from "Assets disposed of/held for sale". Cash flow deriving from operating assets can be posted according to the direct method or using the indirect method. The Group decided to use the indirect method. With reference to Consob resolution No. 15519 of 27 July 2006 with regard to financial statement formats, it should be mentioned that specific sections were included to show significant relationships with associated parties, as well as specific items in the income statement in order to show, where existing, one-off significant transactions during regular operations.

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

Segment reporting

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

Operating segment means the unit of an entity:

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

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

The Company decided to apply the “management approach” to segment reporting, so as to render it more coherent with the operating segments in which the Group’s activities are in fact split into.

The rationale applied in the past based on the reporting by geographic area was abandoned and replaced by the reporting by business. The new operating segments identified correspond to the strategic and business areas into which the company is divided, in which the group resources are allocated and for which specific managerial responsibilities and specific internal segment reporting exist.

The new operating segments identified using the management approach logic are as follows.

- Italy (BTC and BTB connectivity);
- Veesible (Media & Advertising);
- Corporate and other business (minor Italian companies and corporate activities).

Assets held for sale and discontinued operations

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

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

After the sale, the remaining values were reclassified in the different balance sheet items.

Gains and losses on assets held for sale and/or assets disposed of were listed and continue to be listed under the item ‘Results from assets disposed of and/or intended to be disposed of (discontinued operations) if the conditions listed below and established by IFRS 5 apply to such assets:

a) they represent an important independent line of business or geographic business area;

b) they are part of a single co-ordinated plan to dispose of an independent major line of business or geographic business area;

c) they involve subsidiaries originally acquired exclusively with a view to resale.

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

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

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

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

Seasonal nature of revenues

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

Basis of consolidation

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

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

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

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

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

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

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

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

Associated companies are those over which the Group has significant influence, i.e. the power to participate in the financial and operating policy decisions of the investee, but without control or joint control however. Under the equity method, equity investments in associates are initially booked to the balance sheet at acquisition cost, as adjusted for post-acquisition changes in the shareholders' equity of the associate companies, less any impairment in the value of individual equity investments. Any excess of the cost of acquisition over the Group's share of the net fair value of identifiable assets, liabilities and contingent liabilities of the associate at the date of acquisition is recognised as goodwill. The goodwill is included in the book value of the investment and is subject to impairment testing. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition of the associate at the date of acquisition is booked to the income statement in the financial year of acquisition. The consolidated financial statements include the

Group's share in the results of the associated companies as well as those jointly controlled as from the date when significant influence commenced until the moment this influence ceases to exist. If the Group's share of the losses of the associated company exceeds the book value of the equity investment, steps are taken to write off the value of the equity investment and the portion of the additional losses is only recorded if the Group is obliged to be responsible for them.

Unrealized profits and losses deriving from transactions with associated companies or those jointly controlled, are eliminated against the value of the Group's investment in the companies.

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

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

Changes in the consolidation area

The consolidation area of the Group includes the financial statements of Tiscali S.p.A. (parent company) and the companies the latter directly or indirectly controls starting from the date on which it was acquired and until the date on which control ceases. These consolidated subsidiaries are listed below and in the note List of subsidiaries included in the consolidation area.

There were no changes in the consolidation area during 2013.

Company name	Registered Offices	Investment held by	Forecast statutory values as at 31 December 2013 (€/000)			% direct investment
			Share Capital	Shareholders' equity	Net result	
Tiscali S.p.A.	Italy	Parent Company	92,023	61,101	(778)	n.a.
Tiscali Italia S.p.A.	Italy	Tiscali S.p.A.	34,800	20,192	2,779	100.0%
Veesible S.r.l.	Italy	Tiscali Italia S.p.A.	600	499	(73)	100.0%
Indoona S.r.l.	Italy	Tiscali Italia S.p.A.	10	10	(3)	100.0%
Istella S.r.l.	Italy	Tiscali Italia S.p.A.	10	8	(5)	100.0%
Tiscali Finance SA (in liquidation) (*)	Luxemburg	Tiscali S.p.A.	125	(30)	(6)	100.0%
Tiscali Financial Services SA (*)	Luxemburg	Tiscali S.p.A.	31	(3,826)	(133)	100.0%
Tiscali Deutschland Gmbh (*)	Germany	Tiscali S.p.A.	555	(34,500)	(342)	100.0%

Tiscali GmbH (*)	Germany	Tiscali Deutschland Gmbh	26	(149,400)	(1,403)	100.0%
Tiscali Business GmbH (*)	Germany	Tiscali Business UK Ltd	2,046	(210,999)	(2,082)	100.0%
Tiscali Verwaltungs Gmbh (*)	Germany	Tiscali Deutschland Gmbh	25	(23)	(1)	100.0%
Tiscali Holdings UK Ltd (*)	UK	Tiscali S.p.A.	59	(305,007)	(11,604)	100.0%
World Online International Nv (*)	The Netherlands	Tiscali S.p.A.	115,519			99.5%
Tiscali International Bv (*)	The Netherlands	World Online International Nv	115,469	280,173	3,314	100.0%
Tiscali International Network B.V (*)	The Netherlands	Tiscali International Bv	18	16,395	473	100.0%
Tiscali Business UK Ltd (*)	UK	Tiscali International Bv	72	(29)	(7)	100.0%

(*) preliminary figures relating to the financial statements as at 31 December 2013
(**) % Group investment

Business combinations and Goodwill

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

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

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

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

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

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

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

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

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

Foreign currency transactions

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

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

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

The exchange differences emerging from intra-group receivable/payable transactions of a financial nature are recorded in the shareholders' equity special conversion reserve.

The main exchange rates used for translation of the 2013 and 2012 financial statements for foreign companies into Euro were:

	31 December 2013		**31 December 2012**	
	average	**final**	**average**	**final**
GB pound	0,83639	0,83370	0,81237	0,81610

Other intangible assets

Computer software – Development costs

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

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

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

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

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

Broadband service activation costs

Acquisition and activation costs for customers were amortised over a period of 36 months.

IRU

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

<u>Property, plant and equipment</u>

Property, plant and equipment are stated at purchase or production cost, including accessory charges, less accumulated depreciation and any write-downs for impairment. No revaluations have been provided for such tangible assets.

Depreciation is calculated using the straight-line method on the cost of each asset less the relevant residual value, if any, over its estimated useful life. Land, including that pertaining to buildings, is not depreciated.

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

The minimum and maximum depreciation rates applied during 2013 are those indicated below:

Buildings	3%
Plant	12%-20%
Equipment	12%-25%

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

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

Assets held under finance lease

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

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

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

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

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

Impairment of assets

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

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

Inventories

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

Financial instruments

Loans and receivables

Group receivables are stated in the items "other non-current financial assets", "receivables from customers", "other receivables and other current assets" and "other current financial assets", and include guarantee deposits, trade receivables, and receivables from third parties generated as part of core business activities.

If they have a fixed maturity, they are stated at amortised cost, using the effective interest rate method. When financial assets have no fixed expiry, they are estimated at the acquisition cost. Receivables maturing beyond 12 months, unprofitable receivables, and receivables accruing interest at lower rates with respect to the market, are updated by using market rates.

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

Cash and cash equivalents

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

Payables and financial liabilities

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

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

Reduction in value of financial assets

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

Derivative financial instruments

The Group does not use derivative instruments.

Liabilities for pension obligations and staff severance indemnities

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

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

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

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

As from 1 January 2013 with retrospective efficacy, the Company adopted the new version of the accounting standard IAS 19 "employee benefits".

The most significant amendment made to the standard concerns, with reference to the defined-benefit plans, the obligation to state all the actuarial gains/losses within the sphere of an equity reserve (OCI reserve), with consequent elimination of the so-called corridor approach.

The Group has applied the transition regulations envisaged by the new standards adjusting the comparative balances shown in this Annual financial report as if this had always been applied.

The main effects deriving from the application of the new IAS 19 accounting standards on the income statement and balance sheet results included for comparative purposes in this Annual financial report are as follows:

- since the corridor approach is not applicable, all the actuarial gains and losses are recognised directly under shareholders' equity, in a specific reserve (OCI). Furthermore, actuarial gains and losses have been recognised under shareholders' equity not recorded as at 31 December 2012 (in accordance with the afore-mentioned method), with consequent adjustment (restatement) of the liability for employees benefits and provision of the specific shareholders' equity reserve (OCI) in the balance sheet as at 31 December 2012;
- since the deferral of the accounting registration of the past service cost in the income statement is no longer permitted, the portion not recognised as at 31 December 2012 (in accordance with the afore-mentioned method), has been recorded to increase the liabilities for employee benefits and the specific reserve (OCI).

Furthermore, it is hereby disclosed that the impacts on the consolidated income statement and on the balance sheet as at 31 December 2011 are negligible and have only been indicated in the Statement of changes in shareholders' equity (5.5) of this Report.

The changes in the consolidated balance sheet items as at 31 December 2012 are illustrated in the following table, with regard to the afore-mentioned changes:

(EUR 000)	31 December 2012	Effect of IAS 19R	31 December 2012 Restated*
Non-current assets			
Intangible assets	72,849	0	72,849
Property, plant and equipment	94,773	0	94,773
Other financial assets	10,080	0	10,080
	177,702	**0**	**177,702**
Current assets			
Inventories	309	0	309
Receivables from customers	60,439	0	60,439
Other receivables and other current assets	10,981	0	10,981
Other current financial assets	118	0	118
Cash and cash equivalents	4,406	0	4,406
	76,253	**0**	**76,253**
Assets held for sale	**(0)**	**0**	(0)
Total Assets	**253,954**	**0**	**253,954**
Share Capital and reserves			
Share Capital	92,020	0	92,020
Results from previous periods and Other reserves	(222,005)	(1,390)	(223,395)
Result pertaining to the Group	(15,934)	90	(15,844)
Group shareholders' equity	**(145,919)**	**(1,300)**	**(147,219)**
Minority interests	0	0	0
Shareholders' equity pertaining to minority shareholders	**0**	**0**	**0**
Total Shareholders' equity	**(145,919)**	**(1,300)**	**(147,219)**
Non-current liabilities			
Payables to banks and to other lenders	122,711	0	122,711
Payables for financial leases	58,618	0	58,618
Other non-current liabilities	4,732	0	4,732
Liabilities for pension obligations and staff severance indemnities	4,012	1,300	5,312
Provisions for risks and charges	2,458	0	2,458
	192,531	**1,300**	**193,831**

Current liabilities			
Payables to banks and other lenders	15,869	0	15,869
Payables for financial leases	95	0	95
Payables to suppliers	128,633	0	128,633
Other current liabilities	62,746	0	62,746
	207,343	**0**	**207,343**
Liabilities directly related to assets held for sale	(0)	0	(0)
Total Liabilities and Shareholders' equity	**253,954**	**0**	**253,954**

(*) The figures as at 31 December 2012 have been recalculated so as to assimilate the effect of the application, as from 1 January 2013 (retrospectively), of the new revised IAS 19 accounting standard (employee benefits); for further details please see the section "Form and content of the accounting statements".

Remuneration schemes involving interests in the share capital

At present, there are no remuneration schemes involving interests in the share capital

Provisions for risks and charges

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

Treasury shares

Treasury shares are booked to reduce the shareholders' equity.

Revenue recognition

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

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

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

The revenues related to the activation of broadband services (ADSL) are booked to the income statement on a straight-line basis over 36 months. Amounts relating to other financial periods are recorded under other current liabilities as deferred income.

Financial income and charges

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

Research and advertising costs

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

Taxes

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

- The *tax currently payable* is based on taxable income for the year. Taxable income differs from the result reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it also excludes items that are never taxable or deductible. Liability for current tax is calculated using tax rates applicable at the balance sheet date.

- *Deferred taxes* are taxes which are expected to be paid or recovered on timing differences between the book value of the balance sheet assets and liabilities and the corresponding value for tax purposes used to calculate the taxable amounts, as well as on those items which, despite not being allocated in the balance sheet, lead to potential future tax credits, such as for example the losses for the year which can be used for tax purposes in the future, and are calculated according to the balance sheet and liability method.

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

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

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

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

Earnings per share

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

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

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

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

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

Assumptions for the application of accounting standards

Activation costs and customer acquisition costs

The costs incurred for customer activation (Subscriber Acquisition Costs – SACs) were capitalised and amortised over a period of 36 months.

Losses in value on assets (Impairment)

The impairment test is carried out annually or more frequently during the financial year, as disclosed in the preceding section, 'Business combinations and goodwill'. The ability of each 'unit' to generate cash flows such as to recover the goodwill allocated to the unit, is determined on the basis of the economic and financial data concerning the unit to which the goodwill refers. The development of such data, as well as the determination of an appropriate discount rate, requires a significant use of estimates

Income taxes

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

Provisions relating to employees

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

Receivable write-down provision

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

Provisions for risks and charges

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

Fair value calculation

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

Accounting standards, amendments and interpretations effective from 1 January 2013

The international accounting standards, the changes to the existing standards and the interpretations, relevant for the Group, adopted for the first time as from 1 January 2013, are presented below:

Amendments to IAS 1 - Presentation in the financial statements of the items of the other components of the statement of comprehensive income

The amendment to the standard lays down that, in the section of the other components of the statement of comprehensive income (OCI), a distinction must be made between the elements which in the future will be reclassified in the income statement (so-called “recycling”) and those which will not be reclassified in the income statement. The application, on a retroactive basis, of this amendment has not had any significant impacts on these consolidated financial statements. The comparative information presented has been consistently re-stated.

IAS 19 – Employee benefits

It replaced the version of IAS 19 applied up until the drafting of the 2012 financial statements. The most significant amendment made to the standard concerns, with reference to the defined-benefit plans, the obligation to state all the actuarial gains/losses within the sphere of the OCIs, with consequent elimination of the so-called corridor approach. Furthermore, the new version of the standard introduces more stringent regulations for the presentation of the data in the financial statements, separating the cost - for the defined-benefit plans and for the other long-term benefits - into three components (i.e. service cost, net interest on net assets/liabilities, re-measurement of the net assets/liabilities); it introduces the calculation of the interest income in replacement of the return expected on the assets serving a defined-benefit plan; it no longer allows one to defer the accounting registration in the income statement for the past service cost; it extends the disclosure to be presented in the financial statements; it introduces more detailed regulations for the recording of the termination benefit. The effects deriving from the application, on a retroactive basis, of this standard in these consolidated financial statements are illustrated in the section “Accounting standards”.

Further to the application as from 1 January 2013, with retrospective efficacy, of the new version of the international accounting standard IAS 19R - Employee benefits, the balance sheet and income statement items of the consolidated financial statements as at 31 December 2012 inherent to the recording of benefits falling within the sphere of application of said standard, have been recalculated and re-stated solely for comparative purposes. The effective of the application of IAS 19R on the items of the consolidated income statement and balance sheet as of 31 December 2011 is negligible.

For a more detailed analysis of the effects deriving from the retroactive application of this standard, please see the section “Accounting standards”.

IFRS 13 - Fair value valuation

This represents a transversal framework to be referred to each time other accounting standards require or permit the application of the fair value approach. The standard provides a guide on how to establish the fair value, also introducing specific disclosure requisites. The application, on a forecast basis, of this standard has not had any significant impacts on these consolidated financial statements;

Amendments to IFRS 7 – Offsetting financial assets and liabilities

The amendment requires the extension of the disclosure regarding the offsetting of financial assets and liabilities, for the purpose of permitting the users of the financial statements to assess the effects, including potential, of the netting agreements (including the netting rights associated with assets or liabilities stated in the financial statements) on the financial position of the company. The Group adopted these amendments as from 1 January 2013, retrospectively. The adoption of these amendments has not had any effect on the disclosure included or on the amounts reported in these consolidated financial statements.

Amendments to IAS 12 - Deferred taxes : recovery of underlying assets

The amendment introduces a concession in the accounting registration of the deferred taxes on the basis of the methods by means of which the book value of the underlying assets will be recovered. This concession refers to the arrangements in which differentiated rates are envisaged according to whether the company decides to sell rather than use these assets in its operating cycle. The application, on a retroactive basis, of this amendment has not had any impacts on these consolidated financial statements.

2009-2011 annual cycle of improvements to the international accounting standards

These concern formal amendments and clarifications to standards already existing, whose retroactive application has not had any impacts on these consolidated financial statements; In detail, the following standards have been amended:

- **IAS 1 - Presentation of financial statements**; the amendment clarifies how the comparative disclosure must be presented in the financial statements and specifies that the company can decide voluntarily to present additional comparative disclosure. In detail, it specifies that a company must present a third balance sheet at the start of the previous year in addition to the minimum comparative disclosure schedules required if:
  - it retroactively applies an accounting standard, retroactively recalculates the items in its financial statements or reclassifies certain items in its financial statements, and
  - the retroactive application, the retroactive recalculation or the reclassification have a significant impact on the disclosure presented in the balance sheet at the start of the previous year.

  When a company reclassifies the comparative balances, it must indicated (including at the start of the previous year) the nature of the reclassification, the amount of each item reclassified and the reasons for the reclassification;
- **IAS 16 - Property, plant and equipment**; the amendment clarifies that if the spare parts and equipment satisfy the requisites for being classified as “Property, plant and equipment” they must be recognised and valued according to IAS 16, otherwise they must be recognised and valued as inventories;

- **IAS 32 - Financial instruments: presentation in the financial statements and supplementary information;** the amendment lays down that the income taxes related to the distributions to holders of instruments representing capital and those linked to transaction costs relating to transactions on the share capital, must be recorded as per the provisions of IAS 12;
- **IAS 34 - Interim financial reporting**; the amendment lays down that, in the interim financial statements, the total of the assets and liabilities of a specific sector must be indicated only if this figure is duly provided at the highest operational decision-making level and if the same has undergone a significant change with respect to the last set of annual financial statements presented.

The Group has decided not to avail itself of the faculty, where envisaged, of going ahead with early adoption of other international accounting standards, interpretations and amendments to the same, issued and approved, but whose date of initial application is subsequent to 1 January 2013.

International accounting standards and/or interpretations issued but not yet in force and/or approved

The new Standards and Interpretations significant for the Group, already issued but not yet in force or not yet approved by the European Union as of 31 December 2013, and therefore not applicable, are listed briefly below. None of these Standards or Interpretations has been adopted by the Group in advance. The preliminary analysis carried out does not envisage significant impacts on the consolidated financial statements from the application of these Principles and Interpretations.

- Amendments to IAS 32 - Financial instruments: presentation - offsetting financial assets and liabilities - these amendments more fully clarify the requirements necessary for offsetting financial assets and liabilities already present in this standard. These changes were approved by the European Union in December 2012 (EU Regulation No. 1256/2012) and apply as from 1° January 2014.
- IFRS 10 – Consolidated financial statements - The new standard replaces IAS 27 “Consolidated and separate financial statements” - limited to the part concerning the consolidated financial statements - and SIC 12 “Consolidation - Special purpose entities. Further to the issue of the new standard, IAS 27 - renamed “Separate financial statements” - contains the principles and guidelines for the drafting of the separate financial statements. The new IFRS 10 contains a definition of the single control model which applies to all the investee companies and which represent the determining factor for establishing whether an investee must be consolidated or not. The accounting treatment and consolidation procedures are by contrast unchanged with respect to that currently envisaged by IAS 27. This standard was approved by the European Union in December 2012 (EU Regulation No. 1254/2012) and applies as from 1° January 2014.
- IFRS 11 – Joint arrangements - IFRS 11 replaces IAS 31 “Interests in joint ventures” and SIC 13 “Jointly-controlled entities - conferrals in kind by those taking part in the control and defines the reference principles for the representation of joint investment agreements. This standard was approved by the European Union in December 2012 (EU Regulation No. 1254/2012) and applies as from 1° January 2014.
- IFRS 12 – Disclosure of interests in other entities - IFRS 12 includes – extending the same - all the requirements in terms of supplementary information which must be provided with regard to subsidiaries, associated companies, joint arrangements and other investments (so-called structured entities). This standard was approved by the European Union in December 2012 (EU Regulation No. 1254/2012) and applies as from 1° January 2014.
- IAS 28 – Investments in associates and joint ventures - Further to the introduction of the new IFRS 10 and 12, IAS 28 was renamed “Investments in associates and joint ventures” and describes the application of the shareholders’ equity method for investments in jointly-controlled companies, in

addition to associates. These changes were approved by the European Union in December 2012 (EU Regulation No. 1254/2012) and apply as from 1° January 2014.

- Amendments to IFRS 10 “Consolidated financial statements”, IFRS 11 “Joint Arrangements” and IFRS 12 “Disclosure of interests in other entities” - Transition guide

  These changes were approved by the European Union in April 2013 (EU Regulation No. 313/2013) and apply as from 1° January 2014.

- Amendments to IFRS 10, IFRS 12 and IAS 27 - Investment entities - These amendments apply to a particular class of assets defined as investment entities, whose corporate purpose involves investing in funds for the purpose of obtaining income from capital or a revaluation of the invested capital or for both reasons. On the basis of amendments, the companies controlled by the investment entities must not be consolidated line-by-line but rather valued at fair value in the income statement. These changes were approved by the European Union in November 2013 (EU Regulation No. 1174/2013) and apply as from 1° January 2014.

- Amendments to IAS 36 - Impairment of assets - supplementary information on the recoverable value of the non-financial assets. These changes were approved by the European Union in December 2013 (EU Regulation No. 1374/2013) and apply as from 1° January 2014.

- IFRIC 21 - Levies - The interpretation defines the accounting treatment of the liabilities for government taxes and levies other than income taxes in relation to the moment when an entity can recognise these liabilities. The interpretation has not yet been approved by the European Union.

- Amendments to IAS 19 - Employee benefits - defined-benefit plans: contribution by employees or third parties. These amendments introduce the distinction between types of contributions envisaging a different accounting approach. The amendments have not yet been approved by the European Union.

- “Improvements” to the IFRS 2010-2012 cycle (issued by the IASB in December 2013) - These amendments, whose applicability is envisaged as from 1 July 2014 with the exception of the amendments to IFRS 13, which apply immediately, have not yet been approved by the European Union.

- “Improvements” to the IFRS 2011-2013 cycle (issued by the IASB in December 2013) - These amendments, whose applicability is envisaged as from 1 July 2014, have not yet been approved by the European Union.

- IFRS 9 - Financial Instruments (issued in November 2009 and October 2010) and subsequent amendments (issued in December 2011 and November 2013) - IFRS 9 will ultimately replace IAS 39 Financial instruments: Recognition and Measurement, and its main objective is to reduce the complexity. IFRS 9 and all the related amendments have not yet been approved.

- Amendments to IFRS 7 - Financial instruments: disclosures . initial application of IFRS 9 - These amendments introduce the obligation to provide additional quantitative information at the time of transition to IFRS 9 so as to clarify the effects, which the first-time application of IFRS 9 has on the classification and measurement of the financial instruments. These amendments have not yet been approved by the European Union.

Revenues (note 1)

(EUR 000)	**2013**	**2012**

Revenues	223,371	233,784

Revenues during 2013 decreased with respect to those in 2012. For greater details on the drop in revenues, please refer to the Report on operations.

Other income (note 2)

(EUR 000)	**2013**	**2012**
Other income	2,125	2,406

Other income includes the release, totalling EUR 2.1 million, of the portion pertaining to 2013 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)	**2013**	**2012**
Line/traffic rental and interconnection costs	76,839	80,110
Costs for use of third party assets	7,637	7,068
Portal services	9,431	9,472
Marketing costs	8,944	8,231
Other services	25,643	28,425
Total	**128,494**	**133,307**

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.

Payroll and related costs (note 4)

(EUR 000)	**2013**	**2012 Restated***
Wages and salaries	22,793	22,815
Other personnel costs	11,834	11,562

Total	**34,627**	**34,377**

Payroll and related costs are essentially in line with the previous year.

At 31 December 2013, the Tiscali Group had 898 employees. The breakdown by category and the corresponding balance at 31 December 2012 are presented below.

Number of employees

	31 December 2013	31 December 2012
Executives	19	19
Middle managers	79	83
Office staff	797	787
Blue-collar workers	3	3
Total	**898**	**892**

Other operating (income) charges (note 5)

(EUR 000)	2013	2012
Other operating (income) charges	(4,708)	(2,089)
Total	**(4,708)**	**(2,089)**

Other net operating income mainly includes the impacts deriving from the recharging of costs to customers and the effect of write-offs of specific debt positions following agreements with suppliers.

Write-downs of receivables from customers (note 6)

(EUR 000)	2013	2012
Write-downs of receivables from customers	14,636	26,330
Total	**14,636**	**26,330**

Please refer to the note “Receivables from customers” for further details.

Restructuring costs and other write-downs (note 7)

(EUR 000)	2013	2012
Restructuring costs and other write-downs	3,366	1,582
Total	**3,366**	**1,582**

The item “Restructuring costs and other write-downs” mainly includes the following items:

- provisions for group reorganisation costs amounting to around EUR 1.3 million. These are professional charges (mainly legal and tax advice) relating to the restructuring of the Group’s senior debt and the winding up of the foreign companies;
- provision for the settlement of a prior dispute, relating to the IPO of the subsidiary World On Line BV, for EUR 1.8 million.

Net financial income (charges) (note 8)

A breakdown of net financial income (charges) for the year, presenting a negative balance of EUR 13.2 million, is provided below.

(EUR 000)	2013	2012 Restated*
Financial income		
Interest on bank deposits	18	41
Other financial income	153	(77)
Total	**171**	**(36)**
Financial charges		
Interest and other charges due to banks	9,230	7,021
Other financial charges	4,168	6,131
Total	**13,398**	**13,151**
Net financial income (charges)	**(13,226)**	**(13,187)**

The item Financial charges amounting to around EUR 13.4 million mainly includes the following elements:

- interest expense, relating to the loan from Senior Lenders ("Group Facility Agreement") amounting to EUR 8.5 million;
- interest expense on current accounts for EUR 0.7 million;
- default interest expense totalling EUR 0.4 million;
- interest expense on financial leasing and IRU for around EUR 1.3 million;
- bank charges for EUR 2.4 million.

Income taxes (note 9)

(EUR 000)	2013	2012 Restated*
Current taxes	839	2,536
Total	**839**	**2,536**

The balance includes the cost of the current taxes for the year represented by IRAP (regional business tax) and IRES (company earnings' 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 nil as of 31 December 2013.

Earnings (Losses) per share (note 11)

The result per share of “operating activities” was close to zero and was calculated by dividing the net loss for the year attributable to the ordinary shareholders of the parent company, amounting to EUR 4.8 million, by the weighted average number of ordinary shares in circulation during the year, totalling 1,861,498,780.
The result per share from “operating activities and those disposed of” was close to zero and was calculated by dividing the loss from operating activities and those disposed of, amounting to EUR 4.8 million, by the weighted average number of ordinary shares in circulation during the year.

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 31 December 2013 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 Units identified;

(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 2014-2018 Plan approved by the Board of Directors.

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

- explicit forecast period equating to the remaining plan duration;
- 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 7%.
The result of the impairment test shows a positive difference between the recoverable value and book value, thus the Group feels that it is not necessary to write down any of the balance sheet assets.

(iii) Sensitivity analysis of the impairment test results.

In consideration of the current scenario and the results of the impairment tests performed for the period ended 31 December 2013, 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.

(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)

Intangible asset movements for the year 2013 were as follows:

Intangible assets *(EUR 000)*	**Computers, software and development costs**	**Concessions and similar rights**	**Broadband service activation costs**	**Other intangible assets**	**Intangible assets in course of acquisition and prepayments**	**Total**
HISTORIC COST						
1 January 2013	**4,639**	**109,846**	**97,565**	**18,825**	**1,018**	**231,893**
Increases		3,701	16,537	518	437	21,193
Other changes		(21)				(21)
Asset disposed of						
Reclassifications		755			(755)	
31 December 2013	**4,639**	**114,281**	**114,102**	**19,344**	**700**	**253,065**
ACCUMULATED DEPRECIATION						
1 January 2013	**4,637**	**62,083**	**74,681**	**17,643**		**159,044**
Increases in depreciation	1	9,459	10,036	6,760		26,256
Other changes						
Asset sold						
Reclassifications		(27)	5,880	(5,880)		(27)
31 December 2013	**4,639**	**71,514**	**90,597**	**18,522**		**185,273**
NET VALUE						
31 December 2012	**1**	**47,763**	**22,884**	**1,183**	**1,018**	**72,849**
31 December 2013	**-**	**42,767**	**23,504**	**821**	**700**	**67,792**

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

The item “Computers, software and development costs” included the capitalisation of development costs for applications software personalized for the exclusive use of the Group.

The balance of “Concessions and similar rights”, amounting to EUR 42.7 million, includes EUR 33.7 million relating to rights and costs connected with the acquiring of conveying ability, on a long-term basis, in the shape of concession contracts for the use of the same (IRU/Indefeasible Rights of Use), licences and software for EUR 7 million and EUR 2.1 million for patents. The overall increase of EUR 3.7 million is attributable to software licences for EUR 3.2 million and patents for EUR 0.5 million.

The item Broadband service activation costs, equalling EUR 23.5 million, includes EUR 16.5 million for the acquisition and activation costs of customers concerning the ADSL service.

Other intangible fixed assets, amounting to EUR 0.8 million include investments relating to the MVNO project for EUR 0.1 million.

Intangible assets in course of construction and prepayments amounted to EUR 0.7 million and include software development projects not yet completed at 31 December 2013.

Reclassifications, amounting to EUR 0.7 million, concern the allocation to the category “Concessions and similar rights” of intangible assets entering service during 2013.

Property, plant and equipment (note 14)

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

Tangible assets *(EUR 000)*	**Properties**	**Plant and machinery**	**Other tangible assets**	**Tangible assets in course of construction**	**Total**
HISTORIC COST					
1 January 2013	**64,260**	**262,584**	**5,093**	**1,486**	**333,423**
Increases		2,726	69	852	3,648
Other changes					
Reclassifications		1,530		(1,530)	
31 December 2013	**64,260**	**266,840**	**5,162**	**809**	**337,071**
ACCUMULATED DEPRECIATION					
1 January 2013	**13,728**	**221,645**	**3,277**		**238,650**
Increases in depreciation	1,867	11,294	381		13,541
Other changes					
Reclassifications		(54)			(54)
31 December 2013	**15,595**	**232,885**	**3,657**		**252,137**
NET VALUE					
31 December 2012	**50,532**	**40,939**	**1,816**	**1,486**	**94,773**
31 December 2013	**48,665**	**33,956**	**1,504**	**809**	**84,934**

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

The item “Properties”, amounting to EUR 48.7 million, mainly relates to the Cagliari headquarters (Sa Illetta), which was subject to a Sale & Lease back financial transaction in 2007.

Plant and machinery (EUR 33.9 million) includes specific network equipment such as routers, DSLAM, servers, and transmission devices installed at the LLU sites. The EUR 2.7 million total increase reflects the investments concerning the development of the network infrastructure. EUR 1.5 million has been reclassified from the category “Other tangible assets in course of construction and prepayments” relating to costs for transmission equipment and DSLAM installed as part of the project for developing the network which started to be depreciated during 2013.

“Other tangible assets”, whose balance amounts to EUR 1.5 million, include furniture and furnishings, electronic and electromechanical office equipment as well as motor vehicles.

The item Tangible assets in course of construction and prepayments whose balance comes to EUR 0.8 million, includes modems in inventory destined to be loaned out free-of-charge to customers.

Reclassifications, amounting to EUR 1.5 million, concern the allocation to the category “Plant and Machinery” of tangible assets entering service during 2013.

Other non-current financial assets (note 15)

(EUR 000)	**31 December 2013**	**31 December 2012**
Guarantee deposits	6,944	6,412
Other receivables	1,670	1,453
Equity investments in other companies	2,099	2,215
Total	**10,713**	**10,080**

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

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

Deferred tax assets (note 16)

At 31 December 2013, there were no prepaid tax assets recorded in the financial statements.

As at the balance sheet date, the Group had tax losses, which could be carried forward to subsequent years for a total of EUR 741 million and timing differences for EUR 76.8 million. The taxes losses refer to:

- the Parent company and the Italian subsidiaries for a total of EUR 243.5 million;
- Tiscali International B.V. and the Dutch subsidiaries for a total of EUR 34.8 million;
- the German subsidiaries for a total of EUR 270.4 million;
- Tiscali UK Holdings for a total of EUR 192.3 million;

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

(EUR 000)	Total as at 31 December 2013	Year of maturity				
		2014	2015	2016	After 2015	Indefinite
Total previous tax losses	741,044	0	26,321		8,463	706,260

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

The Group does not record prepaid taxes, while the theoretical tax benefit as at 31 December 2013 calculated on the basis of an estimated average rate of 28.4% would amount to EUR 232.1 million. The eventual process for the liquidation/merger of the foreign companies could reduce these theoretical tax benefits. Despite the Group's business plan having indicated profits for the next five years, Tiscali S.p.A.'s Directors have not provided for prepaid taxes in the financial statements as at 31 December 2013.

Inventories (note 17)

At 31 December 2013, inventories totalled EUR 0.7 million and mainly relate to internet keys intended to be sold.

Receivables from customers (note 18)

(EUR 000)	31 December 2013	31 December 2012
Receivables from customers	67,305	80,646
Write-down provision	(22,092)	(20,207)
Total	**45,213**	**60,439**

At 31 December 2013, receivables from customers totalled EUR 45.2 million, after write-downs of EUR 22.1 million. These receivables accrued from the sale of internet services, billing of network access services, inverse interconnection traffic, advertising revenues and business customer and telephone services provided by the Group.

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

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

The following table illustrates the ageing (gross of the receivables write-down provision) at 31 December 2013 and 31 December 2012, respectively:

(EUR 000)	31 December 2013	31 December 2012
not due	22,703	30,030
1 – 180 days	15,352	20,045
181 – 360 days	9,108	8,859
over 360 days	20,143	21,712
Total receivables from customers	**67,305**	**80,646**
Receivable write-down provision	(22,092)	(20,207)
Total Receivables from customers net of provision	**45,213**	**60,439**

The following table shows aging net of the receivable write-down provision at 31 December 2013:

(EUR 000)	31 December 2013	31 December 2012
not due	21,372	29,137
1 – 180 days	11,427	17,327
181 – 360 days	4,693	5,756
over 360 days	7,721	8,219
Total	**45,213**	**60,439**

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

(EUR 000)	31 December 2013	31 December 2012
Write-down provision at start of period	**(20,207)**	**(35,977)**
Exchange differences		
Disposals/Consolidation area change		
Provision	(14,636)	(26,330)
Utilisation	12,751	42,100
Write-down provision at end of period	**(22,092)**	**(20,207)**

The item provisions and uses includes the write-down made during the current years and the uses for the write-off of the credit positions no longer recoverable.

Other Receivables and other Current Assets (note 19)

(EUR 000)	31 December 2013	31 December 2012
Other receivables	276	2,239
Accrued income	53	492
Prepaid expense	9,799	8,250
Total	**10,128**	**10,981**

Other Receivables, amounting to about EUR 0.3 million, mainly include advances to suppliers and receivables due from tax authorities.

Accrued income (EUR 0.1 million) mainly relates to portions of revenues for the sale of ADSL services pertaining to the period but not yet invoiced.

Prepaid expenses, whose balance comes to EUR 9.8 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, insurance and advertising costs.

Other current financial assets (note 20)

(EUR 000)	31 December 2013	31 December 2012
Other receivables	97	118
Total	**97**	**118**

Cash and cash equivalents (note 21)

Cash and cash equivalents at 31 December 2013 amounted to EUR 3.1 million and include the Group's cash, essentially held in bank current accounts. There are no restricted deposits. For greater details, please refer to the cash flow statement.

Shareholders' equity (note 22)

(EUR 000)	31 December 2013	31 December 2012 Restated*
Share capital	92,023	92,020
Accumulated losses and other reserves	(239,136)	(223,395)
Result for the period	(4,782)	(15,844)
Total Shareholders' equity	**(151,896)**	**(147,219)**

Changes in the various shareholders' equity items are detailed in the relevant table.
At 31 December 2013, the share capital amounted to EUR 92 million corresponding to 1,861,498,780 ordinary shares lacking par value.

Shareholders' equity pertaining to minority shareholders (note 23)

The shareholders' equity pertaining to minority shareholders as at 31 December 2013 was nil.

Current and non-current financial liabilities (note 24)

Net financial position

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

EUR 000	31 December 2013	31 December 2012
A. Cash and Bank deposits	3,112	4,406
B. Other cash equivalents		
C. Securities held for trading		
D. Cash and cash equivalents (A) + (B) + (C)	***3,112***	***4,406***
E. Current financial receivables	***97***	***-***
F. Non-current financial receivables		
G. Current bank payables	11,940	6,327
H. Current portion of non-current debt	131,791	9,542
I. Other current financial payables (*)	4,264	95
J. Current financial debt (G) + (H) + (I)	***147,994***	***15,964***
K. Net current financial debt (J) – (E) – (D) - (F)	**144,786**	**11,558**
L. Non-current bank payables	()	122,711
M. Bonds issued		
N. Other non-current payables (**)	53,742	58,618
O. Non-current financial debt (N) + (L) + (M)	**53,742**	**181,329**
P. Net Financial Debt (K) + (O)	**198,528**	**192,887**

(*) 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 show in the Report on operations.

(EUR mln)	**31 December 2013**	**31 December 2012**
Consolidated net financial debt	**191.6**	**186.5**
Other cash equivalents and non-current financial receivables	6.9	6.4
Consolidated net financial debt prepared on the basis of Consob communication No. DEM/6064293 dated 28 July 2006.	**198.5**	**192.9**

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

- Current bank payables, amounting in total to EUR 143.7 million, relate to the Group Facility Agreement and to current bank payables for current account overdrafts.

The amount owed to banks represented by the GFA loan was as follows as at 31 December 2013:

- **Tranche A**: nominal residual amount of EUR 82.5 million (maturing on 3 July 2014);
- **Tranche B**: nominal residual amount of EUR 20.5 million (maturing in 2015);

The liability is recorded in the consolidated financial statements at amortised cost.

During 2013, all the due dates envisaged by the GFA loan agreement were observed and EUR 7.5 million paid by way of repayment of the principal portion.

The following table summarizes the main elements of the loan.

Loan	Amount	Year of maturity	Financial institution	Borrower	Guarantor
Facility A **Facility B**	EUR 82.5 million (*) EUR 20.5 million (*)	2014 2015	Intesa Sanpaolo London BG Master Fund Plc SVP Capital Funding Lux 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 as at 31 December 2013 excluding capitalised interest.

The loan agreement also provides for:

- Informational covenants that essentially include periodic disclosure to lenders with regard to accounting data and forecasts reported quarterly and yearly, together with explanatory notes from management;
- Financial covenants that will be monitored on pre-established maturities. These covenants provide for achieving certain EBITDA levels with regard to indebtedness and the result of financial operations as well as specific cash flow levels which will enable the Group to honour loan repayments and instalments envisaged in the financial plan;
- Operational covenants that provide for achieving specific ARPU levels and a specific number of customers and investments ("capital expenditure").

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

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

As at 31 December 2013, the financial covenants had not been respected and consequently, in accordance with the reference accounting standards, steps were taken to reclassify the entire financial debt for the GFA under current liabilities.

In this connection, please see the note "Assessment of the business as a going-concern".

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.

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).

<u>Payables for financial leases</u>

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

- the "Sales & Lease Back" financial lease on the Sa Illetta property, head offices of the company, whose debt at the date of the financial statements amounted to Euro 57.6 million;

- other financial leases for a total of Euro 0.4 million.

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

(EUR 000)	Minimum payments due		Current value of minimum payments due	
	31 December 2013	**31 December 2012**	**31 December 2013**	**31 December 2012**
Less than 1 year	7,101	3,042	4,208	95
Between 1 and 5 years	38,291	30,333	27,756	20,251
More than 5 years	28,136	43,842	25,986	38,366
Total	**73,527**	**77,216**	**57,950**	**58,713**
Less future financial charges	**15,577**	**18,504**	**0**	**0**
Current value of minimum payments	**57,950**	**58,713**	**57,950**	**58,713**
Included in the balance sheet				
Payables due to current finance leases			4,208	95
Payables for non-current financial leases			53,742	58,618
	0	**0**	**57,950**	**58,713**

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

Leasing included in Tangible assets (EUR 000)	**Properties**	**Plant and machinery**	**Other assets**	**Total**
NET VALUE				
31.12.2012	50,502	3,231		**53,733**
31.12.2013	48,660	1,348		**50,008**

Payments envisaged by the operating lease contracts are indicated below:

(EUR 000)	31 December 2013	31 December 2012
Minimum payments due for leasing	3,266	2,698
Total	**3,266**	**2,698**

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

(EUR 000)	31 December 2013	31 December 2012
Less than 1 year	3,032	3,119
Between 1 and 5 years	855	3,514
More than 5 years	0	
Total	**3,886**	**6,633**

Breakdown of current and non-current debt

As per the following table:

	Debt as at 31 December 2013	Current debt	Non-current debt
Total GFA payables and other payables to banks	143,730	**143,730**	**0**
Amounts owed to leasing firms			
Sale and lease back – Sa Illetta	57,615	*4,204*	*53,411*
Other financial leases	391	*60*	*332*
Total amounts owed to leasing firms	58,006	**4,264**	**53,742**
Total indebtedness	201,737	**147,994**	**53,742**

As at 31 December 2013, the entire amount of the senior financial debt for the GFA was recorded under current liabilities.

Other non-current liabilities (note 25)

(EUR 000)	31 December 2013	Restated 31 December 2012*
Payables to suppliers	1,935	3,371
Other payables	1,411	1,361
Total	**3,346**	**4,732**

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

Liabilities for pension obligations and staff severance indemnities (note 26)

The table below shows the changes during the period:

(EUR 000)	31 December 2012 Restated*	Provisions	Utilisation	Payments to Funds (**)	Actuarial (Gain)/loss	31 December 2013
Staff severance indemnities	5,312	2,174	(230)	(2,007)	(102)	5,146
Total	**5,312**	**2,174**	**(230)**	**(2,007)**	**(102)**	**5,146**

(*) The figures as at 31 December 2012 have been recalculated so as to assimilate the effect of the application, as from 1 January 2013 (retrospectively), of the new revised IAS 19 accounting standard (employee benefits); for further details please see the section "Form and content of the accounting statements".

(**) These are payments made to the treasury funds and other supplementary pension funds

The staff severance provision, which comprises the indemnities accrued in favour of employees, amounts to EUR 5.1 million as at 31 December 2013 and refers to the Parent Company and the subsidiaries operating in Italy.

In accordance with Italian Law No. 297/1982, the amount due to each employee accrues depending on the service provided, and has to be immediately disbursed when the employee leaves the company. On termination of the employment contract, the amount due is calculated based on the duration of the contract and the taxable salary of each employee. The liability is annually adjusted in compliance with the official cost of living index, and with the interest established by law. It is not associated with any condition or period of accrual, or with any financial funding obligation; therefore, there are no assets serving the provision. In compliance with IAS 19, the provision was recorded under "Defined benefit plans".

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

Further to IAS 19, for estimating staff severance indemnities, the following methods were used: the Traditional Unit Credit Method for companies with at least 50 employees, and the Projected Unit Credit Cost – service pro rate for the other companies, in accordance with the following stages:

- on the basis of a series of financial hypotheses (increase in living cost, remuneration, etc.), the possible future performances which might be disbursed in favour of each employee registered in the programme in the case of retirement, decease, disability, resignation, etc. were projected. The estimate of future benefits includes any foreseeable increases relating to a further length of service, and to the presumable growth of the remuneration received as of the date of estimation, only for the employees of companies with less than 50 employees;
- the current average value of future performances was calculated at the date of estimate, on the basis of the adopted annual interest rate, and of the probability of each performance to be really disbursed;
- the liability was established for each company concerned, to an extent equating to the average current value of the future benefits which will be generated by the provision existing as of the valuation date, without considering any future provision (for companies with at least 50 employees) or identifying the portion of the current average value of the future benefits which refer to the service already accrued by the employee as of the value date (for the other companies).

Financial assumptions

Inflation rate:	2.0%
Discount rate:	3%

Demographic assumptions:

Mortality:	ISTAT 2002 mortality tables differentiated by gender
Disability:	INPS 1998 disability tables differentiated by gender
Resignation:	3.5% from 20 to 65 years of age
Advance payments:	3.0% from 20 to 65 years of age
Retirement:	*65 for men and 60 for women, with maximum length of service 40 years*

As from 1 January 2013 with retrospective efficacy, the Company adopted the new version of the accounting standard IAS 19 “employee benefits”. The most significant amendment made to the standard concerns the obligation to state all the actuarial gains/losses within the sphere of the OCIs, with consequent elimination of the so-called corridor approach.

An in-depth description of the changes introduced by the new standard and their accounting impacts is provided in the section “Form and content of the accounting statements”.

Provisions for risks and charges (note 27)

(EUR 000)	31 December 2012	Provisions	Utilisation	31 December 2013
Provisions for risks and charges	2,458	1,958	(2,553)	1,863
Total	**2,458**	**1,958**	**(2,553)**	**1,863**

The provision for risks and charges as at 31 December 2013 essentially includes provisions for disputes with employees.
The provision for the year, amounting to EUR 2 million, includes EUR 1.8 million relating to the provision for the settlement of a prior dispute pertaining to the subsidiary World On Line BV and the charges for the winding up of the Dutch companies for EUR 0.2 million.

Current financial liabilities (note 28)

(EUR 000)	31 December 2013	31 December 2012
Payables to banks	143,730	15,869
Payables for financial leases (short-term)	4,208	95
Total	**147,938**	**15,964**

Payables to banks and to other lenders

The item “Payables to banks”, amounting to around EUR 143.7 million, essentially includes bank debts owed by the Italian subsidiary Tiscali Italia S.p.A. (EUR 11.9 million) and Tiscali UK Holding for EUR 131.8 million (entire amount of the Senior loan, see note 24 for details).

Payables for financial leases

Payables for financial leases, amounting to EUR 4.2 million, refer to the short-term portion of payables due to leasing companies for financial lease agreements. For further details, see note 24.

Payables to suppliers (note 29)

(EUR 000)	31 December 2013	31 December 2012
Payables to suppliers	94,001	128,633
Total	**94,001**	**128,633**

Payables to suppliers, which disclose a considerable decrease with respect to last year, refer to trade payables for the supply of telephone traffic, data traffic, materials, technology and services of a commercial nature.

Other current liabilities (note 30)

(EUR 000)	31 December 2013	31 December 2012
Accrued expenses	3,337	3,163
Deferred income	38,837	37,133
Other payables	26,417	22,450
Total	**68,592**	**62,746**

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

Deferred income mainly refers to:

- the capital gain on disposal relating to the Sale & Lease back transaction on the Sa Illetta property, amounting to around EUR 17 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 10.3 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 11.5 million.

The item other payables, EUR 26.4 million, essentially includes:

- the balance of VAT payable for EUR 11.4 million.
- payables to the tax authorities and social security institutions for around EUR 8.2 million;
- amounts for the employees for EUR 1.3 million;
- payables relating to the ministerial grants concerning the Italian subsidiary for EUR 4.6 million;
- amounts due for IRAP and other taxes with regard to the Italian subsidiary for EUR 0.6 million;

Financial instruments

Financial risk management objectives

The Group's Corporate Treasury division provides business services, co-ordinates access to the local and international financial markets, and monitors and handles the financial risk associated with Group operations by means of internal risk reports which analyse the exposures by degree and magnitude of the risk. These risks include market risks (inclusive of currency risks, fair value interest rate risks and price risks), credit risks and risks in cash flow interest rates.

Risk management linked with interest rate

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

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

Handling of the liquidity risk

The following table considers the maturity of the financial investments for the next five years with particular indication of the amounts to be paid in 2014.

The cash flows shown in the table refer to the nominal amounts due on outstanding loans:

31 December 2013	Book value	Outgoing cash flows	less than 1 year	between 1 and 5 years	more than 5 years
(EUR 000)					
Secured bank loans - Senior Loan	131,791	136,701	107,761	28,939	-
Payables for financial leases	57,950	63,937	5,626	31,401	26,910
Payables to suppliers and other payables	123,762	123,762	3,346	120,416	
Bank account overdrafts	11,940	11,940	11,940		

31 December 2012	Book value	Outgoing cash flows	less than 1 year	between 1 and 5 years	more than 5 years
(EUR 000)					
Secured bank loans	132,253	146,286	8,625	137,661	-
Payables for financial leases	58,713	64,746	1,145	30,013	33,588
Payables to suppliers and other payables	155,819	155,819	151,087	4,732	
Bank account overdrafts	6,327	6,327	6,327		

Financial instruments

Fair value

The following tables show the valuations respectively at 31 December 2013 and at 31 December 2012, of financial instruments present as of the balance sheet date:

31 December 2013	**Book value**	**Fair value**
(EUR 000)		
Secured bank loans	131,791	131,180
Unsecured bank loans	11,940	11,940
Payables for financial leases	57,950	50,749

31 December 2012	**Book value**	**Fair value**
(EUR 000)		
Secured bank loans	132,253	103,136
Unsecured bank loans	6,327	6,327
Payables for financial leases	58,713	49,149

The fair value of the financial instruments as indicated above was determined using the discounted cash flow method and taking as reference the market interest rates, in addition to contractual spreads (where applicable).

Stock options

There are no stock option or share incentive plans outstanding.

Disputes, contingent liabilities and commitments

During the normal course of its business, the Tiscali Group is involved in a number of legal and arbitration proceedings, as well as being subject to tax assessments.

A summary of the main proceedings to which the Group is a party, is presented below.

Disputes

Vereniging van Effectenbezitters/ Stichting Van der Goen WOL Claims dispute

In July 2001, the Dutch association Vereniging van Effectenbezitters and the Stichting VEB-Actie WOL foundation, which represent a group of around 10,000 former minority shareholders of World Online International NV (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 listing 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 WOL had created optimistic expectations regarding its activities.

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 listing 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 proceeding with similar action was furthered, if the conditions should apply.

In August 2013, the Tiscali Group - having also taken into account the existing insurance coverage - entered into a settlement agreement with the financial institutions, on the basis of which the same financial institutions waive all compensatory action vis-à-vis WOL relating to the transactions carried out by them with the shareholders' associations indicated above.

The agreement envisaged an outlay, by WOL, of a sum amounting to EUR 1.75 million, made in September 2013.

You are also hereby informed that Stichting Van der Goen WOL Claims in December 2011 made an additional request for compensation representing a further 28 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 settlement agreement which the Tiscali Group has finalised with the financial institutions. The same Stichting Van der Goen WOL Claims confirmed its claims by means of letter dated 6 March 2013 and, subsequently, launched legal proceedings, served on 19 June 2014 (*), vis-à-vis WOL and the financial institutions tasked with the listing of said WOL. Having also taken into account the opinion of their Dutch legal advisors, the directors believe that the risk of losing is not probable.

(*) Information added on 19 June 2014.

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.

Other legal proceedings

In September 2013, the Company received notification, pursuant to Italian Legislative Decree No. 231/2001, of the conclusion of the preliminary investigations for alleged false corporate communications relating to the financial statements between 2008 and 2012. Trusting in the full legitimacy of its action and its directors, as well as in the absolute correctness of the accounting and financial documents, the Company is taking the necessary defence action. The subsidiary Tiscali Italia S.p.A received the same notification in January 2014.

Segment reporting

During 2013, the Company changed the logic used for the definition of operating segment for the purposes of segment reporting. The geographic area criteria was abandoned, and the approach based in the aggregation by business area and managerial responsibility was followed, as described in the section "Form and content of the accounting statements".

As from this Report, the segment reporting is presented on the basis of the following segments:

- Italy (BTC and BTB connectivity);
- Veesible (Media & Advertising);
- Other countries;
- Corporate.

The income statement and balance sheet figures relating to 2012 have been re-aggregated following the new logic implemented in 2013.

Income statement

31 December 2013 (EUR 000)	**Italy**	**Veesible**	**Other**	**Corporate**	**HFS/ Discontinued**	**Cancellation adjustments**	**Total**
Revenues							
From third parties	200,291	22,947	-	133	-	-	223,371
Intra-group	8,377	3,670	-	4,279	-	(16,326)	-
Total revenues	**208,669**	**26,617**	**-**	**4,412**	**-**	**(16,326)**	**223,371**
Operating result	**9,754**	**256**	**128**	**(852)**	-	**(4)**	**9,283**
Portion of results of equity inv. carried at equity							**-**
Net financial income (charges)							(13,226)
Pre-tax result							(3,943)
Income taxes							(839)
Net result from operating activities (on-going)							(4,782)
Result from assets disposed of and/or destined for disposal							-
Net result							**(4,782)**

Income statement as at 31 December 2012

31 December 2012 (EUR 000)	**Italy**	**Veesible**	**Other**	**Corporate**	**HFS/ Discontinued**	**Cancellation adjustments**	**Total**
Revenues							
From third parties	225,484	8,182	-	118	-	-	233,784
Intra-group	3,289	1,393	-	4,373	-	(9,056)	-
Total revenues	**228,773**	**9,575**	**-**	**4,491**	**-**	**(9,056)**	**233,784**
Operating result	**(4,599)**	**17**	**2,690**	**1,808**	**-**		**(84)**
Portion of results of equity inv. carried at equity							**-**
Net financial income (charges)							(13,187)
Pre-tax result							(13,271)
Income taxes							(2,536)
Net result from operating activities (on-going)							(15,807)
Result from assets disposed of and/or destined for disposal							(37)
Net result							**(15,844)**

Balance sheet

31 December 2013 (EUR 000)	**Italy**	**Veesible**	**Other**	**Corporate**	**HFS/ Discontinued**	**Cancellation adjustments**	**Total**
Assets							
Segment assets	204,141	15,397	191	905	()		220,634
Equity investments carried at equity	-		-	-	-		-
Equity investments in other companies	2,099	-	-	-	-		2,099
Goodwill	**-**		-	-	-		-
Total consolidated assets	**206,239**	**15,397**	**191**	**905**	**()**		**222,733**
Liabilities							
Segment liabilities	243,358	14,835	344	329,999	()	(213,908)	374,628
Total consolidated liabilities	**243,358**	**14,835**	**344**	**329,999**	**()**	**(213,908)**	**374,628**

31 December 2012 (EUR 000)	Italy	Veesible	Other	Corporate	HFS/ Discontinued	Cancellation adjustments	Total
Assets							
Segment assets	239,137	9,879	1,475	1,248	()		251,739
Equity investments carried at equity	-		-	-	-		-
Equity investments in other companies	2,215	-	-	-	-		2,215
Goodwill	**-**		-	-	-		-
Total consolidated assets	**241,352**	**9,879**	**1,475**	**1,248**	**()**		**253,954**

Commitments and other guarantees

A breakdown of guarantees given during 2013 is shown in the table below.

(EUR 000)	31 December 2013	31 December 2012
Guarantees given to third parties (sureties)	234,587	244,066
Commitments	1,600	1,400
Total	**236,187**	**245,466**

Sureties given mainly refer to the guarantee given for the loans granted by financial institutions as part of the restructuring of the Group's debt carried out during the year.

The same item includes the surety given by Tiscali S.p.A. to guarantee the amount of the loan associated with the Sale & lease back transaction on the Sa Illetta property, totalling EUR 95.3 million, carried out by the subsidiary Tiscali Italia S.p.A. and the amount of EUR 36.2 million for other guarantees. Other guarantees mainly include:

- EUR 23.5 million for guarantees given by the parent company for credit facilities and leasing to the subsidiary Tiscali Italia S.p.A..
- EUR 12.4 million for guarantees given by Tiscali Italia S.p.A., of which EUR 10 million in favour of Telecom Italia Spa to guarantee contractual commitments, EUR 1.1 million in favour of the Janna consortium to guarantee commitments undertaken when subscribing the share capital increase and EUR 0.5 million in favour of the Italian Internal Revenue Agency.

The item commitments includes EUR 1.6 million for the maintenance of credit facilities granted to the subsidiary Tiscali Italia S.p.A..

One-off transactions

Pursuant to Consob Resolution No. 15519 dated 27 July 2006, it is hereby revealed in particular that during 2013 agreements were reached with the main suppliers of network services which had a positive impact for around EUR 8.5 million and costs were also provided for, for a total of EUR 3 million, linked essentially to the process for restructuring the senior debt and the definition of the prior WOL dispute.

Atypical and/or unusual operations

Pursuant to Consob Communication dated 28 July 2006, it is hereby specified that during 2013 the Company did not enter into any atypical and/or unusual transactions, as defined by said Communication.

Transactions with related parties

Dealings with non-consolidated Group companies

The Group has no significant dealings with non-consolidated companies.

Dealings with other related parties

During the year, the Tiscali Group had a number of dealings with related parties, under conditions considered normal on the respective reference markets, taking into account the characteristics of the goods and services provided.

The table below summarises the balance sheet and income statement values recorded in the Tiscali Group's consolidated financial statements at 31 December 2013 arising from transactions with related parties.

The most significant balances, at 31 December 2013, summarized by supplier of the services, are as follows:

INCOME STATEMENT VALUES (EUR 000)	Notes	2013	2012
Studio Racugno	1	(72)	(78)
Nuova Iniziativa Editoriale S.p.A.	2	(222)	(605)
TOTAL SUPPLIERS OF MATERIALS AND SERVICES		**(294)**	**(683)**
TOTAL		**(294)**	**(683)**

BALANCE SHEET VALUES (EUR 000)	Notes	31 December 2013	31 December 2012
Studio Racugno	1	(36)	(48)
Nuova Iniziativa Editoriale S.p.A.	2	(114)	(329)
TOTAL SUPPLIERS OF MATERIALS AND SERVICES		**(150)**	**(377)**
TOTAL		**(150)**	**(377)**

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

(2) Nuova Iniziativa Editoriali S.p.A.: investee company of the majority shareholder, Renato Soru; the dealings refer to an advertising concession and the provision of telecommunications services. It should be mentioned that the investment held by Renato Soru was in the name of Gabriele Racugno by virtue of a deed of trust. The latter was appointed member of the Board of Directors of Tiscali S.p.A. from 21 December 2009 to January 2010.

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

The remuneration due to the directors and statutory auditors of Tiscali S.p.A. and Tiscali Italia S.p.A. in 2013 in relation to the performance of their functions, in the parent company and other consolidated subsidiaries, is presented below:

(EUR 000)	2013	2012
Directors	721	723
Statutory Auditors	206	207
Total remuneration	**927**	**930**

The total value of the cost incurred in 2013 for the remuneration due to executives with strategic responsibility amounted to roughly EUR 1.6 million. This liability also includes the Group's contributions to public and corporate welfare funds for EUR 0.5 million.

List of subsidiaries included in the consolidation area

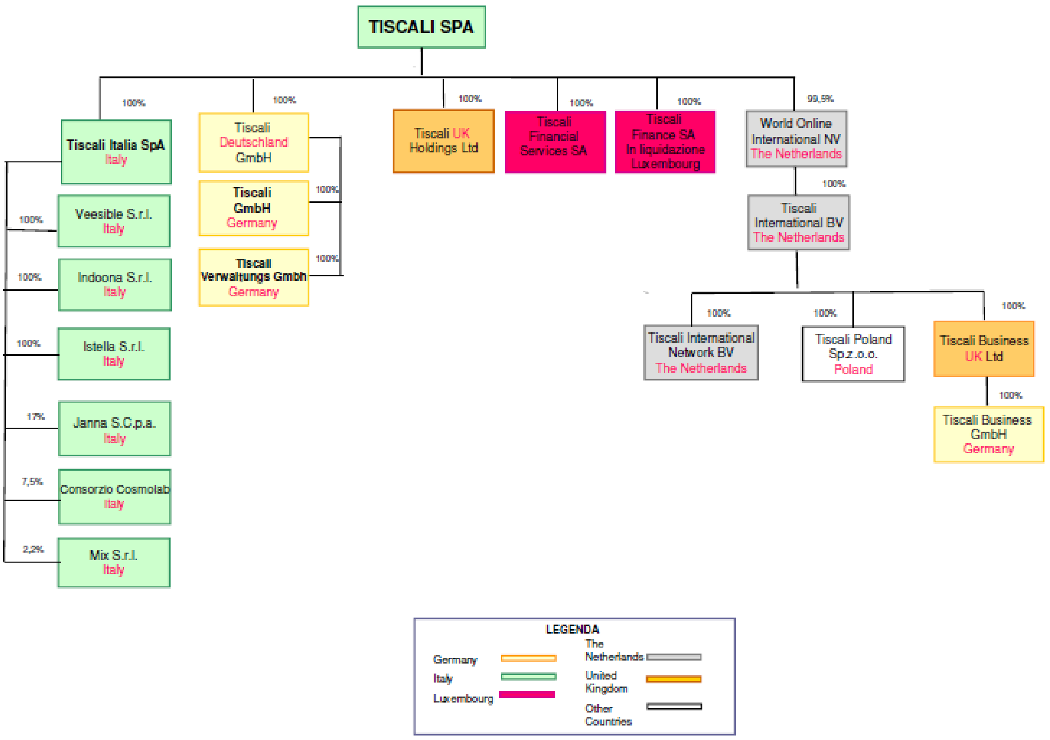
A list of the subsidiary companies included within the consolidation area is presented below.

Company name	Registered Offices	% investment
Tiscali S.p.A.	Italy	
Tiscali Italia S.p.A.	Italy	100.00%
Veesible S.r.l.	Italy	100.00%
Indoona S.r.l.	Italy	100.00%
Istella S.r.l.	Italy	100.00%
Tiscali Holdings UK Ltd	UK	100.00%
Tiscali Finance SA (in liquidation)	Luxemburg	100.00%
Tiscali Financial Services SA	Luxemburg	100.00%
Tiscali Deutschland Gmbh	Germany	100.00%
Tiscali GmbH	Germany	100.00%
Tiscali Verwaltungs Gmbh	Germany	100.00%
World Online International NV	The Netherlands	99.50%
Tiscali International BV	The Netherlands	99.50%
Tiscali International Network B.V.	The Netherlands	99.50%
Tiscali Business UK Ltd	UK	99.50%
Tiscali Business GmbH	Germany	99.50%

List of equity investments in other companies recognised under other non-current financial assets.

Mix S.r.l.	Italy
Janna S.c.p.a.	Italy
Cosmolab Consortium	Italy
Tiscali Poland Sp Z.O.O.	Poland

Group at 31 December 2013



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

Type of service	Party providing the services	Beneficiary	Fee (EUR 000)
Accounts auditing	Reconta Ernst & Young S.p.A.	Parent Company - Tiscali S.p.A.	271
	Reconta Ernst & Young S.p.A.	Subsidiary companies	171
Total			**443**

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

Cagliari, Italy, 13 June 2014

The Chief Executive Officer

Renato Soru

Renato Soru

The Executive appointed to draw up the corporate accounting documents

Pasquale Lionetti

2013 consolidated financial statements certification pursuant to Article 81 *ter* of CONSOB Regulation No. 11971 dated 14 May 1999 and subsequent amendments and additions

The undersigned, Renato Soru in his capacity as Chief Executive Officer, and 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;
- the effective application of the administrative and accounting procedures for the formation of the financial statements during 2013.

It is also hereby certified that the financial statements at 31 December 2013:

- 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 consolidation area.

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

Cagliari, Italy, 13 June 2014

The Chief Executive Officer

Renato Soru

The Executive appointed to draw up the corporate accounting documents

Pasquale Lionetti

Tiscali S.p.A. financial statements as at 31 December 2013

6 Tiscali S.p.A. – 2013 financial statements

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

Introduction

The statements presented below have been drawn up on the basis of the statutory financial statements at 31 December 2013, to which reference should be made. In this connection, note that the 2013 statutory financial statements represent the separate financial statements of the Parent Company Tiscali S.p.A. and have been prepared in observance of the International Accounting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") as approved by the European Union, as well as the instructions issued by way of implementation of Article 9 of Italian Legislative Decree No. 38/2005. The IFRS are understood to be all the reviewed international accounting standards ("IAS") and all the interpretations by the International Financial Reporting Interpretations Committee ("IFRIC") previously called the Standing Interpretations Committee ("SIC").

Economic position

(EUR 000)	**31/12/2013**	**31/12/2012**
Revenues from services and other income	4,412	4,491
Payroll and related, service and other operating costs	(2,158)	(2,345)
Other write-downs and provisions	(1,285)	(2,524)
Net financial income (charges)	(1,666)	(844)
Income taxes	(81)	(1,243)
Result from assets disposed of and/or destined for disposal	-	(652)
Net result	**(778)**	**(3,115)**

Revenues from services and other income mainly refer to the fees deriving from 'Corporate' services for the subsidiary company Tiscali Italia S.p.A. including the payments for licences to use the Tiscali trademark.

The most significant cost component was represented by payroll and related costs, which amounted to EUR 1.7 million, down slightly with respect to the previous year (EUR 1.8 million), as well as costs for external management consulting services and professional expenses amounting to EUR 0.8 million.

Other write-downs included restructuring charges relating to the restructuring process for the senior debt and to the closure and winding up of the German companies as well as the write-down of amounts due from the UK subsidiary.

6.2 Equity and financial position

(EUR 000)	31.12 2013	31.12 2012
Non-current assets	133,205	134,078
Current assets	4,246	1,783
Total Assets	**137,451**	**135,861**
Shareholders' equity	61,101	61,940
Total Shareholders' equity	**61,101**	**61,940**
Non-current liabilities	21,600	22,357
Current liabilities	54,751	51,564
Total Liabilities and Shareholders' equity	**137,451**	**135,861**

Assets

Non-current assets
Non-current assets include controlling equity investments for a total of EUR 131 million and other financial assets amounting to EUR 2.5 million essentially represented by financial receivables due to Group companies.

Current assets
Current assets include "Receivables from customers" for EUR 4 million and "Other receivables and other current assets" for EUR 0.6 million essentially relating to tax receivables, accrued income and prepayments on services.

Liabilities

Non-current liabilities
Non-current liabilities, other than items relating to the financial position for which reference should be made to the next note, include provisions for risks and charges of EUR 17 million generated from provisions set aside for disputes and contingent liabilities.

Current liabilities
Current liabilities not relating to the financial position are mainly represented by payables to suppliers for EUR 5 million (EUR 0.3 million of which due to Group companies), more or less unchanged with respect to the previous year.

Financial position

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

(EUR 000)	31.12.2013	31.12.2012
A. Cash	7	5
B. Other cash equivalents	-	-
C. Securities held for trading	-	-
D. Cash and cash equivalents (A) + (B) + (C)	**7**	**5**
E. Current financial receivables	**193**	**192**
F. Non-current financial receivables	**-**	**-**
G. Current bank payables	-	(76)
H. Current portion of non-current debt	-	-
I. Other current financial payables	(33,992)	(35,816)
J. Current financial debt (G) + (H) + (I)	**(33,992)**	**(35,892)**
K. Net current financial debt (J) – (E) – (F) - (D)	**(33,792)**	**(35,695)**
L. Non-current bank payables		
M. Bonds issued		
N. Other non-current payables to Group companies	(4,245)	(4,816)
O. Other non-current payables to third parties	-	-
P. Non-current financial debt (L) + (M) + (N) + (O)	**(4,245)**	**(4,816)**
Q. Net Financial Debt (K) +(P)	**(38,037)**	**(40,511)**

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

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

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

7.1 Income statement

(EUR)	Notes	31 Dec. 2013	31 Dec. 2012
Revenues	*1*	4,411,665	4,491,298
Other income	*1*	-	-
Purchase of materials and outsourced services	*2*	(1,214,930)	(1,958,128)
Payroll and related costs	*3*	(1,699,399)	(1,864,975)
Other operating income/ (costs)	*4*	756,548	1,484,177
Write-down of receivables	*5*	(372,143)	(2,245,493)
Other write-downs	*5*	(912,823)	(278,832)
Amortisation/depreciation		-	(5,694)
Operating result		**968,919**	**(377,647)**
Portion of result of equity investments carried at equity		-	-
Net financial income (charges)	*6*	(1,665,586)	(843,528)
Pre-tax result		**(696,667)**	**(1,221,175)**
Income taxes	*7*	(81,044)	(1,242,552)
Result from operating activities (on-going)		**(777,711)**	**(2,463,727)**
Result from assets disposed of and/or destined for disposal	*8*	-	(651,693)
Result for the year		**(777,711)**	**(3,115,420)**

7.2 Statement of comprehensive income

(EUR 000)	Notes	**2013**	**2012**
Result for the period		**(778)**	**(3,115)**
Other components of comprehensive income:			
Other components of comprehensive income which will be subsequently reclassified under profit/loss for the period			
Other components of comprehensive income which will not be subsequently reclassified under profit/(loss) for the period		(36)	
(Loss)/profit from revaluation on defined benefit plans			
Total other components of comprehensive income:			
Total statement of comprehensive income result		**(814)**	**(3,115)**
Attributable to:			
Shareholders of the parent company		**(814)**	**(3,115)**
Minority shareholders			-
		(814)	**(3,115)**

7.3 Statement of financial position

(EUR)	Notes	31.12.2013	31.12.2012
Non-current assets			
Intangible assets		-	-
Property, plant and equipment		-	-
Equity investments	9	130,987,422	130,987,422
Other financial assets	10	2,217,503	3,090,078
		133,204,925	**134,077,500**
Current assets			
Receivables from customers	11	4,045,954	1,585,499
Other receivables and other current assets	12	192,924	192,435
Cash and cash equivalents	13	7,292	5,367
		4,246,169	**1,783,301**
Total Assets		**137,451,094**	**135,860,801**
Share Capital and reserves			
Share Capital		92,022,779	92,019,514
Results from previous periods and Other reserves		(30,144,168)	(26,964,167)
Result for the year		(777,711)	(3,115,420)
Total Shareholders' equity	**14**	**61,100,900**	**61,939,927**
Non-current liabilities			
Other non-current liabilities	15	4,244,625	4,815,874
Liabilities for pension obligations and staff severance indemnities	16	204,063	162,623
Provisions for risks and charges	17	17,150,885	17,378,432
		21,599,572	**22,356,930**
Current liabilities			
Payables to banks and other lenders	18	-	76,273
Payables to suppliers	19	4,583,937	5,112,759
Other current liabilities	20	50,166,686	46,374,914
		54,750,623	**51,563,945**
Total Liabilities and Shareholders' equity		**137,451,094**	**135,860,801**

7.4 Statement of changes in shareholders' equity (EUR)

(EUR)	Share Capital	Legal reserve	Stock option reserve	Loss coverage reserve	Other reserves	Accumulated losses and Loss for the period	Total
Balance at 1 January 2012	**92,019,488**	**90,734**	**-**	**6,401,340**	**(3,522,413)**	**(29,933,828)**	**65,055,321**
Increases /Decreases	26						**26**
Transfers covering losses				(6,401,340)		6,401,340	**-**
Net profit (loss) for the period						(3,115,420)	**(3,115,420)**
Balance at 1 January 2013	**92,019,514**	**90,734**	**-**	**-**	**(3,522,413)**	**(26,647,909)**	**61,939,927**
Increases /Decreases	3,265				(35,918)	(28,663)	**(61,316)**
Transfers covering losses							**-**
Result for the year						(777,711)	**(777,711)**
Balance at 31 December 2013	**92,022,779**	**90,734**	**-**	**-**	**(3,558,331)**	**(27,454,283)**	**61,100,900**

7.5 Cash flow statement

CASH FLOW STATEMENT (EUR)	31 December 2013	31 December 2012
OPERATIONS		
Result from operating activities	**(777,711)**	**(3,115,420)**
Adjustments for:		
Depreciation of tangible assets	-	5,694
Amortisation of intangible assets	-	-
Receivable write-down provision	367,496	2,425,493
Release of provisions for risks previously provided	(155,000)	-
Other changes	(728,344)	(1,476,266)
Cash flow from operations before changes in working capital	**(1,293,559)**	**(2,340,499)**
(Increase)/Decrease in receivables	(2,460,455)	(1,524,300)
Increase/(Decrease) in payables to suppliers	240,962	(1,238,744)
Net changes in the provisions for risks and charges	(72,547)	(598,437)
Net change in provision for staff severance indemnities	-	-
Changes in other liabilities	3,220,524	(4,363,709)
Changes in other assets	(489)	565,123
Changes in working capital	**927,995**	**1,567,352**
CASH AND CASH EQUIVALENTS DERIVING FROM OPERATIONS	**(365,564)**	**(773,147)**
INVESTMENT ACTIVITIES		
- Changes in other financial assets	505,078	800,327
- Purchases of tangible fixed assets	-	-
- Purchases of intangible fixed assets	-	-
- Payments for the sale of financial fixed assets	-	-
NET CASH USED IN INVESTING ACTIVITIES	**505,078**	**800,327**
FINANCING ACTIVITIES		
Changes in financial assets	-	-
Increase (decrease) in other non-current liabilities	(76,273)	(32,237)
Changes in shareholders' equity	(61,316)	25
NET CASH DERIVING FROM/(USED IN) FINANCING ACTIVITIES	**(137,589)**	**(32,212)**
NET INCREASE/(DECREASE) IN NET CASH AND CASH EQUIVALENTS	**1,925**	**(5,031)**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE FINANCIAL YEAR	**5,367**	**10,398**
CASH AND CASH EQUIVALENTS	**7,292**	**5,367**

7.6 Notes to the financial statements

Tiscali S.p.A. is a limited company incorporated under the laws of the Republic of Italy at the Cagliari Companies' Register. Tiscali S.p.A. is the Parent Company of the Tiscali Group which offers integrated Internet access services, telephony and multimedia services in particular positioning itself in the segment of IP technology services which makes it possible to provide voice and internet traffic on the same technological platform.

The financial information included in these statements is presented in euro (EUR) which is the currency used to conduct most of the parent company's operations.

The income statement and balance sheet, cash flow statement, statement of changes in shareholders' equity are presented in Euro while the values indicated in the explanatory notes are presented in thousands of Euro.

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

Tiscali S.p.A. closed its financial statements as at 31 December 2013 with a loss of EUR 0.8 million and shareholders' equity of EUR 61.1 million; the company heads up a group (the "Tiscali Group") which, as at the same date, closed the financial statements with a consolidated loss of EUR 4.8 million and negative consolidated shareholders' equity of EUR 151.9 million. Furthermore, again as at 31 December 2013, the Group had a gross financial debt of EUR 201.7 million and current liabilities greater than current assets (non-financial) for EUR 106.5 million.

As of 31 December 2012, the Group's consolidated loss amounted to EUR 15.8 million, with negative Group consolidated shareholders' equity of EUR 147.2 million. Furthermore, as at 31 December 2012, the Group had a gross financial debt of EUR 197.2 million and current liabilities greater than current assets (non-financial) for EUR 119.6 million.

As from 2009, the Group, after having completed the disposal of Tinet and the UK subsidiaries, allocating the proceeds of the sale to the repayment of part of the debt, 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, which has been reflected in the business and financial plan.

In a recessionary context, the transformation underway for some years in the telecommunications market has led to greater competitiveness and erosion of the revenues and the margin for the operators.

Progressive saturation for the fixed network broadband market, the sharp competition of the data proposals on the mobile networks and the possibility for customers to migrate from one operator to another with minimum inconvenience and costs, led to greater acceptance by customers of promotions, and as a consequence a tendency for prices to drop.

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 products), Tiscali, like the other telecommunications companies, has rationalised its internal processes implementing rigorous cost cutting programmes to preserve margins and maintain the competitive position, as well as to try and diversify its revenue streams in web and Over-The-Top services.

During 2013, 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:

- management continued with action aimed at containing costs and, therefore, the greater profitability of the telecommunications services;

- in November 2013, the Solidarity Agreement was renewed with the employees (as per Italian Law No. 863 dated 1984) for a further 24 months, having been originally entered into in 2011;
- the strategy continued for the application of more stringent control policies on the incoming customers, which led to an improvement in the customer base and the consequent cash flows. In detail, once again in 2013, 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);
- management adopted specific action for improving the working capital aimed at reducing the average collection days.

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

- thanks to the aggressive sales policies and the optimum performance of the web sales channels, the decreasing trend in the customer base reversed (both single and double play) with a pick-up in the same with respect to last year (the sales policies in question what is more led to a reduction on the ARPU of the ADSL with related impacts on the revenues of the Access and VOIP segment);
- media revenues disclosed a trend essentially in line with that last year, despite the sharp drop in the advertising market which also affected the digital media segment;
- revenues deriving from business services (VPN, housing, domains and leased lines) disclosed an increase of 10% with respect to last year;
- the Group continued to focus on innovation:
  - on 19 April 2013, the official launch took place for the search engine “Istella”, presented to market operators and analysts. Istella is an innovative search engine dedicated to the Italian language which facilitates the active contribution by users;
  - Indoona (a rich communications service dedicated to smartphones, tablets and PCs), which achieved more than 1.7 million downloads, confirms the historic positioning of Tiscali as innovative operator in the sphere of internet services;
  - Streamago was completely overhauled.

During the year, the Group also benefited from:

- the closure of a number of settlement transactions with the leading suppliers of network services which had a positive effect for around EUR 8.5 million, and
- the improvement in the regulatory conditions on access services on the fixed network which permitted a saving of around EUR 8 million (and which will permit savings also in coming years).

All the activities listed above made it possible to generate cash and cash equivalents from operating activities for around EUR 32 million, contributing towards reducing the Group’s overall debt.

In detail, during the year the Group honoured the due dates relating to financial debt deriving from the loan agreement taken out by the Group companies on 2 July 2009 (“Group Facility Agreement” or “GFA”), both in terms of principal and interest. As envisaged by the GFA and reflected in the financial plan, during 2013 the Group made payments to the related financing institutions amounting to EUR 9 million (of which EUR 1.5 million for interest).

As at 31 December 2013, however, certain of the financial parameters envisaged by the same GFA were not observed. In accordance with the provisions of the GFA, these violations represent a so-called Event of Default further to which the financing institutions could decide - with the favourable vote of parties which overall hold more than two thirds of the debt deriving from the GFA - to declare the entire amount of the loans due and collectable and therefore request the repayment of all that is due as per the GFA. On the basis of the matters set forth above, the Directors, when evaluating the existence of the conditions of the Group as a going concern in the current macro-economic context, and in the current competitive scenario, identified the following factors which indicate the existence of a number of significant uncertainties:

i. the unbalanced equity, financial and economic situation which the Group is headed into, as shown by the negative consolidated shareholders' equity for EUR 151.9 million, due mainly to the negative economic performance and weight of the considerable debt;

ii. the afore-mentioned presence of a so-called Event of Default as per the GFA, deriving from the violation of the financial parameters envisaged therein;

iii. the approach of the expiry date of Tranche A of the loan disbursed as per the GFA (i.e. 3 July 2014), when the Company should repay the entire residual amount of this tranche amounting to around EUR 82.5 million for principal plus PIK interest accrued as of the date of 3 July 2014. At 31 December 2013, this interest amounted to EUR 22 million.

In light of these factors of uncertainty, the establishment of a balanced equity, financial and economic situation for the Group over the long-term depends on the need to finalise a restructuring transaction with the financing institutions for the Tiscali Group's financial debt, which envisages amongst other aspects: (1) the waiver by the financing institutions of availing themselves of the contractual remedies envisaged by the GFA in the presence of the occurrence of the afore-mentioned Events of Default, (2) the rescheduling of the debt deriving from the GFA currently falling due in July 2014 and July 2015, for an amount of around EUR 104.9 million and EUR 26.9 million, respectively, (3) the redefinition of the financial covenants on the basis of the results envisaged in the business plan, approved by the Board of Directors on 13 June 2014, which in turn presupposes the realisation of forecasts and assumptions contained therein, and in particular, with reference to the evolution of the telecommunications market and achievement of the growth objectives set out (in a market context characterised by heavy competitive pressure).

In this context:

- as from the first few months of 2013, the Company - also in the interests of the other Tiscali Group companies - made a number of preliminary assessments and launched the first negotiations with said financing institutions as per the GFA so as to reschedule the debt;
- in April 2013, the Company submitted a debt restructuring proposal to all the creditors as per the GFA;
- in June 2013, a financial advisor was appointed to support the Tiscali Group with the restructuring of its financial debt;
- further to the negative response from some of the financing institutions, the Company drew up - with the support of the financial advisor - a new restructuring proposal which was submitted to the financing institutions during the first few days of August 2013;
- despite the positive responses of the Group's two main financial creditors, in October 2013 it emerged that the proposal had not met with the unanimous consent of the financing institutions as per the provisions of the GFA;
- after various meetings and further discussions with the financing institutions as per the GFA, in March 2014 a number of these financing institutions presented the Group with a restructuring proposal which the Group deemed somewhat impracticable since it would have led to a considerable disparity in the treatment of the various Group creditors and would have made it practically impossible to obtain the necessary consent of the creditors penalised the most, as well as unfairly; on 13 March and then on 20 March 2014, the Company therefore drew up and sent to all the financing institutions as per the GFA two different drafts of a Term Sheet containing the main terms and conditions of a new proposal for a debt restructuring

transaction which takes into account, as far as possible, the last proposal sent by the financing institutions;

- despite obtaining the compliance of the two leading financial creditors of the Group, the proposal containing the afore-mentioned Term Sheet was rejected by the others which, on 27 March 2014 and then on 7 April 2014, submitted two new proposals to the Group which, however, did not obtain the consent of the main financial creditor of the Group;
- following further discussions between the Group and the financing institutions, on 2 May 2014 the Group's financial advisor, in an attempt to reconcile the interests of all the parties involved, sent the Financing Institutions a new Term Sheet drawn up on the basis of the last one proposed by the former, having taken into account all the aspects which had not emerged as acceptable;
- this was followed by an additional, structured and intense period of negotiation with the financing institutions, which ended up in the drawing up, by the Company, of various new drafts of the afore-mentioned Term Sheet, the last of which was sent to the financing institutions by the Group's financial advisor on 6 June 2014;
- this last draft of the Term Sheet contained a new proposal as things stand not binding, which on the one hand could give rise to a recapitalisation of the group and on the other will lead to a partial rescheduling of the debt and the re-wording of the financial covenants currently envisaged by the GFA in line with the Group performances envisaged in the new financial and business plan;
- the restructuring proposal containing the last draft of the term Sheet, was accepted, albeit in a non-binding manner and subject to the approval of the decision-making bodies of the financing institutions, by all the financial backers as per the GFA therefore permitting the Group to pursue a consensual hypothesis of restructuring its financial debt;
- the Board of Directors, during the meeting held on 13 June 2014, approved the updated version of the 2014-2018 business plan, hypothesising a restructuring of the debt in line with the restructuring transaction proposed in the last draft of the Term Sheet. This up-date of the plan, which takes into account both the results for 2013 and the first few months of 2014, does not differ with regard to the essential strategic lines from the plan approved on 29 March 2013 and, hypothesises, amongst other aspects, in relation to the projections of the 2014-2018 cash flows, the rescheduling of the part of the debt deriving from the GFA falling due in 2017 in excess with respect to the net cash flows generated over the plan's duration;

Therefore, the following depend on the possibility of managing to finalise the restructuring transaction for the financial debt of the Tiscali Group described in summary form previously and the possibility of achieving the forecasts contained in the business plan: a) the ability to rebuild an adequate supply of equity, b) the recoverability of asset items, c) the capacity to comply with the financial covenants as per the GFA and other contractual obligations relating to the Group's financial debt and therefore to maintain the availability of financing granted thus being able to meet other Group obligations, d) achievement of a balanced long-term equity, economic and financial situation for the Group.

Final assessment of the Board of Directors

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

- has observed all the payment obligations envisaged by the financial plan and by the GFA, having paid the related financial institutions, during 2013, a total amount of EUR 9 million (of which EUR 7.5 million for repayment of the principal and EUR 1.5 million for interest); In January 2014, in accordance with the GFA, interest was also repaid for EUR 0.5 million;
- has generated cash and cash equivalents of around EUR 32 million;

- has reduced its exposure to the suppliers;
- during 2013, achieved a growing trend in the telecommunications services customer base;
- updated the 2014-2018 financial and business plan having taken into account the results for 2013 and the first few months of 2014, on a consistent basis with the envisaged debt restructuring transaction deriving from the GFA;
- continued to focus on certain sectors with high growth potential, such as the media sector and on Over-The-Top products with high growth potential.

Furthermore, the Directors - despite disclosing how the finalisation of the debt restructuring transaction deriving from the GFA envisaged in the afore-mentioned Term Sheet is subordinate to the occurrence of specific conditions, including:

- the waiver by the financing institutions of the adoption of the contractual remedies envisaged by the GFA in the event of so-called Events of Default, until all the necessary contractual documentation has been signed;
- the completion of the authorisation process for the competent decision-making bodies of the compliant financing institutions; and
- the definition of the contractual documentation necessary for the implementation of said transaction under satisfactory terms for all the financing institutions,

on the basis of the matters indicated above, reasonably believe that the afore-mentioned Group debt restructuring transactions can be finalised, so as to be able to proceed with the implementation of the Group financial and business plan, thereby permitting over the long-term the achievement of a balanced equity, financial and economic situation.

In conclusion, when analysing what has already been achieved within the sphere of the process aimed at enabling the Group to obtain long-term equity, financial and economic equilibrium, the Directors acknowledge that, as already indicated in the financial statements relating to 2012, 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, and having taken into account the afore-mentioned outline consent expressed by all the financing institutions with regard to the proposed restructuring of the debt as per the GFA, they have the reasonable expectation that the definition of the transaction can be reached for the rebalancing of the Group's financial structures on a consistent basis with the expected cash flows and suitable for supporting the operating activities laid out in the afore-mentioned financial and business plans and 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.

This assessment is naturally the result of a subjective opinion, which has compared - with respect to the events indicated above - the degree of probability of their occurrence with the opposite situation. Therefore, obviously it must be emphasised, in as far as it is obvious, that the prognostic opinion underlying the decision of the board, is liable to be contradicted by the evolution of events. Precisely because it is aware of the intrinsic limits of its decision, the Board of Directors will constantly monitor the evolution of the factors taken into consideration (as well as any other additional circumstance which takes on significance), so as to be able to promptly adopt the necessary measures, also in terms of recourse to the procedures envisaged by the law for business crisis situations.

Form and content of the accounting statements

Basis of preparation

The 2013 statutory financial statements represent the separate financial statements of the Parent Company Tiscali S.p.A. and have been prepared in observance of the International Accounting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") as approved by the European Union, as well as the instructions issued by way of implementation of Article 9 of Italian Legislative Decree No. 38/2005. The IFRS are understood to be all the reviewed international accounting standards ("IAS") and all the interpretations by the International Financial Reporting Interpretations Committee ("IFRIC") previously called the Standing Interpretations Committee ("SIC").

Preparation of the financial statements requires management to make accounting estimates and in certain cases assumptions in the application of accounting standards. The areas of the financial statements which, under the circumstances, presuppose the adoption of applicative assumptions and those more fully characterized by estimates made, are described in the note *Critical decisions in applying accounting standards and in the use of estimates.*

Financial statement formats

The consolidated financial statements are composed of accounting statements (Income Statement, balance sheet, Statement of changes in consolidated shareholders' equity, and Cash Flow Statement), with explanatory notes. The Income Statement was drawn up in line with the minimum contents fixed by IAS 1 – Presentation of Financial Statements – with costs assignment by nature; the balance sheet was drawn up by following the scheme pointing out the division of "current/non-current" assets and liabilities; the Cash Flow Statement was drawn up by following the indirect method.

Accounting standards

General principles

The financial statements were prepared in compliance with the IAS/IFRS International Financial Reporting Standards (IFRS). The main accounting standards are detailed below. These standards were applied consistently to all periods presented.

Preparation of the financial statements requires management to make accounting estimates and in certain cases assumptions in the application of accounting standards. The areas of the financial statements which, under the circumstances, presuppose the adoption of applicative assumptions and those more fully characterized by estimates made, are described in the subsequent note of this section.

Equity investments in subsidiaries

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

In application of IAS 36, the value of equity investments recognised at cost is reduced if there is impairment or if circumstances emerge that indicate that said cost is not recoverable. If the impairment is discovered to no longer apply or is reduced, the book value is increased to the new estimated recoverable value, within the limits of the value recognised initially.

Impairment of assets

The book value of equity investments, other intangible assets and Property, plant and equipment is tested for impairment whenever there is an indication that the asset may have suffered impairment. The assets in question are tested annually or more frequently if there is any indication that those assets have suffered impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the Cash Generating Unit (CGU) to which the asset belongs. The recoverable amount is the higher between the 'fair value' less sales costs and its utilisation value. When assessing the utilisation value, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments on the value of money and the risks specific to the asset.

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

Other financial assets

Other financial assets are valued, consistently with IAS 39 provisions for financial assets 'available for sale', at fair value or alternatively at cost whenever fair value cannot be reliably calculated. Gains and losses from changes in fair value are directly booked to equity until the security is disposed of or is impaired, at which time the cumulative gain or loss previously booked to equity is included in the income statement for the period. The original value is reinstated in the following periods if the reasons for the write-down are considered to no longer apply.

Foreign currency transactions

Transactions in foreign currency are recorded at the exchange rate in force at the time of the transaction

Monetary assets and liabilities stated in foreign currency are converted at the exchange rate in force at the financial statement reference date. Exchange rate differences generated by the discharge of currency items or by their conversion at rates other than those at their initial recording in the year or at the end of the previous financial year are booked to the income statement.

Loans and receivables

Tiscali S.p.A.'s loans are stated under the "other non current financial assets", 'loans to customers", "other loans and sundry current assets" and "other current financial assets" items and are valued, if they have a fixed maturity, at amortised cost, using the effective interest rate method. When financial assets have no fixed expiry, they are estimated at the acquisition cost. Estimates are regularly carried out with the aim of making sure whether there is objective evidence that a financial asset or a group of assets have been subject to impairment. If there is objective evidence, the impairment must be recorded as a cost in the income statement for the period.

Cash and cash equivalents

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

Payables and financial liabilities

Tiscali S.p.A.'s payables and financial liabilities are stated under the "payables to banks and other financial institutions", "other non-current liabilities and "payables to suppliers" items and are recorded at face value. Financial payables are initially stated at cost, equating to the fair value of the amount received, net of related charges. Subsequently, these payables are stated at amortised cost using the effective interest rate method, calculated considering the issue costs and any other premium or discount envisaged on settlement.

Liabilities for pension obligations and staff severance indemnities

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

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

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

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

As from 1 January 2013 with retrospective efficacy, the Company adopted the new version of the accounting standard **IAS 19 “employee benefits”.**

The most significant amendment made to the standard concerns, with reference to the defined-benefit plans, the obligation to state all the actuarial gains/losses within the sphere of an equity reserve (OCI reserve), with consequent elimination of the so-called corridor approach.

The Group has applied the transition regulations envisaged by the new standards adjusting the comparative balances shown in this Annual financial report as if this had always been applied.

The main effects deriving from the application of the new IAS 19 accounting standards on the income statement and balance sheet results included for comparative purposes in this Annual financial report are as follows:

- since the corridor approach is not applicable, all the actuarial gains and losses are recognised directly under shareholders’ equity, in a specific reserve (OCI). Furthermore, actuarial gains and losses have been recognised under shareholders’ equity not recorded as at 31 December 2012 (in accordance with the afore-mentioned method), with consequent adjustment (restatement) of the liability for employees benefits and provision of the specific shareholders’ equity reserve (OCI) in the balance sheet as at 31 December 2012;
- since the deferral of the accounting registration of the past service cost in the income statement is no longer permitted, the portion not recognised as at 31 December 2012 (in accordance with the afore-mentioned method), has been recorded to increase the liabilities for employee benefits and the specific reserve (OCI).

Furthermore, it is hereby disclosed that the impacts on the consolidated income statement and on the balance sheet as at 31 December 2011 are negligible and have only been indicated in the Statement of changes in shareholders’ equity (5.5) of this Report.

Remuneration schemes involving interests in the share capital

The Group has assigned certain members of senior management and employees additional benefits via plans for interests in the share capital (stock option plans). These plans expired on 3 May 2012.

The cost, represented by the fair value of the stock options as of the date of allocation was recorded, for accounting purposes in accordance with IFRS 2- Share-based payment in the income statement with a matching balance directly under shareholders' equity.

Provisions for risks and charges

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

Treasury shares

Treasury shares are booked to reduce the shareholders' equity.

Revenue recognition

Revenues are recognised to the extent that it is probable that financial profits will flow to Tiscali S.p.A. and their amount can be reasonably estimated; they are represented net of discounts, allowances and returns.

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

Financial income and charges

Interest received and paid is recognised using the effective interest rate method.

Taxes

Income tax expense for the year includes the tax currently payable and deferred tax.

The *tax currently payable* is based on taxable income for the year. Taxable income differs from the result reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it also excludes items that are never taxable or deductible. Liability for current tax is calculated using tax rates applicable at the balance sheet date.

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

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

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

Accounting estimates and relevant assumptions

Provisions for risks and charges

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

Equity investments

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

Fair value calculation

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

Accounting standards, amendments and interpretations effective from 1 January 2013

The international accounting standards, the changes to the existing standards and the interpretations, relevant for the Group, adopted for the first time as from 1 January 2013, are presented below:

Amendments to IAS 1 - Presentation in the financial statements of the items of the other components of the statement of comprehensive income

The amendment to the standard lays down that, in the section of the other components of the statement of comprehensive income (OCI), a distinction must be made between the elements which in the future will be reclassified in the income statement (so-called "recycling") and those which will not be reclassified in the income statement. The application, on a retroactive basis, of this amendment has not had any significant impacts on these financial statements; The comparative information presented has been consistently re-stated.

IAS 19 – Employee benefits

It replaced the version of IAS 19 applied up until the drafting of the 2012 financial statements. The most significant amendment made to the standard concerns, with reference to the defined-benefit plans, the obligation to state all the actuarial gains/losses within the sphere of the OCIs, with consequent elimination of the so-called corridor approach. Furthermore, the new version of the standard introduces more stringent regulations for the presentation of the data in the financial statements, separating the cost - for the defined-benefit plans and for the other long-term benefits - into three components (i.e. service cost, net interest on net assets/liabilities, re-measurement of the net assets/liabilities); it introduces the calculation of the interest income in replacement of the return expected on the assets serving a defined-benefit plan; it no longer allows one to defer the accounting registration in the income statement for the past service cost; it extends the disclosure to be presented in the financial statements; it introduces more detailed regulations for the recording of the termination benefit.

IFRS 13 - Fair value valuation

This represents a transversal framework to be referred to each time other accounting standards require or permit the application of the fair value approach. The standard provides a guide on how to establish the fair value, also introducing specific disclosure requisites. The application, on a forecast basis, of this standard has not had any significant impacts on these consolidated financial statements.

Amendments to IFRS 7 – Offsetting financial assets and liabilities

The amendment requires the extension of the disclosure regarding the offsetting of financial assets and liabilities, for the purpose of permitting the users of the financial statements to assess the effects, including potential, of the netting agreements (including the netting rights associated with assets or liabilities stated in the financial statements) on the financial position of the company. The Group adopted these amendments as from 1 January 2013, retrospectively. The adoption of these amendments has not had any effect on the disclosure included or on the amounts reported in these financial statements.

Amendments to IAS 12 - Deferred taxes : recovery of underlying assets

The amendment introduces a concession in the accounting registration of the deferred taxes on the basis of the methods by means of which the book value of the underlying assets will be recovered. This concession refers to the arrangements in which differentiated rates are envisaged according to whether the company decides to sell rather than use these assets in its operating cycle. The application, on a retroactive basis, of this amendment has not had any impacts on these financial statements.

2009-2011 annual cycle of improvements to the international accounting standards

These concern formal amendments and clarifications to standards already existing, whose retroactive application has not had any impacts on these consolidated financial statements; In detail, the following standards have been amended:

- **IAS 1 - Presentation of financial statements**; the amendment clarifies how the comparative disclosure must be presented in the financial statements and specifies that the company can decide voluntarily to present additional comparative disclosure. In detail, it specifies that a company must present a third balance sheet at the start of the previous year in addition to the minimum comparative disclosure schedules required if:

- it retroactively applies an accounting standard, retroactively recalculates the items in its financial statements or reclassifies certain items in its financial statements, and
- the retroactive application, the retroactive recalculation or the reclassification have a significant impact on the disclosure presented in the balance sheet at the start of the previous year.

When a company reclassifies the comparative balances, it must indicated (including at the start of the previous year) the nature of the reclassification, the amount of each item reclassified and the reasons for the reclassification;

- **IAS 16 - Property, plant and equipment**; the amendment clarifies that if the spare parts and equipment satisfy the requisites for being classified as "Property, plant and equipment" they must be recognised and valued according to IAS 16, otherwise they must be recognised and valued as inventories;
- **IAS 32 - Financial instruments: presentation in the financial statements and supplementary information;** the amendment lays down that the income taxes related to the distributions to holders of instruments representing capital and those linked to transaction costs relating to transactions on the share capital, must be recorded as per the provisions of IAS 12;
- **IAS 34 - Interim financial reporting**; the amendment lays down that, in the interim financial statements, the total of the assets and liabilities of a specific sector must be indicated only if this figure is duly provided at the highest operational decision-making level and if the same has undergone a significant change with respect to the last set of annual financial statements presented.

The Company has decided not to avail itself of the faculty, where envisaged, of going ahead with early adoption of other international accounting standards, interpretations and amendments to the same, issued and approved, but whose date of initial application is subsequent to 1 January 2013.

International accounting standards and/or interpretations issued but not yet in force and/or approved

The new Standards and Interpretations significant for the Company, already issued but not yet in force or not yet approved by the European Union as of 31 December 2013, and therefore not applicable, are listed briefly below. None of these Standards or Interpretations have been adopted by the Group in advance. The preliminary analysis carried out does not envisage significant impacts on the financial statements from the application of these Principles and Interpretations.

- Amendments to IAS 32 - Financial instruments: presentation - offsetting financial assets and liabilities - these amendments more fully clarify the requirements necessary for offsetting financial assets and liabilities already present in this standard. These changes were approved by the European Union in December 2012 (EU Regulation No. 1256/2012) and apply as from 1° January 2014.
- IFRS 10 – Consolidated financial statements - The new standard replaces IAS 27 "Consolidated and separate financial statements" - limited to the part concerning the consolidated financial statements - and SIC 12 "Consolidation - Special purpose entities. Further to the issue of the new standard, IAS 27 - renamed "Separate financial statements" - contains the principles and guidelines for the drafting of the separate financial statements. The new IFRS 10 contains a definition of the single control model which applies to all the investee companies and which represent the determining factor for establishing whether an investee must be consolidated or not. The accounting treatment and consolidation procedures are by contrast unchanged with respect to that currently envisaged by IAS 27. This standard was approved by the European Union in December 2012 (EU Regulation No. 1254/2012) and applies as from 1° January 2014.

- IFRS 11 – Joint arrangements - IFRS 11 replaces IAS 31 "Interests in joint ventures" and SIC 13 "Jointly-controlled entities - conferrals in kind by those taking part in the control and defines the reference principles for the representation of joint investment agreements. This standard was approved by the European Union in December 2012 (EU Regulation No. 1254/2012) and applies as from 1° January 2014.
- IFRS 12 – Disclosure of interests in other entities - IFRS 12 includes – extending the same - all the requirements in terms of supplementary information which must be provided with regard to subsidiaries, associated companies, joint arrangements and other investments (so-called structured entities). This standard was approved by the European Union in December 2012 (EU Regulation No. 1254/2012) and applies as from 1° January 2014.
- IAS 28 – Investments in associates and joint ventures - Further to the introduction of the new IFRS 10 and 12, IAS 28 was renamed "Investments in associates and joint ventures" and describes the application of the shareholders' equity method for investments in jointly-controlled companies, in addition to associates. These changes were approved by the European Union in December 2012 (EU Regulation No. 1254/2012) and apply as from 1° January 2014.

  Amendments to IFRS 10 "Consolidated financial statements", IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosure of interests in other entities" - Transition guide - These changes were approved by the European Union in April 2013 (EU Regulation No. 313/2013) and apply as from 1° January 2014.
- Amendments to IFRS 10, IFRS 12 and IAS 27 - Investment entities - These amendments apply to a particular class of assets defined as investment entities, whose corporate purpose involves investing in funds for the purpose of obtaining income from capital or a revaluation of the invested capital or for both reasons. On the basis of amendments, the companies controlled by the investment entities must not be consolidated line-by-line but rather valued at fair value in the income statement. These changes were approved by the European Union in November 2013 (EU Regulation No. 1174/2013) and apply as from 1° January 2014.
- Amendments to IAS 36 - Impairment of assets - supplementary information on the recoverable value of the non-financial assets. These changes were approved by the European Union in December 2013 (EU Regulation No. 1374/2013) and apply as from 1° January 2014.
- IFRIC 21 - Levies - The interpretation defines the accounting treatment of the liabilities for government taxes and levies other than income taxes in relation to the moment when an entity can recognise these liabilities. The interpretation has not yet been approved by the European Union.
- Amendments to IAS 19 - Employee benefits - defined-benefit plans: contribution by employees or third parties - These amendments introduce the distinction between types of contributions envisaging a different accounting approach. The amendments have not yet been approved by the European Union.
- "Improvements" to IFRS cycle 2010-2012 (issued by the IASB in December 2013) - These amendments, whose applicability is envisaged as from 1 July 2014 with the exception of the amendments to IFRS 13 which apply immediately, have not yet been approved by the European Union.
- "Improvements" to IFRS cycle 2011-2013 (issued by the IASB in December 2013) - These amendments, whose applicability is envisaged as from 1 July 2014, have not yet been approved by the European Union.
- IFRS 9 - Financial Instruments (issued in November 2009 and October 2010) and subsequent amendments (issued in December 2011 and November 2013) - IFRS 9 will ultimately replace IAS

39 Financial instruments: Recognition and Measurement, and its main objective is to reduce the complexity. IFRS 9 and all the related amendments have not yet been approved.

- Amendments to IFRS 7 - Financial instruments: disclosures . initial application of IFRS 9 - These amendments introduce the obligation to provide additional quantitative information at the time of transition to IFRS 9 so as to clarify the effects which the first-time application of IFRS 9 has on the classification and measurement of the financial instruments. These amendments have not yet been approved by the European Union.

Revenues and Other income (note 1)

Operating revenues are represented by:

Revenues (EUR 000)	2013	2012
Revenues from services provided to Group companies	4,279	4,357
Revenues from services to third parties	133	134
Revenues	**4,412**	**4,491**
Other income	-	-
Other income	**-**	**-**
Total	**4. 412**	**4,491**

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

The residual balance of EUR 0.1 million comprises sundry revenues, costs recharged and out-of-period income.

Revenues by country (EUR 000)	2013	2012
Revenues from services provided to Group companies	**4,279**	**4,357**
- *Italy*	4,279	4,357
Revenues from services to third parties	**133**	**134**
- *Denmark*	26	26
- *South Africa*	40	40
- *Switzerland*	10	8
- *The Netherlands*	24	8
- *Italy*	**32**	52
	4,412	**4,491**

Purchase of materials and outsourced services (note 2)

Costs for the purchase of materials and outsourced services amount to EUR 1.2 million and essentially include (EUR 0.6 million) the costs incurred for legal advice, tax advice as well as other general expenses.

Payroll and related costs (note 3)

Payroll and related costs are stated in detail as follows:

(EUR 000)	2013	2012
Wages and salaries	1,292	1,301
Other personnel costs	408	564
Total	**1,699**	**1,865**

At 31 December 2013, Tiscali S.p.A. had 8 employees. The relevant categories are disclosed below together with the corresponding figures at 31 December 2012.

Category	2013	2012
Executives	5	5
Middle managers	1	1
Office staff	3	2
Total	**9**	**8**

Other operating income/ (costs) (note 4)

The table below shows a breakdown of these costs:

EUR 000	2013	2012
Other operating costs/(income)	757	1,484
Total	**757**	**1,484**

Other operating costs/(income) include the net effect deriving from sundry operating charges for EUR 1 million and the write-off of liabilities.

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

EUR 000	2013	2012
Write-down of receivables	372	2,245
Restructuring costs, provisions for risk reserves and other write-downs	913	279
Total	**1,285**	**2,524**

The item "Restructuring costs, provisions for risk reserves and other write-downs" mainly comprises the net impact of the professional charges for the restructuring of the senior debt and for the closure and winding up of the German companies and the write-off of liabilities.

The other write-downs refer by contrast to the credit positions vis-à-vis the UK subsidiary deemed as unrecoverable.

Financial income (charges) (note 6)

EUR 000	2013	2012
Financial income		
Interest on bank deposits	-	-
Other	63	222
	63	**222**
Financial charges		
Interest and other charges due to banks	(10)	(14)
Other financial charges	(1,718)	(1,051)
	(1,728)	**(1,064)**
Net financial income (charges)	**(1,665)**	**(843)**

Net financial charges, disclosing a negative balance of EUR 1.7 million, refer mainly for EUR 0.9 million to the interest on the GFA debt allocated to the parent company Tiscali S.p.A..

Income taxes (note 7)

EUR 000	2013	2012
Current taxes	81	669
Prepaid taxes	-	-
Other taxes	-	574
Net taxes for the year	**81**	**1,243**

The balance of current taxes includes IRAP (regional business tax) and IRES (company earnings' tax) for the year.

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

EUR 000	2013	2012
Profit from assets disposed of and/or destined for disposal	-	-
Result from assets disposed of and/or destined for disposal	-	(652)
Result from assets disposed of and/or destined for disposal	**-**	**(652)**

Equity investment (note 9)

At 31 December 2013, this item included equity investments in subsidiaries, for a total of EUR 131 million.

SUBSIDIARIES (EUR 000)	31.12.2013 *Cost*	*Revaluations/(Write-downs)*	*Book value*	31.12.2012 *Cost*	*Revaluations/(Write-downs)*	*Book value*
Tiscali Deutschland Gmbh	283,475	(283,475)	-	283,475	(283,475)	-
Tiscali Finance SA	22,218	(22,218)	-	22,218	(22,218)	-
Tiscali Italia S.p.A.	130,956	-	130,956	130,956	-	130,956
World Online International N.V.	1,811,994	(1,811,994)	-	1,811,994	(1,811,994)	-
Tiscali Financial Services Sa	31	-	31	31	-	31
Tiscali UK Holdings Ltd	-	-	-	-	-	-
	2,248,674	**(2,117,687)**	**130,987**	**2,248,674**	**(2,117,687)**	**130,987**

The table below indicates movements in the period.

SUBSIDIARIES (EUR 000)	Balance 31.12.2012	Increases	(Disposals)	*Revaluations/ (Write-downs)*	Other changes	Balance 31.12.2013
Tiscali Deutschland Gmbh	-	-	-	-	-	-
Tiscali Finance SA	-	-	-	-	-	-
Tiscali Italia S.p.A.	130,956	-	-	-	-	130,956
World Online International N.V.	-	-	-	-	-	-
Tiscali Financial Services Sa	31	-	-	-	-	31
Tiscali UK Holdings Ltd	-	-	-	-	-	-
	130,987	**-**	**-**	**-**	**-**	**130,987**

Checks on the value reductions in equity investments in subsidiary companies

As at the date of the financial statements, also considering the presence of impairment indicators, an impairment test was performed on assets, in accordance with IAS 36 and prescribed in the joint Bank of Italy / Consob / ISVAP document.

The impairment test on assets was performed by comparing the value of assets reported at 31 December 2013 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 Units identified;

(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 2014-2018 Plan approved by the Board of Directors.

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

- explicit forecast period equating to the remaining plan duration;
- 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 7%.

The result of the impairment test shows a positive difference between the recoverable value and book value, thus the Group feels that it is not necessary to write down any of the balance sheet assets.

(iii) Sensitivity analysis of the impairment test results.

In consideration of the current scenario and the results of the impairment tests performed for the period ended 31 December 2013, 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.

(iv) Considerations on the presence of external impairment indicators

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

Other information

SUBSIDIARIES (EUR 000)	**Registered Offices**	**Share Capital**	**Shareholders' equity**	**Result**	**% Held**	**Book value**
Tiscali Deutschland Gmbh (*)	Munich	555	(34,500)	(342)	100%	-
Tiscali Finance SA (*)	Luxemburg	125	(30)	(6)	100%	-
Tiscali Italia S.p.A.	Cagliari	34,800	20,193	2,780	100%	130,956
World Online International N.V (*)	Maarsen (NL)	115,519	-	-	99.5%	-
Tiscali Financial Services Sa (*)	Luxemburg	31	(3,826)	(133)	100%	31
Tiscali UK Holdings Ltd (*)	London	59	(305,007)	(11,604)	100%	-
Total						**130,987**

(*) preliminary figures relating to the financial statements as at 31 December 2013

Other non-current financial assets (note 10)

(EUR 000)	31 December 2013	31 December 2012
Receivables from Group companies	2,217	3,090
Other receivables	-	-
Total	**2,217**	**3,090**

Other non-current assets include financial receivables due from Group companies amounting to EUR 2.2 million (EUR 3 million in 2012).

The financial receivables due from Group companies are detailed below:

(EUR 000)	31.12.2013	31.12.2012
Tiscali Business Gmbh	1,440	1,415
Tiscali Business UK Ltd	17	10
Tiscali Deutschland Gmbh	550	550
Tiscali Finance Sa	28	21
Tiscali UK Holdings Ltd	-	254
Tiscali Verwaltungs Gmbh	80	80
Veesible S.r.l.	102	760
	2,217	**3,090**

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Receivables from customers (note 11)

(EUR 000)	31 December 2013	31 December 2012
Receivables from customers	5,320	2,859
Receivable write-down provision	(1,274)	(1,274)
Total	**4,046**	**1,585**

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

(EUR 000)	31 December 2013	31 December 2012
Tiscali UK Holdings Ltd	-	-
Tiscali Italia S.p.A.	3,917	1,516
Veesible S.r.l.	26	-
Total	**3,943**	**1,516**

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

(EUR 000)	31 December 2013	31 December 2012
Within 12 months	4,046	1,585
Between 1 and 5 years	-	-
Beyond 5 years	-	-
Total	**4,046**	**1,585**

The book value of trade receivables is approximate to their fair value. It is further highlighted that receivables from customers will be due within 12 months and do not present any overdue balances of a significant amount.

Other Receivables and other current assets (note 12)

(EUR 000)	31 December 2013	31 December 2012
Other receivables	132	191
Accrued income	-	-
Prepaid expense	61	1
Total	**193**	**192**

Cash and cash equivalents (note 13)

At the end of 2013, cash and cash equivalents totalled EUR 7.2 thousand and include the company's liquid resources, essentially held in bank current accounts. Reference should be made to the report on operations for a detailed analysis of the financial position.

Shareholders' equity (note 14)

EUR 000	31 December 2013	31 December 2012
Share capital	92,023	92,020
Stock option reserve	-	-
Loss coverage reserve	-	-
Other reserves	(3,468)	(3,432)
Result from previous periods	(26,677)	(23,533)
Result for the year	(778)	(3,115)
Total	**61,101**	**61,940**

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

The number of shares representing the Parent Company's share capital amount to 1,861,498,780 lacking par value, compared with 1,861,494,698 shares as at 31 December last year. The increase during the year, equating to 4,082 shares, was justified by the issues consequent to the exercise of the Tiscali S.p.A. 2009 - 2014 warrants convertible into Tiscali shares combined with the share capital increase in November 2009. Following these issues, the share capital as at 31 December 2013 came to EUR 92,022,779.27.

As at 31 December 2013, in the presence of losses generated, the Company found itself in the circumstances envisaged by Article 2446 of the Italian Civil Code. The directors will take steps to adopt the appropriate measures.

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

Detailed statement of Shareholders' Equity items						Summary of uses in the last 3 accounting periods	
	Amount	Utilisation options	Available portion	Available portion with no tax effect	Available portion with tax effect	Loss coverage	Other
Share capital	92,023		-	-	-	-	-
Legal reserve	91	B					
Reserve for loss coverage	-	B				-	
Other reserves	(3,558)						
Result for the year	(27,454)		-	-	-	-	-
Total	**61,101**		**--**	**-**	**-**	**-**	**-**

Utilisation options – Key:

A For share capital increases
B For loss coverage
C For distribution to shareholders

Other non-current liabilities (note 15)

EUR 000	31 December 2013	31 December 2012
Payables to Group companies	4,244	4,816
Other payables	-	-
Total	**4,244**	**4,816**

The balance of Other non-current liabilities primarily concerns financial payables due to group companies for EUR 4.2 million, illustrated in detail in the table below:

(EUR 000)	31 December 2013	31 December 2012
Tiscali Financial Services SA	-	193
Tiscali Gmbh	3,556	2,045
Tiscali Italia S.p.A.	657	2,551
Tiscali International Network BV	27	26
Indoona S.r.l.	3	1
Istella S.r.l.	1	1
Total	**4,244**	**4,816**

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

(EUR 000)	31 December 2013	31 December 2012
Between 1 and 5 years	4,244	4,816
Beyond 5 years	-	-
Total	**4,244**	**4,816**

Liabilities for pension obligations and staff severance indemnities (note 16)

The table below shows the changes during the period:

(EUR 000)	31 December 2012	Increases	Decreases	Other changes	31 December 2013
Staff severance indemnities	163	73	(99)	67	204
Total	**163**	**73**	**(99)**	**67**	**204**

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

The liability was discounted back as laid down by accounting standard IAS 19 (2011 review). In this connection, account was taken of the impact of the retro-application of the IAS 19R standard (applicable as from 1 January 2013 with retroactive efficacy) on the balance sheet and income statement items for 2012, without however taking steps to re-state these balance in the financial statements as at 31 December 2013 since this impact is of little significance.

In accordance with national regulations and laws, the amount due to each employee matures depending on the service provided, and has to be immediately disbursed when the employee leaves the company. At the end of the work relationship, the amount due is calculated pursuant to Italian civil and employment law, on the basis of the duration of the work relationship itself and the taxable remuneration of each employee. The liability is annually adjusted in compliance with the official cost of living index, and with the interest established by law. It is not associated with any condition or period of accrual, or with any financial funding obligation; therefore, there are no assets serving the provision. In compliance with IAS 19, the provision was recorded under “Defined benefit plans”. The main actuarial hypotheses used in the assessment are set out below.

Financial assumptions

Inflation rate:	2.0%
Discount rate:	3%

Demographic assumptions:

Mortality:	ISTAT 2010 mortality tables M/F
Disability:	INPS 1998 M/F disability tables
Resignation:	*3.50% from 20 to 65 years of age*
Advance payments:	3% from 20 to 65 years of age
Retirement:	65 for men and 60 for women, with maximum length of service of 40 years

Provisions for risks and charges (note 17)

The table below shows the changes during the period:

EUR 000	31 December 2012	Increases	Decreases	31 December 2013
Provisions for employee dispute risks and charges	542	-	(210)	332
Provision for reorganisation charges	16,831	1,091	(1,109)	16,813
Other provisions for risks and charges	6	-	-	6
Total	**17,378**	**1,091**	**(1,319)**	**17,151**

The provision for employee dispute risks and charges refers to legal disputes with third parties or former employees furthered in previous years. The provision for reorganisation charges is attributable to the impact on Tiscali S.p.A. of the re-allocation, in the jointly-liable companies, of the debt due to the financial institutions of Tiscali UK Holdings Ltd.

Payables to banks and other lenders (note 18)

EUR 000	31 December 2013	31 December 2012
Payables to banks	-	76
Total	**-**	**76**

Payables to suppliers (note 19)

EUR 000	31 December 2013	31 December 2012
Trade payables to third parties	4,134	5,079
Trade payables to Group companies for materials and services	450	34
	4,584	**5,113**

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

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

Trade payables due to Group companies are detailed below:

EUR 000	31 December 2013	31 December 2012
Tiscali Italia S.p.A.	450	34
	450	**34**

Other current liabilities (note 20)

EUR 000	31 December 2013	31 December 2012
Accrued expenses	-	-
Deferred income	6	6
Other payables to Group companies	33,992	35,816
Other payables to third parties	16,169	10,553
Total	**50,167**	**46,375**

Other payables to group companies refer to the financial indebtedness towards Tiscali International B.V..

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

Guarantees given and commitments (note 21)

Guarantees given are detailed as follows:

EUR 000	31 December 2013	31 December 2012
Guarantees given to third parties (sureties)	221,825	231,507
Commitments	1,600	1,400
Total	**223,425**	**232,907**

Sureties given include EUR 103 million in relation to the guarantee given by the parent company for the loans granted by Banca Intesa San Paolo and JP Morgan as part of the restructuring of the Group’s debt carried out during 2011.

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

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

Net financial position (note 22)

In accordance with the provisions of the Consob Communication No. DEM/6064293 dated 28 July 2006, it is pointed out the net financial position at 31 December 2013 is summarised in the following table, drafted on the basis of the format envisaged by the CESR Recommendation dated 10 February 2005 "Recommendations for the uniform implementation of the European Community regulations on information prospectuses:

(EUR 000)	31.12.2013	31.12.2012
A. Cash	-	-
B. Other cash equivalents	7	5
C. Securities held for trading	-	-
D. Cash and cash equivalents (A) + (B) + (C)	**7**	**5**
E. Current financial receivables	**193**	**192**
F. Current bank payables	-	(76)
G. Current portion of non-current debt		
H. Other current financial payables	(33,992)	(35,816)
I. Current financial debt (F) + (G) + (H)	**(33,992)**	**(35,892)**
J. Net current financial debt (I) – (E) – (D)	**(33,792)**	**(35,695)**
K. Non-current bank payables	-	-
L. Bonds issued	-	-
M. Other non-current payables to Group companies	(4,245)	(4,816)
N. Other non-current payables to third parties	-	-
O. Non-current financial debt (K) + (L) + (M) + (N)	**(4,245)**	**(4,816)**
P. Net financial debt (J) + (O)	**(38,037)**	**(40,511)**

Financial risk management

Financial risk management objectives

The Group's Corporate Treasury division provides business services, co-ordinates access to the local and international financial markets, and monitors and handles the financial risk associated with Group operations by means of internal risk reports which analyse the exposures by degree and magnitude of the risk. These risks include market risks (inclusive of currency risks, fair value interest rate risks and price risks), credit risks and risks in cash flow interest rates.

Market risks

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

Transactions with related parties

During 2013, the Tiscali S.p.A. had a number of dealings with related parties.

These were transactions regulated on an arms'-length basis; the table below summarises the balance sheet and income statement values recorded in the Parent Company's financial statements at 31 December 2012 arising from transactions with related parties.

The effects on the income statement are indicated as follows:

INCOME STATEMENT	2013	of which: related parties	% change
(EUR 000)			
Revenues	4,412	4,279	97.0%
Other income	-		
Purchase of materials and outsourced services	(842)	(81)	9.6%
Payroll and related costs	(1,699)		
Other operating costs	384	(275)	(71.7)%
Write-downs of receivables from customers	(372)		
Other write-downs	(913)		
Amortisation/depreciation	-		
Operating result	**969**	**3,923**	
Portion of result of equity investments carried at equity	-		
Net financial income (charges)	(1,666)	(1,042)	63%
Pre-tax result	**(697)**	**2,881**	
Income taxes	(81)		
Net result from operating activities (on-going)	**(778)**	**2,881**	
Result from assets disposed of and/or destined for disposal	-		
Net result	**(778)**	**2,881**	

INCOME STATEMENT	2012	of which: related parties	% change
(EUR 000)			
Revenues	4,491	4,357	97.0%
Other income	-		
Purchase of materials and outsourced services	(824)	(59)	7.1%
Payroll and related costs	(1,865)		
Other operating costs	350	(275)	(78.5)%
Write-downs of receivables from customers	(2,245)		
Other write-downs	(279)		
Amortisation/depreciation	(6)		
Operating result	**(378)**	**4,023**	
Portion of result of equity investments carried at equity	-		
Net financial income (charges)	(844)	(575)	68%
Pre-tax result	**(1,221)**	**3,448**	
Income taxes	(1,243)		
Net result from operating activities (on-going)	**(2,464)**	**3,448**	
Result from assets disposed of and/or destined for disposal	(652)		
Net result	**(3,115)**	**3,448**	

The effects on the balance sheet were as follows:

BALANCE SHEET *(EUR 000)*	**31 December 2013**	**of which: related parties**	**% change**
Non-current assets	133,205	2. 217	1.7%
Current assets	4,246	3,943	83.9%
Total Assets	**137,451**	**6,160**	
Shareholders' equity	61,101		
Total Shareholders' equity	**61,101**		
Non-current liabilities	21,600	4,245	19.7%
Current liabilities	54,752	33,992	62.1%
Total Liabilities and Shareholders' equity	**137,451**	**38,237**	

BALANCE SHEET *(EUR 000)*	**31 December 2012**	**of which: related parties**	**% change**
Non-current assets	134,078	3,090	2.3%
Current assets	1,783		
Total Assets	**135,861**	**3,090**	
Shareholders' equity	61,940		
Total Shareholders' equity	**61,940**		
Non-current liabilities	22,357	4,816	21.5%
Current liabilities	51,564	35,816	69.4%
Total Liabilities and Shareholders' equity	**135,861**	**40,632**	

The most significant balances, at 31 December 2013, summarized by supplier of the services, are as follows:

INCOME STATEMENT VALUES		31 December 2013				31 December 2012			
EUR 000		Costs	Write-downs	Interest earned /(expense)	Revenues	Costs	Write-downs	Interest earned /(expense)	Revenues
Tiscali Business Gmbh	1	-	-	11	-	-	-	50	-
Tiscali Financial Services Sa	1	-	-	-	-	-	-	(1)	-
Tiscali Gmbh	1	-	-	(6)	-	-	-	(15)	-
Tiscali International BV	1	-	-	2	-	-	-	4	-
Tiscali International Network BV	1	-	-	-	-	-	-	2	-
Tiscali Italia S.p.A.	1	(355)	-	-	4,279	(334)	-	-	4,357
Tiscali UK Holdings Ltd	1	-	-	(1,049)	-	-	-	(615)	-
Total Group companies		**(355)**	**-**	**(1,042)**	**4,279**	**(334)**	**-**	**(575)**	**4,357**
Other related parties									
Other related parties		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total Group companies and other related parties		**(355)**	**-**	**(1,042)**	**4,279**	**(334)**	**-**	**(575)**	**4,357**

BALANCE SHEET VALUES *EUR 000*	Notes	**31 December 2013**				
		Trade receivables	Financial receivables	Trade payables	Financial payables (within 12 months)	Financial payables (beyond 12 months)
Tiscali Business Gmbh	1	-	1,440	-	-	
Tiscali Business UK Ltd	1	-	17	-	-	
Tiscali Deutschland Gmbh	1	-	550	-	-	
Tiscali Finance Sa	1	-	28	-	-	
Tiscali Gmbh	1	-	-	-	-	3,556
Tiscali International BV	1	-	-	-	33,992	
Tiscali International Network BV	1	-	-	-	-	26
Tiscali Italia S.p.A.	1	3,917	-	450	-	657
Tiscali UK Holdings Ltd	1	-	-	-	-	
Indoona S.r.l.	1	-	-	-	-	3
Istella S.r.l.	1	-	-	-	-	1
Tiscali Verwaltungs Gmbh	1	-	80	-	-	-
Veesible S.r.l.	1	26	102	-	-	-
Total Group companies		**3,943**	**2,217**	**450**	**3,992**	**4,244**
Other related parties						
Other related parties		**-**	**-**	**-**	**-**	
Total Group companies and other related parties		**3,943**	**2,217**	**450**	**33,992**	**4,244**

(1) Group companies.

BALANCE SHEET VALUES *EUR 000*	Notes	31 December 2012					
		Trade receivables	Financial receivables	Trade payables	Financial payables (within 12 months)	Financial payables (beyond 12 months)	Stock Option reserve
Tiscali Business Gmbh	1	-	1,415	-	-	-	-
Tiscali Business UK Ltd	1	-	10	-	-	-	-
Tiscali Deutschland Gmbh	1	-	550	-	-	-	-
Tiscali Finance Sa	1	-	21	-	-	-	-
Tiscali Financial Services Sa	1	-	-	-	-	193	-
Tiscali Gmbh	1	-	-	-	-	2,045	-
Tiscali International BV	1	-	-	-	35,816	-	-
Tiscali International Network BV	1	-	-	-	-	26	-
Tiscali Italia S.p.A.	1	1,516	-	34	-	2,551	-
Tiscali UK Holdings Ltd	1	-	254	-	-	-	-
Tiscali Verwaltungs Gmbh	1	-	80	-	-	-	-
Indoona S.r.l.	1	-	-	-	-	1	-
Veesible S.r.l.	1	-	760				
Total Group companies		**1,516**	**3,090**	**34**	**35,816**	**4,816**	**-**
Other related parties							
		-	**-**	**-**	**-**	**-**	**-**
Total Group companies and other related parties		**1,516**	**3,090**	**34**	**35,816**	**4,816**	**-**

(1) Group companies.

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 (VEB)/ 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 listing 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 WOL had created optimistic expectations regarding its activities.

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 listing 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 proceeding with similar action was furthered, if the conditions should apply.

In August 2013, the Tiscali Group - having also taken into account the existing insurance coverage - entered into a settlement agreement with the financial institutions, on the basis of which the same financial institutions waive all compensatory action vis-à-vis WOL relating to the transactions carried out by them with the shareholders' associations indicated above.

The agreement envisaged an outlay, by WOL, of a sum amounting to EUR 1.75 million, made in September 2013.

You are also hereby informed that Stichting Van der Goen WOL Claims in December 2011 made an additional request for compensation representing a further 28 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 settlement agreement which the Tiscali Group has finalised with the financial institutions. The same Stichting Van der Goen WOL Claims confirmed its claims by means of letter dated 6 March 2013 and, subsequently, launched legal proceedings, served on 19 June 2014 (*), vis-à-vis WOL and the financial institutions tasked with the listing of said WOL. Having also taken into account the opinion of their Dutch legal advisors, the directors believe that the risk of losing is not probable.

(*) Information added on 19 June 2014.

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.

Other legal proceedings

In September 2013, the Company received notification, pursuant to Italian Legislative Decree No. 231/2001, of the conclusion of the preliminary investigations for alleged false corporate communications relating to the financial statements between 2008 and 2012. Trusting in the full legitimacy of its action and its directors, as well as in the absolute correctness of the accounting and financial documents, the Company is taking the necessary defence action. The subsidiary Tiscali Italia S.p.A received the same notification in January 2014.

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

In accordance with Article 78 of regulations enforcing Italian Legislative Decree No. 58/1998, issued by CONSOB under Resolution No. 11971/99, the following tables indicate the fees paid to Directors and Statutory Auditors.

Name and surname	Position	Term of office	Emoluments for office	Benefits in kind	Other forms of remuneration
				Other benefits	
Board of Directors					
Renato Soru	Chairman and Chief Executive Officer	in office since 1 January 2013 until approval of the financial statements as at 31 December 2014	350,000	41,414	12,000
Gabriele Racugno	Director	in office since 1 January 2013 until approval of the financial statements as at 31 December 2014	25,000		
Luca Scano	Director	in office since 1 January 2013 until approval of the financial statements as at 31 December 2014	25,000	1,622	216,188
Assunta Brizio	Director	in office from 1 January 2013 until the next shareholders' meeting	25,000		
Franco Grimaldi	Director	in office since 1 January 2013 until approval of the financial statements as at 31 December 2014	25,000		

Name and surname	Position	Term of office	Emoluments for office	Benefits in kind	Other forms of remuneration
Paolo Tamponi	Chairman	in office since 1 January 2013 until approval of the financial statements as at 31 December 2014	35,000		
Piero Maccioni	Statutory Auditor	in office since 1 January 2013 until approval of the financial statements as at 31 December 2014	25,000		
Andrea Zini	Statutory Auditor	in office since 1 January 2013 until approval of the financial statements as at 31 December 2014	25,000		

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

The following table, drawn up in accordance with Article 149 *duodecies* of the Consob Issuers' Regulations, indicates the fees for 2013 for auditing services and those for other services provided by the independent auditing firm.

Type of service	Party providing the services	Fee (EUR 000)
Accounts auditing	Reconta Ernst & Young S.p.A. (1)	271
Total		**271**

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

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

The undersigned, Renato Soru in his capacity as Chief Executive Officer, and 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;
- the effective application of the administrative and accounting procedures for the formation of the financial statements during 2013.

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

It is also hereby certified that the financial statements at 31 December 2013:

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

Cagliari, Italy, 13 June 2014

The Chief Executive Officer

Renato Soru

The Executive appointed to draw up the corporate accounting documents

Pasquale Lionetti

8 Glossary

Shared access	Technique for shared access to a local network in which a former monopoly operator rents part of the capacity to other operators: in that portion of the bandwidth the operator can provide Broadband services, whilst the former monopoly operator on the portion of the bandwidth not hired out, continues to provide telephony services.
ADSL	Acronym for Asymmetric Digital Subscriber Line, (the available bandwidth in reception is greater than that available for transmission) to enable internet access at high speed.
ADSL2+	An ADSL technology that extends the ADSL base capacity by doubling the download bit flow. The bandwidth can reach 24 Mbps in download and 1.5 Mbps in upload and depends on the distance between the DSLAM and the customer's location.
Uncovered Areas	Also called "indirect access areas" to identify the geographic areas which are not directly served by the network owned by Tiscali (see also Bitstream and Wholesale).
ARPU	Average returns for fixed and mobile telephony for the user calculated over a given period for an average number of active (for other operators) or Tiscali Group customers in the same period.
Bitstream	Bitstream (or digital flow) services: service consisting of the supply by an operator of access to the fixed public telephone network of the transmission capacity between an end user workstation and the point of presence of an operator or an ISP that wants to provide broadband services to the end user.
Broadband	Data transmission system in which lots of data is sent simultaneously to increase the actual speed of transmission with a data flow equal to or greater than 1.5 Mbps.
Broadcast	Simultaneous transmission of information to all nodes on a network.
Unique browsers	Number of different browsers that, in a specific time span, can visit a site one or more times.
Access fee	This is the amount debited by national operators for each minute of use of their network by the operators of other networks. This is also called the "interconnection fee".
Capex	Acronym for Capital Expenditure. Identifies the outgoing cash flows generated by the investments in an operating structure.

Carrier	Company that physically makes a telecommunications network available.
Co-location	Dedicated spaces in the machine rooms of an incumbent operator for the installation by Tiscali of its own network devices.
CPS	Acronym for Carrier Pre Selection, a system for preselecting an operator. This enables an operator/supplier of local services to automatically route calls on the network of the carrier selected by a client who no longer has to enter special selection codes.
CS	Acronym for Carrier Selection, a system for selecting an operator. Enables a client to select, by entering a special code, a long distance national or international operator other than that with whom he/she has a network access subscription.
Business customers	SoHos, small medium and large businesses.
Consumer customers	Customers who subscribe to an offer intended for households.
Dial Up	Narrowband internet connection by means of a normal telephone call, usually charged on a time basis.
Digital	This is the way of representing a physical variable in a language that uses only the figures 0 and 1. The figures are transmitted in binary code as a series of impulses. Digital networks, which are rapidly replacing the old analogue networks, allow greater capacities and greater flexibility by using computerised technologies for the transmission and handling of calls. Digital systems offer less noise interference and can include encryption as protection from outside interference.
Double Play	Combined offer of access to the Internet and fixed telephony.
DSL Network	Acronym for Digital Subscriber Line Network, which is a network built from existing telephone lines using DSL technology instruments that, by using sophisticated modulation mechanisms, enable data packets to be sent along copper wires and thus the linking of a telephone handset to a modem at a home or in an office.
DSLAM	Acronym for Digital Subscriber Line Access Multiplexer, a device used in DLS technologies, to multiply the transmission of data at high capacities on telephone wires, where a multiplexer means a device that enables the transmission of information (voice, data, videos) in flows by means of direct and continuous connections between two different points on a network.

Fibre Optic	Thin fibres of glass, silicon or plastic that form the basis of a data transmission infrastructure. A fibre optic cable contains various individual fibres, each capable of carrying a signal (light impulses) over a virtually limitless band length. They are usually used for long distance transmissions, for the transmission of "heavy data" so that the signal arrives protected from interference which it might encounter along its own path. A fibre optic cable's carrying capacity is considerably greater than that of traditional cables and copper wire twisted pairs.
GigaEthernet	Term 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 9,600 bits/s; packet switching (called virtual) service; analogue and direct broadband transmission of TV signals and extra services, such as closed user groups; call waiting; reverse charging; call announcement and identification of the number called. The value added services provided over a network, from terminals or specialist centres include exchange services, messaging (MHS) (which can also be used for commercial documents in accordance with a predetermined format); electronic user directories, network and terminal addresses; e-mail; fax, teletext, videotext and videophone. Value added services may also include voice telephony value added services such as free numbers or paid telephone services.
VISP	Acronym for Virtual Internet Service provision (sometimes also called Wholesale ISP). This is selling of Internet services purchased wholesale from an Internet Service Provider (ISP) that has the network infrastructure.
VoD	Acronym for Video On Demand. It is the supply of television programs on request by a user for payment of a subscription or of a sum for each programme (a film, or a football match) purchased. Broadcast in a special way by satellite TV and for cable TV.

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

9 Reports

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

To the shareholders' meeting of Tiscali Spa,

During the financial year ended as at 31 December 2013, we performed the supervisory activities envisaged by law, in accordance with the standards of conduct for Boards of Statutory Auditors recommended by the Italian Accounting Profession.

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

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

a) we have overseen the observance of the law and the Articles of Association;

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

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

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

e) we have assessed and overseen the adequacy of the internal audit system and the administrative-accounting system as well as the reliability of the latter to correctly represent the operating events, by means of i) the examination of the reports of the Executive appointed to draw up the corporate accounting documents on the Administrative and Accounting Set-up and on the Internal Audit System on Corporate Disclosure produced six-monthly; ii) the examination of the Internal Audit reports; iii) the dealings with management and with the audit body of the subsidiary Tiscali Italia SpA, pursuant to Article 151, sections 1 and 2 of Italian Legislative Decree No. 58/98; iv) participation in the work of the Risk Management Committee, set up within the sphere of the Board of Directors and made up of three members of which two are independent members of said board; v) obtaining information from the heads of the respective divisions; vi) the examination of the company documents and the analysis of the results of the work carried out by the independent auditing firm. The work carried out has not revealed any situations or critical aspects which might suggest the Internal Audit System is inadequate;

f) we have taken note and obtained information on the organisational and procedural activities entered into as per Italian Legislative Decree No. 231/2011 and subsequent amendments and additions on the administrative liability of Entities for the offences envisaged by said legislation. These activities are illustrated in the Report on corporate governance and ownership structure. The Supervisory Body reported on the activities carried out during 2013 without indicating events or situations which must be highlighted in this report;

g) In the report on operations and the explanatory notes to the statutory and consolidated financial statements - as per the Regulations for carrying out related party transactions, which came into force on 1 January 2011 - the Board of Directors provided in-depth illustration of the transactions entered into with subsidiaries and related parties, clarifying the economic effects. Transactions with related parties have been analytically indicated in the report on operations where the balance sheet and income statement balances are summarised; therefore, reference should be made to the specific section in the consolidated financial statements "*Transactions with related parties*". We have not become aware of the existence of any atypical or unusual transactions with third parties, Group companies or related parties;

h) no charges/complaints pursuant to Article 2408 of the Italian Civil Code were received during the year, including those from third parties;

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

j) on 26 June 2014, the independent auditing firm Reconta Ernst & Young S.p.A. issued its reports on the statutory financial statements and the consolidated financial statements at 31 December 2013, drawn up in compliance with the International Financial Reporting Standards (IFRS) adopted by the European Union. These reports express a positive opinion and include references to information on the subject of the business as a going concern associated in particular with the approval of the debt restructuring plan and on a number of disputes and risks outstanding, in relation to which we refer you to said reports;

k) on 26 June 2014, the independent auditing firm issued the Report pursuant to Article 19.3 of Italian Legislative Decree No. 39/10;

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

m) during 2013, Reconta Ernst & Young SpA carried out professional services relating to the legal audit of the statutory and consolidated financial statements. Services other than the legal audit have not been provided, and nor have services been provided by other parties belonging to the network of the auditing firm. The total of the fees due for 2013 has been summarised below:

	EUR 000
Audit services:	
Parent Company - Tiscali Spa	271
Subsidiary companies	171
Total	442

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

n) the independent auditing firm Reconta Ernst & Young SpA did not issue any opinion required by law, with the exception of its report on the half-year period as at 30 June 2013;

o) the supervisory activities described above have been carried out during nine meetings of this Board, five meetings of the Audit and Risk Committee and attending all the five Board of Directors meetings, as per Article 149.2 of Italian Legislative Decree No. 58/98;

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

The separate financial statements of Tiscali Spa closed with a loss of EUR 777,711 and accumulated losses of EUR 30,921,879 due to which the shareholders' equity fell to EUR 61,100,900, therefore the conditions as per Article 2446.1 of the Italian Civil Code apply. This Board however duly notes that the quarterly report as at 31 March 2014, approved by the Board of Directors as of today's date, discloses a profit for the period of EUR 546,806 which reduced the accumulated losses to EUR 30,375,073; the shareholders' equity therefore amounts to EUR 61,647,758, compared with share capital of EUR 92,022,830. Since, therefore, the code regulations indicated above having been met, the Directors deemed that the conditions for having to adopt the fulfilments envisaged in such circumstances had ceased to exist.

In as far as it falls within our responsibilities, we express a favourable opinion for the approval of the financial statements as at 31 December 2013 together with the Report on operations and the resolution proposals drawn up by the Board of Directors.

Cagliari, Italy, 27 June 2014

THE BOARD OF STATUTORY AUDITORS

PAOLO TAMPONI

PIERO MACCIONI

ANDREA ZINI

1. We have carried out an audit on the consolidated 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 and for the year ended 31 December 2013. Tiscali S.p.A.'s Directors are responsible for drafting the financial statements in compliance with the International Financial Reporting Standards adopted by the European Union, as well as the provisions issued by way of implementation of Article 9 of Italian Legislative Decree No. 38/2005. We are responsible for the professional opinion expressed on the financial statements, based on our audit.

2. Our audit was made in accordance with the audit standards and criteria recommended by Consob. In accordance with such standards and criteria, we planned and performed our audit to obtain every element necessary in order to determine whether the consolidated financial statements are materially misstated and if such financial statements, taken as a whole, may be relied upon. An audit includes examining, on a test basis, evidence supporting the balances and disclosures in the financial statements, as well as assessing the appropriateness and suitability of the accounting standards applied and the reasonableness of the estimates made by the directors. We believe that our audit provides a reasonable basis for our professional opinion.

   The consolidated financial statements present the previous year's balances for comparative purposes. As illustrated in the explanatory notes in the section "Form and content of the accounting statements", the Directors have re-stated certain comparative balances relating to the previously year, with respect to the balances previously presented and audited by ourselves, in relation to which we had issued the audit report dated 5 April 2013. The methods for re-calculating the comparative figures and the related disclosure presented in the explanatory notes have been examined by ourselves for the purpose of expressing an opinion on the consolidated financial statements for the year ended 31 December 2013.

3. In our opinion, the consolidated financial statements of the Tiscali Group at 31 December 2013 are compliant with the International Financial Reporting Standards adopted by the European Union, as well as the provisions issued by way of implementation of Article 9 of Italian Legislative Decree No. 38/2005; they have therefore been prepared clearly in all the material aspects and provide a true and fair view of the financial and equity position, the economic result and the cash flows of the Tiscali Group for the year ended as of that date.

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 year with a consolidated loss of EUR 4.8 million and a consolidated equity deficit of EUR 151.9 million; furthermore, as of 31 December 2013, the Tiscali Group had a gross financial debt of EUR 201.7 million and current liabilities greater than current assets (non-financial) for EUR 106.5 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 latter subject to covenants and other contractual obligations. In detail, as at 31 December 2013, certain of the financial parameters envisaged by the loan agreement known as the Group Facility Agreement ("GFA") had not been observed. In accordance with the provisions of the GFA, these violations represent a so-called Event of Default further to which the financing institutions could decide - with the favourable vote of parties which overall hold more than two thirds of the debt deriving from the GFA - to declare the entire amount of the loan due and collectable and therefore request the repayment of all that is due as per the GFA.

      The Directors believe that the achievement of a balanced equity, financial and economic situation over the long-term depends on: (i) the need to finalise with the financing institutions a restructuring transaction for the financial debt which envisages, amongst other aspects, the waiver by the financing institutions of availing themselves of the contractual remedies envisaged by the GFA in the presence of the occurrence of the afore-mentioned Events of Default and the rescheduling of the debt deriving from the GFA currently falling due in July 2014 and July 2015, amounting respectively to around EUR 105 million and EUR 27 million, (ii) and the achievement of the results set out in the Tiscali Group's 2014-2018 business plan ("Plan") which envisage the achievement of the growth objectives established in a market context characterised by heavy competitive pressure.

In this context, the Directors reveal that, during 2013, an advisor was appointed to support the Tiscali Group with the restructuring of its financial debt. After a structured and intense phase of negotiation with the financing institutions, on 6 June 2014 the advisor sent the financing institutions a last draft of a term sheet ("Term Sheet") which contains a proposal as things stand not binding, which on the one hand could give rise to a recapitalisation of the Group and on the other will lead to a partial rescheduling of the debt and the re-wording of the financial covenants of the GFA in line with the Group performances envisaged in the Plan. The restructuring proposal contained in this Term Sheet was accepted, albeit in a non-binding manner, by all the financing institutions as per the GFA and, according to the Directors, will permit the Group to pursue a consensual hypothesis of restructuring its financial debt.

On 13 June 2014, Tiscali S.p.A.'s Board of Directors approved the Plan which reflects the restructuring of the debt deriving from the GFA on a consistent basis with the proposal included in the afore-mentioned Term Sheet. In detail, the Directors disclose that in relation to the projections of the 2014-2018 cash flows for the Tiscali Group, said Plan hypotheses a further rescheduling of the part of the financial debt falling due in 2017, for the portion in excess with respect to the net cash flows generated over the period of the Plan.

The Directors disclose that the finalisation of the GFA restructuring transaction is still subordinate to the occurrence of certain conditions, including: (i) the waiver by the financing institutions of the adoption of the contractual remedies envisaged by the GFA in the event of so-called Events of Default until the signing of all the necessary contractual documentation, (ii) the completion of the authorisation procedure by the competent decision-making bodies of the financing institutions and (iii) the definition of the contractual documentation necessary for the implementation of said transaction under satisfactory terms for all the financing institutions In this situation, the Directors reasonably believe that the afore-mentioned debt restructuring transaction can be finalised over the short-term, so as to be able to proceed with the implementation of the Plan and that this will permit over the long-term the achievement of a balanced equity, financial and economic situation.

In conclusion, the Directors acknowledge that at present uncertainties still remain, relating to events or circumstances, 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 light of the factors described, and having taken into account the afore-mentioned Term Sheet proposal accepted on a non-binding basis by all the financing institutions, 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;

b. as indicated in the section "Disputes, contingent liabilities and commitments", in August 2013 a settlement agreement was signed (the "Settlement Agreement") concluding the disputes brought by certain associations and foundations representing the former minority shareholders of the Dutch subsidiary World Online International NV ("WOL"). The Settlement Agreement does not include the compensation requests made by 28 shareholders or those entitled who brought legal proceedings, served on 19 June 2014, vis-à-vis WOL and the financial institutions tasked with the listing of said WOL. The Directors believe the risk of losing vis-à-vis these shareholders or assignees is not probable.

5. The drawing up of the report on operations and the report on corporate governance and the ownership structure in compliance with the matters envisaged by the provisions of the law, is the responsibility of Tiscali S.p.A.'s Directors. We are responsible for expressing an opinion on the consistency of the report on operations and the information as per section 1, letters c), d), f), l), m) and section 2, letter b) of Article 123 *bis* of Italian Legislative Decree No. 58/98, presented in the report on corporate governance and the ownership structure, with the financial statements, as required by law. For this purpose, we have performed

the procedures indicated by Auditing Standard No. 001 issued by the Italian Accounting Profession and recommended by CONSOB. In our opinion, the report on operations and the information as per section 1, letters c), d), f), l), m) and section 2, letter b) of Article 123 *bis* of Italian Legislative Decree No. 58/98, presented in the report on corporate governance and the ownership structure, are consistent with the consolidated financial statements of the Tiscali Group as of 31 December 2013.

1. We have carried out an audit on the statutory 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. as of and for the year ended 31 December 2013. Tiscali S.p.A.'s Directors are responsible for drafting the financial statements in compliance with the International Financial Reporting Standards adopted by the European Union, as well as the provisions issued by way of implementation of Article 9 of Italian Legislative Decree No. 38/2005. We are responsible for the professional opinion expressed on the financial statements, based on our audit.

2. Our audit was made in accordance with the audit standards and criteria recommended by Consob. In accordance with such standards we planned and performed our audit to obtain every element necessary in order to determine whether the statutory financial statements are materially misstated and if such financial statements, taken as a whole, may be relied upon. An audit includes examining, on a test basis, evidence supporting the balances and disclosures in the financial statements, as well as assessing the appropriateness and suitability of the accounting standards applied and the reasonableness of the estimates made by the directors. We believe that our audit provides a reasonable basis for our professional opinion.

   For the opinion on the previous year's financial statements, whose balances are presented for comparative purposes as required by law, please refer to our report dated 5 April 2013.

3. In our opinion, the statutory financial statements of Tiscali S.p.A. at 31 December 2013 are compliant with the International Financial Reporting Standards adopted by the European Union, as well as the provisions issued by way of implementation of Article 9 of Italian Legislative Decree No. 38/2005; they have therefore been prepared clearly in all the material aspects and provide a true and fair view of the financial and equity position, the economic result and the cash flows of Tiscali S.p.A. for the year ended as of that date.

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", Tiscali S.p.A. closed the statutory financial statements with a loss of EUR 0.8 million and shareholders' equity of EUR 61.1 million; it is the parent company of a Group (the "Tiscali Group") which closed 2013 with a consolidated loss of EUR 4.8 million and a consolidated equity deficit of EUR 151.9 million; furthermore, at 31 December 2013, the Tiscali Group had a gross financial debt of EUR 201.7 million and current liabilities greater than current assets (non-financial) for EUR 106.5 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 latter subject to covenants and other contractual obligations. In detail, as at 31 December 2013, certain of the financial parameters envisaged by the loan agreement known as the Group Facility Agreement ("GFA") had not been observed. In accordance with the provisions of the GFA, these violations represent a so-called Event of Default further to which the financing institutions could decide - with the favourable vote of parties which overall hold more than two thirds of the debt deriving from the GFA - to declare the entire amount of the loan due and collectable and therefore request the repayment of all that is due as per the GFA.

      The Directors believe that the achievement of a balanced equity, financial and economic situation over the long-term depends on: (i) the need to finalise with the financing institutions a restructuring transaction for the financial debt which envisages, amongst other aspects, the waiver by the financing institutions of availing themselves of the contractual remedies envisaged by the GFA in the presence of the occurrence of the afore-mentioned Events of Default and the rescheduling of the debt deriving from the GFA currently falling due in July 2014 and July 2015, amounting respectively to around EUR 105 million and EUR 27 million, (ii) and the achievement of the results set out in the Tiscali Group's 2014-2018 business plan ("Plan") which envisage the achievement of the growth objectives established in a market context characterised by heavy competitive pressure.

In this context, the Directors reveal that, during 2013, an advisor was appointed to support the Tiscali Group with the restructuring of its financial debt. After a structured and intense phase of negotiation with the financing institutions, on 6 June 2014 the advisor sent the financing institutions a last draft of a terms sheet ("Term Sheet") which contains a proposal as things stand not binding, which on the one hand could give rise to a recapitalisation of the Group and on the other will lead to a partial rescheduling of the debt and the re-wording of the financial covenants of the GFA in line with the Group performances envisaged on the Plan. The restructuring proposal contained in this Term Sheet was accepted, albeit in a non-binding manner, by all the financing institutions as per the GFA and, according to the Directors, will permit the Group to pursue a consensual hypothesis of restructuring its financial debt.

On 13 June 2014, Tiscali S.p.A.'s Board of Directors approved the Olan which reflects the restructuring of the debt deriving from the GFA on a consistent basis with the proposal included in the afore-mentioned Term Sheet. In detail, the Directors disclose that in relation to the projections of the 2014-2018 cash flows for the Tiscali Group, said Plan hypotheses a further rescheduling of the part of the financial debt falling due in 2017, for the portion in excess with respect to the net cash flows generated over the period of the Plan.

The Directors disclose that the finalisation of the GFA restructuring transaction is still subordinate to the occurrence of certain conditions, including: (i) the waiver by the financing institutions of the adoption of the contractual remedies envisaged by the GFA in the event of so-called Events of Default until the signing of all the necessary contractual documentation, (ii) the completion of the authorisation procedure by the competent decision-making bodies of the financing institutions and (iii) the definition of the contractual documentation necessary for the implementation of said transaction under satisfactory terms for all the financing institutions In this situation, the Directors reasonably believe that the afore-mentioned debt restructuring transaction can be finalised over the short-term, so as to be able to proceed with the implementation of the Plan and that this will permit over the long-term the achievement of a balanced equity, financial and economic situation.

In conclusion, the Directors acknowledge that at present uncertainties still remain, relating to events or circumstances, 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, and having taken into account the afore-mentioned Term Sheet proposal accepted on a non-binding basis by all the financing institutions, 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;

b. as indicated in the section "Disputes, contingent liabilities and commitments", in August 2013 a settlement agreement was signed (the "Settlement Agreement")concluding the disputes brought by certain associations and foundations representing the former minority shareholders of the Dutch subsidiary World Online International NV ("WOL"). The Settlement Agreement does not included the compensation requests made by 28 shareholders or assignees who brought legal proceedings, served on 19 June 2014, vis-à-vis WOL and the financial institutions tasked with the listing of said WOL. The Directors believe the risk of losing vis-à-vis these shareholders or assignees is not probable.

5. The drawing up of the report on operations and the report on corporate governance and the ownership structure in compliance with the matters envisaged by the provisions of the law, is the responsibility of Tiscali S.p.A.'s Directors. We are responsible for expressing an opinion on the consistency of the report on operations and the information as per section 1, letters c), d), f), l), m) and section 2, letter b) of Article 123 *bis* of Italian Legislative Decree No. 58/98, presented in the report on corporate governance and the ownership structure, with the financial statements, as required by law. For this purpose, we have performed the procedures indicated by Auditing Standard No. 001 issued by the Italian Accounting Profession and recommended by CONSOB. In our opinion, the report on operations and the information as per section 1,

letters c), d), f), l), m) and section 2, letter b) of Article 123 *bis* of Italian Legislative Decree No. 58/98, presented in the report on corporate governance and the ownership structure, are consistent with the statutory financial statements of Tiscali S.p.A. as at 31 December 2013.

Building a better working world

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

Agli Azionisti
della Tiscali S.p.A.

1. Abbiamo svolto la revisione contabile del bilancio consolidato, costituito dai prospetti di conto economico, di conto economico complessivo e della situazione patrimoniale e finanziaria, dal rendiconto finanziario, dal prospetto delle variazioni di patrimonio netto e dalle relative note esplicative, della Tiscali S.p.A. e sue controllate ("Gruppo Tiscali") chiuso al 31 dicembre 2013. La responsabilità della redazione del bilancio in conformità agli International Financial Reporting Standards adottati dall'Unione Europea, nonché ai provvedimenti emanati in attuazione dell'art. 9 del D. Lgs. n. 38/2005, compete agli Amministratori della Tiscali S.p.A.. È nostra la responsabilità del giudizio professionale espresso sul bilancio e basato sulla revisione contabile.

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

   Il bilancio consolidato presenta ai fini comparativi i dati dell'esercizio precedente. Come illustrato nelle note esplicative al paragrafo "Forma e contenuto dei prospetti contabili" gli Amministratori hanno riesposto alcuni dati comparativi relativi all'esercizio precedente, rispetto ai dati precedentemente presentati e da noi assoggettati a revisione contabile, sui quali avevamo emesso la relazione di revisione in data 5 aprile 2013. Le modalità di rideterminazione dei dati comparativi e la relativa informativa presentata nelle note esplicative sono state da noi esaminate ai fini dell'espressione del giudizio sul bilancio consolidato chiuso al 31 dicembre 2013.

3. A nostro giudizio, il bilancio consolidato del Gruppo Tiscali al 31 dicembre 2013 è conforme agli International Financial Reporting Standards adottati dall'Unione Europea, nonché ai provvedimenti emanati in attuazione dell'art. 9 del D. Lgs. n. 38/2005; esso pertanto è redatto con chiarezza e rappresenta in modo veritiero e corretto la situazione patrimoniale e finanziaria, il risultato economico ed i flussi di cassa del Gruppo Tiscali per l'esercizio chiuso a tale data.

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

   a. come indicato nella nota "Valutazione sulla continuità aziendale ed evoluzione prevedibile della gestione", il Gruppo Tiscali ha chiuso l'esercizio con una perdita consolidata di 4,8 milioni di Euro e con un deficit patrimoniale consolidato di 151,9 milioni di Euro; inoltre, alla data del 31 dicembre 2013, il Gruppo Tiscali mostra un indebitamento finanziario lordo di 201,7 milioni di Euro e passività correnti superiori alle attività correnti (non finanziarie) per 106,5 milioni di Euro. Gli Amministratori hanno descritto i fattori che indicano il permanere di incertezze legate ad una situazione di squilibrio patrimoniale, finanziario ed economico, in presenza di un indebitamento commerciale e finanziario rilevante, quest'ultimo soggetto a covenant ed altri obblighi contrattuali. In particolare alla data del 31 dicembre 2013 alcuni dei parametri finanziari previsti dal contratto di finanziamento denominato Group Facility Agreement ("GFA") non risultano rispettati. Ai sensi delle previsioni del GFA, tali violazioni costituiscono un c.d. Event of Default in seguito al quale gli istituti finanziatori potrebbero decidere, con il voto favorevole di soggetti che detengano complessivamente più dei due terzi del debito derivante dal GFA, di dichiarare l'intero importo del finanziamento dovuto ed esigibile e pertanto richiedere il pagamento di tutto quanto dovuto ai sensi del GFA.

Gli Amministratori ritengono che il raggiungimento di una situazione di equilibrio patrimoniale, economico e finanziario nel lungo termine sia subordinato: (i) alla necessità di finalizzare con gli istituti finanziatori un'operazione di ristrutturazione del debito finanziario che preveda tra l'altro, la rinuncia degli istituti finanziatori ad avvalersi dei rimedi contrattuali previsti dal GFA a fronte del verificarsi dei summenzionati Event of Default ed il riscadenziamento del debito derivante dal GFA attualmente in scadenza nel mese di luglio 2014 e nel mese di luglio 2015, per importi pari rispettivamente a circa 105 milioni di Euro e circa 27 milioni di Euro, (ii) ed al conseguimento dei risultati previsti nel piano industriale 2014-2018 del Gruppo Tiscali ("Piano") che prevede il raggiungimento di obiettivi di crescita in un mercato caratterizzato da una forte pressione competitiva.

In tale contesto gli Amministratori evidenziano che nel corso del 2013 è stato nominato un advisor per supportare il Gruppo Tiscali nella ristrutturazione del proprio indebitamento finanziario. Dopo un'articolata ed intensa fase di negoziazione con gli istituti finanziatori, in data 6 giugno 2014 l'advisor ha inviato agli istituti finanziatori un'ultima bozza di un term sheet ("Term Sheet") che contiene una proposta allo stato non vincolante, che da un lato potrebbe dar luogo ad una ripatrimonializzazione del Gruppo e, dall'altro, produrrà un parziale riscadenziamento del debito ed una rimodulazione dei covenant finanziari del GFA in linea con le performance del Gruppo previste nel Piano. La proposta di ristrutturazione contenuta in tale Term Sheet è stata accettata, in modo non vincolante, da tutti gli istituti finanziatori di cui al GFA e, secondo gli Amministratori, consente al Gruppo Tiscali di perseguire un'ipotesi di ristrutturazione del proprio indebitamento di tipo consensuale.

In data 13 giugno 2014 il Consiglio di Amministrazione di Tiscali S.p.A. ha approvato il Piano che riflette la ristrutturazione del debito derivante dal GFA coerente con la proposta inclusa nel summenzionato Term Sheet. In particolare gli Amministratori segnalano che in relazione alle proiezioni dei flussi di cassa 2014-2018 del Gruppo Tiscali, il suddetto Piano ipotizza un ulteriore riscadenziamento della parte di debito finanziario in scadenza nel 2017, per la quota eccedente i flussi di cassa netti generati nel periodo di Piano.

Gli Amministratori evidenziano come il perfezionamento dell'operazione di ristrutturazione del GFA sia ancora subordinato al verificarsi di talune condizioni, tra le quali: (i) la rinuncia da parte degli istituti finanziatori all'esperimento dei rimedi contrattuali previsti dal GFA in caso di Event of Default fino alla sottoscrizione di tutta la necessaria documentazione contrattuale, (ii) il completamento dell'iter autorizzativo dei competenti organi deliberanti degli istituti finanziatori e iii) la definizione della documentazione contrattuale necessaria all'implementazione dell'operazione medesima in termini soddisfacenti per tutti gli istituti finanziatori. In questa situazione gli Amministratori ritengono ragionevole che si possa finalizzare nel breve termine la summenzionata operazione di ristrutturazione del debito, così da poter proseguire

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nell'implementazione del Piano e che questo consenta nel lungo periodo di raggiungere una situazione di equilibrio patrimoniale, finanziario ed economico.

In conclusione, gli Amministratori riconoscono che alla data attuale permangono incertezze relative ad eventi o circostanze che potrebbero far sorgere dubbi significativi sulla capacità del Gruppo Tiscali di continuare ad operare sulla base del presupposto della continuità aziendale, ma dopo aver effettuato le necessarie verifiche e aver valutato le incertezze individuate alla luce degli elementi descritti, e tenuto conto della summenzionata proposta di Term Sheet accettata in modo non vincolante da parte di tutti gli istituti finanziatori, hanno la ragionevole aspettativa che il Gruppo Tiscali abbia adeguate risorse per continuare l'esistenza operativa in un prevedibile futuro ed hanno pertanto adottato il presupposto della continuità aziendale nella preparazione del bilancio;

b. come indicato nella nota "Contenziosi, passività potenziali e impegni", nel mese di agosto 2013 è stato siglato un accordo transattivo (l'"Accordo Transattivo") a conclusione dei contenziosi intentati da talune associazioni e fondazioni in rappresentanza di ex-azionisti di minoranza della controllata olandese World Online International NV ("WOL"). L'Accordo Transattivo non include le richieste di risarcimento da parte di 28 azionisti o aventi titolo che hanno avviato un procedimento giudiziario, notificato in data 19 giugno 2014, nei confronti di WOL e delle istituzioni finanziarie incaricate della quotazione della stessa WOL. Gli Amministratori ritengono non probabile il rischio di soccombenza nei confronti di questi azionisti o aventi titolo.

5. La responsabilità della redazione della relazione sulla gestione e della relazione sul governo societario e gli assetti proprietari in conformità a quanto previsto dalle norme di legge e dai regolamenti compete agli Amministratori della Tiscali S.p.A.. È di nostra competenza l'espressione del giudizio sulla coerenza della relazione sulla gestione e delle informazioni di cui al comma 1, lettere c), d), f), l), m) e al comma 2, lettera b) dell'art. 123-bis del D. Lgs. 58/98, presentate nella relazione sul governo societario e gli assetti proprietari, con il bilancio, come richiesto dalla legge. A tal fine, abbiamo svolto le procedure indicate dal principio di revisione 001 emanato dal Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili e raccomandato dalla Consob. A nostro giudizio la relazione sulla gestione e le informazioni di cui al comma 1, lettere c), d), f), l), m) e al comma 2, lettera b) dell'art. 123-bis del D. Lgs. 58/98 presentate nella relazione sul governo societario e gli assetti proprietari sono coerenti con il bilancio consolidato del Gruppo Tiscali al 31 dicembre 2013.

Milano, 26 giugno 2014

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

Agli Azionisti
della Tiscali S.p.A.

1. Abbiamo svolto la revisione contabile del bilancio d'esercizio, costituito dai prospetti di conto economico, di conto economico complessivo e della situazione patrimoniale e finanziaria, dal rendiconto finanziario, dal prospetto delle variazioni di patrimonio netto e dalle relative note esplicative, della Tiscali S.p.A. chiuso al 31 dicembre 2013. La responsabilità della redazione del bilancio in conformità agli International Financial Reporting Standards adottati dall'Unione Europea, nonché ai provvedimenti emanati in attuazione dell'art. 9 del D. Lgs. n. 38/2005, compete agli Amministratori della Tiscali S.p.A.. È nostra la responsabilità del giudizio professionale espresso sul bilancio e basato sulla revisione contabile.

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

   Per il giudizio relativo al bilancio dell'esercizio precedente, i cui dati sono presentati ai fini comparativi, si fa riferimento alla relazione da noi emessa in data 5 aprile 2013.

3. A nostro giudizio, il bilancio d'esercizio della Tiscali S.p.A. al 31 dicembre 2013 è conforme agli International Financial Reporting Standards adottati dall'Unione Europea, nonché ai provvedimenti emanati in attuazione dell'art. 9 del D. Lgs. n. 38/2005; esso pertanto è redatto con chiarezza e rappresenta in modo veritiero e corretto la situazione patrimoniale e finanziaria, il risultato economico ed i flussi di cassa della Tiscali S.p.A. per l'esercizio chiuso a tale data.

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

   a. come indicato nella nota "Valutazione sulla continuità aziendale ed evoluzione prevedibile della gestione", Tiscali S.p.A. che ha chiuso il bilancio con una perdita di 0,8 milioni di Euro ed un patrimonio netto di 61,1 milioni di Euro è a capo di un gruppo (il "Gruppo Tiscali") che ha chiuso l'esercizio con una perdita consolidata di 4,8 milioni di Euro e con un deficit patrimoniale consolidato di 151,9 milioni di Euro; inoltre, alla data del 31 dicembre 2013, il Gruppo Tiscali mostra un indebitamento finanziario lordo di 201,7 milioni di Euro e passività correnti superiori alle attività correnti (non finanziarie) per 106,5 milioni di Euro. Gli Amministratori hanno descritto i fattori che indicano il permanere di incertezze legate ad una situazione di squilibrio patrimoniale, finanziario ed economico, in presenza di un indebitamento commerciale e finanziario rilevante, quest'ultimo soggetto a covenant ed altri obblighi contrattuali. In particolare alla data del 31 dicembre 2013 alcuni dei parametri finanziari previsti dal contratto di finanziamento denominato Group Facility Agreement ("GFA") non risultano rispettati. Ai sensi delle previsioni del GFA, tali violazioni costituiscono un c.d. Event of Default in seguito al quale gli istituti finanziatori potrebbero decidere, con il voto favorevole di

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soggetti che detengano complessivamente più dei due terzi del debito derivante dal GFA, di dichiarare l'intero importo del finanziamento dovuto ed esigibile e pertanto richiedere il pagamento di tutto quanto dovuto ai sensi del GFA.

Gli Amministratori ritengono che il raggiungimento di una situazione di equilibrio patrimoniale, economico e finanziario nel lungo termine sia subordinato: (i) alla necessità di finalizzare con gli istituti finanziatori un'operazione di ristrutturazione del debito finanziario che preveda tra l'altro, la rinuncia degli istituti finanziatori ad avvalersi dei rimedi contrattuali previsti dal GFA a fronte del verificarsi dei summenzionati Event of Default ed il riscadenziamento del debito derivante dal GFA attualmente in scadenza nel mese di luglio 2014 e nel mese di luglio 2015, per importi pari rispettivamente a circa 105 milioni di Euro e circa 27 milioni di Euro, (ii) ed al conseguimento dei risultati previsti nel piano industriale 2014-2018 del Gruppo Tiscali ("Piano") che prevede il raggiungimento di obiettivi di crescita in un mercato caratterizzato da una forte pressione competitiva.

In tale contesto gli Amministratori evidenziano che nel corso del 2013 è stato nominato un advisor per supportare il Gruppo Tiscali nella ristrutturazione del proprio indebitamento finanziario. Dopo un'articolata ed intensa fase di negoziazione con gli istituti finanziatori, in data 6 giugno 2014 l'advisor ha inviato agli istituti finanziatori un'ultima bozza di un term sheet ("Term Sheet") che contiene una proposta allo stato non vincolante, che da un lato potrebbe dar luogo ad una ripatrimonializzazione del Gruppo e, dall'altro, produrrà un parziale riscadenziamento del debito ed una rimodulazione dei covenant finanziari del GFA in linea con le performance del Gruppo previste nel Piano. La proposta di ristrutturazione contenuta in tale Term Sheet è stata accettata, in modo non vincolante, da tutti gli istituti finanziatori di cui al GFA e, secondo gli Amministratori, consente al Gruppo Tiscali di perseguire un'ipotesi di ristrutturazione del proprio indebitamento di tipo consensuale.

In data 13 giugno 2014 il Consiglio di Amministrazione di Tiscali S.p.A. ha approvato il Piano che riflette la ristrutturazione del debito derivante dal GFA coerente con la proposta inclusa nel summenzionato Term Sheet. In particolare gli Amministratori segnalano che in relazione alle proiezioni dei flussi di cassa 2014-2018 del Gruppo Tiscali, il suddetto Piano ipotizza un ulteriore riscadenziamento della parte di debito finanziario in scadenza nel 2017, per la quota eccedente i flussi di cassa netti generati nel periodo di Piano.

Gli Amministratori evidenziano come il perfezionamento dell'operazione di ristrutturazione del GFA sia ancora subordinato al verificarsi di talune condizioni, tra le quali: i) la rinuncia da parte degli istituti finanziatori all'esperimento dei rimedi contrattuali previsti dal GFA in caso di Event of Default fino alla sottoscrizione di tutta la necessaria documentazione contrattuale, (ii) il completamento dell'iter autorizzativo dei competenti organi deliberanti degli istituti finanziatori e (iii) la definizione della documentazione contrattuale necessaria all'implementazione dell'operazione medesima in termini soddisfacenti per tutti gli istituti finanziatori. In questa situazione gli Amministratori ritengono ragionevole che si possa finalizzare nel breve termine la summenzionata operazione di ristrutturazione del debito, così da poter proseguire nell'implementazione del Piano e che questo consenta nel lungo periodo di raggiungere una situazione di equilibrio patrimoniale, finanziario ed economico.

In conclusione, gli Amministratori riconoscono che alla data attuale permangono incertezze relative ad eventi o circostanze che potrebbero far sorgere dubbi significativi sulla capacità del Gruppo Tiscali di continuare ad operare sulla base del presupposto della continuità aziendale, ma dopo aver effettuato le necessarie verifiche e aver valutato le incertezze individuate alla luce degli elementi descritti, e tenuto conto della summenzionata proposta di Term Sheet accettata in modo non vincolante da parte di tutti gli istituti finanziatori, hanno la ragionevole aspettativa che il Gruppo Tiscali abbia adeguate risorse per continuare l'esistenza operativa in un prevedibile futuro ed hanno pertanto adottato il presupposto della continuità aziendale nella preparazione del bilancio;

b. come indicato nella nota "Contenziosi, passività potenziali e impegni", nel mese di agosto 2013 è stato siglato un accordo transattivo (l'"Accordo Transattivo") a conclusione dei contenziosi intentati da talune associazioni e fondazioni in rappresentanza di ex-azionisti di minoranza della controllata olandese World Online International NV ("WOL"). L'Accordo Transattivo non include le richieste di risarcimento da parte di 28 azionisti o aventi titolo che hanno avviato un procedimento giudiziario, notificato in data 19 giugno 2014, nei confronti di WOL e delle istituzioni finanziarie incaricate della quotazione della stessa WOL. Gli Amministratori ritengono non probabile il rischio di soccombenza nei confronti di questi azionisti o aventi titolo.

5. La responsabilità della redazione della relazione sulla gestione e della relazione sul governo societario e gli assetti proprietari in conformità a quanto previsto dalle norme di legge e dai regolamenti compete agli Amministratori della Tiscali S.p.A.. È di nostra competenza l'espressione del giudizio sulla coerenza della relazione sulla gestione e delle informazioni di cui al comma 1, lettere c), d), f), l), m) e al comma 2, lettera b) dell'art. 123-bis del D. Lgs. 58/98, presentate nella relazione sul governo societario e gli assetti proprietari, con il bilancio, come richiesto dalla legge. A tal fine, abbiamo svolto le procedure indicate dal principio di revisione 001 emanato dal Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili e raccomandato dalla Consob. A nostro giudizio la relazione sulla gestione e le informazioni di cui al comma 1, lettere c), d), f), l), m) e al comma 2, lettera b) dell'art. 123-bis del D. Lgs. 58/98 presentate nella relazione sul governo societario e gli assetti proprietari sono coerenti con il bilancio d'esercizio della Tiscali S.p.A. al 31 dicembre 2013.

Milano, 26 giugno 2014

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