

2013 Corporate Governance Report and Ownership Structure

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Corporate Governance Report and Ownership Structure

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.

2. Corporate Governance structure

2.1 General standards

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 organisational 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.

2.2 Adopted model

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

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

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

Board of Directors

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

<i>Chairman and Chief Executive Officer</i>	Renato Soru
<i>Directors</i>	Assunta Brizio * (Independent Director) Gabriele Racugno Luca Scano Franco Grimaldi (Independent Director)
<i>Company Secretary</i>	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:

<i>Chairman</i>	Paolo Tamponi
<i>Statutory Auditors</i>	Piero Maccioni
	Andrea Zini
<i>Alternate Auditors</i>	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 April 2008. This appointment will expire with the approval of the 2016 annual financial statements by the shareholders' meeting.

Committees

During the Board Meeting held on 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 Vevisible 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.

2.4 Shareholding structure

As at the date of this Report, the authorised 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.

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

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

Warrants

The shareholders' meeting held on 30 June 2009, resolved the issue of warrants, together with the share capital increase. In the light of the execution of the above mentioned increase, in November 2009, the Company issued 1,799,819,371 warrants. Warrant holders are entitled to subscribe ordinary shares of the Company at the ratio of 1 conversion share for every 20 warrants exercised at the price of EUR 0.80 per conversion share. Currently 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.

2.5 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 these loan agreements is envisaged. In particular the change of control involves the obligation to make prepayments with reference to the loan agreements referred to above as described in further detail in the table in the note "Non-current financial liabilities" in the 2013 Financial Statements.

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

3.1 Board of Directors

Role

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

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

Composition

Article 10 (Management of the Company) of the Articles of Association envisages that the Board of Directors may comprise between three and eleven members, as decided by the Shareholders' Meeting; however, the balance between genders 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 an 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 financial 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 Vevisible 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 CVs 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	09 June 2014	13 June 2014
Directors present	5	5	4	3	4	5	4

Percentage	100%	100%	80%	60%	80%	100%	100%
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 April 2014 (Annual shareholders' meeting),
- 14 May 2014 (Approval of the Quarterly Report at 31 March 2014),
- 28 August 2014 (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.

Appointment of Directors

Article 11 (Board of Directors) of the Articles of Association specifies a voting list for the appointment of Directors, guaranteeing the appointment of a certain number of Directors from those listed who have not obtained the majority of votes, and ensuring transparency and correctness of the appointment procedure. Shareholders are entitled to present lists if, alone or together with other shareholders, they represent at least the percentage of the share capital envisaged by applicable legislation. This mechanism ensures, therefore, that even minority Shareholders have the power to submit their own lists. Everyone with a voting right may vote for

one list only. The 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.

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

Pursuant to Section 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.

3.3 Board of Statutory Auditors

Appointment and composition

Consistent with the first principle envisaged in 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 CVs 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.

3.4 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 envisaged by the third principle of Article 6 and the Code and the related 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 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.

3.5 Internal auditing

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

Internal audit system

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

The internal audit system is the 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 contractualisation 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).

Audit and Risk Committee

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. Internal checking relating to accounting and financial information

4.1 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.

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

The Consolidated Accounts Division 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.

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 updating 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 Vevisible 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 Vevisible Srl.

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 1st 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".

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 standardised disclosure of the information possible. Tiscali undertakes to systematically see to the accuracy, completeness, continuity and up-dating of the financial matters disclosed via the Company website. It is also possible to contact the Company using a special e-mail address (ir@tiscali.com).

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

The company managers and, in any event, all the employees and collaborators are obliged to keep price sensitive information and documents acquired because of and during their activities confidential and not to communicate such information to others except for official or professional reasons, unless these documents or information have already been made public in the prescribed forms. The above parties are prohibited from giving interviews to press bodies, or making public declarations in general, which contain information on significant events, qualifiable as "privileged" as per Article 181 of Italian Legislative Decree No. 58/1998, unless such information has been included in press releases or documents already disclosed to the public, or expressly authorised 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.