Tiscali S.p.A.

Consolidated Financial Statements as at 31 December 2015

Independent Auditors' Report
pursuant to Articles 14 and 16 of Legislative Decree no. 39 of 27 January 2010

INDEPENDENT AUDITORS' REPORT PURSUANT TO ARTICLES 14 AND 16 OF LEGISLATIVE DECREE No. 39 OF 27 JANUARY 2010

To the Shareholders of
Tiscali S.p.A.

Report on the consolidated financial statements

We have audited the annexed consolidated financial statements of Tiscali Group, consisting of the statement assets and liability and financial position as at 31 December 2015, the income statement and statement of comprehensive income, from the statement of changes in shareholders' equity, the cash flow statement for the year ending on said date, from a summary of significant accounting standards and other explanatory notes.

Responsibility of the Directors for the consolidated financial statements

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards adopted by the European Union and the measures implementing Art. 9 of Legislative Decree no. 38 of 28 February 2005.

Responsibility of the auditing company

Our responsibility is to express an opinion on the consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA Italy) established pursuant to Art. 11, Paragraph 3, of Legislative Decree no. 39 of 27 January 2010. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatements.

The audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's professional opinion, including the assessment of risks of significant material misstatements in the consolidated financial statements due to fraud or unintentional events. In making said risk assessments, the auditor considers internal control relevant to the preparation of the company's consolidated financial statements that give a true and fair view in order to design audit procedures appropriate to the circumstances and not to express an opinion on the effectiveness of the company's internal control. The audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the presentation of the consolidated financial statements as a whole.

We believe we have obtained sufficient appropriate audit evidence on which to base our opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the statement of assets and liabilities and financial position of Tiscali Group as at 31 December 2015, of the financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards adopted by the European Union and the measures implementing Art. 9 of Legislative Decree no. 38 of 28 February 2005.

Emphasis of matters

Although without expressing a qualified opinion, what is described by the directors in the management report and in the explanatory notes, and related assessments of the same is noted, with reference to the events of the period, those at year-end and important remaining uncertainties that may cast significant doubts on the ability of the Group to continue operating as a going concern, related to the situation of equity, financial and economic imbalance prevailing in the Group, in the presence of a significant gross financial debt , subject to *covenants* and other contractual obligations.

As noted in the paragraph *"Significant events after year-end, business outlook and evaluations regarding the business continuity"* the Tiscali Group ended the year with a consolidated loss of 18.5 million Euro (including positive non-recurring items for 6.9 million Euro) and a consolidated balance deficit of 121.4 million Euro; furthermore, as at 31 December 2015, the Tiscali Group reports gross financial debt of 177.9 million Euro and current liabilities greater than current (non-financial) assets for 162.5 million Euro.

In this regard it is noted that, during FY 2015, the Tiscali Group has worked on the implementation of a business combination transaction (the ''Transaction") with the group headed by Aria S.p.A (hereinafter "Aria "and, jointly with its subsidiaries, the "Aria Group"). The Transaction became effective as of 24 December 2015 through the merger by incorporation by Tiscali S.p.A of the vehicle Aria Italy S.p.A (the "Merger").

The Merger, which has the strategic objective of achieving an integration of a business nature among the assets held by Tiscali S.p.A and the asses held by Aria, has enabled the Tiscali Group to reduce its financial debt, through full repayment of the Facility A1 pursuant to the Restructuring Agreements entered into on 23 December 2014 (amounting to Euro 42.4 million) also made on 24 December 2015 due to the liquidity made available by the financial partner of the Transaction.

As a result of the Merger, the Company's management, renewed at the Ordinary Shareholders Meeting of Tiscali S.p.A held on 16 February 2016, prepared a new business plan for FY 2016-2021 ("2016-2021 Plan"), approved by Board of Directors on 25 March 2016 and based on a new strategic vision of the *combined entity* (reflecting the prudent exclusion of the execution of the agreement for the tender called by Consip S.p.A for the provision of connectivity services to Public Administration - Consip Tender - not yet signed to date, pending the final judgment by the TAR [(Tribunale Amministrativo Regionale -Regional Administrative Court] of Latium), as well as the refinancing of the entire outstanding debt resulting from the Restructuring Agreements ("*Refinancing*").

In this regard, during the initial months of the current year, the Company appointed its business, financial and legal *advisors* in order to assist it in determining the *Refinancing* transaction which provides for:

- the granting of a new loan from two primary Italian Lending Institutions, for a total amount equal to Euro 88 million, which expires at the end of the sixth year following the signing of the related agreements;
- the determining of an amortisation schedule that provides for the payment of by-yearly instalments for repayment capital equal to Euro 4.3 million from the first year following the signing of the relevant agreements, and an overall final instalment of Euro 40.7 million to be paid in the 2022 financial year.

The 2016-2021 Plan provides for the use of said new loan to repay in full the outstanding amount of debt under the Restructuring Agreements, and to prepay a portion equal to Euro 5 million of the loan granted, for a total amount equal to Euro 15 million, from Rigensis Bank AS to Aria.

In view of the expected full repayment of the debt in accordance with the Restructuring Agreements, the commitments made by the Group pursuant to said Restructuring Agreements as supplemented and amended by the *Consent and Amendment Letter* of 26 November 2015, would lapse.
Given the *Refinancing* transaction in place, the lenders of the Facility A2 pursuant to the Restructuring Agreements, dated 22 March 2016, confirmed their willingness to postpone by one month the scheduled instalment for only the principal due, to 31 March 2016, while a similar formal request was made to the lender of the Facility B pursuant to the Restructuring Agreements, by which the *Refinancing* transaction referenced above is in an advanced stage.

As part of the *Refinancing* transaction, several meetings have already been held between the management of the Group and the technical and commercial structures of the aforementioned Lending Institutions and a part of the preparatory activities for the transaction has already been completed. In particular, a so-called *Independent Business Review*, drafted by a primary business *advisor*, has been actually completed and handed, in conjunction with the business and financial plan, to the Lending Institutions. The Group has also appointed an external professional consultant to conduct a feasibility study of the 2016-2021 Plan, an activity that today is at an advanced stage of development and for which the professional has issued, on 24 March 2016, a *comfort letter*, certifying to the Company that in actuality there were no issues that might create obstacles to the issuance of a positive opinion on the 2016-2021 Plan being analysed.

Lastly, on 24 March 2016, both primary Italian Lending Institutions have sent Tiscali S.p.A a so-called *comfort letter* in order to communicate, inter alia, that they have launched the preliminary phase of the transaction, and that, to date, they have not detected critical issues in their investigation process and that they confirm their commitment, subject to the good outcome of the feasibility analysis by the professional in charge, to accelerate as much as possible the process to bring the matter to the competent decision-making bodies.

In the scenario described above, the directors highlighted the persistence of material uncertainties that may cast significant doubt on the Tiscali Group's ability to continue to operate on a going concern basis, attributable to: (i) the realisation of the objectives of the 2016-2021 Plan , with particular reference to the evolution of the telecommunications market and to achievement of its set growth targets, relating in particular to LTE ultra-broadband services, the main development area planned in the Plan, in a market characterized by strong competitive pressure, as well as with reference to expected synergies resulting from the merger of Aria Groups and Tiscali; ii) the outcome of the aforementioned negotiations in defining the *Refinancing* of senior financial debt in line with the objectives of the 2016-2021 Plan, which, moreover, are also subordinated to the good outcome of the feasibility analysis by the professional appointed for this purpose; iii) the retention by the lending banks of the hitherto guaranteed financial support.

The directors, in analysing what has already been built as part of the path to enable the group to achieve long term asset, financial and economic equilibrium, recognize that to date and in the presence of intrinsic 2016-2021 plan remain critical- despite the Group's financial debt reduction that took place in the year 2015 - uncertainties related to events or circumstances that could give rise to doubts on the Group's ability to continue to operate on the ongoing concern basis, however, after completing the necessary audits and taking into account the uncertainties identified in view of the elements described, confident in the ability of being able to implement the provisions of the Plan 2016-2021, in particular with regard to the finalisation of the *Refinancing* of senior debt, have a reasonable expectation that a financial structure may be reached for the Group, consistent with the expected cash flows and that the Group has adequate resources even in the case of a favourable outcome of the ruling of the Regional Administrative Court regarding the Consip Tender Award, to continue operating in the foreseeable future and have therefore adopted the going concern assumption in the preparation of the consolidated financial statements.
Lastly, the directors who, precisely because they are aware of the inherent limitations of their determination, will maintain a constant monitoring of the evolution of the factors taken into account, so they can promptly take the necessary steps, in terms of recourse under the procedures provided for by law for corporate crises situations.

Report on other legal and regulatory provisions

Opinion on the consistency of the management report and the information contained in the report on corporate governance and ownership structure with the consolidated financial statements

We have performed the procedures required under ISA (AS Italy) no. 720B in order to express, as required by law, an opinion on the consistency of the management report and the information in the report on corporate governance and ownership structure indicated in Art. 123-bis, Paragraph 4, of Legislative Decree no. 58 of 24 February 1998, which is the responsibility of the Directors of Tiscali S.p.A, with the consolidated financial statements of the Tiscali Group as at 31 December 2015. In our opinion, the above-mentioned management report and the information in the report on corporate governance and ownership structures are consistent with the consolidated financial statements of Tiscali Group as at 31 December 2015.

Milan, 6 April 2016

Reconta Ernst & Young S.p.A

Alberto Coglia
(Shareholder)