TISCALI S.p.A.
Registered office: SS195 Km 2.3, Sa Illetta, Cagliari, Italy
Share Capital EUR 169,076,822.67
Cagliari Companies' Register and VAT No. 02375280928 Econ. & Admin. Roster No. 191784

REPORT OF THE BOARD OF DIRECTORS PREPARED PURSUANT TO ARTICLE 2446 OF THE CIVIL CODE AND ARTICLE 74 OF CONSOB REGULATION 11971/99, AS AMENDED (THE "**ISSUER REGULATIONS**") PREPARED IN ACCORDANCE WITH 'THE ANNEX 3A RULES FOR ISSUERS

To the Shareholders' Meeting convened on 28 April, 2016

March 25th, 2016

INDICE

Dear Shareholders,

This report is prepared pursuant to Article 2446 of the Civil Code and Article 74 of the Issuer Regulations, and is prepared in accordance with Annex 3A, n scheme. 5 of the Issuers' Regulation, in order to illustrate the economic and financial position as at 31 December, 2015, of Tiscali S.p.A. (The "Company"), to be submitted to the Shareholders' Meeting convened at the registered office of the Company in Cagliari, Sa Illetta, S.S. 195 km. 2.3, at 11 am on 28 April 2016.

The Board of Directors, which met on 25 March, 2015, had taken note of how the net assets of the company estimated at that time determined the case provided for by. 2446 of the Civil Code.

On December 31th, 2015, therefore:

- it results in a loss for the year amounted to EUR 36.2 million, which, added to the losses from previous years (EUR 26.9 million) and to negative reserves for EUR 14.8 million, determines an amount of total losses of EUR 77.9 million;

- the Shareholders' Equity is thus reduced to EUR 91.2 million compared to the amount of the share capital of EUR 169.1 million, with a decrease of the share capital itself more than a third;

- This situation continues to determine, therefore, the case provided for by Art. 2446 of the Civil Code.

The financial statements have been prepared in accordance with International Accounting Standards (IAS / IFRS) approved by the European Commission. The same accounting and measurement criteria were adopted the previous years comparative figures.

The financial statements as at 31 December, 2015, has been audited.

This report, together with the Board of Statutory Auditors observations, is made available to the public, in accordance with Article 2446 of the Civil Code and Article 74 of the Issuers Regulation, at least eight days before the date set for the meeting.

1. MAIN FINANCIAL STATEMENTS AS AT DECEMBER 31th, 2015

The financial statements as at 31 December 2015 for Tiscali S.p.A. (The "**Company**") are shown below: the subject of the case stated in the Article 2446 of the Civil Code (see Annex A for the full financial statements of the Company).

1.1 Tiscali S.p.A. .: financial statements as at December 31th, 2015

1.1.1 Tiscali S.p.A. .: Balance sheet as at December 31th, 2015

(EUR)	**31-Dec-15**	**31-Dec-14**
Non-current assets		
Intangible Assets	-	-
Properties, plant and machinery	-	-
Equity investments	176,493,735	136,169,734
Other financial assets	2,431,459	2,200,758
	178,925,194	**138,370,492**
Current assets		
Receivables from customers	1,257,364	311,781
Other receivables and other current assets	836,546	985,977
Cash and cash equivalents	70,989	367,968
	2,164,899	**1,665,726**
Total Assets	**181,090,093**	**140,036,218**
Capital and reserves		
Capital	169,076,823	92,052,030
Other reserves	(14,840.091)	(3,481,653)
Results of previous years	(26,903,812)	(27,454,283)
Result for the fiscal year	(36,174,673)	550,471
Total Shareholders' equity	**91,158,247**	**61,666,564**
Non-current liabilities		
Other non-current liabilities	31,015,394	3,917,817
Liabilities for pension obligations and staff severance indemnities	204,419	208,196
Provisions for risks and charges	687,655	18,349,058
	31,907,468	**22,475,071**
Current liabilities		
Due to banks and other lenders	-	-
Payables to suppliers	6,143,809	3,889,171
Other Current Liabilities	51,880,571	52,005,412
	58,024,380	**55,894,582**
Total Liabilities and Shareholders' equity	**181,090,093**	**140,036,218**

Analysis of the financial statements of Tiscali S.p.A. as at December 31th, 2015,

(1) Non Current Activities

This item includes:

- *Investments* in controlled companies for a value of EUR 176.5 million, which are made up of the following elements:
  - Participation in Italy Tiscali SpA, for EUR 150 million. The increase in the value of the investment in Tiscali Italy S.p.A. (EUR 13.9 million) refers to the waiver of receivables to the same subsidiary for the full amount.
  - Participation in Aria S.p.A.

    The most significant increase during the period is due to the merger with Aria Group operating in Italy as a broadband connectivity services provider, which holds a license of 40MHz of frequency spectrum 3.5 Ghz, *technology neutral*, allowing the delivery of LTE services in *Fixed Wireless Access* mode with a capacity over 50MB/s. The merger was finalized on December 24th, 2015;

The participation in Tiscali Finance SA was cleared in 2015 following the closure of the liquidation procedure which took place in May 2015.

- other *financial assets* amounted to EUR 2.4 million mainly represented by financial receivables from Group companies.

(2) Current assets

This item includes:

- "*Customer receivables*" for EUR 1.2 million;
- "*Other receivables and other current*" assets for about EUR 0.8 million, related to receivables from suppliers for advance payments made during the year, while prepaid expenses include costs related to the capital increase (approved by Board of Directors on December 29th, 2015, and by the shareholders meeting on February 16th, 2016) suspended until the operation is completed;
- Cash and cash equivalents at the end of 2015 amounted to EUR 71 thousand and includes the company's liquidity essentially held in bank accounts.

(3) Shareholders' Equity

- Following the effectiveness of the merger by incorporation of Aria Italia S.p.A. into Tiscali S.p.A. occurred on December 24th, 2015, described in the note to Investments in Controlled Companies, the Company, in order to serve the merger, has increased its share capital by issuing a total of 1,283,746,550 ordinary shares with no par value offered to the shareholders of Aria Italia at the ratio exchange of 50 Tiscali ordinary shares for each 3 ordinary shares of Aria Italia. As a result of the exchange ratio indicated in the merger plan, the members of Aria Group reached a share in Tiscali amounting to 40.81%. Following the merger, the share capital at 31 December, 2015, is equal to EUR 169,076,822.67;
- The increase in Other reserves is due to the accrual of professional fees incurred for the completion of the merger referred to above. The Other Reserves also includes the valuation at fair value of the "Put Option" on the Rigensis loan (recorded in the books of Aria S.p.A.) for EUR 4.25 million;
- The number of shares representative of the Parent Company's share capital amounted to 3,145,281,893, without par value, against 1,861,535,343 shares on December 31, 2014.

(4) Non-current liabilities

This item includes:

- *Other liabilities* related to borrowings from group companies for EUR 31 million;
- The *provision for severance indemnities*, which includes the indemnities accrued in favor of executives, amounted to EUR 0.2 million;
- The *provision for risks for employee disputes* referring to legal disputes with third parties or former employees undertaken in previous years. The provision for restructuring costs (coverage of the Senior debt accounted for by the subsidiary Tiscali UK Holdings Ltd, which was established on Tiscali SpA as the jointly committed to the repayment of the debt) has been entirely reclassified on the allowance for doubtful claims relating to the same subsidiary.

(5) Current liabilities

This item includes:

- *Trade payables* to third party suppliers mainly related to payables for professional advisory services. The increase compared to the previous year, amounting to EUR 2.3 million, it is primarily attributable to professional fees incurred for the merger with Aria Group. It has to be mentioned that Trade payables are due within one year and it is believed that their book value at the balance sheet date approximates their fair value;
- *Other payables to Group companies* is related to the financial debt to the company Tiscali International BV. *Other payables* largely represent amounts due to the tax authorities and social security institutions.

1.1.2 Tiscali S.p.A. .: income statement at December 31, 2015

(EUR)	**2015**	**2014**
Revenue	3,831,020	4,399,062
Other income	-	-
Purchase of external materials and services	(1,739,304)	(1,376,347)
Payroll costs	(1,492,107)	(1,923,718)
Other operating income/ (costs)	657,373	2,671,288
Write-down of receivables	(35,248,594)	(164,662)
Restructuring costs and other write-downs	(2,466,657)	(1,415,681)
Depreciation	-	-
Operating profit	**(36,458,269)**	**2,189,942**
Portion of result of equity investments carried at equity	-	-
Net Income (expenses)	191,913	(1,590,091)
Pre-tax result	**(36,266,356)**	**599,851**
Income taxes	96,683	(49,379)
Result from operating activities (on-going)	**(36,174,673)**	**550,471**
Income from discontinued operations and / or targeted for disposal	-	-
Result for the fiscal year	**(36,174,673)**	**550,471**

Analysis of the economic situation of Tiscali S.p.A. as at 31 December, 2015

- Revenues from services provided to the Group companies mainly related to the invoicing of services provided by the Company in favor of the operating subsidiary Tiscali Italy S.p.A,. including charges for the rights of use of the Tiscali brand , determined as a certain percentage of revenues of the same user company. The residual item of EUR 0.1 million is referred to miscellaneous income, expenses and extraordinary espenses;
- The cost of acquisition of goods and services includes costs for external management consulting services for EUR 0.8 million and other costs for external services for EUR 0.9 million;
- Personnel costs decreased of EUR 0.4 million compared to the previous year. This decrease is partially justified by the release of the variable salary components provided by in the previous years (included in Other Salary costs) for EUR 0.3 million. The number of employees as at December 31, 2015, is 5 full time equivalent;
- The "operating income/(expenses)" includes the net effect resulting from other operating expenses for EUR 0.3 million, due to the write off of liabilities from previous years for about EUR 0.4 million, as well as the positive impact of the reversal of penalties to the subsidiary Tiscali S.p.A. Italy for late payment accrued on the tax debt under its responsibility;
- The item "Restructuring costs and other write-downs" includes EUR 0.8 million for costs incurred for the postponement of the repayment terms of the Facility A1 under the new Senior Debt Restructuring Agreements signed on 23 December, 2014, and the allowance the termination indemnity for the director Luca Scano who resigned in February 2016, amounting to EUR 1.1 million. The Bad debt refers instead to the uncollectible receivables from the UK subsidiary;
- Net financial expenses consist of EUR 200 thousand due to an adjustment to the calculation of late payment interests accrued on the VAT debt in the prior years;
- The balance of current taxes includes the IRAP costs for the year amounting to EUR 29 thousand and income from 2014 tax consolidation of IRES for EUR (121) thousand.

1.1.3 Tiscali S.p.A. .: Net Financial Position as at December 31, 2015

The following table has been prepared on the basis of the model provided by the CESR Recommendation, dated February 10th, 2005: "Recommendations for the consistent implementation of the European Commission's Regulation on Fianancial Statements", in accordance with the provisions of Consob Communication n. DEM / 6064293 of July 28th, 2006.

(EUR 000)	**31-Dec-15**	**31 Dec. 2014**
A. Cash	-	-
B. Other cash equivalents	71	368
C. Securities held for trading	-	-
D. Liquidity (A) + (B) + (C)	**71**	**368**
E. Current financial receivables	**837**	**986**
F. Current bank payables	-	-
G. Current portion of non-current debt		
H. Other current financial payables	33,640	33,640
I. Current financial debt (F) + (G) + (H)	**33,640**	**33,640**
J. Net current financial debt (I) – (E) – (D)	**32,732**	**32,286**
K. Non-current bank payables	-	-
L. Bonds issued	-	-
M. Other non-current payables to Group companies	31,015	3,918
N. Other non-current payables to third parties	-	-
O. O. Non-current financial debt (K) + (L) + (M) + (N)	**31,015**	**3,918**
P. Net financial debt (J) + (O)	**63,748**	**36,204**

Assets

Short-term items

Cash and cash equivalents amounted to EUR 71 thousand. There are also short term assets for EUR 837 thousand.

Liabilities

Short-term items

Other current financial payables to Group companies are related to Intercompany payable towards the subsidiary Tiscali International BV, amounting to about EUR 33.6 million.

Medium-term items

The other non-current liabilities include Intercompany payables totaling EUR 31 million of which EUR 24.1 million towards the subsidiary Tiscali Italy S.p.A., EUR 3.5 million towards the subsidiary Tiscali GmbH and EUR 3.3 million towards the subsidiary Veesible.

1.1.4 Tiscali S.p.A. .: statement of changes in shareholders' equity at December 31, 2015

(EUR)	Capital	Legal reserve	Other reserves	Reserves for employee benefits	Accumulated losses and Other Reserves	Accumulated losses and Loss for the period	Total
Balance as at 01 January 2014	**92,022,779**	**90,734**	**(3,522,413)**	**(35,918)**	**-**	**(27,454,283)**	**61,100,900**
Increases /Decreases	29,250			(14,057)			**15,193**
Transfers covering losses							**-**
Result for the year						550,471	**550,471**
Balance as at 31 December 2014	**92,052,030**	**90,734**	**(3,522,413)**	**(49,975)**	**-**	**(26,903,812)**	**61,666,565**
Capital increase / merger	77,024,793	-	(7,115,736)			-	**69,909,057**
Rigensis Financing Option			(4,250,000)				**(4,250,000)**
Transfers covering losses							**-**
Operating results of Comprehensive Income Statement				7,299		(36,174,673)	**(36,167,374)**
Balance as at 31 December 2015	**169,076,823**	**90,734**	**(14,888,149)**	**(42,676)**	**-**	**(63,078,485)**	**91,158,247**

Following effectiveness of the merger by incorporation of Aria Italia S.p.A. into Tiscali S.p.A., which occurred on December 24, 2015, the Company, to service the merger, has increased its share capital by issuing a total of 1,283,746,550 ordinary shares of no par value offered to the shareholders of Aria Italia at the ratio exchange of 50 Tiscali ordinary shares for each 3 ordinary shares of Aria Italia. As a result of the exchange ratio indicated in the merger plan , the members of Aria Group reached a share in Tiscali amounting to 40.81%. Following the merge, the share capital at 31 December 2015 is equal to EUR 169,076,822.67;

The increase in Other Reserves is due to the accrual of professional fees incurred for the completion of the merger referred to above. The Other Reserves also includes the valuation at fair value of the "Put Option" on the Rigensis loan (recorded in the books of Aria S.p.A.) for EUR 4.25 million.

The number of shares representative of the Parent Company's share capital amounted to 3,145,281,893, without par value, against 1,861,535,343 shares as at December 31, 2014.

At the end of financial year 2015, Tiscali S.p.A. shows a loss of EUR 36.2 million which, added to the losses carried forward from previous years, amounting to EUR 26.9 million and to negative reserves for EUR 14.8 million, implicates the occurrence of the case stated in Article 2446 of the Civil Code, that is the loss of more than one third of the share capital.

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2. PROPOSALS RELATING TO THE MEASURES TO BE TAKEN FOR THE COVERAGE OF LOSSES

The Board of Directors, having taken note that the financial statements of the the Company as at December 31, 2015 show a loss of EUR 36.2 million, which, added to the losses of previous years carried forward amounting to EUR 26.9 million and to negative reserves for EUR 14.8 million, involves a cumulative loss of EUR 77.9 million, so that the equity is reduced to EUR 91.2 million, compared to a share capital of EUR 169,076,822.67. As the share capital decreased by more than a third as a result of the losses, it requires the adoption of measures under Article 2446, first paragraph, of the Civil Code.

The Board of Directors, having taken note of the above, considering the business outlook, will propose to the shareholders meeting to fully cover the accumulated losses as at 31 December 2015 through a reduction of the share capital amounting to EUR 77,875,899.78. The share capital will, therefore, pass from EUR 69,076,822.67 to EUR 91,220,922.90, with a consequent amendment of Article 5 (Share Capital and Shares) of the Articles of Incorporation, as described in the following table:

	Status before Reduction	Reduction	Status after Reduction
Capital	169.076.822,67	-77.875.899,78	91.200.922,90
IAS 19 Reserve	-42.676,00		-42.676,00
Other Reserves	-14.797.414,50	14.797.414,50	0,00
Total Reserves	-14.840.090,50	14.797.414,50	-42.676,00
Results for the previous years	-26.903.812,00	26.903.812,00	0,00
Result for the fiscal year	-36.174.673,28	36.174.673,28	0,00
Total accumulated losses	-63.078.485,28	63.078.485,28	0,00
Total Shareholders Equity	**91.158.246,90**		**91.158.246,90**

The Board of Directors, however, does not consider, at the moment, it necessary to propose an increase in the share capital, due to the fact that the operating loss was caused determined, as for EUR 35.1 million, from the write-down of receivables from the UK subsidiary arose as a result of the transfer to it of EUR 43.2 million deriving from the merger finalized by the capital increase, as further described in the directors' report on operations for the year ended December 31, 2015. To cope with the new situation, the Company approved a new Business Plan, drawn up with the support of a primary business consultant, and negotiations are ongoing with two primary Italian banks for the refinancing of the Senior Loan (as further described in the following paragraph).

The Board of Directors, having taken note of the above, and given the business outlook, will propose to the Shareholders what follows.

Proposed Resolutions

Dear Shareholders,

in view of the above, the Board of Directors submits to the Shareholders's Meeting the following resolution:

"The Shareholders' Meeting of Tiscali S.p.A.,

- Having examined the equity, economic and financial position as at 31 December 2015;
- Having taking note of the Explanatory Report of the Board of Directors drafted pursuant to Art. 2446 of the Civil Code and Art. 74 of the Regulation adopted by Consob Resolution no. 11971 of 14 May, 1999, and subsequent amendments and additions;
- Taking into account the observations of the Board of Statutory Auditors, and according to Art. 2446 of the Civil Code;
- Having taken into consideration the proposal of the Board of Directors,

deliberate

"1. to fully cover the accumulated losses as at December 31, 2015 amounted to EUR 62.6 million through reduction of the share capital by EUR 77,875,899.78 with a consequent reduction of the share capital from EUR 169,076,822.67 to EUR 91,220,922.90;

2. to grant the President pro tempore greater powers, so that, also through attorneys and in compliance with the terms and conditions of the law, he could give effect to this resolution, as well as make, where appropriate or necessary, additions, changes and formal deletions that may be required by the competent authority or in pursuance of laws and regulations, and, in general, carry out any compliance and reports required by legal and regulatory laws. "

3. INITIATIVES FOR THE BUSINESS CONSOLIDATION AND FOR THE MAINTENANCE OF THE GOING CONDITIONS

The Board of Directors, having taken note of the Group's equity, economic and financial situation, especially in light of the new role that Tiscali will have in the competitive environment following the merger with Aria S.p.A., which took place on December 24, 2015, and of the business outlook according to the actual trends of the first months of 2016, has assessed the need to prepare a new Business Plan that will allow the Tiscali Group to launch a process finalized to increase the operating profitability, aiming at improving the long term financial structure.

The plan, put in place by the Board of Directors, is based on the following key actions, partially initiated as of today:

- definition of the new Business Plan, approved by the Board of Directors on March 25 and drawn up with the support of a primary business consultant;
- refinancing of the Senior Loan, to be repaid on September 2017, in order to make make the financial indebtedness of the Tiscali Group more consistent with the related income and financial outlook, especially in light of what is included in the Business Plan guidelines. The Board of Directors anounce that negotiations have been started with two major national banks and that, as of today, the preliminary investigations have been completed, and the request will be brought to the attention of the competent deliberative bodies of the two banks;
- definition of agreements with key suppliers to ensure the smooth continuation of operating activities; the Directors have disclosed that the Group's business activities are proceeding regularly vis-à-vis both customers and suppliers;
- appointment of *advisors* to support the Group for the industrial, financial and legal issues

On the basis of the forecasts made, the Directors assume the Company is able to meet its operating cash needs, as well as the cash needs due to the capex and repayment of financial loans, either through the existing cash, and by achieving the economic and financial plan goals, or through the agreement reached with the banking system briefly described above. For the drafting of the financial plan and the consequent proposed debt exposure reorganization, as well as for the assistance in the negotiations with the banking system, Tiscali has requested the support of advisors of primary standing.

The proposed reorganization addressed to the lending banks is currently being finalized and is the result of bilateral meetings with representatives of all banks and the resulting indications received, in accordance with methods of sharing and overall agreement of all parties involved. As part of ongoing activities with the banking system, the failure of the refinancing could have significant effects on the future financial position, resulting in operational impacts on the Group.

It should also be noted that the plans are based on assumptions and external factors, in particular concerning the future performance of the markets in which companies operate, characterized by inherent uncertainties in some aspects beyond the Directors' control, and consequently, also in considering the current macro-economic environment, it can not be excluded that results may differ from those estimates. These factors are attributable, with regards to the business plan, to the achievement of the expected results in the business sectors, and to the assumed timing for achieving the goals of profitability; with regards to the financial plan, to the successful outcome of the current negotiations with the banking system and therefore the definition of the executive refinancing agreement.

Final evaluation of the Board of Directors

In light of the above considerations, the Board of Directors believes that, as of today, there is a reasonable chance that we will reach a refinancing of the senior debt of the Tiscali Group in order to have a financial debt consistent with cash flows and suitable to support the new Business Plan.

In particular, an Independent Business Review, prepared by a leading industrial advisor, has been completed and delivered in a draft form to credit institutions - together with the draft of financial business plan – who did not express any critical issues.

As part of Refinancing operation, the Group also granted a mandate to an external consultant for conducting a feasibility study of the 2016-2021 business plan, activities that today is in an advanced stage of development and for which the consultant released on March 24th, 2016 a comfort letter to the Board of the Company, attesting that currently there are no criticalities that might create obstacles to the issuance of a positive opinion on the Tiscali business plan being analyzed.

Finally, on March 24th, 2016, each banks sent to Tiscali a comfort letter in order to communicate, inter-alia, to have launched the preliminary phase concerning this operations, to have not detected any criticalities in the investigation process and to confirm its commitment, subject to the success of the feasibility analysis by the professional in charge, to accelerate as much as possible the process to bring the matter, with positive technical opinion, to the relevant deliberativebodies.

Lasty, it is reported that both the Business Plan and the related financial forecasts have been prepared in accordance with maximum prudence and seriousness, converge with the sense of the aforementioned positive evaluation by the Board.

In light of the preceding considerations, and especially in light of the merger completed on last December, resulting in the acquisition of financial resources, which have reduced by about one-third the senior debt, the business continuity is intended to exist.

4. DECLARATION BY THE MANAGER RESPONSIBLE FOR PREPARING THE COMPANY'S FINANCIAL REPORTS

I, the undersigned Pasquale Lionetti, manager responsible for preparing the corporate financial statements of Tiscali S.p.A., certify that pursuant to Art. 154-bis, paragraph 2, of Legislative Decree no. 58/98, as amended, that the accounting information contained in this Board of Directors' Report prepared pursuant to Art. 2446. civ. does correspond to the document results, books and accounting records

March 25th, 2016

Tiscali S.p.A.

Manager responsible for preparing corporate accounting documents

Pasquale Lionetti

5. COMMENTS OF THE BOARD OF STATUTORY AUDITORS

Comments of the Board of Statutory Auditors pursuant to Article 2446 of the Italian Civil Code and Article 74 of Consob Issuer's Regulation no. 11971/99 as amended

To the Shareholders of the company Tiscali S.p.A

Dear Shareholders,

the Company's Board of Directors, on 25 March 2016, has approved the financial statements as at 31 December 2015, which show a loss equal to EUR 35,744,435 which, when added to the losses of previous years of EUR 26,903,812 and the negative net reserves as at 31 December 2015 of EUR 14,797,415, consists in the recognition of negative items of shareholders' equity amounting as at 31 December 2015 to a total of EUR 77,875,900. Because the share capital is equal to EUR 169,076,823, it incurred, as a result of overall losses, a reduction of over one third of its amount.

In this regard the Board of Statutory Auditors notes the following.

Convening of the Shareholders' Meeting

On March 25, 2016, The Board of Directors approved the separate financial statements of Tiscali S.p.A, which showed that the loss reported by the Company creates the case provided for by Art. 2446 of the Italian Civil Code. Consequently, the Board of Directors resolved to propose to the Shareholders' Meeting convened in a single sitting on 28 April 2016, the coverage of the aforementioned losses, jointly with the losses of previous years and negative reserves, for a total amount equal to EUR 77,875,900 through the reduction of share capital by the same amount.

The agenda set for the shareholders' meeting called to vote on resolutions concerning the approval of the financial statements at 31 December 2015, thus also includes the related resolutions to Art. 2446 of the Italian Civil Code.

In particular, the Board of Directors proposed to the Meeting to proceed with the full coverage of the overall losses at 31 December 2015 equal to EUR 77,875,900, through the reduction of share capital by the same amount. The proposal allows for the reduction of share capital from EUR 169,076,823 to EUR 91,200,923.

Economic and financial situation of Tiscali S.p.A

The Directors' report, which is submitted to your attention, in compliance with Article 2446 of the Italian Civil Code and Art. 74, Paragraph 1 of the Regulation adopted by Consob with resolution no. 11971 of May 14, 2009, as amended, prepared in accordance with the provisions of Annex 3A, scheme 5, has been made available for your review, as provided by law, at least twenty days prior to the resolution.

The explanatory report of the Directors includes:

- the balance sheet as at 31 December 2015 and the Income Statement for FY 2015, jointly with the explanatory notes, prepared in accordance with International Accounting Standards (IAS / IFRS) approved by the European Commission;
- the net financial position of the Company as at 31 December 2015;
- the composition of shareholders' equity as at 31 December 2015.

In its report, the Board of Directors, after having explained the items presented in the financial statements, develops the arguments in support of the proposal to reduce the share capital, and in particular the following is noted.

Valuation criteria adopted

In this regard, the Board of Auditors points out that the auditing tasks are entrusted to the auditing company Ernst & Young, which with regard to the financial statements amounts with its report dated 6 April 2016, which last expressed an unqualified opinion, with requests for information on the economic, capital and financial situation, on the main initiatives taken by the directors and the elements and evaluations described by the Directors to support the adoption of the going concern basis in preparing the financial statements, which may be referenced in the above-mentioned report. In this regard, the Board of Statutory Auditors notes that the directors have prepared the financial statements as at 31 December 2015 based on a going concern basis in view of the expected Tiscali developments following the reorganization of the activity started with:

- the merger with Aria S.p.A at the end of 2015;
- the factual commitment to the identification and implementation, even well advanced, of new market prospects;
- preparation of a new Business Plan;
- the refinancing of the current Senior debt maturing in September 2017, in order to make compatible the total debt of the Tiscali group with income and financial prospects, as required by the guidelines of the new Business Plan. To this end, there are ongoing negotiations with two major national banks, which have announced that the preparatory stage has been completed and that the request will be brought to the attention of the decision-making bodies.

In this regard, the Directors' report contains the following final evaluations:

"In view of the above-stated considerations, the Board of Directors believes that as there is a reasonable chance that we will reach a refinancing of the senior debt of the Tiscali Group in order to have debt coherent with expected cash flows and suitable to support the new Business Plan.

In particular, a so-called Independent Business Review, prepared by a leading industrial advisor, has been actually completed and delivered in draft form to Lending Institutions - jointly with the draft of the business and financial plan - which to date, did not express any critical issues in this regard.

Within the Refinancing transaction, 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 Board of the Company that in actuality there were no issues that might create obstacles to the issuance of a positive opinion on the Tiscali Business Plan being analysed.

Lastly, on 24 March 2016, Tiscali received from each of the Lending Institutions involved in the refinancing transaction of a so-called comfort letter in which the same communicate, among other things, to have initiated the preliminary procedure relating to the transaction, to not have detected to date any critical issues in their investigation process and to confirm its commitment, subject to the good outcome of the feasibility analysis by the professional in charge, in order to accelerate, as much as possible, the process to bring the matter, with positive technical opinion, to the relevant decision-making bodies.

It should be noted, lastly, that the Business Plan and related financial forecasts have been prepared according to maximum prudence and reliability, converge in the sense of the aforementioned positive evaluation by this Board.

In view of the foregoing considerations, also particularly in view of the merger that was completed last December, which led to the addition of financial resources that reduced the senior debt by about one-third, therefore, business continuity has been deemed to be in place. "

In view of what has been explained by the Directors, Board of Statutory Auditors, while determining that there are significant margins of uncertainty in the actual realisation of economic and financial results expected and specified in the Business and Financial plan, has nothing to object, at present, regarding the fact that the assessment criteria are based on a going concern assumption.

Accurate identification and explanation by the Board of Directors, of the losses.

In this regard, the Board of Statutory Auditors confirms the accurate identification of the operating loss and the clear explanation of the criteria and financial factors that have led to its determination. It is stressed, that the result which led to the creation of the case pursuant to Art. 2446 of the Italian Civil Code is the result of FY 2015, in support of which the documentation normally prepared for the General Meeting to approve the financial statements, is available for the Shareholders.

The Board of Directors has shown that the reasons that led to this loss is attributable to the "Doubtful accounts" equal to EUR 35,248,594 and to "Restructuring costs and other write-downs" equal to EUR 2,466,657.

The Board of Statutory Auditors, takes note of said reasons and the fact that the "Allowance for doubtful accounts" follows the deemed uncollectable receivables from the English subsidiary, while the "Restructuring charges" relate to items relating to the restatement of the agreements for repayment of Senior debt, as well as other expenses related to the corporate reorganization. In view of the new development prospects and the expected results, the Board of Directors did not consider it necessary, at present, to propose amendments to increase the share capital, because the loss for FY 2015 is attributable mainly to evaluation-type aspects of intra-group items, as previously described,

The directors therefore propose to Shareholders to proceed to cover losses from FY 2015, for those in previous years and negative reserves, excluding the Reserve for employee benefits (IAS 19), which amounts to EUR 42,676 as at 31.12.15, as shown in the table below:

	Situation prior to reduction	**reduction**	**Situation post-reduction**
Share Capital	169,076,823	(77,875,900)	91,200,923
Reserve IAS 19	(42,676)		(42,676)
Other reserves	(14,797,414)	14,797,414	0
Total reserves	(14,840,090)	14,797,414	(42,676)
Previous losses	(26,903,812)	26,903,812	-
Loss for the period	(36,174,673)	36,174,673	-
Total Losses	(63,078,485)	63,078,485	-
Total net equity	**91,158,247**		**91,158,247**

The Board of Auditors has no complaints in this regard, and believes the proposal of the Board of Directors to reduce the share capital to cover losses, is consistent with the provisions of Art. 2446 of the Italian Civil Code, also in consideration of the Company's situation, as explained by the Directors in their report, and as referenced above.

Significant events subsequent to the preparation of the report and the evolution of corporate management

We are not aware of any other significant events subsequent to the preparation of the report of the Board of Directors.

Cagliari, 6 April, 2016

THE BOARD OF STATUTORY AUDITORS

The Board of Statutory Auditors

Dr Paolo Tamponi - President

Dr. Emilio Abruzzese - Statutory Auditor

Dr. Valeria Calabi – Statutory Auditor