Consolidated financial report as at 30 June 2015

Issue date: 30 June 2015

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

TISCALI S.P.A.

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

Share Capital EUR 92,052,029.67

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

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1 Highlights

Income statement *(EUR mln)*	**1st half of 2015**	**1st half of 2014**
· Revenues	103.8	106.7
· Adjusted Gross Operating Result (EBITDA)	36.8	25.7
· Gross Operating Result (EBITDA)	24.8	20.5
· Operating result	7.1	2.1
Balance sheet (EUR mln)	**30 June 2015**	**31 December 2014**
· Total assets	203.0	207.9
· Net Financial Debt	186.2	192.6
· Net Financial Debt as per Consob	(193.6)	(199.5)
· Shareholders' equity	(170.7)	(168.8)
· Investments	18.8	20.8
Operating figures (000)	**30 June 2015**	**30 June 2014**
Total customers	574.8	569.3
of which: ADSL	457.2	489.3
of which MOBILE (Voice and Data)	107.1	64.6
of which OTHER	10.5	15.4
(*) of which Voip (Dual Play)	352.6	363.5

2 Alternative performance indicators

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

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

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

+ Financial charges

- Financial income

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

Operating result

+ Restructuring costs

+ Amortisation/depreciation

+/- Atypical income/charges

Gross Operating Result (EBITDA)

+ Write-downs of receivables from customers

Gross Operating Result (Adjusted EBITDA)

3 Directors and Auditors

Board of Directors

Chairman and Chief Executive Officer: Renato Soru

Directors

Franco Grimaldi

Gabriele Racugno

Luca Scano

Assunta Brizio

Board of Statutory Auditors

Chairman

Paolo Tamponi

Statutory Auditors

Rita Casu

Andrea Zini

Alternate Auditors

Piero Maccioni

Valeria Secchi

Executive in charge of drawing up the corporate accounting documents

Pasquale Lionetti

Independent Auditing Firm

Reconta Ernst & Young S.p.A.

Interim report on operations

4 Interim report on operations

4.1 Tiscali's position within the market scenario

Tiscali S.p.A. (hereinafter also "Tiscali", the "Company" and, jointly with its subsidiaries the "Group" or the "Tiscali Group") is one of the leading alternative telecommunications operators in Italy offering a wide range of services to its private and business customers: internet access in ADSL mode, Voice, VoiP, media, added-value services, mobile telephone services, communication services and Over the Top services (hereinafter also "OTT").

In addition, Tiscali is active in the digital media and on-line advertising segment via its www.tiscali.itportal and other web properties which are marketed by the concessionary agent Veesible S.r.l. (hereinafter also "Veesible").

With regard to broadband access from the fixed network, in the first quarter of 2015, based on the latest data available, the number of accesses using DSL technology fell again, further confirming the saturation of the segment and emphasizes the importance of price and customer retention policies so as to counteract the tendency of a rise in the churn rate and to win over customers from direct competitors.

The ultra-broadband market has taken off, albeit later than other European countries: new generation broadband lines surpassed 900 thousand in March 2015 (latest statistics available), up 126 thousand in the first quarter of the year, equal to 6.2% of broadband lines with Fastweb and Telecom Italia, which jointly own more than 90% of the lines.

In order to respond to competitive pressure and the growing bandwidth demand from the market, in July 2015 Tiscali launched an ultra-broadband offer using FTTC technology for the Customer and Soho segment, and will soon launch the FTTH technology solution by availing of the Telecom Italia Virtual Unbundling Local access range.

In the market for direct access to the fixed network, Tiscali maintains an essentially stable position, thanks to the integrated voice and data offers. A comparison of March 2015 data (latest statistics available), with March 2014 data shows that Tiscali's market share was down slightly, from 3.6% to 3.4%.

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

By contrast, Internet access from mobile devices continues to rise sharply, driven by the spread of Smartphones, Tablets and 3G/4G Wi-Fi modems and the increasingly greater development of mobile applications both by on-line media and companies.

In the mobile sector, Tiscali recorded a strong performance in the first half of 2015 thanks to a competitive voice-sms and data range, with an increase of around 66% in the number of operating SIMs with respect to the corresponding period in 2014.

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

In 2014, the on-line advertising market recorded a essentially flat performance, as regards total turnover volumes. The slowdown is certainly due to the economic downturn and to a definite increase in the overall advertising offerings, both traditional and online, which erodes unit prices. The long-term view remains confirmed, however, with indications pointing to growth over the next few years, due to a sort of rebound that the advertising market, more in general, is expected to see as early as the second half of 2015.

In particular, it is possible to consider with reasonable certainty that the weight of on-line advertising in Italy will align itself over the medium-term at levels observable in the majority of the economies, with particular reference to advertising on mobile devices, still currently undervalued but expected to rise sharply in the medium to long-term, based on the trends of said sector in the US and partly in the rest of the world.

Nonetheless, the company forecasts growth in media revenues over the next few years, attributable to the expected expansion of the user base and the network of the concession holder Veesible, and to the evolution of the product, with particular reference to the mobile ADV, Native ADV and Video Advertising segments.

In the first half of 2015, the reference digital advertising market (total turnover generated in Italy, including no cash media advertising), measured by FCP/Nielsen, amounted to EUR 231,763 thousand in the first half of 2015, compared to EUR 239,217 thousand in the same period of 2014 (down 3.1%).

With respect to said performance, Veesible registered a decrease of 0.4%, therefore essentially recording good staying power with respect to the first half of 2014, against a market drop of 3.1%.

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

Tiscali continued to focus its operations on the areas with high growth potential, such as the media sector which showed a better performance than the market and Over The Top services.

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

Research & Development Activities

In 2015, the Company continued its activities for the development of Over The Top products/services:

- Indoona: in the first half of 2015, Tiscali won the prestigious “Global Telecoms Business” award (awarded annually to the most innovative projects in the telecommunications industry) in the innovation category, in consumer services and, in particular, for the methods of provision of the voice service. Indoona is among the first in the world to use a NFV (network function virtualisation) Voip platform, i.e. a technology platform that does not reside in a private data centre but is distributed worldwide via the cloud. The chat facility was also improved, permitting the exchange of all types of files: not just music, but videos, documents, pdfs and presentations too. As at 30 June 2015, Indoona boasted 2.4 million downloads, compared to 1.8 million downloads registered at 30 June 2014, confirming its visibility to an increasingly wider user base. At 30 June 2015, the net book value of investments made in relation to Indoona amounted to EUR 1.7 million. At the current state of play, revenues generated by the service are not significant;
- Istella is a search engine for the Italian web created with the objective of arranging and spreading Italian cultural heritage, among other aspects. A total of more than 4.5 billion pages and 200 terabytes of data have been indexed to-date. It differs from other search engines since all the users can add to the database by sharing files, documents, photos, images, videos and audio. Istella was launched on the market on 19 April 2013. At 30 June 2015, the net book value of investments made in relation to Istella amounted to EUR 4.5 million. At the current state of play, revenues generated by the service are not significant. It should be noted that, in July 2015, an agreement was signed with one of the main Media sector operators, which is expected to generate future economic benefits;
- Streamago is a platform which enables live streaming and broadcast recording vis-à-vis any fixed device (PC and MAC) or mobile device. The first half of 2015 saw the launch of the “Streamago Social” version, which makes it possible to publish and broadcast videos and events live on Facebook directly from browsers and smartphones. The Streamago Social application was chosen by Lorenzo Jovanotti as a media partner for creating the backstage journal of LORENZO NEGLI STADI. At 30 June 2015, the net book value of investments relating to Streamago amounted to EUR 0.7 million. In the first half of 2015, revenue relating to Streamago amounted to EUR 135 thousand, up around 200% over the first half of 2014.

4.2 Regulatory background

The main areas subject to regulatory intervention in the first half of 2015 are summarised below.

New analysis of the significant markets by the European Commission

Within the sphere of the review process which the European Community periodically performs in relation to the significant markets (which will continue to be regulated until 2020), said entity presented a new recommendation in 2014, in which it redefines the perimeter of the prior regulation for electronic communications.

In particular, the recommendation reduced the number of markets subject to prior regulation, which drop from the current 7 to 4, establishing the deregulation of the retail market for access to fixed telephony and the wholesale market for the collation of calls in fixed workstations, deeming the competitive conditions of both to be adequate.

The markets which continue to present high barriers to entry instead remain subject to prior regulation:

i. Market 1: Wholesale supply of the termination service of the calls on individual public telephone networks with fixed workstation;

ii. Market 2: Wholesale supply of the termination service of the voice calls on individual mobile networks;

iii. Market 3:

   a. Local access to wholesale with fixed workstation;

   b. Central access to wholesale with fixed workstation for fast moving consumer products;

iv. Market 4: Access to high quality wholesale with fixed workstation.

Significant developments of the network and the services

With regard to the fixed network interconnection services the Authority for Communications Guarantees (hereinafter "the Authority" or "AGCOM") has defined a process for the gradual reduction of prices with the publication of resolution no. 52/15/CIR which fixes the rules which ensure the migration towards the IP platform, thus completing an obligatory step towards the development of the Italian network.

With regard to termination services on the mobile network, in February 2015, the Authority placed a new resolution (16/15/CONS) up for consultation, which will lead to the definition of the new price list for the three-year period 2014-2017.

According to the draft provision, which was transmitted to the European Commission, the main changes concern two aspects:

i. the 4 Full MVNOs were notified as SMPs;

ii. the termination for all operators (MVNO and Full MVNO) for the entire 2014-2017 period remains unchanged (EUR 0.98 cent/min).

Both initiatives are geared towards putting MNOs on the same level as Full MVNOs.

Lastly, the Authority has just approved the final provision concerning the analysis of the market for access to high quality wholesale with fixed workstation (market no. 4 of Recommendation of the European Commission 2014/710/UE).

The significant markets identified are: the market for user site connection networks (market A); the market for BTS connection networks (market B).

In market A, Telecom Italia is identified as an SMP operator, while in market B, no SMP has been identified. Based on the above, in market A, Telecom Italia is required to fulfil obligations concerning access, transparency, non-discrimination, accounting unbundling, cost accounting and price control.

Procedure relating to the partial cancellation of the rules underlying the access services to the fixed network for the years 2010-2012

In October 2013, AGCOM launched a procedure (resolution 563/13/CONS), extended several times and concluded in April 2015, by means of which the Authority enforced the rulings of the Council of State No. 1837/13, 1645/2013 and 1856/2013 relating to resolutions No. 731/09/CONS and 578/10/CONS, which cancelled certain criteria underlying the approval of the economic conditions of the reference offers relating to the period 2010-2012 for the main access services.

The outcome of the procedure led to the redetermination of the unbundling fee for the period indicated: in particular - as requested by the Council of State - the Authority reconciled the costs of the corrective maintenance of the unbundling with the real underlying costs, also taking into consideration the incidence of the contracts with third party companies which then regulated the performance of these activities on behalf of Telecom Italia.

The new values recalculated for the three-year period under review, are as follows: 8.65 and 8.90 EUR/month respectively for 2010 and 2011, and 9.05 EUR/month for 2012.

In light of the new and additional sentence of the Council of State No. 5733/2014 by means of which the approval of the fees for the Bitstream Naked service for 2009 was cancelled, AGCOM opened a new procedure (resolution 68/15/CONS) for the recalculation of this value, and consequently of the values relating to the Bitstream and WLR services for the years from 2010 to 2012. A decision is still pending from the Authority.

Market analysis of the fixed network access services

AGCOM recently approved the resolution framework for market analysis of access to wholesale to the Telecom Italia fixed network valid for the period 2014-2017.

The new package of measures adopted will provide:

- greater incentives to fibre optic infrastructures, favouring the move from copper services to fibre optic services;
- certainty of the rules over the time period of the market analysis;
- an improvement in the quality of the wholesale services with a positive impact on competition;
- new guarantees aimed at reducing differences in the supply and in the quality of access services between the internal Telecom divisions and competing operators;
- harmonisation of the SLA system and the penalties between the various access services;
- stricter penalties for Telecom Italia, in the event of a delay in the provision of access services and fault repair.

Management of the radio spectrum and use of frequency bands for wireless broadband services

As regards mobile telecommunications, the Authority's activities concerning the regulation of the use of the radio spectrum for electronic communication systems are targeted, in line with the objectives set out in the Community framework, at promoting the development of broadband and ultra-broadband services.

The significant initiatives in this domain include the start of the public consultation on the procedures for the assignment and use of available frequencies in the 3.600-3.800 MHz band for ground-based electronic communications systems (resolution 321/15/CONS).

The document placed under consultation proposes the possibility of identifying different assignment lots based on geographic zones, allowing a sort of division of labour between the highest value uses in the areas of the highest density (for which the auction mechanism may be the most appropriate), and the uses now fundamental for reducing the digital divide in broadband and ultra-broadband services in less dense and less well covered areas of the country (for which a beauty contest mechanism with 'social' obligations may be appropriate).

This is an important development which will create extremely interesting scenarios in the near future, both for fixed wireless services and for Lte and Lte-Advanced applications.

Procedure for measurement and reduction of administrative expenses deriving from obligations of disclosure to AGCOM

In March 2015, by means of resolution no. 121/15/CONS, the Authority's Economic-Statistical Service launched a procedure targeted at measuring and reducing the administrative expenses deriving from the disclosure obligations regarding matters within its competence, based on the "standard cost model" method, in line with the best practices in the national and European domain.

The procedure is structured into two phases: the first is recognition, aimed at obtaining a mapping of disclosure obligations which may give rise to administrative expenses for operators subject to prior regulation; the second involves the quantification of the parameters for estimating costs, targeted at identifying and quantifying the economic input required from operators to fulfil disclosure obligations.

The outcome of the measurement, together with the information acquired, will be used to highlight whether it is possible to reduce the administrative expenses through rationalisation and simplification measures.

Main consumer protection initiatives

The Authority launched a process aimed at providing greater information and transparency to consumers via two ventures: the development of the "National Broadband Disclosure Service" (SINB) which will permit consumers to gain awareness of broadband commercial offers - wired, mobile and wireless – available in the applicable area and the fine-tuning of a simplified and open (web) tool for the comparison of the commercial offers of the electronic communication services provided by the operators.

Analysis is underway on the regulatory evolution of the customer assistance services, also in light of the new market context and the new contract models using digital instruments and social networks.

The main development in this area is the Authority's readiness to introduce cost conditions to customer operator assistance.

By means of resolution 645/14/CONS, the Authority placed the new regulation regarding contracts relating to the supply of electronic communications goods and services up for consultation.

Once again, by means of resolution 23/15/CONS the Authority decided to once again intervene with regard to telephone bill transparency, with an outline provision which will permit users to receive, including on-line, clearer and more complete bill documentation, both for the land-line services and for post-paid and pre-paid mobile services.

Lastly, by means of resolution 227/15/CONS, the AGCOM launched the public consultation procedure regarding the amendment of the regulation governing compensation applicable to the settlement of disputes between users and operators.

International roaming

The European Union set 30 June 2017 as the date for the complete abolition of additional roaming charges (originally envisaged for 2018).

This abolition will be preceded by a lowering of roaming costs charged by operators: in fact, starting from 30 April 2016, the caps currently in force will be replaced by a maximum surcharge of EUR 0.05 per minute for calls, EUR 0.02 for texts and EUR 0.05 per MB of data.

The EU indications also envisage a roaming fair use clause to prevent abuse from people using roaming services abroad for purposes other than travel. In this case, protection clauses will be introduced that will allow operators to recover costs.

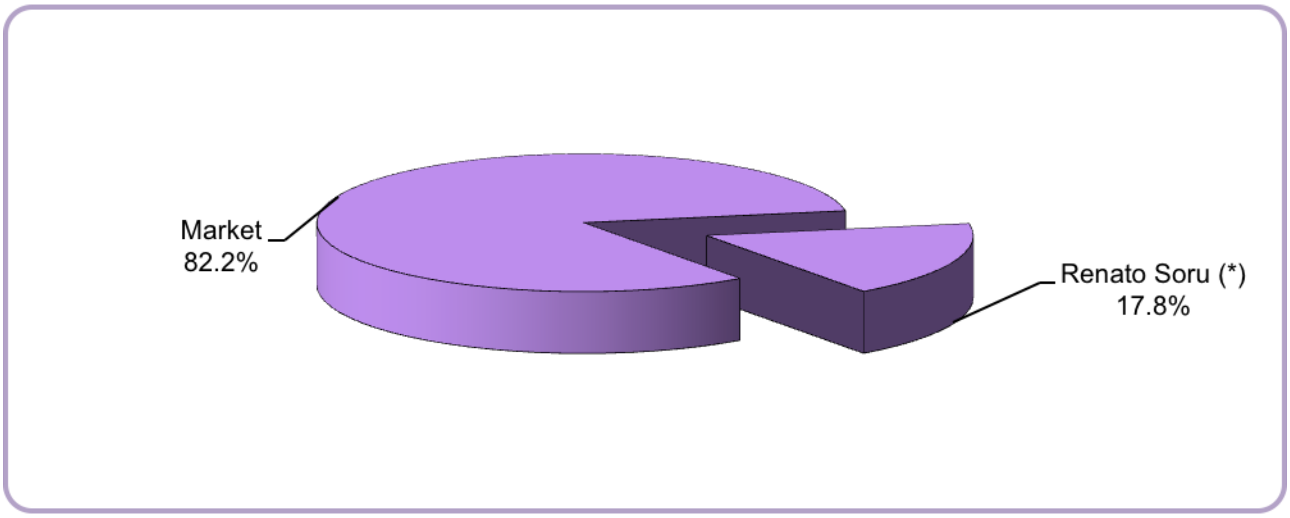
4.3 Tiscali shares

Tiscali shares have been listed on the Italian Stock market (Milan: TIS) since October 1999. At 30 June 2015, market capitalisation came to roughly EUR 98.7 million, calculated on the value of EUR 0.053 per share as at that date.

At 30 June 2015, the number of shares representing the Group's share capital amounted to 1,861,535,343.

Tiscali's shareholder base at 30 June 2015 is illustrated below.

Fig. 4.1- Tiscali shares



Source: Tiscali

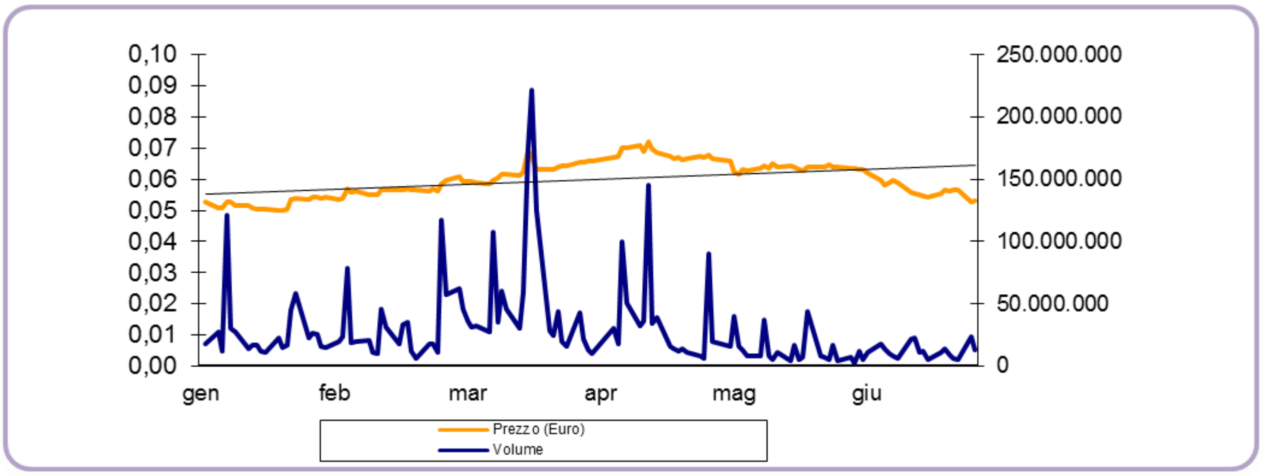
(*) Directly for around 15% and, indirectly through the investee companies Monteverdi Srl (0.9%), Cuccureddus Srl (1.8%) and Andalas Ltd (0.1%).

Share capital structure at 30 June 2015

SHARE CAPITAL STRUCTURE		
	No. of shares	**As % of share capital**
Ordinary shares	1,861,535,343	100%

The graph below illustrates Tiscali's share trend during the first half of 2015.

Fig. 4.2 - Tiscali's share price performance during the first half of 2015



[Jan – Feb – Mar – Apr – May – June

Price (EUR) – Volume]

Source: Bloomberg data processing

The average monthly price in the half stood at EUR 0.060. The maximum price of EUR 0.0719 for the period was recorded on 15 April 2015, and the minimum of EUR 0.050 on 19 January 2015.

Trading volumes stood at a daily average of about 29.4 million items, with a daily average trade value of around EUR 1.8 million.

Average Tiscali stock trading on the Italian Stock Exchange in the first half of 2015

	Price (EUR)	No. of shares
January	0.052	27,217,956
February	0.056	30,335,421
March	0.062	58,710,939
April	0.068	34,997,383
May	0.064	14,116,320
June	0.058	11,282,704
Average	**0.060**	**29,443,454**

4.4 Significant events during the first half of 2015

Authorisation granted by Tiscali's shareholders' meeting to the Board of Directors for the Share Capital Increase

In accordance with the financial debt Restructuring Agreements pursuant to the Group Facilities Agreement – GFA – signed on 23 December 2014 (the "Restructuring Agreements") and the SEF Agreement, signed with Société Générale on 24 December 2014 (define hereunder), on 30 January 2015, Tiscali's extraordinary shareholders' meeting granted the Company's Board of Directors authority to increase the share capital, in tranches, by means of the issue of a maximum of 1,000,000,000 ordinary shares of the Company with exclusion of the purchase option pursuant to Article 2441.5 of the Italian Civil Code ("Share capital increase").

Approval of the Share Capital Increase by Tiscali's Board of Directors

On 16 February 2015, Tiscali's Board of Directors approved the Share Capital Increase transaction reserved for Société Générale in accordance with the SEF Agreement.

Preliminary non-binding agreement for a business combination transaction with Aria S.p.A.

On 19 March 2015, a non-binding memorandum of understanding was signed for a business combination transaction with Aria S.p.A. (hereinafter also "Aria"), an Italian service provider which offers wireless broadband services, on the basis of the licence obtained during the auction in 2008 for use of the 3.5 GHz band throughout Italy. The transaction was successfully finalised with an agreement signed by the parties on 16 July 2015. For more details, please refer to the section "Significant events after the half year end".

Restructuring of the Leasing Agreement regarding the Sa Illetta property

On 22 December 2014, at the time of definition of the Restructuring Agreements, Tiscali Italia accepted the offer from a leading Italian real estate fund - Fondo Castello SGR - relating to the transfer of the Leasing Agreement regarding the Sa Illetta property, the Group's headquarters (the "Leasing Agreement"). The finalisation of the transfer of the Leasing Agreement was subject to certain conditions precedent being met by 31 March 2015.

On 30 March 2015, the Fondo Castello SGR requested an extension of a further 3 months with respect to the term initially set of 31 March 2015, in order to satisfy the conditions precedent. Tiscali declared itself willing to grant this extension.

However, in June 2015, the company acknowledged that, as a result of the non-verification of one of the conditions precedent contained in the offer received from Castello SGR, the planned transfer of the Leasing Agreement could not be completed, and, therefore, is working to restructure said Leasing Agreement with the pool of leasing companies.

For further information, see the section "Evaluation of the company as a going-concern and future outlook".

Payment of interest and principal on the Senior Loan

On 31 March 2015, EUR 5 million of the debt was repaid according to the Restructuring Agreements (hereinafter also "Senior Loan"), reclassified under short-term financial liabilities, along with the payment of the interest on the principal for EUR 2.7 million. In addition, on the same date, around €0.2 million in previous interest was paid, relating to the previous GFA loan agreement restructured on 23 December 2014.

Tiscali launches Streamago Social

In the first week of April, Tiscali unveiled Streamago Social, the iOS app which, for the first time ever, allows users to transmit video and audio directly on their Facebook profiles and pages, hence an app for enriching social communication with a new powerful live broadcasting tool.

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

On 28 April, Tiscali received, from Consip S.p.A. (hereinafter "Consip" or "CONSIP"), the definitive award of the tender for the assignment of connectivity services of the Public Administration Authorities as part of the Public Connectivity System - SPC - ("CONSIP Tender"). After having presented the most advantageous offer, as decreed by Consip itself in May 2014, the bid presented by Tiscali successfully passed all economic and technical adequacy checks (as confirmed by various communications received from Consip on 24 December 2014, 17 February 2015 and 16 April 2015), confirming its position at the top of the standings drawn up by Consip.

In May 2015, the company started preliminary activities prior to stipulation of the contract. Please refer to the section "Assessment of the business as a going-concern and future outlook".

The shareholders' meeting approves the 2014 financial statements

On 30 April 2015, Tiscali S.p.A.'s ordinary shareholders' meeting, held in Cagliari on single call, approved the 2014 financial statements.

Confirmation of the independent requirements of the directors Assunta Brizio and Franco Grimaldi

On 15 May 2015, Tiscali's Board of Directors deemed Directors Brizio and Grimaldi to be independent, based on the parameters and application criteria recommended by the Code of Conduct, to which Tiscali adheres. The Board of Statutory Auditors verified the correct application of the assessment criteria and procedures adopted by the Board to evaluate the independence of its members.

4.5 Analysis of the Group economic, equity and financial position

Introduction

Founded in 1998, Tiscali is one the leading alternative telecommunications operators in Italy.

Thanks to a cutting edge network based on IP technology, Tiscali provides its customers with a wide range of services, from broadband and narrowband internet access, together with more specific and hi-tech products. This offer also includes voice services (VOIP and CPS), and portal and mobile telephone services, thanks to the service supply agreement reached with Telecom Italia Mobile (MVNO).

The Group offers its products to consumer and business customers on the Italian Market, mainly via five business lines:

(i) "Access", in Broadband modes (LLU, Bitstream), inclusive of VoIP and mobile telephone services (so-called MVNO);

(ii) Narrowband;

(iii) "Voice", inclusive of traditional telephone traffic services (CS and CPS) and Wholesale;

(iv) Business services (so-called B2B), which include VPN, Hosting, domain connection and leased line services, provided to companies and, lastly,

(v) Media and value added services, which include media, advertising and other services.

Main risks and uncertainties for the Group

Risks relating to the general economic situation

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

The activities, strategies and prospects of the Tiscali Group are influenced by the related macro-economic context and as a result this also affects the Group's economic, equity and financial position.

Risks associated with the performance of the telecommunications market

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

The success of the Group's activities depends on the capacity to maintain and increase shares of the market in which it currently operates through high quality, innovative services that guarantee adequate levels of profitability. If the Group is unable to maintain its competitive position with respect to the main competitors in terms of price and quality and other elements, the Tiscali Group's market shares could fall, with a negative impact on the economic and financial results of the Group.

Risks associated with the dependence on technology of the telecommunications sector

The Group, which operates in a highly complex market from a technological point of view, is exposed to a high risk regarding IT and ICT systems. As regards the management of the risks connected with the damage to and malfunctioning of said systems, on which the business management is based, the Group invests adequate resources aimed at protecting all IT tools and processes. The core business systems are all highly reliable; the data centre in the Cagliari headquarters is equipped with safety systems such as fire prevention and anti-flood systems, while the copies of data back-ups made by operational personnel are kept in a different location from the CED (data processing centre), guaranteeing a high level of reliability.

The security system document is drawn up on an annual basis which defines the security measures (technical, IT, organisational, logistical and procedural tools) aimed at reducing the risks of destruction or loss, even accidental, of this data, and of unauthorised access or handling of the same.

Risks associated with legislative developments in the sector in which the company operates

The telecommunications sector in which the Tiscali Group operates is a highly regulated sector and governed by extensive legislation and regulations that are stringent and well-structured, especially as regards the concession of licences, competition, attribution of frequencies, setting of tariffs, interconnection agreements and leased lines. Legislative and regulatory amendments or those of a political nature which concern the Group's activities, as well as penalty provisions issued by the AGCOM could have negative effects on the Group's activities and its reputation and, consequently, on the economic, equity and financial position of the company and of the Group companies.

In particular, these amendments could involve the introduction of higher charges, both in terms of direct outlays and in terms of additional adjustment costs, as well as new profiles of responsibility and legislative barriers to the provision of services. Any changes to the legislative framework, and the adoption of provisions by the AGCOM could also make it more difficult for the Tiscali Group to obtain services from other operators at competitive tariffs or could limit access to the systems or services needed by the Group to perform its activities.

Furthermore, considering the dependence of the company's activities on the services of other operators, the company might not be in a position to promptly adopt and/or adjust itself into line with any provisions which modify the current legislative and/or regulatory system in force, with a subsequent adverse impact on the activities and on the economic, equity and financial position of the company and of the Group companies.

The costs the Group may have to incur and the investments needed to adjust itself into line with industry legislation, as with the loss of potential business opportunities, could have negative effects on the economic, equity and financial position of the company and of the Group companies.

Risks associated with the high financial and commercial debt of the Group

The evolution of the Group's financial situation depends on different factors, in particular the achievement of the objectives set out in the business plans, the trend in the general conditions of the economy, the financial markets and the sector in which the Group operates.

As from 2013, the Group has undertaken a multi-step negotiation process aimed at restructuring its senior financial indebtedness arising from a loan agreement entered into by the Group companies on 2 July 2009 (GFA), for the purpose of obtaining a financial structure consistent with the expected cash flows and suitable for supporting the growth objectives envisaged in the 2015-2018 Business Plan. This negotiation process concluded on 23/24 December 2014, by means, amongst other aspects, of (i) certification of the Business Plan pursuant to and for the purposes of Article 67.3, letter d) of the Italian Bankruptcy Law; (ii) the signing of the Restructuring Agreements; (iii) the signing of the SEF Agreement.

In July 2015, the company signed an industrial integration agreement with the Group headed up by Aria S.p.A., an Italian provider which offers wireless broadband services. The transaction is expected to allow Tiscali to obtain the financial resources to repay a portion of debt falling due on 30 November 2015 amounting to EUR 42.4 million ("Facility A1") pursuant to the Restructuring Agreements.

As a result of the finalisation of the aforementioned agreement, the company saw fit not to execute the SEF Agreement, although reserving the right to carry out future share capital increases. For further information please refer to the section "Assessment of the business as a going-concern and future outlook".

Risks associated with fluctuations in interest and exchange rates

The Tiscali Group operates essentially in Italy. Some supplies, even though for insignificant amounts, could be denominated in foreign currency; therefore, the risk of exchange rate fluctuations which the Group is exposed to is minimum.

In relation to the exposure to the risks associated with interest rate fluctuations, with regard to the Group's predominant financing method (financial debt as per the Restructuring Agreement at a fixed rate), the Group deems the risk of interest rate fluctuations as insignificant.

Risks associated with dealings with employees and suppliers

Group employees are protected by various laws and/or collective labour contracts which ensure they have, via local and national delegations, the right to be consulted with regard to specific matters, including therein downsizing or the closure of departments and the reduction of the workforce. These laws and/or collective labour contracts applicable to the Group and its suppliers could influence its flexibility when strategically redefining and/or repositioning its activities. Tiscali's ability and that of its suppliers to make staff cuts or take other measures, even temporary, to end the employment relationship is subject to government authorisations and the consent of trade unions. Trade union protests by workers could negatively affect the company's activities.

The activities of the Tiscali Group also depend on the contracts outstanding with its strategic suppliers, in particular Telecom Italia, concerning both the use of the network infrastructures and interconnection. If these contracts should fail to be renewed on expiry or be renewed under less favourable terms and conditions with respect to those currently existing; or Tiscali does not manage to finalise new contracts with Telecom Italia or with third party operators, necessary for the development of its business; or if a serious contractual breach should be committed by Telecom Italia, there could be negative effects on the activities and on the Group's economic, equity and financial situation.

Risks associated with business continuity

For further information, see section Evaluation of the company as a going-concern and future outlook

Risks associated with disputes and contingent liabilities

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

Consolidated income statement

(EUR mln)

CONSOLIDATED INCOME STATEMENT	1st half of 2015	1st half of 2014	Change
Revenues	103.8	106.7	(2.9)
Other income	14.1	1.1	13.0
Purchase of materials and outsourced services	65.9	64.5	1.4
Payroll and related costs	19.9	17.7	2.1
Other operating costs / (income)	(4.7)	(0.2)	(4.5)
Adjusted Gross Operating Result (EBITDA)	**36.8**	**25.7**	**11.1**
Write-downs of receivables from customers	12.0	5.1	6.9
Gross Operating Result (EBITDA)	**24.8**	**20.5**	**4.3**
Restructuring costs, provisions for risk reserves and write-downs	0.3	0.2	0.1
Amortisation/depreciation	17.3	18.2	(0.9)
Operating result (EBIT)	**7.1**	**2.1**	**5.0**
Net financial income (charges)	(9.0)	(7.4)	(1.6)
Pre-tax result	**(1.9)**	**(5.3)**	**3.4**
Income taxes	(0.1)	(0.4)	0.3
Net result from operating activities (on-going)	**(2.0)**	**(5.7)**	**3.7**
Result from assets disposed of and/or destined for disposal	0.0	0.0	0.0
Net result	(2.0)	(5.7)	3.7
Minority interests	0.0	0.0	0.0
Group Net Result	**(2.0)**	**(5.7)**	**3.7**

The Tiscali Group revenues in the first half of 2015 stood at EUR 103.8 million, down compared to EUR 106.7 million generated in the first half of 2014. The revenue mix by business line changed, as described below:

- substantial staying power of revenues of the segment "Access, VOIP and MVNO" (increase of 0.2%), despite heavy competitive pressure and the loss of ADSL customers (down 6.6%), due mainly to the mass disconnections of around 14 thousand units;
- BTB revenues fell by around EUR 0.4 million (decrease of 3.9%);
- Analogue Voice revenues declined by EUR 1.4 million (19.7%) mainly due to a fall in the volume of wholesale services by EUR 1 million (-51.8%) compared with the first half of 2014;
- Media revenues declined by EUR 0.9 million due to a sharp drop in the market which also affected the on-line segment.

During the first half of 2015, internet access (including narrowband) and voice revenues (the "Core business" of the Group) accounted for approximately 75% of the total turnover.

Other income primarily includes the compensation recognised by a leading telecommunications operator active in the Italian market, in the form of the definitive waiving of claims made by the company against the latter entity, as part of a settlement agreement reached in the half. This income was classified as non-recurring; for details please refer to the comments in section 'Non-recurring transactions'.

Costs for purchases of materials and services, totalling EUR 65.9 million, rose compared to the figures of the first half of last year (EUR 64.5 million).

The above effects caused an increase in adjusted EBITDA of EUR 36.8 million in the first half year of 2015, compared with the figures of the first half of the previous year (EUR 25.7 million). The gross operating result (EBITDA) was affected mainly by the positive impact, amounting to EUR 13.8 million, deriving from non-recurring transactions concluded in the period.

The operating result (EBIT) for the first half of 2015, net of provisions, write-downs and amortisation/depreciation, was a profit of EUR 7.1 million, up with respect to the corresponding balance for 2014, a profit of EUR 2.1 million.

The result from assets disposed of and/or destined for disposal was nil, given that there were no activities related to them.

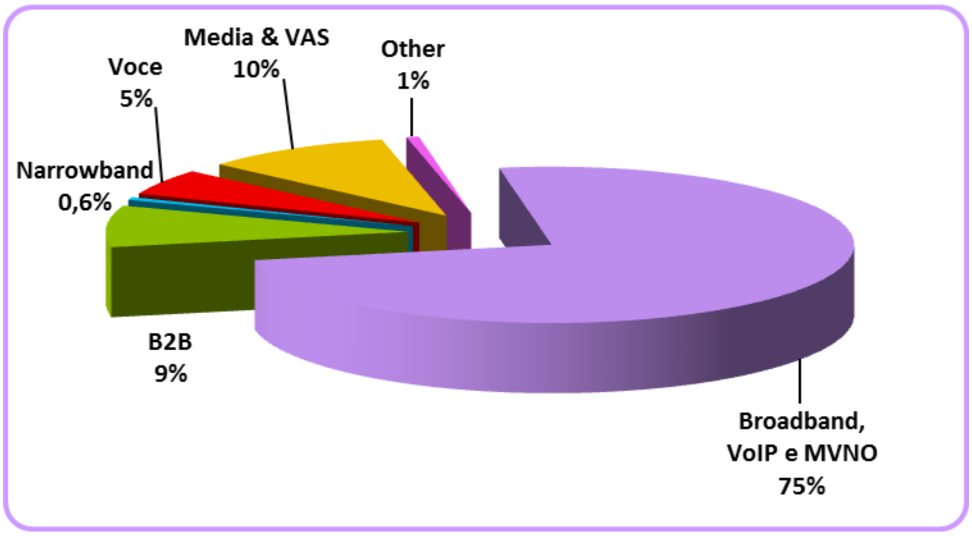
The Group's net result was a loss of EUR 2 million, up against the loss of EUR 5.7 million recorded in the first half of 2014. The group's net result was affected mainly by the positive impact, amounting to EUR 13.8 million, deriving from non-recurring transactions concluded in the period.

Operational income statement - Group

(EUR mln)	**1st half of 2015**	**1st half of 2014**
Revenues	**103.8**	**106.7**
Access revenues (including VoIP)	77.4	77.3
of which: ADSL	*43.0*	*46.5*
of which VOIP	*30.1*	*28.6*
of which MVNO	*4.3*	*2.2*
Dial-Up revenues (narrowband)	*0.6*	*0.7*
Voice revenues	5.6	7.0
Business service revenues	8.9	9.3
Media and value added service revenues	10.5	11.4
Other revenues	0.7	1.0
Gross operating margin	**49.0**	**54.0**
Indirect operating costs	**30.9**	**29.5**
Marketing and sales	4.3	5.2
Payroll and related costs	19.9	17.7
Other indirect costs	6.8	6.5
Other (income) / expense	(18.8)	(1.2)
Adjusted Gross Operating Result (EBITDA)	**36.8**	**25.7**
Write-down of receivables	12.0	5.1
Gross Operating Result (EBITDA)	**24.8**	**20.5**
Amortisation/depreciation	17.3	18.2
Gross result (EBIT) before restructuring costs and provisions for risks	**7.4**	**2.3**
Operating result (EBIT)	**7.1**	**2.1**
Group Net Result	**(2.0)**	**(5.7)**

Revenues by business segment

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



Source: Tiscali

<u>Access</u>

The segment in question, which includes revenues from Internet access services via broadband (ADSL) and narrowband (dial-up), the flat component of the bundled ranges (access fees) and mobile telephone revenues, in the first half of 2015 generated revenues of around EUR 77.4 million, a slight increase of 0.2% with respect to the figure in the corresponding half in 2014 (EUR 77.3 million). The increase in revenue is mainly attributable to the VOIP segment (EUR 30.1 million in the first half of 2015 compared with EUR 28.6 million in the first half of 2014), whereas the ADSL access services fell from EUR 46.5 million in the first half of 2014 to EUR 43 million in the first half of 2015.

Conversely, the MVNO segment showed an increase of 100.5%, from EUR 2.2 million in the first half of 2014 to EUR 4.3 million in the first half of 2015.

As at 30 June 2015, total active customers came to 574.8 thousand, an increase of 5.5 thousand compared to the corresponding figure at 30 June 2014 (569.3 thousand), of which ADSL customers of 457.2 thousand, down by around 32.1 thousand, MOBILE customers (Voice and Data) of 107.1 thousand, sharp growth of 42.4 thousand with respect to the corresponding figure at 30 June 2014 and OTHER customers of 10.5 thousand.

The reduction in direct ADSL customers compared to the comparable figure in the corresponding period of 2014 is partly attributable to the mass termination due to default of around 14.3 thousand customers carried out by the company in the first half of 2015.

Evolution of the customer base

(000)	**30 June 2015**	**30 June 2014**
Total customers	**574.8**	**569.3**
of which: ADSL (*)	*457.2*	*489.3*
of which MOBILE (Voice and Data)	*107.1*	*64.6*
of which OTHER	*10.5*	*15.4*
(*) of which Voip (Dual Play)	*352.6*	*363.5*

The unbundling network coverage at 30 June 2015 amounted to 688 sites.

Voice

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

There was a decrease in revenues relating to voice services of 19.7%, dropping from EUR 7 million in the first half of 2014 to EUR 5.6 million in the first half of 2015.

Business services

Revenues from business services (VPN, housing, hosting services, domains and leased lines), excluding those from access and/or voice products for the same customer base already included in their respective business segments, amounted in the first half of 2015 to EUR 8.9 million, down 3.9% with respect to the EUR 9.3 million in the first half of 2014.

Media

During the first half of 2015, revenues for the Media and value added services segment (mainly concerning sales of advertising space) amounted to around EUR 10.5 million and were down with respect to the corresponding period in the previous year (EUR 11.4 million).

Indirect operating costs during the first half of 2015 came to EUR 30.9 million (29.8% of revenues), up slightly when compared with the balance for the first half of 2014 (EUR 29.5 million, 27.7% of revenues).

Within indirect operating costs, **payroll and related costs** during the first half of 2015 amounted to EUR 19.9 million (19.2% of revenues), up over the same figure of the first half of 2014 (EUR 17.7 million, 16.6% of revenues). The increase in payroll and related costs is attributable to lower use of the solidarity contract and lower capitalisations of expenses on OTT and other projects. In the first half of 2015, the company capitalised payroll and related costs (relating to OTT and other projects) for a total of around EUR 1.6 million.

The **Adjusted gross operating result (EBITDA),** before provisions for risks, write-downs, depreciation and amortisation, came to EUR 36.8 million (35.5% of revenues), down with respect to the first half of 2014 (EUR 25.7 million, 24,1% of revenues). The gross operating result (EBITDA) was affected mainly by the positive impact, amounting to EUR 13.8 million, deriving from non-recurring transactions concluded in the period.

The item **Write-downs of receivables from customers** totalled EUR 12 million in the first half of 2015 (EUR 5.1 million in the corresponding period of 2014) and reflects not only the allocation to the Receivable write-down provision in the period, but also the effect of some write-offs of credit positions deriving from a settlement agreement reached by the company in the period for a value of around EUR 5.1 million.

The **Gross operating result (EBITDA)**, net of write-downs of receivables and other provisions came to EUR 24.8 million in the first half of 2015 (23.9% of revenues), an increase when compared with the figure of 2014 (EUR 20.5 million, 19.2% of revenues). The gross operating result (EBITDA) was affected mainly by the positive impact, amounting to EUR 13.8 million, deriving from non-recurring transactions concluded in the period.

Amortisation/depreciation in the first half of 2015 came to EUR 17.3 million (EUR 18.2 million in the first half of 2014).

The **Operating result (EBIT)** for the first half of 2015, net of provisions, write-downs and restructuring costs, was a profit of EUR 7.1 million, with respect to the corresponding balance for 2014, a profit of EUR 2.1 million.

The **Group's net result** was a loss of EUR 2 million (a loss of EUR 5.7 million in the first half of 2014). As already mentioned, the group's net result was affected mainly by the positive impact, amounting to EUR 13.8 million, deriving from non-recurring transactions concluded in the period.

Equity and financial position

CONSOLIDATED BALANCE SHEET (in abridged form) *(EUR mln)*	**30 June 2015**	**31 December 2014**
Non-current assets	149.3	147.9
Current assets	53.7	60.1
Total Assets	**203.0**	**207.9**
Group shareholders' equity	(170.7)	(168.8)
Shareholders' equity pertaining to minority shareholders	0.0	0.0
Total Shareholders' equity	**(170.7)**	**(168.8)**
Non-current liabilities	135.8	137.0
Current liabilities	237.9	239.8
Total Liabilities and Shareholders' equity	**203.0**	**207.9**

Assets

Non-current assets

Non-current assets at 30 June 2015 amounted in total to EUR 149.3 million (EUR 147.9 million at 31 December 2014). The net change is essentially attributable to the investments in the period net of the depreciation charge on intangible and tangible fixed assets in the first half of 2015. Investments, amounting to around EUR 18.8 million, essentially refer to the extension and development of the network, IT services and the connection and activation of new ADSL customers, and the purchase of equipment for new OTT projects.

Current assets

Current assets as at 30 June 2015 amounted to EUR 53.7 million, down from 31 December 2014 (EUR 60.1 million), and include mainly receivables from customers which, as at 30 June 2015, amounted to EUR 32 million compared with EUR 43.5 as at 31 December 2014. In addition to cash and cash equivalents, the item in question also includes other receivables and other current assets, amounting to EUR 11.1 million, represented by prepaid expense for service costs, accrued income on access services and sundry receivables.

Liabilities

Non-current liabilities

Non-current liabilities, as at 30 June 2015, amounted in total to EUR 135.8 million, down with respect to 31 December 2014 (EUR 137 million). The balance includes both the items pertaining to the financial position, with reference to which please see the matters illustrated below, the provision for risks and charges for EUR 1.2 million, the provision for employee severance indemnities for EUR 5.3 million and other non-current liabilities for EUR 2.8 million.

Current liabilities

Current liabilities amounted to EUR 237.9 million as at 30 June 2015 (compared with EUR 240 million as at 31 December 2014) and mainly include the current portion of financial payables, payables to suppliers, together with accrued expenses pertaining to the purchase of access services and line rental. Past due tax payables, included under current liabilities, amounted to roughly EUR 15 million. The tax payables not past due came to around EUR 100 thousand.

Financial position

As at 30 June 2015, the Tiscali Group held cash, cash equivalents and bank deposits totalling EUR 3.6 million, against net financial debt, at the same date, of EUR 186.2 million (EUR 192.6 million as at 31 December 2014).

(EUR mln)	**Notes**	**30 June 2015**	**31 December 2014**
A. Cash and Bank deposits		3.6	4.8
B. Other cash equivalents		0.0	0.0
C. Securities held for trading		-	-
D. Cash and cash equivalents (A) + (B) + (C)		***3.6***	***4.8***
E. Current financial receivables	(1)	***6.1***	***0.1***
F. Non-current financial receivables	(2)	7.3	6.9
G. Current bank payables	(3)	12.1	12.5
H. Current portion of non-current debt	(4)	54.9	52.8
I. Other current financial payables (*)	(5)	9.8	10.6
J. Current financial debt (G) + (H) + (I)		***76.9***	***75.9***
K. Net current financial debt (J) – (E) – (D) - (F)		**59.8**	**64.1**
L. Non-current bank payables	(6)	76.6	80.5
M. Bonds issued		-	-
N. Other non-current payables (**)	(7)	49.9	48.0
O. Non-current financial debt (N) + (L) + (M)		**126.4**	**128.5**
P. Net Financial Debt (K) + (O)		**186.2**	**192.6**

(*) includes short-term financial leasing payables

(**) includes long-term financial leasing payables

Notes:

(1) Essentially includes the interest-bearing restricted deposit relating to the financial Sale & Lease-back transaction on Sa Illetta.
(2) Mainly includes the deposit pledged as guarantee relating to the CONSIP Tender.
(3) Includes the bank payables of Tiscali Italia S.p.A. and Veesible S.r.l..
(4) Includes the short-term component equal to EUR 54.9 million relating to payables to Senior Lenders (principal and interest portions repayable within 12 months).
(5) Essentially includes the short-term portion of the Sale & Lease Back – Sa Illetta payable.
(6) Includes the long-term component equal to EUR 76.6 million relating to payables to Senior Lenders.
(7) Essentially includes the long-term portion of the Sale and Lease Back – Sa Illetta payable.

The above table includes guarantee deposits under non-current financial receivables.

On 11 May 2015, following the definitive awarding of the CONSIP Tender concerning the Public Connectivity System (SPC), the company established a deposit as guarantee at a bank amounting to EUR 6,480,000 to service the surety required by said tender procedure.

This amount was therefore reclassified from cash and cash equivalents to non-current financial receivables.

In addition, in June 2015, as a result of the restructuring of the Sa Illetta Sale & Lease Back agreement, the guarantee deposit relating to said agreement (amounting to EUR 6.1 million), was reclassified from non-current financial receivables to current financial receivables, given that when the contract was stipulated, as envisaged under the agreements reached with the companies in the leasing pool, the deposit in question will be used to reduce the debt exposure.

For completeness, the table below provides a reconciliation of the above financial position with the same statement prepared in accordance with Consob communication No. DEM/6064293 dated 28 July 2006 indicated in the explanatory notes:

(EUR mln)	**30 June 2015**	**31 December 2014**
Consolidated net financial debt	**186.2**	**192.6**
Other non-current financial receivables	7.3	6.9
Consolidated net financial debt prepared on the basis of Consob communication No. DEM/6064293 dated 28 July 2006	**193.6**	**199.5**

4.6 Related Parties

The Regulations for transactions with related parties prepared in accordance with art. 2391-*bis* of the Italian Civil Code and Consob Regulation no. 17221 dated 12 March 2010 came into force as from 1 January 2011 and are published on the Company website, in the Investor Relations section. For details please see the section 'Transactions with related parties'.

4.7 Significant events after the half year end

<u>Incorporation of the company Streamago Inc.</u>

On 8 July 2015, the company "Streamago Inc" was incorporated, with registered office in Dover, in the state of Delaware (USA). The company's purpose is the technological and commercial development and promotion of the Streamago service.

<u>Merger between the Tiscali and Aria Groups</u>

On 15 July 2015, Tiscali's Board of Directors assigned the Chairman the mandate to sign the definitive agreement targeted at the company's merger with the Aria Group, signed on 16 July 2015 ('Merger Agreement'). Aria is a company operating throughout Italy in the provision of broadband connectivity services and holds a licence for 40MHz of spectrum on the 3.5Ghz technology neutral frequency, which permits the provision of LTE services in Fixed Wireless Access mode with capacities of greater than 50MB/s.

The transaction will make it possible to reinforce Tiscali's industrial and financial position, consolidating its coverage of the Consumer and Business customer segments in the field of broadband access from the fixed and mobile networks, and creating a sole operator on the Italian market capable of offering ultra-broadband access services throughout Italy thanks to the combination of the two network infrastructures.

The proposed integration will be implemented through the merger by incorporation by Tiscali of a newco Aria Italia S.p.A., whose balance sheet assets will be composed of: i) an equity investment representing the entire share capital of Aria following the transfer carried out on 24 August 2015 and the object of an estimate report pursuant to art. 2343 ter of the Italian Civil Code, for a value of EUR 34,574,360.54, ii) cash and cash equivalents of around EUR 42.4 million which will be contributed to the subscription of a share capital increase, for the same amount, which will be resolved by said Aria Italia S.p.A. by 31 August 2015, by the investment fund Otkritie Disciplined Equity Fund ("ODEF"), forming part of the Russian financial group Otkritie Holding, a financial partner in the transaction. At the date of drafting of this half-year report, the payment of EUR 42.4 million for the subscription of the aforementioned share capital increase has still not been made; this payment is to be made, as per the contract, by 31 August 2015.

The Merger Agreement sets out that: i) Aria, at the date of effectiveness of the merger, will have bank debt of around EUR 5 million and a subordinated mandatory convertible loan of EUR 15 million that Tiscali will have the right to reimburse at maturity (31 March 2018) with newly issued Tiscali shares; ii) the cash to be paid to Aria Italia S.p.A. by 31 August 2015 will be made available to Tiscali to repay the portion of the Senior Loan expiring in November for an amount of around EUR 42.4 million, as per the Restructuring Agreements signed in December (so-called Facility A1). As a result of the transaction, the current shareholders of Aria will hold a total stake of around 18% of the combined entity, and roughly another 22% will be held by ODEF (a related party of Aria), for total newly issued shares equating to 40.81% of the combined entity.

Based on the Tiscali valuation at the average price in the last six months (around 6 cents) the total value of the transaction comes to around EUR 77 million; net of the contribution of new cash, that equates to a value of EUR 34.5 million for the entire share capital of Aria.

The huge business value of the project lies, in particular, in the possibility of a future integration of Tiscali's widespread fibre optic transportation infrastructure with Aria's high capacity wireless access network: in the future, the new Tiscali Group is expected to be able to efficiently provide high quality Fixed Wireless Access connectivity services via its proprietary network, with capacities exceeding 50MB/s and also with the prospect for extremely high capacity Mobile Data services.

The new Tiscali Group will market the products of both Groups under the Tiscali brand and will be able to boast a customer base of more than 700 thousand users throughout Italy. In addition, as a result of the transaction, synergies and savings are forecast amounting to around EUR 10 million starting from 2016, thanks to network integration, the combination of access technologies and savings of general and administrative costs. In addition, the combination of the assets of the two companies may allow considerable sales development on the ultra-broadband services market, with a particular focus on the digital divide areas.

As regards the governance of the new Tiscali Group, based on the shareholder agreements that will be signed between the shareholders, Renato Soru will retain the office of Executive Chairman, while Riccardo Ruggiero, the current Chief Executive Officer of Aria, will hold the office of Chief Executive Officer and the remaining members of the Board of Directors will be appointed by the shareholders on the basis of the equity investments held following the merger. No further shareholder agreements are envisaged.

The merger, which is expected to be completed by the end of November, makes provision not only for the necessary shareholders' meeting resolutions, preceded by the obligations set forth by law, but the satisfaction of certain conditions according to market practice, including the obtainment of ministerial authorisations for the transfer of licences and ownership of the frequencies currently held by the Aria Group and the consent of the Senior Lenders in accordance with the Agreements to Restructure the Tiscali Group's debt signed in December 2014.

Lastly, it should be noted that, in consideration of the fact that the reimbursement of Facility A1 expiring at the end of November 2015 will be made using the cash and cash equivalents supplied by ODEF as part of the Merger Agreement, the company will evaluate, also on the basis of market conditions, whether and to what extent, to avail itself of the right to carry out the share capital increase resolved on 16 February 2015 through the "SEF – Standby Equity Facility" signed on 24 December 2014.

Restructuring of the Leasing Agreement regarding the Sa Illetta property

In June 2015, the company acknowledged that, as a result of the non-verification of one of the conditions precedent contained in the offer received from a leading Italian real estate fund (Castello SGR) in December 2014, the transfer of the Sa Illetta property will not be completed, and, therefore, is working to restructure the associated property leasing agreement.

The pool of leasing companies actually expressed its commitment to redefining the repayment plan in the event of the non-completion of the transfer, permitting the instalments due in the years 2015-2017 to correspond, indicatively, to the lease fees that the Group would have paid in favour of the assignee real estate fund.

In relation to this restructuring transaction, in June 2015, the company received approval, from the pool of leasing companies headed up by Mediocredito Italiano, to restructure the finance lease agreement in accordance with the terms of the commitment expressed by the same.

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

Events and uncertainties regarding the business continuity

The Tiscali Group closed the first half of 2015 with a consolidated loss of EUR 2 million (influenced by the positive effect, amounting to EUR 13.8 million, of the non-recurring transactions concluded in the period) and negative consolidated shareholders' equity of EUR 170.7 million. Furthermore, as at 30 June 2015, the Group had a gross financial debt of EUR 203.2 million and current liabilities greater than current assets (non-financial) for EUR 117.2 million.

As of 31 December 2014, the consolidated loss amounted to roughly EUR 16.4 million, with negative consolidated shareholders' equity of EUR 168.8 million. Furthermore, as at 31 December 2014, the Group had a gross financial debt of EUR 204.3 million and current liabilities greater than current assets (non-financial) for EUR 108.9 million.

In the first half of 2015, from an operational perspective and within a context involving heavy competitive pressure in the market of accesses from a fixed network, management continued to implement actions targeted at cutting costs and rationalising the internal processes in order to boost profitability.

The results for the first half of 2015 reveal the following in particular:

- from a core business point of view (Access, particularly ADSL and VOIP), revenue essentially showed good staying power (+0.2%), despite severe competitive pressure and the loss of active customers (down 6.6% due largely to the mass terminations of around 14 thousand users in the first half of 2015);
- an increase in gross profitability due mainly to the positive impact, amounting to EUR 13.8 million, deriving from non-recurring transactions concluded in the period;
- an increase in the mobile telephone customer base (active and operating SIMs as at 30 June 2015 amounting to around 107.14, growth of 65.7% compared to the same figure in 2014);
- focus on innovation through a new strategy for the development of web and Over-the-Top services.

All the activities listed above made it possible to generate cash and cash equivalents from operating activities for around EUR 33.8 million.

Consip

In the first half of 2015, the company continued with the preliminary activities prior to the finalisation of stipulation of the contract relating to the CONSIP Tender called by Consip itself for the supply of connectivity services in favour of the Public Administration Authorities, in which Tiscali participated in 2014, and in May 2014 turned out to be the company with the best economic bid.

As regards the progress status of the procedure, the following must be pointed out:

- after having passed the close suitability examination carried out by the CONSIP awarding commission as per the communication of 24 December 2014, on 17 February 2015, the company received confirmation that Tiscali will have to perform the services involved in the tender, for a supply share of 60% of the maximum global amount;
- on 16 April 2015, Consip informed the company of the confirmation of possession of the requirements of technical and economic-financial capacity for the purposes of providing the services in question;
- the definitive award of the CONSIP Tender was communicated on 28 April 2015;
- the company finalised the activities connected with obtainment of the security deposits, for an amount of EUR 10.8 million (on 11 May 2015), needed for the stipulation of the contract, took out insurance cover for civil liability (on 10 May 2015) and sent Consip a declaration certifying the details of the current account dedicated to the contract (on 4 May 2015);
- the company expects to start the test phase in December 2015.

As is the norm for these types of tender, some appeals were submitted to the Regional Administrative Court, as a result of which, at the hearing on 1 July 2015, said Court decided to put back a decision on the merits of the appeals filed by competitors to 13 January 2016. Tiscali is currently in talks with Consip and AgID (Agency for Digital Italy) to define the testing plan for the services involved in the agreement.

Debt restructuring agreements and business combination with the Aria Group

With reference to the Group's debt, in the first few months of 2013, the Tiscali Group launched a negotiation process aimed at restructuring the senior financial debt on a consensual basis in accordance with the Group Facilities Agreement ("GFA") entered into on 2 July 2009, for the purpose of ensuring an equity and financial structure capable of permitting, over the long-term, the achievement of a balanced economic, equity and financial situation.

Following the aforementioned negotiation process, in December 2014 and the first few months of 2015, the Tiscali Group implemented the following actions:

- on 23 December 2014, it entered into a financial debt restructuring agreement with the Senior Financiers pursuant to the GFA (Restructuring Agreements"), which makes provision, in a nutshell, for:
    - the subdivision of the entire debt with Senior Financiers, amounting to EUR 140 million on the date of the signing of the Restructuring Agreements, into three separate credit facilities: (i)

Facility A1, for an amount of around EUR 42.4 million, to be repaid by 30 November 2015; (ii) Facility A2, for an amount of around EUR 42.4 million, to be repaid in six-monthly instalments, the last of which falling due on 30 September 2017; (iii) Facility B, for an amount of around EUR 55 million, to be repaid in six-monthly instalments, the last of which falling due on 30 September 2017;

  - in the event of early repayment of Facility A1, the possibility of benefiting from a discount of up to 10% on the face value of the debt repaid, in relation to the repayment timescales; in this regard, it should be noted that the Restructuring Agreements make provision for a 10% discount in the event of the early repayment by 31 May 2015 (term exceeded for which Tiscali will not be able to benefit from said discount) and a 5% discount in the event of repayment between 1 June 2015 and 31 August 2015.
  - the possibility for the Company, assessing other forms of funding, to resort to share capital increases and to negotiate with the financiers in accordance with Facility A1 possible conversion into equity - upon the initiative of said Company and subordinate to the occurrence of certain specific conditions - of the residual portion of this credit facility;
  - an interest rate of 6.5% for 2014, 7.5% for 2015, 9% for 2016 and 10% for 2017;
  - covenants in line with the performances of the Tiscali Group envisaged in the Business Plan.

- on 24 December 2014, established an agreement with Société Générale relating to the subscription by the latter of a share capital increase against payment for a maximum of 1,000,000,000 ordinary Tiscali shares, without par value, with exclusion of the purchase option pursuant to Article 2441.5 of the Italian Civil Code ("Share Capital Increase").

In pursuance of the agreement indicated above:

- on 30 January 2015, Tiscali's shareholders' meeting granted the Company's Board of Directors authority to increase the share capital, in tranches, by means of the issue of a maximum of 1,000,000,000 ordinary shares of the Company and by means of exclusion of the purchase option pursuant to Article 2441.5 of the Italian Civil Code;
- on 16 February 2015, Tiscali's Board of Directors approved the Share Capital Increase, in accordance with the authority granted above.

In the first few months of 2015, the company commenced negotiations with the Aria Group, an Italian provider which offers wireless broadband services under, which in February 2008 was awarded the licence at the auction by means of which the Ministry of Communications deregulated the 3.5 GHz frequencies, which can be used for Wimax and for LTE, targeted at a business combination operation between the two groups.

In March 2015, Tiscali signed a non-binding memorandum of understanding governing said business combination.

In consideration of the relevant industrial profiles of this transaction, the company put significant efforts into the project, in order to reconcile the terms of the project with the Group's requirements deriving from the Restructuring Agreements. Due to the continuation of the negotiations, the possibility of the company acquiring the necessary financial resources to repay Facility A1 (amounting to around EUR 42.4 million), took increasingly greater shape, within the context of the above business combination. Therefore, once an agreement was reached on said matter - and in consideration of the relevant industrial profiles of the business combination and its potential positive long-term effects - Tiscali preferred to pursue said solution in place of the share capital increase. That being said, it does not rule out future use of instruments similar to the SEF envisaged, in order to meet the financial needs of the company, also in consideration of future market conditions.

The transaction was concluded with the signing of the Merger Agreement approved by Tiscali's Board of Directors on 15 July 2015, and signed on 16 July 2015 (further details on the transaction are provided in the section Events subsequent to the end of the year).

The merger is expected to take effect at the end of November 2015, and is subject to the verification of certain conditions precedent, including:

1. approval of the merger project by Tiscali's extraordinary shareholders' meeting without a vote against of the majority of shareholders present at the shareholders' meeting, other than the shareholder or shareholders: (i) who will acquire a post-merger equity investment in Tiscali of greater than 30%; (ii) who hold, also in agreement with one another, the majority stake, including relative, in Tiscali, provided greater than 10%;
2. completion of one of the following alternative transactions:
    a. transfer to third parties of the leasing agreement relating to the building where Tiscali now has its headquarters and simultaneous conclusion of a lease agreement under market conditions regarding the same (option that has now ceased, but which the company reserves the right to avail of again in the future); or;
    b. redefinition of the terms of the' aforementioned leasing agreement, in order to make provision for: (1) total annual rent of EUR 3.7 million (plus VAT) relating to the years 2016 and 2017; (2) a final rent instalment due in 2022 totalling around EUR 12.24 million;
3. consent to the completion of the transaction by the Senior Financiers pursuant to the Restructuring Agreements;
4. consent by the Ministry of Economic Development with reference to the change of ultimate parent of Aria, in order to maintain the licence it holds as of today's date;
5. other conditions in line with market practice.

At the current state of play, the company is working to satisfy the conditions precedent described above.

Finalisation of the transaction is expected to allow Tiscali to obtain the financial resources to repay Facility A1 falling due on 30 November 2015, amounting to EUR 42.4 million.

As already mentioned previously, the merger of the Tiscali and Aria Groups is expected to generate synergies and savings of around EUR 10 million starting from 2016, primarily thanks to network integration, the combination of access technologies and savings of general and administrative costs. In addition, the combination of the assets of the two companies will allow considerable sales development on the ultra-broadband services market, with a particular focus on the digital divide areas.

Sa Illetta

As regards the transfer of the leasing agreement regarding the Sa Illetta property (for which Tiscali had accepted the offer received on 22 December 2014 from a leading Italian real estate fund - Castello SGR), the company acknowledged that, as a result of the non-verification of one of the conditions precedent contained in the offer of December 2014, the transfer of the leasing agreement cannot be completed, and, therefore, is working to restructure said agreement with the pool of leasing companies. The pool of leasing companies actually expressed its willingness to redefine the repayment plan in the event of the non-completion of the transfer, permitting the instalments due in the years 2015-2017 to correspond, indicatively, to the lease fees that the Group would have paid in favour of the assignee real estate fund. From 2018, the repayment plan provides for the repayment of around EUR 8 million per annum and the repayment of the redemption price of roughly EUR 12.4 million.

In relation to this restructuring transaction, in June 2015, the company received approval, from the pool of leasing companies headed up by Mediocredito Italiano, to restructure the finance lease agreement in accordance with the terms of the commitment expressed by the same. The company is waiting to define the necessary contractual documentation with the leasing pool.

Stand-alone and combined business plans

On 25 August 2015, taking into account the developments in the first half of 2015 with reference to the CONSIP Tender, the non-finalisation of the transfer of the leasing agreement regarding the Sa Illetta property, the cash and cash equivalents set forth in the Merger Agreement with the Aria Group, signed in July 2015 for the purposes of the repayment of Facility A1 of the GFA expiring on 30 November 2015, as well as the results of the first half of 2015, the company updated the 2015-2018 Business Plan approved on 19 March 2015 ("Stand-Alone Plan").

On the same date, the company also presented the Board of Directors with a “combined plan”, drawn up from the stand-alone plans of the companies subject to integration, taking account of the expected effects of the integration itself. The Combined Plan acknowledges the assumption of the integration of assets, networks and the technologies of the two groups, which is expected to permit considerable commercial development on the ultra-broadband market and the obtainment of the above synergies, in terms of forecast savings, effective from 2016, of around EUR 10 million per year, as well as financial resources of EUR 42.4 million to be allocated to the repayment of Facility A1.

The Stand-Alone and Combined Plans, as with the 2015-2018 Business Plan approved by Tiscali’s Board of Directors on 19 March 2015 envisage, inter alia, the ability of the new Group to refinance the last instalment of the debt as per the Restructuring Agreements falling due in 2017. The Directors, based on the market analysis on corporate bond issues in the TLC sector, believe that this prospective debt can be refinanced in relation to the level of net debt / EBITDA envisaged for 2017 in both the Stand-Alone and Combined Plans.

The establishing of a balanced equity, financial and economic situation for the Group over the long-term is therefore subject to: (i) the satisfaction of the conditions precedent set out in the Merger Agreement by the deadline of 30 November 2015, so that the business combination of the Aria and Tiscali Groups can take place; (ii) the repayment of Facility A1 using the financial resources made available as part of the merger; (iii) the achievement of the results of the Combined Plan and, therefore, the materialisation of the forecasts and assumptions contained therein relating, in general, to the evolution of the TLC market and, in particular, to the fulfilment of the growth objectives established in a market context characterised by heavy competitive pressure; (iv) the stipulation of the contract relating to the CONSIP Tender and the subsequent implementation of the services set forth in said tender; (v) the actual capacity to refinance the loan instalment falling due in September 2017, pursuant to the Restructuring Agreements.

Final assessment of the Board of Directors

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

- generated, during the first half of 2015, cash and cash equivalents from operating activities amounting to approximately EUR 33.8 million;
- continued its strategy for the development of mobile phone services and the sectors with high-growth potential, such as the media sector and Over-The-Top products;
- continued preliminary activities prior to the stipulation of the contract and to the implementation of the services set forth in the aforementioned CONSIP Tender, following the definitive award to the company on 28 April 2015;
- signed the business combination agreement with the Aria Group on 16 July 2015, which is expected to allow the company to strengthen Tiscali’s coverage of broadband access from the fixed and mobile networks, creating a sole operator on the Italian market, and to provide the financial resources needed to repay Facility A1 falling due on 30 November 2015, base on the Restructuring Agreements.
- obtained the consent of the leasing companies to the restructuring of the leasing agreement regarding the Sa Illetta property, in place of the proposed transfer of the same; the new agreement makes provision for payment instalments for the years 2015-2017 equal, indicatively, to the leasing fee that the group would have paid in favour of the concessionaire real estate fund (in the assumption of finalisation of the transfer), therefore the absence of the transaction will have an essentially zero impact on the company’s cash flow for the years 2015-2017;
- updated the Stand-Alone Plan and defined a Combined Plan in order to take account of the final results of the first six months of 2015, the foreseeable evolution over time of the business deriving from the CONSIP Tender and the proposed business combination with the Aria Group.

The Directors highlight, as already done when drafting the financial statements for 2014, the persistence of major uncertainties which may give rise to significant doubts over the Tiscali Group’s ability to continue to operate on the basis of the going concern assumption, attributable:

- to the satisfaction of the conditions precedent set out in the Merger Agreement by the deadline of 30 November 2015, so that the business combination of the Aria and Tiscali Groups can be carried out;
- to the repayment of Facility A1 by using the financial resources made available as part of the merger;

- to the achievement of the objectives envisaged in the 2015-2018 Combined Plan, with particular reference to the evolution of the telecommunications market and achievement of the growth objectives set out in a market context characterised by heavy competitive pressure, as well as with reference to the forecast synergies deriving from the integration of the Aria and Tiscali Groups;
- to the final awarding of the contract for the assignment of the connectivity services within the sphere of the Public Connectivity System by CONSIP;
- the ability to refinance the last instalment of the debt as per the Restructuring Agreements falling due in 2017.

Lastly, it should be pointed out that, in the event of the unsuccessful outcome of the merger, the company does not expect to have the financial resources needed to repay Facility A1, given that the share capital increase subscribed by ODEF is subject to the outcome of the aforementioned merger.

However, after having performed the necessary checks and after having assessed the uncertainties identified in light of the factors described above, taking into account the provisions of the agreement signed on 16 July 2015 with the Aria Group, the Restructuring Agreements and confident in their ability to implement the provisions of the Combined Plan, the Directors reasonably expect that it will be possible to achieve a Group financial structure in line with the expected cash flows and that the Group will have adequate resources to continue operations in the foreseeable future and therefore have adopted the going concern assumption when preparing these financial statements.

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

Disputes, contingent liabilities and commitments

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

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

Civil and administrative proceedings

Dispute open with TeleTu

In June 2011, Tiscali Italia summonsed TeleTu S.p.A. before the Court of Milan, requesting compensation for damages for around EUR 10 million due to illegal conduct engaged in by the defendant during the migration of users in the period January 2009-April 2011. The defendant made a counterclaim for alleged similar conduct engaged in by Tiscali Italia, in turn requesting compensation for damages for more than EUR 9 million. The outcome of the proceedings is not predictable.

Telecom dispute

In June 2015, the legal proceedings brought by Tiscali, before the Court of Milan, against Telecom Italia S.p.A. regarding the compensation for damages incurred as a result of abusive conduct engaged in by Telecom Italia S.p.A. and the object of separate proceedings A-428 of 2013 of the Antitrust Authority, was settled with the counterparty as part of more complex agreement also containing the settlement of some additional mutual disputes regarding the commercial relations in place between the parties.

Consip proceedings

On 1 July, the Regional Administrative Court of Lazio, convened in chambers, postponed the discussion of the case brought by Telecom Italia and Fastweb against the provision for the award of the SPC Consip tender by Tiscali Italia to 13 January 2016.

Consob proceedings

On 29 October 2014, CONSOB notified Tiscali, pursuant to Articles 193.1 and 195.1 of the TUF, of the failure to make the following available to the general public, by the legal deadlines: (i) the annual financial report as at 31 December 2013 (as well as the reports of the Board of Statutory Auditors and the independent auditing firm pertaining to this document); as well as (ii) the interim management report as at 31 March 2014. By the legal deadlines, the Company formulated its defence briefs, pleading, amongst other things, the absence of its responsibility for the subjective element or in any event the fact that no fault can be found with its conduct, since the alleged delay was due to the extension of the negotiations with the Senior Financiers and the consequent uncertainty regarding the possibility of approving the accounting documentation in question with a view to the business as a going-concern. It being understood that the outcome of the proceedings cannot be predicted, in the event that the Company should be held responsible in any way, the possible fine would range between a minimum of EUR 5,000.00 and a legal maximum of EUR 500,000.00.

WOL dispute

In relation to the holding in World Online International BV, acquired by the Group in 2000, in July 2001, the Dutch association Vereniging van Effectenbezitters and the Stichting VEB-Actie WOL foundation, which represent a group of around 10,000 former minority shareholders of World Online International NV (hereinafter "WOL"), summonsed WOL (currently 99.5% owned by Tiscali) and the financial institutions tasked with the stock market listing of the Dutch subsidiary, disputing, in particular, the incomplete and incorrect nature, as per Dutch law, of certain information contained in the WOL listing prospectus and of certain public statements made by WOL and its Chairman immediately prior to and after the listing.

By means of provision dated 17 December 2003, the first level Dutch court deemed that in certain press releases issued by WOL prior to 3 April 2000, sufficient clarity was not provided regarding the declarations made public by its former chairman at the time of listing relating to his shareholding. Consequently, WOL was held responsible vis-à-vis the parties who had subscribed the shares of the company at the time of the IPO on 17 March 2000 (start date of trading) and who acquired shares on the secondary market up to 3 April 2000 (date on which the press release was issued, specifying the effective shareholding held by the former chairman of WOL). WOL appealed against this decision, citing the correctness of the listing prospectus.

On 3 May 2007, the Amsterdam Court of Appeal partially amended the decision of the first level court, deeming that some parts of the prospectus used at the time of listing were incomplete and that WOL should have corrected certain information relating to the shareholding held by its former chairman, reported by the media before said listing; furthermore, it was deemed that WOL had created optimistic expectations regarding its activities.

On 24 July 2007, the Dutch association and the foundation mentioned above proposed an appeal before the Dutch Supreme Court against the sentence of the Court of Appeal. On 2 November 2007, WOL and the financial institutions tasked with the stock market listing filed their counter-appeal. In November 2009, the Dutch Supreme Court pronounced its final sentence confirming the ruling of the Court of Appeal and ruled that some parts of the listing prospectus were incomplete and that WOL management should have provided additional information during listing. It should be mentioned that the ruling is limited to ascertaining certain aspects of WOL's responsibility and that of the financial institutions handling the listing with regard to the obligations on disclosure during an IPO and defines certain principles that might be considered applicable to future court decisions (e.g. on the proof of cause), while it did not rule on the actual damages, which should be the object of new, separate and independent proceedings at the competent courts petitioned by investors. At present no such petition has been initiated.

A dispute of a similar nature to that described above was brought by another Dutch foundation, Stichting Van der Goen WOL Claims, in August 2001, and letters were subsequently received from other parties, in which the hypothesis of proceeding with similar action was furthered, if the conditions should apply.

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

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

You are also hereby informed that Stichting Van der Goen WOL Claims in December 2011 made an additional request for compensation representing a further 28 shareholders or entitled parties, in which the hypothesis of proceeding with legal action was furthered. This request for compensation does not fall within the aforementioned settlement agreement which the Tiscali Group has finalised with the financial institutions. The same Stichting Van der Goen WOL Claims confirmed its claims by means of letter dated 6 March 2013 and, subsequently, launched legal proceedings, served on 19 June 2014, vis-à-vis WOL and the financial institutions tasked with the listing of said WOL.

On 1 October 2014, WOL filed the defence briefs, which was followed by the filing of the briefs by Van der Goen on 7 January 2015. At the hearing on 1 April, WOL presented its counter-claims. A hearing was set for 5 November 2015 to discuss the counterparty's claims.

With regard to the petitum of the dispute, the residual amount requested from WOL and the financial institutions involved comes to EUR 111 million. Also supported by the assessments of their legal advisors, the Directors believe that the risk of losing is not probable as things stand.

<u>Criminal proceedings</u>

In September 2013, Tiscali S.p.A. received notification, pursuant to Italian Legislative Decree No. 231/2001, of the conclusion of the preliminary investigations for alleged false corporate communications relating to the financial statements between 2008 and 2012; the subsidiary Tiscali Italia received the same notification in January 2014. The preliminary hearing was fixed for 28 May 2015 and subsequently put back to 20 October 2015. The offence refers to the alleged erroneous accounting entries with reference to the provision made for the write-down of receivables. Pursuant to Article 25 ter, letter c) of Italian Legislative Decree No. 231/2001, in the event of conviction just a monetary fine would be applicable of 400 to 800 penalty units. The Company has undertaken the necessary defence action.

One-off transactions

Pursuant to Consob Resolution No. 15519 dated 27 July 2006, it should be noted that one-off transactions were recorded in the half with a total positive effect of EUR 13.8 million on the Group's income statement, which mainly include the effects of the settlement agreement concluded by the company in the period and the write-offs of commercial positions.

The following table indicates the amounts relating to one-off transactions reported in the consolidated income statement.

One-off transactions	1st half of 2015
Revenues	-
Other income	13.0
Purchase of materials and outsourced services	(1.5)
Payroll and related costs	-
Other operating costs / (income)	(4.4)
Adjusted Gross Operating Result (EBITDA)	**18.9**
Write-downs of receivables from customers	5.1
Gross Operating Result (EBITDA)	**13.8**

Atypical and/or unusual operations

Pursuant to Consob Communication dated 28 July 2006, it is hereby specified that during the first half of 2015, the Group did not enter into any atypical and/or unusual transactions, as defined by said Communication.

Condensed half-year consolidated financial statements as at 30 June 2015

5 Consolidated financial statements and explanatory notes

5.1 Income statement

	Notes	1st half of 2015	1st half of 2014
(EUR 000)			
Revenues	*1*	103,785	106,694
Other income	*2*	14,087	1,055
Purchase of materials and outsourced services	*3*	65,854	64,477
Payroll and related costs	*4*	19,893	17,750
Other operating (income) charges	*5*	(4,667)	153%
Write-downs of receivables from customers	*6*	12,014	5,148
Restructuring costs and other write-downs	*7*	315	179
Amortisation/depreciation	*13-14*	17,345	18,245
Operating result		**7,119**	**2,103**
Net financial income (charges)	*8*	(9,020)	(7,394)
Pre-tax result		**(1,901)**	**(5,291)**
Income taxes	*9*	(139)	(441)
Net result from operating activities (ongoing)		**(2,040)**	**(5,732)**
Result from assets disposed of and/or destined for disposal	*10*	0	0
Net result for the period	*11*	**(2,040)**	**(5,732)**
Attributable to:			
- Result pertaining to the parent company		**(2,040)**	**(5,732)**
- Minority interests		0.00	0.0
Earnings (Losses) per share			
Earnings per share from operating activities and those disposed of:			
- Basic		(0.00)	**(0.00)**
- Diluted		(0.00)	**(0.00)**
Earnings per share from operating activities:			
- Basic		(0.00)	**(0.00)**
- Diluted		(0.00)	**(0.00)**

5.2 Statement of comprehensive income

(EUR 000)	Notes	1st half of 2015	1st half of 2014
Result for the period		**(2,040)**	**(5,732)**
Other components of comprehensive income:			
Other components of comprehensive income which will be subsequently reclassified under profit/loss for the period		-	-
Other components of comprehensive income which will not be subsequently reclassified under profit/(loss) for the period		152	(285)
(Loss)/profit from revaluation on defined benefit plans		**152**	**(285)**
Total other components of comprehensive income		**152**	**(285)**
Total statement of comprehensive income result		**(1,888)**	**(6,017)**
Attributable to:			
Shareholders of the parent company		**(1,888)**	**(6,017)**
Minority shareholders		0	0
		(1,888)	**(6,017)**

5.3 Balance Sheet

(EUR 000)	Notes	30 June 2015	31 December 2014
Non-current assets			
Intangible assets	*13*	55,969	59,990
Property, plant and equipment	*14*	81,961	77,107
Other financial assets	*15*	11,336	10,775
		149,266	**147,871**
Current assets			
Inventories	*16*	813	1,129
Receivables from customers	*17*	32,004	43,457
Other receivables and other current assets	*18*	11,080	10,518
Other current financial assets	*19*	6,208	162
Cash and cash equivalents	*20*	3,589	4,801
		53,693	**60,066**
Assets held for sale		(0)	**(0)**
Total Assets		**202,960**	**207,938**
Share Capital and reserves			
Share Capital		92,052	92,052
Results from previous periods and Other reserves		(260,718)	(244,437)
Result pertaining to the Group		(2,040)	(16,434)
Group shareholders' equity	*21*	**(170,707)**	**(168,818)**
Minority interests		0	0
Shareholders' equity pertaining to minority shareholders	*22*	**0**	**0**
Total Shareholders' equity		**(170,707)**	**(168,818)**
Non-current liabilities			
Payables to banks and to other lenders	*23*	76,584	80,535
Payables for financial leases	*23*	49,859	47,975
Other non-current liabilities	*24*	2,820	1,323
Liabilities for pension obligations and staff severance indemnities	*25*	5,330	5,550
Provisions for risks and charges	*26*	1,213	1,600
		135,806	**136,982**
Current liabilities			
Payables to banks and other lenders	*23*	67,042	65,351
Payables for financial leases	*23*	9,701	10,464

Payables to suppliers	*27*	86,313	91,348
Other current liabilities	*28*	74,805	72,611
		237,860	**239,774**
Liabilities directly related to assets held for sale		(0)	(0)
Total Liabilities and Shareholders' equity		**202,960**	**207,938**

5.4 Cash flow statement

	1st half of 2015	1st half of 2014
(EUR 000)		
OPERATIONS		
Result from operating activities	**(2,040)**	**(5,732)**
Adjustments for:		
Depreciation of tangible assets	5,448	5,714
Amortisation of intangible assets	11,897	12,531
Allowance for bad debt provision	6,912	5,148
Capital gain on disposal of non-current assets	(1,054)	(1,054)
Income taxes	142	441
Release of provisions for risks	0	(22)
Write-offs and settlement agreements with suppliers	(12,664)	(1,118)
Other changes	975	1,137
Financial income/charges	9,020	7,394
Cash flow from operations before changes in working capital	***18,635***	***24,439***
Change in receivables	(1,329)	(4,475)
Change in inventory	317	(133)
Change in payables to suppliers	12,632	(4,523)
Change in long-term payables to suppliers	2,090	(2,285)
Net change in provisions for risks and charges	(0)	(329)
Net change in provision for staff severance indemnities	(115)	(188)
Changes in other liabilities	2,178	5,413
Changes in other assets	(563)	(713)
Changes in working capital	***15,211***	***(7,233)***
CASH AND CASH EQUIVALENTS DERIVING FROM OPERATIONS	**33,846**	**17,206**
INVESTMENT ACTIVITIES		
Change in other financial assets	(6,607)	13
Purchases of tangible fixed assets	(10,201)	(709)

Purchases of intangible fixed assets	(8,570)	(8,664)
Payments for the sale of assets	0	(0)
NET CASH AND CASH EQUIVALENTS USED FOR INVESTMENT ACTIVITIES	**(25,378)**	**(9,361)**
FINANCIAL ACTIVITIES		
Change in loans from banks	(9,934)	(2,989)
of which:		
Repayment of capital and interest on Senior loans	(7,888)	(546)
Increase/Decrease in current account overdrafts	(2,046)	(2,442)
Repayment/Acceptance of finance leases	261	(211)
Exchange differences	(7)	(1)
UCI reserve	0	0
Changes in shareholders' equity	(0)	(1)
NET CASH AND CASH EQUIVALENTS GENERATED BY/(USED IN) FINANCIAL ACTIVITIES	**(9,680)**	**(3,202)**
Effect of changes in foreign currency exchange rates	-	-
Cash flow generated /Absorbed by assets disposed of/held for sale	-	-
NET CASH AND CASH EQUIVALENTS GENERATED BY/(USED IN) FINANCIAL ACTIVITIES including cash flow generated/absorbed by assets disposed of/held for sale	**(9,680)**	**(3,202)**
NET INCREASE/(DECREASE) IN NET CASH AND CASH EQUIVALENTS	**(1,212)**	**4,644**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE FINANCIAL YEAR	**4,801**	**3,112**
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR	**3,589**	**7,756**

5.5 Statement of changes in shareholders' equity

	Share Capital	Reserves for employee benefits	Accumulated losses and Other reserves	Group shareholders' equity	Minority interests	Total
Balance al 1 January 2015	**92,052**	**(1,811)**	**(259,059)**	**(168,818)**		**(168,818)**
Share capital increase						
Increases /(Decreases)						
Statement of comprehensive income result		*152*	(2,040)	**(1,888)**		**(1,888)**
Balance as at 30 June 2015	**92,052**	**(1,659)**	**(261,099)**	**(170,707)**		**(170,707)**

	Share Capital	Reserves for employee benefits	Accumulated losses and Other reserves	Group shareholders' equity	Minority interests	Total
Balance al 1 January 2014	**92,023**	**(1,294)**	**(242,624)**	**(151,896)**		**(151,896)**
Share capital increase						
Increases /(Decreases)			(1)	**(1)**		**(1)**
Statement of comprehensive income result		*(285)*	(5,732)	**(6,017)**		**(6,017)**
Balance as at 30 June 2014	**92,023**	**(1,580)**	**(248,357)**	**(157,914)**		**(157,914)**

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

	Notes	1st half of 2015	of which: related parties	1st half of 2014	of which: related parties
(EUR 000)					
Revenues	*1*	103,785		106,694	
Other income	*2*	14,087		1,055	
Purchase of materials and outsourced services	*3*	65,854	54	64,477	36
Payroll and related costs	*4*	19,893		17,750	
Other operating (income) charges	*5*	(4,667)		153%	
Write-downs of receivables from customers	*6*	12,014		5,148	
Restructuring costs and other write-downs	*7*	315		179	
Amortisation/depreciation	*13-14*	17,345		18,245	
Operating result		**7,119**	**(54)**	**2,103**	**(36)**
Net financial income (charges)	*8*	(9,020)		(7,394)	
Pre-tax result		**(1,901)**	**(54)**	**(5,291)**	**(36)**
Income taxes	*9*	(139)		(441)	
Net result from operating activities (ongoing)		**(2,040)**	**(54)**	**(5,732)**	**(36)**
Result from assets disposed of and/or destined for disposal	*10*				
Net result for the period	*11*	**(2,040)**	**(54)**	**(5,732)**	**(36)**
Attributable to:					
- Result pertaining to the parent company		**(2,040)**		**(5,732)**	
- Minority interests					
Earnings (Losses) per share					
Earnings per share from operating activities and those disposed of:					
- Basic		(0.00)		**(0.00)**	
- Diluted		(0.00)		**(0.00)**	
Earnings per share from operating activities:					
- Basic		(0.00)		**(0.00)**	
- Diluted		(0.00)		**(0.00)**	

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

(EUR 000)	Notes	30 June 2015	of which: related parties	31 December 2014	of which: related parties
Non-current assets					
Intangible assets	*13*	55,969		59,990	
Property, plant and equipment	*14*	81,961		77,107	
Other financial assets	*15*	11,336		10,775	
		149,266		**147,871**	
Current assets					
Inventories	*16*	813		1,129	
Receivables from customers	*17*	32,004		43,457	
Other receivables and other current assets	*18*	11,080		10,518	
Other current financial assets	*19*	6,208		162	
Cash and cash equivalents	*20*	3,589		4,801	
		53,693		**60,066**	
Assets held for sale		(0)		**(0)**	
Total Assets		**202,960**		**207,938**	
Share Capital and reserves					
Share Capital		92,052		92,052	
Results from previous periods and Other reserves		(260,718)		(244,437)	
Result pertaining to the Group		(2,040)		(16,434)	
Group shareholders' equity	*21*	**(170,707)**		**(168,818)**	
Minority interests					
Shareholders' equity pertaining to minority shareholders	*22*				
Total Shareholders' equity		**(170,707)**		**(168,818)**	
Non-current liabilities					
Payables to banks and to other lenders	*23*	76,584		80,535	
Payables for financial leases	*23*	49,859		47,975	
Other non-current liabilities	*24*	2,820		1,323	
Liabilities for pension obligations and staff severance indemnities	*25*	5,330		5,550	
Provisions for risks and charges	*26*	1,213		1,600	
		135,806		**136,982**	
Current liabilities					

Payables to banks and other lenders	*23*	67,042		65,351	
Payables for financial leases	*23*	9,701		10,464	
Payables to suppliers	*27*	86,313	48	91,348	8
Other current liabilities	*28*	74,805		72,611	
		237,860	**48**	**239,774**	**8**
Liabilities directly related to assets held for sale		(0)		(0)	
Total Liabilities and Shareholders' equity		**202,960**	**48**	**207,938**	**8**

5.8 Explanatory Notes

Tiscali S.p.A. (hereinafter "Tiscali" or the "Company" and together with its subsidiaries, the "Tiscali Group") is a limited company incorporated under the laws of the Republic of Italy at the Cagliari Companies' Register.

The Tiscali Group provides a wide range of services to its customers, both private individuals and companies, from dial-up and ADSL Internet access, along with high technology content telecommunications services and solutions.

This offer, which also includes voice services (such as mobile telephony) and portal services, enables Tiscali to compete effectively with the major operators on the market.

Thanks to its unbundling network (LLU), its range of innovative services and its strong brand, Tiscali has achieved an important position in the market of Italian telecommunications.

These condensed consolidated half-yearly financial statements (the financial statements) are presented in thousands of Euro (EUR), which is the currency used to conduct most of the Group's operations. Foreign activities have been included in the consolidated financial statements according to the principles detailed below.

As illustrated in the section "Events and uncertainties regarding the business continuity", in preparing these financial statements, the directors have adopted the going-concern assumption and therefore have drafted the financial statements using the standards and policies that are applied to companies in operation.

The half-yearly financial report has been approved by the Board of Directors on 25 August 2015, which authorised the publication of the same as per the formalities and legal deadlines.

Events and uncertainties regarding the business continuity

The Tiscali Group closed the first half of 2015 with a consolidated loss of EUR 2 million (influenced by the positive effect, amounting to EUR 13.8 million, of the non-recurring transactions concluded in the period) and negative consolidated shareholders' equity of EUR 170.7 million. Furthermore, as at 30 June 2015, the Group had a gross financial debt of EUR 203.2 million and current liabilities greater than current assets (non-financial) for EUR 117.2 million.

As of 31 December 2014, the consolidated loss amounted to roughly EUR 16.4 million, with negative consolidated shareholders' equity of EUR 168.8 million. Furthermore, as at 31 December 2014, the Group had a gross financial debt of EUR 204.3 million and current liabilities greater than current assets (non-financial) for EUR 108.9 million.

In the first half of 2015, from an operational perspective and within a context involving heavy competitive pressure in the market of accesses from a fixed network, management continued to implement actions targeted at cutting costs and rationalising the internal processes in order to boost profitability.

The results for the first half of 2015 reveal the following in particular:

- from a core business point of view (Access, particularly ADSL and VOIP), revenue essentially showed good staying power (+0.2%), despite severe competitive pressure and the loss of active customers (down 6.6% due largely to the mass terminations of around 14 thousand users in the first half of 2015);

- an increase in gross profitability due mainly to the positive impact, amounting to EUR 13.8 million, deriving from non-recurring transactions concluded in the period;
- an increase in the mobile telephone customer base (active and operating SIMs as at 30 June 2015 amounting to around 107.14, growth of 65.7% compared to the same figure in 2014);
- focus on innovation through a new strategy for the development of web and Over-the-Top services.

All the activities listed above made it possible to generate cash and cash equivalents from operating activities for around EUR 33.8 million.

Consip

In the first half of 2015, the company continued with the preliminary activities prior to the finalisation of the contract relating to the CONSIP Tender called by Consip itself for the supply of connectivity services in favour of the Public Administration Authorities, in which Tiscali participated in 2014, and in May 2014 turned out to be the company with the best economic bid.

As regards the progress status of the procedure, the following must be pointed out:

- after having passed the close suitability examination carried out by the CONSIP awarding commission as per the communication of 24 December 2014, on 17 February 2015, the company received confirmation that Tiscali will have to perform the services involved in the tender, for a supply share of 60% of the maximum global amount;
- on 16 April 2015, Consip informed the company of the confirmation of possession of the requirements of technical and economic-financial capacity for the purposes of providing the services in question;
- the definitive award of the CONSIP Tender was communicated on 28 April 2015;
- the company finalised the activities connected with obtaining the security deposits, for an amount of EUR 10.8 million (on 11 May 2015), needed for the stipulation of the contract, took out insurance cover for civil liability (on 10 May 2015) and sent Consip a declaration certifying the details of the current account dedicated to the contract (on 4 May 2015);
- the company expects to start the test phase in December 2015.

As is the norm for these types of tender, some appeals were submitted to the Regional Administrative Court, as a result of which, at the hearing on 1 July 2015, said Court decided to put back a decision on the merits of the appeals filed by competitors to 13 January 2016. Tiscali is currently in talks with Consip and AgID (Agency for Digital Italy) to define the testing plan for the services involved in the agreement.

Debt restructuring agreements and business combination with the Aria Group

With reference to the Group's debt, in the first few months of 2013, the Tiscali Group launched a negotiation process aimed at restructuring the senior financial debt on a consensual basis in accordance with the Group Facilities Agreement ("GFA") entered into on 2 July 2009, for the purpose of ensuring an equity and financial structure capable of permitting, over the long-term, the achievement of a balanced economic, equity and financial situation.

Following the aforementioned negotiation process, in December 2014 and the first few months of 2015, the Tiscali Group implemented the following actions:

- on 23 December 2014, it entered into a financial debt restructuring agreement with the Senior Financiers pursuant to the GFA - Restructuring Agreements -, which makes provision, in a nutshell, for:
  - the subdivision of the entire debt with Senior Financiers, amounting to EUR 140 million on the date of the signing of the Restructuring Agreements, into three separate credit facilities: (i) Facility A1, for an amount of around EUR 42.4 million, to be repaid by 30 November 2015; (ii) Facility A2, for an amount of around EUR 42.4 million, to be repaid in six-monthly instalments, the last of which falling due on 30 September 2017; (iii) Facility B, for an amount of around

EUR 55 million, to be repaid in six-monthly instalments, the last of which falling due on 30 September 2017;

  - in the event of early repayment of Facility A1, the possibility of benefiting from a discount of up to 10% on the face value of the debt repaid, in relation to the repayment timescales; in this regard, it should be noted that the Restructuring Agreements make provision for a 10% discount in the event of the early repayment by 31 May 2015 (term exceeded for which Tiscali will not be able to benefit from said discount) and a 5% discount in the event of repayment between 1 June 2015 and 31 August 2015.
  - the possibility for the Company, by assessing other forms of funding, to resort to share capital increases and to negotiate with the financiers in accordance with Facility A1 a possible conversion to equity - upon the initiative of said Company and subject to the verification of certain specific conditions - of the residual portion of this credit facility;
  - an interest rate of 6.5% for 2014, 7.5% for 2015, 9% for 2016 and 10% for 2017;
  - covenants in line with the performances of the Tiscali Group envisaged in the Business Plan.

- on 24 December 2014, established an agreement with Société Générale relating to the subscription by the latter of a share capital increase against payment for a maximum of 1,000,000,000 ordinary Tiscali shares, without par value, with exclusion of the purchase option pursuant to Article 2441.5 of the Italian Civil Code (“Share Capital Increase”).

In execution of the agreements indicated above:

- on 30 January 2015, Tiscali’s shareholders’ meeting granted the Company’s Board of Directors authority to increase the share capital, in tranches, by means of the issue of a maximum of 1,000,000,000 ordinary shares of the Company and by means of exclusion of the purchase option pursuant to Article 2441.5 of the Italian Civil Code;
- on 16 February 2015, Tiscali’s Board of Directors approved the Share Capital Increase, in accordance with the authority granted above.

In the first few months of 2015, the company commenced negotiations with the Aria Group, an Italian provider which offers wireless broadband services, which in February 2008 was awarded the licence at the auction by means of which the Ministry of Communications deregulated the 3.5 GHz frequencies, which can be used for Wimax and for LTE, targeted at a business combination operation between the two groups.

In March 2015, Tiscali signed a non-binding memorandum of understanding governing said business combination.

In consideration of the relevant industrial profiles of this transaction, the company put significant efforts into the project, in order to reconcile the terms of the project with the Group’s requirements deriving from the Restructuring Agreements. Due to the continuation of the negotiations, the possibility of the company acquiring the necessary financial resources to repay Facility A1 (amounting to around EUR 42.4 million), took increasingly greater shape, within the context of the above business combination. Therefore, once an agreement was reached on said matter - and in consideration of the relevant industrial profiles of the business combination and its potential positive long-term effects - Tiscali preferred to pursue said solution in place of the share capital increase. That being said, it does not rule out future use of instruments similar to the SEF envisaged, in order to meet the financial needs of the company, also in consideration of future market conditions.

The transaction was concluded with the signing of the Merger Agreement approved by Tiscali’s Board of Directors on 15 July 2015, and signed on 16 July 2015 (further details on the transaction are provided in the section Events subsequent to the end of the year).

The merger is expected to take effect at the end of November 2015, and is subject to the verification of certain conditions precedent, including:

1. approval of the merger project by Tiscali’s extraordinary shareholders’ meeting without a vote against of the majority of shareholders present at the shareholders’ meeting, other than the shareholder or shareholders: (i) who will acquire a post-merger equity investment in Tiscali of greater

than 30%; (ii) who hold, also in agreement with one another, the majority stake, including relative, in Tiscali, provided greater than 10%;

2. completion of one of the following alternative transactions:

   a. transfer to third parties of the leasing agreement relating to the building where Tiscali now has its headquarters and simultaneous conclusion of a lease agreement under market conditions regarding the same (option that has now ceased, but which the company reserves the right to avail of again in the future); or;

   b. redefinition of the terms of the aforementioned leasing agreement, in order to make provision for: (1) total annual rent of EUR 3.7 million (plus VAT) relating to the years 2016 and 2017; (2) a final rent instalment due in 2022 totalling around EUR 12.24 million;

3. consent to the completion of the transaction by the Senior Financiers pursuant to the Restructuring Agreements;

4. consent by the Ministry of Economic Development with reference to the change of ultimate parent of Aria, in order to maintain the licence it holds as of today's date;

5. other conditions in line with market practice.

At the current state of play, the company is working to satisfy the conditions precedent described above.

Finalisation of the transaction is expected to allow Tiscali to obtain the financial resources to repay Facility A1 falling due on 30 November 2015, amounting to EUR 42.4 million.

As already mentioned previously, the merger of the Tiscali and Aria Groups is expected to generate synergies and savings of around EUR 10 million starting from 2016, primarily thanks to network integration, the combination of access technologies and savings of general and administrative costs. In addition, the combination of the assets of the two companies will allow considerable sales development on the ultra-broadband services market, with a particular focus on the digital divide areas.

Sa Illetta

As regards the transfer of the leasing agreement regarding the Sa Illetta property (for which Tiscali had accepted the offer received on 22 December 2014 from a leading Italian real estate fund - Castello SGR), the company acknowledged that, as a result of the non-verification of one of the conditions precedent contained in the offer of December 2014, the transfer of the leasing agreement cannot be completed, and, therefore, is working to restructure said agreement with the pool of leasing companies. The pool of leasing companies actually expressed its willingness to redefine the repayment plan in the event of the non-completion of the transfer, permitting the instalments due in the years 2015-2017 to correspond, indicatively, to the lease fees that the Group would have paid in favour of the assignee real estate fund. From 2018, the repayment plan provides for the repayment of around EUR 8 million per annum and the repayment of the redemption price of roughly EUR 12.4 million.

In relation to this restructuring transaction, in June 2015, the company received approval, from the pool of leasing companies headed up by Mediocredito Italiano, to restructure the finance lease agreement in accordance with the terms of the commitment expressed by the same. The company is waiting to define the necessary contractual documentation with the leasing pool.

Stand-alone business plan and combined plan

On 25 August 2015, taking into account the developments in the first half of 2015 with reference to the CONSIP Tender, the non-finalisation of the transfer of the leasing agreement regarding the Sa Illetta property, to the cash and cash equivalents set forth in the Merger Agreement with the Aria Group, signed in July 2015 for the purposes of the repayment of Facility A1 of the GFA expiring on 30 November 2015, as well as the results of the first half of 2015, the company updated the 2015-2018 Business Plan approved on 19 March 2015 ("Stand-Alone Plan").

On the same date, the company also presented the Board of Directors with a "combined plan", drawn up from the stand-alone plans of the companies subject to integration, taking account of the expected effects of the integration itself. The Combined Plan acknowledges the assumption of the integration of assets, networks and the technologies of the two groups, which is expected to permit considerable commercial development on the ultra-broadband market and the obtainment of the above synergies, in terms of forecast savings, effective from 2016, of around EUR 10 million per year, as well as financial resources of EUR 42.4 million to be allocated to the repayment of Facility A1.

The Stand-Alone and Combined Plans, as with the 2015-2018 Business Plan approved by Tiscali's Board of Directors on 19 March 2015 envisage, inter alia, the ability of the new Group to refinance the last instalment of the debt as per the Restructuring Agreements falling due in 2017. The Directors, based on the market analysis on corporate bond issues in the TLC sector, believe that this prospective debt can be refinanced in relation to the level of net debt / EBITDA envisaged for 2017 in both the Stand-Alone and Combined Plans.

The establishing of a balanced equity, financial and economic situation for the Group over the long-term is therefore subject to: (i) the satisfaction of the conditions precedent set out in the Merger Agreement by the deadline of 30 November 2015, so that the business combination of the Aria and Tiscali Groups can take place; (ii) the repayment of Facility A1 using the financial resources made available as part of the merger; (iii) the achievement of the results of the Combined Plan and, therefore, the materialisation of the forecasts and assumptions contained therein relating, in general, to the evolution of the TLC market and, in particular, to the fulfilment of the growth objectives established in a market context characterised by heavy competitive pressure; (iv) the stipulation of the contract relating to the CONSIP Tender and the subsequent implementation of the services set forth in said tender; (v) the actual capacity to refinance the loan instalment falling due in September 2017, pursuant to the Restructuring Agreements.

Final assessment of the Board of Directors

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

- generated, during the first half of 2015, cash and cash equivalents from operating activities amounting to approximately EUR 33.8 million;
- continued its strategy for the development of mobile phone services and the sectors with high-growth potential, such as the media sector and Over-The-Top products;
- continued preliminary activities prior to the stipulation of the contract and to the implementation of the services set forth in the aforementioned CONSIP Tender, following the definitive award to the company on 28 April 2015;
- signed the business combination agreement with the Aria Group on 16 July 2015, which is expected to allow the company to strengthen Tiscali's coverage of broadband access from the fixed and mobile networks, creating a sole operator on the Italian market, and to provide the financial resources needed to repay Facility A1 falling due on 30 November 2015, based on the Restructuring Agreements.
- obtained the consent of the leasing companies to the restructuring of the leasing agreement regarding the Sa Illetta property, in place of the proposed transfer of the same; the new agreement makes provision for payment instalments for the years 2015-2017 equal, indicatively, to the leasing fee that the group would have paid in favour of the concessionaire real estate fund (in the assumption of finalisation of the transfer); therefore the absence of the transaction will have an essentially zero impact on the company's cash flow for the years 2015-2017;
- updated the Stand-Alone Plan and defined a Combined Plan in order to take account of the final results of the first six months of 2015, the foreseeable evolution over time of the business deriving from the CONSIP Tender and the proposed business combination with the Aria Group.

The Directors highlight, as already done when drafting the financial statements for 2014, the persistence of major uncertainties which may give rise to significant doubts over the Tiscali Group's ability to continue to operate on the basis of the going concern assumption, attributable:

- to the satisfaction of the conditions precedent set out in the Merger Agreement by the deadline of 30 November 2015, so that the business combination of the Aria and Tiscali Groups can be carried out;
- to the repayment of Facility A1 by using the financial resources made available as part of the merger;

- to the achievement of the objectives envisaged in the 2015-2018 Combined Plan, with particular reference to the evolution of the telecommunications market and achievement of the growth objectives set out in a market context characterised by heavy competitive pressure, as well as with reference to the forecast synergies deriving from the integration of the Aria and Tiscali Groups;
- to the final awarding of the contract for the assignment of the connectivity services within the sphere of the Public Connectivity System by CONSIP;
- the ability to refinance the last instalment of the debt as per the Restructuring Agreements falling due in 2017.

Lastly, it should be pointed out that, in the event of the unsuccessful outcome of the merger, the company does not expect to have the financial resources needed to repay Facility A1, given that the share capital increase subscribed by ODEF is subject to the outcome of the aforementioned merger.

However, after having performed the necessary checks and after having assessed the uncertainties identified in light of the factors described above, taking into account the provisions of the agreement signed on 16 July 2015 with the Aria Group, the Restructuring Agreements and confident in their ability to implement the provisions of the Combined Plan, the Directors reasonably expect that it will be possible to achieve a Group financial structure in line with the expected cash flows and that the Group will have adequate resources to continue operations in the foreseeable future and therefore have adopted the going concern assumption when preparing these financial statements.

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

Form and content of the accounting statements

Basis of presentation and consolidation

This condensed consolidated half-yearly financial statements have been drawn up by following the International Accounting Standards ("IFRS") issued by the Accounting Standards Board ("IASB") and ratified by the European Union. IFRS also include all the reviewed international accounting standards ("IAS") and all the interpretations by the International Financial Reporting Interpretations Committee ("IFRIC") previously called the Standing Interpretations Committee ("SIC").

The form and content of these condensed consolidated half-yearly financial statements is compliant with the disclosure envisaged by International Accounting Standard No. 34 Interim financial reporting (IAS 34), in compliance with art. 154-ter of Legislative Decree no. 58 of 24.2.98 (TUF) and subsequent amendments and additions, also taking account of the other relevant CONSOB communications and resolutions.

The notes have been drawn up in abridged form, applying the faculty envisaged by IAS 34 and therefore they do not include the information required for annual financial statements drawn up in accordance with the IFRS, since this interim report on operations within the logic of IAS 34, has the purpose of providing an up-date to the balance sheet and income statement situation when compared with the information provided by the consolidated financial statements as at 31 December 2014.

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

The consolidation principles, the accounting standards and calculation methods used for the preparation of the half-yearly statements have been applied consistently also at the time of preparation of the half-yearly statements as at 30 June 2014 and the consolidated financial statements as at 31 December 2014, presented here for comparative purposes, to which reference should be made for the sake of thoroughness. In order to permit an improved comparison, the balances relating to comparative periods have been adjusted, where necessary.

Preparation of the half-yearly financial statements and the related notes in accordance with the IFRS requires management to make a number of estimates and in certain cases adopt assumptions in the application of accounting standards. Within the sphere of the drafting of the half-year financial statements, the significant assessments made by company management regarding the application of the accounting standards and the main sources of uncertainty regarding the estimates, comply with those applied for the preparation of the consolidated financial statements for the year ended as at 31 December 2014.

Changes in the consolidation area

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

The subsidiary Tiscali Finance S.A. was liquidated on 5 May 2015.

On 8 July 2015, the company “Streamago Inc” was incorporated, with registered office in Dover, in the state of Delaware (USA). The company’s purpose is the technological and commercial development and promotion of the Streamago service.

There were no other changes to the Group’s consolidated area.

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

Accounting standards

The accounting standards adopted by the group for the preparation of the consolidated half-year financial statements, as at 30 June 2015, are compliant with those used for the preparation of the consolidated financial statements as at 31 December 2014, to which reference should be made, except for the adoption of the new standards, amendments and interpretations effective as from 1 January 2015, as briefly described here below.

- **IFRIC 21 - Levies** - The interpretation defines the accounting treatment of the liabilities for government taxes and levies other than income taxes in relation to the moment when an entity can recognise these liabilities. The interpretation was approved by the European Union in June 2014 (Regulation EU 634/2014) and became applicable for financial statements which commencing as from 17 June 2014, or after. The entry into force of this interpretation did not have any impact on the Group's Half-Year Consolidated Financial Statements.
- ***Annual improvements* to IFRS 2011-2013 cycle** (issued by the IASB in December 2013) - These amendments were approved by the European Union in December 2014 (EU Regulation No. 1361/2014) and apply as from 1 January 2015, and in particular, concern the following standards:
  - *IFRS 3 Business combinations* - The amendment applies prospectively and, for the purposes of the exclusion from the scope of application of IFRS 3, clarifies that: (i) excluded from the scope of application of IFRS 3 are not just joint ventures but also joint arrangements; (ii) this exclusion from the scope of application applies solely to the accounting of said joint arrangement in the financial statements. The Tiscali Group is not a *joint arrangement*, therefore said amendment is not relevant for the Group and its subsidiaries
  - *IFRS 13 Fair value measurement* - The amendment applies prospectively and clarifies that the portfolio exception set out in IFRS 13 can be applied not only to financial assets and liabilities, but also to other contracts within the scope of application of IAS 39. The Group does not apply the *portfolio exception* set forth in IFRS 13.
  - *IAS 40 Investment property* - The description of additional services in IAS 40 distinguishes investment property from owner-occupied property (for example: property, plant and equipment). The amendment applies prospectively and clarifies that in defining whether a transaction

represents a purchase of an asset or a business combination, IFRS 3 must be used and not the description of additional services of IAS 40. This amendment has no impact on the Group.

Revenues (note 1)

(EUR 000)	**1st half of 2015**	**1st half of 2014**
Revenues	103,785	106,694

For further information please refer to the Interim report on operations.

Other income (note 2)

(EUR 000)	**1st half of 2015**	**1st half of 2014**
Other income	14,087	1,055

Other income primarily includes the compensation recognised by a leading telecommunications operator active in the Italian market, in the form of the definitive waiving of claims made by the company against the latter entity, as part of a settlement agreement reached in the half. This income was classified as non-recurring; for details please refer to the comments in section 'Non-recurring transactions'.

The item also includes the release of the pertinent portion, of the first half of 2015, of the capital gain generated via the sale and lease back transaction involving the Cagliari headquarters (Sa Illetta), amounting to roughly EUR 1 million.

Purchase of materials and outsourced services (note 3)

(EUR 000)	**1st half of 2015**	**1st half of 2014**
Line/traffic rental and interconnection costs	38,562	35,819
Costs for use of third party assets	2,682	3,170
Portal service costs	4,948	4,844
Marketing costs	4,279	5,225
Other services	15,383	15,419
Total	**65,854**	**64,477**

Payroll and related costs (note 4)

(EUR 000)	**1st half of 2015**	**1st half of 2014**
Wages and salaries	12,930	11,308
Other personnel costs	6,962	6,441
Total	**19,893**	**17,750**

The breakdown of the employees by category and the corresponding balance at 30 June 2015 are presented below.

The increase in payroll and related costs is attributable to lower use of the solidarity contract and lower capitalisations of expenses on OTT and other projects.

Number of employees

	30 June 2015	**30 June 2014**
Executives	19	18
Middle managers	75	75
Office staff	801	799
Blue-collar workers	3	3
Total	**898**	**895**

Other operating (income) charges (note 5)

The breakdown is as follows:

(EUR 000)	**1st half of 2015**	**1st half of 2014**
Other operating (income) charges	(4,667)	153%
Total	**(4,667)**	**153%**

Other net operating income mainly includes the non-recurring impacts deriving from the write-offs of specific debt positions of a trade nature following agreements with suppliers.

Write-downs of receivables from customers (note 6)

(EUR 000)	1st half of 2015	1st half of 2014
Loss on receivables	5,102	-
Allocation to receivable write-down provision	6,912	5,148
Total	**12,014**	**5,148**

The item Write-downs of receivables from customers totalled EUR 12.0 million (EUR 5.1 million at 30 June 2014) and includes not only the allocation to the receivable write-down provision of EUR 6.9 million, deemed necessary to adjust the receivable write-down provision as at 30 June 2015 to the values considered adequate by the Directors, but also the effect of some write-offs of credit positions deriving from a settlement agreement reached by the company in the period for a value of EUR 5.1 million.

The increase in the allocation to the receivable write-down provision with respect to the first half of 2014 is mainly due to the mass disconnections of 14.3 thousand customers in the first half of 2015 and the subsequent higher allocation in respect of the assessment of the recoverability of these receivables.

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

Restructuring costs and other write-downs (note 7)

(EUR 000)	1st half of 2015	1st half of 2014
Restructuring costs and other write-downs	315	179
Total	**315**	**179**

The item "restructuring costs and other write-downs" refers to provisions for restructuring charges of the Group, in particular professional expenses relating to the Share capital increase.

Financial income (charges) (note 8)

Net financial income (charges)

A breakdown of net financial income (charges) for the half, presenting a negative balance of EUR 9 million, is provided below.

(EUR 000)	1st half of 2015	1st half of 2014
Financial income		
Interest on bank deposits	12	17
Other financial income	6	5

Total	**18**	**22**
Financial charges		
Interest and other charges due to banks	6,515	4,798
Other financial charges	2,523	2,619
Total	**9,038**	**7,416**
Net financial income (charges)	**(9,020)**	**(7,394)**

The balance of Net financial income (charges) mainly includes bank interest on the Senior Loan for EUR 5.4 million, interest on leasing for EUR 0.9 million, interest on current accounts for EUR 0.5 million, bank charges for EUR 1.2 million and default interest payable for EUR 0.4 million.

The increase in bank interest is mainly attributable to the rise in financial charges on the Senior Loan, primarily due to the increase in the internal rate of return applied (around 3%) as a result of the Restructuring Agreements signed in December 2014.

Income taxes (note 9)

(EUR 000)	**1st half of 2015**	**1st half of 2014**
Current taxes	142	441
Deferred taxes	(2)	-
Total	**(139)**	**(441)**

Current taxes for the period are represented by the IRAP (regional business tax) to be paid by the Italian companies.

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

The "Result from operating assets disposed of and/or assets held for sale" was nil as of 30 June 2015.

Earnings (Losses) per share (note 11)

The result per share of "operating activities" was close to zero and was calculated by dividing the net loss for the period attributable to the ordinary shareholders of the parent company, amounting to EUR 2 million, by the weighted average number of ordinary shares in circulation during the half, totalling 1,861,535,343.

Impairment test on assets (note 12)

In consideration of the presence of impairment indicators, an impairment test was performed on assets, in accordance with IAS 36 and prescribed in the joint Bank of Italy/Consob/ISVAP document no. 4 of 3 March 2010 regarding the application of IAS/IFRS.

The impairment test on assets was performed by comparing the value of assets reported at 30 June 2015 and their value in use, determined based on the following essential elements.

(i) Definition of Cash Generating Units

The Group identified the Cash Generating Units with the segments set forth in the segment reporting. The impairment test on assets was performed with respect to the Cash Generating Units identified;

(ii) Criteria for estimating the recoverable amount

The value in use of the Cash Generating Units (CGU) was determined by discounting the cash flows deriving from the 2015-2018 Tiscali Stand-Alone Plan (as defined in the note “Assessment of the business as a going-concern and future outlook”) approved by the Board of Directors on 25 August 2015, as well as the cash flows deriving from the CPS contract for the period 2019-2023. The Stand-Alone Plan considers the cash flow of EUR 42 million deriving from the merger transaction, allocated to the repayment of a portion of the loan amounting to EUR 42 million falling due on 30 November 2015. The other effects of the merger transaction are not considered in the Stand-Alone Plan.

The main assumptions used to estimate the recoverable value concern:

- explicit forecast period equating to the remaining plan duration;
- EBITDA emerging from market and business development hypothesis;
- investments to maintain the expected development of the business and the pre-established level of profitability;
- determination of the terminal value calculated as perpetuity based on the projection of the last year of the plan;, net of the economic-financial effects of the contract relating to the SPC tender;
- the cash flows discounted in the period of the plan, were added to the cash flows discounted in the years 2019-2023 referring exclusively to the contracts related to the SPC tender. The duration of the contract with SPC is 7 years (2016-2022), a residual impact is envisaged in 2023 in terms of the change in working capital;
- the WACC rate determined on the basis of market valuations of the cost of money and specific risks related to the company’s core business;
- terminal growth rate (Long-Term Growth LTG) equal to 1.5%.

The cost of capital was estimated considering the calculation criteria provided by the CAPM (Capital Asset Pricing Model). In particular in the determination of the WACC:

- the beta coefficient was valued considering both the value of Tiscali over various timescales for a period of more than twelve months;
- the spread of the credit on the risk free element was valued in line with the conditions of current debt;
- the risk premium was valued within a prudent range with respect to the current conditions of financial markets.

Based on these parameters, the WACC used for the impairment tests was 8.86%.

The result of the impairment test shows a positive difference between the recoverable value and book value, thus the Group feels that it is not necessary to write down any of the balance sheet assets.

(iii) Sensitivity analysis of the impairment test results

In consideration of the current scenario and the results of the impairment tests performed for the period ended 30 June 2015, an analysis was conducted on the sensitivity of the recoverable value estimated using the discounted cash flow method. The discount rate is considered a key parameter in the estimate of recoverable value. An increase of 1% would lower the positive difference between estimated recoverable value and book value. This difference would continue, nonetheless, to be positive. A sensitivity analysis was also conducted on the long-term growth rate: an increase of 1% would, similarly, lower the positive difference between estimated recoverable value and book value; however, this difference would continue to be positive.

(iv) Considerations on the presence of external impairment indicators

Considering the current market situation, certain considerations on the presence of external impairment indicators were made especially with regard to evidence from the financial market. For that purpose, the market capitalisation of the Tiscali Group does not give rise to elements departing from the results of the impairment tests.

Intangible assets (note 13)

At 30 June 2015, intangible assets amounted in total to around EUR 56 million.

Intangible assets (EUR 000)	Computers, software and development costs	Concessions and similar rights	Broadband service activation costs	Other intangible assets	Intangible assets in course of acquisition and prepayments	Total
NET VALUE						
31 December 2014	**-**	**36,832**	**20,613**	**969**	**1,576**	**59,990**
30 June 2015	**-**	**33,809**	**20,102**	**1,107**	**951**	**55,969**

Investments in the period ended at 30 June 2015 amounted in total to around EUR 8.6 million.

The balance of "Concessions and similar rights", amounting to EUR 33.8 million, includes EUR 26.1 million relating to rights and costs connected with the acquisition of transmission capacity, on a multi-year basis, in the shape of concession contracts for the use of the same (IRU/Indefeasible Rights of Use) and around EUR 7.7 million relating to licences, software and patents. Investments for the period amounted to around EUR 1.3 million and mainly concerned licences and software.

The item "Broadband service activation costs", amounting to EUR 20.1 million, relates to the capitalisation of the acquisition and activation costs of customers concerning the ADSL service. Capitalisation in the first half of 2015 came to around EUR 6.9 million.

"Other intangible assets" amounting to around EUR 1.1 million, were mainly made up of costs for the development of the network infrastructures.

"Intangible assets in course of construction and prepayments" amounted to EUR 0.9 million and include software development projects not yet completed at 30 June 2015.

Property, plant and equipment (note 14)

At 30 June 2015, property, plant and machinery amounted in total to EUR 82 million.

Tangible assets (EUR 000)	Properties	Plant and machinery	Other tangible assets	Tangible assets in course of construction	Total
NET VALUE					
31 December 2014	**46,797**	**27,193**	**1,478**	**1,639**	**77,107**
30 June 2015	**45,876**	**28,472**	**1,408**	**6,205**	**81,961**

The item "Property", amounting to EUR 45.9 million, mainly relates to the Cagliari headquarters (Sa Illetta) of the Italian subsidiary, which was subject to a Sale & Lease back financial transaction in 2007.

The net book value of "Plant and equipment" (EUR 28.5 million) includes LLU site extension and installation costs and network and transmission equipment (routers, DSLAM, servers). During the interim period, there was an increase of EUR 0.2 million for investments concerning the development of the network infrastructure.

The “Other tangible assets”, whose balance amounts to EUR 1.4 million, include furniture and furnishings, office equipment and motor vehicles.

“Tangible assets in course of construction and advances” amounted to around EUR 6.2 million, mainly made up of costs for the development of the network infrastructures and the acquisition of equipment to be used in the backbone project for northern Italy, Sardinia and the underwater links.

Other non-current financial assets (note 15)

(EUR 000)	30 June 2015	31 December 2014
Guarantee deposits	7,356	6,944
Other receivables	1,998	1,848
Equity investments in other companies	1,982	1,982
Total	**11,336**	**10,775**

Security deposits refer mainly to the guarantee for the CONSIP Tender of EUR 6.5 million.

Equity investments in other companies are mainly represented by Janna S.c.p.a., a consortium company which is involved in the management of an underwater fibre optics cable between Sardinia and the mainland and between Sardinia and Sicily. Other financial receivables are due from the same consortium company Janna S.c.p.a..

Inventories (note 16)

At 30 June 2015, inventories amounted in total to EUR 0.8 million, and relate to some projects with the Sardinia Region.

Receivables from customers (note 17)

(EUR 000)	30 June 2015	31 December 2014
Receivables from customers	54,216	66,875
Write-down provision	(22,212)	(23,419)
Total	**32,004**	**43,457**

At 30 June 2015, receivables from customers totalled EUR 32.0 million, after write-downs of EUR 22.2 million. These receivables accrued from the sale of internet services, billing of network access services, inverse interconnection traffic, advertising revenues and business customer and telephone services provided by the Group.

The decrease in receivables from customers in the first half of 2015 with respect to the first half of 2014 is attributable to the following factors:

- decrease in turnover (-2.7%);
- improvement in the quality of the customer base;
- higher incidence of customers with early billing and of revenues based on prepaid mode with respect to the figure at 31 December 2014.

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

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

Other Receivables and other Current Assets (note 18)

(EUR 000)	30 June 2015	31 December 2014
Other receivables	1,007	1,773
Accrued income	-	53
Prepaid expense	10,073	8,692
Total	**11,080**	**10,518**

Other Receivables, amounting to about EUR 1 million, include advances to suppliers for about EUR 0.2 million, due from tax authorities for about EUR 0.5 million and other receivables for EUR 0.3 million.

Prepaid expenses, whose balance comes to EUR 10.1 million, include costs already incurred and deferred to the following financial year, mainly associated with multi-year line rental contracts, hardware and software maintenance costs, and insurance and advertising costs.

Other current financial assets (note 19)

(EUR 000)	30 June 2015	31 December 2014
Guarantee deposits	6,184	60
Other receivables	23	102
Total	**6,208**	**162**

The guarantee deposits include the security deposit relating to the Sa Illetta Sale & Lease Back contract, amounting to EUR 6.1 million, was reclassified from non-current financial receivables to current financial receivables, in relation to the restructuring of the contract itself, in the course of being completed.

Cash and cash equivalents (note 20)

Cash and cash equivalents at 30 June 2015 amounted to EUR 3.6 million and include the Group's cash, essentially held in bank current accounts.

Shareholders' equity (note 21)

(EUR 000)	30 June 2015	31 December 2014
Share capital	92,052	92,052
Accumulated losses and other reserves	(260,718)	(244,437)
Result for the period	(2,040)	(16,434)
Total Shareholders' equity	**(170,707)**	**(168,818)**

Changes in the various shareholders' equity items are detailed in the relevant table. At 30 June 2015, the share capital amounted to EUR 92,052,029.67 (corresponding to 1,861,535,343 ordinary shares). The item Accumulated losses and Other reserves included EUR 31.5 million in other reserves and EUR 229.2 million in accumulated losses pertaining to previous years.

Shareholders' equity pertaining to minority shareholders (note 22)

The shareholders' equity pertaining to minority shareholders was nil.

Current and non-current financial liabilities (note 23)

The net financial position is shown in the table below:

EUR 000	**30 June 2015**	**31 December 2014**
A. Cash and Bank deposits	3,589	4,801
B. Other cash equivalents		
C. Securities held for trading		
D. Cash and cash equivalents (A) + (B) + (C)	***3,589***	***4,801***
E. Current financial receivables	***6,148***	***102***
F. Non-current financial receivables		
G. Current bank payables	12,116	12,534
H. Current portion of non-current debt	54,926	52,817
I. Other current financial payables (*)	9,812	10,551
J. Current financial debt (G) + (H) + (I)	***76,854***	***75,901***
K. Net current financial debt (J) – (E) – (D) - (F)	**67,118**	**70,999**
L. Non-current bank payables	76,584	80,535
M. Bonds issued		
N. Other non-current payables (**)	49,859	47,975
O. Non-current financial debt (N) + (L) + (M)	**126,442**	**128,510**
P. Net Financial Debt (K) + (O)	**193,560**	**199,509**

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

The table above has been drawn up in accordance with Consob Communication No. DEM/6064293 dated 28 July 2006. The table below shows the reconciliation between the net financial position drawn up on the basis of the Consob communication and the net financial position as shown in the interim Report on operations.

(EUR mln)	**30 June 2015**	**31 December 2014**
Consolidated net financial debt	**186.2**	**192.6**
Other non-current financial receivables	7.3	6.9
Consolidated net financial debt prepared on the basis of Consob communication No. DEM/6064293 dated 28 July 2006	**193.6**	**199.5**

Financial indebtedness comprises:

- bank payables mainly represented by the debt pursuant to the Restructuring Agreements signed on 23 December 2014, relating to the restructuring of the financial debt deriving from the contract entitled "Group Facilities Agreement", in turn entered into on 2 July 2009.
- amounts for financial leasing contracts mainly in relation to the sale and lease back agreement stipulated for the company's Cagliari office (Sa Illetta)**.**

Payables to banks

Bank payables, amounting in total to EUR 143.6 million, relate to the Group Facility Agreement as redefined by the Restructuring Agreements entered into on 23 December 2014 and to current bank payables for current account overdrafts.

The amount owed to banks represented by the senior loan deriving from the new Restructuring Agreements was as follows as at 30 June 2015 (face values of the debt):

- **Tranche A1**: nominal residual amount of EUR 42.4 million (maturing in November 2015);
- **Tranche A2**: nominal residual amount of EUR 33.9 million (repayment in half-yearly instalments, the final instalment falling due in September 2017);
- **Tranche B**: nominal residual amount of EUR 53.6 million (repayment in half-yearly instalments, the final instalment falling due in September 2017).

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

On 31 March 2015, EUR 5 million of the Senior Loan was repaid, stated under short-term financial liabilities, along with the payment of the interest on the principal for EUR 2.7 million. In addition, on the same date, around €0.2 million in previous interest was paid, relating to the previous GFA loan agreement terminated on 23 December 2014.

The following table summarizes the main elements of the loan.

Loan	Amount	Maturity	Financial institution	Borrower	Guarantors
Facility A1	EUR 42.4 million	November 2015	BG Master Fund PLC	Tiscali UK Holdings Ltd	Tiscali S.p.A.
			Silver Point Lux Plat SARL		Tiscali Italia S.p.A.
			Sothic Cap Euro Opp Loan Fund		Tiscali International BV
			SVP Capital Funding Lux		Tiscali Financial Services SA
					Veesible S.r.l.

Loan	Amount	Maturity	Financial institution	Borrower	Guarantors
Facility A2	EUR 33.9 million	September 2017	BG Master Fund PLC	Tiscali UK Holdings Ltd	Tiscali S.p.A.
			Silver Point Lux Plat SARL		Tiscali Italia S.p.A.
			Sothic Cap Euro Opp Loan Fund		Tiscali International BV
			SVP Capital Funding Lux		Tiscali Financial Services SA
					Veesible S.r.l.

Loan	Amount	Maturity	Financial institution	Borrower	Guarantors
Facility B	EUR 53.6 million	September 2017	Intesa Sanpaolo London	Tiscali UK Holdings Ltd	Tiscali S.p.A.
					Tiscali Italia S.p.A.
					Tiscali International BV
					Tiscali Financial Services SA
					Veesible S.r.l.

(*) nominal amounts as at 30 June 2015

Payables for financial leases

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

- the "Sales & Lease Back" financial lease on the Sa Illetta property, head offices of the company in Cagliari, whose debt at 30 June 2015 amounted to Euro 59.4 million
- other financial leases for the remaining balance.

Breakdown of current and non-current financial debt

Current and non-current financial liabilities at 30 June 2015 are presented in the following table:

(EUR 000)	**30 June 2015**	**31 December 2014**
Non-current financial liabilities		
Payables to banks and other lenders:		
Payables to banks	76,584	80,535
Payables for financial leases (short-term)	49,859	47,975
Total	**126,442**	**128,510**
Current financial liabilities		
Payables to banks and other lenders:		
Payables to banks	67,042	65,351
Payables for financial leases (short-term)	9,701	10,464
Total	**76,743**	**75,815**

Non-current liabilities (note 24)

(EUR 000)	**30 June 2015**	**31 December 2014**
Payables to suppliers	1,477	-
Other payables	1,343	1,323
Total	**2,820**	**1,323**

Payables to suppliers are mainly represented by the medium/long-term portion of the debt deriving from the purchase of the assets for the backbone projects for northern Italy, Sardinia and underwater links, and the Istella and NetApp projects.

Liabilities for pension obligations and staff severance indemnities (note 25)

The staff severance provision, which comprises the indemnities accrued, amounted to EUR 5.3 million at 30 June 2015.

(EUR 000)	**31 December 2014**	**Provisions**	**Utilisation**	**Payments to Funds (*)**	**Actuarial (Gain)/loss**	**30 June 2015**
Staff severance indemnities	5,550	974	(115)	(927)	(152)	5,330
Total	**5,550**	**974**	**(115)**	**(927)**	**(152)**	**5,330**

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

Provisions for risks and charges (note 26)

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

(EUR 000)	**31 December 2014**	**Provisions**	**Utilisation**	**30 June 2015**
Provisions for risks and charges	1,599		(387)	1,213
Total	**1,599**		**(387)**	**1,213**

The provision for risks and charges as at 30 June 2015 essentially includes provisions for disputes with employees.

The utilisation relates to the reclassification of payables due to the tax authorities, relating to the portion pertaining to 2015 and a previous tax payment order.

Payables to suppliers (note 27)

(EUR 000)	**30 June 2015**	**31 December 2014**
Payables to suppliers	86,313	91,348
Total	**86,313**	**91,348**

Payables to suppliers refer primarily to trade transactions for the provision of telephone traffic, data traffic, materials, technology services and other services of a commercial nature.

The decrease over the close of the year 2014 is partly due to the effects of the settlement agreement reached by the company during the period and the write-offs of commercial positions.

Other current liabilities (note 28)

(EUR 000)	30 June 2015	31 December 2014
Accrued expenses	4,893	3,691
Deferred income	37,923	39,018
Other payables	31,989	29,902
Total	**74,805**	**72,611**

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

Deferred income mainly refers to:

- the capital gain on disposal relating to the Sale & lease back transaction on the Sa Illetta property, amounting to around EUR 13.9 million which is released pro-rata depending on the duration of the lease agreement;
- the deferral of the revenues deriving from the sale of transmission capacity pertaining to future periods, for around EUR 8.5 million;
- the deferral of the revenues for the activation of the ADSL and VoIP services in relation to the non-pertinent portion, for around EUR 15.6 million.

The item other payables, EUR 32 million, essentially includes:

- VAT debt balance for EUR 15.1 million relating to debts recognised in the current half and in 2014;
- payables to the tax authorities and social security institutions for around EUR 7.8 million;
- amounts for the employees for EUR 1.8 million;
- payables for AGCOM sanctions and IMU fine for EUR 1.8 million;
- payables relating to the ministerial grants concerning the Italian subsidiary for EUR 2.6 million;
- amounts due for IRAP and other taxes with regard to the Italian subsidiary for EUR 2.5 million.

Stock options

There are no stock option or share incentive plans outstanding.

Disputes, contingent liabilities and commitments

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

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

Civil and administrative proceedings

Dispute open with TeleTu

In June 2011, Tiscali Italia summonsed TeleTu S.p.A. before the Court of Milan, requesting compensation for damages for around EUR 10 million due to illegal conduct engaged in by the defendant during the migration of users in the period January 2009-April 2011. The defendant made a counterclaim for alleged similar conduct engaged in by Tiscali Italia, in turn requesting compensation for damages for more than EUR 9 million. The outcome of the proceedings is not predictable.

Telecom dispute

In June 2015, the legal proceedings brought by Tiscali, before the Court of Milan, against Telecom Italia S.p.A. regarding the compensation for damages incurred as a result of abusive conduct engaged in by Telecom Italia S.p.A. and the object of separate proceedings A-428 of 2013 of the Antitrust Authority, was settled with the counterparty as part of more complex agreement also containing the settlement of some additional mutual disputes regarding the commercial relations in place between the parties.

Consip proceedings

On 1 July, the Regional Administrative Court of Lazio, convened in chambers, postponed the discussion of the case brought by Telecom Italia and Fastweb against the provision for the award of the SPC Consip tender by Tiscali Italia to 13 January 2016.

Consob proceedings

On 29 October 2014, CONSOB notified Tiscali, pursuant to Articles 193.1 and 195.1 of the TUF, of the failure to make the following available to the general public, by the legal deadlines: (i) the annual financial report as at 31 December 2013 (as well as the reports of the Board of Statutory Auditors and the independent auditing firm pertaining to this document); as well as (ii) the interim management report as at 31 March 2014. By the legal deadlines, the Company formulated its defence briefs, pleading, amongst other things, the absence of its responsibility for the subjective element or in any event the fact that no fault can be found with its conduct, since the alleged delay was due to the extension of the negotiations with the Senior Financiers and the consequent uncertainty regarding the possibility of approving the accounting documentation in question with a view to the business as a going concern. It being understood that the outcome of the proceedings cannot be predicted, in the event that the Company should be held responsible in any way, the possible fine would range between a minimum of EUR 5,000.00 and a legal maximum of EUR 500,000.00.

WOL dispute

In relation to the holding in World Online International BV, acquired by the Group in 2000, in July 2001, the Dutch association Vereniging van Effectenbezitters and the Stichting VEB-Actie WOL foundation, which represent a group of around 10,000 former minority shareholders of World Online International NV (hereinafter “WOL”), summonsed WOL (currently 99.5% owned by Tiscali) and the financial institutions tasked with the stock market listing of the Dutch subsidiary, disputing, in particular, the incomplete and incorrect nature, as per Dutch law, of certain information contained in the WOL listing prospectus and of certain public statements made by WOL and its Chairman immediately prior to and after the listing.

By means of provision dated 17 December 2003, the first level Dutch court deemed that in certain press releases issued by WOL prior to 3 April 2000, sufficient clarity was not provided regarding the declarations made public by its former chairman at the time of listing relating to his shareholding. Consequently, WOL was held responsible vis-à-vis the parties who had subscribed the shares of the company at the time of the IPO on 17 March 2000 (start date of trading) and who acquired shares on the secondary market up to 3 April 2000 (date on which the press release was issued, specifying the effective shareholding held by the former chairman of WOL). WOL appealed against this decision, citing the correctness of the listing prospectus.

On 3 May 2007, the Amsterdam Court of Appeal partially amended the decision of the first level court, deeming that some parts of the prospectus used at the time of listing were incomplete and that WOL should have corrected certain information relating to the shareholding held by its former chairman, reported by the media before said listing; furthermore, it was deemed that WOL had created optimistic expectations regarding its activities.

On 24 July 2007, the Dutch association and the foundation mentioned above proposed an appeal before the Dutch Supreme Court against the sentence of the Court of Appeal. On 2 November 2007, WOL and the financial institutions tasked with the stock market listing filed their counter-appeal. In November 2009, the Dutch Supreme Court pronounced its final sentence confirming the ruling of the Court of Appeal and ruled that some parts of the listing prospectus were incomplete and that WOL management should have provided additional information during listing. It should be mentioned that the ruling is limited to ascertaining certain aspects of WOL's responsibility and that of the financial institutions handling the listing with regard to the obligations on disclosure during an IPO and defines certain principles that might be considered applicable to future court decisions (e.g. on the proof of cause), while it did not rule on the actual damages, which should be the object of new, separate and independent proceedings at the competent courts petitioned by investors. At present no such petition has been initiated.

A dispute of a similar nature to that described above was brought by another Dutch foundation, Stichting Van der Goen WOL Claims, in August 2001, and letters were subsequently received from other parties, in which the hypothesis of proceeding with similar action was furthered, if the conditions should apply.

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

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

You are also hereby informed that Stichting Van der Goen WOL Claims in December 2011 made an additional request for compensation representing a further 28 shareholders or entitled parties, in which the hypothesis of proceeding with legal action was furthered. This request for compensation does not fall within the aforementioned settlement agreement which the Tiscali Group has finalised with the financial institutions. The same Stichting Van der Goen WOL Claims confirmed its claims by means of letter dated 6 March 2013 and, subsequently, launched legal proceedings, served on 19 June 2014, vis-à-vis WOL and the financial institutions tasked with the listing of said WOL.

On 1 October 2014, WOL filed the defence briefs, which was followed by the filing of the briefs by Van der Goen on 7 January 2015. At the hearing on 1 April, WOL presented its counter-claims. A hearing was set for 5 November 2015 to discuss the counterparty's claims.

With regard to the petitum of the dispute, the residual amount requested from WOL and the financial institutions involved comes to EUR 111 million. Also supported by the assessments of their legal advisors, the Directors believe that the risk of losing is not probable as things stand.

Criminal proceedings

In September 2013, Tiscali S.p.A. received notification, pursuant to Italian Legislative Decree No. 231/2001, of the conclusion of the preliminary investigations for alleged false corporate communications relating to the financial statements between 2008 and 2012; the subsidiary Tiscali Italia received the same notification in January 2014. The preliminary hearing was fixed for 28 May 2015 and subsequently put back to 20 October 2015. The offence refers to the alleged erroneous accounting entries with reference to the provision made for the write-down of receivables. Pursuant to Article 25 ter, letter c) of Italian Legislative Decree No. 231/2001, in the event of conviction just a monetary fine would be applicable of 400 to 800 penalty units. The Company has undertaken the necessary defence action.

Segment reporting

Segment reporting is presented on the basis of the following segments:

- Italy (BTC and BTB connectivity);

- Veesible (Media & Advertising);
- Corporate

Income statement

Income statement 2015

30 June 2015 (EUR 000)	Italy	Veesible	Corporate	Other	Cancellation adjustments	Total
Revenues						
From third parties	93,384	10,355	45	-	-	103,785
Intra-group	3,735	2,022	1,974	-	(7,731)	-
Total revenues	**97,120**	**12,377**	**2,019**	**-**	**(7,731)**	**103,785**
Operating result	**(1,722)**	**415**	**(3,646)**	**(19)**	**12,090**	**7,119**
Portion of results of equity inv. carried at equity						**-**
Net financial income (charges)						(9,020)
Pre-tax result						(1,901)
Income taxes						(139)
Net result from operating activities (ongoing)						(2,040)
Result from assets disposed of and/or destined for disposal						-
Net result						**(2,040)**

Income statement 2014

30 June 2014 (EUR 000)	Italy	Veesible	Corporate	Other	Cancellation adjustments	Total
Revenues						
From third parties	95,591	11,048	55	-	-	106,694
Intra-group	3,974	1,962	3,173	-	(9,109)	-
Total revenues	**99,565**	**13,010**	**3,228**	**-**	**(9,109)**	**106,694**
Operating result	**382**	**293**	**1,470**	**(41)**	**-**	**2,103**
Portion of results of equity inv. carried at equity						**-**
Net financial income (charges)						(7,394)
Pre-tax result						(5,291)
Income taxes						(441)
Net result from operating activities (ongoing)						(5,732)
Result from assets disposed of and/or destined for disposal						-
Net result						**(5,732)**

Transactions with related parties

Dealings with non-consolidated Group companies

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

Dealings with other related parties

During the first half of 2015, the Tiscali Group had a number of dealings with related parties, regulated under market conditions (arms' length basis), taking into account the characteristics of the goods and services provided.

The table below summarises the balance sheet and income statement values recorded in the Tiscali Group's consolidated half-yearly financial statements at 30 June 2015 arising from transactions with related parties.

INCOME STATEMENT VALUES *(EUR 000)*	Notes	**1st half of 2015**	**1st half of 2014**
Studio Racugno	1	(36)	(36)
Monteverdi S.r.l.	2	(18)	
TOTAL SUPPLIERS OF MATERIALS AND SERVICES		**(54)**	**(36)**
TOTAL		**(54)**	**(36)**

BALANCE SHEET VALUES *(EUR 000)*	Notes	**30 June 2015**	**31 December 2014**
Studio Racugno	1	(48)	(8)
Monteverdi S.r.l.	2	-	-
TOTAL SUPPLIERS OF MATERIALS AND SERVICES		**(48)**	**(8)**
TOTAL		**(48)**	**(8)**

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

(2) *Monteverdi S.r.l: an investee of the majority shareholder Renato Soru. The transaction in question refers to a rental agreement for space used to store company documents.*

List of subsidiaries included in the consolidation area

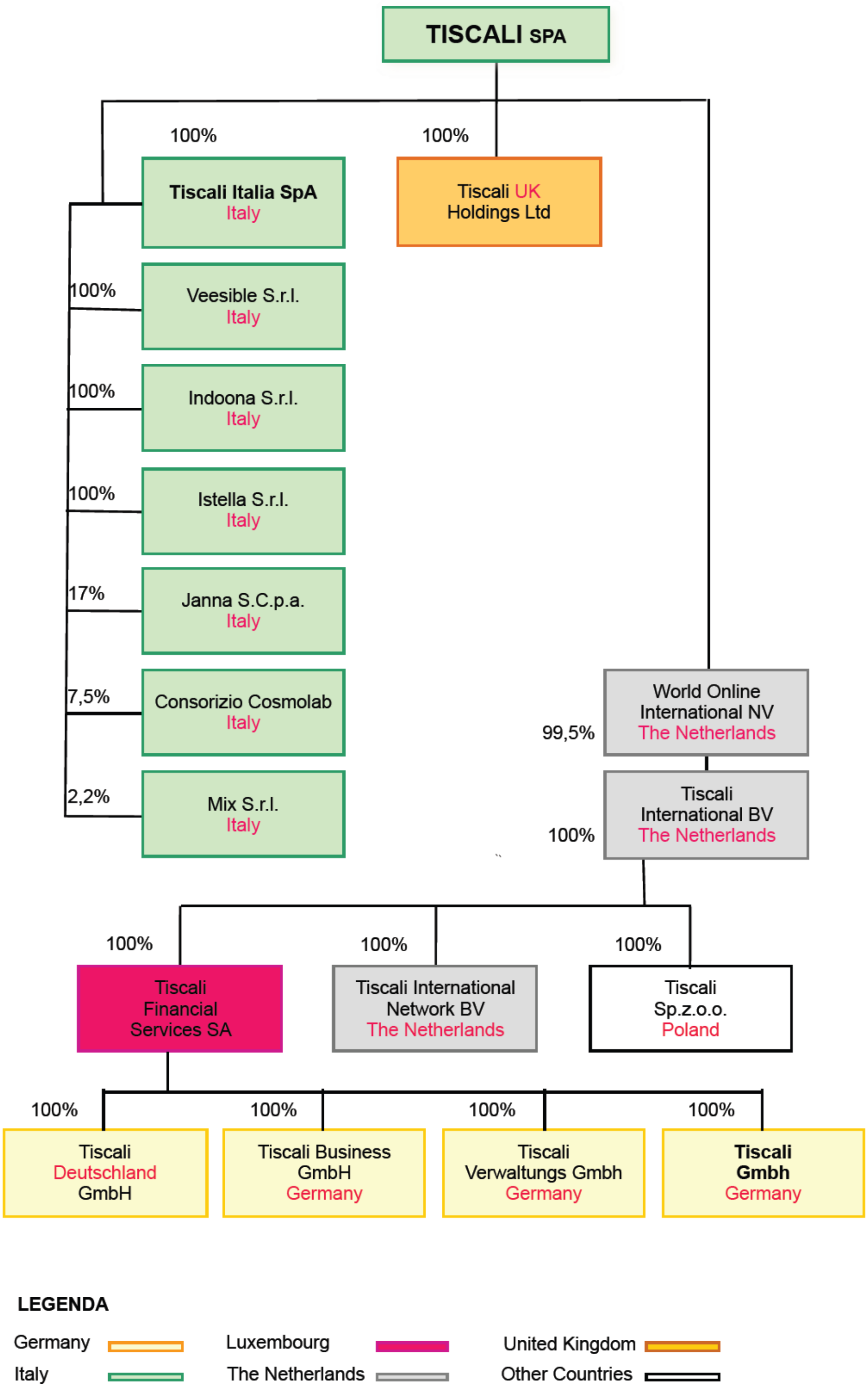
A list of the subsidiary companies included within the consolidation area is presented below:

Company name	Registered Offices	% investment
Tiscali S.p.A.	Italy	
Tiscali Italia S.p.A.	Italy	100.0%
Veesible S.r.l.	Italy	100.0%
Indoona S.r.l.	Italy	100.0%
Istella S.r.l.	Italy	100.0%
Tiscali Holdings UK Ltd	UK	100.0%
World Online International NV	The Netherlands	99.50%
Tiscali International BV	The Netherlands	99.50%
Tiscali Financial Services SA	Luxemburg	99.50%
Tiscali Deutschland GmbH	Germany	99.50%
Tiscali GmbH	Germany	99.50%
Tiscali Verwaltungs GmbH	Germany	99.50%
Tiscali Business GmbH	Germany	99.50%
Tiscali International Network B.V.	The Netherlands	99.50%

List of equity investments in other companies carried at cost:

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

Group at 30 June 2015



Non-recurrent significant transactions and events

Pursuant to Consob Resolution No. 15519 dated 27 July 2006, it should be noted that one-off transactions were recorded in the half with a total positive effect of EUR 13.8 million on the Group's income statement, which mainly include the effects of the settlement agreement concluded by the company in the period and the write-offs of commercial positions.
The following table indicates the amounts relating to one-off transactions reported in the consolidated income statement.

One-off transactions	**1st half of 2015**
Revenues	-
Other income	13.0
Purchase of materials and outsourced services	(1.5)
Payroll and related costs	-
Other operating costs / (income)	(4.4)
Adjusted Gross Operating Result (EBITDA)	**18.9**
Write-downs of receivables from customers	5.1
Gross Operating Result (EBITDA)	**13.8**

Positions and transactions deriving from atypical and/or unusual operations

There were no positions or transactions deriving from atypical and/or unusual operations in the first half of 2015.

Significant events after the half year end

As regards events after the close of the half, please refer to the relevant section of the report on operations.

On behalf of the Board of Directors

Chairman and Chief Executive Officer:

Renato Soru

5.9 Certification of the consolidated financial report as at 30 June 2015 pursuant to Article 154 bis of Italian Legislative Decree No. 58/98

The undersigned, Renato Soru in his capacity as Chief Executive Officer, and Pasquale Lionetti, in his capacity as Executive appointed to draw up the corporate accounting documents of Tiscali S.p.A., hereby certify, also taking into account the provisions of Article 154 bis (3 and 4), of Italian Legislative Decree No. 58 dated 24 February 1998:

- the adequacy in relation to the Company's characteristics and
- the effective application

of the administrative and accounting procedures for the formation of the condensed consolidated half-yearly financial statements for the period ended 30 June 2015.

It is also hereby certified that the condensed consolidated half-yearly financial statements for the period ended 30 June 2015:

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

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

Cagliari, 25 August 2015

The Chief Executive Officer	**The Executive responsible for preparing the corporate accounting documents**
Renato Soru	Pasquale Lionetti

6 Independent auditors' report

Tiscali S.p.A.

Condensed half-year consolidated financial statements as at 30 June 2015

Limited audit report on the condensed half-year consolidated financial statements

Limited audit report on the condensed half-year consolidated financial statements

To the shareholders of
Tiscali S.p.A.

Introduction

We have carried out a limited audit on the condensed half-year consolidated financial statements, comprising the income statement, statement of comprehensive income, balance sheet, the cash flow statement, the statement of changes in shareholders' equity and the related explanatory notes, of Tiscali S.p.A. and its subsidiaries ("Tiscali Group") as of and for the year ended 30 June 2015. The Directors are responsible for drafting the condensed half-year consolidated financial statements in compliance with the international accounting standard for Interim Financial Reporting (IAS 34) adopted by the European Union. It is our responsibility to express a judgment on the condensed half-year consolidated financial statements based on our limited audit.

Scope of the limited audit

Our audit was conducted in accordance with the limited audit criteria recommended by Consob by means of Resolution no. 10867 of 31 July 1997. The limited audit of the condensed half-year consolidated financial statements consists of conducting meetings, primarily with the company personnel responsible for financial and accounting matters, financial statement analysis and other limited audit procedures. The scope of the limited audit is substantially narrower than that of the full audit conducted in compliance with international audit standards (ISA Italia) and, consequently, we are unsure as to whether we have knowledge of all of the significant facts which could be identified by carrying out a full audit. Therefore, we do not express a judgment on the condensed half-year consolidated financial statements.

Conclusions

Based on the limited audit performed, no elements came to our attention that lead us to believe that the condensed half-year consolidated financial statements of the Tiscali Group as at 30 June 2015 were not drafted, as regards all their significant aspects, in compliance with the international accounting standard for Interim Financial Reporting (IAS 34) adopted by the European Union.

Disclosure

Although we did not express a judgment with observations, the following aspects described by the Directors in the report on operations and in the explanatory notes should be pointed out, and the associated assessments of the same, with reference to: (a) events in the period and to the persistence of major uncertainties which may give rise to significant doubts over the Group's ability to continue to operate as a going concern, linked to the situation of equity, financial and economic imbalance the Group find itself in, in the presence of considerable gross financial debt, subject to covenants and other contractual obligations, and (b) to legal disputes.

a. As indicated in the section "Assessment of the business as a going-concern and business outlook", the Tiscali Group closed the half with a consolidated loss of EUR 2.0 million (which includes positive non-recurring components of EUR 13.8 million) and a consolidated equity deficit of EUR 170.7 million; furthermore, at 30 June 2015, the Tiscali Group had a gross financial debt of EUR 203.2 million and current liabilities greater than current assets (non-financial) for EUR 117.2 million.

   In this context, in the first few months of 2013, the Tiscali Group launched a negotiation process aimed at restructuring the senior financial debt on a consensual basis in accordance with the Group Facilities Agreement ("GFA") entered into on 2 July 2009, for the purpose of ensuring an equity and financial structure capable of permitting, over the long-term, the achievement of a balanced economic, equity and financial situation. Following this process, on 23 December 2014, the Group entered into a financial debt restructuring agreement with the Senior Financiers pursuant to the GFA (Restructuring Agreements").

In addition, on 24 December 2014, the Group established an agreement with Société Générale relating to the subscription by the latter of a share capital increase against payment and, in execution of this agreement, on 16 February 2015, in exercising the power assigned to it by the Tiscali shareholders' meeting, the Board of Directors approved the share capital increase.

At the same time, in the first few months of 2015, the company started negotiations with the Aria Group, an Italian provider that offers broadband services in wireless mode, holder of a licence granted by the Ministry of Communications for 3.5 Ghz frequencies used to supply services in Wimax and LTE mode, targeted at a business combination between the two groups (the "transaction").

In March 2015, the parties signed a non-binding memorandum of understanding governing the main conditions of the Transaction.

In order to reconcile the terms of the Transaction with the requirements deriving from the Restructuring Agreements signed on 23 December 2014, and in particular, with the need to repay the portion of debt falling due on 30 November 2015, amounting to around EUR 42.4 million ("Facility A1"), taking into account the significant business profiles of the combination and its potential positive long-term effects, and the willingness shown by a financial investor to invest in the Transaction by contributing financial resources to be used to repay the above-mentioned Facility A1, the company preferred to pursue said solution in place of the share capital increase resolved by the Board of Directors on 16 February 2015.

The Transaction was concluded with the signing of a merger agreement on 16 July 2015.

This agreement requires the Transaction to be carried out through the merger by incorporation in Tiscali S.p.A of a newco, Aria Italia S.p.A., whose balance sheet assets will be composed of: i) an equity investment representing the entire share capital of Aria S.p.A., a company that, at the effective date of the merger, will have bank debt amounting to around EUR 5 million and a subordinated mandatory convertible loan of EUR 15 million that Tiscali S.p.A. will have the right to repay at maturity - 31 March 2018 - with newly issued Tiscali shares; ii) cash and cash equivalents of around EUR 42.4 million which will be contributed to the subscription of a share capital increase, for the same amount, which will be resolved by said Aria Italia S.p.A. by 31 August 2015, by the investment fund Otkritie Disciplined Equity Fund ("ODEF"), forming part of the Russian financial group Otkritie Holding, a financial partner in the transaction.

The Directors expect the merger to take effect by the end of November 2015, subject to the satisfaction of certain conditions precedent described by the directors themselves.

The Directors also highlight that, on 28 April 2015, the subsidiary Tiscali Italia S.p.A. ("Tiscali Italia") received confirmation of the definitive award of the "SPC2" tender called by Consip S.p.A. for the supply of connectivity services in favour of the Public Administration Authorities ("Consip Tender"). The Directors point out that appeals were submitted to the Regional Administrative Court by some participants in the tender as a result of which, at the hearing on 1 July 2015, said Court decided to put back a decision on the merits of the case to 13 January 2016.

Lastly, on 25 August 2015, taking into account the developments in 2015, the company updated the 2015-2018 Business Plan approved on 19 March 2015 ("Stand-Alone Plan"). On the same date, the company also presented the Board of Directors with a "combined plan", drawn up from the stand-alone plans of the companies subject to the business combination, taking account of the expected effects of the combination itself. The Combined Plan acknowledges: (i) the assumption of the integration of assets, networks and the technologies of the Tiscali Group and of the Aria Group, which is expected to permit considerable commercial development on the ultra-broadband market, (ii) the synergies outlined by the Directors, (iii) the availability of EUR 42.4 million to be allocated to the repayment of Facility A1, as well as (iv) the capacity to refinance the final instalment of the debt falling due in 2017 pursuant to the Restructuring Agreements. The Directors, based on the market analysis on corporate bond issues in the TLC sector, believe that this prospective debt can be refinanced in relation to the level of net debt / EBITDA envisaged for 2017.

In the scenario described above, the Directors highlight the persistence of major uncertainties which could lead to significant doubts over the Tiscali Group's ability to continue operating on the basis of the going-concern assumption, attributable: (i) to the satisfaction of the conditions precedent set out in the merger agreement, still not satisfied as of today, by the deadline of 30 November 2015, so that the business combination of the Aria and Tiscali Groups can take place which will allow the obtainment of the expected results and synergies; (ii) to the repayment of Facility A1 using the financial resources made available as part of the Transaction; (iii) to the achievement of the objectives of the Combined Plan, with particular reference to the evolution of the TLC market and the fulfilment of the growth objectives established in a market context characterised by heavy competitive pressure; (iv) to the stipulation of the contract relating to the Consip Tender and the subsequent implementation of the services set forth in said tender; (v) to the actual capacity to refinance the loan instalment falling due in September 2017, pursuant to the Restructuring Agreements.

Lastly, the Directors point out that, in the event of the unsuccessful outcome of the Transaction, the company does not expect to have the financial resources needed to repay Facility A1, given that the share capital increase subscribed by ODEF is subject to the outcome of the aforementioned merger.

In light of the above, the Directors, in the belief that the Transaction may be concluded positively, taking into account the provisions of the Restructuring Agreements and confident in the ability to be able to implement the requirements of the Combined Plan, despite the presence of major uncertainties related to the realisation of the presumed synergies and the achievement of the envisaged growth objectives, reasonably expect the Tiscali Group to have adequate resources to continue its activities in the foreseeable future and, consequently, deemed it appropriate to adopt the going-concern assumption in drafting the condensed half-year consolidated financial statements.

b. As indicated in the section "Disputes, contingent liabilities and commitments", in August 2013, the Directors signed a settlement agreement to conclude the disputes brought by certain associations and foundations representing the former minority shareholders of the Dutch subsidiary World Online International NV ("WOL"). The Settlement Agreement does not include the compensation claims, amounting to a total of EUR 111 million, from the Stichting Van der Goen WOL Claims foundation, representing 28 shareholders or entitled parties that launched legal proceedings, served on 19 June 2014, vis-à-vis WOL and the financial institutions tasked with the listing of said WOL. At the hearing on 1 April, WOL presented its counter-claims. The next hearing is set for 5 November 2015. Also supported by the assessments of their legal advisors, the Directors believe that the risk of losing is not probable as things stand.

Milan, 28 August 2015

Reconta Ernst & Young S.p.A.

Alberto Coglia
(Partner)

7 Attachment - Glossary

Shared access	Technique for shared access to a local network in which a former monopoly operator rents part of its capacity to other operators: in that portion of the bandwidth the operator can provide Broadband services, whilst the former monopoly operator on the portion of the bandwidth not hired out, continues to provide telephony services.
ADSL	Acronym for Asymmetric Digital Subscriber Line, (the available bandwidth in reception is greater than that available for transmission) to enable internet access at high speed.
ADSL2+	An ADSL technology that extends the ADSL base capacity by doubling the download bit flow. The bandwidth can reach 24 Mbps in download and 1.5 Mbps in upload and depends on the distance between the DSLAM and the customer's location.
Uncovered Areas	Also called "indirect access areas" to identify the geographic areas which are not directly served by the network owned by Tiscali (see also Bitstream and Wholesale).
ARPU	Average returns for fixed and mobile telephony for the user calculated over a given period for an average number of active (for other operators) or Tiscali Group customers in the same period.
Bitstream	Bitstream (or digital flow) services: service consisting of the supply by an operator of access to the fixed public telephone network of the transmission capacity between an end user workstation and the point of presence of an operator or an ISP that wants to provide broadband services to the end user.
Broadband	Data transmission system in which lots of data is sent simultaneously to increase the actual speed of transmission with a data flow equal to or greater than 1.5 Mbps.
Broadcast	Simultaneous transmission of information to all nodes on a network.
Unique browsers	Number of different browsers that, in a specific time span, can visit a site one or more times.
Access fee	This is the amount debited by national operators for each minute of use of their network by the operators of other networks. This is also called the "interconnection fee".
Capex	Acronym for Capital Expenditure. Identifies the outgoing cash flows generated by the investments in an operating structure.
Carrier	Company that physically makes a telecommunications network available.

Co-location	Dedicated spaces in the machine rooms of an incumbent operator for the installation by Tiscali of its own network devices.
CPS	Acronym for Carrier Pre Selection, a system for preselecting an operator: this enables an operator/supplier of local services to automatically route calls on the network of the carrier selected by a client who no longer has to enter special selection codes.
CS	Acronym for Carrier Selection, a system for selecting an operator: enables a client to select, by entering a special code, a long distance national or international operator other than that with whom he/she has a network access subscription.
Business customers	SoHos, small medium and large businesses.
Consumer customers	Customers who subscribe to an offer intended for households.
Dial Up	Narrowband internet connection by means of a normal telephone call, usually charged on a time basis.
Digital	This is the way of representing a physical variable in a language that uses only the figures 0 and 1. The figures are transmitted in binary code as a series of impulses. Digital networks, which are rapidly replacing the old analogue networks, allow greater capacities and greater flexibility by using computerised technologies for the transmission and handling of calls. Digital systems offer less noise interference and can include encryption as protection from outside interference.
Double Play	Combined offer of access to the Internet and fixed telephony.
DSL Network	Acronym for Digital Subscriber Line Network, which is a network built from existing telephone lines using DSL technology instruments that, by using sophisticated modulation mechanisms, enable data packets to be sent along copper wires and thus the linking of a telephone handset to a modem at a home or in an office.
DSLAM	Acronym for Digital Subscriber Line Access Multiplexer, a device used in DLS technologies, to multiply the transmission of data at high capacities on telephone wires, where a multiplexer means a device that enables the transmission of information (voice, data, videos) in flows by means of direct and continuous connections between two different points on a network.

Fibre Optic	Thin fibres of glass, silicon or plastic that form the basis of a data transmission infrastructure. A fibre optic cable contains various individual fibres, each capable of carrying a signal (light impulses) over a virtually limitless band length. They are usually used for long distance transmissions, for the transmission of "heavy data" so that the signal arrives protected from interference which it might encounter along its own path. A fibre optic cable's carrying capacity is considerably greater than that of traditional cables and copper wire twisted pairs.
GigaEthernet	Term uses to describe the various technologies that implement the nominal speed of an Ethernet network (the standard protocol for cards and cables for high speed connections between a computer and a local network) of up to 1 gigabit per second.
Home Network	Local network made up from various kinds of terminals, devices, systems and user networks, with related applications and services including all the apparatus installed at user premises.
Hosting	Service that consists of allocating on a web server the pages of a website, thus making it accessible from the internet network.
Incumbent	Former monopoly operator active in the telecommunications field.
IP	Acronym for Internet Protocol, a protocol for interconnecting networks (Inter-Networking Protocol), created for interconnecting ungrouped networks by technology, services and handling.
IPTV	Acronym for Internet Protocol Television, a technology suited for using the IP transport technology to carry television content in digital form, using internet connections.
IRU	Acronym for Indefeasible Right of Use, long-term agreements that guarantee the beneficiary the option of using the grantor's fibre optic network for a long period.
ISDN	Acronym for Integrated Service Digital Network, a telecommunications protocol in Narrowband able to carry in an integrated form various kinds of information (voice, data, texts, and images) coded in digital form on the same transmission line.
Internet Service Provider or ISP	Company that provides Internet access to single users or organisations.
Leased lines	Lines whose transmission capacity is made available through leasing contracts for the transmission capacity.

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

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

Syndication	The sale of radio and TV transmissions wholesale by a media company that owns the rights and usually the delivery platform also.
SoHo	Acronym for Small office Home office, for small offices, mostly professional offices or small firms.
SHDSL	Acronym for Single-pair High-speed Digital Subscriber Line. SHDSL is a technology for telecommunications of the xDSL family and is made by using direct LLU interconnections and enables high speed connections to be made in a balanced way in both directions (transmission and reception).
Single Play	Service including only broadband data access, not combined with other multiplay components such as voice and IPTV services. Broadband access may be provided through LLU platforms, Wholesale or Bitstream.
Single Play voice	Service including only voice access, not combined with other multiplay components such as broadband and IPTV access. Voice service can also be provided by VoIP and CPS procedures.
SMPF	Acronym for Shared Metallic Path Facilities which is synonymous with Shared Access (ungrouped access).
Triple Play	A combined offering of fixed and/or mobile telephony, Internet and/or TV made by a single operator.
Local loop unbundling or LLU	Unbundled access to a local network, in other words, the possibility that telephone operators have had, since the telecommunications market was deregulated, to use existing physical infrastructures built by another operator to offer its own services to customers, paying a rental to the operator that is the actual owner of the infrastructure.
VAS	Acronym for Value-Added Services; services with added value provide a greater level of functionality compared with the basic transmission services offered on a telecommunications network for the transfer of information between terminals. These include switched analogue voice communications via cable or wireless, a direct digital point to point network “unrestricted” at 9,600 bits/s; packet switching (called virtual) service; analogue and direct broadband transmission of TV signals and extra services, such as closed user groups; call waiting; reverse charging; call announcement and identification of the number called. The value added services provided over a network, from terminals or specialist centres include exchange services, messaging (MHS) (which can also be used for commercial documents in accordance with a predetermined format); electronic user directories, network and terminal addresses; e-mail; fax, teletext, videotext and videophone. Value added services may also include voice telephony value added services such as free numbers or paid telephone services.

VISP Acronym for Virtual Internet Service provision (sometimes also called Wholesale ISP). This is selling of Internet services purchased wholesale from an Internet Service Provider (ISP) that has the network infrastructure.

VoD Acronym for Video On Demand. It is the supply of television programs on request by a user for payment of a subscription or of a sum for each programme (a film, or a football match) purchased. Broadcast in a special way by satellite TV and for cable TV.

VoIP Acronym for Voice over internet Protocol, a digital technology that enables the transmission of voice packets through Internet, Intranet, Extranet and VPN networks. The packets are carried according to H.323 specifications, which are the ITU (International Telecommunications Union) standard that forms the basis for data, audio, video and communications on IP networks.

VPN Acronym for Virtual Private Network, which can be realised on Internet or Intranet. Data between workstations and the server of the private network is sent along common public Internet networks, but using protection technologies against any interception by unauthorised persons.

Virtual local loop unbundling or VLLU Procedure for accessing a local analogue network by which, even in the absence of physical infrastructures, the conditions and terms of access under LLU terms are replicated. This is a temporary access system that is usually replaced by LLU.

xDSL Acronym for Digital Subscriber Lines, a technology that, by means of a modem, uses the normal telephone twisted pair and transforms the traditional telephone line into a high speed digital connection for the transfer of data. ADSL, ADSL 2, and SHDSL etc. belong to this family of technologies.

WI-FI Service for connection to the internet at high speed wirelessly.

Wi-Max Acronym for Worldwide Interoperability for Microwave Access: it is a technology that enables wireless access to broadband telecommunications networks. It has been defined by the WiMAX forum, a worldwide consortium made up of the largest companies in the fixed and mobile telecommunications field that has the purpose of developing, promoting and testing the interoperability of systems based on IEEE standard 802.16-2004 for fixed access and IEEE.802.16e-2005 for fixed and mobile access.

Wholesale Services that consist of the sale of access services to third parties.

WLR Acronym for Wholesale Line Rental, selling on by an operator of the telecommunications service for lines affiliated with an Incumbent.