

Tiscali S.p.A.

Financial Statements as at 31 December 2015

Independent Auditors' Report

pursuant to Articles 14 and 16 of Legislative Decree no. 39 of 27 January 2010

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

To the Shareholders of
Tiscali S.p.A.

Report on the financial statements

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

Responsibility of the Directors for the financial statements

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

Responsibility of the auditing company

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

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

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

Opinion

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

Emphasis of matters

Although without expressing a qualified opinion, what is described by the directors in the management report and in the explanatory notes, and related assessments of the same is noted, with reference to the events of the period, those at year-end

and important remaining uncertainties that may cast significant doubts on the ability of the Company, and of the group it belongs to, to continue operating as a going concern, related to the situation of equity, financial and economic imbalance prevailing in the group, in the presence of a significant gross financial debt, subject to *covenants* and other contractual obligations.

As noted in paragraph "*Significant events after year-end, business outlook and evaluations regarding business continuity*" Tiscali S.p.A closed its financial statements with a loss of Euro 36.2 million and a net equity equal to Euro 91.2 million, findings itself under the conditions that apply to Article 2446 of the Italian Civil Code, in relation to which the directors propose to proceed without delay to convene the meeting of shareholders for the appropriate measures.

Tiscali S.p.A is the parent company of a group (the "Group" or the "Tiscali Group") which closed the year with a consolidated loss of EUR 18.5 million (which includes non-recurring positive items for 6.9 million Euro) and a consolidated balance deficit of 121.4 million Euro; furthermore, on 31 December 2015, the Tiscali Group reports gross financial debt of 177.9 million Euro and higher-current liabilities to current (non-financial) assets for 162.5 million Euro.

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

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

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

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

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

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

In view of the expected full repayment of the debt in accordance with the Restructuring Agreements, the commitments made by the Group pursuant to said Restructuring Agreements as supplemented and amended by the *Consent and Amendment Letter* of 26 November 2015, would lapse.

Given the *Refinancing* transaction in place, the lenders of the Facility A2 pursuant to the Restructuring Agreements, dated 22 March 2016, confirmed their willingness to postpone by one month the scheduled instalment for only the principal due, to 31 March 2016, while a similar formal request was made to the lender of the Facility B pursuant to the Restructuring Agreements, by which the *Refinancing* transaction referenced above is in an advanced stage.

As part of the *Refinancing* transactions, several meetings have already been held between the management of the Company and the technical and commercial structures of the aforementioned Lending Institutions and a part of the preparatory

activities for the transaction has already been completed. In particular, a so-called *Independent Business Review*, drafted by a primary business *advisor*, has been actually completed and handed, in conjunction with the business and financial plan, to the Lending Institutions. The Company has also appointed an external consultant to conduct a feasibility study of the 2016-2021 plan, activities that today is at an advanced stage of development and which the trader has released on 24 March 2016 *comfort letter* the certifying company that actuality there were no problems that might create obstacles to the issuance of a positive opinion on the 2016-2021 Plan being analysed.

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

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

The directors, in analysing what has been achieved under the path aimed at allowing the Group to achieve a balanced equity, financial and economic situation in the long-term, recognize that at the current date and in the presence of intrinsic critical issues in the 2016-2021 Plan - despite the Group debt reduction that took place in FY 2015 - uncertainties remain related to events or conditions that may cast significant doubt on the ability of the Company and the Group to continue to operate under the assumption of a going concern; however, after performing the necessary audits and assessing the uncertainties identified in view of the elements described, confident in the capacity of being able to implement the provisions in the 2016-2021 Plan, in particular with regard to the conclusion of the senior debt *Refinancing*, the directors have a reasonable expectation that a financial structure of the Group may be achieved, in line with the expected cash flows and that the Company and the Group have adequate resources, even in the event of a favourable outcome of the Regional Administrative Court sentence on the Consip Tender award, to continue operations in the foreseeable future and have therefore adopted the going concern basis in preparing the financial statements.

Lastly, the directors who, precisely because they are aware of the inherent limitations of their determination, will maintain a constant monitoring of the evolution of the factors taken into account, so they can promptly take the necessary steps, in terms of recourse under the procedures provided for by law for corporate crises situations.

Report on other legal and regulatory provisions

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

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

Milan, 6 April 2016

Reconta Ernst & Young S.p.A

Alberto Cogia
(Shareholder)