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Registered number: 03907276

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**TISCALI UK HOLDINGS LIMITED**

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**DIRECTOR'S REPORT AND FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2015**



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**TISCALI UK HOLDINGS LIMITED**

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**COMPANY INFORMATION**

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<b>DIRECTOR</b>	Pasquale Lionetti
<b>COMPANY SECRETARY</b>	Smith & Williamson LLP
<b>REGISTERED NUMBER</b>	03907276
<b>REGISTERED OFFICE</b>	25 Moorgate London EC2R 6AY
<b>INDEPENDENT AUDITOR</b>	Nexia Smith & Williamson Chartered Accountants & Registered Auditors 25 Moorgate London EC2R 6AY
<b>ACCOUNTANTS</b>	Smith & Williamson LLP 25 Moorgate London EC2R 6AY
<b>BANKERS</b>	Intesa Sanpaolo Bank 90 Queen Street London EC4N 1SA

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**TISCALI UK HOLDINGS LIMITED**

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## TISCALI UK HOLDINGS LIMITED

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### DIRECTOR'S REPORT FOR THE YEAR ENDED 31 DECEMBER 2015

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The director presents his report and the financial statements for the year ended 31 December 2015.

#### PRINCIPAL ACTIVITY

Tiscali UK Holdings primary activity is the holding of debt for the Tiscali Group.

#### BUSINESS REVIEW

##### *Events connected with the debt restructuring activities*

During the year 2015, the Tiscali Group has worked on the implementation of a business combination (the "Operation") with the group headed by Aria S.p.A. (The "Aria Group"). The operation, outlined in the agreement signed between Tiscali, Aria Telecom Holdings B.V. ("ATH") and Otkritie Disciplined Equity Fund SPC ("ODEF") in July 2015 (the "Merger Agreement"), was completed on 24 December 2015.

##### *Indebtness pursuant the Restructuring Agreement (GFA)*

- 30 January 2015 - Authorisation granted by Tiscali's Shareholders' Meeting to the Board of Directors for the Share Capital Increase

On 30 January 2015, in execution of the Restructuring Agreements signed on 23 December 2014 and of the SEF Agreement entered into with Société Générale on 24 December 2014, the Extraordinary Shareholders' Meeting of Tiscali issued to the Board of Directors of the Company a proxy to increase the capital by means of share split, via the issue of a maximum of 1,000,000,000 ordinary shares of the Company, reserved for subscription to Société Générale. This transaction was structured to allow Tiscali to collect the cash required in order to repay the Facility A1 pursuant to the Restructuring Agreement, expiring at the end of November 2015.

- 16 February 2015 - Approval of the Share Capital Increase by Tiscali's Board of Directors

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

However, it should be noted that in view of the fact that the repayment of the Facility A1 pursuant to the Restructuring Agreements was made through cash provided by ODEF as part of the Merger, the Company has not exercised the right to implement the capital increase approved on February 16, 2015 through the SEF instrument.

- March 31, 2015 and September 30, 2015 - Payment of interest and share capital pursuant to the Restructuring Agreements

On 31 March 2015, EUR 5 million of the debt was repaid pursuant to the Restructuring Agreements (hereinafter also referred to as "Senior Loan"), under the short-term financial liabilities, as well as the payment of interest on the capital for EUR 2.7 million. Moreover, on the same date, approximately EUR 0.2 million of belated interest was paid, in relation to the previous GFA loan agreement restructured on 23 December 2014.

On 30 September 2015, a further EUR 5 million of the Senior Loan was paid, under the short-term financial liabilities, as well as the payment of interest on the capital for EUR 5 million.

- 26 November 2015 - Consent and Amendment letter – reactivation of the SEF Agreement

On 26 November 2015, the Tiscali Group and the Senior Lenders have signed the Consent and Amendment letter, in which, further to give the consent to the merger operation, the Senior Lenders have defined few modifications to the terms and contractual conditions included in the restructuring agreement signed on 23 December 2014

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## **TISCALI UK HOLDINGS LIMITED**

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### **DIRECTOR'S REPORT FOR THE YEAR ENDED 31 DECEMBER 2015**

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In particular, the Senior Lenders have:

- released their consent to the Merger operation with the Aria Group, basing their consent on the analysis of a business plan prepared by the Management assuming the integration of activities of the two groups (so called Combined Plan)
- allowed the postponement of the repayment date of the Facility A1, originally scheduled for November 30, 2015, postponing to 29 December 2015 (in order to allow the Group to access the availability of the financial resources needed to repay, made available as part of the Merger by ODEF fund);
- allowed a redefinition of the financial covenants in order to take into account the forecasts included in the Combined Plan.

Furthermore, in the Consent and Amendment letter, for the companies of the Tiscali Group the following additional commitments that are part of the Restructuring Agreements were provided for; (a) prohibition on making available to Aria financial resources exceeding the limit of EUR 1.35 million for each financial year included in the period of validity of the Restructuring Agreements; (b) prohibition on engaging in commercial relations with Aria for an amount higher than EUR 5 million for each financial year; (c) obligation on ensuring that Aria does not make the early repayment of the Rigensis Loan prior to the full reimbursement of Facility A2 and Facility B.

In addition, pursuant to the Consent and Amendment Letter, Tiscali specifically committed to ensuring that the increase in capital under the SEF Agreement is carried out as per detailed procedures therein.

However it should be noted that these commitments are to be read according to the refinancing transaction called later and, if finalized, they would in fact fall.

- **24 December 2015– Repayment of Facility A1**

On December 24, 2015, as a result of the finalization of the Merger, thanks to the financial resources made available by the Operation financial partner, the ODEF fund, the Tiscali Group has fully repaid the Facility A1 pursuant to the Restructuring Agreements, amounting to EUR 42.4 million; EUR 0.75 million were also paid as interest.

With reference to the residual debt pursuant to the Restructuring Agreements (nominal debt amounting to EUR 84.2 million at December 31, 2015, inclusive of nominal interest accrued up to that date and amounting to EUR 1.6 million), as a result of the finalization of the Merger, in the early months of 2016, the Tiscali Group has launched an intense negotiation activity aimed at refinancing the entire amount. Please refer to what reported about in the section "4.7 Significant events after year-end, business outlook and evaluations regarding the business continuity" with reference to the current status of the senior debt rescheduling.

### **RESULTS AND DIVIDENDS**

The loss for the year, after taxation, amounted to €13,874,000 (2014 - loss €12,755,000).

### **DIRECTOR**

The director who served during the year was:

Pasquale Lionetti

### **DISCLOSURE OF INFORMATION TO AUDITOR**

The director at the time when this Director's Report is approved has confirmed that:

- so far as he is aware, there is no relevant audit information of which the Company's auditor is unaware, and

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**TISCALI UK HOLDINGS LIMITED**

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**DIRECTOR'S REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2015**

- he has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

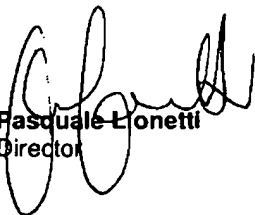
**POST BALANCE SHEET EVENTS**

There have been no significant events affecting the Company since the year end.

**AUDITORS**

The auditor, Nexia Smith & Williamson, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the board on *September 20<sup>th</sup>, 2016* and signed on its behalf.

  
**Pasquale Lionetti**  
Director

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**TISCALI UK HOLDINGS LIMITED**

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**DIRECTOR'S RESPONSIBILITIES STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2015**

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The director is responsible for preparing the Director's Report and the financial statements in accordance with applicable law and regulations.

Company law requires the director to prepare financial statements for each financial year. Under that law the director has elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. Under Company law the director must not approve the financial statements unless satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the director is required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The director is responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable him to ensure that the financial statements comply with the Companies Act 2006. He is also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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## **TISCALI UK HOLDINGS LIMITED**

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### **INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF TISCALI UK HOLDINGS LIMITED**

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We have audited the financial statements of Tiscali UK Holdings Limited for the year ended 31 December 2015, which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, and the related notes 1 to 15. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an Auditor's Report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

#### **RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR**

As explained more fully in the Director's Responsibilities Statement, the director is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's Ethical Standards for Auditors.

#### **SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS**

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate).

#### **OPINION ON FINANCIAL STATEMENTS**

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2015 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

#### **EMPHASIS OF MATTER**

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosures made in note 1.3 to the accounts concerning the ability of the company to continue as a going concern. The company incurred a loss of €13.874 million during the year ended 31 December 2015 and at that date, had net liabilities of €331.636 million.

The continuing ability of the company to meet its financial obligations is dependent on its parent, Tiscali S.p.A., being able to fund the repayment or secure the renegotiation of the company's liabilities as they fall due, and continuing to be a going concern. The Tiscali Group has reported losses for the past six years and has negative shareholders' equity and net current liabilities as at 31 December 2015. The ability of Tiscali S.p.A. to continue as a going concern and to support Tiscali UK Holdings Limited is dependent on Tiscali S.p.A.'s ability to achieve the results set out in its business plan as explained in note 1.3.

These conditions, along with other matters explained in note 1.3 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company was unable to continue as a going concern.



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**TISCALI UK HOLDINGS LIMITED**

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**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF TISCALI UK HOLDINGS LIMITED**

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**OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006**

In our opinion the information given in the Director's Report for the financial year for which the financial statements are prepared is consistent with the financial statements and the directors' report has been prepared in accordance with applicable legal requirements.

**MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of director's remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the director was not entitled to take advantage of the small companies' exemption from the requirement to prepare a Strategic Report.



Stephen Drew (Senior Statutory Auditor)

for and on behalf of  
**Nexia Smith & Williamson**

Chartered Accountants  
Registered Auditors

25 Moorgate  
London

EC2R 6AY

Date: 26 September 2016.

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**TISCALI UK HOLDINGS LIMITED**

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**STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2015**

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	<b>Note</b>	<b>2015 €000</b>	<b>2014 €000</b>
Administrative expenses		<b>(196)</b>	<b>(95)</b>
<b>Operating loss</b>		<b>(196)</b>	<b>(95)</b>
Interest payable and expenses	<b>4</b>	<b>(13,678)</b>	<b>(12,660)</b>
<b>Loss before tax</b>		<b>(13,874)</b>	<b>(12,755)</b>
<b>Loss for the year</b>		<b>(13,874)</b>	<b>(12,755)</b>
<b>Other comprehensive income for the year</b>			
<b>Total comprehensive income for the year</b>		<b>(13,874)</b>	<b>(12,755)</b>

There were no recognised gains and losses for 2015 or 2014 other than those included in the income statement.  
The notes on pages 11 to 26 form part of these financial statements.

**TISCALI UK HOLDINGS LIMITED**  
**REGISTERED NUMBER:03907276**


**STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2015**

	Note	2015 €000	2014 €000
Current assets	34	34	
Creditors: amounts falling due within one year	8	(258,136)	(53,696)
<b>Net current liabilities</b>		<b>(258,102)</b>	<b>(53,662)</b>
<b>Total assets less current liabilities</b>		<b>(258,102)</b>	<b>(53,662)</b>
Creditors: amounts falling due after more than one year	9	(73,534)	(264,100)
<b>Net liabilities</b>		<b>(331,636)</b>	<b>(317,762)</b>
<b>Capital and reserves</b>		<b>(331,636)</b>	<b>(317,762)</b>

The Company's financial statements have been delivered in accordance with the provisions applicable to companies subject to the small companies regime.

The financial statements were approved and authorised for issue by the board and were signed on its behalf on

*September, 20<sup>th</sup> 2016*

  
**Pasquale Lionetti**  
 Director

The notes on pages 11 to 26 form part of these financial statements.

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**TISCALI UK HOLDINGS LIMITED**

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**STATEMENT OF CHANGES IN EQUITY  
AS AT 31 DECEMBER 2015**

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	<b>Share capital</b>	<b>Other reserves</b>	<b>Retained earnings</b>	<b>Total equity</b>
	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>
At 1 January 2015	59	572,926	(890,747)	(317,762)
<b>Comprehensive income for the year</b>				
Loss for the year	-	-	(13,874)	(13,874)
<b>Other comprehensive income for the year</b>	-	-	-	-
<b>Total comprehensive income for the year</b>	-	-	(13,874)	(13,874)
<b>At 31 December 2015</b>	<b>59</b>	<b>572,926</b>	<b>(904,621)</b>	<b>(331,636)</b>

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**TISCALI UK HOLDINGS LIMITED**

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**STATEMENT OF CHANGES IN EQUITY  
AS AT 31 DECEMBER 2014**

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	Share capital €000	Other reserves €000	Retained earnings €000	Total equity €000
At 1 January 2014	59	572,926	(877,992)	(305,007)
<b>Comprehensive income for the year</b>				
Loss for the year	-	-	(12,755)	(12,755)
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Other comprehensive income for the year</b>	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Total comprehensive income for the year</b>	-	-	(12,755)	(12,755)
	<hr/>	<hr/>	<hr/>	<hr/>
<b>At 31 December 2014</b>	<b>59</b>	<b>572,926</b>	<b>(890,747)</b>	<b>(317,762)</b>

The notes on pages 11 to 26 form part of these financial statements.

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## **TISCALI UK HOLDINGS LIMITED**

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### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015**

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#### **1. ACCOUNTING POLICIES**

##### **1.1 Basis of preparation of financial statements**

Tiscali UK Holdings Limited is a private limited company, limited by shares, incorporated in England and Wales. The address of the registered office is 25 Moorgate, London, EC2R 6AY.

The financial statements have been prepared under the historical cost convention and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland and the Companies Act 2006.

Information on the impact of first-time adoption of FRS 102 is given in note 15.

The company's functional and presentational currency is Euros. All financial information has been rounded to the nearest thousand.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies (see note 2).

The following principal accounting policies have been applied:

##### **1.2 Financial reporting standard 102 - reduced disclosure exemptions**

The company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by the FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland":

- the requirements of Section 7 Statement of Cash Flows;
- the requirements of Section 3 Financial Statement Presentation paragraph 3.17(d);
- the requirements of Section 11 Financial Instruments paragraphs 11.39 to 11.48A;
- the requirements of Section 12 Other Financial Instruments paragraphs 12.26 to 12.29;
- the requirements of Section 33 Related Party Disclosures paragraph 33.7.

This information is included in the consolidated financial statements of Tiscali S.p.A. as at 31 December 2015 and these financial statements may be obtained from Tiscali S.p.A., Sa Illetta, S.S. 195 Km 2.3, 09122, Cagliari, Sardinia, Italy.

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## TISCALI UK HOLDINGS LIMITED

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

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#### 1. ACCOUNTING POLICIES (continued)

##### 1.3 Going concern

Given that Tiscali UK Holdings Limited ("the Company") does not have any sources of income, the director acknowledges that the continuing ability of this Company to meet its financial obligations and continue as a going concern is dependent on the support of the Company's parent Tiscali S.p.A.

Tiscali S.p.A. has confirmed that it will continue to provide financial support to the Company for at least 12 months from the date of authorisation of these financial statements. Tiscali S.p.A. reported in its group accounts for the year ended 31 December 2015 a consolidated loss of €18.5 million (2014: loss of €16.4 million), consolidated shareholders' equity of negative €121.4 million (2014: negative €168.8 million), a gross financial debt of €177.9 million (2014: €204.3 million) and current liabilities greater than current assets by €162.5 million (2014: €108.9 million).

During the year 2015, the Tiscali Group has worked on the implementation of a business combination (the "Operation") with the group headed by Aria S.p.A. (The "Aria Group"). The operation, outlined in the agreement signed between Tiscali, Aria Telecom Holdings B.V. ("ATH") and Otkritie Disciplined Equity Fund SPC ("ODEF") in July 2015 (the "Merger Agreement"), was completed on 24 December 2015.

The Operation, which has the strategic objective of achieving an industrial integration between the assets held by Tiscali and the assets held by Aria Group, allowed the Tiscali Group to reduce its financial indebtedness, through full repayment of the Facility A1 carried out in December 2015 thanks to the liquidity made available by the financial partner of Operation (EUR 42.4 million).

After the Merger;

- on February 16, 2016, the Ordinary and Extraordinary Shareholders' Meeting of Tiscali proceeded with the appointment of the members of the new Board of Directors, Board of Supervisory Auditors and its Chairman, as well as the Committees of the Board of Directors.

Riccardo Ruggiero, CEO of Aria prior to the merger effective date, has assumed the position of CEO, and Renato Soru has maintained the position of Executive Chairman;

- the new management of the Company has prepared a new business plan for the years 2016 -2021 (the "Plan 2016 -2021"), approved by the Board of Directors on March 25 2016, based on a new strategic vision of the combined entity, which provides:
  - the integration of a strategic asset as the frequency 3.5 GHz complements the portfolio of technology assets already held by the Tiscali Group (particularly in Fixed Network infrastructure Fiber Network at Transport Network and MAN level);
  - the expansion of the addressable market to areas that are not controlled by Tiscali, such as the Digital Divide;
  - the launch of UltraBroadband Fixed Wireless LTE services with capacity greater than 50Mbps;

The 2016-2021 Plan also provides:

- in relation to the Leasing Contract concerning the Sa Illetta building, headquarters of the Group, a repayment plan consistent with the one defined in the Amending Agreement signed on 2 October 2015, which states the payment of a leasing installment of EUR 3.5 million for 2016 and 2017 and EUR 9.1 million from 2018 to 2021;
- in relation to CONSIP tender, the prudential exclusion of the Contract execution which has not been signed yet, pending the final judgment by the TAR of Lazio. The Company believes, however,

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**TISCALI UK HOLDINGS LIMITED**

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015**

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**1. ACCOUNTING POLICIES (continued)**

that the activities to be performed under the contract with CONSIP remain an important opportunity and believes that the Group has adequate resources if even in case of confirmation of the award of the CONSIP tender, to ensure the business continuity;

- from the financial point of view the refinancing of the entire debt outstanding pursuant to the Restructuring Agreements, as described below.

With reference to the last point, in the early months of the year, Tiscali has appointed its business, financial and legal advisors in order to assist the company in defining a possible refinancing of the entire debt outstanding deriving from the Restructuring Agreements made in the month of December 2014 (the "Refinancing") which provides:

- the granting of a new loan from two primary Italian banks, for a total amount of EUR 88 million, which expires at the end of the sixth year following the signing of the related agreements;
- the definition of an amortization schedule that provides for the payment of monthly installments to repay the capital of EUR 4.3 million as of the first year following the signing of the relevant agreements, and an overall final installment of EUR 40.7 million to be paid in the year 2022.

The 2016-2021 Plan is to use this new funding to:

- fully repay the remaining amount of the debt pursuant to the Restructuring Agreements; as well as
- prepay a portion of EUR 5 million of the loan granted, for a total amount of EUR 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 assumed by the Group pursuant to the Restructuring Agreements as supplemented and modified by the Consent and Letter of Amendment as of 26 November 2015 would be discarded.

As part of the Refinancing, the Group also appointed an external consultant to carry out an analysis of feasibility of the Plan 2016-2021, activity which today is at an advanced stage of development and for which the consultant has issued on March 24, 2016 a comfort letter to the Board of the Company declaring that, at the state of his analysis, no critical issues are arisen that may create obstacles to the issuance of a positive opinion on the business plan of Tiscali analyzed.

Finally, on March 24, 2016, each of the banks sent Tiscali a comfort letter in order to communicate, inter alia, that they started the preliminary phase of the operations, that they have not found any critical issues in their investigation process and to confirm their commitment, subject to the success of such feasibility analysis to accelerate as much as possible the process in order to submit the matter to the competent bodies for the credit approval.

In light of the Refinancing in place of the Facility A2, the lenders under the Restructuring Agreements, dated March 22, 2016, have confirmed their willingness to put back a month to pay the scheduled installment, only for the principal amount, to March 31, 2016, while a similar formal request was made to the lender of the Facility B pursuant to the Restructuring agreements, with which it is in an advanced stage of the operation Refinancing above.

In conclusion, the directors, in analysing what has already been built as part of the path to enable the group to achieve long term financial and economic balance, recognize that up to date, and in the presence of intrinsic issues into the 2016-2021 Plan - despite the strong Group debt reduction that took place in the year 2015 - uncertainties remain related to events or circumstances that could give



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## TISCALI UK HOLDINGS LIMITED

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

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#### 1. ACCOUNTING POLICIES (continued)

rise to doubts on the Group's ability to continue to operate on the basis of the going concern assumption but after having implemented the necessary analysis and having taken into account the uncertainties identified in the view of the aforementioned elements, are confident in the ability of being able to implement the targets forecasted in the Plan 2016 - 2021, in particular with regard to the finalization of the senior debt refinancing, the Directors have a reasonable expectation that they can reach a group's financial structure consistent with the expected cash flows and that the Group has adequate resources even if in case of awarding the CONSIP tender, to continue in operational existence in a foreseeable future and have therefore adopted the going concern assumption in preparation of these financial statements.

Based on the above, the director of Tiscali UK Holdings has a reasonable expectation that it is appropriate to continue to adopt the going concern basis in preparing the financial statements of Tiscali UK Holdings Limited.

##### 1.4 Debtors

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

##### 1.5 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

##### 1.6 Financial instruments

The Company only enters into basic financial instruments transactions that result in the recognition of financial assets and liabilities like trade and other accounts receivable and payable, loans from banks and other third parties, loans to related parties and investments in non-puttable ordinary shares.

Debt instruments (other than those wholly repayable or receivable within one year), including loans and other accounts receivable and payable, are initially measured at present value of the future cash flows and subsequently at amortised cost using the effective interest method. Debt instruments that are payable or receivable within one year, typically trade payables or receivables, are measured, initially and subsequently, at the undiscounted amount of the cash or other consideration, expected to be paid or received. However if the arrangements of a short-term instrument constitute a financing transaction, like the payment of a trade debt deferred beyond normal business terms or financed at a rate of interest that is not a market rate or in case of an out-right short-term loan not at market rate, the financial asset or liability is measured, initially, at the present value of the future cash flow discounted at a market rate of interest for a similar debt instrument and subsequently at amortised cost.

##### 1.7 Creditors

Short term creditors are measured at the transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

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**TISCALI UK HOLDINGS LIMITED**

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015**

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**1. ACCOUNTING POLICIES (continued)**

**1.8 Foreign currency translation**

**Functional and presentation currency**

The company's functional and presentational currency is Euros. All financial information has been rounded to the nearest thousand.

**Transactions and balances**

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Income Statement except when deferred in other comprehensive income as qualifying cash flow hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the Statement of Comprehensive Income within 'administrative expenses'.

**1.9 Finance costs**

Finance costs are charged to the Statement of Comprehensive Income over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

**1.10 Borrowing costs**

All borrowing costs are recognised in the Statement of Comprehensive Income in the year in which they are incurred.

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## TISCALI UK HOLDINGS LIMITED

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

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#### 1. ACCOUNTING POLICIES (continued)

##### 1.11 Taxation

Tax is recognised in the Statement of Comprehensive Income, except that a change attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the Company operates and generates income.

Deferred balances are recognised in respect of all timing differences that have originated but not reversed by the Statement of Financial Position date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

##### 1.12 Interest receivable and payable

Interest receivable comprises interest income on funds invested in short term cash facilities that is recognised in the Statement of Comprehensive Income.

Interest payable comprises of interest expenses on borrowings from group companies and from banks and the unwinding of the discount on provisions. All borrowing costs are recognised in the Statement of Comprehensive Income using the effective interest rate method. The effective interest rate method is a method of calculating the amortised cost of a financial asset or liability and allocating interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial asset or liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

##### 1.13 Use of estimates

The preparation of financial statements in conformity with generally accepted accounting practice requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the notes.

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**TISCALI UK HOLDINGS LIMITED**

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015**

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**1. ACCOUNTING POLICIES (continued)**

**1.14 Share Capital**

Ordinary shares is classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

**2. JUDGEMENTS IN APPLYING ACCOUNTING POLICIES AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

*Financial instruments classification*

The classification of financial instruments as "basic" or "other" requires judgement as to whether all the applicable conditions for classification as basic are met. This includes consideration of the form of the instrument and its return.

*Market rate of interest*

The determination of a market rate of interest requires judgement in order to arrive at a rate that accurately reflects the position of the Company and the environment it operates in.

**3. OPERATING LOSS**

The operating loss is stated after charging:

	2015 €000	2014 €000
Fees payable to the Company's auditor and its associates for the audit of the company's annual accounts	13	14
Exchange differences	4	2
	<u>17</u>	<u>16</u>

During the year, no director received any emoluments (2014 - €NIL).

**4. INTEREST PAYABLE AND SIMILAR CHARGES**

	2015 €000	2014 €000
Bank interest payable	10,730	9,583
Loans from group undertakings	2,948	3,077
	<u>13,678</u>	<u>12,660</u>

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**TISCALI UK HOLDINGS LIMITED**

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015**

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**5. TAXATION**

	2015 €000	2014 €000
<b>Total current tax</b>	-	-
<b>Deferred tax</b>		
<b>Total deferred tax</b>	-	-
<b>Taxation on profit on ordinary activities</b>	-	-

**FACTORS AFFECTING TAX CHARGE FOR THE YEAR**

The tax assessed for the year is lower than (2014 - lower than) the standard rate of corporation tax in the UK of 20% (2014 - 24.06%). The differences are explained below:

	2015 €000	2014 €000
Loss on ordinary activities before tax	(13,874)	(12,755)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 20% (2014 - 24.06%)	(2,775)	(3,069)
<b>Effects of:</b>		
Other differences leading to an increase (decrease) in the tax charge	2,775	3,069
<b>Total tax charge for the year</b>	-	-

**6. DEBTORS**

	2015 €000	2014 €000
Prepayments and accrued income	29	-
	29	-

**TISCALI UK HOLDINGS LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
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**7. CASH AND CASH EQUIVALENTS**

	<b>2015</b>	<b>2014</b>
	<b>€000</b>	<b>€000</b>
Cash at bank and in hand	<b>4</b>	<b>34</b>
	<b>4</b>	<b>34</b>

**8. CREDITORS: Amounts falling due within one year**

	<b>2015</b>	<b>2014</b>
	<b>€000</b>	<b>€000</b>
Bank loans	<b>11,600</b>	<b>52,817</b>
Trade creditors	<b>58</b>	<b>21</b>
Amounts owed to group undertakings	<b>246,386</b>	<b>774</b>
Accruals and deferred income	<b>92</b>	<b>84</b>
	<b>258,136</b>	<b>53,696</b>

**Secured loans**

Of the total loans due to group undertakings at 31 December 2015, €98,999,491 (2014: €96,062,220) is due to Tiscali International BV and bears interest, at a floating rate of Euribor plus a 3% margin. Loans due to Tiscali S.p.A, €73,578,770 (2014: €20,318,773) bear interest at EURIBOR 3 months equal calculated on a 365 days basis. The remainder is due to Tiscali Italia Srl and accrues interest at EURIBOR 3 months equal calculated on a 365 days basis and is unsecured.

**9. CREDITORS: Amounts falling due after more than one year**

	<b>2015</b>	<b>2014</b>
	<b>€000</b>	<b>€000</b>
Bank loans	<b>73,534</b>	<b>82,627</b>
Amounts owed to group undertakings	<b>-</b>	<b>181,473</b>
	<b>73,534</b>	<b>264,100</b>

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**TISCALI UK HOLDINGS LIMITED**

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015**

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**10. LOANS**

Analysis of the maturity of loans is given below:

	<b>2015 €000</b>	<b>2014 €000</b>
<b>AMOUNTS FALLING DUE WITHIN ONE YEAR</b>		
Bank loans	<b>11,600</b>	52,817
	<b>11,600</b>	52,817
<b>AMOUNTS FALLING DUE 1-2 YEARS</b>		
Bank loans	<b>73,534</b>	82,627
	<b>73,534</b>	82,627
	<b>85,134</b>	135,444

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TISCALI UK HOLDINGS LIMITED

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NOTES TO THE FINANCIAL STATEMENTS  
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10. LOANS (continued)

The debt towards financial institutions (hereinafter also "Senior Lenders", listed in the table below) represented by the Senior debt (GFA) arising from the Restructuring Agreement, net of the repayment of the Facility A1 on 24 December, 2015, in the amount of EUR 42.4 million, comprises the following, as of 31 December 2015 (nominal debts value):

- **Tranche A2:** nominal residual amount of EUR 29.7 million (maturing in September 2017);
- **Tranche B:** nominal residual amount of EUR 52.9 million (maturing in September 2017).

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

During 2015, all deadlines provided for in the GFA loan agreement have been met, and more precisely:

- On 31 March, 2015 5 million EUR were repaid, in addition to the payment of interest on capital in the amount of EUR 2.7 million. Furthermore, on the same date, about EUR 0.2 million of prior interest were paid, relating to the previous GFA loan agreement;
- On 30 September, 2015, and additional EUR 5 million were repaid, in addition to the payment of interest on capital in the amount of EUR 5 million;
- On 24 December, 2015, the Facility A1 was repaid in an amount equal to EUR 42.4 million, in addition to the payment of interest on capital in the amount of EUR 0.8 million.

On 26 November 2015 the "Consent and Amendment Letter" was also signed, in which, in addition to expressing consent to the business combination operation with Aria Group, the Senior Lenders defined some changes to the contractual terms and conditions included in the Restructuring Agreements.

In particular, they agreed to a redefinition of the financial covenants in order to take account of the integration of the two groups' activities (Tiscali and Aria) based on a combined plan prepared by management in November 2015 updating the business plan on the basis of which the Board of Directors of Tiscali had approved the Merger Plan

The following table summarises the main elements of the loan.



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**TISCALI UK HOLDINGS LIMITED**

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015**

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**10. LOANS (continued)**

<b>Loan</b>	<b>Amount</b>	<b>Maturity</b>	<b>Financial Institution</b>	<b>Borrower</b>	<b>Guarantors</b>
<b>Facility A2</b>	EUR 29.7 million	September 2017	BG Master Fund PLC  SVP Capital Funding Lux	Tiscali UK Holdings Ltd	Tiscali S.p.A,  Tiscali Italia S.p.A.  Tiscali International BV Tiscali Financial Services SA Veesible S.r.l.
<b>Loan</b>	<b>Amount</b>	<b>Maturity</b>	<b>Financial Institution</b>	<b>Borrower</b>	<b>Guarantors</b>
<b>Facility B</b>	EUR 52.9 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.

Additional details of the financing are briefly reported:

- Facility A2, equal to the nominal value of EUR 29.7 million as principal amount, to be repaid in semi-annual installments, the last of which, in the amount of EUR 12.7 million, has a maturity date of 30 September, 2017;
- Facility B, equal to the nominal value of EUR 52.9 million as principal amount, to be repaid in semi-annual installments, the last of which, in the amount of EUR 49.9 million, has a maturity date of 30 September, 2017;
- an nominal interest rate equal interest rate of 7.5% for 2015, 9% for 2016, 9% for 2016 and 10% for 2017;
- financial covenants, provided by the Restructuring Agreements and subject to renegotiation with the Consent and Amendment Letter signed on 26 November 2015.

*Financial Covenants*

The Restructuring Agreements call for compliance by the Company of certain financial requirements (cd. "Financial Covenants") on a consolidated basis of the Tiscali Group (to be calculated without taking into

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**TISCALI UK HOLDINGS LIMITED**

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**NOTES TO THE FINANCIAL STATEMENTS  
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**10. LOANS (continued)**

account the debt resulting from the Sa Illetta Leasing Agreement, as well as the Rigensis Loan) defined in at the time of signing of said agreements, and re-defined under the Consent Letter and Amendment described above. They are related to the Debt Service Cover Ratio, or ratio of Net Indebtedness/EBITDA and EBITDA/Net Interests.

The following table shows the levels of said financial covenants envisaged by the Consent and Amendment, with reference to 31 December, 2015, and 31 December, 2016.

<b>Financial Covenants</b>	<b>Balance as of 31 December 2015</b>	<b>Balance as of 31 December 2016</b>
Debt Service Cover Ratio	1.10:1 (*)	1.10:1 (*)
Net Indebtedness/EBITDA	1,80x (**)	1,35x
EBITDA/Net Interests	3,15x	4,66x

(\*) The covenant in question will not be understood as violated if, at the time of two non-consecutive verification dates, the ratio should be lower than 1.10:1, but in any event higher than 1.05:1.

(\*\*) For the purpose of calculating the covenants, the EBITDA is taken gross of the provisions and other write-downs, while in the calculation of the financial indebtedness the value of the Sa Illetta Debt and the Rigensis Loan is not considered.

Furthermore, the Tiscali Group companies shall not have to exceed specific investment limits (CAPEX), for the amount of EUR 14.0 million with reference to the last quarter of 2015, and of EUR 20 million, with reference to the last quarter of 2016.

The verification with regard to the aforementioned financial covenants shall take place on a quarterly basis, 31 March, 30 June, 30 September and 31 December of each year, with the last verification dated expected on 30 September, 2017.

These covenants have been accomplished as of December 31, 2015

*Commitments of Tiscali UK, Tiscali and the Guarantors (the "Guarantors")*

The Restructuring Agreements envisage that Tiscali, Tiscali UK and the Guarantors (Indicated in the table previously submitted), as well as their subsidiary companies as identified in the same agreements, be responsible for observing, amongst other aspects, non-financial commitments, which - subject to the contractual exceptions envisaged - involve limitations, including: (i) payment of dividends prohibitions; (ii) prohibitions to carry out acquisitions or equity investments or joint ventures; (iii) prohibition on granting collaterals; (iv) prohibitions on the implementation of special operations (including the disposal of major assets); (vi) ban of debt assumption and the granting of related guarantees; (vii) prohibition to create assets for uses provided for in Article 2447-ter of the Civil Code; (viii) prohibition on the issuance of securities, the proceeds of which are intended for early debt repayment pursuant to the Restructuring Agreements; (ix) prohibition to modify the business plans without the consent of the Senior Lenders.

Pursuant to the Consent and Letter Amendment, the Tiscali Group, in compliance with a portion of the Restructuring Agreements, shall adhere to the following additional commitments: (A) prohibition on making available to the Aria Group financial resources exceeding the limit of EUR 1.35 million for each financial year which forms part of the period of validity of the Restructuring Agreements; (B) prohibition to

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## TISCALI UK HOLDINGS LIMITED

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

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#### 10. LOANS (continued)

establish commercial relationships with Aria exceeding the amount of EUR 5 million for each year; (C) an obligation to make sure that Aria does not repay in advance the Rigensis Loan before full repayment of Facilities A2 and B.

##### *Events of default*

The Restructuring Agreements also envisage assumption of a default status at the occurrence of specific events, such as: (i) failure to fulfil the payment obligations set out in the Restructuring Agreements; (ii) failure to fulfil the additional commitments contractually agreed upon; (iii) failure to comply with the financial covenants; (iv) initiation of insolvency proceedings against any of the main Group companies indicated in the agreements; (v) failure to fulfil the obligations arising out of any debt instrument or guarantee of Tiscali and certain of its subsidiaries for an amount exceeding 1 million EUR; (vi) initiation of enforcement action by creditors of the Tiscali Group for amounts exceeding 1 million EUR.

Upon the occurrence of an event of default, Wilmington Trust (London) Limited and Banca IMI S.p.A., (in the capacity of, respectively, Facility A and Facility B Agent) will, among other things, and following a decision taken pursuant to the Restructuring Agreements, notify Tiscali that all sums due thereunder be immediately paid.

##### *Guarantees*

Pursuant to the Restructuring Agreements, Tiscali and the Guarantors, irrevocably and unconditionally, notwithstanding certain contract limitations, jointly guarantee the exact fulfilment of the obligations undertaken in accordance with the agreements; furthermore, they undertake jointly to paying any amount due by Tiscali UK, in the event Tiscali UK becomes insolvent.

In addition to the above, in order to guarantee the amounts owed as per the Restructuring Agreements, the following guarantees are envisaged:

- pledge on the entire holding in Tiscali Italia held by the Company;
- pledge on the entire holding in Veesible held by Tiscali Italia;
- pledge on the entire holding in Tiscali UK held by the company;
- pledge on the entire holding in Tiscali International B.V. held by World Online International B.V.;
- pledge on the entire holding in Tiscali International Network B.V. held by Tiscali International B.V.;
- pledge on the Tiscali trademarks;
- pledge on the current accounts of Tiscali and Tiscali UK;
- assignment as collateral or pledge on receivables deriving from intercompany loans;
- pledge on the Tiscali UK assets;
- second-degree pledge on Aria's shares already granted as a pledge in favour of Rigensis Bank.

Furthermore, it should be noted that, pursuant to the Consent and Amendment Letter, Tiscali has paid to the Fund - in order to extend the maturity deadline of Facility A1 and the redefinition of the financial covenants - a waiver fee equal to approximately 1% of the total amount of Facility A1 and A2 Facility in place.

##### *Refinancing*

Lastly, it is noted that, with reference to the residual debt pursuant to the Restructuring Agreements (nominal debt equal to EUR 84.2 million at 31 December 2015, inclusive of accrued nominal interest up to said date and amounting to EUR 1.6 million), as a result of the finalisation of the Merger, in the early months of 2016, the Tiscali Group has launched an intense negotiation activity aimed at refinancing the entire amount.

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**TISCALI UK HOLDINGS LIMITED**

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015**

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**11. FINANCIAL INSTRUMENTS**

	<b>2015</b>	<b>2014</b>
	<b>€000</b>	<b>€000</b>
<b>Financial liabilities</b>		
Financial liabilities measured at amortised cost	<b>(331,669)</b>	<b>(317,796)</b>
	<u><b>(331,669)</b></u>	<u><b>(317,796)</b></u>

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**TISCALI UK HOLDINGS LIMITED**

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015**

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**12. SHARE CAPITAL**

	<b>2015 €000</b>	<b>2014 €000</b>
<b>Allotted, called up and fully paid</b>		
50,000 Ordinary shares of £1 each	<b>59</b>	<b>59</b>

The share capital in the company was revalued in Euros starting from 30 June 2009.

**13. RELATED PARTY TRANSACTIONS**

The company has taken advantage of the exemption offered by FRS 102, 33.1A and has not disclosed details of transactions with group companies as it is a wholly owned subsidiary undertaking, with the exception of the details provided in Note 10.

**14. CONTROLLING PARTY**

The company's immediate parent undertaking is Tiscali S.p.A. which is incorporated in Italy. It has included the company in its group financial statements, this being the smallest and largest group of which the company is a member, copies of which are available from Tiscali S.p.A., Sa Illetta, S.S. 195 Km 2.3, 09122, Cagliari, Sardinia, Italy.

**15. FIRST TIME ADOPTION OF FRS 102**

The policies applied under the entity's previous accounting framework are not materially different to FRS 102 and have not impacted on equity or profit or loss.