

tiscali:

TISCALI S.p.A.

Registered office in Cagliari, località Sa Illetta, S.S. 195 km 2.3

Paid up Share Capital EUR 91,200,922.89

Tax ID, VAT and registration number on the
Cagliari Register of Companies 02375280928

REPORT OF THE BOARD OF DIRECTORS DRAWN UP PURSUANT TO ARTICLE 72 OF
CONSOB REGULATION 11971/99 AND SUBSEQUENT MODIFICATIONS AND INTEGRATIONS
(**“ISSUERS’ REGULATIONS”**)

Introduction

Dear Shareholders,

This report, drawn up pursuant to Article 72 of the Issuers' Regulation and, in particular, in accordance with Annex 3A, procedures 2 and 3 of the same, aims to provide the necessary information on the proposal referred to in the second item on the agenda of the Shareholders Meeting of Tiscali S.p.A., in both ordinary and extraordinary sessions. ("**Tiscali**" or "**Company**") convened with a sole convocation on the 16th of June 2016 at 3 pm at the registered office to deliberate on the following topic:

"Proposal for an issue of shares with payment in tranches, by issuing an overall maximum of 314,528,189 ordinary shares without a par value, to service a maximum of 314,528,189 valid options for the subscription of ordinary shares in the Company to be reserved for the Company's CEO, Riccardo Ruggiero, and some managers of the Tiscali Group, beneficiaries of the Stock Option Plan 2016 - 2021 referred to in item 1 of the agenda, excluding option rights, pursuant to article 2441, paragraphs 5 and 6 of the Italian Civil Code. The consequent amendment of article 5 of the Articles of Association, related and consequent deliberations and delegation of powers."

1. Motivations and Destination of the Capital Increase

The proposal to increase the share capital submitted for your approval aims to provide for the shares necessary for the "Stock Option Plan 2016-2021" ("Stock Option Plan") reserved for the CEO of the Company, Riccardo Ruggiero, and some managers of the Tiscali Group (the "Beneficiaries") to be carried out by means of free allocation of options ("Options") valid for the issue of new issue ordinary shares of the Company.

In this respect, please note that the proposal for the adoption of the Plan, detailed in the special report drawn up pursuant to article 114-bis of the Financial Services Act, is subject to examination and approval by the Company's General Meeting convened for the 16th of June 2016 with a sole convocation. It is the first item on the agenda.

It should be noted the Stock Option Plan has a maximum of 314,528,189 Options, valid for the issue of a maximum of 314,528,189 ordinary Tiscali shares, in a ratio of 1 ordinary share for every Option assigned and exercised in accordance with the terms and conditions foreseen in the Stock Option Plan regulations.

Please note that in 2015 the aggregation of the activities of the Company and the Aria Group was completed with the merger by incorporation ("**Merger**") of Aria Italia S.p.A. into Tiscali S.p.A.. In a context of considerable organizational and strategic changes, it would appear to be appropriate to adopt adequate incentives for the key players of the Group. The Company, in line with the best market practices adopted by listed companies at national and international level, considers that compensation plans based on shares constitute an effective incentive and loyalty-building tool for parties who cover key roles in order to keep performance high and improve it, help the growth and

success of the companies and create value for shareholders. The adoption of share-based remuneration plans responds to the recommendations of the Corporate Governance Code, article 6 of which recognises that these plans are a suitable tool for aligning the interests of executive directors and parties of listed companies with strategic responsibilities with those of the shareholders, allowing for the creation of value in the medium to long term.

For more details on the proposal for adoption of the Stock Option Plan see the relative report drawn up pursuant to article 114-bis of the Financial Services Act, available to the public in accordance with the procedures and time limits laid down by law and available for consultation on the website of the Company, www.tiscali.com (Governance / Shareholders Meeting section).

2. Reasons for Exclusion of the Option Right

The exclusion of the option right is a direct consequence of the purpose of the capital increase operation to reserve new issue ordinary Tiscali shares for Beneficiaries of the Stock Option Plan.

The Stock Option Plan is a fundamental tool to retain and provide incentives for the Company's key players, as a result of the merger of the two groups. Therefore, the Board of Directors, consistent with the widespread and consolidated practice, also on an international level, and consistent with the practice followed by the Company in the past, believes that the Stock Option Plan represents an ongoing incentive to maintain adequate management standards and improve the performance of the Group in accordance with the objectives established, increasing the competitiveness of the Group and creating value for shareholders.

With regard to remuneration of an incentive based on stock option plans, please note that the adoption of share-based remuneration plans is in line with that recommended in article 6 of the Corporate Governance Code of Borsa Italiana S.p.A.

In light of the above, exclusion of the option right is, therefore, justified by reasons of Company interest such as the Company's strategic management providing for incentives and loyalty-building.

3. Features of the Capital Increase Reserved for Beneficiaries of Stock Option Plan 2016 – 2021

The Stock-Option Plan foresees the free allocation of Options that allow, with the conditions foreseen in the Plan, the next issue of ordinary Tiscali shares. Each Option assigned confers the Beneficiaries with the right to subscribe to 1 ordinary Tiscali new issue share with regular dividend rights against payment to the Company of the exercise price, as defined below. The options assigned will be exercisable by the Beneficiaries in three tranches. The Stock Option Plan is effective until the 24th of December 2021, the date of expiry for the exercise of the third tranche.

The exercise of the Options can take place, in accordance with the Stock Option Plan, as follows:

- for the first Options tranche (First Tranche), consisting of 188,716,915 Options for the issue of an equal number of ordinary Tiscali shares to be exercised between the 24th of December 2017 and the 24th of December 2019;
- for the second Options tranche (Second Tranche), consisting of 62,905,637 Options for the issue of an equal number of ordinary Tiscali shares to be exercised between the 24th of December 2019 and the 24th of December 2020;
- for the third Options tranche (Third Tranche), consisting of 62,905,637 Options for the issue of an equal number of ordinary Tiscali shares to be exercised between the 24th of December 2020 and the 24th of December 2021;

For the implementation of the Stock Option Plan, an increase in the share capital for payment in tranches is proposed, within the deadline of the 24th of December 2021, for a maximum of EUR 25,193,708 attributable to the capital, with the exclusion of the option right pursuant to article 2441, paragraphs 5 and 6, of the Italian Civil Code, with the issue of a maximum of 314,528,189 new ordinary Tiscali shares with regular dividend rights, without a par value and with the same characteristics as those in circulation, reserved for subscription by the Beneficiaries.

At the date of this report, Tiscali's subscribed and paid up share capital was EUR 91,200,922.89, divided into a total of 3,145,281,893 ordinary shares, without a par value. The maximum number of ordinary shares provided for in the Stock Option Plan corresponds to 9.99% of the Company's subscribed and paid up share capital.

4. Determination of the Issue Price of the Ordinary Shares after the Exercise of Options

The issue price of new ordinary shares of the Company subject of the proposed capital increase and, consequently, the exercise price of the Options, determined by the Company in accordance with the criteria described below, will be equal to:

- for the First Tranche, unit price per share of EUR 0.070;
- for the Second Tranche, unit price per share of EUR 0.0886;
- for the Third Tranche, unit price per share of EUR 0.1019.

For the determination of the exercise price, given the high levels of liquidity of the Company's shares and the considerable volumes traded, both the stock market price method of Tiscali shares and the market multiples method were used as a reference. As regards the stock market price method, the historical quotations of the security were reconstructed for the 12 months prior to the Board of Directors Meeting of the 12th of May 2016, which proposed the stock option plan and defined a range of reference quotations, indicating the weighted average price observed in the aforesaid period. It is noted that the rejection of the jurisdictional claims regarding the Consip tender has not significantly influenced the stock price of Tiscali's share. As regards the market multiples method, it was decided to use the market multiple median EV / EBITDA at the end of year 2017 of a sample of companies comparable to Tiscali, operating in the market of internet

access and wireless communication, also including Italian national incumbent Telecom Italia. The choice of a multiple at the end of year 2017 is related to the earliest date for the exercise of the Options. This multiple was applied to a given operating margin foreseen for year 2017 derived directly from the Group Business Plan 2016-2021, from which the corrected net financial position at March 31, 2016 was subtracted. It does not include the effects of the Consip tender since the relative contract was not signed until today and there is still some uncertainty about the date of signing and the beginning of the provision of the related services due to potential further legal proceedings. The average value deriving from the results of the two methods described above provide a final price of EUR 0,0804 per share, in line with the weighted average exercise price of the three tranches of the Stock Option Plan.

In addition, the Board of Directors specifies that, as provided for in article 2441, paragraph 6, of the Italian Civil Code and in article 158 of the Financial Services Act, the independent auditors Reconta Ernst & Young S.p.A. (Ernst & Young), who is responsible for the statutory audit of the Company within the meaning of Legislative Decree no. 39/2010, will give its opinion on the appropriateness of the issue price of the shares. The opinion of Ernst & Young will be made available to the public in accordance with the procedures and time limits laid down by law.

5. Characteristics of New Issue Ordinary Shares

The Company will make available to the Beneficiaries the new issue ordinary shares subscribed to in exercising the Options in accordance with the procedures foreseen in the Stock Option Plan regulations. The Company's ordinary shares subscribed to by the Beneficiaries will have the right to dividends equal to that of ordinary shares of the Company on the date of issue.

6. Changes to Article 5 of the Articles of Association

As a consequence of the proposed resolution submitted for your approval, it will be necessary to amend article 5 of the Articles of Association with the inclusion of a clause on the meeting's deliberation to increase the capital, the proposal of which is the subject of this Report. Below is the text of paragraph of article 5 of the Articles of Association compared with the text proposed for adoption.

| Current text | Proposed text |
|--|---|
| <p style="text-align: center;"><i>Article 5</i></p> <p><i>Share capital and shares</i></p> <p><i>[omitted]</i></p> | <p style="text-align: center;"><i>Article 5</i></p> <p style="text-align: center;"><i>Share capital and shares</i></p> <p><i>[unchanged/omitted]</i></p> <p><i>Paragraph [...]</i></p> <p><i>The Extraordinary Meeting of the 16th of June 2016 deliberated to increase the share capital by a nominal maximum of EUR 25,193,708 with payment in tranches pursuant to article 2441,</i></p> |

| Current text | Proposed text |
|--------------|---|
| | <p><i>paragraphs 5 and 6 of the Italian Civil Code and, therefore, excluding the option right pursuant to the above-mentioned law, through the issue of a maximum of 314,528,189 ordinary Tiscali S.p.A. shares without a par value, having the same characteristics as those already in circulation, with the right to dividends, at the price of: : Euro 0,070 for 188.716.915 shares, Euro 0,0886 for 62.905.637 shares, Euro 0,1019 for 62.905.637 shares. The beneficiaries of the capital increase are the Beneficiaries of the Stock Option Plan 2016-2021, approved at the Shareholders Meeting on the 16th of June 2016 reserved for the CEO of Company, Riccardo Ruggiero, and the management of the Tiscali Group, i.e. the respective heirs, to be implemented by means of free assignment of Options (“Options”) valid for the subscription of new issue ordinary Tiscali S.p.A. shares. The deadline for subscription to the increase is the 24th of December 2021 with the condition that if, on expiry of this deadline the capital increase is not fully subscribed the capital itself, pursuant to article 2439, paragraph 2 of the Italian Civil Code, will be increased by an amount equal to the subscriptions made up to that moment and with the same date, provided that it is subsequent to the entry of these deliberations on the Register of Companies.</i></p> |

It should be noted that the changes to the Articles of Association referred to above do not allow for the right of withdrawal pursuant to article 2437 of the Italian Civil Code.

For the purposes of illustration of the terms and conditions of the Stock Option Plan, reference is made to the report prepared pursuant to article 114-bis of the Financial Services Act and to the document drawn up pursuant to article 84-bis of the regulation adopted with CONSOB Resolution no. 11971/1999, available to the public in accordance with the time limits laid down by law and available for consultation on the Company’s website, www.tiscali.com (Governance / Shareholders Meeting section).

* * * * *

In the light of the above, the Board of Directors intends to submit to your attention the following proposal for deliberation.

Proposal

The Extraordinary Shareholders Meeting of Tiscali S.p.A.:

(i) having seen and approved the Report of the Board of Directors,

(ii) *having regard to the consistency evaluation prepared by the independent auditors Ernst & Young,*

(iii) *taking into account the resolution of the Shareholders Meeting approving the “Stock Option Plan 2016-2021” today,*

deliberates:

“1) the increase in share capital by a nominal maximum of EUR 25,193,708, with payment in tranches pursuant to article 2441, paragraphs 5 and 6 of the Italian Civil Code, and, therefore, excluding the option right, through the issue of a maximum of 314,528,189 ordinary Tiscali S.p.A. shares without a par value, having the same characteristics as those already in circulation, with the right to dividends, establishing that:

(i) the beneficiaries of the capital increase are the Beneficiaries of the “Stock Option Plan 2016-2021” (“Beneficiaries”) approved at the Shareholders Meeting today, to be implemented by means of free assignment of Options (“Options”) valid for the subscription of ordinary new issue Tiscali S.p.A. shares;

(ii) the Options assigned will be exercisable by the Beneficiaries in accordance within the terms and limits referred to in the “Stock Option Plan 2016-2021”, in three tranches;

(iii) each Option assigned confers the Beneficiaries with the right to subscribe to 1 new issue ordinary Tiscali share, with rights to dividends against payment to the Company of the exercise price, as defined below.

- for the first Options tranche, consisting of 188,716,915 Options for the issue of an equal number of ordinary Tiscali shares to be exercised between the 24th of December 20167 and the 24th of December 201918 at an exercise price per share of EUR 0.070;*
- for the second Options tranche, consisting of 62,905,637 Options for the issue of an equal number of ordinary Tiscali shares to be exercised between the 24th of December 2019 and the 24th of December 2020 at an exercise price per share of EUR 0.0886;*
- for the third Options tranche, consisting of 62,905,637 Options for the issue of an equal number of ordinary Tiscali shares to be exercised between the 24th of December 2020 and the 24th of December 2021 at an exercise price per share of EUR 0.1019;*

The Stock Option Plan 2016-2021 is effective until the 24th of December 2021, the date of expiry for the exercise of the Third Tranche.

2) due to that deliberated above at point 1, to amend article 5 of the Articles of Association with the insertion, before point [...], of the following new paragraph: “...”

3) to confer on the Board of Directors, and for it the CEO, the faculty of further delegation to other parties, the fullest powers to implement and enforce the deliberations referred in order to complete the above operation, including, for example but not only, the power:

- a. to prepare and submit all documents required for the purposes of carrying out the capital increase as well as comply with the necessary formalities for subscription to the offer and*

admission to listing of new issue shares, including the power to provide for the preparation and the presentation to the competent authorities of every necessary or desirable application, instance, document or prospectus;

b. make all the necessary and/or desirable modifications and/or amendments to the deliberations adopted, including upon the request of the competent authorities or at the time of registration, and in general, to carry out everything necessary for the full implementation of the deliberations of the same, with all and any necessary and opportune power, with no exclusions or exceptions, including the task of depositing with the relevant Register of Companies the Articles of Association updated with the modification of the share capital.”

For the Board of Directors of Tiscali S.p.A.

CEO

Riccardo Ruggiero