

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 on the
Cagliari Register of Companies number 02375280928

REPORT OF THE BOARD OF DIRECTORS DRAWN UP PURSUANT TO ARTICLE 3 OF
MINISTERIAL DECREE NO. 437/1998 AND ARTICLE 125-TER OF LEGISLATIVE DECREE NO.
58/1998

Introduction

Dear Shareholders,

This report, drawn up pursuant to Article 3 of Ministerial Decree no. 437/1998 and article 125-ter of Legislative Decree no. 58/1998, aims to provide the necessary information on the proposal referred to in item one of the agenda of the Shareholders Meeting of Tiscali S.p.A., (“**Tiscali**” or the “**Company**”) in both the ordinary and extraordinary sessions, convened with a sole convocation for the 16th of June 2016 at 3 pm at the registered office to deliberate on the following topic:

“Stock Option Plan 2016-2021 with the subject of the ordinary Tiscali S.p.A. shares reserved for the CEO of the Company, Riccardo Ruggiero, and some managers of the Tiscali Group. Related and consequent deliberations.”

Please note that the proposal to increase the share capital in the Stock Option Plan 2016-2021, detailed in the relative report drawn up pursuant to articles 125-ter of the Financial Services Act and 72 of CONSOB (National Commission for Companies and the Stock Exchange) Regulation no. 11971/1999 as subsequently modified and amended (“Issuers’ Regulation”), will be subjected to examination and approval at the Shareholders Meeting convened once for the 16th of June 2016, as the second item on the agenda of the extraordinary session. For more information on the proposal to increase the share capital in the Stock Option Plan 2016-2021 please see the relative detailed report, in addition to the summary in paragraph 2 below.

The document on the Stock Option Plan 2016-2021, drawn up pursuant to article 84-bis of the Issuers’ Regulation and in accordance with Annex 3A of the same regulation, will be made available to the public according to the procedures and time limits laid down by law and available for consultation on the Company’s website, www.tiscali.com (Governance / Shareholders Meeting section).

1. Motivations for the Adoption of the Stock Option Plan 2016-2021

The Board of Directors submits the proposal to adopt the “Stock Option Plan 2016-2021” (“Stock Option Plan”) for examination and approval by the shareholders, reserved for the CEO of the Company, Riccardo Ruggiero, and some managers of the Tiscali Group (“Beneficiaries”) to be carried out by means of free allocation of options (“Options”) valid for the issue of new ordinary shares of the Company.

The Stock Option Plan has a maximum of 314,528,189 Options, valid for 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 procedures and time limits laid down 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 the

context of considerable organisational 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 the 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, and help the growth and success of the companies, creating 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 pursuit of the objective of creating value in the medium to long term.

2. Subject and implementation procedures of the Stock Option Plan 2016-2021.

The Stock Option Plan entails the free allocation of Options that allow, with the conditions foreseen in the Plan, the next issue of ordinary Tiscali shares, with regulations for physical delivery. Each Option assigned confers the Beneficiaries with the right to subscribe to 1 ordinary Tiscali new issue share with 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 issue price of new ordinary shares of the Company, subject of the proposed capital increase and, consequently, the exercise price of the Options, will be equal to:

- 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 2017 and the 24th of December 2019 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 issue price of the ordinary Tiscali shares provided for in the Stock Option Plan and procedures for fixing the price are detailed in the other documents made available at the meeting. 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 the law.

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.

For the implementation of the Stock Option Plan the proposal will be submitted to the Company's Extraordinary General Meeting convened for the 16th of June 2016, with a sole convening, as the second item on the agenda of the same, to increase the share capital with payment in tranches, within the deadline of the 24th of December 2021, for a maximum of EUR 25,193,708, attributable to the share capital, excluding the option right pursuant to article 2441, paragraphs 5 and 6 of the Italian Civil Code, by issuing a maximum of 314,528,189 new ordinary Tiscali shares, reserved for issue to the Beneficiaries. For more details on the proposal to increase the share capital in the Stock Option Plan see the relative report drawn up pursuant to article 125-bis of the Financial Services Act and article 72 of the Issuers' Regulation, available to the public in accordance with the terms of the law and available on the website of the Company, www.tiscali.com (Governance / Shareholders' Meeting section).

The Company will make available to the Beneficiaries the ordinary shares due to the same after the exercise of the Options with the terms and in accordance with the procedures laid down in the Stock Option Plan regulations.

3. Beneficiary of the Stock Option Plan 2016-2021.

The Beneficiaries of the Stock Option Plan are the Company's CEO, Riccardo Ruggiero, and some other Tiscali Group managers, that is the respective heirs.

4. Duration of the Stock Option Plan 2016-2021 and exercise of Options

The terms of the Stock Option Plan, understood as the deadline for the issue of the capital increase of the Plan, is the 24th of December 2021.

The Stock Option Plan provides for the allocation of 314,528,189 Options, with the right to subscribe to an equal number of new issue ordinary Tiscali shares. All the Options will be assigned to the Beneficiary as a single lot and will mature with the first tranche, the second tranche and the third tranche. The Options will have an American exercise procedure, and, therefore, can be exercised at any time during the three tranches.

The Stock Option Plan foresees that the Board of Directors can suspend, in certain periods of the year and for justified reasons, the exercise of the Options by the Beneficiary, if this is in the Company's interests and/or appears to be appropriate relative to market protection requirements. In this case, the Board of Directors will provide appropriate written notification to the Beneficiaries.

Within the Stock Option Plan regulations, the Board of Directors will have the right to define the timing of the allocation of the Options, possibly limiting it relative to the time of provision of any relevant information pursuant to article 114, paragraph 1 of the Financial Services Act.

The Stock Option Plan also foresees that the exercise of the Options on the part of the Beneficiaries is suspended during the period:

(i) between the day on which: (a) the Meeting of the Board of Directors is held that decides the convening of the meeting called to approve (1) the Financial Statements; and/or (2) the distribution of dividends; and; (b) the date on which the relevant board meeting is actually held (i.e., in the event of a deliberation on the distribution of dividends, after the payment of the coupon);

(ii) between the day after the closure of each mandatory accounting period and the date of the first publication of financial data for the period (final or preliminary).

5. Transfer limits of the Options

The Stock Option Plan foresees that the Options are assigned to the person and can be exercised solely by the Beneficiaries, within the terms referred to in the Plan's regulations. The Options cannot be transferred in any way, if not due to succession on death, or traded, subject to pledge or other real right and/or granted under warranty by the Beneficiaries, except in the application of the rules of law.

The Options will become void and cannot be exercised following attempted transfer or trading, including any attempt to transfer by inter vivos transaction, pledge, seizure or attachment of the Options or part of them.

There are no restrictions on the transfer of the Company's ordinary shares subscribed to as a result of exercising the Options.

For all that which is not expressly detailed in this Report, please refer to the document drawn up pursuant to article 84-bis of the regulations adopted by CONSOB resolution no. 11971/1999, and the Directors' Report prepared pursuant to article 72 of the Issuers' Regulation, available to the public in accordance with the terms of the law and available for consultaion on the Company's website, www.tiscali.com (Governance / Shareholders' Meeting section).

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

Proposal

The Ordinary 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,

deliberates:

“1) to approve the establishment of a stock option plan called “Stock Option Plan 2016-2021” with the characteristics indicated in the relevant regulations already approved by the Board of Directors and in the Board of Directors’ Report attached as “...”;

2) to provide the CEO with all the necessary or appropriate powers to implement the “Stock Option Plan 2016-2021”, as well as carry out any action, fulfilment, formality, notification necessary or appropriate for the purposes of management and/or implementation of the Plan.”

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

CEO

Riccardo Ruggiero