



TISCALI S.p.A.

Registered office: Sa Illetta, S.S. 195 km. 2.300, Cagliari, Italy.

Paid-in share capital EUR 169,076,822.67

Tax code, VAT Number and enrolment number in the

Cagliari Companies' Register 02375280928

ILLUSTRATIVE REPORT OF THE BOARD OF DIRECTORS ON THE PROPOSALS TO THE AGENDA OF THE ORDINARY SHAREHOLDERS' MEETING TO BE HELD ON 16 FEBRUARY 2016, DRAWN UP IN ACCORDANCE WITH ARTICLE 3 OF ITALIAN MINISTERIAL DECREE No. 437/1998, ARTICLE 125 TER OF ITALIAN LEGISLATIVE DECREE No. 58/1998 AND PURSUANT TO ARTICLE 72 OF CONSOB REGULATION 11971/99, AND SUBSEQUENT AMENDMENTS AND ADDITIONS ("ISSUERS' REGULATIONS")

Cagliari, Italy, 15 January 2016

Dear Shareholders,

This report, drawn up in accordance with Article 3 of Italian Ministerial Decree No. 437/1998, Article 125 *ter* of Italian Legislative Decree No. 58/1998 and Article 72 del Issuers' Regulations 11971/99, in particular, in compliance with Attachment 3A, tables No. 2 and 3, of the same, has the purpose of providing the necessary information on the proposal as per the fourth point on the agenda of the ordinary and extraordinary shareholders' meeting of Tiscali S.p.A. ("**Tiscali**" or the "**Company**") called in sole calling on 16 February 2016, at 11 a.m. at the registered office, in order to resolve on the following matter:

"Proposal to authorise the Board of Directors, pursuant to Article 2443.2 of the Italian Civil Code, to increase the share capital against payment, in one or more tranches, by means of the issue of a maximum total of 250,000,000 ordinary shares lacking par value, with the exclusion of the purchase option, pursuant to Article 2441.5 of the Italian Civil Code, reserved for Rigensis Bank AS. Consequent amendment of Article 5 of the Articles of Association with cancellation of the previous increase authorised for a maximum of 250,000,000 ordinary shares lacking par value, reserved for Bank Otkritie Financial Corporation (Public Joint-Stock Company) resolved by the shareholders' meeting held on 29 September 2015. Related and consequent resolutions, delegation of powers."

* * *

As the market is aware, within the context of the merger via incorporation of Aria Italia S.p.A. ("**Aria Italia**") within your company, amongst other aspects the faculty for the Board of Directors to increase the share capital against payment has been envisaged, in one or more tranches, as from 1 March 2018 and until 30 March 2018, with exclusion of the purchase option pursuant to Article 2441.5 of the Italian Civil Code, by means of the issue of a maximum total of 250,000,000 ordinary shares lacking par value to be used for the subscription by "Bank Otkritie Financial Corporation" (Public Joint-Stock Company). The subscription price of said shares, inclusive of any share premium, will

amount to EUR 0.06 (see Article 5 of the current Articles of Association).

This said, it is necessary to recall, in the first instance, that in the context of the agreements relating to the merger transaction and before the execution of the same, it had been envisaged that Aria S.p.A. ("**Aria**") should become the holder of a portion of the debt of Aria Telecom Holdings B.V. ("**ATH**", in turn first direct parent company or Aria and now subsequently shareholder of Aria Italia) vis-à-vis "Bank Otkritie Financial Corporation" (Public Joint-Stock Company) and that said debt could be converted into ordinary Tiscali shares, as well as, in the second instance, that between the approval of the merger project by the Company's shareholders' meeting (which took place on 29 September 2015) and the date of effectiveness of the merger in question recalled above, the group the absorbed company belongs to - precisely in view of the aforementioned transaction and in execution of the aforesaid agreements underlying the same - set up an intricate financial manoeuvre.

In greater detail, and referring to the equivalent disclosure document made public in relation to the same merger on 23 December 2015 (see section 3.1.(B).8) for greater details, it is hereby revealed that, in accordance with said manoeuvre, amongst other aspects:

- Aria Telecom Holdings B.V. ("**ATH**", shareholder of Aria Italia) transferred in favour of Aria Italia a portion, equating to around EUR 10.6 million, of the receivable due from Aria S.p.A. ("**Aria**", in turn wholly-owned by Aria Italia) for a total of around EUR 25.6 million;
- ATH waived the receivable vis-à-vis Aria Italia relating to the payment owed by the latter for said transfer;
- Aria Italia waived the transferred receivable, thereby releasing Aria from the obligation to repay the amount of around EUR 10.6 million, which was consequently booked to the extraordinary reserve under shareholders' equity;
- ATH made a payment by way of "establishment of a share premium reserve"

in favour of Aria Italia for a total of EUR 4.3 million;

- Aria Italia in turn made a payment by way of “establishment of an extraordinary reserve” in favour of Aria for the same amount of EUR 4.3 million;
- Aria has taken steps to extinguish the residual debt exposure vis-à-vis ATH (amounting to Euro 15 million), by means of the use of funds originating from the loan forming the subject matter of a contract entered into with Rigensis Bank AS (“**Rigensis Bank**”) on 22 October 2015 and subsequently supplemented by an agreement dated 16 December 2015. ATH, in turn, used said funds to reimburse the debt exposure initially outstanding vis-à-vis “Bank Otkritie Financial Corporation” (Public Joint-Stock Company).

With reference to this latter contract - likewise described in greater detail in the aforementioned section 3.1.(B).8 of the equivalent disclosure document mentioned above - it is hereby revealed that it envisages, amongst other aspects:

- Rigensis Bank making an interest-bearing loan available in favour of Aria for a total of Euro 15 million, with an interest rate of 9% per annum, six-monthly payments of interest and reimbursement in a single solution on 30 March 2018;
- that the payment obligations of Aria are guaranteed by a pledge on the shares represented and the entire capital of Aria;
- that Aria is prohibited from receiving loans or taking out any debt, granting guarantees or releases, establishing restrictions on its movable assets and real estate assets, financial means or activities, unless the value of these transactions is less than Euro 1 million, or said transaction has been carried out before the date the contract was signed;
- that Aria is prohibited from finalising merger, spin-off, consolidation, winding-up or reorganisation transactions for the company (other than the merger just concluded);

- early repayment obligations in the following cases: (i) Aria ceases to be a company wholly-owned by Tiscali; (ii) breach of one of the obligations as per the restructuring agreements outstanding with the senior lenders of the Tiscali Group which involves the immediate repayment of the loan forming the subject matter of the same; (iii) delay, by Aria, in making the payments as per the contract; (iv) Aria is insolvent, suspends the payments to its creditors or declares its intention to suspend said payments; (v) revocation and/or suspension of Aria's licences; (vi) termination, by Aria, of its activities or an essential part of the same; (vii) violation by Aria of the commitments indicated above;
- the possibility of transferring the receivables as per the loan according to market practice;
- in the event of failure to fully repay the Rigensis loan on the due date of 30 March 2018, the residual debt may be converted into ordinary Tiscali shares at the already agreed value of EUR 0.06 per share; under such circumstances, the conversion may take place at the option of the Tiscali Group;
- if, by contrast, the hypothesis of mandatory early repayment should come about and Aria does not have the financial means to do this, Rigensis Bank shall have the option to convert its receivables into ordinary Tiscali shares at the same value already agreed of Euro 0.06 per share.

In consideration of the above, it is necessary to amend Article 5 of the current Articles of Association and cancel the mandate envisaged therein with reference to the share capital increase in favour of "Bank Otkritie Financial Corporation" (Public Joint-Stock Company), for the purpose of reflecting the contractual structure outstanding, which no longer sees the same "Bank Otkritie Financial Corporation" (Public Joint-Stock Company) involved, but rather Rigensis Bank (or the party who becomes the transferee of the receivables relating to the loan agreement described above), without prejudice to

the possibility of conversion into ordinary Tiscali shares - for the same values - of the debt deriving from the loans originally disbursed in favour of the Aria Group and which now, as a result of the merger, pertain to the Tiscali Group.

In this connection - and in addition to the matters already indicated in the documentation made public in accordance with the law at the time of the aforesaid merger - we bring the following aspects to your attention:

- 1) the possibility of conversion of the residual debt into ordinary Tiscali shares as per the loan agreement mentioned above (currently outstanding for EUR 15 million in terms of principal), represents an important instrument for the reduction of the overall debt of the Tiscali Group without the latter being forced to resort to important cash outlays, even in the presence of a dilution for the current shareholders of around 7.36% (undertaking the complete exercise of the mandate in question for 250,000,000 ordinary shares and placing the same in relation to the number of ordinary shares into which the share capital is divided up as of today's date);
- 2) the issue price of the ordinary Tiscali shares forming the subject matter of the share capital increase in question - EUR 0.06 per share - has been established on the basis of unrestricted negotiation between the parties on a consistent basis with the valorisation assigned to the Tiscali Group at the time of merger (see section 3.2(B) of the equivalent disclosure document mentioned above). The stock market prices method was used and the time series of the listings of the stock in the 12 months prior to the date of the Board Meeting held on 29 December 2015 was reconstructed and a reference listing interval defined, with indication of the minimum, maximum and weighted average price observed in said time range. In this connection, the Board of Directors specifies that, as laid down by Article 2441.6 of the Italian Civil Code and Article 158 of the Consolidated Finance Law, the independent auditing firm Reconta Ernst & Young S.p.A. (Ernst & Young),

appointed for the official audit of the accounts of the Company pursuant to Italian Legislative Decree No. 39/2010, will express its opinion on the fairness of the issue price of the shares. The Ernst & Young opinion will be made available to the general public as per the terms and formalities of the law;

- 3) on a consistent basis with the loan repayment terms, an exercise period is envisaged for the mandate from 1 March until 30 March 2018;
- 4) Article 5 of the Articles of Association currently in force, will have to be amended as follows:

Current version	Proposed version
<i>Article 5</i>	<i>Article 5</i>
<i>Share capital and shares</i>	<i>Share capital and shares</i>
<i>[omission]</i>	<i>[unchanged – omission]</i>
<i>The Board of Directors is assigned, pursuant to Article 2443.2 of the Italian Civil Code, the faculty to increase the share capital in accordance with the matters indicated below:</i>	<i>The Board of Directors is assigned, pursuant to Article 2443.2 of the Italian Civil Code, the faculty to increase the share capital in accordance with the matters indicated below:</i>
<i>[omission]</i>	<i>[unchanged – omission]</i>
<i>- faculty to increase the share capital against payment, in one or more tranches, as from 1 March 2018 and until 31 March 2018, with exclusion of the purchase option pursuant to Article 2441.5 of the Italian Civil Code, by means of the</i>	<i>- faculty to increase the share capital against payment, in one or more tranches, as from 1 March 2018 and until 31 30 March 2018, with exclusion of the purchase option pursuant to Article 2441.5 of the Italian Civil Code, by means of</i>

Current version	Proposed version
<p>issue of a maximum total of 250,000,000 ordinary shares lacking par value to be used for the subscription by “Bank Otkritie Financial Corporation” (Public Joint-Stock Company). The subscription price of the shares issued during each tranche, inclusive of any share premium, will amount to EUR 0.06. In any event, it is understood that the amount of the increase which may possibly remain as of 31 March 2018 after the subscription of any tranches up until that date, will in any event be subscribed for the entire amount if, as of that date, the loan disbursed by the aforementioned party in favour of Tiscali Group companies has not been fully reimbursed (in terms of principal, interest, expenses and anything else).</p> <p>[omission]</p>	<p>the issue of a maximum total of 250,000,000 ordinary shares lacking par value to be used for the subscription by “Bank Otkritie Financial Corporation” (Public Joint-Stock Company) Rigensis Bank AS (and/or any other party who may be the owner of the receivables as per the loan agreement entered into on 22 October 2015 between Aria S.p.A. and Rigensis Bank AS, as amended on 16 December 2015 and in accordance with any subsequent amendment).</p> <p>The subscription price of the shares issued during each tranche, inclusive of any share premium, will amount to EUR 0.06. In any event, it is understood that the amount of the increase which may possibly remain as of 31 30 March 2018 after the subscription of any tranches up until that date, will in any event be subscribed for the entire amount if, as of that date, the loan disbursed by the afore-mentioned party in</p>

Current version	Proposed version
	<i>favour of Tiscali Group companies has not been fully reimbursed (in terms of principal, interest, expenses and anything else).</i> <i>[unchanged – omission]</i>

- 5) at the time of execution of the mandate, the Board of Directors shall provide adequate disclosure to the market with regard to the economic-equity and financial effects of the transaction, as well as the effects on the unit value of the shares and the dilution deriving from the transaction;
- 6) the Article of Association amendment proposed does not fall within any of the cases of withdrawal as per the Articles of Association and the applicable regulatory and legal provisions.

* * *

Therefore, we hereby propose that a resolution be adopted in line with the following proposal:

“Tiscali S.p.A.’s extraordinary shareholders’ meeting, having acknowledged the Directors’ Report, having heard the Chairman’s statement, and having duly noted the declaration of the board of statutory auditors that the current share capital amounts to EUR 169,076,822.67, divided up into 3,145,281,893 ordinary shares lacking par value, fully subscribed and paid in;

r e s o l v e s

1. *to delegate the Board of Directors, pursuant to Article 2443 of the Italian Civil Code, with the faculty to increase the share capital in one or more tranches, with exclusion of the purchase option pursuant to Article 2441.5 of the Italian Civil Code, under the terms and conditions as per the aforementioned “Directors’ Report” and the Article of Association amendments as*

per point 2 below;

2. *consequently, to cancel the current mandate to increase the share capital in favour of “Bank Otkritie Financial Corporation” (Public Joint-Stock Company) and to amend the second point of Article 5 of the Articles of Association as follows: “faculty to increase the share capital against payment, in one or more tranches, as from 1 March 2018 and until 30 March 2018, with exclusion of the purchase option pursuant to Article 2441.5 of the Italian Civil Code, by means of the issue of a maximum total of 250,000,000 ordinary shares lacking par value to be used for the subscription by Rigensis Bank AS (and/or any other party who may be the owner of the receivables as per the loan agreement entered into on 22 October 2015 between Aria S.p.A. and Rigensis Bank AS, as amended on 16 December 2015 and in accordance with any subsequent amendment). The subscription price of the shares issued during each tranche, inclusive of any share premium, will amount to EUR 0.06. In any event, it is understood that the amount of the increase which may possibly remain as of 30 March 2018 after the subscription of any tranches up until that date, will in any event be subscribed for the entire amount if, as of that date, the loan disbursed by the afore-mentioned party in favour of Tiscali Group companies has not been fully reimbursed (in terms of principal, interest, expenses and anything else).*
3. *to grant the Board of Directors, and on behalf of the same its Chairman and the Chief Executive Officer pro tempore in office, acting separately and also via special executive officers appointed for the purpose, the widest powers without any exclusion, necessary or appropriate for executing the above resolutions and exercise the faculties forming the subject matter of the same, as well as make any amendment, addition or cancellation to the shareholders’ resolutions, which may become necessary, upon the request of any competent authority or at the time of registration with the Companies’*

Register, in representation of the Company.”

* * *

Dear Shareholders,

deferring the illustration of points 1, 2 and 3 of the ordinary part and point 5 of the extraordinary part until the reports made public by the legal deadlines, we invite you to express your opinion on the proposals illustrated above.

Cagliari, Italy, 15 January 2016.

Tiscali S.p.A.

on behalf of the Board of Directors

The Chairman, Renato Soru