



TISCALI S.p.A.

Registered office in Cagliari, località Sa Illetta, S.S. 195 km 2,3

Paid up Share Capital EUR 103.007.322,89

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

**REPORT OF THE BOARD OF DIRECTORS**

Dear Noteholders,

this report, drawn up pursuant to article 125-ter of Legislative Decree no. 58/1998, aims to provide the necessary information on the proposal referred to the item on the agenda of the Noteholders Meeting dedicated to the Noteholders of the unsecured debenture loan convertible and converting "Tiscali conv 2016-2020" - cod. ISIN 0005214827) convened with a sole convocation for the 14th of December 2017 at 11:00 am at the Tiscali's registered office in Cagliari to deliberate on the following topic:

*"amendment of the unsecured debenture loan convertible and converting "Tiscali conv 2016-2020", approved by the shareholders meeting of the company on September 5, 2016. Related amendments of art. 5 of the Statute. Related and consequent resolutions".*

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Before proceeding with the illustration of the proposal, we remind you of the following:

a) the Shareholders Meeting of the Company of 5 September 2016 resolved to approve:

(i) the issue of an unsecured debenture loan convertible and converting "*Tiscali conv 2016-2020*" for a total maximum amount of 18,500,000.00 euros - reserved to qualified investors pursuant to art. 34-ter, paragraph 1b) regulation adopted with Consob resolution no. 11971/ 1999 – through the issuance of such a number of notes in the denomination of Euro 500,000.00 per note, available for the subscription until 31 January 2017, with a fixed price of EUR 0.06 per share for the conversion of the debentures (the "**Debenture Loan**"); and

(ii) a share issue by cash payment, in tranches with the exclusion of the right of option pursuant to art. 2441, paragraph 5 of the Civil Code, for a total maximum amount of 18,500,000.00 euros, through the issue of a maximum number of 308,333,333 ordinary Company shares (having considered the necessary rounding, rounded down), devoid of nominal value and having the same features as the ordinary actions in circulation, reserved for the conversion of the Debenture Loan according to the terms of the relative regulation (the "**Share Issue**");

b) following the offer, 34 convertible debentures with a nominal value of EUR 500,000 each, for a total of EUR 17 million, were subscribed on September 7 2016 to, in equal parts, by Rigensis Bank AS and Otkritie Capital International Limited, pursuant to the Subscription Agreement (as described in the present document);

c) the Debentures, as per the Regulation currently in force, have the following main features:

- expiring date date: 30 September 2020;
- unit value: 500,000.00 euros;
- interest rate: fixed gross annual percentage rate of 7%;
- conversion price of the Debentures: 0.06 euros per share (Conversion Price);

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- option of early redemption in cash in favour of Issuer;
- option of early conversion in shares at the Conversion Price in favour of bondholders;
- mandatory conversion at the expiration date at the Conversion Price.

The Board of Directors of the Company submits to this Noteholders Meeting the following proposals to amend certain terms and conditions of the Debenture Loan, subject to the approval of the said amendments by the Shareholders Meeting, convened on December 14 2017 at 11:30 AM. as well, involving the consequent amendment of the resolution relating to the Share Issue (the "**Restructuring Transaction**").

**DEFINITIONS**

In the context of this information document, the following terms have the meaning given below.

<b>Subscription Agreement</b>	The agreement concluded on 29 July 2016, with which Rigensis and OCIL (Bondholders) committed to subscribe the Debentures – directly or through a person to be nominated – for a total amount equal to 17 million euros.
<b>Meeting</b>	The extraordinary shareholders meeting of the Company, scheduled, in a single convening, for December 14, 2017.
<b>Share Issue</b>	Tiscali's share issue by cash payment, in tranches, with the exclusion of the right of option, pursuant to art. 2441, paragraph 5 of the civil code, for an overall maximum value of 18,500,000.00 euros, inclusive of premium, to be released on one or several occasions, through the issue of a maximum no. of 308,333,333 ordinary shares of the Company, devoid of nominal value, with the same features of the ordinary shares in circulation, dedicated to the right of conversion of Debentures into newly issued ordinary shares of the Company, approved by the Shareholders' Meeting on 5 September 2016.
<b>Issuer, Company or Tiscali</b>	Tiscali S.p.A., with registered office in Cagliari, Località Sa Illetta, SS. 195, Km. 2.300, share capital of 103.007.322,89 euros, fully paid up, tax code and Cagliari Register of Companies no. 02375280928.
<b>Group or Tiscali Group</b>	The group of companies belonging, directly or indirectly, to the Issuer.
<b>Debentures</b>	The following Tiscali debentures: (i) no. 34 convertible debentures, for a nominal value of Euro 500,000.00 each, for a total value of 17,000,000.00 euros, which have been issued between 30 September 2016 and 31 January 2017 in the context of the Debenture Loan; and (ii) n. 3 convertible debentures, for a nominal value of Euro 500,000.00 each, for a total value of 1,500,000.00 euros, to be issued pursuant to the Restructuring Transaction described in this document.
<b>Debenture Loan</b>	The convertible debenture loan issued by the Company, whose terms and conditions can be found in the relative regulation, available at internet address <a href="http://www.tiscali.com">www.tiscali.com</a> , and briefly illustrated in this information document, as necessary for the understanding of the Restructuring Transaction.

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<b>Issuers' Regulation</b>	The regulation adopted with CONSOB resolution no. 11971 dated 14 May 1999, as subsequently amended and integrated.
<b>OCIL</b>	Otkritie Capital International Limited, with legal office in 12th Floor, 88 Wood Street, London, EC2V 7RS, UK. It should be noted that OCIL was the shareholder of the Issuer with a total shareholding of 157,000,000 shares equal to approximately 4.5% of the Issuer's share capital and that on November 9, 2017, OCIL communicated to the Issuer the sale of the above mentioned shares. At the date of the Board of Directors' resolution of 13 November 2017, therefore, OCIL is not related to the Issuer.
<b>Rigensis Bank</b>	Indicates Rigensis Bank AS, with registered office in Teatra Street no. 3, Riga, Latvia. Rigensis Bank is not related to the Issuer.
<b>Consolidated Law on Financial Intermediation Regulation</b>	Legislative Decree no. 58, dated 24 February 1998.
<b>Regulation</b>	The regulation relating to the Debenture Loan, available at internet address <a href="http://www.tiscali.com">www.tiscali.com</a> .
<b>Residual Debentures</b>	The Tiscali Debentures, for a total amount of Euro 1.500.000 which, as of January 31, 2017, have not been subscribed and which can be subscribed and issued pursuant to the terms and conditions of the Restructuring Transaction described in this document.
<b>Additional Shares</b>	The maximum no. of 221.666.667 ordinary shares of Tiscali which is to be added to the total n. of 308.333.333 of ordinary shares already available for the conversion of the Debenture Loan, so that the total number of shares available for the conversion of the Debenture Loan will be, following the approval of the Restructuring Transaction, n. 530.000.000 ordinary shares.
<b>New Conversion Price</b>	Price per share corresponding to the volume-weighted average of the official prices of the shares recorded during the last two months preceding the date of request of conversion.
<b>Restructured Debenture Loan</b>	The Debenture Loan amended according to the terms and conditions of the Restructuring Transaction described in this document.
<b>Shareholders Illustrative Report</b>	The illustrative report pursuant to art. 72 of the Issuers' Regulation approved by the Board of Directors of the Company on 13 November 2017, available on the

## **1. INFORMATION RELATING TO THE TRANSACTION**

### **1.1 Description of the features, procedures, terms and conditions of the operation - features, rationale and allocation of the Residual Debentures and of the Additional Shares**

#### **1.1.1 Amendments of the Regulation**

The project of the amendment of the Debenture Loan and of the resolution relating to the Share Issue were approved by the Board of Directors on November 13, 2017 and the New Conversion Price was determined based on what is set out in article 2441, paragraph 6, of the Italian civil code.

The proposal of the amendment of the Debenture Loan will be also submitted to the Shareholders Meeting which has been called for December 14, 2017, at 11.30 am.

It is envisaged that the Regulation, subject to the approval of the Shareholders Meeting, is amended as follows:

A) extension of the Subscription Period (as defined in the Regulation), for the subscription of the unsubscribed residual amount of the Debentures of Euro 1,5 million, from January 31 2017 to January 31 2018;

B) amendment of the Conversion Price (as defined in the Regulation) from Euro 0,06 to the New Conversion Price;

C) increase in the number of ordinary shares to be issued for the conversion of the Restructured Debenture Loan, up to a maximum n. of 221.666.667 ordinary shares, so that the total number of shares available for the conversion of the Restructured Debenture Loan will be increased from n. 308.333.333 to maximum n. 530.000.000 ordinary shares;

D) introduction of any further possible amendments to the Regulation which will be necessary in light of the amendments sub A) through C) above,

being understood that all other terms and conditions of the Regulation will remain unchanged.

#### **1.1.2 Phases of the operation**

From an operative standpoint, the transaction will be implemented through the following steps:

- (i) approval of the Restructuring Transaction by the Noteholders Meeting, pursuant to art. 2415 of the Italian Civil Code;
- (ii) approval of the Restructuring Transaction by the Extraordinary Shareholders Meeting.

### **2.1 Reason for the amendment of the Debenture Loan**

As of the date of this document, the Company has not fulfilled the contractual provision included in the terms and conditions of the Debenture Loan, which envisaged, on 30 September 2017, the payment of interest accrued in the half-year closed on the same date, amounting to approximately Euro 600 thousand. The terms and conditions of the Debenture Loan provide that if the Issuer is unable to make the aforementioned payment within 5 days of the due date, the Bondholders may default the company in order to make early repayment the amount of the entire amount of the Debenture Loan (the "Default"), which at the date of this document amounts to approximately Euro 17,600 thousand. It should be noted that on October 13 2017 the Bondholders responded to the Issuer's request to accept a maximum extension on November 28 for payment of half-year interest expired on 30 September. In addition to the other negotiations in progress with the Banking Class and Pool Leasing, for details referred to in paragraph 1.2 of the Shareholders Illustrative Report, the Directors consider that they can not proceed with the payment of such interest without prejudice to the outcome of the negotiations.

Therefore the Directors, in order to prevent the Bondholders from making the payment execution request of the whole debt or interests - that in the context indicated may not occur , with the risk of cross-default on the remaining loans and aggravation of the company's uncertainties on going concern as mentioned in the previous section 1.2 of the Shareholders Illustrative Report - have initiated a renegotiation of the terms and conditions of the Debenture Loan. This proposal for capital increase represents the outcome of the negotiation process, which provides for modification of the terms and conditions of the Debenture Loan as described in paragraph 2.1 of the Shareholders Illustrative Report and following.

In particular, from this negotiation process has emerged the willingness of the Bondholders to proceed with the conversion of the Debenture Loan into shares; in the light of current stock quotes, as a matter of fact, the Directors find it unlikely that Bondholders exercise the option, which is not convenient. In addition, as indicated in Premise., the Terms and Conditions of the Debenture Loan foresee the mandatory conversion in the capital at the deadline set for September 30, 2020; in this regard, however, the Directors believe that the state of criticality on the recurrence of the assumption of business continuity resulting from the failure to pay interest payments by 28 November previously described, and the consequent need to obtain the conversion of the Debenture Loan before its natural maturity, makes it unlikely the assumption of conversion, on the Issuer and the Bondholders, of its bond maturity to its natural maturity.

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The non-probability of realizing the two hypotheses of immediate or natural maturity leads the Directors to believe that the benefits arising from the hypothetical restructuring of the Debenture Loan are indispensable for achieving the objectives of the Plan and reconfirms the assumption of business continuity in the next 12 months; such benefits are in particular: (i) eliminating default risk, (ii) improving financial leverage by reducing Net Financial Position and increasing shareholders' equity, and (iii) eliminating the obligation to pay interests on the Debenture Loan with the risk of stiffening of the financial institutions or the Pool Leasing in the finalization of the Group's Net Financial Position restructuring, as described in Par. 2.1 of the Shareholders Illustrative Report.

The Directors therefore propose to amend the original terms of the Debenture Loan in order to increase the probability of exercising the right of conversion to the Bondholders.

In assessing the economic viability of the proposed modification of the Debenture Loan, in the context of the above-mentioned negotiation process, the Directors considered the adverse effects of the potential default condition, such as (i) fluctuations in the value of the stock market capitalization of other listed issuers Italy and the rest of the World over the past 10 years as a result of default disclosure, which could result in a reduction in the issuer's capitalization value, and (ii) the financial cost of the default, calculated as incremental financing cost as a result of creditworthiness deterioration, which, in spite of the uncertainty of the possibility of access to the credit market, would result in an increase in financial burden incompatible with the Issuer's business plan. In view of the adverse effects mentioned above, the Directors considered the potential benefits of the Restructuring Transaction, such as the increase in the probability of early exercise of the right of conversion by the Bondholders and consequently the loss of interest payable in the future on the Debenture Loan.

The Directors - considering the analyzes previously carried out that highlighted (i) the possible risk of fault of business continuity, (ii) the possible significant loss of capitalization following the communication of Default, (iii) the aforementioned incremental refinancing costs respect to the benefit, and (iv) the possible reduction in future financial charges in the case of early conversion – consider that the amendment to the Debenture Loan rule presents doubtless advantages to the Group and to the Issuer's shareholders, as foreseen by art. 2441, paragraph 5 of the Civil Code, which requires valuable arguments to exclude some shareholders from the right to subscribe the share capital increase to serve the conversion of the bonds.

## **2. UPDATED INFORMATION ON THE ISSUER**

For information on the business as well as on the economic, financial and financial position of the Issuer and its group, the noteholders are invited to consult the Illustrative Report on the Restructuring Operation, approved by the Company's Board of Directors on 13 November 2017, available on the Company's website [www.tiscalì.com](http://www.tiscalì.com).

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**Resolutions proposed to the Noteholders Meeting.**



With reference to the above, the Board of Directors submits to you the following proposals:

**Proposals of resolution**

“The Noteholders Meeting,

- having examined the report of the Board of Directors and the proposals therein contained,

**resolves**

- 1) *to approve the following amendments to the unsecured debenture loan convertible and converting “Tiscali conv 2016-2020”, approved by the shareholders meeting of the company on September 5, 2016 (“**Debenture Loan**”):*
  - (i) *extension of the subscription period for the subscription of the unsubscribed residual amount of the debentures of Euro 1,5 million, from January 31, 2017 to January 31 2018;*
  - (ii) *amendment of the conversion price provided for by the Debenture Loan from Euro 0,06 per share to an amount equal to the volume-weighted average of the official prices of the shares recorded during the last two months preceding the date of request of conversion;*
- 2) *to amend, consequently, articles 1, 2, 7 and 10 of the regulation of the Debenture Loan which, in the updated text, is attached to these minutes under letter [•];*
- 3) *to give mandate to the Board of Directors and, through it, to the President and Managing Director in order for them, to provide, individually, with the widest of powers, also through attorneys in-fact : (i) to execute the resolutions passed, with the power to make any changes required by the competent Authorities, in addition to any modifications required at the time of registration at the Register of Companies, providing also to the submission of the updated text of the Statute at the end of the approved operation; as well as (ii) to carry out all that might be required, necessary and useful for the complete implementation of what decided’.*

In accordance with Article 2415(3) Civil Code, the noteholders’ meeting is subject to the rules governing extraordinary shareholders’ meetings of joint-stock companies. Consequently, given that the Meeting is being held at a single call, pursuant to Article 2369 Civil Code, the Meeting is formed when at least one fifth of the total nominal value of the notes is represented and resolutions are taken with the favourable vote of at least two thirds of the total nominal value of the notes represented at the Meeting.

**Riccardo Ruggiero – CEO Tiscali S.p.A.**