

tiscali:

TISCALI S.p.A.

Registered office: Sa Illetta, S.S. 195 km. 2.3, Cagliari, Italy.

Paid-in share capital EUR 169,076,822.67

Tax code, VAT Number and enrolment number in the
Cagliari Companies' Register 02375280928

REPORT OF THE BOARD OF DIRECTORS DRAWN UP IN ACCORDANCE WITH ARTICLE 3
OF ITALIAN MINISTERIAL DECREE No. 437/1998 AND ARTICLE 125 *TER* OF ITALIAN
LEGISLATIVE DECREE No. 58/1998

Introduction

Dear Shareholders,

This report, drawn up in accordance with Article 3 of Italian Ministerial Decree No. 437/1998 and Article 125 *ter* of Italian Legislative Decree No. 58/1998, has the purpose of providing the necessary information on the proposal as per the third 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:

"2015-2019 Stock Option Plan concerning ordinary Tiscali S.p.A. shares reserved for the Chairman of the Board of Directors of the Company Renato Soru. Related and consequent resolutions."

It is hereby specified that the proposed share capital increase serving the 2015 - 2019 Stock Option Plan, illustrated by means of specific report drawn up in accordance with Articles 125 *ter* of the Consolidated Finance Law and 72 of Consob Regulation No. 11971/1999 as subsequently amended and supplemented (the "Issuers' Regulations"), will be submitted for the examination and approval of the Company's shareholders' meeting called for 16 February 2016 in sole calling, under the fifth point of the extraordinary session. For further information on the proposed share capital increase serving the 2015 - 2019 Stock Option Plan, reference is made to the related illustrative report, as well as the matters concisely illustrated in Section 2 below.

The disclosure document on the 2015 - 2019 Stock Option Plan, drawn up in accordance with Article 84 *bis* of the Issuers' Regulations and in compliance with Attachment 3A of the same regulations, will be made available to the general public as per the formalities and terms of the law and can be consulted on the Company's website www.tiscali.com (Governance / Shareholders' meeting section).

1. Reasons for the adoption of the 2015 - 2019 Stock Option Plan

The Board of Directors submits the proposal for adoption of the "2015-2019 Stock Option Plan" (the "Stock Option Plan") reserved for the Chairman of the Board of Directors of the Company Renato Soru (the "Beneficiary"), or his heirs, for the examination and approval of the shareholders, a plan to be implemented by means of the assignment of options free of charge (the "Options") valid for the subscription of newly-issued ordinary shares of the Company.

The Stock Option Plan involves a maximum of 251,622,551 Options, valid for the subscription of a maximum of 251,622,551 ordinary Tiscali shares, at a ratio of 1 ordinary share for each Option assigned and exercised under the terms and formalities established in the regulations of the 2015 - 2019 Stock Option Plan.

You are hereby reminded that, in the context of the merger transaction between the activities of the Company and the Aria Group achieved by means of the merger via incorporation (the "Merger") of

Aria Italia S.p.A. in Tiscali S.p.A., the reference shareholders of the Tiscali Group and the Aria Group entered into an agreement on 25 September 2015 containing significant shareholder terms pursuant to Article 122 of the Consolidated Finance Law (the "Shareholders' Agreement") which contains, amongst other aspects, provisions relating to the adoption of an incentive plan by the company emerging from the Merger. For greater information, please see the documentation published in accordance with the law on the website www.tiscali.com (Company / Shareholders' Agreements section).

The 2015 - 2019 Stock Option Plan is a fundamental instrument for the purpose of retaining a key figure of the company, also on conclusion of the integration of the two industrial groups. Therefore, the Board of Directors, on a consistent basis with the common and consolidated practices also in the international sphere, as well as on a consistent basis with the practices followed by the same Company in the past, believes that the Stock Option Plan represents - for a party who has covered and will cover a strategic and decisive role for the success of the Company and the Group - an on-going incentive to maintain suitable operating standards, improve the Group performances, also increasing the competitiveness of the Group and creating value for the shareholders.

With regard to the incentive remuneration based on stock option plans, you are hereby informed, amongst other aspects, that the adoption of remuneration plans based on shares is essentially in line with the matters recommended by Article 6 of the Code of Conduct of Borsa Italiana S.p.A..

2. Purpose and implementation methods of the 2015 - 2019 Stock Option Plan

The 2015-2019 Stock-Option Plan envisages the assignment without payment of Options which permit, under the conditions established by said Plan, the subsequent subscription of ordinary Tiscali shares, with settlement by means of physical delivery. Each Option assigned grants the Beneficiary the right to subscribe 1 ordinary newly-issued Tiscali share, with regular dividend rights, against the payment to the Company of the strike price, as identified below. The Options assigned can be exercised by the Beneficiary in three tranches. The 2015-2019 Stock Option Plan has a duration until 24 June 2019, expiry date for the exercise of the third tranche.

The issue price of the new ordinary shares of the Company subject to the share capital increase proposal and, consequently, the strike price of the Options, will be equal to:

- for the first tranche of Options ("First Tranche"), comprising 157,264,095 Options, for the subscription of an equal number of ordinary Tiscali shares, to be exercised between 24 December 2016 and 24 December 2018 at a unit price per share of EUR 0.060;
- for the second tranche of Options ("Second Tranche"), comprising 47,179,228 Options, for the subscription of an equal number of ordinary Tiscali shares, to be exercised between 24 December 2017 and 24 December 2018 at a unit price per share of EUR 0.069;

- for the third tranche of Options (“Third Tranche”), comprising 47,179,228 Options, for the subscription of an equal number of ordinary Tiscali shares, to be exercised between 24 December 2018 and 24 June 2019 at a unit price per share of EUR 0.078.

The issue price of the ordinary Tiscali shares serving the 2015 - 2019 Stock Option Plan was established on the basis of negotiation between the Company and the Beneficiary; additional information on the methods for fixing the price is shown in other disclosure documents serving the shareholders’ meeting. Furthermore, the Board of Directors specified 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.

As of the date of this Report Tiscali’s subscribed and paid-in share capital amounted to EUR 169,076,822.67, divided up into a total of 3,145,281,893 ordinary shares, lacking indication of the par value. The maximum number of ordinary shares serving the 2015 - 2019 Stock Option Plan corresponds to 8% of the subscribed and paid-in share capital of the Company as of the date of effectiveness of the merger with the Aria Group.

With regard to the execution of the Stock Option Plan, the proposal to increase the share capital, against payment and in several tranches, by the deadline of 24 June 2019, for a maximum amount of Euro 16,371,192.25 to be booked to capital, with exclusion of the purchase option as per Article 2441, sections 5 and 6 of the Italian Civil Code, by means of the issue of a maximum of 251,622,551 new ordinary Tiscali shares, to be reserved for subscription by the Beneficiary, will be submitted to the Company’s extraordinary shareholders’ meeting called for 16 February 2016, in sole calling, under the fifth point on the agenda of the same. For further details on the proposed share capital increase serving the Plan, reference is made to the related illustrative report drawn up in accordance with Articles 125 *ter* of the Consolidated Finance Law and 72 of the Issuers’ Regulations, available to the general public as per the terms of the law and which can be consulted on the Company’s website www.tiscali.com (Governance / Shareholders’ meeting section).

The Company shall make the ordinary shares due to the Beneficiary available to the same, further to the exercise of the Options under the terms and as per the formalities established in the regulations of the 2015 - 2019 Stock Option Plan.

3. Beneficiary of the 2015 - 2019 Stock Option Plan

The Beneficiary of the Stock Option Plan is the Chairman of the Board of Directors of the Company, Renato Soru, or his heirs.

4. Duration of the 2015 - 2019 Stock Option Plan and exercise of the Options

The expiry of the 2015-2019 Stock Option Plan, understood as the last subscription date of the share capital increase serving the same, is 24 June 2019.

The Stock Option Plan envisages the assignment of 251,622,551 Options, which provide the right to subscribe an equal number of ordinary newly-issued Tiscali shares. All the Options will be assigned to the Beneficiary in a single go and will mature according to the First Tranche, the Second Tranche and the Third Tranche. The Options shall have an “American” exercise method, so that they can be exercised at any time during the course of the three Tranches.

The 2015-2019 Stock-Option Plan envisages that the Board of Directors may suspend, in specific periods of the year and for justified reasons, the exercise by the Beneficiary of the Options, if this corresponds with the interests of the Company and/or appears appropriate in relation to needs to safeguard the market. In this case, a specific written communication will be provided by the Board of Directors to the Beneficiary.

In the Plan regulations, the Board of Directors shall also have the faculty to define the timescale for the assignment of the Options, possibly limiting the same also in relation to the moment of divulgation of possible significant information as per Article 114.1 of the Consolidated Finance Law. The 2015-2019 Stock-Option Plan also envisages that the exercise of the Options by the Beneficiary be suspended in the period running between:

- (i) the day when: (a) the Board meeting is held which resolved the calling of the shareholders' meeting called to approve (1) the annual financial statements; and/or (2) the distribution of dividends; and; (b) the date when the related meeting is effectively held (or, in the event of resolution concerning the distribution of dividends, the date after that of detachment of the coupon);
- (ii) the day after the end of each accounting period (31 March, 30 June, 30 September and 31 December) until the date of initial disclosure of the economic-financial data for the period (final or forecast).

5. Limits on the transfer of the Options

The 2015-2019 Stock Option Plan envisages that the Options be assigned on a personal level and that they can be exercised solely by the Beneficiary, under the terms as per the regulations of the same plan. The Options cannot be transferred, for any reason, unless due to *mortis causa*, or traded, afforded as pledge or subject to any other real right and/or granted as collateral by the Beneficiary, unless in accordance with the provisions of the law.

The Options will become null and it will not be possible to exercise them further to attempted transfer or trading, including therein, by way of example, any attempt to transfer by deed among the living, affording as pledge, attachment or distraint of the Options or part of the same.

Restrictions on the transfer of the ordinary shares of the Company subscribed after the exercise of the Options are not envisaged.

With regard to any matters not expressly detailed in this Report, reference should be made to the Disclosure Document drawn up in accordance with Article 84 *bis* of the regulations adopted by means of Consob resolution No. 11971/1999, and the report of the Directors drawn up in accordance with Article 72 of the Issuers' Regulations, available to the general public as per the terms of the law and which can be consulted on the Company's website www.tiscali.com (Governance / Shareholders' meeting section).

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

Proposal

The Ordinary shareholders' meeting of Tiscali S.p.A.:

- (i) having examined and approved the illustrative Report of the Board of Directors,*
- (ii) having regard to the fairness opinion issued by the independent auditing firm Ernst & Young,*

resolves:

"1) to approve the establishment of a stock option plan entitled "2015 - 2019 Stock Option Plan" with the characteristics indicated in the Report of the Board of Directors and attached hereunder "...", authorising said Board to adopt the related regulations;

2) to grant the Board of Directors all the powers necessary or appropriate for executing the "2015 - 2019 Stock Option Plan", as well as carrying out any act, fulfilment, formality, communication which is necessary or appropriate for the purposes of the management and/or implementation of said plan, including therein the related regulations, with the faculty to delegate its powers, duties and responsibilities with regard to the execution and application of the plan to the Chairman, Deputy Chairman and/or one or more directors in office pro tempore of Tiscali S.p.A., also acting separately. The adoption of the "2015 - 2019 Stock Option Plan" and any related amendment and/or addition are in any event the responsibility of the Board of Directors in collective form."

On behalf of Tiscali S.p.A.'s Board of Directors

The Chairman and Chief Executive Officer

Renato Soru