Tiscali Group
Annual Financial Report as at 31 December 2016

Issue date 31 December 2016

This report is available on the website www.tiscali.it

Tiscali S.p.A.

Registered office: SS195 Km 2.3, Sa Illetta, Cagliari, Italy

Share Capital EUR 91,200,922.89

Cagliari Companies' Register and VAT No. 02375280928 Econ. & Admin. - 191784

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1 Highlights

Income statement (*) (**)	2016 – before IFRS 5 reclass.	2016 – after IFRS 5 reclass.	2015 – before IFRS 5 reclass.	2015 – after IFRS 5 reclass.
(EUR mln)				
Revenue	207.2	196.9	202.1	192.6
Adjusted Gross Operating Result (EBITDA)	41.5	38.4	56.2	53.5
Gross Operating Result (EBITDA)	30.1	27.1	39.1	36.4
Operating profit	(35.5)	(28.4)	(1.9)	(2.1)
Statement of financial position		**31 December 2016**	**31 December 2015**	**31 December 2015**
(EUR mln)				
Total assets		291.8		290.5
Net Financial Debt		(186.7)		(165.6)
Net Financial Debt as per Consob		(191.0)		(173.1)
Shareholders' equity		(167.6)		(121.4)
Investments		56.7		38.1
Operating figures		**31 December 2016**	**31 December 2015**	**31 December 2015**
(000)				
Total number of Clients		**697.1**		**686.6**
of which: Broadband		*449.7*		*438.8*
of which Fixed Wireless (1)		*75.0*		*103.0*
of which: Mobile (Voice and Data) (2)		*166.0*		*136.0*
of which: Others		*6.3*		*8.8*

(*) The figures for the year ended 31 December 2016 are not comparable with the data as of December 31, 2015, as they include the economic values of Aria Group, which was integrated into Tiscali Group on December 2015.
(**) The economic and asset values related to the assets held for sale have been appropriately reclassified. For further details refer to the note.
(1) It is also noted that Fixed Wireless customers include as of December 31, 2016 a number of former inactive customers waiting to be activated of approximately 25,000 units.
(2) It is noted that the Company has modified the criterion for determining the number of Mobile (Voice and Data) customers in line with the criterion used by other telecom operators, defining the total number of Mobile customers as the number of customers with traffic in the last 6 months, instead of the number of customers with traffic only in the last month. Consequently, in order to make comparable figures for 2016, the number of mobile customers (data and voice) as at December 31, 2015 has been restated using the new criterion, ranging from 116.5 thousand units (data published on 31 December 2015) to 136,000 units (restated on the same date).

2 Alternative performance indicators

In this report on operations, in addition to the conventional indicators envisaged by the IFRS, a number of alternative performance indicators are present (EBITDA and Adjusted EBITDA) used by Tiscali Group management for monitoring and assessing the operational performance of the same and given they have not been identified as an accounting measure within the sphere of the IFRS, must not be considered as alternative measures for the assessment of the performance of the Tiscali Group's result. Since the composition of the EBITDA and Adjusted EBITDA is not regulated by the reference accounting standards, the calculation criteria applied by the Tiscali Group might not be the same as that adopted by others and therefore may not be comparable.

With regard to these indicators, on 3 December 2016 Consob issued its Communication no. 92543/15 which refers to the Guidelines promulgated on 5 October 2015 by the European Security and Market Authority about their presentation in the regulated information disseminated or in prospectuses published starting from 3 July 2016. These regulations, which revise the prior CESR recommendation (CESR/05 – 178b), are directed at promoting the usefulness and transparency of the alternative performance indicators included in the regulated information or in the prospectuses falling within the scope of Directive 2003/71/EC in order to improve their comparability, reliability and understandability.

In accordance with the aforementioned communications, the criteria applied for the construction of these indicators are provided below.

The Gross Operating Result (EBITDA) and the Gross Operating Result before the write-down of receivables (Adjusted EBITDA) are economic performance indicators not defined by reference accounting standards and are formed as indicated below:

Pre-tax profit

+ Financial charges
- Financial income

Operating profit

+ Restructuring costs and other write-downs
+ Amortisation/depreciation

Gross Operating Result (EBITDA)

+ Write-downs of receivables from customers

Gross Operating Result (Adjusted EBITDA)

3 Directors and Auditors

Board of Directors

Chairman: Alexander Okun (4) (5) (6)

Chief Executive Officer: Riccardo Ruggiero (4) (5)

Sergey Sukhanov (2)
Dmitry Gavrilin (2) (4) (5)
Paola De Martini (*) (1) (2) (3)
Anna Belova (*) (1) (2) (3) (5)
Franco Grimaldi (*) (1) (2) (3)
Renato Soru (4) (5)
Alice Soru

(*) Independent directors
(1) Audit and Risk Committee
(2) Appointment and Remuneration Committee
(3) Committee for Related Party Transaction
(4) Investment Committee
(5) Extraordinary Financial Transactions Committee
(6) Appointed Chairman with Board of Directors Resolution of 22 July 2016

Board of Statutory Auditors

Chairman
Paolo Tamponi

Statutory Auditors
Emilio Abruzzese
Valeria Calabi

Alternate Auditors
Federica Solazzi Badioli
Augusto Valchera

Executive in charge of drawing up the corporate accounting documents
Pasquale Lionetti

Independent Auditing Firm
EY S.p.A.

Report on Operations

4 Report on Operations

The Tiscali Group opted to present the Parent Company report on operations and the consolidated report on operations in a single document, assigning greater importance, where appropriate, to the significant questions for all the companies included in the scope of consolidation.

4.1 Tiscali's position within the market scenario

Tiscali S.p.A. (hereinafter also "Tiscali", the "Company" and, jointly with its subsidiaries, the "Group" or the "Tiscali Group") is one of the principal alternative telecommunications companies in Italy that offers to its customers, individuals and corporation alike, a wide range of communication services: Internet access in fixed Broadband and Fixed Wireless Broadband mode, mobile services and value added services.

Furthermore, Tiscali is active in the digital media and online advertising segments via:

- the portal www.tiscali.it, one of the chief Italian portals that in 2016 had an overall network traffic of more than 300 million page views;
- the dealership, Veesible S.r.l. (hereinafter also referred to as "Veesible") responsible for the sale of advertising space of the portal www.tiscali.it but also of other key Italian web properties.

Evolution of the Fixed Broadband Market

As regards the evolution of the market for broadband Internet access from fixed network, the principal market covered by Tiscali, in September 2015 (source: AGCOM latest update) BroadBand Internet access in Italy reached 15.6 million units with an increase by approximately 570 thousand accesses since December 2015. This increase is driven, in particular, by the BroadBand accesses developed on alternative technologies to traditional ADSL, in particular Fiber and BroadBand Fixed Wireless, which in December 2016 reached approximately 3.4 million access, up by 1.2 million accesses since December 2015. This market evolution is consistent with a general and growing bandwidth demand by users, in line with the evolution of applications, in particular video streaming.

In the past 12 months, the Tiscali group adopted a series of actions consistent with the BroadBand market development described above:

- the December 2015 merger with Aria, which enabled the group to expand the market addressable also to the Digital Divide segment thanks to BroadBand Fixed Wireless on 3.5GHz frequency, in particular thanks to the 2016 launch of the new LTE UltraBroadband Fixed Wireless offer under the Tiscali brand. In particular, thanks to the strategic agreement with Huawei, Tiscali became the first operator in Italy to develop a Wireless Fiber To The Home (WFTTH) service with LTE 4G+ technology using last-generation Huawei 8T8R antennas on 3.5GHz frequency, which already allow up to 100MBs of capacity.
- the agreement stipulated in July 2016 and made operational in January 2017 with Open Fiber, to have access to the FTTH (Fiber To The Home) fibre optics network of Open Fiber and to be able to launch services to end customers with up to 1GBps of capacity.

In the fixed network broadband market, Tiscali BroadBand Fixed customer base portfolio grew from December 2015 to Decem ber 2016 of approx.. 11 thousands units: this let Tiscali maintain a substantially stable position with a market share of 3.4% in the month of December 2016 (latest available figure).

The market substantially continues to be continues to be essentially controlled by the incumbents (Telecom Italia, Wind, Fastweb, Vodafone) with a rebalancing of the relative shares in 2016 and growth by Vodafone and Fastweb to the detriment of Wind and Telecom Italia.

The dual-play offers (combining Internet connectivity and Voice services in a single package) are confirmed as the commercial offer most appreciated by consumer and business users.

Mobile Market Evolution

With regard to Mobile services, the Italian market recorded substantial stability in its total number of customers (98.2 million in December 2016 versus 96.9 million in December 2015 – source: AGCOM). The number of customers of Mobile Virtual Network Operators (MVNO), continued to grow, reaching 7.3 million in December 2016.

On the mobile market, where it operates as a MVNO, at December 2016 Tiscali recorded good performance, thanks to a competitive offer for voice-sms and data. The portfolio of Mobile customers reached 166 thousand in December 2016, recording an increase of approximately 22% in the number of MVNO Mobile customers compared to December 2015.

Moreover, the exponential growth of Data traffic on Mobile network continues, having increased in December 2016 by approximately 30% compared to the corresponding period of the previous year, driven by the increasing popularity of Smartphones, Tablets and 3G/4G Wi-Fi modems as well as by the ever-increasing development of mobile applications by online media and companies alike.

To compete ever more successfully in this market, Tiscali recently launched the new Open suite with offers conceived for customers’ different communication needs, simple and without hidden costs or topping up restrictions, with extremely competitive pricing, and that enable customers to access the Internet freely from all technological platforms at the highest performance levels.

Evolution of the Online Advertising Market

In 2016, the online advertising market recorded a negative result overall (-2.3%) because to the growth of the mobile device sector alone (according to FCP: 408 million in 2016 versus 442 million in 2015 on the total market).

In the mobile online advertising sector, the growth was equal to +99% which, however, in absolute terms accounts for 11% of the total market and it only partly offset the decrease in sales on the traditional web segment from desktop.

Mobile advertising remains the key future growth driver, still undervalued nowadays given the currently predominant relevance of the audience generated via the use of mobile devices towards traditional PCs (Audiweb December 2016: 19 million mobile unique users on an average day versus 10.7 million unique PC users, still on an average day).

The macro-economic indicators are still mixed, and they are responsible for the overall market result in 2016.

Nevertheless, the long-term view is retained, with indications of growth in the coming years, especially thanks to the growth expected for the mobile advertising, native advertising and video advertising segments.

Revenues from the business line "Media and value-added services" amount to approximately EUR 15 million in 2016, down by about 25% compared to the year 2015, mainly as a result of the failure to renew in 2016 the contact with one of the major customers (approximately EUR 6.2 million in revenues in 2015).

4.2 Main results obtained in 2016

For the Tiscali Group, 2016 was a year of important changes that significantly transformed its organisation and development strategies.

In particular, in 2016, and in the first months of 2017, the company concentrated on the fundamental objective of returning on a path to growth, refocusing on the core business and on strengthening its financial structure:

- The successful completion of the **operational integration with Aria** which provided Tiscali with important synergies, the acquisition of a strategic asset like 40MHz of spectrum on 3.5GHz frequency and the launch, during the year, of the new UltraBroadBand LTE services under the Tiscali brand;
- The further exploitation of the **3.5GHz frequency, which has become a key for the future developments of 5G services**, as proven by the agreement entered into in 2016 with Fastweb for use of that frequency in urban areas, not strategic for Tiscali's LTE Fixed Wireless coverage plans, for a value of EUR 2.5 million per year from 2018 to 2023, expiring date of license usage rights
- **Return to growth on the core Business**, thanks to the trend reversal, after several years, of the Fixed BroadBand portfolio (+20 thousands customers in the 2nd half of 2016)
- **Refocusing on core activities** through the successful conclusion of the sale of the "Business" business unit to Fastweb, the outsourcing of IT activities to Engineering and the full valorization of OTT activities – even through assets dismissal options;
- **Strengthening the Group's financial structure** by refinancing the group's long-term debt, extending the maturity of the debt and reducing total cost.

<u>Operational integration with Aria</u>

At the end of 2015, the Tiscali Group carried out a business combination with the Aria Group, whereby it expanded its own portfolio of industrial assets, acquiring the licence on 40MHz of spectrum on "technology neutral" 3.5GHz frequency, and the Fixed Wireless proprietary access network, of which Aria is the owner. Tiscali thus became one of the few national operators to have a proprietary End-to-End network infrastructure (Core Network + Access Network), a quintessential asset for operating successfully in the telecommunications market, and thanks to which it is possible to increase the competitiveness of its offers and its overall profitability.

In addition, in 2016 a strategic master agreement was signed with Huawei, involving the supply to Tiscali of last-generation network equipment (core and radio network, radio links and access Base transceiver station) and CPE (Customer Premises Equipment) enabling Tiscali to make investments for EUR 40 million and thus contributing to cover the company's LTE investment needs for the near future.

As a result, in 2016 Tiscali launched a new UltraBroadBand LTE Fixed Wireless service (with bit rate up to 100Mbps) significantly enhancing the offer portfolio in connectivity services and expanding its own market to areas where today it is not present, such as the "Extended" Digital Divide areas where the offer for high capacity UltraBroadBand solution by the other operators is particularly lacking.

The merger con Aria, completed successfully and with the contribution of significant cost synergies for the Tiscali group, also led to important organisational changes, with the appointment of Mr. Riccardo Ruggiero as the new CEO of the Tiscali group in February 2016 and the progressive introduction of a new management team during the year.

Market value of the 3.5GHz spectrum

In 2016, Tiscali entered into an agreement with Fastweb, for the right to use the 3.5GHz spectrum in urban areas, accounting for approximately 20% of the country, thus outside the “Extended” Digital Divide market, which is, as stated, the coverage target of Tiscali’s UltraBroadBand LTE Fixed Wireless services, for a value of EUR 2.5 million per year starting in 2018. To 2023 , expiring date of license usage rights.The value attributed by Fastweb to Tiscali’s 3.5GHz spectrum is far higher than the one at which the same frequencies are recorded in the financial statements, confirming its prospective value.

The above is confirmed by the technological and regulatory developments that took place in 2016 and in the first months of 2017. It emerged ever more clearly that the 3.5GHz frequency owned by Tiscali is an important asset for the development of the future 5G Mobile Data services. In the most recent Mobile World Congress held in Barcelona in March 2017, all main technological vendors together with the ITU, the world’s main standard-setting body in the field of telecommunications, declared that the 3.5GHz frequency is among the first and best suited ones for the development of future 5G UltraBroadBand Mobile Data services and that network equipment and user terminals are starting to go in this direction. During 2017, the 3.5GHz frequency is officially expected to be included in the new smartphone models by the major manufacturers (Samsung, Apple).

In addition, in the early months of 2017, the Italian Government publicly declared its intention to call, within a short time interval, an auction for the assignment of the residual spectrum portions of the 3.4-3.6GHz frequencies (equal to those owned by Tiscali) and 3.6-3.8GHz frequencies, considering them strategic to bring Italy to the forefront in the development of 5G services, substantially confirming the implied prospective value, not yet fully expressed, of the spectrum owned by Tiscali.

However, the timing and the definite terms of such assignments can not be assumed to date.

Return to growth on the Core Business

At the same time, for the Tiscali Group the year 2016 was a fundamental year, which marks the return to growth on the main Core Business indicators. During the year, Tiscali achieved the result of reversing the declining trend of the number of customers on the core Fixed BroadBand Business and accelerating the growth in the number of MVNO mobile customers. In particular, in the second half of 2016 the overall Fixed BroadBand customer portfolio returned to growth, after some years, by approximately 20 thousand customers, from approximately 429 thousand customers in June 2016 to approximately 449 thousand in December 2016. Concurrently, the portfolio of MVNO mobile customers grew by approximately 30 thousand in 2016, reaching a total portfolio of over 166 thousand customers in December.

These positive results were possible, in particular, through a new sales and marketing strategy, focused in particular on:

- an overall rationalisation of the offer;
- a total refocus on the Consumer, SOHO and EMS segments;
- the introduction of a “multichannel” distribution strategy, in part through the integration of the existing structure of ex-Aria physical channels (dealers, stores and installers), this implied an increase in customer acquisition costs
- an improvement of the global customer management processes, which contributed to a reduction in customer terminations. In particular, a process was implemented to unify the Customer Care organisations of Tiscali (previously located in several business areas) and of

Aria under a single area of corporate responsibility, enhancing the response capability and consequently improving the main customer management indicators

- an increase of investments to acquire new customers (SAC including commercial acquisition costs plus CPE costs plus activation costs paid to Telecom Italia) that in 2016 have amounted to approx.. 23 million euro, 9 million euro higher than in 2015 due to the increased number of new customers acquired both on Fixed BroadBand and Mobile segments

In addition, as stated, in 2016 the Tiscali Group launched the new UltraBroadBand LTE Fixed Wireless service with performance up to 100MBs. At the end of 2016, approximately 100 new LTE antennas were installed and approximately 10 thousand customers were activated.

To complete this strategy, an agreement with Open Fiber was negotiated in 2016 and executed in the early months of 2017; it will enable Tiscali to access the Open Fiber access network and to develop offers with up to 1GBps capacity, in particular in urban areas, completing the strategy of development of UltraBroadband services already pursued in the Extended Digital Divide areas with the LTE Fixed Wireless offer.

Nevertheless, without BroadBand Fixed Wireless revenues contribution coming from Aria merge, 2016 revenues marked an overall decrease compared to 2015 due to a 2016 average customer base number lower than 2015 and to an ongoing market price pressure. Positive change in customer base trend occurred just in 2016 second half limiting the positive effect on full year revenues compared to previous year.

<u>Refocusing on Core activities</u>

In 2016, the company also carried out a series of initiatives for the rationalisation of the portfolio of assets managed in order to concentrate and focus on the more strategic activities tied to the development of the Core Business or of the Fixed Broadband, Mobile and BroadBand Fixed Wireless LTE markets.

In particular, the following strategic rationalisation activities were completed in 2016 and in ther first months of 2017:

The sale for EUR 45 million (of which EUR 25 million with wire trasnfer and EUR 20 million in services that can be used immediately and over the next few years) of the “Business” unit which comprises the customers of Tiscali’s Top client segment and the master agreement for connectivity services (SPC) to the public administration to Fastweb. The agreement strengthens Tiscali strategy of refocusing on supplying the Consumer, Soho and SME market with UltraBroadband connectivity, both Fixed Wireless on proprietary network in extended digital divide areas and on Fibre network in the other areas. At the time of closing, which took place on 10 February 2017, Fastweb paid EUR 12.5 million (of which EUR 5 million with wire transfer and EUR 7.5 million in services that can be used immediately and over the next few years), while the remaining EUR 32.5 million (of which EUR 20 million with wire transfer and EUR 12.5 million in services that can be used starting from closing and over the next few years) were paid on 31 March 2017;

- The agreement with Engineering for the “fully outsourced” management of Information Technology services. The 7-year agreement is based on a project to boost the efficiency of the technology infrastructure and of the application platforms, with the goal of coupling an improvement of the service levels for Tiscali customers with higher efficiency of the internal IT Processes, as well as a n expected reduction in their management costs by approximately 20%; starting from the second half of 2017

- The progressive rationalisation of the OTT assets (Indoona, Istella, Streamago). IN particular, Streamago's assets were sold in December 2016 for approximately EUR 1 million (plus EUR 240 thousand for the coverage of the costs of the interim period) and hiring 8 persons currently employed by Tiscali Italia. Negotiations are ongoing to obtain value also from the Istella and Indoon assets. Consequently, the Group made significant write-down of the assets associated with these assets. 2016 OTT related investments has been equal to approx.. 1 million euro. In line with the decision of dismissing such acivities/lines of business not any longer strategic according to last Group Industrial Plan, Tiscali reclassified them in activites held for sale and realigned net book value to likely selling value. Overall effect of such depreciation is equal to 8.6 million euro, classified separately into Income Statements according to IFRS 5 accounting principle.

Strengthening the financial structure

In June 2016, the Tiscali Group signed an agreement to refinance the Group's senior medium and long term debt. The new loan of EUR 88 million, of which EUR 53 million to Intesa San Paolo and EUR 35 million to Banca Popolare di Milano, enabled the repayment in full of the previous senior debt deriving from the Group Facility Agreement (GFA) and to Banca Intesa and to some Hedge Funds, restructured in 2014 and maturing in September 2017.
This transaction enabled a significant strengthening of the Group's financial structure, in particular by extending duration by approximately six year, with new maturity at 31 March 2022 and lower total cost of the loan, with annual interest rate that is over 50% lower than the previous conditions.

In September 2016, the company also completed the subscription of the mandatory convertible bond by Rigensis Bank and Otkritie Capital International Ltd, used mainly to repay the previous financial debt to Rigensis Bank, obtaining an extension of the maturity of the debt (from March 2018 to September 2020), and a reduction of the cost of the debt (from 9% to 7% on the new bond). Moreover, Tiscali has the option of repaying the aforesaid loan at maturity with a dedicated capital increase, already resolved by the shareholders' meeting on 5 September 2016. In addition, Subscribers are entitled to convert this bond into ordinary shares of the Company at a pre-set price of EUR 0.06 per share.

4.3 Regulatory background

The main areas subject to regulatory intervention in 2016 and in the first months of 2017 are summarised below.

Telecom Italia Reference Offers

In January 2016, AGCOM started a public consultation process concerning the guidelines for evaluating the contributions for the activation and deactivation of disaggregated access services for the purposes of approving Telecom Italia's related reference offers for the year 2015 and 2016 (resolution 170/15/CIR).
By effect of this resolution, a reduction was expected for the activation and cessation contribution, and a slight decrease of the other contributions, as well as the extension of the established principles to TIM's other Wholesale offers as well (in particular Bistream and WLR), determining reductions of the related contributions.

In closing the aforesaid proceeding, AGCOM confirmed expectations, adopting:

i. in January 2017, the decision 653/16/CONS which defined the <u>ULL activation and deactivation contributions</u> for the years 2015 and 2016 <u>for which, a reduction was established</u> with respect to the previous years for the lowering of the underlying costs. The termination contribution in case of migration, proposed during the consultation state, was instead not confirmed. In addition, there are reductions on site disposal costs (co-location) with respect to Telecom Italia's offer proposal.
These reductions entail an overall decrease in company costs for these activities.

ii. in March 2017, the resolution 78/17/CONS, approving, similarly to the ULL services, <u>an activation and deactivation contribution for the BTS in decline</u> compared to the previous years, according to the shift in the underlying costs.
In addition, bandwidth costs, both ATM and Ethernet, are approved with considerable annual reductions.
Lastly, the conditions of applicability of the so-called administrative migration from ATM to ETH so that the ATM band is valued at the (lower) price of the Ethernet bandwidth for the period of completion of the Ethernet network by TIM (this benefit is applicable from 12 April 2016 onwards).

Replicability test of Telecom Italia's offers

Within the proceeding initiated with the 537/13/CONS resolution, in November 2013, AGCOM started a study phase directed at evaluating the procedures and terms of the price test process and the instruments to be used to ascertain the economic replicability of the retail offer of the operator with significant market power, i.e. Telecom Italia.

At the end of December 2016, the Authority issued the final ruling concerning the revision of the methodology of the replicability tests, adopting the new guidelines for the non-discrimination tests to be applied to Telecom Italia's retail services offers. The new guidelines for replicability tests provide that Telecom Italia's retail offers shall be subjected to a single Discounted Cash Flow test, carried out before the commercial launch, with the application procedures differentiated between offers on copper network and offers on fibre network.

Market analysis of the fixed network access services

AGCOM, within the scope of the latest market analysis of wholesale access to the fixed network (Decision no. 623/15/CONS), valid for the 2015-2017 time interval, launched a series of processes and consultations aimed at implementing the measures adopted with this analysis. In particular, in May 2016, resolution 122/16/CONS initiated the public consultation process directed at assessing the proposal formulated by Telecom Italian with respect to

i. <u>procedures for the breakdown and outsourcing of the provisioning and assurance of the ULL and SLU services</u>: this process has not yet been completed.

ii. <u>measures to strengthen guarantees of equal treatment</u> in the performance of the regulated services for wholesale access from a fixed workstation.

In particular, Telecom Italia proposed the implementation of an advanced equivalence model, the "New Model of Equivalence (NME)", which, for the SLU, ULL, VULA FTTB/H access services – "basic" services – should lead to the <u>complete assimilation of the TI retail sales functions to an infrastructured alternative operator</u> in its dealings with TI's commercial and technical interfaces (i.e. the Wholesale division).

The NME prescribes that the supply of the regulated basic wholesale access services to the OAO and to TI Retail shall take place through the same organisational unit and the same processes, systems and databases and, hence, through the implementation of a “Full equivalence” model.

In early January 2017, with resolution no. 652/16/CONS, AGCOM substantially accepted Telecom’s proposals, deeming that it goes in the direction of its guidelines and that the assimilation of TI Retail to an infrastructured OAO eliminates, structurally and with reference to the basic access services, the asymmetries in the orders’ workflow.

The main measures with which the NME will be implemented, according to procedures and times indicated by the Authority, are:

1. Migration to the New Delivery Chain (NCD) of the wholesale access services that must be completed no later than December 2017.

2. Removal of asymmetries among databases through the use of a single database for alternative Operators and Telecom Italia Retail, called NetMap.

3. Simplification of the reasons for discarding

Management of radio spectrum and use of the frequency bands for wireless broadband services

The Authority also has power of intervention also with regard to the use of the radio spectrum for electronic communication systems with the goal of promoting the development of wide band and ultra-wide band services.
Among the significant interventions in this field, towards the end of 2015 resolution No. 659/15/CONS was adopted, establishing “Procedures and rules for the allocation and use of the frequencies available in the 3.6-3.8 GHz band for terrestrial systems capable of providing electronic communications services”.

The measure identifies different allocation lots according to the geographic areas, with a view to reducing the wide and ultra wide band digital divide in the less densely populated and less well served areas of the Country and it is a significant innovation that, in the near future, will open up very attractive scenarios both for fixed wireless services and for LTE and LTE-Advanced applications.

The allocation procedures (competitive auction and comparative – beauty contest -) should have already been started by the Ministry of Economic Development, but the call for tenders has not yet been published and may not be announced at all, in light of the most recent technical/regulatory development that prescribe use of the spectrum in question within the scope of the new 5G platform/services. This stated, it could be the subject of a different, new allocation process.

Licensed Shared Access (LSA)

In May 2016, with resolution 121/16/CONS, the AGCOM, first among the European regulators to launch a systemic study on the issue, initiated a public consultation process directed at obtaining comments, information and documentation concerning the possible introduction of “Licensed Shared Access” (LSA) shared spectrum access schemes for terrestrial electronic communication systems, also for the purpose of verify the market’s level of interest, and to identify the possible scenarios for their application.
In the case of the LSA, the individual rights to use a spectrum portion already allocated to an incumbent user, may be released to one or more new parties (“LSA Licensees”) for the use of the

same spectrum resources in compliance with shared protection conditions, which may be dynamic in the utilisations.

The process is still underway.

Databases of all Internet access networks

In January 2016, with its resolution 7/16/CONS, the Authority launched a pilot project relating to the construction of a database of all publicly and privately owned Internet access networks existing in the Country (in accordance with the "*Destinazione Italia*" – Destination Italy – Law Decree).
The project provides for the construction of a small scale system with the participation of the operators, in which exchange formats, measurement metrics, information acquisition, transfer, and updating procedures will be defined and tested. The pilot project will have a maximum duration of six months. At the end of the pilot project, all public and private parties owning network infrastructures shall be obligated to provide the information.

Infratel tender notice for Operators interested in the NGAN networks.

In September 2016, Infratel Italia called a call for tenders for the construction and operation of an ultra-wide band infrastructure in areas subject to (total or partial) market failure.
The tender, involving six regions (Abruzzo, Molise, Emilia Romagna, Lombardy, Tuscany and Veneto) for a total amount – before tender reductions – of approximately EUR 1.4 billion, had obtained the favourable opinion of AGCOM, of the Anti-Trust Authority (AGCM) and of the Energy Authority, and it had been subjected to collaborative supervision with Anac, obtaining a favourable opinion from it as well.
In March 2017, Infratel official awarded the tender to Open Fiber. The award was contested by Telecom Italia with the Regional Administrative Court (TAR) of Lazio, but on 20 March 2017 the administrative judge rejected the complaint.

In August 2016, Infratel implemented a second phase of the Ultra Wide Bandwidth project, initiating a second call for tenders for the Municipalities located in Piedmont, Valle D'Aosta, Liguria, Friuli Venezia Giulia, Marche, Umbria, Lazio, Campania, Basilicata, Sicily and in the Autonomous Province of Trento.

For both tenders, the awarding criterion is that of the bid that is economically most advantageous on the basis of the best quality/price ratio. Telecom Italia publicly declared that it will not participate in this second tender.

Roaming Regulation

In December 2016, the EU Parliament, Council and Commission reached a definitive agreement on the wholesale prices operators charge each other to offer roaming services.
Thus, a long discussion process ended which will lead, on 15 June 2017, to the complete abolition of the additional costs of roaming (originally planned for 2018).

Wholesale fees shall be 90% lower than current ones: such a heavy cut was conceived for operators to be able to offer roaming to their customers without raising the costs of domestic telephone calls. At the same time, the fees shall be sufficiently high so that the operators of the visited Countries can recoup their costs without raising retail prices.

More in detail, from 15 June of the current year the ceiling of wholesale data prices shall decline from the current EUR 50 per Gigabyte to EUR 7 and 70 Cents. Subsequently, following a timeline that has already been defined, the additional reduction will continue.

Measures for the protection of users

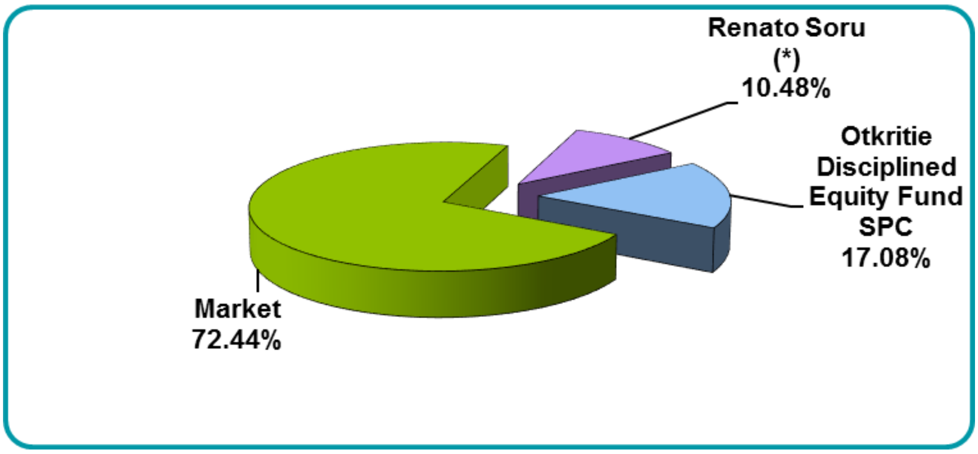
The Authority recently adopted resolution 252/16/CONS containing new rules for fee transparency at the conclusion of the process started with a specific public consultation in the first half of 2015.
The objective of the measure is to promote greater awareness in the choice of the tariff plans on the part of users, based on their own consumption profile. Among the most significant changes, the development of an appropriate “calculation engine” – managed by an independent party under AGCOM’s control – current being established, which will allow to compare the bids in force on the basis of the service price criterion, taking into account the consumer’s geographic position and consumption habits.

4.4 Tiscali Shares

Tiscali shares have been listed on the Italian Stock market (Milan: TIS) since October 1999. As at 31 September 2016, market capitalisation came to approximately EUR 143,424,854 million, calculated on the value of EUR 0.0456 per share as at that date.
At 31 December 2016, the number of shares representing the Group's share capital amounted to 3,145,281,893.

Tiscali's shareholder base at 31 December 2016 is illustrated below:

Fig. 1 Share structure: % ordinary share capital

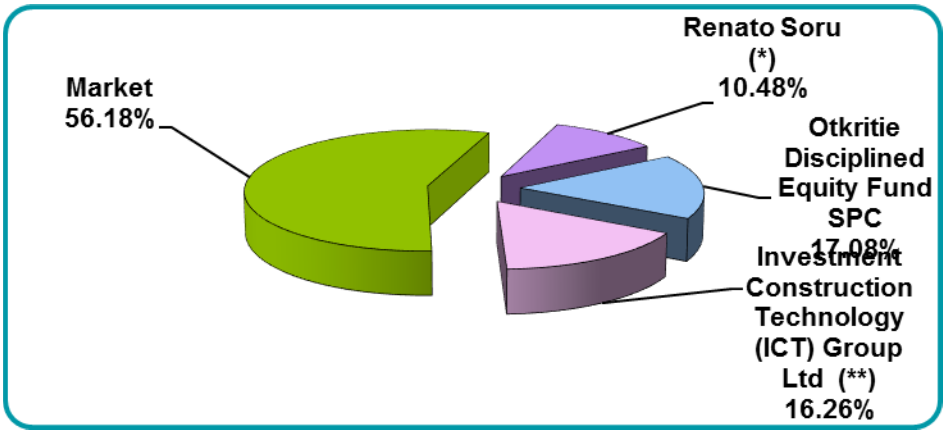


Source: **Tiscali**

(*) Directly, approximately 8.87% and, indirectly through the investee companies Monteverdi Srl (0.56%), Cuccureddus Srl (1.05%).

(**) According to the communication issued under Article 119 of the Issuer Regulation, the company Investment Construction Technology Group Ltd, through the subsidiary Powerboom Investment Limited, by virtue of contracts for the transfer to securities lending and carry for a total amount of shares of 16.255%, imparts voting directives case by case to the related counterparties, as prescribed by specific contractual clauses.

Fig. 2 Share structure: % of voting rights



Source: Tiscali

(*) Directly, approximately 8.87% and, indirectly through the investee companies Monteverdi Srl (0.56%), Cuccureddus Srl (1.05%).

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Share capital structure at 31 December 2016

SHARE CAPITAL STRUCTURE		
	No. of shares	**As % of share capital**
Ordinary shares	3,145,281,893	100%

The following table summarises the stock option plans (with related number of options and exercise price for each tranche) and of the convertible bond (number of conversion shares and exercise price).

For more information about the stock option plans, please refer to the "Stock options" note.

For more information about the mandatory convertible bond, please refer to note 4.7.

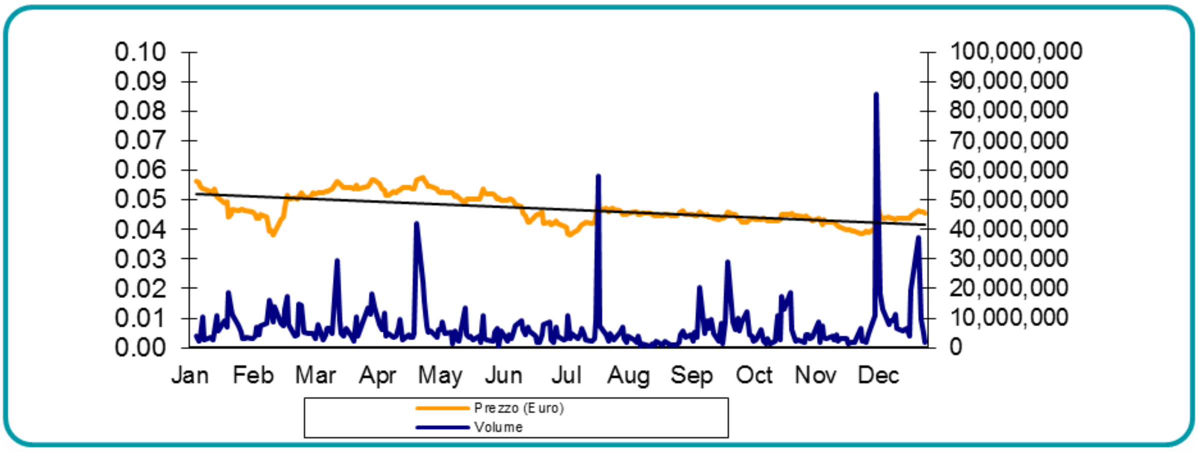
STOCK OPTION PLAN - Beneficiary R Soru		
	No. of options	**Exercise price**
Tranche 1:	**157,264,095**	**0.0600**
Tranche 2:	**47,179,228**	**0.0690**
Tranche 3:	**47,179,228**	**0.0780**
	251,622,551	

STOCK OPTION PLAN – Beneficiaries CEO and management		
	No. of options	**Exercise price**
Tranche 1:	**188,716,915**	**0.0700**
Tranche 2:	**62,905,637**	**0.0886**
Tranche 3:	**62,905,637**	**0.1019**
	314,528,189	

Convertible Bond		
	No. of conversion shares	**Exercise price**
No. of shares	**308,333,333**	**0.0600**

The following charts illustrates Tiscali's share performance during 2016, characterised by sustained trading volumes, particularly in the months of July and December.

Fig. 2 - Tiscali's share performance in 2016



Source: Bloomberg data processing

The average monthly price in 2016 stood at EUR 0.047. The maximum price of EUR 0.057 for the period was recorded on 25 April 2016 and the minimum of EUR 0.038 on 11 February 2016.

Trading volumes stood at a daily average of about 6.9 million items, with a daily average trade value of EUR 0.3 million.

Average Tiscali stock trading on the Italian Stock Exchange in 2016		
	Price (EUR)	**No. of shares**
January	0.050	6,658,129
February	0.046	8,979,075
March	0.054	7,767,733
April	0.054	9,004,304
May	0.052	4,759,822
June	0.046	4,855,693
July	0.043	7,069,545
August	0.045	2,285,828
September	0.045	7,679,520
October	0.044	5,726,293
November	0.042	3,476,436
December	0.044	14,916,509
Average	**0.047**	**6,931,574**

4.5 Relevant events during the financial year

<u>15 January 2016 - Approval of the Information Document of the Stock Option Plan 2015-2019</u>

As at 15 January 2016, the Board of Directors of the Company and the Remuneration Committee approved the Stock Option plan, subsequently submitted to the Shareholders' Meeting on 16 February 2016. This plan included the proposal of a rights issue, in one or more tranches, through the issue of a maximum total number of 251,622,551 ordinary shares without par value, to service up to 251,622,551 options valid for the subscription of ordinary shares of the Company reserved for Mr. Renato Soru as the beneficiary of the 2015-2019 Stock Option Plan. The assigned options shall be exercisable in three tranches, starting from 24 December 2016 until 24 June 2019.

<u>16 February 2016 - Ordinary General Meeting for the appointment of Directors and Statutory Auditors and extraordinary Meeting for capital increase to service Rigensis Loan and the Stock Option Plan 2015-2019, renewal of corporate offices.</u>

The ordinary shareholders' meeting voted on the following agendas:

- Appointment of members of the Board of Directors and approval of their compensation;
- Appointment of the Board of Statutory Auditors, its President and approval of their fees compensation;
- Constitution of the Committees of the Board of Directors.

Regarding the Rigensis Loan and the Stock Option Plan, the Extraordinary General Meeting resolved as follows:

- Approval of the proposal to authorize the Board of Directors for the increase in share capital for payment by issuing a maximum total of 250,000,000 ordinary shares. The increase is reserved to Rigensis Bank AS, the owner of a credit for EUR 15 million from the subsidiary Aria S.p.A. This increase cancels and replaces the former delegate increase for a maximum 250,000,000 ordinary shares reserved to Bank Otkritie (Public Joint-Stock Company), approved by the September 29, 2015 Shareholders Meeting;
- Approval of the stock option plan 2016-2019 for the benefit of Renato Soru as Chairman of the Board of Directors and the related proposal of a delegation to the Board for the capital increase of the above Plan. The delegation regards the issue of up to 251,622,551 ordinary shares, to the service of maximum 251,622,551 options to be reserved to Mr. Renato Soru as beneficiary of the Stock Option Plan 2016-2019.

<u>19 February 2016 - termination of employment of Luca Scano, Tiscali Board Member and General Manager of Tiscali Italia SpA</u>

On 19 February 2016 Luca Scano ceased his employment as General Manager of Tiscali Italia SpA and left all positions held in Group companies. Scano's leaving occurred at the completion of the important merger by incorporation of Aria Italia into Tiscali.

<u>24 February 2016 - Technology Partnership between Tiscali and Huawei for the development of the ultra-broadband network with multimedia services in Italy</u>

On 24 February 2016, Tiscali and the Italian subsidiary of Huawei Technologies, a global leader in ICT solutions, signed a memorandum, not binding on the parties, aimed at creating a technological partnership aimed at the development of an ultra-broadband network in Italy.

The non-binding term sheet was signed in Barcelona by Riccardo Ruggiero, CEO of Tiscali SpA, and Edward Chan, CEO of Huawei, at the "Mobile World Congress 2016".

This preliminary agreement was transformed on 22 September into the signature of a multi-year master agreement for the supply of network equipment, which marks the technological and commercial alliance between the two operators and the start of the development, by Tiscali, of a proprietary LTE 4.5G Fixed Wireless network on 3.5GHz frequency. Thanks to this network, Tiscali will provide ultra broadband services with up to 100Mbps capacity throughout the Country under the Tiscali brand, with particular focus on digital divide areas, thereby contributing to speed up the development of the ultra wide band in Italy. The master agreement provides for the possibility of making investments for EUR 40 million, thus contributing to cover Tiscali's LTE investment needs.

<u>25 March 2016 - Tiscali S.p.A.'s Board of Directors approved the 2015 draft financial statements.</u>

On 25 March 2016, the Board of Directors of Tiscali S.p.A. reviewed and approved the Draft Financial Statements for 2015 and the new 2016-2021 Business Plan and it acknowledged receipt of two Comfort Letters from leading Italian banks for a possible refinancing of the current Senior debt.

<u>28 April 2016 –The general shareholders' meeting approved the financial statements as at 31 December 2015, examined the first section of the Remuneration Report and decided in accordance with Article 2446 of the Italian Civil Code, with consequent amendment of Article 5 of the Articles of Association.</u>

On 28 April 2016 the Annual General Meeting of Tiscali, held in Cagliari in single call, approved all Agenda items:

<u>as regards the ordinary part, it</u>

- approved the financial statements as at 31 December 2015;
- reviewed and expressed its positive opinion on the first section of the Remuneration Report;

<u>as regards the extraordinary part, it</u>

- adopted a resolution in accordance with Article 2446 of the Italian Civil Code with the consequent amendment of Article 5 of the Articles of Association for the full coverage of cumulative losses at 31 December 2015, i.e. EUR 77,875,899.78 by reducing the share capital by the same amount and with its consequent reduction from EUR 169,076,822.67 to EUR 91,200,922.90.

In addition, the credit committee of Bank Intesa San Paolo approved the resolution for refinancing the Group's senior debt.

<u>12 May 2016 – The Board of Directors of Tiscali S.p.A. approves the 2016-2021 Stock Option Plan dedicated to the Group's management and it called the general shareholders' meeting for 16 June 2016.</u>

The Board of Directors of Tiscali S.p.A., which met on 12 May 2016:

- Approved the 2016-2021 Stock Option Plan pertaining to ordinary Tiscali S.p.A. shares reserved to the Chief Executive Officer and to the management of the Group. Inherent and consequent resolutions. The Board, then, approved the proposed Rights Issue, in one or more tranches, through the issue of a maximum total number of 314,528,189 ordinary shares without par value, to service up to 314,528,189 valid options for the subscription of ordinary shares of the Company to be reserved to the Chief Executive Officer and to the management of the Group as beneficiaries of the 2016 – 2021 Stock Option Plan per the previous point, with the exclusion of the option right, in accordance with Article 2441 Paragraphs 5 and 6 of the Italian Civil Code. Consequent amendment to Article 5 of the articles of association, inherent and consequent resolution, delegation of powers;

- Called the General Shareholders' Meeting for 16 June 2016 in a single call for the resolutions relating to the 2016-2021 Stock Option Plan;
- Reviewed and acknowledged the resignation of Renato Soru from the office of Chairman of the Board of Directors of Tiscali S.p.A.

20 May 2016 – Signed Solidarity Pact

On 20 May 2016, the Company signed a "Defensive" Solidarity Pact with the workers, represented by the trade union organisations SLC-CGIL, FISTel-CISL and UILCOM-UIL. The pact, as grounds for CIGS (layoff indemnity) in accordance with Italian Legislative Decree no. 148/2015, has the purpose of containing costs directed at addressing the cyclical hardship situation determined by the persistent market contraction and the growing competitiveness of the sector. The duration of the solidarity pact shall be 18 months starting from 1 July 2016 and it shall entail a 15% reduction of working hours.

24 May 2016 – Signed the agreement for the offer of the connectivity services of the public administration

On 24 May 2016 Tiscali signed with Consip the master agreement for the assignment of the connectivity services of the PA within the Public Connectivity System (SPC). The award took place on the basis of the best weighted global price, of a bid that was found to be the most advantageous and that successfully passed all economic and technical suitability tests. The agreement is a "multi-supplier" master agreement for the performance of data transport services in IP protocol, network security services and VoIP communication services throughout the Country for a total duration of 7 years. As established by the tender regulations, Tiscali's portion as the winner of the tender, amounts to 60% of the total value of the contract.

16 June 2016 – Approved the 2016-2021 Stock Option Plan and capital increase through the issue of ordinary shares without par value.

On 16 June 2016, the Annual General Meeting of Tiscali, held in single call, approved all Agenda items. In particular:

as regards the ordinary part, it

- Approved the 2016-2021 Stock Option Plan pertaining to ordinary Tiscali S.p.A. shares reserved to the Chief Executive Officer and to the management of the Group;

as regards the extraordinary part, it

- Approved the proposed Rights Issue, in one or more tranches, through the issue of a maximum total number of 314,528,189 ordinary shares without par value, to service up to 314,528,189 valid options for the subscription of ordinary shares of the Company to be reserved to the Chief Executive Officer and to the management of the Group as beneficiaries of the 2016 – 2021 Stock Option Plan per the previous agenda item 1, with the exclusion of the option right, in accordance with Article 2441 Paragraphs 5 and 6 of the Italian Civil Code.

Consequently, Article 5 of the articles of association pertaining to the capital of the Company was amended.

28 June 2016 – The Tiscali Group approved the conditions for the cessation of Mr. Renato Soru from his operating positions.

On 28 June 2016 the Tiscali Group, with the positive opinion expressed by the Related Parties Committee, defined with Mr. Renato Soru the terms and conditions of the cessation from the operating positions held by him in various companies of the Group.

29 June 2016 – Agreement for the refinancing of the senior debt signed with Intesa San Paolo and BPM

On 29 June 2016 the Tiscali Group signed a refinancing agreement with Intesa San Paolo and BPM pertaining to the Group's senior medium and long term debt.

The new loan of EUR 88 million, of which EUR 53 million to Intesa San Paolo and EUR 35 million to Banca Popolare di Milano, enables the repayment in full of the previous senior debt deriving from the Group Facility Agreement (GFA) and to Banca Intesa and to some Hedge Funds, restructured in 2014 and maturing in September 2017.

The main characteristics of the new loan are:

- A duration of approximately six years with maturity at 31 March 2022 which extends repayment times with respect to the previous debt and contributes to strengthen the Group's financial structure for upcoming years;
- A repayment plan comprising:
    - the payment of just over half the borrowed amount in 11 half-yearly instalments starting from March 2017 of approximately EUR 4.3 million each;
    - the balance of approximately EUR 40 million in one single payment at maturity in the month of March 2022.
- A lower total cost of the loan with an annual interest rate that is lower by more than 50% compared to the previous conditions.

20 July 2016 – Signed partnership with Enel Open Fiber for the construction and marketing of the ultra wide band telecommunication network in Italy

On 20 July 2016 Tiscali and Enel Open Fiber (EOF), a company of the ENEL group established for the construction of the fibre optic network infrastructure in Italy, signed a preliminary agreement for the supply of end to end connections for access to the fibre optic network FTTH (Fiber To The Home) built by Enel Open Fiber. In this way, the two groups intend to launch a partnership for the construction and marketing of the "ultra wide" band telecommunications network in some areas of Italy.

The agreement with Enel Open Fiber has significant strategic value for Tiscali, because it complements the current development plan of the LTE 4G Fixed Wireless Access network that Tiscali has started to implement. Thanks to the agreement with Enel Open Fiber, Tiscali will be able to provide UltraBroadBand services throughout Italy through the LTE 4G Fixed Wireless solution in

Digital Divide areas and using the FTTH network of Enel Open Fiber elsewhere, guaranteeing to its users network access performance up to 1 Gigabit per second.

The agreement is in line with the Italian plan for the “ultra wide” band promoted by the Presidency of the Council of Ministers and with the targets of the 2020 European Digital Agenda, and it pursues the Italian strategy for the ultra wide band presented in March 2015. In relation to the plan, EOF will build an “ultra wide” band telecommunications network in FTTH mode in areas not subjected to market failure with the goal of providing infrastructure for the selected municipalities and hence to reach a coverage of 80% of the properties present in each municipality.

Tiscali enters this all-Italian strategy also through the partnership signed today, marketing its product in FTTH mode on the network built by EOF starting from the Municipalities of Venice, Catania, Cagliari, Naples, Perugia, Genoa, Palermo, Florence, Padua, and with the goal of extending the supply to the municipalities where the same network will be developed.

<u>22 July 2016 – Approval of the terms of a convertible bond and appointment of the new Chairman of the Board of Directors</u>

On 22 July 2016 the Board of Directors reviewed and accepted a term sheet proposal relating to the issue by Tiscali S.p.A. of an unsecured mandatory convertible bond of up to EUR 18.5 million reserved to institutional investors and directed, *inter alia*, to refinance the Group’s debt to Rigensis Bank AS with March 2018 maturity.

The aforesaid bond will initially be subscribed by Rigensis Bank AS and by Otkritie Disciplined Equity Fund (ODEF) and it shall have a duration of 4 years, a coupon rate of 7% and a fixed price set to EUR 0.06 per share for the conversion of the bonds into ordinary shares of the Company.

Since ODEF is a significant shareholder of Tiscali S.p.A., with an interest of approximately 22.5%, this is a “Related Party Transaction”. Therefore: (i) it was submitted, together with the related documentation, to the prior approval of the Related Party Transactions Committee, which, at the end of the procedure prescribed for the approval of transactions of major importance, issued its favourable opinion; (ii) as prescribed by law, before the shareholders’ meeting to be called to resolve the capital increase to service the aforesaid conversion, the Company shall publish, *inter alia*, an information document in compliance with Art. 5, paragraph 1, of the Regulation adopted with CONSOB Resolution 17221/2010.

The Board of Directors tasked the Chief Executive Officer to negotiate and sign the binding agreements with the aforementioned counterparties with the goal of completing the transaction within the next few months.

The Board also appointed Alexander Okun as Chairman of the Board of Directors. Alexander Okun, formerly Deputy Chairman of the Board of Directors, replaced Renato Soru, who resigned from the same office of Chairman on 12 May 2016.

<u>29 July 2016 – Approved the project relating to the issue of an unsecured mandatory convertible bond and the proposed share capital increase to service the conversion of the bond; called the shareholders’ meeting for the approval of the issue of the bond and of the capital increase to service it</u>

On 20 July 2016 the Board of Directors of Tiscali:

- Approved the project relating to the issue, by Tiscali S.p.A., of an unsecured convertible bond for a maximum amount of EUR 18.5 million reserved for institutional investors and directed, *inter alia*, to refinance the Group’s debt to Rigensis Bank AS with maturity in March 2018. The approval came as a result of the execution of the subscription agreement for the bonds with Rigensis Bank AS and Otkritie Capital International Limited (OCIL) broker of Otkritie

Disciplined Equity Fund (ODEF). The loan, whose issuance is subject to the approval of the next shareholders' meeting together with the proposed conversion capital increase, shall have a duration of 4 years, a coupon rate of 7% and a fixed price set to EUR 0.06 per share for the conversion of the bonds into ordinary shares of the Company.

- Called the extraordinary General Meeting of shareholders for 5 September 2016 at 11 am, at the registered office of the Company, to approve the issue of the unsecured mandatory convertible loan and the related share capital increase. The shareholders' meeting notice, as well as all documents submitted to the Meeting, shall be made available to the public at the registered office of the Company, at Borsa Italiana S.p.A. and on the Company's website (www.tiscali.com) in accordance with current regulations.

7 September 2016 – Bond subscribed by Rigensis Bank and Otkritie Capital International Limited

On 7 September 2016 Rigensis Bank AS and Otkritie Capital International Limited subscribed, respectively, 17 convertible bonds with a nominal value of EUR 500,000 each, for a total value of EUR 17 million, on the mandatory convertible bonds whose issue and the related capital increase to service the conversion were resolved by the extraordinary general meeting of the company on 5 September 2016. As was already communicated to the market, the aforesaid convertible bond will have a duration of 4 years, a coupon rate of 7% and a fixed price set to EUR 0.06 per share for the conversion of the bonds into ordinary shares of the Company. The amount resolved is EUR 18.5 million, therefore the company will have the possibility of placing the remaining EUR 1.5 million with institutional investors no later than January 2017.

22 September 2016 – Signed multi-year master agreement with Huawei

On 22 September 2016, the Group stipulated a master agreement with the Italian branch of Huawei Technologies for the end-to-end supply of the accesso Ultrabroadband LTE advanced 4G fixed wireless access network with 3.5GHz frequency. The master agreement provides for the supply of network equipment (core and radio network, radio links and access Base transceiver station) and CPE (Customer Premises Equipment) and gives Tiscali the possibility of making investments for EUR 40 million, thus contributing to cover the company's LTE investment needs for the near future.

5 December 2016 – Signed strategic partnership agreements between Fastweb and Tiscali

On 5 December 2016, strategic partnership agreements were signed between Fastweb and Tiscali. An agreement pertains to the sale to Fastweb of the Tiscali Business unit, which comprises the customers of Tiscali's Top client segment and the master agreement for the connectivity services (SPC) to the public administration. The economic value of this agreement is EUR 45 million of which EUR 25 million cash and EUR 20 million in services, which will allow Tiscali to access Fastweb's fibre network for the connection of its own ultra broadband LTE Fixed Wireless network and also the connection of Tiscali's Consumer, Soho and SME customers on Fastweb access network.
The second agreement instead allows Fastweb to use the Tiscali Group's 3.5 G The agreement was subordinated to the approval of the competent administration and to the positive outcome of a pending administrative proceeding relating to the SPC master agreement.

20 December 2016 – Signed an agreement to sell the assets of Streamago Inc. Docler Holding Sarl

On 20 December 2016, an agreement was signed for the sale of the assets of Tiscali Italia's subsidiary Streamago Inc. in favour of Docler Holding Sarl. This agreement provides for the sale of all tangible and intangible assets of Streamago Inc. for a total price of EUR 1 million, in addition to $

240,000 to cover the costs of the interim period. In addition, the agreement provides for the hiring, by 31 March 2017, of 8 persons employed at Tiscali Italia.

23 December 2016 – Signed an agreement with Engineering Ingegneria Informatica S.p.A. for the "fully outsourced" management of the Tiscali group's IT services.

On 23 December, a 7-year agreement was signed for the fully outsourced management of the Tiscali group's IT. This agreement is based on a project to boost the efficiency of the technology infrastructure and of the application platforms, with the goal of coupling an improvement of the service levels for Tiscali customers with higher efficiency of the internal IT processes, as well as a reduction in their management costs. A key point of the agreement is the development of Tiscali's competencies (170 IT professionals) who have been transferred to Engineering.

The performance of the agreement was subordinated to the successful completion of the union consultation procedure, prescribed by Italian Law no. 428/1990.

4.6 Analysis of the economic, equity and financial situation of the Group

Main risks and uncertainties to which Tiscali S.p.A. and the Group are exposed

Risks relating to the general economic situation

The Group's economic, equity and financial position is affected by several factors which constitute the macro-economic scenario – such as, for example, variations in GDP (Gross Domestic Product), investor confidence in the economic system and interest-rate trends. The progressive weakening of the economic system, together with a reduction in household disposable income, has cut the general level of consumption, with a depressive impact on the capacity for a quick recovery.

The activities, strategies and prospects of the Tiscali Group are influenced by the related macro-economic context and as a result this also affects the Group's economic, equity and financial position.

Risks relating to the high level of competitiveness of the markets and price trends

The Tiscali Group operates within telecommunication services market characterised by a high degree of competitiveness.

With respect to the two main markets in which Tiscali operates, it should be noted that on the basis of the AGCOM analyses for March 2017, at the end of 2016 Tiscali's market share in the broadband Internet-access sector, considering also the contribution of the BroadBand Fixed Wireless customers acquired as a result of the merger with Aria, is equal to approximately 3.4%, while in the mobile virtual operator (MVNO) sector, Tiscali's market share is not significant.

Tiscali's main competitors are Internet Service Providers owned or controlled by national telecommunications operators which held the monopoly over telecommunications services before the liberalisation of the sector (so-called Incumbents). These competitors have the advantage of a strong trademark recognisability in their respective countries, a consolidated client base and high financial resources, which allow for a very high level of investment, especially in the research sector aimed at developing both technology and services.

Besides telecommunications operators, which may use new access technology, Tiscali also competes with suppliers of other services, such as satellite television, terrestrial digital television and mobile telephony. These suppliers, also on account of the convergence between the various technologies and among the telecommunications and entertainment markets, might also extend their offer to Internet and voice services, with a consequent possible increase in the concentration of the relevant market and of the level of competitiveness.

In order to compete with its competitors Tiscali's strategy aimed to provide high-quality Internet access services at competitive prices. Any difficulty found by the Group to compete successfully in sectors in which it operates with respect to current or future competitors might have a negative impact on its market position with a consequent loss of clients and a negative effect on the activity and position of the Company and of the Group's companies at the economic and financial level and in terms of equity.

Risks relating to any system interruptions, delays or breaches of the security systems

The Tiscali Group's ability to attract and maintain customers will continue to depend to a significant extent on the operation of its own network and of its own information systems and, in particular, on the continuity and security of the network and of its own servers, hardware and software.

The Group, which operates in a highly complex market from a technological point of view, is exposed to a high risk regarding the IT and ICT systems. As regards the management of risks connected with the damage to and malfunctioning of said systems, on which the business management is based, the Group invests adequate resources aimed at protecting all IT tools and processes. The core-business systems are all highly reliable; the data centre in the Cagliari headquarters is equipped with safety systems such as fire-prevention and anti-flood systems, while the copies of data back-ups made by operational personnel are kept in a different location from the CED (data processing centre) guaranteeing a high level of reliability.

The security system document is drawn up on an annual basis defining the safety measures (technical, IT, organisational, logistical and procedural tools) aimed at reducing the risks of destruction or loss, even accidental, of this data, and of unauthorised access or handling of the same.

A loss of electric energy or any interruptions in the telecommunications, breaches of the security system and other similar unforeseeable negative events, such as also the complete destruction of the data centre, might cause interruptions or delays in the delivery of services with consequent negative effects on the activity and position of the Group at the economic and financial level and in terms of equity.

At the date of the present Annual Financial Report, no third party violations of Tiscali's information systems had been recorded.

Although the Tiscali Group has adopted rigid protocols to protect data acquired during the course of its operations, and operates in strict compliance with current regulations on the subject of data-protection and privacy, it cannot be excluded that intrusions in its systems may occur in future, with a consequent negative impact on the results of the Group at the economic and financial level and in terms of its equity.

Finally, it should be noted that the companies of the Group have stipulated specific insurance policies to ensure coverage against damage which its infrastructures might be subject to as a consequence of the aforesaid events. Nonetheless, should there be an occurrence of any harmful events that are not covered by the insurance policies or, even though these events may be covered, should these events cause damages exceeding the limits insured and, on account of breaches of its own systems, the reputational damage incurred were to involve a loss of clientele, such circumstances might cause a significantly negative impact on the activity of the Group and at the economic and financial level and in terms of equity.

Risks relating to the evolution of technology and commercial offer

The sector in which the Tiscali Group operates is characterised by profound and sudden technological changes, by a very high level of competitiveness and also by rapid obsolescence of products and services. The success of the Group in future will also depend on its capacity to foresee any such technological changes and on its ability to adapt very quickly through the development of products and services suitable to satisfy its customers' demands. An incapacity to adapt to new technology and thus to changes in the demands of its clients might involve negative effects on the on the activity of the Group and at the economic and financial level and in terms of equity.

Risks relating to changes occurring in regulations in the sector in which the Company operates

The telecommunications sector in which the group operates is a highly regulated field governed by extensive, stringent and complex norms and legislation, especially regarding the concession of licences, competition, the attribution of frequencies, the setting of tariffs, interconnection agreements and leased lines. Legislative and regulatory changes or modifications in policies which may involve the activities of the Group and also disciplinary provisions established by AGCOM which may have negative effects on the activity and reputation of the Group and, consequently, on the activity of the Issuer and of the Group's companies at the economic and financial level and in terms of equity.

In particular, such modifications might involve the introduction of greater burdens, in terms of both direct outlay and in terms of the additional cost of adaptation, as well as new aspects of liability and regulatory barriers with respect to the supply of services. Furthermore, any changes in the legislative framework and also the adoption of provisions on the part of AGCOM might make it more difficult for the Group to obtain services from other operators at competitive rates or might restrict access to the systems and services necessary for the implementation of the activities of the Group.

Moreover, considering the manner in which the companies of the Group are dependent on the service of other operators, the Group might not be capable of assimilating and/or rapidly adapting to any provisions involving modification of the current legal and/or regulatory regime, with consequent negative effects on the activities of the companies of the Group and at the economic and financial level and in terms of equity.

Risks relating to the high level of financial debt of the Group

The evolution of the Group's financial situation depends on various factors and, in particular, on the achievement of the objectives provided for in its business plan, the trend in the general conditions of the economy, the financial markets and the sector in which the Group operates.

In recent years, the Group has undertaken a multi-step negotiation process aimed at restructuring its senior financial debt for the purpose of obtaining a financial structure consistent with the expected cash flows and suitable for supporting the growth objectives envisaged in the Business Plan, together with further actions included in the new business plan.

This process was materialised, from the end of the 2015 financial year and during the 2016 financial year, with the execution of the following transactions:

- business integration with the Aria Group, through which the Company acquired the financial resources that enabled it repay EUR 42.4 million of principal of the A1 Facility (repaid on 24 December 2015) significantly reducing the Group's senior debt.
- *Signature of new agreement for Refinancing the senior debt with Intesa San Paolo and BPM*

  The new loan, signed on 29 June 2016, enable the full repayment of the loan deriving from the Group Facility Agreement (GFA) to Banca Intesa and to the Hedge Funds, restructured in December 2014 and with maturity in September 2017.

  The new loan improves the structure of the group's long-term financial debt, because the maturity is later than that of the previous debt (March 2022) and the total cost is lower, with an interest rate that is approximately 50% lower compared to the previous conditions.
- *Subscription, on 7 September 2016, of the convertible bond by Rigensis Bank and Otkritie Capital International Limited*, for a value of EUR 17 million (compared to a total resolved amount of EUR 18.5 million). The new bond, relative to the current loan with Rigensis Bank, of EUR 15 million, entails an extension of the maturity of the debt (from March 2018 to

September 2020) and a reduction of the cost of the debt (the interest rate dropped from 9% of the current loan to 7% on the new bond).

The actions described above led to an improvement in the structure of the long-term financial debt, and a reduction in total cost.

The new loan agreement prescribes compliance with determined financial covenants (described in note 23). If the Tiscali Group were not able to meet commitments undertaken with respect to the Senior Financiers, the latter might request immediate and full reimbursement of their credit, with this having a consequent impact at the economic and financial level and in terms of the assets of the Group and also in relation to the possibility to carry on its business activities as a going concern.

The Group also requested to Intesa San Paolo a 18-month standstill on payments (capital and interest) due under the Second Facility Agreement signed on 29 June 2016 and requested the leasing companies to review the amortization plan for contract of Sa illetta.

The Group also received a commitment notice from shareholders for the payment of financial resources between 13 and 15 million Euro in 2017

Refer to Section 4.8 for more details.

Risks associated with fluctuations in interest and exchange rates

The Tiscali Group operates essentially in Italy. Some supplies, even though for insignificant amounts, might be denominated in foreign currency therefore the risk of exchange rate fluctuations which the Group is exposed to is minimal.

In relation to exposure to the risks associated with interest rate fluctuations, in view of the Group's predominant financing method (financial debt as per the Restructuring Agreement at a fixed rate) the Group deems the risk of interest rate fluctuations to be insignificant.

Risks linked to relations with employees and suppliers

Group employees are protected by various laws and/or collective labour contracts, which ensure they have, via local and national delegations, the right to be consulted with regard to specific matters, including therein the downsizing or closure of departments and a reduction of the workforce. These laws and/or collective labour contracts applicable to the Group and its suppliers could influence its flexibility when strategically redefining and/or repositioning its activities. Tiscali's ability and that of its suppliers to make staff cuts or take other measures, even temporary, to end employment relationships is subject to government authorisation and the consent of the trade unions. Trade union protests by workers could negatively affect the company's activities.

The Group, during 2016, has also implemented a dismissal incentive scheme to which 27 people adhered.

The activities of the Tiscali Group also depend on the currently valid contracts with its strategic suppliers and in particular with Telecom Italia, concerning both the use of the network infrastructures and interconnection.

In particular, there are ongoing contracts with Telecom Italia having as their subject the supply of direct and reverse interconnection services, co-location, disaggregate access, single-access ADSL Bitstream flat, shared access and mobile wireless services.

If: (i) these contracts were not renewed on expiry or were renewed under less favourable terms and conditions with respect to those currently in force; or (ii) the Group were unable to conclude with Telecom Italia the new contracts necessary for the development of its business; or (iii) in the aforesaid cases, Tiscali were unable to conclude equivalent agreements with third-party operators; or (iv) there were an occurrence of a serious contractual breach on the part of the Company or Telecom Italia, such circumstances might have negative effects on the activity and on the economic, equity and financial situation of the Company and of the companies of the Group, with a consequent impact on the possibility to continue to perform its operations as a going concern.

It should be noted that during the first months of 2017, repayment plans were finalized towards some of the main suppliers of the Group (Telecom Italia and BT).

Risks connected with dependence on licences, authorisations and the exercise of property rights

The Tiscali Group conducts its own activity on the basis of licences and authorisations – subject to periodic renewal, amendment, suspension or revocation by the competent authorities – and benefits from right of way easements, utilisation rights and administrative authorisations for the construction and maintenance of the telecommunications network. To carry out its activity, the Tiscali Group must preserve and maintain the licences and authorisations, the right of way easements and utilisation rights, and the other administrative authorisations.

The most significant licences, without which the Group may not be able to exercise its activity or a part thereof, with the consequent repercussions on its viability as a going concern, are the following:

- general authorisation (formerly individual licence) for “voice accessible to the public on the national territory” expiring on 28 February 2019: if this authorisation were lost, the Group would no longer be able to provide the voice services that entail the use of geographic numbering;
- general authorisation for “electronic communication networks and services”, expiring on 11 January 2032: if this authorisation were lost, the Group would no longer be able to build network infrastructures and hence to provide connectivity services on proprietary infrastructures;
- general authorisation for the performance of the “data transmission” service: if this authorisation were lost – in turn expiring 9 December 2017 – the Group would no longer be able to provide Internet access services;
- general authorisation for the performance of the “Enhanced Service Provider” mobile service: if this authorisation – whose expiry date is 30 June 2028 – were lost, the Group would no longer be able to provide mobile services (voice and data);
- right to use, throughout Italy, 42MHz of spectrum on 3.5GHz frequency issued by the Ministry of Communications on 21 May 2008 for a total duration of 15 years (thus until 21 May 2023) whose loss would lead to the Group’s inability to provide BroadBand Fixed Wireless services.

If the aforesaid licences and authorisations were revoked or not renewed, or the Group did not obtain the issue of the necessary new licences and authorisations or could no longer validly exercise the property rights necessary to operate, the Tiscali Group may not be able to exercise its activity with possible negative effects on the activity and on the economic and financial situation of the Issuer and of the Group’s companies.

Risks related to dependence on other operators’ services

The activities of the Tiscali Group depend on the currently valid contracts with Telecom Italia, concerning both the use of the network infrastructures and interconnection.

In particular, there are ongoing contracts with Telecom Italia having as their subject the supply of direct and reverse interconnection services, co-location, disaggregate access, single-access ADSL Bitstream flat, shared access and mobile wireless services.

If (i) these contracts were not renewed on expiry or were renewed under less favourable terms and conditions than those currently valid; or (ii) the Group were unable to conclude with Telecom Italia the new contracts necessary for the development of its business; or (iii) in the aforesaid cases Tiscali were unable to conclude equivalent agreements with third-party operators; or (iv) there were an occurrence of a serious contractual breach on the part of the Issuer or Telecom Italia, such circumstances might have negative effects on the activity and on the economic, equity and financial situation of the Issuer and of the companies of the Group, with a consequent impact on the possibility to continue to perform its operations as a going concern.

Risks associated with the turnover of management and other human resources with key roles

The sector in which the Tiscali Group operates is characterised by a limited availability of specifically-trained specialist personnel. The evolution of technology and the need to satisfy a demand for increasingly sophisticated products and services make it necessary for firms operating in this field to hire staff having highly-specific specialist training in particular technological areas, applications and solutions associated with a consequent increase of competition in the labour market and salary levels.

In the case in which a significant number of highly-trained professional operators or entire work groups dedicated to specific product types were to leave the Group and it were unable to attract qualified personnel to replace these workers, the capacity for innovation and the growth prospects of the Tiscali Group might suffer as a result, with possible negative effects on its activity and on the economic, equity and financial situation of the Broadcaster and the Company and its subsidiaries of the group.

Risks associated with business continuity

In this regard, please refer to note "*4.8 Evaluation of the company as a going concern and future outlook*"

Risks associated with disputes and contingent liabilities

In this regard, please refer to the section "*4.10 Ongoing disputes, contingent liabilities and commitments*".

Introduction

Founded in 1998, Tiscali is one the leading alternative telecommunications operators in Italy.

Thanks to a cutting edge network based on IP technology, Tiscali provides its customers with a wide range of services, from broadband and narrowband internet access, together with more specific and hi-tech products. This offer also includes voice services (VOIP and CPS), and portal and mobile telephone services, thanks to the service supply agreement reached with Telecom Italia Mobile (MVNO). Since 2016, thanks to the spectrum acquired from the merger with Aria, Tiscali Group offers Ultrabroadband LTE Fixed Wireless services on a proprietary network

The Group offers its products to consumer and business customers on the Italian Market, mainly via the following business lines:

(i) "Broadband Access", (LLU, Bitstream, Fixed Wireless, Fiber), inclusive of VoIP

(ii) Mobile telephone services (so-called MVNO);

(iii) "Wholesale service to other Tlc operators

(iv) Business services (so-called B2B), which include VPN, Hosting, domain concession and leased line services, with a decreasing weight following the Business branch sale to Fastweb

(v) "Media and value-added services", which include media, advertising and other services.

As described in Note "Assets held for sale or to be put on sale", the Group classified the following business lines according to the activities subject to sale in 2017 or according to management's intention to sale in 2017 (concluded in the first months of 2017):

- sale of the Tiscali Business BU to Fastweb, including customers of Tiscali's Top client segment and the framework agreement for connectivity services (SPC) of the Public Administration. The transaction was concluded on 24 March 2016;
- sale of assets related to the Over The Top Stremago and Istella projects.Istella at the present date has not been sold yet

As laid down by the International Accounting Standards (IFRS 5), given that assets could be classified as held for sale at 31 December 2016, the Company classified the financial and equity elements of these assets as "Asset held for sale" in the Income Statement and Balance Sheet and the Cash flow statement.
In particular, as regards the Income Statements, revenues and costs pertaining to the assets in question were excluded from the specific revenue/cost lines and were reclassified under item "Income from discontinued operations or held for sale"
In particular, as regards the disposal of the Tiscali Business Business Unit (including the SPC contract), revenues from the BU were partly excluded from the business line related to "Services for businesses", for the revenue component related to BTB services (VN, Hosting, Leased lines..), and from the "Access" business, for the revenue component related to Access services (ADSL, VOIP, Voice and mobile telephone services).
Similarly, elements in the 2015 Income Statement were reclassified for comparison purposes.

To illustrate Group results more clearly, the following table shows the Group financial position before and after reclassification of assets held for sale, under the specific line in Income Statement "Income from discontinued operations or targeted for disposal".

It is also noted that the economic data as at December 31, 2016 included in the table below are not comparable with the figures as of 31 December 2015, as they include the economic values of the Aria Group, which was integrated into the Tiscali Group on 24 December 2015.

Consolidated Income Statement	**2016 - before reclass IFRS 5**	**Reclass IFRS 5**	**2016 - after reclass IFRS 5**
(EUR mln)			
Revenue	207.2	(10.2)	196.9
Other income	3.5	(0.2)	3.3
Purchase of external materials and services	133.8	(4.7)	129.1
Personnel costs	37.7	(2.7)	34.9
Other operating expense (income)	(2.3)	(0.0)	(2.3)
Adjusted Gross Operating Result (EBITDA)	**41.5**	**(3.1)**	**38.4**
Write-downs accounts receivable from customers	11.4	(0.1)	11.3
Gross Operating Result (EBITDA)	**30.1**	**(3.0)**	**27.1**
Restructuring costs, provisions for risks and write-downs	14.6	(8.6)	6.0
Depreciation	51.0	(1.5)	49.5
Operating profit (EBIT)	**(35.5)**	**7.0**	**(28.4)**
Net financial income (charges)	(9.4)	0.0	(9.4)
Pre-tax profit	**(44.9)**	**7.0**	**(37.9)**
Income taxes	(0.1)	(0.0)	(0.1)
Net result from operating activities (ongoing)	**(45.0)**	**7.0**	**(37.9)**
Income from discontinued operations and / or targeted for disposal	0.0	(7.0)	(7.0)
Net result for the period	(45.0)	0.0	(45.0)
Minority interests			0.0
Group Net Result	**(45.0)**	**0.0**	**(45.0)**

For management purposes and to illustrate the matter more clearly, the Group results for 2016 before classification of assets held for sale or to be put on sale are analysed hereunder to disclose and assess the results achieved by the Group in 2016 (compared with the previous year),and related to the perimeter of activities managed in 2016, including the results of assets held for sale.

It is also noted that the economic data as at December 31, 2016 included in the table below are not comparable with the figures as of 31 December 2015, as they include the economic values of the Aria Group, which was integrated into the Tiscali Group on 24 December 2015.

Consolidated Income Statement	**2016 - before reclass IFRS**	**2015 - before reclass IFRS 5**	**Change**
(EUR mln)			
Revenue	207.2	202.1	5.1
Other income	3.5	17.3	(13.8)
Purchase of external materials and services	133.8	131.5	2.3
Personnel costs	37.7	37.0	0.6
Other operating expense (income)	(2.3)	(5.3)	3.1
Adjusted Gross Operating Result (EBITDA)	**41.5**	**56.2**	**(14.7)**
Write-downs accounts receivable from customers	11.4	17.2	(5.8)
Gross Operating Result (EBITDA)	**30.1**	**39.1**	**(8.9)**
Restructuring costs. provisions for risks and write-downs	14.6	3.2	11.4
Depreciation	51.0	37.8	13.2
Operating profit (EBIT)	**(35.5)**	**(1.9)**	**(33.6)**
Net financial income (charges)	(9.4)	(16.5)	7.1
Pre-tax profit	**(44.9)**	**(18.4)**	**(26.5)**
Income taxes	(0.1)	(0.1)	0.0
Net result from operating activities (ongoing)	**(45.0)**	**(18.5)**	**(26.5)**
Income from discontinued operations and / or targeted for disposal	0.0	(0.0)	0.0
Net result for the period	(45.0)	(18.5)	(26.5)
Minority interests	0.0		0.0
Group Net Result	**(45.0)**	**(18.5)**	**(26.5)**

Tiscali Group revenue during the financial year 2016 came to EUR 207.2 million, up by 2.5% with respect to the balance of EUR 202.1 million in 2015. The Aria Group revenues in 2016 amount to EUR 16.6 million and are not included in the comparative balance 2015 as the merger with Aria was concluded on December 24 2015

The net change, amounting to EUR 5.1 million, is essentially attributable to the following factors:

- Increase of EUR 15.8 million, of revenue of the Broadband Fixed Wireless segment, resulting from the merger of the Aria Group; not included in 2015
- Reduction of EUR 14 million (-9.3%) in revenues, in the “Fixed Broadband” segment, which stood at EUR 136 million (EUR 150 million in 2015). This reduction progressively lowered during 2016 to -5,4% in the second half in particular thanks to the trend inversion in the fixed broadband portfolio, started in June 2016 (+20.000 custimer compared to June 2015
- The MVNO revenues increased by 20.2%, from EUR 8.9 million in 2015 to EUR 10.7 million in 2016;
- Revenues from “Business services and Wholesale” increased, in aggregate, by EUR 6.2 million (+30.2%); growth was mainly due to the increase of revenues from reselling of products;
- “Media & VAS” revenues declined by EUR 5.1 million (a decrease of 25.3%) due to a missed renewal of a contract with one of the top customers (about EUR 6.2 million revenues in 2015)

During the financial year 2016, internet access, including the component of Fixed Broadband Access and Fixed Wireless, represented around 73.3% of turnover.

Costs for the purchase of materials and services totalling EUR 133.8 million increased by EUR 2.3 million with respect to the previous year. The impact of these costs on turnover instead decreased from 65% in 2015 to 64,6% in 2016.

It is worth noting that 2015 data under items “Other income” and “Other operating expense (income)” were affected by special extraordinary positive items (lump sum) referring mainly to a transaction carried out by a primary telecommunications operator for about EUR 17.9 milliion. Always the data for 2015 under the item "Write-downs to customers" was affected by a special negative one-off item relating to the same transaction for a value of about EUR 5.1 million, causing an overall positive net effect relating to that transacation on 2015 Gross Operating Result (EBITDA) of about 12.8 million euro.

The effects illustrated above led to an adjusted Gross Operating Result (EBITDA) before provisions and write-downs on receivables totalling EUR 41.5 million, a decrease of EUR 14.7 million with respect to the corresponding result in the financial year 2015 (EUR 56.2 million. The total effect of non recurring items in 2016 on adjusted Gross Operating Result (EBITDA) was EUR 7.5 million positive compared to EUR 16.5 million positive in 2015. Therefore, the least positive impact of non recurring income in 2016, compared to 2015, is equal to EUR 9 million.

The Gross Operating Result net of the devaluation of receivables from clients (EBITDA), amounted to EUR 30.1 million, showing a decrease with respect to the same value for the financial year 2015 (EUR 39.1 million), even due to positive impact of una tantum extraordinary item described above. The total effect of non recurring items in 2016 on EBITDA, net of impairment of customer receivables (EBITDA), is EUR 11.4 million positive compared to EUR 7.5 million positive in 2015. Therefore, the least positive impact of non recurring income in 2016 compared to 2015 is equal to EUR 3.9 million.

The net operating result (EBIT), net of provisions, write-downs and restructuring costs, was a loss of EUR 35.5 million, and recording a decrease of EUR 33.6 million with respect to the result for 2015, which showed a negative result of EUR 1.9 million.

Among provisions, write-downs and restructuring costs during the financial year 2016 charges and burdens, amounting to EUR 24.1 million, were recorded compared to EUR 20.3 million in 2015.

The result of the (on-going) operating activities, showing a loss of EUR 44,9 million, deteriorated with respect to the same figure in 2015, presenting a negative balance of EUR 18.5 million.

The Group's net result was a loss of EUR 45 million, down against the loss of EUR 18.5 million recorded in the previous year, mostly due to the following items:

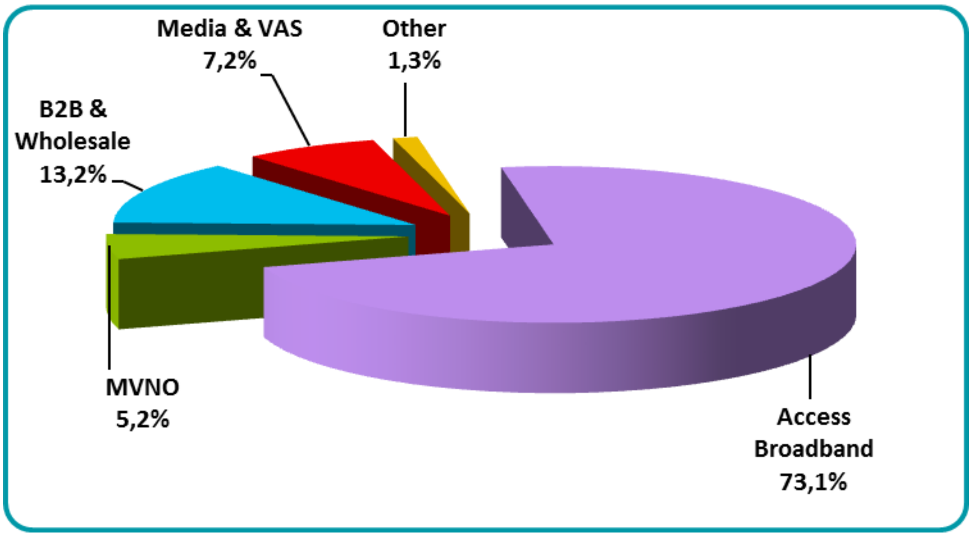
- the significant amortisation/depreciation attributable to Aria, due to the strong investments made in the past (acquisition of the 3.5GHz license and Fixed Wireless network equipment) not included in 2015 results;
- the significant write-down in the second half of 2016 of fixed assets related to the held for sale activities, including the write-down of fixed assets related to the SPC contract (and release of prepayments related to ancillary charges) not included in the sale, write-down of Istella and Streamago assets for alignment with the sale price and the estimated realizable value accounted in assets held for sale or to be put on sale.

The Profit and Loss Statement of the Group

The Profit and Loss Statement of the Group	**2016 - before reclass IFRS 5**	**2015 - before reclass IFRS 5**
(EUR mln)		
Revenue	**207.2**	**202.1**
Access Broadband revenues	151.8	150.0
of which fixed Broadband	*136.0*	*150.0*
of which Broadband FWA	*15.8*	*0.0*
Revenues from MVNO	10.7	8.9
Business service revenues and Wholesale	26.9	20.6
of which business service & Wh revenues	20.7	20.6
of which revenues from reselling of products	6.2	0.0
Media and value-added service revenues	15.0	20.1
Other revenues	2.7	2.5
Gross operating margin	**99.8**	**92.1**
Indirect operating costs	**64.1**	**58.5**
Marketing and sales	8.6	8.9
Personnel costs	37.7	37.0
Other indirect costs	17.8	12.6
Other (income) / expenses	(5.8)	(22.6)
Adjusted Gross Operating Result (EBITDA)	**41.5**	**56.2**
Write-down of receivables	11.4	17.2
Gross Operating Result (EBITDA)	**30.1**	**39.1**
Depreciation	51.0	37.8
Gross result (EBIT) before restructuring costs and risk-provision fund	**(20.9)**	**1.3**
Operating profit (EBIT)	**(35.5)**	**(1.9)**
Net Result pertaining to the Group	**(45.0)**	**(18.5)**

Revenues by business segment

Fig. 3 - Breakdown of revenue by business line and access mode



Source: Tiscali

<u>Broadband Access</u>

In 2016, the segment in question, which includes Internet access services, generated revenues for approximately EUR 151.8 million (EUR 136 million from “Fixed Access” and EUR 15.8 million from “Wireless Fixed Access”), up by 1.2% compared to the figure of the corresponding 2015 year (EUR 150 million). While excluding the consolidation of the “Wireless Fixed Access” component, entirely attributable to the Aria Group, whose figures were consolidated as from 31 December 2015, the change compared to the corresponding 2015 figure is equal to 9.3%. This reduction progressively lowered during 2016 to -5,4% in the second half in particular thanks to the trend inversion in the fixed broadband portfolio, started in June 2016 (+20.000 custimer compared to June 2015

At 31 December 2016, total active customers came to 697.1 thousand, an increase of 11 thousand compared to the corresponding figure at 31 December 2015 (686.6 thousand), including Broadband Access customers, amounting to 449.7 thousand, up by around 11 thousand, Fixed Wireless customers, equal to EUR 75 thousand, of which above 10 thousand Ultrabroadband LTE Fixed Wireless customers, Mobile customers, amounting to 166 thousand, a sharp growth (+30 thousand) with respect to the corresponding figure at 31 December 2015, and Other customers, equal to 6.3 thousand.

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Evolution of the customer base

(000)	**31 December 2016**	**31 December 2015**
Total number of Clients	**697.1**	**686.6**
of which: Broadband Access	*449.7*	*438.8*
of which: Fixed Wireless (1)	*75.0*	*103.0*
of which: Mobile (Voice and Data) (2)	*166.0*	*136.0*
of which: Others	*6.3*	*8.8*

(1) We also note that users of "Fixed Wireless" at 31 December 2016 include a number of former dormant customers who are awaiting to become active, equal to around 25 thousand.
(2) It is noted that the Company has modified the criterion for determining the number of Mobile (Voice and Data) customers in line with the criterion used by other telecom operators, defining the total number of Mobile customers as the number of customers with traffic in the last 6 months, instead of the number of customers with traffic only in the last month.. Consequently, in order to make comparable figures for 2016, the number of mobile customers (data and voice) as at December 31, 2015 has been restated using the new criterion, ranging from 116.5 thousand units (data published on 31 December 2015) to 136,000 units (restated on the same date).

MVNO

The MVNO segment showed an increase of 20.2%, from EUR 8.9 million in 2015 to EUR 10.7 million in 2016, thanks to the growth of about 30.000 customers in Mobile portfolio

Business services and Wholesale

Revenues deriving from services to businesses (VPN services, housing, hosting, domains and leased lines), which exclude those regarding access and/or voice products for the same client group which are already included in the relative business lines, in the financial year 2016 amounted to EUR 26.2 million, up by 30.6% with respect to the EUR 20.6 million recorded in 2015.

Media

During the year 2016, revenues for the Media and value added services segment (mainly concerning sales of advertising space) amounted to around EUR 15 million and were down 25.4% with respect to the same period in the previous year (EUR 20.1 million) due to a missed renewal of a contract with one of the top customers (about EUR 6.2 million revenues in 2015).

Indirect operating costs during 2016 came to EUR 64.1 million, an increase with respect to the figure in 2015 (EUR 58.5 million).exclusively as an effect of Aria Group consolidation. Within indirect operating costs, marketing costs amounted to around EUR 8.6 million and were down with respect to the figure reported in the previous year (EUR 8.9 million).

Payroll and related costs amounted to EUR 37.7 million (18.2% of revenues), up with respect to 2015 (EUR 37 million, 18.3% of revenues), exclusively due to the absorption of staff resulting from the merger of Aria, . Personell costs take advantage of the overall HR reduction starting in 2016, and the re-introducition of the'solidarity contracts' since June 2016.

It should be noted that 2015 figures under item "Other (income) / expenses" were affected by special extraordinary non recurrent positive items, referring mainly to a transaction made with a primary telecommunications operator for about EUR 17.9 million. Always the data for 2015 under the item "Write-downs to customers" was affected by a special one-off negative item relating to the same transaction for a value of about EUR 5.1 million, causing an overall positive net effect related to that transaction on 2015 Gross Operating Result (EBITDA) of about 12.8 million euro.

The effects mentioned above led to an **Adjusted Gross Operating Result (EBITDA)**, before provisions and credits depreciation, totalling EUR 41.5 million Down to EUR 14.7 million compared to previous year (EUR 56.2 million). The total effect of non recurring items in 2016 on Adjusted Gross Operating Result (EBITDA) was EUR 7.5 million positive compared to EUR 16.5 million positive in 2015. Therefore, the least positive impact of non recurring income in 2016, compared to 2015, is equal to EUR 9 million.

The **Gross operating result** net of write-downs of receivables towards customers (EBITDA) amounts to EUR 30.1 in a decrease compared to the same data of 2015 (EUR 39.1 million. The total effect of non recurring items in 2016 on EBITDA, net of impairment of customer receivables (EBITDA), is EUR 11.4 million positive compared to EUR 7.5 million positive in 2015. Therefore, the least positive impact of non recurring income in 2016 compared to 2015 is equal to EUR 3.9 million.

The **Net operating result (EBIT)**, net of provisions, write-downs and restructuring costs, was a loss of EUR 35.5 million, and recording a decrease of EUR 33.6 million with respect to the result for 2015, which showed a negative result of EUR 1.9 million.

The result of activities in operation (continuous), amounting to 44.9 million euros, is deteriorating compared to the comparable figure of 2015, down by EUR 18.4 million.

The **Group's net result** was a loss of EUR 45 million, down against the loss of EUR 18.5 million recorded in the previous year, mostly due to the following items:

- the significant amortisation/depreciation attributable to Aria, due to the strong investments made in the past (acquisition of the 3.5GHz license and Fixed Wireless network equipment) not included in 2015 results;
- the significant write-down in the second half of 2016 of fixed assets related to the held for sale activities, including the write-down of fixed assets related to the SPC contract (and release of prepayments related to ancillary charges) not included in the sale, write-down of Istella and Streamago assets for alignment with the sale price and the estimated realizable value accounted in assets held for sale or to be put on sale.

Financial and economic results of the Group

Consolidated Statement of Equity and Liabilities (abridged form)	31 December 2016	31 December 2015
(EUR mln)		
Non-current assets	224.4	233.0
Current assets	59.9	57.4
Assets held for sale	6.2	(0.0)
Total Assets	**290.5**	**290.5**
Net equity of the Group	(167.6)	(121.4)
Net equity attributable to minority interests	0.0	0.0
Total net equity	**(167.6)**	**(121.4)**
Non-current liabilities	176.3	164.9
Current liabilities	278.2	247.0
Liabilities directly associated with assets sold	3.6	(0.0)
Total Net equity and Liabilities	**290.5**	**290.5**

Assets

Non-current assets

Non-current assets at 31 December 2016 amounted to EUR 224.4 million. The net change is mainly attributable to investments for the period, less the portion of amortisation/depreciation of intangible and tangible fixed assets for 2016. Investments, including actual immobilizations of about EUR 9 million and largely related to purchased LTE equipment still not installed at the end of 2016, amounted in 2016 financial year of around EUR 57,6 million, essentially refer to the investments related to the LTE proprietary access network the connection and activation of new Broadband anche Fixed Wireless customers,and to the development and extension of the network tu support the growth of bandwith and traffic managed

Current assets

Current assets at 31 December 2016 amounted to EUR 59.9 million (EUR 57.4 million at 31 December 2015) and mainly include receivables from customers which, at 31 December 2016, amounted to EUR 38.3 million compared to EUR 35.3 million at 31 December 2015. In addition to cash equivalents, the item in question also includes other receivables and other current assets, amounting to EUR 19.8 million, represented by prepaid expenses for service costs, accrued income on access services and sundry receivables.

Shareholders' equity

The consolidated shareholders' equity amounted to negative EUR 167.6 million as at the 31 December 2016, with a change of EUR 46.2 million compared to 31 December 2015 due to:

- decrease,following the 2016 loss equal to f EUR 45 million
- decrease related to the costs for capital increase of EUR 0.7 million
- decrease for the accounting of the Put Option on the new convertible bond loan Rigensi-Otkritie, subscribed in the amount of EUR 1.8 million on 7 September 2016;
- increase in Stock Option reserve, amounting to EUR 1.4 million;
- increase in reserve for exchange rate differences for EUR 0.2 milion
- decrease in IAS reserve for staff severance indemnities (TFR), amounting to EUR 0.3 million.

Liabilities

Non-current liabilities

Non-current liabilities at 31 December 2016 amounted in total to EUR 176.3 million, up with respect to 31 December 2015 (EUR 164.9 million). The balance includes both the items pertaining to the financial position, with reference to which please see the matters illustrated below, the provision for risks and charges for EUR 10.5 million, the provision for employee severance indemnities (TFR) for EUR 5.9 million and other non-current liabilities for EUR 5.5 million.

Current liabilities

Current liabilities amounted to EUR 278.2 million as at 31 December 2016 (compared with EUR 247.0 million as at 31 December 2015) and mainly include the current portion of financial payables, payables to suppliers, together with accrued expenses pertaining to the purchase of access services and line rental and tax debts.

Financial situation of the group

At 31 December 2016, the Tiscali Group held cash and cash equivalents totalling EUR 1.3 million, against a net financial debt, at the same date, of EUR 186.7 million (EUR 165.6 million as at 31 December 2015).

Financial Situation	**Notes**	**31 December 2016**	**31 December 2015**
(Million of Euro)			
A. Cash and Bank deposits		1.3	4.8
B. Other cash equivalents		0.0	0.0
C. Securities held for trading		-	-
D. Liquidity (A) + (B) + (C)		***1.3***	***4.8***
E. Current loan receivables		***0.0***	***0.0***
F. Non-current financial receivables	(1)	4.3	7.6
G. Current bank payables	(2)	14.7	11.6
H. Current accounting of bonds issued	(3)	0.4	
I. Current accounting of non-current debts	(4)	13.5	16.9
J. Other current financial debts	(5)	9.5	3.6
K. Current financial debt (G) + (H) + (I)+(J)		***38.0***	***32.1***
L. Net current financial debt (K)-(D)-(E)-(F)		**32.3**	**19.7**
M. Non-current bank Loans	(6)	80.6	94.5
N. Bonds issued	(7)	18.4	-
O. Other non-current payables	(8)	55.3	51.3
P. Non-current financial debt (M)+(N)+(O)		**154.4**	**145.8**
Q. Net Financial Debt *(L)+(P)*		**186.7**	**165.6**

Notes:

(1) *Mainly includes amounts lodged as security relating to the CONSIP tender.*
(2) *Includes bank payables of Tiscali Italia S.p.A., Tiscali S.p.A., Veesible S.r.l. and the Aria Group.*
(3) *Includes mainly the short-term component of the bond loan.*
(4) *Essentially includes the short-term component amounting to EUR 9.7 million relating to debt payable to Senior Lenders (capital shares and cash interests reimbursable within 12 months).*
(5) *Essentially includes the short-term portion of the 'Sale & Lease Back – Sa Illetta' debt.beynd leasing related to Network investments*
(6) *Essentially includes the long-term component equal to EUR 77.7 million relating to payables to Senior Lenders.*
(7) *Includes mainly the long-term component of the bond loan.*
(8) *Essentially includes the long-term portion of the 'Sale & Lease Back – Sa Illetta' payable of Tiscali Italia S.p.A.*

The change in the net financial position at 31 December 2016 compared to 31 December 2015 is mainly attributable to the following factors:

- Refinancing of the Group senior debt.
  The new loan of EUR 88 million, of which EUR 53 million from Intesa San Paolo and EUR 35 million from Banca Popolare di Milano, allowed for the full repayment of the prior senior debts resulting from the Group Facility Agreement (GFA) and in relation to Banca Intesa and some Hedge Funds, restructured in 2014 and due to expire in September 2017.
  The new loan expires on 31 March 2022 at an nominal rate of 4.5% (cost lower than 50% compared to all prior senior debt).

- Subscription, in September 2016, of the convertible bond loan by Rigensis Bank and Otkritie Capital International Ltd, mainly used to redeem the prior debt, due to expire, with Rigensis Bank. The new bond will expire in September 2020, with a nominal rate of 7% and with una tantum set-up costs of 1,5% (compared to 9% of the previous loan).

The above table includes guarantee deposits under 'Other cash and cash equivalents' and 'Non-current financial receivables'. The table below provides a reconciliation of the above financial position with the financial position drawn up in accordance with Consob communication No. DEM/6064293 dated 28 July 2006 as shown in the explanatory notes.

	31 December 2016	31 December 2015
(EUR mln)		
Consolidated net financial debt	**186.7**	**165.6**
Non-current financial receivables	4.3	7.6
Consolidated net financial debt prepared on the basis of Consob communication No. DEM/6064293 dated 28 July 2006	**191.0**	**173.1**

4.7 Analysis of the income, financial position and cash-flow statement of Tiscali S.p.A.

Introduction

The statements presented below have been drawn up on the basis of the statutory financial statement as at 31 December 2016, to which reference should be made. In this regard, it should be noted that the 2016 statutory financial statement represents the separate financial statements of the Parent Company Tiscali S.p.A. and was prepared in observance of the International Accounting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") as approved by the European Union, as well as the provisions issued by way of implementation of Article 9 of Italian Legislative Decree No. 38/2005. The IFRS are also understood to be all of the reviewed international accounting standards ("IAS") and all of the interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") previously called the Standing Interpretations Committee ("SIC").

The economic situation of the Parent Company

(Thousands of Euro)	2016	2015
Revenues from services and other income	5,413	3,831
Payroll and related, service and other operating costs	(6,549)	(2,574)
Other write-downs	1,096	(37,715)
Net financial income (charges)	(279	192
Income taxes	(31)	92
Income from discontinued operations and / or targeted for disposal	-	-
Net result for the period	**(349)**	**(36,175)**

Revenues from services and other income mainly refer to the invoicing of services provided by the Company in favour of the operating subsidiary Tiscali Italia S.p.A., including the charges for the licence to use the Tiscali trademark calculated as a percentage of the sales revenue of the company using said trademark.

The pay-roll costs, amounted to EUR 2.5 million; costs for external management consulting services and professional expenses amounted to EUR 1 million, while Board Members compensation ampunt to EUR 2.3 million

The other write-downs mainly include the alignment of the provision for doubtful debts to the value of the total receivables due from the German subsidiaries.

Financial Position of the Parent Company

	31 december 2016	31 december 2015
(Thousands of Euro)		
Non-current assets	198.340	178.925
Current assets	7.263	2.165
Assets held for sale	54	-
Total Assets	**205.657**	**181.090**
Shareholders' equity	89.719	91.158
Total Net Equity	**89.719**	**91.158**
Non-current liabilities	94.690	31.907
Current liabilities	21.245	58.024
Liabilities held for sale	4	
Total Net equity and Liabilities	**205.657**	**181.090**

Assets

Non-current assets
Non-current assets include controlling equity investments for a total of EUR 176.5 million and other financial assets amounting to EUR 21.8 million essentially represented by financial receivables due to Group companies.

Current assets
Current assets include “Receivables from subsidiaries” for EUR 6.6 million, refer mainly to subsidiaries “Other receivables and other current assets” for about EUR 0.7 million, essentially relating to tax receivables, accrued income and prepayments on services, as well as cash and cash equivalents for EUR 22 thousand.

Shareholders' equity

The parent company shareholders' equity amounted to EUR 88.5 million at the 31 December 2016, with an increase of EUR 1,4 million compared to 31 December 2015 due to:

- Decrease related to the net negative result of the income statement , equal to EUR 0,3 million,
- decrease relative costs concerning the additional share capital for EUR 0.7 million;
- decrease for the accounting of the Put Option on the new convertible bond loan Rigensi-Otkritie, subscribed in the amount of EUR 1.8 million on 7 September 2016;
- increase in Stock Option reserve, amounting to EUR 1.4 million

Liabilities

Non-current liabilities

Non-current liabilities, in addition to items relating to the financial position for which reference should be made to the next note, include provisions for risks and charges, amounting to EUR 0.5 million and relating to disputes with third parties or former employees started in the previous financial years, and the long-term component of the convertible bond loan, amounting to EUR 18.4 million.

Current liabilities

Current liabilities not relating to the financial position are mainly represented by payables to suppliers for EUR 6.7 million (of which EUR 1 million due to Group companies), and EUR 0.4 million related to the short-term component of the convertible bond loan.

Financial situation of the Parent Company

The financial position of the parent company is summarized in the following table:

Financial Situation	**31 December 2016**	**31 December 2015**
(Thousands of Euro)		
A. Cash and Bank deposits	22	71
B. Other cash equivalents		
C. Securities held for trading		
D. Liquidity (A) + (B) + (C)	***22***	***71***
E. Current loan receivables	***671***	***837***
F. Non-current financial receivables		
G. Current bank payables		
H. Current accounting of bonds issued	375	
I. Current accounting of non-current debts		
J. Other current financial debts	516	33,640
K. Current financial debt (G) + (H) + (I)+(J)	***891***	***33,640***
L. Net current financial debt (K)-(D)-(E)-(F)	**197**	**32,732**
M. Non-current bank Loans		
N. Bonds issued	18,429	
O. Other non-current intercompany debt	73,613	31,015
P. Non-current financial debt (M)+(N)+(O)	**92,042**	**31,015**
Q. Net Financial Debt *(L)+(P)*	**92,239**	**63,748**

"Other current financial payables" are represented by financial payables to subsidiary Tiscali International BV, a sub-holding of the Tiscali Group.

Reconciliation between the Parent Company's financial statements and consolidated financial statements

As required by CONSOB Communication No. DEM/6064293 dated 28 July 2006, the following table shows the reconciliation between the net profit for the period and shareholders' equity of the Group with the corresponding values of the Parent Company.

	31 dicember 2016	
EUR 000	**Net Result**	**Shareholders' equity**
Shareholders' equity and net profit (loss) of Tiscali S.p.A.	**(349)**	**89,719**
Net profit and Shareholders' equity of consolidated companies	(60,783)	(720,962)
Book value of consolidated equity investments and consolidation entries	16,174	463,623
Consolidation's Journals	16,174	657,152
Shareholders' equity and net profit (loss) for the year pertaining to the Parent Company	(44,959)	(167,620)
Shareholders' equity and net profit (loss) for the year pertaining to minority shareholders	0	0
Shareholders' equity and net profit (loss) for the year as per the Consolidated Financial Statements	**(44,959)**	**(167,620)**

4.8 Assessment of the business as a going-concern and future outlook

Events and uncertainties regarding the business continuity

The Tiscali Group ended FY 2016 with a consolidated loss of EUR 45 million (influenced by the negative effect of EUR 2.3 million, resulting from non-recurring transactions concluded during the period including write-downs equal to Euro 8,4 accounted for in the result of assets sold or held for sale) and with a negative net worth equal to EUR 167.6 million. In addition, as of 31 December 2016 the Group reported gross financial debt equal to EUR 192.3 million and current liabilities exceed the current (non-financial) assets for EUR 183.6 million.

As of 31 December 2015, the consolidated loss was around EUR 18.5 million (influenced by the positive effect of EUR 6.9 million, resulting from non-recurring transactions concluded during the year) and with a negative shareholders' equity equal to EUR 121.4 million. In addition, as of 31 December

2015, the Group reported gross financial debt equal to EUR 177.9 million and current liabilities exceeding the current (non-financial) assets for EUR 162.5 million.

As previously underlined, the financial year 2016 for the Tiscali Group represented a year of significant change, which remarkably affected both organisation and development strategies.

In particular, in 2016 the Company focused on the core objective of returning to grow, with new focus on the core business and the strengthening of its financial structure:

- The successful completion of the **operational integration with Aria** which provided Tiscali with important synergies, the acquisition of a strategic asset like 40MHz of spectrum on 3.5GHz frequency and the launch, during the year, of the new UltraBroadBand LTE services under the Tiscali brand;
- The further exploitation of the **3.5GHz frequency, which has become a key for the future developments of 5G services**, as proven by the agreement entered into in 2016 with Fastweb for use of that frequency in urban areas, not strategic for Tiscali's LTE Fixed Wireless coverage plans, for a value of EUR 2.5 million per year from 2018 to 2023, expiring date of license usage rights
- **Return to growth on the core Business**, thanks to the trend reversal, after several years, of the Fixed BroadBand portfolio (+20 thousands customers in the 2nd half of 2016);
- **Refocusing on core activities** through the successful conclusion of the sale of the "Business" business unit to Fastweb, the outsourcing of IT activities to Engineering and the full valorization of OTT activities – even through assets dismissal options;
- **Strengthening the Group's financial structure** by refinancing the group's long-term debt, extending the maturity of the debt and reducing total cost.

These transactions are detailed in paragraph 4.2.

In short, and with special reference to business ongoing, these transactions granted, and will grant, Tiscali some significant benefits:

- the debt structure is more sustainable, with longer redemption timing and reduced charges;
- the Company can benefit from a significant intake of new financial resources (EUR 25 million with wire transfer plus EUR 20 million services to use immediately in the following years), thanks to the sale of the "Business" business unit to Fastweb;
- the foundations are laid to reduced future costs thanks to the outsourcing of IT services to Engineering and the streamlining and value-adding (also through alienation) of OTT assets;
- the foundations are laid for a further value-adding of the 3.5Ghz frequency spectrum asset, with the emergence of a prospective significant increase in value, not included in the current carrying amount of the spectrum in the financial statements;
- the Company is brought again in a virtuous growth path, as first fundamental step in the implementation of the Company's Business Plan.

The Group also made significant investments in 2016 both for the acquisition of new customers and for the development of the infrastructure needed for the implementation of the LTE plan. Part of these investments were funded through the framework agreement signed with Huawei in September 2016 and the use of new finance leases (multi-year debts) resulting in an increase of negative net working capital.

During the last months of 2016 and the first months of 2017 there was an increase in expired debts towards suppliers, payment orders and injunctions for certain specific positions, in addition to the delay in paying tax debts and social security benefits. On March 31 2017, the Group collected the full-line price of the Business Branch and allocated some of these resources to reduce the above-mentioned debt, as well as concluding a series of actions aimed at defining the plans for return with the major suppliers (ie TIM and BT).

The actions outlined above will help reduce the financial tensions in the short term and, together with the actions outlined below, respect the main deadlines.

While taking account of the above, as well as the aforesaid positive effects of transactions already carried out and to be performed in the next few months on the Group economic and financial structure, the Management analysed the results for 2016, underlying the main differences with respect to the forecasts made in the business plan drawn up for the financial statements at 31 December 2015, and approved by the BoD on 28 March 2016 ("Business Plan" or "2016-2021 Plan"), and drafted a new Business Plan for the 2017-2021 years (2017-2021 Plan), which would include the effects of the extraordinary transactions just completed (especially the sale of the Tiscali Business BU to Fastweb), and entail a change in the business profile and area and new targets for the Tiscali Group.

In line with the above-mentioned strategy, the new 2017-2021 Plan envisages a boost in investments aimed at:

- further developing the proprietary LTE network, on the 3.5GHz frequency, to cover around 50% of the Italian population with the latest LTE 4G+ UltraBroadBand Fixed Wireless services, with capacity up to 100MBps, and special focus on the "Foreign" Digital Divide, where the offer of these services for the other operators is particularly deficient and the competition level is lower;
- developing offers of fibre on the Open Fiber network with capacity up to 1GBps, especially in urban areas and in line with the development plans of the Open Fiber fibre transport network.

The 2017-2021 Plan contemplates an incremental investment plan compared to the 2016-2021 Plan and entailsthe necessity for further financial resources, in addition to those generated by the Group through its operating cash flows.

On 26 April 2017, Investment Construction Technology (ICT) Group LTD shareholder, through a confort letter, has therefore expressed its willingness to pay in or to raise by one or more third parties new financial resources between EUR 13 and15 million, during 2017, it being understood that technical payment modalities will be defined subsequently.

Moreover, the Company asked the Banks (Intesa SanPaolo and Banca Popolare di Milano) that refinanced the senior debt in June 2016, to waive the advanced payment envisaged by contracts in relation to the collection of revenue generated by the sale of the Tiscali Business BU, , as well as grant to reset contractual covenants in light of the new 2017-2021 Plan.

Furthermore, Intesa SanPaolo was asked a standstill of 18 months on the payments due by Tiscali Italia with regard to the Second Facility Agreement. Tiscali Italia, in light of the above requests, did not provide for the payment of the installment of the Second Facility Agreement expiring on 31 March 2017 (Euro 1.7 million in capital and Euro 1.2 million in interest).

Lastly, it should be noted that Tiscali Italia has asked the leasing companies to redefine the overall amortization schedule for lease payments for Sa Illetta's property, including a standstill on payments due until September 30, 2018 included. Up to date, 1.2 million euro of payment commitments related to overall overdue debt on 31 December 2016 has not been paid. Up to date, negotiations are ongoing, but leasing companies have not yet formally answered to Company requests.

Up to date, we have already taken a number of meetings between the Group management and the technical and commercial structures of the aforementioned credit institutions and the preparatory activities for the operation have already been completed.

On 26 April 2017, each of the banks sent Tiscali a comfort letter in order to communicate, inter alia, that they started the preliminary phase of the operations, and subject to the 2017 financial contribution guaranteed by Investment Construction Technology (ICT) Group LTD shareholder in the aforesaid terms, to confirm their commitment in submitting the matter to the competent bodies for the credit approval.

Within this context, and taking account of the aforesaid, the achievement of a situation of equity, economic and financial balance for the Group is subordinate to the achievement of the results envisaged in the 2017-2021Plan, included the related financial sources, and, in particular, on the realisation of the forecasts and the assumptions contained therein relatingto the evolution of the telecommunications market and the accomplishment of the growth objectives set (in a market context characterised by strong competitive pressure).

Management Board's assessment

The Board of Directors pointed out that the Group:

- generated in the year 2016, before working capital changes, cash from operating activities and cash equivalents of approximately EUR 27.9 million;
- carried out the operating merger of industrial, commercial and administration structures of the Aria Group into Tiscali, while achieving important cost synergies and strengthening the presence of Tiscali in the field of the broadband access, especially thanks to the launching of the new Wireless Fixed LTE services, with capacity up to 100MBps;
- focused on the growth of Tiscali's core business, through a reversed trend regarding the fixed Broadband customers portfolio (up by 20,000 in December 2016, compared to June 2016), focused on the Group resources on core activities, through the successful sale of the Business BU to Fastweb, the outsourcing of IT activities to Engineering and the value-adding of OTT activities (also throught a sale) that are no longer considered as strategic;
- owns an essential asset like the 3.5GHz spectrum, which is considered as the key for the development of 5G services and it is reasonable to assumethat will achieving a prospective value, which is much higher than the carrying amount that Tiscali entered in its financial statements;
- positively concluded the Group long-term debt refinancing operations (Senior Loan and Convertible Bond Loan), thus improving its structure in terms of residual life and debt costs;
- prepared a new business plan for the years 2017-2021, which includes the effects of the extraordinary transactions carried out and underlines the Group growth strategy focused on the development of Core Business activities (Fixed BroadBand, Fiber, LTE BroadBand Fixed Wireless and Mobile).

The Directors, highlight, as already stated in the preparation of Financial Statements for 2015, that the going concern assumption is based on the achievement of the targets set out in the Plan 2017-2021, which shows uncertainties with particular reference to the evolution of the telecommunications market and the achievement of its growth targets, relating in particular to Ultrabroadband LTE services, the main development area envisaged in the Plan, within a market characterized by strong competition.

In analysing what has already been implemented in 2016, as part of the path to enable the Group to achieve long-term financial and economic balance - especially the Group debt reduction that took place in the year 2015, the overall restructuring of the long-term debt occurred in 2016, - the Directors recognize that to date relevant uncertainties remain related to events or circumstances that could rise significant doubts on the Group's ability to continue to operate on the basis of the going concern assumption.

Nevertheless, after implementing the necessary analysis and considering the relevant uncertainties identified in light of the aforementioned elements, the Directors are confident in i) being able to achieve the targets envisaged in the Plan 2017- 2021, even in a market context characterized by strong competitive pressure, (ii) the delivery of a loan of Euro 13-15 million in 2017 by Investment Construction Technology (ICT) Group LTD shareholder (iii) the positive finalization of the granting of standstill by the Finance Institutions and the Leasing companies, iv) maintenance by the bank of financial support so far guaranteed and and have a reasonable expectation that the Group has adequate resources to continue its business in a foreseeable future. They have therefore adopted the going concern assumption in preparing these financial statements.

This opinion is of course the result of a subjective judgement, where, with respect to the events described above, the degree of likelihood of their occurrence is compared to the opposite situation. It should be noted that the forecast underlying the determination of the Board, is likely to be contradicted by events. Precisely because the Board is aware of the inherent limitations of its determination, said Board of Directors will maintain constant monitoring on the progression of the factors taken into account (as well as any circumstances that would acquire additional importance), in order to take the necessary measures promptly.

Business Outlook

In line with the above and with the targets set out in the Business Plan, the Company undertakes, for the next few months, to focus on Core Business in order to strengthen its presence on the Italian market of Fixed and Mobile BroadBand. This will be made possible thanks to:

- the progressive acceleration in the installation of LTE antennae for a higher coverage of the ULtraBroadBand Fixed Wireless services, while planning to have around 500 LTE antennae installed by the end of 2017;
- the progressive consolidation of growth trend in Fixed BroadBand customer base, especially thanks to the focus on offers for very high capacity Fibre based on the agreement signed with Oper Fiber;
- a new communication strategy focused on the new Tiscali brand, renewed in the first months of 2017 and focused on supporting the acquisition of new customers and a general relaunching of Tiscali trademark;
- the progressive acceleration on the growth of the mobile customer base, also thanks to the development of special offers for Fixed-Mobile integrated solutions

Greater attention will be also cast on the identification of all actions required to increase the overall efficiency of the Company and the consequent reduction in costs.

4.9 Other events subsequent to year end

<u>25 January 2017 - The partnership agreement was signed with Open Fiber for the implementation and marketing of the ultra-broadband telecommunication network in the Italian territory</u>

On 25 January 2017, Tiscali and Open Fiber, jointly managed by Enel and Cdp, signed an agreement which envisages the strategic and supplementary integration by Tiscali and on a roll-out basis, of the latest ultra-broadband LTE Fixed Wireless Access network, with special focus on the extended digital divide areas. The agreement for 10 towns envisages significant targets related to Tiscali customers for OF Fibre by Spring 2019. The migration will take place together with the roll-out plan of the Open Fiber optical fibre network. Open Fiber’s work plan envisages the cabling of at least 80% of the real estate properties, with timing defined in the roll-out plan.
Always on 25 January 2017, the Noteholders’ Meeting took place for the appointment of the Common Representative.

1 February 2017 - Suspension of the “Solidarity contracts”

On 1 February 2017 - Tiscali suspended the solidarity contract , due to extraordinary operations made during 2016 and first months of 2017. Furthermore a voluntary incentivated layoff plan has been started and concluded in March 2017.

3 February 2017 - Subscription of a notary deed for the rental of the IT Business Unit

On 3 February 2017, the final agreement for the “full outsourcing” management of Tiscali’s Information Technology services was signed between Engineering Group and Tiscali.

10 February 2017 - Signature of notary deed for the transfer of the Tiscali Business BU to Fastweb

On 10 February 2017, Tiscali and Fastweb signed the notary deed related to the sale of the Tiscali Business BU.
The overall economic value of this transaction was EUR 45 million maximum, of which EUR 25 million in cash and EUR 20 million through Service Vouchers. Pursuant to provisions set out in the Sales Agreement, at the Closing Date Fastweb paid the Temporary Price to Tiscali Italia, for the total amount of EUR 12.5 million. The payment of the remaining EUR 32.5 million was subordinated to the outcome of the SPC dispute between Consip S.p.A. and Telecom Italia S.p.A. that was pending before the Council of State. This dispute was settled with the sentence that rejected the appeal, issued on 24 March 2017 (see following event - 24 March 2017).

24 February 2017 - Cooptation of new Directors and approval of the Information Document on the sale of the Tiscali Business BU to Fastweb

On 24 February 2017, the Board of Directors acknowledged the resignations of Konstantin Yanakov (ICT Group) and Nikolay Katorzhnov (Otkritie-Capital) from their office of directors and, with prior favourable opinion of the Board of Statutory Auditors and the Appointment and Remuneration Committee, coopted Dmitry Gavrilin, Managing Director of ICT Group and Sergey Sukhanov, Executive Director of Otkritie-Capital.
The Board of Directors also approved the Information Document related to the sale of the Tiscali Business BU to Fastweb S.p.A., prepared pursuant to Article 71, paragraph 1, of the Issuers’ Regulation.

24 March 2017 - Publication of the ruling on the appeal no. 4604/2016, submitted by TIM Spa before the Council of State and related to the SPC Contract.

On 24 March 2017, the Council of State, before the Court (Fifth Section), ruled out on the appeal no. 4604/2016, submitted by TIM Spa before the Council of State and related to the SPC Contract and rejected the main appeal, while declaring the secondary appeals as inadmissible.
This sentence made it possible to conclude the sales agreement according to which Tiscali sold the Tiscali Business BU to Fastweb, also including the same SPC contract and the customers in Tiscali’s Top client segment.

31 March 2017 - Payment by Fastweb of the additional price related to the transfer of Tiscali Business BU

In compliance with this agreement, on 31 March Fastweb paid the balance of the earn-out price payment due to Tiscali, regarding the acquisition of the Business Unit, for an amount of EUR 32.5 million, of which EUR 20 million in cash and EUR 12.5 million in connectivity services.

7 April 2017 – Payment of coupon of the mandatory convertible bond

On 7 April 2017 the Company paid the half year coupon to the bondholders (Rigensis Bank and Otkritie Capital International Ltd) for an aggregate amount of Eur 0.7 million.

14 April 2017 – Payment to BPM of instalment due under the First Facility Agreement

On 14 April 2017 the Company paid to BPM EUR 2.6 milion of senior debt, included in the short term financial debt, on top of interest amounting to Eur 0.8 million.

4.10 Disputes, contingent liabilities and commitments

During the normal course of its business, the Tiscali Group is involved in certain legal and arbitration proceedings, as well as being subject to tax audit.

The following is a summary of the main proceedings in which the Group is involved.

Civil and administrative proceedings

TeleTu Litigation

In June 2011, Tiscali Italia sued TeleTu SpA, at the Court of Milan, demanding damages of approximately EUR 10 million caused by unlawful conduct by the defendant in user migration during the period of January 2009-April 2011. The defendant filed a counterclaim for alleged similar acts performed by Tiscali Italia, in turn demanding damages of more than EUR 9 million. The expertise of the court-appointed expert began in July 2016. The outcome of the case is not predictable.

Consip procedure

In April 2016, the TAR Lazio (Regional Administrative Court) rejected the appeal submitted by Telecom Italia and Fastweb against the awarding procedure of the SPC Consip tender in favour of Tiscali Italia.

The losing parties submitted an appeal before the Council of State against the decision of the TAR Lazio. The hearing was held on 19 January 2017.

On 24 March 2017, the Council of State rejected the appeal submitted by Telecom Italia against the awarding of the framework agreement for network and connectivity services (SPC) to Public Administration in favour of Tiscali.

Vodafone Litigation

In February 2017 it has been notified to Tiscali Italia of Vodafone which appealed at TAR Lazio (Regional Administrative Court) to cancel, after the suspension, the “nulla osta” released in January 2017 by CONSIP for the replacement of Fastweb in place of Tiscali in the SPC contract. The parties have filed their defensive memories, awaiting the hearing to discuss about the suspending hearing. The outcome of the appeal can not be predicted.

Proceedings of a criminal nature

In September 2013, pursuant to Legislative Decree no. 231/2001, the Public Prosecutors at the Court of Cagliari served Tiscali S.p.A. with a notice of conclusion of preliminary investigations on alleged misstatements in financial statements from 2008 to 2012. The subsidiary Tiscali Italia received the same notice in January 2014. The alleged crime charged to the companies and some directors, under Article 2622 of the Italian Civil Code, refers to alleged incorrect entries related to allocations to the provisions for doubtful debts. In June 2016, at the preliminary hearing, the two companies and the directors involved were committed for trial. The companies are preparing the necessary defence for the discussion phase that began in October 2016.

Non-recurring transactions

Pursuant to Consob Resolution no. 15519 of 27 July 2006 it is reported that in FY 2016, non-recurring transactions were recorded with a total positive negative on the Group's income statement equal to EUR 2.3 million, which mainly includes the negative impact of assets write down related to held for sale activities, partially compensated by write-offs of trade positions.

The following table shows the exposure in the consolidated income statement of the amounts related to non-recurring transactions:

Non-recurring transactions	2016	2015
Revenue	0.0	0.0
Other income	2.2	13.0
Purchase of external materials and services	4.3	-1.7
Personnel costs	0.9	0.0
Other operating expense (income)	0.0	5.2
Adjusted Gross Operating Result (EBITDA)	**7.5**	**16.5**
Write-downs accounts receivable from customers	0.0	-5.1
Gross Operating Result (EBITDA)	**7.5**	**11.4**
Restructuring costs, provisions for risks and write-downs	-5.7	-4.1
Operating profit (EBIT)	**1.8**	**7.3**
Net financial income (charges)	4.3	-0.4
Pre-tax profit	**6.1**	**6.9**
Income taxes	0.0	0.0
Net result from operating activities (ongoing)	**6.1**	**6.9**
Income from discontinued operations and / or targeted for disposal	(8.3)	0.0
Net result for the period	**-2.2**	**6.9**

Atypical and/or unusual transactions

Pursuant to the Consob Communication of 28 July 2006, it should be noted that during the year 2016, the Group did not execute atypical and/or unusual transactions, as defined in said Communication.

Related-party transactions

During the FY 2016 the Tiscali Group had a number of dealings with related parties on terms deemed customary in the respective reference markets, taking into account the characteristics of goods or services involved.

The related parties with whom the transactions were concluded during FY 2016 are as follows:

- Law Firm Racugno: Board Member, Gabriele Racugno, member of Tiscali SpA's Board of Directors since 21 December 2009 provided Tiscali Italia SpA legal assistance, judicial and extrajudicial;
- Monteverdi Srl: a company owned by the majority shareholder and Chairman of the Board of Directors Renato Soru. The report in question refers to a lease of a space used for the storage of business records.

The economic and financial transactions with related parties are detailed in the section "Transactions with related parties" in the notes to the 2016 Financial Statements.

Remuneration of the directors, statutory auditors and executives with strategic responsibility

The remuneration due to the directors and statutory auditors of Tiscali S.p.A. and Tiscali Italia S.p.A. in 2016 in relation to the performance of their functions, in the parent company and other consolidated subsidiaries, is presented below:

(Thousands of Euro)	**2016**	**2015**
Directors	1,522	782
Statutory Auditors	247	175
Total	**1,769**	**958**

The total value of the cost incurred in 2016 for the remuneration due to executives with strategic responsibility amounted to roughly EUR 2.1 million.

Adhesion to the Fiscal Consolidation

The Company has exercised its option for consolidated taxation of the parent company Tiscali SpA for the following companies:

- Tiscali SpA
- Tiscali Italia S.p.A.
- Veesible Srl
- Indoona Srl
- Istella Srl
- Aria S.p.A.
- Media P.A. S.r.l.

The relationships arising from consolidation are regulated by a special "Rules" agreement, which provides for a common procedure for the application of laws and regulations.

Cagliari, 28 April 2017

The Executive Chairman	**The Executive appointed to draw up the Corporate Accounting Documents**
Riccardo Ruggiero	Pasquale Lionetti

5 Corporate Government and Assets Report

5.1 Introduction

Pursuant to Article 123-bis of Legislative Decree No. 58/1998, as implemented by Article 89-bis of the Issuers Regulations adopted by Consob with resolution No. 11971 dated May 14, 1999, listed companies are required to prepare, annually, an information report on their Corporate Governance system and on their implementation of the recommendations established in the Code (as defined below). This report is made available to Shareholders at least 21 days before the date of the meeting to approve the financial statements and is published in the "investor relations" section of the Company's website at www.tiscali.com.

The Board of Directors of Tiscali S.p.A. ("Tiscali" or the "Company"), in compliance with the aforementioned obligation and with the aim of providing extensive corporate information to shareholders and investors, prepared this report (the "Report"), in compliance with the guidelines published by Borsa Italiana S.p.A. and in light of the information provided in that regard by Assonime.

Therefore, the Report includes two parts. The first part fully illustrates the corporate governance model adopted by Tiscali and describes the corporate Boards as well as the shareholding and other information referred to in Article 123 bis of Legislative Decree 58/98. The second part provides, instead, detailed information regarding the implementation of the recommendations of the Code through a comparison between the choices made by the Company and said Code recommendations. On April 28, 2017, the Board of Directors assessed, under the Code, the size, composition and operation of the Board itself and its Committees considering them suitable to the Company management and its organizational needs. The Board kept into account the professional qualifications, experience and managerial skills of its members and examined the actual functioning of the corporate bodies during 2016. At the date of this report, only the CEO has executive powers and three non-executive directors are also independent. In its assessment, the Board also considered the positions held in other companies by the Directors, and the actual commitment of the Directors in the Company management.

5.2 Corporate Governance Structure

5.2.1 General principles

"Corporate Governance" means the set of processes aimed at managing the corporate activity with the purpose of creating, protecting and increasing over time the value for Shareholders and investors. These processes must ensure the achievement of the corporate purposes, preservation of a socially responsible behavior, transparency and responsibility toward the Shareholders and investors.

To ensure transparency of the management operations, proper market information, and protection of socially relevant interests, the corporate governance system adopted by Tiscali is largely based on the recommendations of the Self-Governance Code (the "Code") approved by the Committee for Corporate Governance in March 2006, as last updated in July 2015 and available at the page http://www.borsaitaliana.it/borsaitaliana/regolamenti/corporategovernance/corporategovernance.htm.

The Company adopts practices and principles of conduct formalized in procedures and codes, in line with the recommendations of Borsa Italiana S.p.A., CONSOB recommendations and best practice applied at national and international level; in addition, Tiscali adopted an organizational structure adequate to manage, with proper procedures, company risks and potential conflicts of interest that may arise between Directors and Shareholders, between majorities and minorities and among the various stakeholders.

5.2.2 Adopted Model

The Company adopted, in relation to the management and control system, the traditional model, which requires the presence of the Board of Directors and Board of Auditors; the Company also deems that such a system allows a clear division of roles and responsibilities entrusted to the governing bodies as well as an effective Company management.

5.2.3 Company bodies and independent auditors.

The corporate bodies are the Board of Directors, the Board of Auditors and the Shareholders' Meeting.

<u>Board of Directors</u>

On April 30, 2015, the Shareholders' Meeting appointed the Board of Directors in office until approval of the financial statements as of 12.31.2017. The following table provides the composition and activity of the Board of Directors until expiry o of office which occurred on 02.16.2016:

Director	Date of birth	Office	Date of appointment for this mandate	Executive - Non-executive - Independent	Date of expiry for this mandate	Date of first appointment: (*)	Other positions (***)	Participation Meetings Board of Directors	Risk and control Committee - role (**)	Appointment and Remuneration Committee - role (**)	Committee for Transactions with Related Parties - Role (***)
Renato Soru	1957	Chairman and CEO	4/30/2015	Executive	2/16/2016	June 09, 1997	-	1/1			
Luca Scano	1971	Director	4/30/2015	Non-executive	2/16/2016	December 21, 2009	-	1/1	M -		
Gabriele Racugno	1944	Director	4/30/2015	Non-executive	2/16/2016	May 5, 2005	-	-		M -	M -
Assunta Brizio	1950	Independent Director	4/30/2015	Non-executive and Independent TUF	2/16/2016	August 28, 2012	-	1/1	M -	M 1/1	M -
Franco Grimaldi	1955	Independent Director	4/30/2015	Non-executive and Independent TUF	2/16/2016	December 21, 2009	-	1/1	P -	P 1/1	P -

(*) This office may have not been held continuously since the date of first appointment

(**) This column reports the participation of the directors to the meetings of the Committees and the auditor's role in the Committee: "P": President; "M": member.

(***) Roles held as directors or auditors in other quoted companies in regulated markets (also foreign), in financial companies, banks, insurance companies or large entities.

Subsequently, as a result of the resignations in the month of December 2015 by a majority of the Directors, the Shareholders' Meeting, on February 16, 2016, appointed a new Board of Directors. The composition and activities from the date of appointment to the date of this report are shown below:

Director	**Date of birth**	**Office**	**Date of appointment for this mandate**	**Executive - Non-executive - Independent**	**Date of expiry for this mandate**	**Date of first appointment: (*)**	**Other positions (***)**	**Participation Meetings Board of Directors**	**Risk and control Committee - role (**)**	**Appointment and Remuneration Committee - role (**)**	**Committee for Transactions with Related Parties - Role (***)**	**Investment Committee (**)**	**Extraordinary Financial Transactions Committee (**)**
Renato Soru****	1957	Director	February 16, 2016	Executive	approval of financial statements as of 12.31.2017	June 09, 1997	-	9/10				M	M
Riccardo Ruggiero	1960	Chief Executive Officer	February 16, 2016	Executive	approval of financial statements as of 12.31.2017	February 16, 2016	-	9/10				P	P
Alexander Okun*****	1952	Chairman	February 16, 2016	Non-executive	approval of financial statements as of 12.31.2017	February 16, 2016	-	10/10				M	M
Konstantin Yanakov	1977	Director	February 16, 2016	Non-executive	approval of financial statements as of 12.31.2017	February 16, 2016/ resignation Feb24 2017	6	7/10		M 6/7			
Nikolay Katorzhnov	1984	Director	February 16, 2016	Non-executive	approval of financial statements as of 12.31.2017	February 16, 2016/resignation Feb24 2017	6	4/10		M 5/7		M	M
Paola De Martini	1962	Independent Director	February 16, 2016	Non-executive and Independent TUF	approval of financial statements as of 12.31.2017	February 16, 2016	2	9/10	M 4/4	P 6/7	P 4/4		
Anna Belova	1961	Independent Director	February 16, 2016	Non-executive and Independent TUF	approval of financial statements as of 12.31.2017	February 16, 2016	1	10/10	P 4/4	M 7/7	M 4/4		
Franco Grimaldi	1955	Independent Director	February 16, 2016	Non-executive and Independent TUF	approval of financial statements as of 12.31.2017	December 21, 2009	-	10/10	M 4/4	M 7/7	M 4/4		

Director	Date of birth	Office	Date of appointment for this mandate	Executive - Non-executive - Independent	Date of expiry for this mandate	Date of first appointment: (*)	Other positions (***)	Participation Meetings Board of Directors	Risk and control Committee - role (**)	Appointment and Remuneration Committee - role (**)	Committee for Transactions with Related Parties - Role (***)	Investment Committee (**)	Extraordinary Financial Transactions Committee (**)
Alice Soru	1980	Director	February 16, 2016	Non-executive	approval of financial statements as of 12.31.2017	February 16, 2016	-	10/10	-	-	-	-	-
Dmitry Gavrilin	1977	Director	February 24 2017	Non-executive	Next shareholders meeting	February 24 2017		1/1	-	1/1	-	-	-
Sergey Sukhanov	1974	Director	February 24 2017	Non-executive	Next shareholders meeting	February 24 2017	1	1/1	-	1/1	-	-	-

(*) This office may have not been held continuously since the date of first appointment

(**) This column reports the participation of the directors to the meetings of the Committees and the auditor's role in the Committee: "P": President; "M": member.

(***) Roles held as directors or auditors in other quoted companies in regulated markets (also foreign), in financial companies, banks, insurance companies or large entities.

(****) Appointed President by the Shareholders meeting on February 16.2016 and resigned from the office of President on 05.12.2016

(*****) Vice-President from 2.16.2016 to 5.12.2016 – President since 5.12.2016

Please note that the Board currently in office was elected on the base of the sole list presented to the Shareholders' Meeting held on February 16, 2016 jointly by Renato Soru, Aria Telecom Holding BV and Otkritie Disciplined Equity Fund.

Board of Auditors

On April 30, 2015 the Shareholders' Meeting elected the Board of Auditors in office until approval of the financial statements as of 12.31.2017. The Company Board of Auditors consisted of:

Regular auditor	Date of birth	Office	Date of appointment for the mandate	Date of first appointment: (*)	Independence Code	Participation to Board meetings from January 1 to February 16, 2016	No. of positions held in issuers
Paolo Tamponi	7/24/1962	Chairman	April 30, 2015	December 21, 2009	yes	4/4	-
Rita Casu***	11/7/1963	Effective Auditor	April 30, 2015	November 30, 1998	yes	3/4	-
Andra Zini	1/31/1963	Statutory Auditor	April 30, 2015	April 17, 2000	yes	4/4	-
Piero Maccioni**	4/7/1962	Substitute	April 30,	June 30,	yes	-	-

Regular auditor	Date of birth	Office	Date of appointment for the mandate	Date of first appointment: (*)	Independence Code	Participation to Board meetings from January 1 to February 16, 2016	No. of positions held in issuers
		Auditor	2015	1999			
Valeria Secchi	8/30/1965	Substitute auditor	April 30, 2015	April 30, 2015	yes	-	-

(*) This office may have not been held continuously since the date of first appointment
(**) Statutory Auditor from 5/15/2012 to 04/30/2015 and Substitute Auditor since 04/30/2015
(**) Substitute Auditor from 5/15/2012 to 04/30/2015 and Statutory Auditor since 04/30/2015

Subsequently, upon the resignation of all the Auditors submitted in December 2015, the Shareholders' Meeting appointed a new Board of Auditors on February 16, 2016, comprising:

Regular auditor	Date of birth	Office	Date of appointment for this mandate	Date of first appointment: (*)	Independence Code	Partipation to the Board meetings from 2.16.2016 to the date of this report	No. of positions held in issuers
Paolo Tamponi	7/24/1962	Chairman	February 16, 2016	December 21, 2009	Yes	16/16	-
Emilio Abruzzese	7/18/1957	Statutory Auditor	February 16, 2016	February 16, 2016	Yes	16/16	-
Valeria Calabi	8/22/1966	Statutory Auditor	February 16, 2016	February 16, 2016	Yes	16/16	-
Federica Solazzi Badioli	12/23/0966	Substitute auditor	February 16, 2016	February 16, 2016	Yes	-	-
Augusto Valchera	6/1/1966	Substitute auditor	February 16, 2016	February 16, 2016	Yes	-	-

(*) This office may have not been held continuously since the date of first appointment

Please note that the Board currently in office was elected on the base of the sole list presented to the Shareholders' Meeting held on February 16, 2016 jointly by Renato Soru, Aria Telecom Holding BV and Otkritie Disciplined Equity Fund.

<u>Managers responsible for drawing up corporate accounting documents</u>

As established in Article 14 of the Company's Articles of Association and in compliance with the provisions of Law 262/2005, dated April 30, 2015 the Board of Directors appointed as manager responsible for drawing up the corporate accounting documents Mr. Pasquale Lionetti, manager of the Company in possession of the necessary qualifications and proven experience in the accounting and finance field. The office of Mr. Lionetti will expire with renewal of the Board of Directors subsequent to the approval of the 2017 financial statements.

Company appointed to perform the audit

The appointment to perform the audit was awarded to the company EY S.p.A. on April 29, 2008. This appointment will expire with the approval of the 2016 financial statements by the Shareholders' Meeting.

Committees

In the meeting of the Board of Directors dated April 30, 2015, following the appointment of the new Board of Directors replacing the previous one due to its term expiration, the following internal committees were established:

- *Control and Risk Committee*, constituted by Franco Grimaldi (Chairman), Assunta Brizio and Luca Scano.
- *Appointment and Remuneration Committee* constituted by, Franco Grimaldi (Chairman), Assunta Brizio and Gabriele Racugno.
- *Committee for Transactions with the Related Parties* constituted by, Franco Grimaldi (President), Assunta Brizio and Gabriele Racugno.

In addition, in accordance with the Regulations pertaining to transactions with related parties adopted by CONSOB with resolution No. 17221 dated March 12, 2010 and subsequently amended by resolution No. 17389 dated June 23, 2010, the Company adopted regulations for transactions with related parties on the basis of which the Committee for Transactions with Related Parties operates.

Subsequently, as a result of the resignations occurred in the month of December 2015 by a majority of the Directors, and the appointment by the Shareholders' Meeting held on February 16, 2016, of a new Board of Directors, the latter, at its first meeting held on February 16, 2016, established internally the following committees:

- *Control and Risk Committee*, constituted by Anna Belova (Chairman), Paola De Martini and Franco Grimaldi;
- *Appointment and Remuneration Committee,* constituted by Paola De Martini (Chairman), Konstantin Yanakov, Nikolay Katorzhnov, Anna Belova and Franco Grimaldi;
- *Committee for Transactions with Related Parties,* constituted by Paola De Martini (Chairman), Anna Belova and Franco Grimaldi;
- *Investment Committee,* constituted by Riccardo Ruggiero (Chairman), Renato Soru, Alexander Okun and Nikolay Katorzhnov; ;
- *Committee for Extraordinary Financial Transactions*, constituted by Riccardo Ruggiero (Chairman), Renato Soru, Alexander Okun, Nikolay Katorzhnov and Anna Belova.

The committees will expire in conjunction with the Board of Directors upon approval of the financial statements as of December 31, 2017.

Oversight Body

On the occasion of the Board meeting dated April 30, 2015, the new Oversight Body of the Company was appointed, constituted by lawyer Maurizio Piras, an external member acting as Chairman; Angelo Argento, an external member; and Carlo Mannoni, Manager of the Company Regulatory Affairs department, who later resigned and was replaced in September 2015 by Paolo Sottili, Manager of the Company HR department. Following the resignation of Paolo Sottili, Daniele Renna was appointed member of the Oversight Body on the meeting dated November 29, 2016. The Oversight Body will remain in office until the approval of the financial statements as of December 31, 2017 and carries out its supervisory tasks also on the subsidiaries Tiscali Italia S.p.A. and Veesible Srl.

Director in charge of the internal control risk and risk management

In line with the recommendations of the Self-Governance Code, at the Board meeting dated April 30, 2015, Luca Scano was appointed Director in charge of internal control and risk management (henceforth also referred to as Director in Charge). As a result of the appointment of the Board of Directors occurred on February 16, 2015, the department was entrusted to the CEO.

Secretary of the Board of Directors

On February 22, 2016, the Board of Directors appointed Paola De Martini as corporate secretary, with the task of assisting the Board in the preparation of Board and Shareholders' meetings and drafting of their related resolutions, supervising and ensuring the adequacy, completeness and clarity of information flows addressed to the Board and the corporate bodies.

5.2.4 Shareholding

At the time of this Report, the share capital subscribed and paid amounted to Eur 91,200,922.89, divided into 3,145,281,893 ordinary shares without nominal value, freely transferable according to time limits established by law without securities conferring special control rights.

Share-based incentive plan

The Shareholders' Meeting held on February 16, 2016 approved the 2015-2019 a Stock Option Plan intended for Renato Soru as Chairman of the Board of Directors and the related authorization for the Board to increase the capital for a maximum amount of Eur 16,371,192.25 to cover for the above stock option Plan. The authorization concerns the issue of up to 251,622.551 ordinary shares, to cover a maximum of 251,622,551 options to be reserved to the Plan beneficiary. For more information, please refer to the Information Document on the 2015-2019 Stock Option Plan issued by Tiscali S.p.A. prepared by the Board of Directors pursuant to article 84 bis of the Issuer Regulations available on the Company's website in the Governance section.

Subsequently, the Shareholders' Meeting held on June 16, 2016 approved the 2016-2021 Stock Option Plan (hereafter referred to as the 2016-2021 Plan) reserved to the CEO and the Group management and the divisible cash increase in the share capital for a maximum amount of Eur 25,193,708 to be allocated to the capital with exclusion of option right pursuant to article 2441, paragraphs 5 and 6, of Civil Code, by issuing up to 314,528,189 new ordinary shares of Tiscali, to cover a maximum of 314,528,189 options valid for the subscription of ordinary shares to be reserved to the CEO and the Group management as beneficiaries of the 2016 - 2021 Plan. The 2016-2021 Plan is described in document pursuant to Article 114-bis of the Consolidated Finance Act (TUF) already prepared during the meeting approval and available in the governance section of the Company website.

Increases of Representative pursuant to article 2443 of the Civil Code

With resolution dated February 16, 2016, the Shareholders' Meeting (i) declared void the resolution dated September 29, 2015 by which the Shareholders' Meeting granted the Board of Directors authorization pursuant to Article 2443 c. 2 of the Civil Code with the power to increase the share capital from 1 to 31 March 2018, through the issue of a maximum of 250,000,000 ordinary shares with nominal value of zero at a subscription price of EUR 0.06, for the subscription by Bank Otkritie Financial Corporation, and (ii) approved at the same time an authorization to the Board of Directors pursuant to article 2443 paragraph 2 of the Civil Code to increase the share capital from 1 to 30 March 2018, by issuing up to a total of 250,000,000 ordinary shares without nominal value at a subscription price of EUR 0.06. The increase is intended to the subscription by Rigensis Bank AS.

The following table specifies the name or appellation of the Shareholders with voting rights and with a shareholding of more than 5%, who notified the Company and CONSOB of their shareholding. No restrictions on voting rights or security transfer were established.

Stockholder	**Percentage on the ordinary capital**	**Percentage on the voting capital**	**Shares**
Otkritie Disciplined Equity Fund	**17.08%**	**17.08%**	**537,247,387**
Investment Construction Technology (ICT) Group Ltd*	**-**	**16.26%**	**511,279,591**
Renato Soru	**10.48%**	**10.48%**	**329,650,508**
of which Cuccureddus	1.05%	1.05%	33,112,352
of which Monteverdi	0.56%	0.56%	17,609,873
of which Soru direct	8.87%	8.87%	278,928,283

** From communications occurred pursuant to art. 119 of the Issuers Regulations it appears that the company Investment Construction Technology Group Ltd, through its subsidiary Powerboom Investment Limited, due to transfer contracts in place for securities lending and carry forward for a total amount of shares equal to 16.255%, as established by specific contractual clauses, issues voting directives from time to time to the related counterparts.*

The remaining 56.18% of the capital is held by the market.

No statutory restrictions on voting rights or the security transfer, such as limits on the ownership of securities or acceptability clauses were established. Also there are no special mechanisms for exercising voting rights in case of employee shareholdings, who exercise their right in accordance with the provisions of the Company Articles of Association.

Shareholders' Agreements

At the date of this report no shareholder's agreement are in place to the Company's knowledge. Please note that, as reported in accordance with the law, on September 25, 2015, Renato Soru, and the direct and indirect shareholders of Aria Italia signed a shareholders' agreement whose purpose was the presentation of a common list to be submitted to Tiscali Shareholders' Meeting that, after the effective date of the merger between Tiscali Group and the Aria Group, were called for the appointment of corporate positions as well as for the approval of an incentive plan in favor of the administrative body members. The agreement was implemented with reference to the Shareholders' Meeting held on February 16, 2016.

5.2.5 Amendments to significant agreements of the Company following a control change

In case of change of control of the Company or some companies of the Group relevant under the financing agreements with senior creditors of the Company, the change of the financing agreements was established. In particular, the change of control under the terms established in the financing agreement, implies an obligation to make prepayments with reference to the said agreement.

5.3 Information on the implementation of the recommendations detailed in the Self-Governing Code

5.3.1 Board of Directors

Role

The Board of Directors carries out a prominent role in the life of the Company, being the body responsible for the management of the enterprise, as well as the task of strategic and organizational direction and as such is predisposed to the identification of social objectives and the verification of achievement of the same.

This body shall bear, pursuant to Article 14 (Powers of the Administrative Board) of the current Articles of Association, all the powers of ordinary and extraordinary administration. The Board of Directors examines and approves the strategic, industrial and financial plans of the Company and of the Group which it heads; reports quarterly to the Board of Auditors on the activities carried out and on operations of major economic, financial and asset transactions by the Company or its subsidiaries, as specificied in art. 150 TUF and in accordance with the procedure approved by the Board of Directors at the meeting on 28 April 2017. The powers exercised by the Board of Directors of the Company, including in its function of strategic guidance, oversight and control of company activity, as provided for in the Articles of Association and implemented in corporate practices, are consistent with the principles and application criteria pursuant to art. 1 of the code.

Composition:

Pursuant to Article 10 (Directors of the Company) of the Articles of Association, the Board of Directors should be composed of nine members, however, the gender balance is guaranteed in accordance with current legislation. The Board of Directors has established the following committees: Control and Risk Committee, Nomination and Remuneration Committee, Related Parties Transactions Committee, Investment Committee and Extraordinary Finance Operations Committee.

Chairman

The Articles of Association states that the Chairman of the Board of Directors shall convene the Board and presides over it as well as that he/she coordinates the works. At the Board of Directors meetings, the Chairman shall ensure that the Directors are provided, with reasonable advance, the documentation required to enable the Board to be discuss the matters under examination. In addition, at the February 16, 2016 meeting, some executive powers were delegated to the Chairman to oversee the management of the company with reference to specific areas, but they did not succeed following the resignation of Chairman Renato Soru on May 12, 2016.

In the February 16, 2016 meeting, the Board of Directors nominated Alexander Okun Vice President of the Board of Directors. He was also nominated by the Board, Chairman of the Board of Directors succeeding Renato Soru.

Chief Executive Officer

The Articles of Association also stipulate that the Board of Directors may, within the limits of law, nominate one or more Managing Directors, determining its powers within the scope of its duties and within the limits of the law. The Board of Directors has conferred executive powers on the Chief Executive Officer. As a general rule, the powers of the Chief Executive Officer can be exercised up to a maximum value of 10 million Euros.

Non-executive, minority and independent directors

In accordance with the provisions of Law 262/2005 and subsequent amendments, the Company's Articles of Association establish that the composition of the Board of Directors meets the criteria established by law regarding the presence of independent directors within the Board. The Company complies with the Code and currently has three independent directors with a nine-member Board, of whom only Riccardo Ruggiero, Chief Executive Officer, is in possession of the executive powers authorized by the Board.

At the time of the appointment and, in any way, annually on the occasion of this Report preparation, the Board assesses the independence of the Directors, considering the information provided by the concerned individuals, and adequately informs the market by publishing said Report. In the light of this analysis, the existence of independence requirements for Assunta Brizio and Franco Grimaldi was confirmed and, for Paola De Martini, Anna Belova and Franco Grimaldi it was confirmed after the appointment of the new Board of Directors.

Regarding the administration and control tasks in other companies, the Board considered unnecessary to define general criteria about the maximum number of tasks compatible with the effective performance of the role of Director in the Company, without prejudice to the duty of each Director to assess the compatibility of the tasks of the director and auditor, possibly held in other companies listed on regulated markets, in financial, banking, insurance companies or of significant size, with the diligent performance of the duties assumed as Director of the Company. The tasks held by current members of the Board of Directors as Directors of other listed companies, banks, financial or insurance companies or of significant size are listed below. It should be noted that none of the Directors holds any role in boards of auditors of other listed companies, banks, financial or insurance companies or of significant size.

The Company publishes in the special section entitled "Governance" on the www.tiscali.com Internet website, the professional curricula of its own Directors in order to allow Shareholders and investors to assess the professional experience and the authoritativeness of the members of the Board of Directors.

Meetings

The Board of Directors meets regularly and however at the time of approval of quarterly reports, six-month report and draft financial statements for the fiscal year. It is standard practice of the Board of Directors meeting to call to participate also managers and external consultants depending on the specific topics to be discussed, this also to ensure accurate and in-depth knowledge of the activities of the Company and the Group, as well as increase the supervisory ability of the Board of Directors over the business activity. As summarized in the table below, during the fiscal year 2016, the Board of Directors met ten times, while in 2017, up until the date of this report, the Board of Directors met three times. In most meetings participation was from all the Directors and auditors of the Boad of Auditors, as detailed below.

The average duration of the Board meeting in 2016 and 2017 up to the date of this report was approximately 90 minutes.

Meetings	**15 January 2016**	**16 February 2016**	**22 February 2016**	**25 March 2016**	**12 May 2016**	**28 June 2016**	**22 July 2016**	**29 July 2016**	**27 Sept. 2016**	**22 Nov. 2016**	**29 Nov. 2016**	**24 Feb. 2017**	**March 27, 2017**	**April 28, 2017**
Directors Present	4/5	9/9	8/9	9/9	9/9	9/9	8/9	6/9	7/9	8/9	7/9	7/9	8/9	9/9
Percentage	80%	100%	89%	100%	100%	100%	89%	67%	78%	89%	78%	78%	89%	100%
Auditors Present	3/3	3/3	3/3	3/3	3/3	3/3	3/3	3/3	3/3	3/3	3/3	3/3	3/3	3/3
Percentage	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

The draft documents to be approved together with all the information and instrumental documents related to the various resolutions are previously sent to the Board of Directors and the Board of Auditors to be approved. Submittal is carried out by the Corporate Secretary's office, which collects the documents from the designated sectors and sends them as soon as possible. Generally the documentation is sent in a single action together with the director meeting summons; exceptionally, if not yet available, some documents may be sent after the summons but always well in advance of the meeting. It should also be noted that the practice, consolidated in case of particularly large or complex documentation, is to support the Directors with an executive summary, especially prepared by the relevant corporate departments, which summarizes the most significant and relevant points of the documents being considered by the Board.

On November 29, 2016, the Board of Directors approved the timetable for its meetings for the year 2017

Appointment of Directors

Article 11 (Board of Directors) of the Company's Articles of Association require for the Director appointment a list voting system that ensures the appointment of a certain number of Directors also among those present on the lists who did not obtain the majority of the votes and that guarantees the transparency and correctness of the appointment procedure. The right to submit lists is granted to Shareholders who, alone or together with other Shareholders represent at least the percentage of the Share capital required by applicable Law, in particular, Consob established that the shareholding required to submit a list for the year 2016 were equal to 2.5% of the share capital, while for the year 2017 were equal to 4.5% of the share capital. Then, the above-mentioned mechanism also guarantees minority Shareholders the power to propose their own lists. Everyone who has the right to vote may vote only one list. The Company adapted the appointment mechanisms to Law No. 120/2011 on gender equality concerning access to the administrative and control bodies of listed companies in regulated markets; therefore, each list must present a number of candidates belonging to the less represented gender, at least equal to the minimum number required by the applicable law.

The election procedure of Directors is as follows:

a.1) regardless of the number of the submitted lists, without prejudice to the limitations established by these Articles of Association, for the purposes of the division concerning the Directors to be elected, no lists will be taken into account which did not achieve a percentage of votes at least equal to half of that required by these Articles of Association for the submission of the lists themselves.

a.2) If only one list is submitted, all of its 9 candidates will be elected.

a.3) If two or more lists are submitted and none of them is voted at least by 34% of the share capital, the candidates will be divided between the various lists as follows:

a.3.a) in the presence of two lists, the following will be elected: (i) the first 6 candidates in the first list by number of votes expressed by the shareholders; (ii) the first 3 candidates in the second list by number of votes expressed by the shareholders;

a.3.b) in the presence of three lists, the following will be elected: (i) the first 4 candidates in the first list by number of votes expressed by the shareholders; (ii) the first 3 candidates in the second list by number of votes expressed by the shareholders; (iii) the first 2 candidates in the third list by number of votes expressed by the shareholders;

a.3.c) in the presence of four lists, the following will be elected: (i) the first 3 candidates in the first list by number of votes expressed by the shareholders; (ii) the first 2 candidates in the second list by number of votes expressed by the shareholders; (iii) the first 2 candidates in the third list by number of votes expressed by the shareholders; iv) the first 2 candidates in the fourth list by number of votes expressed by the shareholders;

a.3.d) in the presence of five lists, the following will be elected: (i) the first 3 candidates in the first list by number of votes expressed by the shareholders; (ii) the first 2 candidates in the second list by number of votes expressed by the shareholders; (iii) the first 2 candidates in the third list by number of votes expressed by the shareholders; iv) the first candidate in the fourth list by number of votes expressed by the shareholders; v) the first candidate in the fifth list by number of votes expressed by the shareholders;

a.3.e) in the presence of six or more lists, the following will be elected: (i) the first 3 candidates in the first list by number of votes expressed by the shareholders; (ii) the first 2 candidates in the second list by number of votes expressed by the shareholders; (iii) the first candidate in the third list by number of votes expressed by the shareholders; iv) the first candidate in the fourth list by number of votes expressed by the shareholders; v) the first candidate in the fifth list by number of votes expressed by the shareholders; vi) the first candidate in the sixth list by number of votes expressed by the shareholders a.4) If two or more lists are submitted and only one of them is voted at least by 34% of the capital, the candidates will be divided between the various lists as follows:

a.4.a) in the presence of two lists, the following will be elected: (i) the first 6 candidates in the first list by number of votes expressed by the shareholders; (ii) the first 3 candidates in the second list by number of votes expressed by the shareholders;

a.4.b) in the presence of three lists, the following will be elected: (i) the first 5 candidates in the first list by number of votes expressed by the shareholders; (ii) the first 3 candidates in the second list by number of votes expressed by the shareholders; (iii) the first candidate in the third list by number of votes expressed by the shareholders;

a.4.c) in the presence of four lists, the following will be elected: (i) the first 5 candidates in the first list by number of votes expressed by the shareholders; (ii) the first 2 candidates in the second list by number of votes expressed by the shareholders; (iii) the first candidate in the third list by number of votes expressed by the shareholders; iv) the first candidate in the fourth list by number of votes expressed by the shareholders;

a.4.d) in the presence of five or more lists, the following will be elected: (i) the first 5 candidates in the first list by number of votes expressed by the shareholders; (ii) the first candidate in the second list by number of votes expressed by the shareholders; (iii) the first candidate in the third list by number of votes expressed by the shareholders; iv) the first candidate in the fourth list by number of votes expressed by the shareholders; v) the first candidate in the fifth list by number of votes expressed by the shareholders;

a.5) if two lists are voted by at least 34% of the capital and if no one of them reached a percentage of more than 50%, the provisions established in previous point (a.3) will be applied;

a.6) if two lists are voted by at least 34% of the capital and one of them reached a percentage of more than 50%, the provisions established in previous point (a.4) will be applied;

If, in all the cases specified in this point (a), one or more lists would have obtained a number of votes higher than the percentage mentioned in point a.1) but less than 5% of the share capital, for the purpose concerning the division of the directors to be elected: (i) only the most voted one will be considered; (ii) only the first candidate listed in that list will be elected; (iii) any remaining directors of this list based on the foregoing points a. 3.a), a.3.b), a.3.c), a.3.d), a.3.e), a.4.a), a.4.b), a.4 c) and a. 4. d), as recalled in accordance with previous points a. 5) and a. 6), will be assigned to the list that came first by number of absolute votes, without prejudice to what is specified by them with reference to attribution of the directors of lists other than the first and the last ones.

If, according to the appointment procedure, at least two members in possession of the independence requirements established by the applicable law were not elected, the last one of the elected candidates who is not in possession of those requirements from the list that obtained the most number of votes expressed by the shareholders after the first one and which is not linked in any way, even indirectly, to the shareholders who submitted or voted for this last list, shall be replaced with the first candidate subsequently listed on that list, who is in possession of these requirements and, as a result of such a replacement, another member in possession of the independence requirements established by applicable law should be still elected, the last of the elected candidates who are not in possession of those requirements from the list that obtained the highest number of votes shall be replaced by the first candidate subsequently listed on that list who is in possession of such requirements.

If the Board of Directors elected in accordance with the foregoing does not allow the balance between the genders established by the applicable law, the last elected candidates of the most represented gender of the list which came first by number of votes expressed by the shareholders, expire from the office in a number needed to ensure compliance with the requirement and are replaced by the first non-elected candidates of the same list of the less represented gender. In the absence of candidates of the least represented gender within the list which came first by number of votes expressed by sufficient number of shareholders to make the replacement, the said criterion will apply to the subsequent lists of the most voted ones from which the elected candidates were chosen . If, by applying the above criteria, it is not possible to identify suitable substitutes, the Meeting integrates the body with the majorities of the law, ensuring compliance with the balance requirement between the genders established by current law.

Pursuant to the aforementioned Article 11 (Board of Directors), the lists containing the proposals for Director appointment must be filed at the registered office at least twenty-five days before the date established for the Shareholders' Meeting together with a description of the professional curricula of the designated persons and a declaration by which such persons accept the candidacy and attest that there are no reasons for ineligibility or incompatibility as well as the existence of the requirements of integrity and professionalism required by the applicable law and by the Articles of Association, substantially in line with the principles and application criteria contained in article 5 of the Code. No later than twenty-one days before the planned date for the Meeting, the lists and supporting documentation must be made public in the manner established by law. In the event of resolution on the appointment of individual members of the Board of Directors, the appointment mechanism cannot be applied by list voting, that article 11 (Board of Directors) of the Articles of Association requires for the sole case of full renewal of the administrative body.

Even if on the basis of the provisions of Article 11 (Board of Directors) and the above considerations, the Director appointment mechanism ensures a fair and respectful system for minorities, the Board of Directors however deemed appropriate that the Remuneration Committee would take functions also on the topic of appointments, thus becoming the Appointment and Remuneration Committee. For more information, also with reference to the information required by Article 123-bis, first paragraph, letter i and the Self-Governance Code, please refer to the Remuneration Report which will be submitted to the Shareholders' Meeting called to approve the financial statements as at December 31, 2016.

To date, the Board did not deem necessary to adopt a plan for succession of executive directors.

5.3.2 Shareholders' Meetings

In accordance with the principles and application criteria referred to in article 9 of Code, the Company encourages and facilitates the participation of Shareholders at Shareholders' Meetings, providing in compliance with regulations on price sensitive information, the information concerning the Company required by Shareholders. The Company, in order to facilitate information and participation of its own Shareholders, as well as to facilitate the obtaining of documentation that, under the terms and conditions of law, must be made available to them at the Company's registered office on the occasion of the Shareholders' Meetings, dedicated a proper section called "investor relations" of the www.tiscali.com Internet website, which allows access to such documentation in electronic format.

As suggested by the third application criterion referred to in article 9 of Code, the Shareholders 'Meeting adopted its own Shareholders' Meeting Regulations, latest version of April 29, 2011, which is also available on the Company's website. The Shareholders' Meeting Regulations were adopted with the aim of ensuring the orderly and functional performance of the Shareholders' Meetings, clarifying the rights and duties of all the participants and establishing clear and unambiguous rules without in any way limiting or compromising the right of each member to express his/her opinions and make requests for clarification on the topics on the agenda. The Board of Directors considers that the minority's prerogatives, when adopting shareholders' meeting resolutions are met, since the current Company Articles of Association do not require majorities other than those established by law.

According to article 2370 of Civil Code and article 8 (Participation in Shareholders 'Meeting) of the Company Articles of Association, Shareholders are entitled to attend the Shareholders' Meeting for which the Company received the communication sent by the authorized intermediary pursuant to the provisions in force, certifying the ownership of the shares at the date of the so called record date, in addition to a possible vote authorization.

5.3.3 Board of Auditors

Appointment and Composition

Consistently with the first principle of article 8 of Code, with regard to the appointment of statutory auditors, the Company Articles of Association establishes in Article 18 (Board of Auditors), a list voting system which ensures transparent and correct appointment procedure and protection of the minority right.

Only the Shareholders who, alone or together with other Shareholders, prove on the whole to be holders of at least the percentage of the Share Capital required by applicable law. Five candidates must be listed on a lists with a progressive number, starting from those who have greater seniority. Consob established that the shareholding required to submit a list for the year 2016 was equal to 2.5% of the share capital, while for the year 2017 it is 4.5% of the share capital. Each Shareholder may submit or participate in the submission of a single list and each candidate may be registered in a single list under penalty of losing the right to be elected. The lists containing the appointment proposals must be filed at the registered office at least twenty - five days before the date established for the Shareholders' Meeting together with a description of the professional curricula of the designated persons and a statement by which such persons accept the candidacy and certify the non-existence of causes of ineligibility or incompatibility, as well as the existence of the requirements of integrity and professionalism required by applicable law and by the Articles of Association. No later than twenty-one days before the planned date for the Meeting, the lists and supporting documentation must be made public in the manner established by law.

Each Shareholder can vote only one list. The following shall be elected: a) two Statutory Auditors and two Alternate Auditors of the list that obtained the highest number of votes, in the progressive order with which they are listed; b) the third Statutory Auditor is the first candidate in the list that obtained the highest number of votes after the first one. In compliance with Law 262/2005, as amended by Legislative Decree 303/2006, the Chair of the Board of Auditors is owed to the person who came first in the list that obtained the highest number of votes after the first one. Also for the Board of Auditors, the Company supplemented the appointment mechanism so as to ensure, in any way compliance with Law 120/2011 on the so called gender equality.

Requirements

Article 18 (Board of Auditors) of the Articles of Association requires that at least one of the Statutory Auditors, and at least one of the Alternate Auditors, must be elected among the members of the Register of Auditors who exercised the statutory auditing of the accounts for a period of not less than three years. The Auditors who are not in the aforementioned condition must have a total experience of at least three years in carrying out specific activities, in any way, related to the company purpose and, in any case, to the telecommunication sector. Said article also requires that those who already hold tasks as statutory auditor in more than five listed companies cannot be appointed Auditors.

The Company publishes in the special section entitled "Investor Relations" on the www.tiscali.com Internet website, the professional curricula of its own Auditors in order to allow Shareholders and investors to assess the professional experiences and the authoritativeness of the members of the Board of Auditors.

Activities

Members of the Board of Auditors operate autonomously and independently, in constant connection with the Control and Risk Committee, whose meetings are regularly attended by them, and with the Internal Audit department, in line with the principles and application criteria referred to in article 8 of Code.

During the fiscal year under review, the Board of Auditors met 16 times with the presence of the total number of Statutory Auditors, recording the meeting average duration of approximately two hours and half. For the fiscal year 2017, at least 15 meetings are scheduled, 6 of which were already held.

5.3.4 Committees established within the Board of Directors and other Governance bodies

At the date of this report, the following Committees are established within the Board: Control and Risk Committee, Nomination and Remuneration Committee, Related Parties Transactions Committee, Investment Committee and Extraordinary Finance Operations Committee. The Director responsible for the drafting of the Company accounting documents, the person responsible for Internal Control and the Supervisory Body remain in office until the approval of the financial statements as at December 31, 2017.

Control and Risk (deferment) Committee

With regard to the Control and Risk Committee, please refer to the next "Internal Control" paragraph.

Appointment and Remuneration Committee

The Company's Board of Directors established internally since March 2001 a Remuneration Committee, as required by the third principle of article 6 of Code and its application criteria. The Committee in office at the date of this report, appointed at the meeting of the Board of Directors held on February 16, 2016, is constituted by Paola De Martini (Chairman), Konstantin Yanakov, Nikolay Katorzhnov, Anna Belova and Franco Grimaldi. The current Committee succeeds that elected at the Board meeting held on April 30, 2015, which appointed Franco Grimaldi (Chairman), Assunta Brizio and Gabriele Racugno, who failed after the resignation of the majority of the Directors in December 2015

The Committee proposes to the Board of Directors the remuneration of the Chief Executive Officer and other Directors with special positions and, in general, recommendations on remuneration for Directors with Group strategic responsibilities, it assists the Board of Directors to prepare and implement any remuneration plans based on actions or financial instruments, it also assesses the adequacy and application of the Remuneration Policy. In addition, the Committee proposes appointments of directors, in case of cooptation, the top management of the Company and other company figures. Within its functions, the Committee may use external consultants at the expenses of the Company. The Committee meets whenever necessary, on the request of one or more members. The rules of the Articles of Association apply to the convocation and performance of meetings.

In 2016 and at the date of this report, the Appointment and Remuneration Committee met nine times: On January 15, February 16 and February 22, March 25, May 12, July 29, November 29, 2016 and February 24 and April 28, 2017. The Appointment and Remuneration Committee examined and approved the annual remuneration reports, then approved by the Board of Directors and submitted to the Shareholders' Meeting, as well discussed and approved, then submitting them to the Board of Directors, the proposal to appoint certain company offices and agreements with the Executive Chairman and the Chief Executive Officer as fully described in the Remuneration Report of the year 2016. All the members of the Board of Auditors participated to the Committe. The meetings lasted on average approximately 30 minutes. Meetings scheduled for the 2017 fiscal year were already held.

Committee for Transactions with Related Parties

The Committee for Transactions with Related Parties is responsible for carrying out the functions required by CONSOB regulations and the Regulations for Transactions with Related Parties, adopted by the Company on November 12, 2010, and entered into force on January 01, 2011 (hereinafter referred to as the " OPC Regulation "),as subsequently amended on April 28, 2017. The OPC Regulation defines the rules, modalities and principles aimed at ensuring the transparency and the substantial and procedural fairness of the transactions undertaken with related parties put in place by Tiscali. The current Committee, appointed by the Board at its meeting held on February 16, 2016, is constituted by three non-executive and independent directors, Paola De Martini (Chairman), Anna Belova and Franco Grimaldi, and it succeeds that elected at the Board meeting held on April 30, 2015, which appointed Franco Grimaldi (Chairman), Assunta Brizio and Gabriele Racugno, who failed after the resignation of the majority of the Directors in December 2015. The roles of the Committee are as follows: (i) it expresses a non-binding and reasoned opinion on the Company's interest upon completion of less important transactions (as defined in the OPC Regulation) as well as on the convenience and substantial fairness of the related conditions;(ii) in the case of major transactions (as defined in the OPC Regulation), it is also involved in the negotiation stage and the preliminary stage and then it expresses a reasoned and binding opinion, except for special approval procedures, on the Company's interest upon transaction completion, as well as on the convenience and substantial fairness of the related conditions. During the fiscal year 2016 and up to the date of this report, the Committee met five times: On March 7, June 28, July 22 and September 27, 2016 and April 28, 2017. All the members of the Board of Auditors participated to the Committe. The meetings lasted on average approximately 30 minutes.

5.3.5 Internal Control

The Company formalized its organizational structure of internal control since October 2001. On March 25, 2004, as a result of changes to the Self- Governance Code of listed companies and the suggestions of Borsa Italiana Spa, the Board of Directors updated the organizational structure of the Company's internal control system; later, the structure was updated also to take into account changes in the Self-Governance Code. The current internal control structure is in line with the principles and application criteria contained in Article 7 of Code.

Internal Control System

The internal control system is the set of processes aimed at monitoring the efficiency of company transactions, reliability of financial information, compliance with laws and regulations, as well as the safeguard of company assets.

The Board of Directors has the full liability of the internal control system, of which it determines the guidelines and periodically verifies the adequacy and the effective functioning, ensuring that the main company risks are properly identified and managed. In addition to a continuous comparison and interchange among the various corporate bodies involved, the Control and Risk Committee prepares every six-months, on the occasion of the approval of annual financial statements and semi-annual report, a proper report on the governance system of the Company and the Group and on activities put in place during the period; the information provided by the Supervisory Body and the Person in charge of the Internal Control are attached to the Committee report. The Board of Directors examines these information and evaluates the governance system together with the Internal Audit plans. With reference to the 2016 fiscal year, at its meetings held on March 25 and September 27, respectively, at the time of approval of the draft budget as at December 31, 2015 and the six-monthly report at June

30, 2016, the Board considered the internal control system in compliance with the Company's requirements, the applicable law and the recommendations contained in the Code, by approving the Internal Audit plans.

The Control and Risk Committee plays an essential role in the internal control system; for its duties and functioning, please refer to the next paragraph. The other bodies of the internal control system are: the Appointed Director, whose functions were assumed in the new Board established on February 16, 2016 by the Chief Executive Officer, the Person in charge of Internal Control and the Internal Audit function.

The Appointed Director operationally implements the Board of Directors 'instructions on internal control and also identifies and manages the main company risks by submitting them to the Board of Directors' assessment. He proposes to the Board of Directors the appointment of the Person in charge of Internal Control and the Internal Audit function whose support he makes use to carry out his duties.

The Person in charge of the Internal Control is provided with means suitable to carry out his own functions and hierarchically does not depend on any person responsible for operational areas; he reports about his work to the Chief Executive Officer and the Board of Directors as well as to the Control and Risk Committee and the Board of Auditors, at least every three months. The Person in charge of the Internal Control has the operational responsibility for coordinating the activities of the Internal Audit function, since he, hierarchically, does not depend on any operational area manager and is in possession of the professional skills required to carry out his duties in line with the Code recommendations. In order to further strengthen the independence requirement, the Person in charge of the Internal Control and, consequently, the Internal Audit function report hierarchically to the Chairman of the Control and Risk Committee while, from the administrative point of view, they report to the Chief Executive Officer, whose powers include the provisions of suitable means to the Person in charge of the Internal Control and the Internal Audit function. The Control and Risk Committee, when examining the work plan prepared by the Person in charge of the Internal Control, also assesses the suitability of the means and resources provided to the Person in charge of the Internal Control and Internal Audit. On March 25, 2016, the Board of Directors, after consulting the Control and Risk Committee and the Board of Auditors, appointed Daniele Renna as the new Person in charge of the Internal Control.

During the period elapsed from the previous Report, the main activities carried out in the field of internal control by the Person in charge, the Committee and the Internal Audit function were as follows:

- assessment of the Group's governance and the activities carried out by the various control bodies;
- preparation of the six-monthly reports for the Board of Directors on governance activities;
- assessment of the Supervisory Board activity and updating, dissemination and application of the "Model of Organization, Management and Control" of the Group according to Legislative Decree 231/2001;
- Implementation of the 2016 audit plan, in particular with the verification of procedures to protect contractualization and customer activation, purchase of goods and services for the needs of the Company and collection and recovery of receivables from customers;
- preparation of the 2017 auditing plan;
- verification of the adequacy of administrative and accounting procedures for the preparation of the six-monthly report and 2016 financial statements in order to evaluate its effectiveness. This activity is also aimed at issuing the certificate referred to in article 154 bis of the TUF.
- Following the evaluations on the "Model of Organization, Management and Control" pursuant to Legislative Decree 231/2001, and the effectiveness of the administrative and accounting

procedures, an update of the aforementioned Organization Model as well as administrative and accounting procedures was initiated in order to ensure full compliance with the requirements referred to in article 154 bis of the TUF. This activity requires the involvement of a specialized external company and, at the date of this report, selection of proposals received from the various companies involved for this assignment, is underway.

Control and Risk Committee

The Board of Directors, in line with the Code recommendations, established a Control and Risk Committee, with advisory and propositional functions, currently constituted by three independent Directors of the Company. The Control and Risk Committee has advisory and propositional functions with the aim at improving functionality and capability of strategic guidance of the Board of Directors in relation to the internal control system. In particular:

a) It assists the Board of Directors in carrying out the guidance tasks of the internal control system and periodically verifies adequacy and effectiveness of its functioning, ensuring that the main company risks are properly identified and managed;

b) It assesses the work plan prepared by the Person in charge of the Internal Control and receives periodic reports from him;

c) It assesses, together with the administrative managers of the Company and the auditing firm, the adequacy of the accounting principles used and their homogeneity for the preparation of the consolidated financial statements;

d) It assesses the proposals made by the audit firms to obtain the related assignment, as well as the work plan prepared for revision and the results outlined in the report and in the suggestion letter, and more generally interacts institutionally with the audit firm ;

e) It assesses proposals for advisory assignments made by the auditing firm - or its subsidiaries - in favor of the Group companies;

f) It assesses proposals for assignments of a consortium nature in favor of the Group companies, if they are of significant amount;

g) It reports to the Board of Directors, at least once every six months, on the approval of the financial statements and the six-monthly report on the activities carried out and on the adequacy of the internal control system;

h) It performs additional tasks assigned to it by the Board of Directors.

The entire Board of Auditors, its Chairman or a Statutory Auditor authorized by the Chairman of the Board, participate in works of Committee. In the light of the subject matters covered from time to time, the Chairman of the Control and Risk Committee may invite to participate in works, in addition to the Chief Executive Officer, other entities such as the Auditing firm, the General Manager or the Finance Director, if present, and the Person in Charge of preparation of accounting and financial documents, etc.

The meetings of the Control and Risk Committee are usually held prior to the meetings of the Board of Directors scheduled on the occasion of approval of the quarterly reports, the six-monthly report and the project of financial statements, and in any way regularly at least once every six months. The Chairman of the Control and Risk Committee ensures that the members are provided, with reasonable advance of the meeting date, with the documentation and information required for the works, except in cases of necessity and urgency. However, a written summary of the Committee's work is prepared.

During 2016, the Control and Risk Committee met four times: On March 25, May 12, September 27, November 11; in 2017 on April 28. All Board meetings were attended by the entire Board of Auditors. In line with the agenda items, the following participated in the meetings: the Person in charge of

Internal Control, the Supervisory Board and the Manager responsible for preparation of the Company accounting document and the representatives of the Audit firm or managers and consultants of the Company. All meetings were regularly called and recorded and on average, lasted approximately 80 minutes.

5.4 Internal controls related to accounting and financial information

5.4.1 Introduction

The Internal Control System on Corporate Information should be understood as the process that, involving multiple company departments, provides reasonable assurance about the reliability of financial information, reliability of accounting documents, and compliance with applicable law. There is a clear correlation with the risk management process, which consists of the identification and analysis process of those factors that can affect the achievement of the company purposes; the main purpose is to determine how such risks can be managed and adequately monitored and rendered harmless as far as possible. A suitable and effective risk management system can mitigate any adverse effects on company purposes, including reliability, accuracy, trustworthiness and timeliness of accounting and financial information.

5.4.2 Description of the main features of existing risk management and internal control systems in relation to the financial information process

A) Stages of the Internal Risk and Control System in relation to the financial disclosure process.

Financial information risk Identification

The identification of risk is carried out primarily through the selection of relevant entities (companies) at Group level and, subsequently, through the analysis of the risks that lie in the business processes from which the financial information originates.

This activity includes: (i) the definition of quantitative criteria in relation to the economic and equity contribution provided by the individual companies according to the latest accounting records and the selection rules with minimum relevance thresholds. The consideration of quality elements is not excluded; ii) identifying significant processes associated to data and material information, such as accounting entries for which there is a remote possibility of errors with a potential significant impact on the financial information.

For each significant account, it is also possible to identify the most relevant "assertions", always based on risk-based assessments. Statements in the financial statements are identified by existence, completeness, occurrence, assessment, rights and obligations, and presentation and disclosure. Therefore, the risks relate to the possibility that one or more statements in the financial statements are incorrectly represented, with a consequent impact on the disclosure.

Financial information risk assessment

Risk assessment is carried out both at the company level and at the level of each specific process. The former includes risks of fraud, computer systems malfunctions or other unintentional errors. The latter includes risks associated with financial reporting (underestimation, overestimation of entries, inaccurate information, etc.) that are analyzed at the level of process-related activities.

Identification of controls against identified risks

First of all, attention is paid to controls at the corporate level that are linked to relevant data/information and relevant statements, which are identified and assessed both at the general and process monitoring level. Overall corporate controls are designed to prevent, detect and mitigate any significant errors, even though they do not operate at the process level.

Assessment of controls against identified risks

The assessment of the control system used is based on several elements: timing and frequency; adequacy; operational compliance; and organizational assessment. The overall analysis of the controls in place for each risk is defined as a summary of the process of assessing the adequacy and compliance level corresponding to such controls. These analyses summarize the effectiveness and efficiency of the individual risk controls, so that the overall risk management assessment is subdivided in: assessments of existence, adequacy and compliance. Information flows with the results of the activity carried out are submitted to the administrative bodies by the Manager in charge of supporting the statements accompanying the accounting documents.

B) Roles and Departments involved.

The Manager in Charge is basically at the top of the system and oversees financial reporting, informing the company's top management. To carry out the role, the Manager in Charge has the power to issue the organizational guidelines for an adequate structure within the department supervised; he/she has available the means and tools for carrying out the activity; and he/she has the opportunity to cooperate with other organizational units.

Multiple departments contribute to providing economic and financial information. Therefore, the Manager in Charge establishes a systematic and fruitful relationship with these departments. The Chief Executive Officer is required to promptly inform the Board of Statutory Auditors whenever there is a critical matter emerging in accounting, equity and financial matters.

The Consolidated Financial Statements department acts as an intermediate level link between the Manager in Charge and the Administrative Advisors within the Tiscali Group, by collecting, verifying, assembling, and monitoring the information received from the Tiscali Group. The Consolidated Financial Statements Department cooperates with the Manager in Charge of the accounting documentation and related updating over time. The Group's Administrative Advisers collect operational information, verify and ensure adequate information flows on the matter of implementation of external legislation from time to time applicable.

Among the above mentioned three levels, a constant flow of information occurs, through which the Advisers inform the Consolidated Financial Statements Department and the Manager in Charge regarding the methods used to manage and control the preparation of the accounting documents and financial information, any critical matters that may have arisen during the period, and remedies for overcoming any issues.

It is believed that the template used will provide sufficient guarantees for proper accounting and financial reporting.

5.5 Model of organization, management and control pursuant to Legislative Decree 231/2001

The company has for some time adopted the “Organization, Management & Control Model pursuant to Legislative Decree 231/2001” (hereinafter the Model), in the year 2010, the update process was completed, mainly aimed at adapting the Model to new regulatory interventions and to the new

Company, and Tiscali Group, scenario, the new Model and Ethical Code were approved by the Board of Directors on November 12, 2010. Subsequently, at the May 14, 2013 meeting, the Board approved the new Model, updated to the new regulatory interventions especially in regards to crimes against the Public Administration, the individual person, work and environmental safety. The Model is applied also to the other companies controlled by the Group, Tiscali Italia S.p.A. and Veesible Srl, jointly agreed with their specificity and risk profile.

The Board of Directors of April 30, 2015 has appointed the new Oversight Body that replaces the previous one expiring with the approval of the 2014 financial statements. To ensure the independence and effectiveness of the Oversight Body, it is currently composed of two qualified members outside of the Company and an internal member: lawyer Maurizio Piras, an external member with role of President, Dr. Paolo Sottili, Manager of the Company's HR and lawyer Angelo Argento, external member. Following the resignation of Paolo Sottili at the Board meeting on November 29, 2016, Daniel Renna was appointed member of the Oversight Body. The body thus formed expires with the approval of the 2017 fiscal statements, and until that date also operates for the subsidiaries of Tiscali Italia S.p.A. and Veesible Srl.

5.6 Procedure regarding related-party transactions

On April 28, 2017 with the favorable opinion of the Independent Directors, the Board of Directors of the Company approved the new Regulation for the related-party transactions (the Regulation) in accordance with article 2391-bis of the Italian Civil Code and to Consob Regulation 17221 of 12 March 2010, available on the Company website www.tiscali.com in the section “Documents/Information Documents”. The Regulation that governs related-party transactions by Tiscali S.p.A. and subsidiaries or affiliated companies, replaced the previous existing one and entered into force May 1, 2017. In the 2016 fiscal year four significant transactions with related-parties were examined pursuant to the Regulation, among which the non-guaranteed convertible bonds “Tiscali conv-2016-2020”.

5.7 Confidential information and market information. Investor Relations

An Investor Relations department is active in the company to establish a dialog with Shareholders and Investors. The role of the Investor Relations department, among other things, organizes the press releases and, in accordance with the type of press releases, it carries out in conjunction with the Legal and Corporate Affairs, the internal approval procedure. Furthermore, it also manages their publication, including through a network of qualified external companies that professionally carry out such activity.

Information is provided not only through press releases, but also through regular meetings with investors and the financial community, as well as extensive documentation available on the website www.tiscali.com under the heading investor relations. The use of online communication, which is mainly used by the non-institutional public, is considered strategic by the Company, as it makes it possible to disseminate the information in a uniform manner. Tiscali commits to systematically care for the precision, completeness, continuity and updating of financial content delivered through the Company's Internet website. Furthermore, it is also possible to contact the Company through a specific email address (ir@tiscali.com).

The Directors, auditors and top management of Tiscali and its subsidiaries are bound by the confidentiality of the documents and information acquired in the performance of their duties. Any report of such subjects with the press and other mass media, as well as with financial analysts and investors, involving confidential documents and information concerning Tiscali or the Group may only be made through the investor relations manager, with the exception of interviews and statements Issued by the Executive Directors.

The company managers and all employees and collaborators are expected to maintain the documents and price sensitive information obtained on the basis of and in the performance of their duties and must not communicate it to others except for office or professional reasons, unless such documents or information have already been made public in the prescribed forms. Such subjects are prohibited from releasing interviews with press organizations, or public statements in general, that contain information on relevant facts, qualifying as “privileged” within the meaning of article 181 of the Legislative Decree 58/1998, that have not been included in press releases or documents already available to the public, or expressly authorized by the Investor Relations department. In accordance with the provisions of paragraph 2 of article 114 of the Legislative Decree 58/1998, the Company has set up procedures for the communication of various company functions to the Investor Relations department regarding events deemed price sensitive.

In compliance with article 115-bis of the Legislative Decree 58/1998, related to keeping and updating the register of persons who have access to Price Sensitive information, the Company has established, through the Investor Relations Department a register of the people who, because of their work or professional activity have access to this type of information. In accordance with the above legislation, the register, computerized, contains: the identity of every person with access to privileged information, the reason why that person was entered in the register, the date the person was entered in the register, the date of any information update related to the person.

The Board of Directors, at its meeting on April 28, 2017, approved the procedures for managing the register of persons with access to privileged information and the business procedure for the disclosure of privileged information to the public.

Consolidated Financial Statements of Tiscali S.p.A. as of December 31, 2016

6 Consolidated financial statements and explanatory notes

6.1 Income Statement

Consolidated income Statement (*) (**)	Notes	2016	2015
(Thousands of Euros)			
Revenues	*1*	196,942	192,616
Other incomes	*2*	3,280	17,275
Purchase of materials and external services	*3*	129,133	127,189
Personnel cost	*4*	34,942	34,662
Other operating charges (incomes)	*5*	(2,270)	(5,483)
Write-downs of receivables from customers	*6*	11,288	17,097
Restoration costs and other write-downs	*7*	6,018	3,171
Amortizations	*13-14*	49,544	35,361
Operating income		**(28,434)**	**(2,107)**
Net financial incomes (charges)	*8*	(9,418)	(16,495)
Result before taxes		**(37,852)**	**(18,602)**
Income tax	*9*	(69)	(117)
Net Result of current activities (continued)		**(37,921)**	**(18,719)**
Results of activities transferred and/or to be transferred	*10*	(7,037)	239
Net result for the fiscal year	*11*	**(44,959)**	**(18,480)**
To be attributed to:			
- Result pertaining the Parent Company		**(44,959)**	**(18,480)**
- Result pertaining Third Parties		0.00	0.0
Profit (loss) per share			
Profit per share from current and transferred activities:			
- Base		(0.01)	(0.01)
- Diluted		(0.01)	(0.01)
Profit per share from current activities:			
- Base		(0.01)	(0.01)
- Diluted		(0.01)	(0.01)

(*) The figures for the year ended 31 December 2016 are not comparable with the data as of December 31, 2015, as they include the economic values of the Aria Group, which were integrated into the Tiscali Group in December 2015.
(**) The economic values related to the disposal activities have been appropriately reclassified. For further details refer to the relevant note.

6.2 Comprehensive Income Statement

Comprehensive Income Statement (*) (**)	Notes	2016	2015
(Thousands of Euros)			
Result for the period		**(44,959)**	**(18,480)**
Other elements for the comprehensive Income Statement:			
Other elements of the comprehensive income statement that later will be reclassified in the profit/(loss) for the fiscal year		0	0
Other elements of the comprehensive income statement that later will not be reclassified in the profit/(loss) for the fiscal year		(308)	288
(Loss)/profit from revaluation on plans with defined benefits		*(308)*	*288*
Total of other elements for the comprehensive Income Statement:		**(308)**	**288**
Total result of the comprehensive Income Statement		**(45,267)**	**(18,192)**
To be attributed to:			
Shareholders of the Parent Company		**(45,267)**	**(18,192)**
Minority Shareholders		0	0
		(45,267)	**(18,192)**

(*) The figures for the year ended 31 December 2016 are not comparable with the data as of December 31, 2015, as they include the economic values of the Aria Group, which were integrated into the Tiscali Group in December 2015.
(**) The economic values related to the disposal activities have been appropriately reclassified. For further details refer to the relevant note.

6.3 Statement of Assets and Liabilities

Statement of Assets and Liabilities	Notes	December 31, 2016	December 31, 2015
(Thousands of Euros)			
Non-current assets			
Intangible assets	*13*	98,749	106,724
Immovable properties, plants and machinery	*14*	117,419	114,784
Other financial assets	*15*	8,180	11,496
Deferred tax assets		10	43
		224,359	**233,047**
Current assets			
Stock in hand	*17*	360	913
Receivables from customers	*18*	38,296	35,316
Other receivables and other current assets	*19*	19,848	16,345
Other current financial assets	*20*	63	68
Liquid assets	*21*	1,346	4,770
		59,914	**57,412**
Assets held for sales	*10*	6,237	**(0)**
Total assets		**290,509**	**290,458**
Capital and reserves			
Capital		91,201	169,077
Stock option reserve		1,402	
HFS reserve		2,626	
Results from previous fiscal years and other reserves		(217,890)	(272,017)
Results for the fiscal year pertaining to the Group		(44,959)	(18,480)
Net assets pertaining to the Group	*22*	**(167,620)**	**(121,421)**
Third party interests		0	0
Net assets pertaining to third parties	*23*	**0**	**0**
Total net assets		**(167,620)**	**(121,421)**
Non-current liabilities			
Convertible Bond	*24*	18,429	0
Payables to banks and other financing parties	*24*	80,601	94,546

Payables for property leases	*24*	55,339	51,279
Other non-current liabilities	*25*	5,479	1,968
Payables for pension plans and severance pays	*26*	5,945	6,296
Provisions for liabilities and charges	*27*	9,992	10,165
Provisions for deferred taxes	*28*	538	628
		176,323	**164,882**
Current Liabilities			
Convertible bond	*29*	375	(0)
Payables to banks and other financing parties	*29*	28,137	28,488
Payables for property leases	*29*	9,239	3,470
Trade payables	*30*	163,947	131,743
Other current liabilities	*31*	76,500	83,296
		278,197	**246,997**
Liabilities held for sales	*10*	3,610	(0)
TOTAL NET ASSETS AND LIABILITIES		**290,509**	**290,458**

6.4 Cash Flow Statement

(Thousands of Euro)	Note	2016	2015
OPERATING ACTIVITIES			
Net Result of current activities (continued)		**(37,921)**	**(18,475)**
Results of activities transferred and/or to be transferred		(7,037)	(5)
Net result		**(44,959)**	**(18,480)**
Adjustments for:			
Amortization of tangible assets	13-14	15,201	11,350
Amortization of intangible assets	13-14	34,343	26,411
Provision for write-downs accounts receivables from customers	6	11,288	12,060
Gain on disposal of non-current assets	2	(2,178)	(2,108)
Stock Option figurative cost		1,402	
Income taxes	9	69	120
Release of provisions for risks	7	(1,107)	0
Write-offs and settlement agreements with suppliers		(4,664)	(9,747)
Other changes	5-7-26	9,088	2,927
Financial Charges / income	8	9,418	16,264
Cash flows from operating activities before changes in working capital		***27,901***	***38,796***
Changes in receivables	18	(14,268)	(4,860)
Change in inventories	17	553	217
Changes in payables to suppliers	29	33,435	30,140
Change in payables to long-term suppliers	25	3,342	1,084
Net change in provisions for risks and charges	27	(1,346)	(268)
Net change in provisions for TFR	26	(636)	(228)
Changes in other liabilities	30	(7,290)	(635)
Changes in other assets	19	(3,503)	136
Changes in working capital		***10,287***	***25,586***
AVAILABILITY CASH FLOWS GENERATED BY OPERATING ACTIVITIES		**38,188**	**64,383**
INVESTMENT ACTIVITY			
Change in other financial assets	15	3,320	(6,492)
Cash flow from business combinations		0	1,666
Acquisitions of Fixed Tangible Assets	13-14	(22,667)	(1,363)
Acquisitions of Fixed Intangible assets	13-14	(34,070)	(36,726)
Payments for the sale of assets		0	0
AVAILABILITY OF CASH AND CASH EQUIVALENTS FOR INVESTMENT ACTIVITIES		**(53,417)**	**(42,915)**
FINANCIAL ASSETS			

Changes in payables to banks	24-28	(3,415)	(22,582)
of which:			
Repayment of share capital and interest Senior debt		(772)	(18,597)
Increase/Decrease in current accounts overdrafts		(2,643)	(3,985)
Changes in bond		571	
Repayment/acceptance of financial leasing	24-28	8,850	1,086
Exchange rate effect	22	9	(8)
OCI reserves	22	0	0
Changes in Net Equity	22	(0)	(0)
AVAILABILITY CASH ARISING FROM/ (USED IN) FINANCIAL ACTIVITIES		**6,015**	**(21,504)**
Effect of Changes in exchange rates of foreign currencies		-	-
Cash flow generated / Absorbed from discontinued / held for sale assets		5,790	5
AVAILABILITY CASH ARISING FROM / (USED IN) FINANCIAL ACTIVITIES including cash generated / absorbed from assets sold / held for sale		**11,805**	**(21,499)**
INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS		**(3,424)**	**(31)**
AVAILABILITY CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**4,770**	**4,801**
CASH AND CASH EQUIVALENTS AT YEAR-END		**1,346**	**4,770**

6.5 Net Assets Variations

(Thousands of Euros)	Capital	Reserve for shares premium	Stock option reserve	Reserve for employees benefits	Accumulated losses and other reserves	Net Equity pertaining to the Group	Minority ownership	Total
Balance as of January 1, 2016	**169,077**			**(1,523)**	**(288,974)**	**(121,421)**		**(121,421)**
Capital/merger increase	**(77,876)**		1,402		77,187	**713**		**713**
Rigensis financing option					(1,795)	**(1,795)**		**(1,795)**
Reclass value for opening of OCI Aria reserve				(108)	108			
Translation reserve (Streamago)					150	**150**		**150**
Total result of the comprehensive Income Statement				(308)	(44,959)	**(45,267)**		**(45,267)**
Balance as of December 31, 2016	**91,201**		**1,402**	**(1,939)**	**(258,283)**	**(167,620)**		**(167,620)**

(Thousands of Euros)	Capital	Reserve for shares premium	Stock option reserve	Reserve for employees benefits	Accumulated losses and other reserves	Net Equity pertaining to the Group	Minority ownership	Total
Balance as of January 1, 2015	**92,052**			**(1,811)**	**(259,059)**	**(168,818)**		**(168,818)**
Capital/merger increase	77,025				(7,185)	**69,840**		**69,840**
Increases/(decreases)					(4,250)	**(4,250)**		**(4,250)**
Total result of the comprehensive Income Statement				288	(18,480)	**(18,192)**		**(18,192)**
Balance as of December 31st,, 2015	**169,077**			**(1,523)**	**(288,974)**	**(121,421)**		**(121,421)**

6.6 Income statement pursuant to deliberation Consob No.15519 dated July 27, 2006

Consolidated income Statement (*) (**)	Notes	2016	of which: related parties	2015	of which: related parties
(Thousands of Euros)					
Revenues	*1*	196,942		192,616	420
Other incomes	*2*	3,280		17,275	
Purchase of materials and external services	*3*	129,133	3,135	127,189	419
Personnel cost	*4*	34,942	2,159	34,662	1,967
Other operating charges (incomes)	*5*	(2,270)		(5,483)	
Write-downs of receivables from customers	*6*	11,288		17,097	
Restoration costs and other write-downs	*7*	6,018		3,171	1,120
Amortizations	*13-14*	49,544		35,361	
Operating income		**(28,434)**	**(5,294)**	**(2,107)**	**(3,086)**
Net financial incomes (charges)	*8*	(9,418)	(132)	(16,495)	
Result before taxes		**(37,852)**	**(5,426)**	**(18,602)**	**(3,086)**
Income tax	*9*	(69)		(117)	
Net Result of current activities (continued)		**(37,921)**	**(5,426)**	**(18,719)**	**(3,086)**
Results of activities transferred and/or to be transferred	*10*	(7,037)		239	
Net result for the fiscal year	*11*	**(44,959)**	**(5,426)**	**(18,480)**	**(3,086)**
To be attributed to:					
- Result pertaining the Parent Company		**(44,959)**		**(18,480)**	
- Result pertaining Third Parties		0.00		0.0	
Profit (loss) per share					
Profit per share from current and transferred activities:					
- Base		(0.01)		(0.01)	
- Diluted		(0.01)		(0.01)	
Profit per share from current activities:					
- Base		(0.01)		(0.01)	
- Diluted		(0.01)		(0.01)	

(*) The figures for the year ended 31 December 2016 are not comparable with the data as of December 31, 2015, as they include the economic values of the Aria Group, which were integrated into the Tiscali Group in December 2015.
(**) The economic values related to the disposal activities have been appropriately reclassified. For further details refer to the relevant note.

6.7 Balance sheet pursuant to deliberation Consob No.15519 dated July 27, 2006

Statement of Assets and Liabilities	**Notes**	**2016**	**of which: related parties**	**2015**	**of which: related parties**
(Thousands of Euros)					
Non-current assets					
Intangible assets	*13*	98,749		106,724	
Immovable properties, plants and machinery	*14*	117,419		114,784	
Other financial assets	*15*	8,180		11,496	
Deferred tax assets		10		43	
		224,359		**233,047**	
Current assets					
Stock in hand	*17*	360		913	
Receivables from customers	*18*	38,296		35,316	
Other receivables and other current assets	*19*	19,848		16,345	
Other current financial assets	*20*	63		68	
Liquid assets	*21*	1,346		4,770	
		59,914		**57,412**	
Assets from sales		6,237		**(0)**	
Total assets		**290,509**		**290,458**	
Capital and reserves					
Capital		91,201		169,077	
Stock option reserve		1,402	1,402		
HFS reserve		2,626			
Results from previous fiscal years and other reserves		(217,890)		(272,017)	
Results for the fiscal year pertaining to the Group		(44,959)		(18,480)	
Net assets pertaining to the Group	*22*	**(167,620)**	**1,402**	**(121,421)**	
Third party interests		0		0	
Net assets pertaining to third parties	*23*	**0**		**0**	

Total net assets		**(167,620)**		**(121,421)**	
Non-current liabilities					
Convertible bond	24	18,429	9,214	0	
Payables to banks and other financing parties	*24*	80,601		94,546	
Payables for property leases	*24*	55,339		51,279	
Other non-current liabilities	*25*	5,479		1,968	
Payables for pension plans and severance pays	*26*	5,945		6,296	
Provisions for liabilities and charges	*27*	9,992		10,165	
Provisions for deferred taxes	*28*	538		628	
		176,323	**9,214**	**164,882**	
Current Liabilities					
Convertible bond	*29*	375	187	(0)	
Payables to banks and other financing parties	*29*	28,137		28,488	
Payables for property leases	*29*	9,239		3,470	
Trade payables	*30*	163,947	485	131,743	317
Other current liabilities	*31*	76,500	659	83,296	1,588
		278,197	**1,331**	**246,997**	**1,906**
Payables directly related to transferred assets		3,610		(0)	
TOTAL NET ASSETS AND LIABILITIES		**290,509**	**11,947**	**290,458**	**1,906**

6.8 Explanatory Notes

Tiscali S.p.A. (hereinafter “Tiscali” or the “Company” and jointly with its subsidiaries the “Tiscali Group”) is a joint stock company founded in Italy and registered at the Business Registry of Cagliari, with registered office in Cagliari, hamlet Sa Illetta.

The Tiscali Group provides its clients, private individuals and companies, with a wide range of services, Internet access through dial-up mode and ADSL mode, in addition to high-tech telecommunication solutions and services.

Such offer, which includes also voice services (including mobile telephony) and portal services, allows Tiscali to effectively compete with other operators in the market.

Thanks to its unbundling (ULL) network, its offer of innovative services and established brand, Tiscali is well positioned on the Italian telecommunication market.

This consolidated financial statements (hereafter also the "Financial Statements") are prepared using Euros as the currency since this was the currency used for the majority of the transactions performed by the Group; all values are rounded to thousands of Euros if not specified otherwise. Foreign transactions are included in the consolidated financial statements according to the principles detailed in the explanatory notes that follow.

In setting up this Financial Statements, the directors have assumed the existence of the principle of continuity of business and therefore have prepared the financial statements according to principles and criteria applicable to operating companies.

The Board of Directors, on April 28, 2017 authorized the publication of these Financial Statements.

6.9 Considerations regarding business continuity and foreseeable development of the management

The Tiscali Group ended FY 2016 with a consolidated loss of EUR 45 million (influenced by the negative effect of EUR 2.3 million, resulting from non-recurring transactions concluded during the period including write-downs equal to Euro 8,4 accounted for in the result of assets sold or held for sale) and with a negative net worth equal to EUR 167.6 million. In addition, as of 31 December 2016 the Group reported gross financial debt equal to EUR 192.3 million and current liabilities exceed the current (non-financial) assets for EUR 183.6 million.

As of 31 December 2015, the consolidated loss was around EUR 18.5 million (influenced by the positive effect of EUR 6.9 million, resulting from non-recurring transactions concluded during the year) and with a negative shareholders' equity equal to EUR 121.4 million. In addition, as of 31 December 2015, the Group reported gross financial debt equal to EUR 177.9 million and current liabilities exceeding the current (non-financial) assets for EUR 162.5 million.

As previously underlined, the financial year 2016 for the Tiscali Group represented a year of significant change, which remarkably affected both organisation and development strategies.

In particular, in 2016 the Company focused on the core objective of returning to grow, with new focus on the core business and the strengthening of its financial structure:

- The successful completion of the **operational integration with Aria** which provided Tiscali with important synergies, the acquisition of a strategic asset like 40MHz of spectrum on 3.5GHz frequency and the launch, during the year, of the new UltraBroadBand LTE services under the Tiscali brand;
- The further exploitation of the **3.5GHz frequency, which has become a key for the future developments of 5G services**, as proven by the agreement entered into in 2016 with Fastweb for use of that frequency in urban areas, not strategic for Tiscali's LTE Fixed Wireless coverage plans, for a value of EUR 2.5 million per year from 2018 to 2023, expiring date of license usage rights
- **Return to growth on the core Business**, thanks to the trend reversal, after several years, of the Fixed BroadBand portfolio (+20 thousands customers in the 2nd half of 2016);
- **Refocusing on core activities** through the successful conclusion of the sale of the "Business" business unit to Fastweb, the outsourcing of IT activities to Engineering and the full valorization of OTT activities – even through assets dismissal options;
- **Strengthening the Group's financial structure** by refinancing the group's long-term debt, extending the maturity of the debt and reducing total cost.

These transactions are detailed in paragraph 4.2.

In short, and with special reference to business ongoing, these transactions granted, and will grant, Tiscali some significant benefits:

- the debt structure is more sustainable, with longer redemption timing and reduced charges;

- the Company can benefit from a significant intake of new financial resources (EUR 25 million with wire transfer plus EUR 20 million services to use immediately in the following years), thanks to the sale of the “Business” business unit to Fastweb;
- the foundations are laid to reduced future costs thanks to the outsourcing of IT services to Engineering and the streamlining and value-adding (also through alienation) of OTT assets;
- the foundations are laid for a further value-adding of the 3.5Ghz frequency spectrum asset, with the emergence of a prospective significant increase in value, not included in the current carrying amount of the spectrum in the financial statements;
- the Company is brought again in a virtuous growth path, as first fundamental step in the implementation of the Company’s Business Plan.

The Group also made significant investments in 2016 both for the acquisition of new customers and for the development of the infrastructure needed for the implementation of the LTE plan. Part of these investments were funded through the framework agreement signed with Huawei in September 2016 and the use of new finance leases (multi-year debts) resulting in an increase of negative net working capital.

During the last months of 2016 and the first months of 2017 there was an increase in expired debts towards suppliers, payment orders and injunctions for certain specific positions, in addition to the delay in paying tax debts and social security benefits. On March 31 2017, the Group collected the full-line price of the Business Branch and allocated some of these resources to reduce the above-mentioned debt, as well as concluding a series of actions aimed at defining the plans for return with the major suppliers (ie TIM and BT).

The actions outlined above will help reduce the financial tensions in the short term and, together with the actions outlined below, respect the main deadlines.

While taking account of the above, as well as the aforesaid positive effects of transactions already carried out and to be performed in the next few months on the Group economic and financial structure, the Management analysed the results for 2016, underlying the main differences with respect to the forecasts made in the business plan drawn up for the financial statements at 31 December 2015, and approved by the BoD on 28 March 2016 (“Business Plan” or “2016-2021 Plan”), and drafted a new Business Plan for the 2017-2021 years (2017-2021 Plan), which would include the effects of the extraordinary transactions just completed (especially the sale of the Tiscali Business BU to Fastweb), and entail a change in the business profile and area and new targets for the Tiscali Group.

In line with the above-mentioned strategy, the new 2017-2021 Plan envisages a boost in investments aimed at:

- further developing the proprietary LTE network, on the 3.5GHz frequency, to cover around 50% of the Italian population with the latest LTE 4G+ UltraBroadBand Fixed Wireless services, with capacity up to 100MBps, and special focus on the “Foreign” Digital Divide, where the offer of these services for the other operators is particularly deficient and the competition level is lower;

- developing offers of fibre on the Open Fiber network with capacity up to 1GBps, especially in urban areas and in line with the development plans of the Open Fiber fibre transport network.

The 2017-2021 Plan contemplates an incremental investment plan compared to the 2016-2021 Plan and entailsthe necessity for further financial resources, in addition to those generated by the Group through its operating cash flows.

On 26 April 2017, Investment Construction Technology (ICT) Group LTD shareholder, through a confort letter, has therefore expressed its willingness to pay in or to raise by one or more third parties new financial resources between EUR 13 and15 million, during 2017, it being understood that technical payment modalities will be defined subsequently.

Moreover, the Company asked the Banks (Intesa SanPaolo and Banca Popolare di Milano) that refinanced the senior debt in June 2016, to waive the advanced payment envisaged by contracts in relation to the collection of revenue generated by the sale of the Tiscali Business BU, , as well as grant to reset contractual covenants in light of the new 2017-2021 Plan.

Furthermore, Intesa SanPaolo was asked a standstill of 18 months on the payments due by Tiscali Italia with regard to the Second Facility Agreement. Tiscali Italia, in light of the above requests, did not provide for the payment of the installment of the Second Facility Agreement expiring on 31 March 2017 (Euro 1.7 million in capital and Euro 1.2 million in interest).

Lastly, it should be noted that Tiscali Italia has asked the leasing companies to redefine the overall amortization schedule for lease payments for Sa Illetta's property, including a standstill on payments due until September 30, 2018 included. Up to date, 1.2 million euro of payment commitments related to overall overdue debt on 31 December 2016 has not been paid. Up to date, negotiations are ongoing, but leasing companies have not yet formally answered to Company requests.

Up to date, we have already taken a number of meetings between the Group management and the technical and commercial structures of the aforementioned credit institutions and the preparatory activities for the operation have already been completed.

On 26 April 2017, each of the banks sent Tiscali a comfort letter in order to communicate, inter alia, that they started the preliminary phase of the operations, and subject to the 2017 financial contribution guaranteed by Investment Construction Technology (ICT) Group LTD shareholder in the aforesaid terms, to confirm their commitment in submitting the matter to the competent bodies for the credit approval.

Within this context, and taking account of the aforesaid, the achievement of a situation of equity, economic and financial balance for the Group is subordinate to the achievement of the results envisaged in the 2017-2021Plan, included the related financial sources, and, in particular, on the realisation of the forecasts and the assumptions contained therein relatingto the evolution of the telecommunications market and the accomplishment of the growth objectives set (in a market context characterised by strong competitive pressure).

Management Board’s assessment

The Board of Directors pointed out that the Group:

- generated in the year 2016, before working capital changes, cash from operating activities and cash equivalents of approximately EUR 27.9 million;
- carried out the operating merger of industrial, commercial and administration structures of the Aria Group into Tiscali, while achieving important cost synergies and strengthening the presence of Tiscali in the field of the broadband access, especially thanks to the launching of the new Wireless Fixed LTE services, with capacity up to 100MBps;
- focused on the growth of Tiscali’s core business, through a reversed trend regarding the fixed Broadband customers portfolio (up by 20,000 in December 2016, compared to June 2016), focused on the Group resources on core activities, through the successful sale of the Business BU to Fastweb, the outsourcing of IT activities to Engineering and the value-adding of OTT activities (also throught a sale) that are no longer considered as strategic;
- owns an essential asset like the 3.5GHz spectrum, which is considered as the key for the development of 5G services and it is reasonable to assumethat will achieving a prospective

value, which is much higher than the carrying amount that Tiscali entered in its financial statements;

- positively concluded the Group long-term debt refinancing operations (Senior Loan and Convertible Bond Loan), thus improving its structure in terms of residual life and debt costs;
- prepared a new business plan for the years 2017-2021, which includes the effects of the extraordinary transactions carried out and underlines the Group growth strategy focused on the development of Core Business activities (Fixed BroadBand, Fiber, LTE BroadBand Fixed Wireless and Mobile).

The Directors, highlight, as already stated in the preparation of Financial Statements for 2015, that the going concern assumption is based on the achievement of the targets set out in the Plan 2017-2021, which shows uncertainties with particular reference to the evolution of the telecommunications market and the achievement of its growth targets, relating in particular to Ultrabroadband LTE services, the main development area envisaged in the Plan, within a market characterized by strong competition.

In analysing what has already been implemented in 2016, as part of the path to enable the Group to achieve long-term financial and economic balance - especially the Group debt reduction that took place in the year 2015, the overall restructuring of the long-term debt occurred in 2016, - the Directors recognize that to date relevant uncertainties remain related to events or circumstances that could rise significant doubts on the Group's ability to continue to operate on the basis of the going concern assumption.

Nevertheless, after implementing the necessary analysis and considering the relevant uncertainties identified in light of the aforementioned elements, the Directors are confident in i) being able to achieve the targets envisaged in the Plan 2017- 2021, even in a market context characterized by strong competitive pressure, (ii) the delivery of a loan of Euro 13-15 million in 2017 by Investment Construction Technology (ICT) Group LTD shareholder (iii) the positive finalization of the granting of standstill by the Finance Institutions and the Leasing companies, iv) maintenance by the bank of financial support so far guaranteed and and have a reasonable expectation that the Group has adequate resources to continue its business in a foreseeable future. They have therefore adopted the going concern assumption in preparing these financial statements.

This opinion is of course the result of a subjective judgement, where, with respect to the events described above, the degree of likelihood of their occurrence is compared to the opposite situation. It should be noted that the forecast underlying the determination of the Board, is likely to be contradicted by events. Precisely because the Board is aware of the inherent limitations of its determination, said Board of Directors will maintain constant monitoring on the progression of the factors taken into account (as well as any circumstances that would acquire additional importance), in order to take the necessary measures promptly.

Business Outlook

In line with the above and with the targets set out in the Business Plan, the Company undertakes, for the next few months, to focus on Core Business in order to strengthen its presence on the Italian market of Fixed and Mobile BroadBand. This will be made possible thanks to:

- the progressive acceleration in the installation of LTE antennae for a higher coverage of the ULtraBroadBand Fixed Wireless services, while planning to have around 500 LTE antennae installed by the end of 2017;
- the progressive consolidation of growth trend in Fixed BroadBand customer base, especially thanks to the focus on offers for very high capacity Fibre based on the agreement signed with Oper Fiber;
- a new communication strategy focused on the new Tiscali brand, renewed in the first months of 2017 and focused on supporting the acquisition of new customers and a general relaunching of Tiscali trademark;

- the progressive acceleration on the growth of the mobile customer base, also thanks to the development of special offers for Fixed-Mobile integrated solutions

Greater attention will be also cast on the identification of all actions required to increase the overall efficiency of the Company and the consequent reduction in costs.

Non-recurring transactions

Pursuant to Consob Resolution no. 15519 of 27 July 2006 it is reported that in FY 2016, non-recurring transactions were recorded with a total positive negative on the Group's income statement equal to EUR 2.3 million, which mainly includes the negative impact of assets write down related to held for sale activities, partially compensated by write-offs of trade positions.

The following table shows the exposure in the consolidated income statement of the amounts related to non-recurring transactions:

Non-recurring transactions	**2016**	**2015**
Revenue	0.0	0.0
Other income	2.2	13.0
Purchase of external materials and services	4.3	-1.7
Personnel costs	0.9	0.0
Other operating expense (income)	0.0	5.2
Adjusted Gross Operating Result (EBITDA)	**7.5**	**16.5**
Write-downs accounts receivable from customers	0.0	-5.1
Gross Operating Result (EBITDA)	**7.5**	**11.4**
Restructuring costs, provisions for risks and write-downs	-5.7	-4.1
Operating profit (EBIT)	**1.8**	**7.3**
Net financial income (charges)	4.3	-0.4
Pre-tax profit	**6.1**	**6.9**
Income taxes	0.0	0.0
Net result from operating activities (ongoing)	**6.1**	**6.9**
Income from discontinued operations and / or targeted for disposal	(8.3)	0.0
Net result for the period	**-2.2**	**6.9**

Preparation criteria

The consolidated financial statements 2016 have been prepared according to the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and harmonized by the European Union, as well as the regulations issued in the implementation of article 9 of the Legislative Decree No. 38/2005. The IFRS include also all the International Accounting Standards ("IAS") and all the interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") previously known as Standing Interpretations Committee ("SIC").

The preparation of the financial statements requires that the Directors make a few estimates and, in specific cases, adopt assumptions in applying the accounting principles. The areas of the financial statements that, according to the circumstances, call for the adoption of assumptions and those more characterized by the estimates are described in the following note "Main decisions made in applying the accounting principles and using the estimates".

The annual financial statements, as requested by the reference regulations, is prepared on a consolidated basis and it is audited by the company E&Y S.p.A.

Financial Statements Schemes

The preparation of the consolidated financial statements as of December 31, 2016 in compliance with IAS 1 "Presentation of Financial Statements" calls for:

- A statement of the assets/liabilities and financial status: according to the IFRS, assets and liabilities must be classified as current and non-current, or alternatively, according the order of their liquidity. The Group has chosen the classification criterion of current and non-current and with proof, in the two separate entries, of "Assets transferred/to be transferred" and "Liabilities related to assets transferred/to be transferred".

- Comprehensive income statement: the IFRS call for such statement to include all the financial transactions pertaining to the fiscal year, independently of the fact that they have been included in the income statement or net assets and a classification of the entries based on the type or destination of the same, in addition to separating the financial entries of ongoing assets from those of the net result from "assets transferred/to be transferred". The Group decided to use two statements:
    - *Income statement* which includes only the revenues and costs classified by type;
    - *Comprehensive income statement* that includes charges and incomes directly entered in the Net equity at net of fiscal effects.
- The amendments to IAS 1, in force since January 1, 2013, in addition, calls for, in the section of the other elements of Comprehensive Income Statement (OCI - Other Comprehensive Income) the distinction of the elements that in the future will be reclassified in the income statement (the so called "*recycling*"), from those that will not be reclassified in the income statement.

- Cash Flow Statement: the IAS 7 establishes that the cash flow must show the cash flows for the fiscal year classified as operating assets, investment assets and financing assets and that it highlights separately the total cash flows deriving from "Assets transferred/ to be transferred". The cash flows deriving from the operating assets can be alternateively represented according tot he direct method or by using the indirect method. The Group has decided to use the indirect method.

- In reference to the Consob resolution No. 15519 dated 7/27/2006 regarding the financial statements schemes, it is to be noted that specific sections have been added to show the significant relations with related parties as well specific notes to highlight, where applicable, significant non-recurring transactions performed during the normal course of the business activity.

All values shown in the accounting statements and explanatory notes, unless otherwise indicated, are expressed in thousands of Euros.

Segment Information

With its Directive (EC) No. 1358/2007 dated November 21, 2007, the European Community Committee ordered the introduction, in lieu of the IAS 14 “Segment Information", of the IFRS 8 “Operating Segments”, which has as its scope to information to be provided in the financial statements related to the operating segments where those who prepare the financial statements is active.

Operating segment means the component of an entity:

- that carries out entrepreneurial activities that generate revenues and costs (including revenues and costs regarding transactions with other components of the same entity);
- the operating results are periodically reviewed at the top management level in order to adopt decisions regarding the resources to be allocated to the segment and to assess the results;
- for which separate financial statements information is available.

Differently from what is established by IAS 14, such principle requires essentially to identify and represent the results of the operating segments according to the “*management approach*”, that is through methods used by the management in the internal report activities to assess performance and allocate resources to the segments.

The Company applies the management approach regarding the definition of the segment information according to a method consistent with the operating segments in which the Group's activity is subdivided.

The operating segments are as follows:

- Access (connectivity BTC and BTB);
- Media & Adversing;
- Corporate.

Assets Held for sale and Discontinued Operations

Assets Held for sale and discontinued operations, as required by the IFRS 5 are classified in a specific entry of the balance sheet and they are assessed at the lowest value of their previous book value and market value, at net of sale cost up to the transfer of the assets.

The assets fall withing such entries when it is expected that their book value will be recovered through a transfer transaction rather than through carrying out of the normal activity of the company. This condition occurs only when the sale is highly likey, the asset is available for immediate sale in its "as is" status and the Board of Directors of the Parent company has committed to the sale, which is expected to occur within twelve months from the classification of such entry.

After the sale, the residual values are reclassified at the various posts in the balance sheet.

Revenues and costs related to the assets held for sale and/or discontinued operations are posted under the entry "Results from assets transferred/to be transferred ("discontinued operations"), whenever the following conditions established by IFRS 5 for such assets occur:

a) They represent an important independent branch of operation or geographical areas of operation;

b) are part of a single coordinated program of discontinuation of an important independent branch of operation or geographical area of operation;

c) it is the subsidiary originally acquired exclusively for its sale.

Under the income statement entry called "assets transferred and/or to be transferred" under a single entry at net of related fiscal effects, the following components are posted:

- The result for the period realized by the subsidiaries held for sale, including any adjustment to their net assets at fair value;
- the result related to the "transferred" assets, including the result for the period realized by the subsidiaries up to the transfer date to third party control,along with profits and/or losses deriving from the transfer.

The analysis of the comprehensive result deriving from the assets under review is reported in the explanatory notes.

The impact on the balance sheet and income statements of the transfers are detailed in the note "Operating Assets transferred and/or held for Sale"

Seasonality of revenues

Tiscali is not significantly affected by seasonality of the business.

Consolidation criteria

The consolidation area includes the Parent Company Tiscali S.p.A. and the companies that it controls, those companies on which it holds the power, directly or indirectly, to establish financial and operating policies or those companies for which it is financially exposed and has a right over the variable results deriving from its involvement in such entities that it influences thanks to the power it can exercise over them. In the specific circumstances related to Tiscali, control coincides with the majority of the voting rights that it can exercise on occasion of the ordinary shareholders' meeting of the companies part of the consolidation area.

The subsidiary companies are consolidated from the date in which control has been effectively transferred to the Group and they are no longer consolidated on the date when control is transferred outside the Group.

In preparing the consolidated financial statements the assets, liabilities, costs and revenues of the consolidated companies are entered line by line in their comprehensive amount, attributing to Third Party Shareholders the specific entries in the balance sheet and income statement for the shares of Net Equity and the result of the fiscal year due to them. The accounting value of the shareholding for each controlled company is eliminated with the corresponding net equity shares of each subsidiary company including any adjustments to the fair value on the acquisition date; the resulting positive difference is posted as goodwill among intangible assets as detailed below, while any negative difference, whenever resulting after an appropriate remeasuring of the adjustments to the fair at the acquisition date ("negative goodwill") is posted in the income statement.

All significant transactions that occurred between companies of the Group, as well as the related balances, are erased at the time of consolidation, just like profits and losses not realized on infra-group transactions.

The net equity shares and the result of the fiscal year pertaining to the minority shareholders are identified separately respect to the net equity and the result of the fiscal year of the Group, on the basis of the percentage held by them in the net assets of the Group.

If the losses attributable to Third Party Shareholders in a consolidated subsidiary are greater than the Net Equity pertaining to the Third Party Shareholders of the subsidiary, the surplus and an additional loss attributable to the Third Party Shareholders are posted in the Net Equity pertaining to the Third Party Shareholders of the Parent Company unless the Third Party Shareholders are subjected to a binding obligation and can make an additional investment to cover the losses.

If the subsidiary later posts profits, the profits attributable to Third Party Shareholders are attributed to the Net Equity pertaining to the Shareholders of the Parent Company until the share losses of the Third Party Shareholders, previously covered by the Parent Company shareholders, is recovered.

Shareholdings in related companies as well as in those with join control are posted in the consolidated financial statements among the non-current assets and assessed according to the method of net equity, as established, respectively by IAS 28 (Shareholdings in related companies) and IFRS 11 (Agreements under Joined Control).

The related companies are those in which the Group can exercise considerable influence but neither control nor joint control through participation to the decision on the financial and operating policies of the subsidiary company. According to the net equity method, such shareholdings are initially calculated in the balance sheet at cost of acquisition, corrected by adjustments subsequent to the acquisition of the net equity of the related companies, at net of any losses of value of each shareholding. Any surplus from the acquisition cost respect to the percentage belonging to the Group of the fair value of the related company's assets, liabilities and potential liabilities identifiable on the date of acquisition is recognized as goodwill. Such goodwill is included in the value of the investment and it is subjected to an impairment test. The lower value of the cost of acquisition respect to the percentage belonging to the Group of the fair value of the related company's assets, liabilities and potential liabilities identifiable on the date of acquisition is posted in the income statement for the fiscal year of the acquisition. The consolidated financial statements include also the shares belonging to the Group in the results of the related companies as well as those with joint control effective from the date in which the significance influence begins until the moment in which such significant influence ends. Whenever the shares pertaining to the Group in the losses of the related company exceeds the book value of the shareholding in the financial statements, the value of the shareholding is brought to zero and the shares of the additional losses are calculated only if the Group is obligated to do so.

Non-realized profits and losses deriving from transactions with related companies or join control companies are taken out based on the value of the shareholding of the Group in such companies.

Regarding transactions having as scope shares in companies already controlled, lacking a Principle or a specific interpretation on the matter and referring to the regulations detailed in IAS 8 "Accounting principles, adjustments to the accounting estimates and errors", the Group applied the accounting processes reported below, identifying two types of transactions:

- acquisitions/transfers of shares of companies already controlled: in the case of acquisitions, the Group pays to the Third Party Shareholders an amount in money or new shares determining therefore the simultaneous elimination of the related minority shareholding and the posting of a Goodwill equal to the difference between purchase cost of the shares and value of the assets and liabilities per acquired shares; in case of transfer, the difference between the transfer value and the corresponding value posted in the consolidated financial statements is entered into the income statement (the so called *Parent entity extension method*);
- Infra-group transfers of controlled companies that lead to a variation of the shares held: the transferred shares remain written at their historical cost and the profit or loss emerging from the transfer is completely written off. The net equity belonging to Third Party Shareholders that do not directly participate to the transaction is corrected to reflect the variation with a corresponding opposite effect on the Net Equity belonging to the Shareholders of the

Parent Company without posting any Goodwill and without producing no effect on the result and on the total net equity.

Variations of the consolidation area

The consolidation area of the Group includes Tiscali S.p.A.'s financial statements (Parent company) and those of the companies on which the same exercises control, directly or indirectly, starting from the date in which control was acquired and up the date in which such control ends. The fully consolidated companies are reported below and on the note "List of Controlled Companies included in the consolidation area."

There have been no variations in terms of consolidation of the Group as of December 16, 2016

Please see the note "Held for Sale" regarding transfers performed in 2016 and finalized in the first months of 2017.

Name	Registered office	Shareholding owned by	Values as of December 31, 2016 (EUR/000)			Percentage of direct shareholding	Percentage of Group shareholding (**)
			Share Capital	Net Equity	Net Result		
Tiscali S.p.A.	Italia	Parent Company	91.201	89.719	(349)	n.a.	n.a.
Tiscali Italia S.p.A.	Italia	Tiscali S.p.A.	18.794	151	(28.439)	100,0%	100,0%
Veesible S.r.l.	Italia	Tiscali Italia S.p.A.	600	288	(956)	100,0%	100,0%
Indoona S.r.l.	Italia	Tiscali Italia S.p.A.	10	9	(3)	100,0%	100,0%
Istella S.r.l.	Italia	Tiscali Italia S.p.A.	10	10	(2)	100,0%	100,0%
Streamago Inc.	U.S.A.	Tiscali Italia S.p.A.	1.017	(117)	(622)	97,1%	97,1%
Aria S.p.A. (*)	Italia	Tiscali S.p.A.	27.764	(1.519)	(26.245)	100,0%	100,0%
Media PA S.r.l. (*)	Italia	Aria S.p.A.	49	178	110	100,0%	100,0%
Tiscali Holdings UK Ltd (*)	UK	Tiscali S.p.A.	59	(338.489)	(6.853)	100,0%	100,0%
World Online International Nv (*)	Netherlands	Tiscali S.p.A.	115.519			99,5%	99,5%
Tiscali International Bv (*)	Netherlands	World Online International NV	115.469	(78)	(33)	100,0%	99,5%
Tiscali International Network B.V. (*)	Netherlands	Tiscali International BV	18	16.459	485	100,0%	99,5%
Tiscali Financial Services SA (*)	Luxembourg	Tiscali International BV	31	(4.236)	(132)	100,0%	99,5%
Tiscali Deutschland Gmbh (*)	Germany	Tiscali Financial Services SA	555	(35.610)	(359)	100,0%	99,5%
Tiscali Gmbh (*)	Germany	Tiscali Financial Services SA	26	(154.126)	(1.598)	100,0%	99,5%
Tiscali Business Gmbh (*)	Germany	Tiscali Financial Services SA	2.046	(217.316)	(2.114)	100,0%	99,5%
Tiscali Verwaltung Gmbh (*)	Germany	Tiscali Financial Services SA	25	(35)	(7)	100,0%	99,5%

(*) Data disclosed by the companies through reporting packages for consolidated purposes as of December 31, 2016

(**) Group's participation percentage

Grouping of companies (Business Combination) and Goodwill

The acquisition of controlling shares of companies is posted, as established by the IFRS 3 Business Combination, according to the acquisition method. The acquisition cost, therefore, is determined by the sum of the fair values at the date of the transaction of the assets, existing liabilities or expected liabilities of the acquired company, as well as the financial instruments potentially issued by the Group in exchange for the control over the acquired company, together with the costs directly related to the acquisition transaction.

The assets, liabilities and potential liabilities (including the respective shares pertaining to Third Party Shareholders) acquired and identifiable as belonging to the acquired company, which meet the conditions for posting according to the IFRS 3, are posted at their fair value at the date of acquisition.

The surplus of the acquisition cost respect to the shares of the Group in the current assets, liabilities and potential liabilities identifiable and posted, represents the goodwill deriving from the acquisition, posted as an asset and initially assessed at cost. If, after the recalculation of such values, the shares of the Group in the current assets, liabilities and potential liabilities identifiable exceeds the acquisition costs, the surplus is directly posted in the income statement.

The interests of the minority shareholders in the acquired company are initially assessed according to their shares of the current fair value of the assets, liabilities and potential liabilities posted.

After the initial calculation, the goodwill is assessed at the net cost of any loss of values accrued. In fact, in compliance with what is established by the IFRS 3, goodwill is not amortized but is subjected to impairment tests to identify any losses of value.

The impairment test on the goodwill is obligatorily repeated every year, or more frequently, if specific events or modified circumstances indicate the possibility that it may have suffered a loss of value.

Any loss of value is identified through assessments that use as reference the ability of each unit, under the circumstances identifiable by the subsidiary company, to produce cash flows such to recover the portion of goodwill allocated to it. The recoverable value is the greater value between the fair value at net of the sale cost and the use value. The use value is calculated starting from the future cash flows expected, which are updated using a discount rate that reflects the current estimate of the market referred to the price of money, at cost of capital and at risks specific for the asset. If the recoverable value of the asset under review is estimated to be lower respect to the book value, it is reduced to the lowest recoverable value. The losses of value related to the goodwill can be entered in the income statement among the write-down costs and cannot be restored at a later date.

Upon first introduction of the IFRS and in agreement with the exemptions established by IFRS 1, it was deemed not necessary to make use of the option to "reconsider" the acquisition transactions performed before January 1, 2004. Consequently, the goodwill deriving from the acquisition of the companies that occurred before such date is entered at the posted value for that reason in the last financial statements prepared on the basis of the previous accounting principles (January 1, 2004, date of transition to the IFRS), upon previous verification and calculation of any losses of value occurred at the time of preparation of this document.

In the case of transfer of a subsidiary company, the net book value of the goodwill attributable to it is included in the calculation of the capital gain or capital loss due to the sale of the asset.

Foreign exchange operations

The financial statements of foreign subsidiaries are presented in the primary economic environment in which they operate (functional currency). In preparing the financial statements of the individual entities, transactions in currencies other than the euro are initially recorded at the exchange rates prevailing at the time. At the reference date, assets and liabilities denominated in the above-mentioned currencies are retranslated at the rates prevailing at that date. Non-monetary assets expressed in 'fair value' that are denominated in foreign currencies are translated at the rates prevailing on the date on which they were determined *'Fair value'*.

Exchange differences arising from the settlement of monetary items and the restatement at the current exchange rates at year-end are recognized in the income statement.

To prepare the consolidated financial statements, the assets and liabilities of foreign subsidiaries whose functional currencies other than the euro are translated into euros at the rates prevailing at the balance sheet date. Revenues and expenses are translated at the average rate for the period. The exchange differences arising from application of this method are recognized under the equity Translation reserve. This reserve is recognized in the income statement as income or expense in the period in which the subsidiary is sold.

The exchange differences on intra-group receivable / payable relationships of a financial nature are recorded in shareholders' equity under Translation reserve.

The main exchange rates used to translate into Euro the financial statements of 2016 and 2015 the foreign companies were as follows:

	31 December 2016		31 December 2015	
	average	**final**	**average**	**final**
Pound Sterling	0.84441	0.85618	0.72595	0.73395

<u>Altre attività immateriali</u>

<u>Other intangible assets</u>

Computer software - Development costs

Software licenses purchased are capitalized and recorded as intangible assets at the cost incurred for the acquisition and amortized on a straight-line basis over the estimated useful life.

Internally generated intangible assets arising from costs incurred for the development of applications software under Group control and directly associated with the production of services, in particular regarding the 'technology platforms' for access and management of the Tiscali network, are recognized in assets if:

- they comply with the following general conditions indicated by IAS 38 for the capitalization of intangible assets: (a) the asset is identifiable; (B) it is probable that the asset will generate future economic benefits; (C) the development cost of the asset can be measured reliably;
- the Group can demonstrate the technical feasibility of completing the intangible asset so that it is available for use or sale, its intention to complete the asset and use or sell, how the asset will generate probable future economic benefits, the availability of technical, financial or other resources to complete the development and its ability to measure reliably the expenditure during its development.

During the development period, the asset is reviewed annually in order to record any impairment losses. After their initial recognition, development costs are valued at cost, net of any amortisation or accumulated impairment losses. Amortisation of the asset begins when development is completed and the asset is available for use. The cost is amortized over the period in which it is expected that the related project will generate revenues for the Group.

The costs associated with the development and maintenance of *software* which do not meet the above-mentioned requirements and the costs of research, are fully expensed in the period they are incurred.

Rights of use of frequencies for BWA systems - Broadband Wireless Access in the band 3.5 GHz

The price paid for the usage right in question (licenses) and the related additional expenses have been amortized over a number of years equal to the remaining term of the single license in the year of entry use. Therefore, the depreciation is 14 years for licenses came into use in 2009, 13 years for the licenses came into use in 2010, 12 years for the licenses came into use in 2011, 11 years to the last license (that refers to Sardinia) came into use in 2012 (completely devalued in the same year).

Broadband service activation costs

Acquisition costs and activation of customers are amortized over a period of 36 months.
IRU
The *IRU* They are classified as "concessions and similar rights" and consist of costs incurred for the acquisition of the registration rights of use of the fibre optic network, namely the 'transmission capacity' and related charges; they are amortized on a straight-line basis, in the shorter of the duration of the concession defined by contract and the estimated utilization of the right. The amortization period varies on average between 12 and 15 years.

Property, Plant and Equipment

Property, plant, machinery and equipment are stated at acquisition or production cost, including related charges, net of accumulated depreciation and any accumulated impairment losses. These tangible assets do not include revaluations.
Depreciation is calculated on a straight-line basis on the cost of the assets net of the related residual values, if any, over their estimated useful lives. Land, including that pertaining to buildings, is not depreciated.
The depreciation rates are reviewed annually and revised if the current estimated useful life differs from that estimated previously. The effects of such changes is recognized in the income statement on an estimated basis.

The minimum and maximum rates of depreciation applied in 2016 financial year are shown below:

Property	3%
Plant	12%-20%
Equipment	12%-25%

With regard to the Aria Group, it should be noted that the WiMax Base Station networks is amortized at an average of around 7%, while the Core networks WiMax equipment at the rate of 10%.

The ordinary maintenance costs are fully charged to the income statement in the period in which they are incurred, while maintenance expenses of an incremental nature are attributed to the assets to which they refer and depreciated over their residual useful life.

Profits arising from the assignment or take-out of assets are determined as the difference between the sales proceeds and the net carrying amount of the asset and are charged in the income statement.

Financial leased assets

Leases are classified as financial leases if all the risks and benefits of ownership are transferred to the lessee. All other leases are operating leases.

Assets held under finance leases are recognized as Group assets at their current value (*fair value*) At the inception of the lease or, if lower, the present value of the minimum payments due for the *leasing*. The corresponding liability to the lessor is included in the balance sheet under financial liabilities, the payables for financial leases. The lease payments are divided into principal and interest. Financial charges are charged directly in the income statement.

Assets held under financial leases are depreciated linearly based on the estimated useful life as for owned assets or, if shorter and only where there is a reasonable certainty of redeeming the asset , according to the term of the leases.

In addition, for the sale and leaseback transactions of goods on the basis of financial leasing contracts, the realized capital gains are deferred over the term of the agreements or, if lower, the residual life of the asset.

Lease payments under operating leases are recognized in the income statement as costs and are recorded based on the accrual basis.

Impairment losses of assets (*impairment*)

Goodwill and Financial Statement sheet assets are tested (*impairment tests*) Annually or more frequently if there is indication of impairment. The carrying value of intangible assets with finite useful lives and property, plant and equipment is tested whenever there is an indication that the asset may have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit (CGU - *Cash Generating Unit*), To which the asset 'belongs'. The recoverable amount if the greater amount between *fair value* net of sales costs and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax rate that reflects current market assessments of money time value and the specific risks of the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the asset is reduced to its recoverable amount. The loss of relevant impairment is recognized in the income statement under write-downs. In the event that a write-down in previous years, no longer has reason to exist, the carrying value of the asset (or cash-generating unit) is increased to the new value resulting from the estimate of its recoverable amount, but not over the net book value that the asset would have had if no impairment had been recognized for the asset loss. The reversal is recognized in the income statement.

Inventories

Inventories are valued at the lower of cost and net realizable value. The cost refers, in the circumstances and in light of the characteristics of the Group, to direct materials. The cost is calculated using the average cost method. The net realizable value represents the estimated selling price less the estimated costs necessary to make the sale.

Financial Instruments

Loans and receivables

The receivables of the Group are stated in the items "Other financial assets" not current, "trade receivables", "Other receivables and other current assets" and "other current financial assets", and include guarantee deposits, trade receivables, loans to others generated as part of core.
Are valued, they have a fixed term, at amortized cost using the effective interest method. When financial assets have no fixed maturity, they are valued at acquisition cost. Receivables due beyond one year, bear interest or bear interest below market are discounted using market rates.
Valuations are frequently carried out to find objective evidence of impairment of a financial asset or group of assets. If any such evidence exists, the impairment loss should be recognized as an expense in the income statement in the period.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, demand deposits and short-term, in the latter case with a term of less than three months.

Debts and financial liabilities

The debts and financial liabilities of the Group are disclosed in the "bonds" voices, "due to banks and other lenders", "Finance lease liabilities", "Other non-current liabilities", "payables to suppliers", and include trade payables, payables to others, the financial payables, including payables for loans received for advances on the sale of loans and finance leases.
Trade payables and other payables are stated at nominal value. Borrowings are initially recognized at cost, equal to the fair value of the consideration received, net of transaction costs. Subsequently, the loans are valued at amortized cost using the effective interest method, calculated considering the issue costs and any other premium or discount applicable to the regulation.

Impairment of financial assets

At each date of the balance sheet (annual or interim), assessments are conducted in order to verify whether there is objective evidence that a financial asset or group of assets may have suffered an impairment loss. If there is objective evidence to that effect, the impairment loss is recognized in the income statement for financial assets measured at cost or amortized cost; for "financial assets available for sale", reference is made to what has been explained above.

Financial derivatives

The Group does not use derivatives.

Liabilities due to pensions and employee severance indemnities

The defined benefit plans (as classified by IAS 19), in particular the Staff Severance indemnities relating to employees of the Parent Company and the subsidiaries with registered office in Italy, are recorded on the basis of assessments made at the end of each financial year by independent actuaries. The liability recognized in the balance sheet represents the present value of the obligation payable upon termination of employment, that employees have accrued at the balance sheet date. Please note that there are no assets servicing the plan.

As of 1 January 2007, the 2007 Finance Act and related implementing decrees introduced significant changes in the discipline of severance pay, including the worker's choice regarding the allocation of their accruing TFR to supplementary pension funds or the "Fund Treasury "managed by.
It follows, therefore, that the obligation to INPS and the contribution to supplementary pension schemes, acquire within the meaning of 'IAS 19, of "Defined contribution plans", while the portions to retain the nature of severance pay "defined benefit plans".
These legislative changes introduced since 2007 have also led to a revision of the actuarial assumptions and the consequent calculations used to calculate staff severance indemnities, whose effects have been directly recognized in the income statement.
As of 1 January 2013 with retrospective effect, the Company adopted the new version of IAS 19 "Employee benefits."
Compensation in the form of equity
On 16 February 2016, the Tiscali's shareholders approved the Stock Option Plan 2015-2019 intended to Renato Soru as Chairman of the Board of Directors and its proxy proposal to the Council for the increase in share capital of the said Plan. The delegation regards the issue of up to 251,622,551 ordinary shares, to the maximum issue of 251,622,551 options to be reserved to the Chairman Renato Soru as beneficiary of the Stock Option Plan 2015-2019. As reported in the "Information Document on the Stock Option Plan 2015-2019 Tiscali SpA", the options granted will be exercisable in three tranches:

- The first, consisting of 157,264,095 Options to subscribe for an equal number of Tiscali ordinary shares and can be exercised between 24 December 2016 and 24 December 2018 at an exercise price per share of EUR 0,060.

- The second, consisting of 47,179,228 Options to subscribe for an equal number of Tiscali ordinary shares and can be exercised between 24 December 2017 and 24 December 2018 at an exercise price per share of EUR 0.069.

- The third, consisting of 47,179,228 Options to subscribe for an equal number of Tiscali ordinary shares and can be exercised between 24 December 2018 and 24 June 24 2019 at an exercise price per share of EUR 0.078.

The adoption of the Stock Option Plan 2015-2019 aims to loyalty and the beneficiary incentive for the development of activities under charge.
Successively, on May 12, 2016, the Board of Directors of Tiscali S.p.A. approved the 2016-2021 Stock Option Plan regarding ordinary shares of Tiscali S.p.A. reserved to the CEO and the Management of the Group, and the following proposal of Capital Increase, also in separate issues, through the issuance of 314,528,189 ordinary shares maximum with no nominal value, to the service of maximum 314,528,189 options valid for the subscription of ordinary shares of the Company to be reserved to the CEO and the Management of the Group as beneficiaries of the 2016-2021 Stock Option Plan, with the exclusion of option right in compliance with the Article 2441, Paragraph 5 and 6 of the Civil Code. The ensuing amendment of the Article 5 of the Articles of Associations, related and consequential resolutions, delegation of powers.

Provisions for liabilities and charges

Provisions for risks and charges relating to potential legal and tax liabilities, are made in respect of the predictions made by the Directors, on the basis of judgments developed by the Group legal and tax advisors, about the likely burden believed reasonable will be taken for the fulfillment of the obligation. In the event that the Group is called, in relation to the final result of such judgments, to fulfill an obligation for a sum other than that estimated, the related effects are reflected in the income statement.

Treasury shares
Treasury shares are recorded as a reduction in net equity.
Recognition of income
Revenue is recognized to the extent that it is probable that economic benefits will flow to the Group and the revenue can be measured reliably; Revenues are stated net of discounts, allowances and returns.
Revenues from services rendered are recognized in the income statement using the percentage of completion of the service and only when the result of the service can be reliably estimated.
In particular, the income statement of revenues from Internet access services (*narrowband* is *broadband*) and voice services, it takes place on the basis of actual traffic produced at the reference date and / or service periodic fee payable at that date.
Revenues related to the activation of the services *broadband (ADSL)* are recognized in the income statement on a linear basis over a period of 36 months. None of the periods are recorded under other current liabilities as deferred income.
Financial income and expense
The interest income and expense, including interest on bond issues, is recognized using the effective interest rate.
Research costs and advertising expenses
Research costs and advertising expenses are charged directly to the income statement as incurred.
Taxes
Income taxes include all taxes calculated on the taxable income of the companies of the Group.

- The *current tax* is determined on the taxable income. The taxable income for tax purposes differs from the result before taxes reported in the income statement because it excludes items of income and expense that are taxable or deductible in other years; it further excludes items that are not taxable or deductible at all. The liability for current tax is calculated using tax rates enacted at the balance sheet date.

- The *Deferred taxes* are taxes expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities and the corresponding tax bases used in the computation of taxable profit, as well as on those items which, although not allocated in the state balance, lead to potential future tax credits, such as for example the operating losses for tax purposes in the future, and are calculated according to the method of balance sheet liabilities (*balance sheet liability method and*).

Deferred tax liabilities are generally recognized for all taxable temporary differences related to Group companies and participations in associated companies, except in cases where the Group is able to control the reversal of these temporary differences and it is probable that It will reverse in the foreseeable future.
Any deferred tax assets, arising from temporary differences and/or tax losses carried forward, are taken over to the extent that it is considered likely that there may be future taxable tax results that allow the use of these deductible temporary differences and/or tax losses. The forecasts are based on taxable income likely to be generated in the light of the approved business plans. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (by operations of a business combination) of other assets and liabilities in a transaction that affects neither the accounting profit nor taxable income. The carrying value of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that those available to allow all or part of the recovery of such assets is no longer probable that sufficient taxable income.
Deferred tax is calculated at the tax rates that are expected to apply when the asset is realized or the liability settled. Deferred taxes are recognized directly in the income statement, except when it relates to items recognized directly in equity, in which case the deferred tax is also recognized in equity.
The tax assets and liabilities are offset when there is a legally enforceable right to offset current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Earnings Per Share

Basic earnings per ordinary share is calculated by dividing the share of the Group's profit attributable to ordinary shares by the weighted average number of ordinary shares outstanding during the year, excluding treasury shares.
For the purposes of diluted earnings per ordinary share, the weighted average number of shares outstanding is adjusted by assuming the subscription of all the potential shares deriving, for example, the conversion of bonds and exercise of rights on dilutive shares and potential dilutive effect of the allocation of shares to the beneficiaries of the plans *stock options* already accrued.

Major decisions in applying accounting policies and use of estimates

In the process of applying the accounting policies described in the previous section, Tiscali's directors made some significant decisions importance for the recognition of amounts in the financial statements. The directors' decisions are based on historical experience as well as on expectations associated with the realization of future events, considered reasonable under the circumstances.
The recoverability of the main asset is based on estimates of income and cash flows that the Group believes it will be able to generate in the future. As better explained in the note "*Assessment of the business continuity and business outlook* "The achievement of the results set out in the industrial and financial plan, used for the assessment, depends on whether the forecasts and assumptions contained therein, in a market characterized by strong competitive pressure.

Assumptions for the application of the accounting standards

Activation costs and customer acquisition

The costs incurred for the customer activation (*Subscriber Acquisition Costs - SACs*), are capitalized and amortized over a period of 36 months.

Impairment of Assets (Impairment)

Impairment testing is performed annually or more frequently during the year, in the manner described in the previous section, 'Business combinations and goodwill'. The ability of each 'unit' to generate cash flows sufficient to recover the goodwill allocated to the unit is determined on the basis of economic and financial data concerning which the goodwill relates. The processing of such data, as well as the determination of an appropriate discount rate, requires a significant extent, to make estimates.

Income taxes

The assessment of taxes on income, with particular reference to deferred taxes, involves a significant extent, to make estimates and the adoption of the underlying assumptions. Any deferred tax assets, arising from temporary differences and/or tax losses carried forward, are taken over to the extent that it is considered likely that there may be future taxable tax results that allow the use of these deductible temporary differences and/or tax losses. The forecasts are based on taxable income likely to be generated in the light of the approved business plans. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (by operations of a business combination) of other assets and liabilities in a transaction that affects neither the accounting profit nor taxable income. The carrying value of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that those available to allow all or part of the recovery of such assets is no longer probable that sufficient taxable income.

Provisions for employee benefits

Provisions related to provisions for employee benefits, and particularly to fund severance indemnities, are calculated based on actuarial assumptions; changes in such assumptions could have a significant impact on such liabilities.

Bad Debts Provision.

The recoverability of receivables is assessed taking into account the risk of not collecting themselves, their age and losses on loans in the past for similar receivables.

Provisions for liabilities and charges

Provisions for risks and charges relating to potential legal and tax liabilities are made in respect of the predictions made by the Directors, on the basis of judgments developed by the Group legal and tax advisors, about the likely burden that can reasonably be will argued for the fulfilment of the obligation. In the event that the Group is called, in relation to the final result of such judgments, to fulfil an obligation for a sum other than that estimated, the related effects are reflected in the income statement.

Determination of Fair Value

Depending on the instrument or financial statements item to be estimated, the directors identify the most suitable method, doing as much as possible to objective market data. In the absence of market values, that is, quotations, valuation techniques are used with reference to those most commonly used.

Accounting standards, amendments and interpretations effective from 1 January 2015

Below the international accounting standards, changes to existing standards and interpretations, relevant for the Group, taking effect as from 1 January 2016.

- **Amendments to IAS 19 – Employees benefits – plans with defined benefits: contributions by third parties or by employees.**

  These amendments apply to contributions that employees or third parties make to pension funds with defined benefits for semplifying their accounting under specific circumstances.

  The entry into force of this interpretation had no impact on the Group's consolidated financial statements.

- **"Improvements" to IFRS 2010-2012 cycles (issued by the IASB in December 2013).**

  The IASB has issued a series of amendments to 7 principles in force that relate in particular to the definition of vesting conditions in IFRS 2 - Share-based payments, contingent consideration (contingent consideration) In a business combination in IFRS 3 - Business Combinations, the aggregation of operating sectors and the reconciliation of the total assets of the reporting sectors compared to the entity's total assets in IFRS 8 - Operating Sectors, the proportional reassessment of 'Accumulated amortization in IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets and Identification and Some Key Manager Disclosures in IAS 24 - Balance Sheet Disclosures on Related Party Transactions.

  There are no significant impacts on the Group's Financial Statements or Disclosures due to the application of such changes.

- **Amendments to IFRS 11 - Joint arrangements - accounting for the acquisition of interests in joint operations.**

  Amendments to IFRS 11 specify the accounting treatment to be applied in the case of acquisition of interests in joint operations that constitute a business as defined by IFRS 3.

  These changes did not have any impact on the Group's financial statements as there was no acquisition of interest in joint operations during the period.

- **Amendments to IAS 16 and IAS 38 - Clarifications on Amortization Methods deemed Acceptable.**

  With such changes, the IASB wanted to clarify that the use of revenue-based methods for calculating amortization is incorrect as revenue generated by an asset reflects factors other than the consumption of future economic benefits embedded in the asset. Such consumption must be the basic principle for the calculation of amortization.

  These changes have no impact on the Financial Statements as the Group does not use revenue-based methods to calculate amortization.

- **Amendments to IAS 27 - Applying the Equity Method in the Separate Financial Statements.**

  As a result of these changes, the use of the equity method for accounting for investments in subsidiaries, associates and joint ventures will be allowed on an optional basis also in separate financial statements with a retrospective application.

- **Improvements to IFRS for the 2012-2014 cycle (issued by the IASB in September 2014).**

  The IASB has issued a number of changes to 4 principles in force, covering in particular the following aspects: Amendment to the Disclosure Method in IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations, Service Contracts and Applicability Of amendments to IFRS 7 to Interim Financial Statements in IFRS 7 Financial Instruments: Supplementary Information, discount rate to be applied in IAS 19 Employee Benefits, Disclosure of Information Presented "in Other Part of Interim Financial Statements in IAS 34 Interim Financial Statements.

  There are no impacts on the Group's financial statements arising from the application of such changes.

- **Amendments to IAS 1 - disclosure initiative**

  IAS 1 modifications, linked to the disclosure initiative project, aim to clarify and improve the requirements of IAS 1 rather than substantially modify it. Following the application of these amendments, the total comprehensive income statement of the other comprehensive income components of associated companies and JVs should also be distinguished between items that may or may not be reclassified to the income statement.

Accounting standards, amendments and interpretations effective from 1 January 2016 and not yet adopted in advance by the Group

On 29 May 2014, IASB published IFRS 15 standard – Customer contract revenues with the aim of improving quality of revenues accounting. Issuing of such standard is part of convergence project with FASB, related to improvement in Statements comparability.
Goal of this standard is to define the time of transfer as main element of revenue recognition and related amount company is entitled to receive. Thus the standard sets revenue recognition process:

a) Customer contract identification;
b) Service/product execution identification;
c) Amount definition:
d) Amount allocation related to execution;
e) Revenues recognition linked to execution;

Such standard is applicable starting form 1 January 2018.

The Group is still assessing the impact of adopting this new principle. No anticipated application of this principle is envisaged.

On 24 July 2014 IASB published IFRS 9 standard – Financial instruments so articulated:

- Derivatives classification and measurement rules:
- Derivatives impairment rules;
- Hedge accounting application rules;
- Bank accounting changes in liabilities fair value measurement.

Such standard is applicable starting form 1 January 2018.

On 11 September 2014 IASB published some amendments related to IFRS 10 standard – Consolidated Statement and to IFRS 28 standard – Subsidiaries participation and joint ventures. The aim is to clarify the accounting princiles of results related to group intercompany assets dismissals and subsidiaries and joint ventures. Up to date, competent European Bodies have not yet completed amendmend homologation process. Such amendment will have deferred effectiveness at the end of IASB project on equity method.

On 13 January 2016 IASB published new IFRS 16 standard – Leases that substitutes IAS 17 standard.

The new accounting standard uniforms, ahead of the tenant, accounting of financial and operating leases. In fact IFRS 16 enforces the tenant to account in the Balance Sheet assets and liabilities related both to operating and financial leases. Only exclusion related to leasing contract with a duration equal or lower than 12 months or related to an asset of not material value. Such standard is applicable starting form 1 January 2018.

The Group is still assessing the impact of adopting this new principle. No anticipated application of this principle is envisaged.

On 19 January 2016 IASB published some amendments to “IAS 12 – Income Tax” standard. The aim is to clarify how to account deferred tax activities related to debt instruments valorised at fair value. Such standard is applicable starting form 1 January 2017.

On 29 January 2016 IASB published some amendments to “IAS 7 – Statements of Cash Flows” standard. The aim is to clarify integrative information set to be provided to financial statements users to better understand variations of leasing liabilities, including both cash flows changes and non monetary changes. Since initial introduction of such amendment, company shall not published comparable information set related to previous years. Such standard is applicable starting form 1 January 2017.

On 14 December 2016 IASB published some amendments to “IFRS 2 – Classifications and measurements of Share based payments transactions”. The aim is to clarify:

- Effects of maturing condition on measurement of a transaction with payment in shares and regulated by cash;
- Classification of a transaction with payment in shares and regulated net of withholding obligations;
- Accounting rules, if a change in terms and conditions of a transaction with payment in shares move the classification from regulated by cash to regulated by capital instruments.

Since initial introduction of such amendment, company shall apply modifications without publishing previous years accounts, but its retrospective application is allowed only if all three point above are respected. Such standard is applicable starting form 1 January 2018.

Revenues (Note 1)

Revenues	2016	2015
(EUR 000)		
Revenues	196,942	192,616
Total	**196,942**	**192,616**

Revenues during 2016 increased compared to those realized in 2015. For greater details on the increase in revenues, please refer to the Management Report.

Other income (Note 2)

Other Income	2016	2015
(EUR 000)		
Other Income	3,280	17,275
Total	**3,280**	**17,275**

Other income includes, primarily, the write-off of a past provision for invoices to be received towards suppliers, in addition to the revenues for the sale of IRU (amounting to EUR 1 billion). This income has been identified as non-recurring; please refer to comments in Paragraph Non-Recurring Transactions.

This entry also includes the release of the 2016 income on the capital gain on the Sale and Lease-Back transaction relating to the Cagliari branch office (Sa Illetta) for about EUR 2.1 million.

Purchase of materials and outsourced services (Note 3)

Purchase of materials and outsourced services, payroll and other operating costs	2016	2015
(EUR 000)		
Line/traffic rental and interconnection costs	71,091	76,225
Costs for use of third party assets	5,030	4,523
Portal services costs	5,275	9,229
Marketing costs	8,596	8,740
Other services	39,143	28,473
Total	**129,133**	**127,189**

Staffing costs (Note 4)

Staffing cost	2016	2015
(EUR 000)		
Wages and salaries	23,521	23,537
Other staffing costs	11,421	11,125
Total	**34,942**	**34,662**

The increase in staffing costs is attributable to the entry in the Group of a new management starting from February 2016 and to the stop to solidarity agreements starting from July 1, 2016.

The number of employees as of December 31, 2016 amounts to 948 units. The breakdown by category and the corresponding balance as of 31 December 2015 are presented below.

Number of Employees

	31 December 2016	31 December 2015
Executives	25	23
Managers	86	92
Employees	831	903
Blue-collars	6	7
Total	**948**	**1,024**

Other operating (income) charges (note 5)

Other operating (income) charges	2016	2015
(EUR 000)		
Other operating (income) charges	(2,270)	(5,483)
Totale	**(2,270)**	**(5,483)**

Other net operating income mainly includes impacts arising from the write-offs of specific debt positions of a trade nature following agreements with suppliers.

Write-downs of receivables from customers (note 6)

Write-downs of receivables from customers	**2016**	**2015**
(EUR 000)		
Loss on receivables		5,102
Provisions for bad debts	11,288	11,995
Total	**11,288**	**17,097**

The item “Write-downs of receivables from customers” amounts to a total of EUR 11.3 million and includes the provisions for bad debts.
Please refer to the “Receivables from customers” note for further details.

Restructuring costs and other write-downs (note 7)

Restructuring costs and other write-downs	**2016**	**2015**
(EUR 000)		
Restructuring costs and other write-downs	6,018	3,171
Total	**6,018**	**3,171**

The item Restructuring costs and other write downs includes allowances for Group restructuring costs and mainly relate to:

- Write down of Aria’s assets for EUR 2.2 million
- personnel restructuring costs (voluntary redundancy payments) for EUR 1.1 million
- provision for risks and charges -Tiscali Italia (personnel litigations) for EUR 0.2 million
- Reversal of provision for risks and charges of Tiscali Spa for EUR 0.4 million
- Provision for penalties on tax overdue related to previous years of Italian companies for EUR 2.0 million

Net financial income (charges) (note 8)

A breakdown of Net financial income (charges) for the year, that is a negative balance of EUR 9.1 million, is provided below.

Net financial income (charges)	**2016**	**2015**
(Thousands of EUR)		
Financial income		
Interest on bank deposits	10	20
Other financial income	3,953	566
Total	**3,963**	**586**

	2016	2015
Financial charges		
Interest and other charges due to banks	7,779	12,915
Other financial charges	5,602	4,167
Total	**13,381**	**17,082**
Net financial income (charges)	**(9,418)**	**(16,495)**

The item Financial charges amounting to around EUR 13.4 million mainly includes the following elements

- interest expense, relating to the loan from Senior Lenders ("Group Facility Agreement"), amounting to EUR 5.8 million, of which EUR 3,6 relate to the previous loan, and EUR 2,2 related to the new loan taken out on 29 June 2016;
- Interest expense on the previous Rigensis loan EUR 1,2 millions, financial charges on the mandatory convertible bond issued by Tiscali S.p.A. for EUR 0.3 million
- Interest expense on bank current accounts amounting to EUR 0.9 million of Tiscali Italia S.p.A.;
- default interest expense amounting to EUR 2.0 million;
- Interest expense on finance leases and IRU for approximately EUR 1 million;
- bank charges for EUR 2.6 million.

The item Other financial income includes EUR 3.9 million income attributable to the effect of the amortized cost and the exercise of the Put Option on the previous Rigensis loan (EUR 4,250 thousand initial value of the put option, after EUR 329 thousand charges released until 31 December 2015)

Income taxes (note 9)

Income taxes	**2016**	**2015**
EUR 000		
Current taxes	132	120
Deferred taxes	(63)	(5)
Total	**(69)**	**(115)**

The balance of current taxes includes the IRAP, IRES taxes and penalties on overdue tax debts due by the Italian companies.

Operating assets disposed of and/or assets held for sale (note 10)

Fastweb Dismissal

On 5 December 2016 Tiscali and Fastweb signed following strategic agreements:

a. Tiscali "Business" branch dismissal, including Top Clients customers (about 260 customers) and the contract to privde data services to Public Administration bodies (SPC contract). In particular, such dismissal implied the transfer to Fastweb of all rights, contracts, obligations, credits, privileges, properties, assets, licences, permits strictly related to the branch including commercial debt and all debts related to branch personnel up to 30 September 2016. Deal economic value is 45 million euro, of which 25 million euro in cash and 20 million euro of services to be used by Tiscali within February 2022 and that let Tiscali access to Fastweb Fiber network to connect its LTE UltraBroadBand Fixed Wireless network and the connection of Tiscali Consumer, SOHO and SME customers on Fastweb access network.

b. Lease frequency agreement, through which Tiscali makes available to Fastweb the use of part of Tiscali 3.5GHz spectrum to deploy a last generation convergent network in main italian big cities.

Payment of the price occurred in two tranches, according to what agreed:

a. First tranche (Temporary Price) paid at closing, held on 10 February 2017. At such date 12,5 million euro has been paid, of which 5 million euro in cash and 7.5 million euro in services;
b. Second tranche (Earn-out) equal to 32.5 million euro, of which 20 million euro of cash and 12.5 million euro in services, was subject to positive end of SPC litigation between Consip and Telecom Italia SpA, pending at Consiglio di Stato (RG n. 5326/16). On 24 March 2017 final Consiglio di Stato judgement has been published rejecting Telecom Italia appeal against SPC assignment to Tiscali, and consequently dismissal contract to Fastweb has been fully executed. In the same date second tranche of the price has been paid to Tiscali.

Above contracts, in addition to further measures described in section 4.8 “Assessment of the business as a going-concern and future outlook” let Tiscali reinforce its balance sheet and financial structure and consolidate its ability to execute company industrial plan. In particular, the option to get access at favourable conditions to Fastweb Fiber infrastructure contributes to the deployment of a Tiscali last generation LTE UltraBroadband access network and the migration of BroadBand “wired” customers on UltraBroadBand access, with main focus on Consumer, SOHO and SME customers in “Extended Digital Divide” areas.
Branch dismissed counts for 45 employees and revenues of approx. 10,3 million euro in 2016.

Streamago

On 20 December 2016 it has been signed an agreement to dismiss Tiscali Italia subsidiary Streamago Inc. assets to Docler Holding Sarl. Such agreement ruled the dismissal of all material and immaterial assets of Streamago Inc. for a price of 1 million euro plus 240 thousands dollars to cover costs of the interim period plus the hiring, by 31 March 2017, of 8 persons currently employed by Tiscali Italia.

Istella

Tiscali management during 2016 and first months of 2017 started actions aimed to the dismissal of Istella branch and activities.
Up to date, Istella activites has not yet been dismissed but, according to IFRS 5 standard, being very likely a dismission in the short term, assets and liabilities related to the branch has been reclassified as activities held for sale.
As ruled by IFRS 5 international standard, balance sheet and economic items subject to dismission (branch) has been reclassified as Income Statements in specific revenues/costs lines “Income/loss from acitivities held for sale” and as Balance Sheet in specific Asset/liabilities lines “Assets held for sale”, “Liabilities held for sale” and “Reserves for activities held for sale”.

Below Income Statements and Balance Sheet statements of acitvities held for sale:

Profit and Loss HFS IFRS 5	**2016**	**2015**
(Thousands of Euro)		
Revenues	**10,237.5**	**9,501.8**

Cost	**4,098.1**	**3,749.2**
Gross Margin	**6,139.4**	**5,752.5**
Costi operativi indiretti	**3,269.5**	**2,909.5**
Marketing & Sales	20.1	179.5
Personell	2,714.0	2,379.9
Other indirect costs	535.4	350.1
Other (income) / costs	(206.6)	135.9
GROSS EBITDA	**3,076.5**	**2,707.1**
Receivables write downs	69.6	64.6
EBITDA	**3,006.9**	**2,642.5**
D&A	1,455.1	2,399.7
Assets write off to align to fair value / price of disposal	8,589.4	0.0
EBIT	**(7,037.6)**	**242.8**
Net Income	**(7,037.2)**	**244.6**

In depreciations are included:

- Current assets related to SPC contract not included in “Business” branch dismissed (mostly capitalized personnel costs), the release of deferred costs related to SPC contract accessory charges (mostly consulting costs to win SPC bid, deferred until final SPC award and consequent start of service provisioning to Public Administration customers);
- Istella current assets at expected selling value;
- Streamago current assets aligned at dismissal price;

Assts and Liabilities HFS IFRS 5	**2016**	**2015**
(Thousands of Euro)		
Non current assets	3,523.0	7,683.1
o/w		
Intangible Assets	2,961.5	4,270.1
Tangible Assets	560.5	3,412.1
Other non current assets	1.0	1.0
Current assets	2,713.8	1,130.2
o/w		
Receivables	2,571.5	1,113.5
Cash and cash equivalents	142.3	16.7
Total Assets	**6,236.9**	**8,813.3**

Non current liabilities	295.4	208.6
Current liabilities	3,315.5	2,221.3
o/w		
Trade payables	2,516.6	1,605.1
Personnel debt	571.2	616.2
Other current liabilities	227.7	
Total liabilities	**3,610.8**	**2,429.9**
Net assets held for sale	**2,626.0**	**6,383.4**

Cash Flow	2016
(Thousands of Euro)	
Operating Cash Flow	(680)
Investing Cash Flow	(2,600)
Financing Cash Flow	0
Net Cash Flow	**(3,280)**

Earnings (Loss) per share (note 11)

The result per share of "operating assets" was close to zero and calculated by dividing the net loss for the year attributable to the ordinary shareholders of the Parent company, amounting to EUR 42 million, by the weighted average number of ordinary shares in circulation during the year, totalling 3,145,281.893.

Verification of possible reductions in the value of assets - "Impairment Test" (note 12)

In consideration of the presence of impairment indicators, an impairment test was performed on assets, in accordance with IAS 36 and prescribed in the joint Bank of Italy/Consob/ISVAP document no. 4 of 3 March 2010 dealin with the application of the IAS/IFRS principles.

The impairment test on assets was performed by comparing the value of assets reported at 31 December, 2016, and their value in use, determined on the basis of the following essential elements.

(i) Definition of Cash Generating Units

The Group identified the Cash Generating Units with the segments set forth in segmental reporting. The impairment test on assets was performed on the Cash Generating Units identified.

(ii) Criteria for estimating the recoverable amount.

The value in use of the Cash Generating Unit (CGU) was determined based on the cash flows for the years 2016 to 2021 resulting from the 2017-2021 Tiscali Group Plan (as defined in the Note "Significant events after year-end, business outlook and evaluations regarding business continuity") approved by the Board of Directors on 28 April 2017. Therefore, the terminal value for the purposes of the impairment test was arrived at using a time horizon of five years and the normalised cash flow for the year 2020.

The main assumptions used to estimate the recoverable amount are:

- 5 years explicit forecast period (2017-2021);
- EBITDA arising from market and business development assumptions;
- investments to maintain the expected development of the business and pre-established level of profitability;
- determination of the terminal value calculated as perpetuity based on the projection of the year 2020 properly normalized;
- the WACC rate determined on the basis of market valuations of the cost of money and specific risks related to the company's core business;
- long-term growth (LTG) equal to 0%.

The WACC was calculated as follows:

- Risk Free Rate. The market rate for a risk-free investment was considered to be equal to the rate applied on 5-year swaps;Raw Beta. The rate that characterizes sector risk was determined as the average of the Raw Beta rates, from 01/01/2012 to 31/12/2016;Market Risk Premium. The risk premium assigned by the market considers the sum of the total risk plus market risk;Debt Risk Premium. The debt rate was calculated based on the average cost of refinancing for the Tiscali Group, by reference to the weighted average of the internal rate of return on the senior loan and the internal rate of return on the Sa Illetta leasing debt. The average of the two rates was weighted in relation to the relative weight of the aforementioned total financial indebtedness of the Group.

Based on these parameters, the WACC used for the impairment tests was 7.68%.

The result of the impairment test showed a positive difference between the recoverable value and book value, thus the Group feels that it is not necessary to write down any of the balance sheet assets.

(iii) Sensitivity analysis of the impairment test results

In consideration of the current scenario and the results of the impairment tests performed for the period ended on 31 December 2016, an analysis was carried out on the sensitivity of the recoverable value estimated using the discounted cash flow method. The discount rate is considered a key parameter in the estimate of recoverable value; a 1% increase in this rate would lower the positive difference between the estimated recoverable value and the book value. Such difference would nonetheless continue to be positive. Furthermore, a sensitivity analysis on the long-term growth rate was also carried out: similarly, a 1% increase in that rate would reduce the positive difference between the estimated recoverable value and the book value; however, this difference would continue to be positive.

(iv) Considerations on the presence of external impairment indicators.

Considering the current market situation, certain considerations on the presence of external impairment indicators were made, especially with regard to evidence from the financial market. To this end, the market capitalization of the Tiscali Group does not give rise to elements departing from the results of the impairment tests.

Intangible asssets (note 13)

The changes in intangible assets in the 2016 financial year were the following:

Intangible assets *(EUR 000)*	**Computers, software and development costs**	**Concessions and similar rights**	**Broadband service activation costs**	**Other intangible assets**	**Intangible assets under developmen t and advances**	**Total**
HISTORICAL COST						
1 January 2016	**4,715**	**193,352**	**177,508**	**27,506**	**4,379**	**407,461**
Increases	0	6,214	23,587	932	3,337	34,070
Reclassification IFRS 5	0	(1,459)	(0)	(944)	(1,495)	(3,898)
Other changes	0	(3,718)	(14,841)	0	(2,632)	(21,190)
Disposals		0				0
Reclassifications	0	644	1,487	471	(1,426)	1,176
31 December 2016	**4,715**	**195,033**	**187,742**	**27,965**	**2,163**	**417,619**
ACCUMULATED AMORTIZATION						
1 January 2016	**4,715**	**120,252**	**149,436**	**26,334**	**0**	**300,737**
Increases in amortization	0	14,063	15,310	4,953	0	34,326
Reclassification IFRS 5	(0)	(219)	(0)	(718)	0	(937)
Other changes	0	(2,461)	(7,880)	(4,916)	0	(15,257)
Disposals		0				0
Reclassifications	0	0	0	0	0	0
31 December 2016	**4,715**	**131,635**	**156,866**	**25,654**	**0**	**318,870**
NET BOOK VALUE						
31 December 2015	**(0)**	**73,100**	**28,072**	**1,172**	**4,379**	**106,724**
31 December 2016	**(0)**	**63,398**	**30,876**	**2,312**	**2,163**	**98,749**

Intangible assets relate to the Tiscali Italia S.p.A subsidiary, as well as the Aria Group.

The item *Computer software and Development Costs* includes the capitalisation of development costs for personalized application software for the exclusive use of the Group.

The balance of *Concessions and Similar Rights* is equal to EUR 63.4 million, and includes:

- EUR 25.1 million for fees and costs associated with the purchase of transmission capacity on a multi-annual basis, in the form of concession contracts for transmission capacity (IRU - *Indefeasible Right of Use*). Relating to IRU and accounted for by the Tiscali Italia subsidiary;EUR 36.4 million for licenses and software, of which EUR 33.2 million related to the

WiMax license and related charges incurred by the Aria Group. EUR 1.8 million for patent rights, of which EUR 1 million relating to the Aria Group.

The overall increase amounts to EUR 6.2 million, of which EUR 2.8 million is attributable to software licenses, EUR 0.6 million to patents and EUR 2,8 million to costs incurred for the purchase of multi-annual rights for the use of the fiber optic network (IRU - Indefeasible Right of Use).

The item *Broadband Service Activation Costs* amounts to EUR 30.8 million, of which EUR 28.3 million related to the subsidiary Tiscali Italia S.p.A. and EUR 2.5 million related to the Aria Group. The increase of EUR 23,6 million relates to the acquisition costs and customer activation for the ADSL service.

Other Intangible Fixed Assets amount to EUR 2.3 million related mainly to the subsidiary Tiscali Italia S.p.A. . Investment costs are mainly related to the LTE core network installation services.

Intangible Assets under development and Advances, amount to EUR 2.1 million.

Property, Plant and Machinery (note 14)

The following table shows the changes occurred in the 2016 financial year:

Tangible assets *(EUR 000)*	**Property**	**Plant and machinery**	**Other tangible assets**	**Tangible assets under construction**	**Total**
HISTORICAL COST					
1 January 2016	**64,260**	**338,302**	**6,191**	**2,412**	**411,165**
Increases	-	8,565	130	13,972	22,667
Reclassification IFRS 5	-	(219)	(0)	(405)	(624)
Other changes	-	(4,377)	-	(153)	(4,529)
Reclassifications	-	6,827	-	(8,002)	(1,176)
31 December 2016	**64,260**	**349,097**	**6,320**	**7,825**	**427,502**
ACCUMULATED DEPRECIATION					
1 January 2016	**19,332**	**272,225**	**4,824**	**-**	**296,381**
Increases in depreciation	1,842	13,127	170	-	15,139
Reclassification IFRS 5	-	(63)	-	-	(63)
Other changes	-	(1,373)	-	-	(1,373)
Reclassifications	-	-	-	-	-
31 December 2016	**21,174**	**283,915**	**4,994**	**-**	**310,083**
NET BOOK VALUE					
31 December 2015	**44,928**	**66,076**	**1,367**	**2,412**	**114,784**
31 December 2016	**43,086**	**65,182**	**1,326**	**7,825**	**117,419**

Tangible assets relate to the Tiscali Italia S.p.A subsidiary, as well as the Aria Group (included in the item "*Change in Scope of Consolidation*").

The item *Property*, amounting to EUR 43,1 million, mainly relates to the Cagliari office (Sa Illetta), which was subject to a Sale & Lease back financial transaction in 2007.

Plant and machinery (EUR 65,1 million) includes specific network equipment such as routers, DSLAM, servers, and transmission devices installed at the LLU sites.

This item includes EUR 30,9 million relating to the Aria Group and concerning the purchase of materials and accessories for the assembly and commissioning of the various sites with Hyperlan and WiMax technology, which were necessary to the WiMax network for the concentration and management of Internet traffic in terms of utilities and service profiles.

The overall increase in *Plant and machinery*, amounting to EUR 8.6 million, reflects (i) the investments made for the development of the network infrastructure and mostly concerning the purchase of servers, the purchase of transmission equipment) and the purchase of DSLAM installed within the context of network development which started being depreciated in 2016 .

The balance of *Other Tangible Assets* equal to EUR 1.3 million, includes furniture and furnishings, electronic and electromechanical office equipment as well as motor vehicles.

The balance of *Tangible Assets under construction and Advances* equal to EUR 7.8 million is mainly represented by investments in the network infrastructure. The overall increase for the year, equal to EUR 14.0 million, was partly reclassified in 2016 as *Plant and machinery* (EUR 8.0 million), and it concerns tangible assets relating to the development of the network infrastructure.

Other non-current financial assets (note 15)

Other non-current financial assets	**31 December 2016**	**31 December 2015**
(EUR 000)		
Guarantee deposits	4,321	7,586
Other receivables		2,036
Equity investments in other companies	3,859	1,874
Total	**8,180**	**11,496**

Guarantee deposits mainly relate to the guarantee for the CONSIP tender of EUR 3,8 million, and for guarantee deposits to third parties of EUR 0,4 million, both relating to Tiscali S.p.A. and Italia, and for deposits (EUR 0.1 million) relating to the Aria Group.

Equity investments in other companies mainly comprise the investment in Janna S.c.p.a., a consortium company involved in the management of underwater fibre optics cables located between Sardinia and the mainland, as well as between the island of Sardinia and the island of Sicily. Other financial receivables are due by the Janna S.c.p.a. consortium.

Deferred tax assets (note 16)

At 31 December 2016, there were no prepaid tax assets recorded in the financial statements.

At the reporting date, the Group had tax losses, which could be carried forward to subsequent years for a total of EUR 794,6 million and timing differences for EUR 91,9 million. The taxes losses refer to:

- the Parent company and the Italian subsidiaries for a total of EUR 404,3 million;
- Tiscali International BV and the Durch subsidiaries for a total of EUR 9,2 million;

- the German subsidiaries for a total of EUR 163,7 million;
- Tiscali UK Holdings for a total of EUR 217,4 million.

The tax losses have an indefinite maturity, with the exception of the losses relating to Tiscali International BV and the Dutch subsidiaries.

The Group does not record prepaid taxes, while the theoretical tax benefit at 31 December 2015 calculated on the basis of an estimated average rate of 28,1% would amount to EUR 246,1 million. The liquidation/merger of the foreign companies might reduce the aforementioned theoretical tax benefits. Despite the Group's business plan shows profits for the next five years, Tiscali S.p.A.'s Directors have not provided for prepaid taxes in the financial statements at 31 December 2016.

Inventories (note 17)

At 31 December 2016, inventories totalled EUR 0.4 million.

Trade receivables (note 18)

Trade receivables	**31 December 2016**	**31 December 2015**
(EUR 000)		
Trade receivables	73,994	67,709
Write-down provision	(35,698)	(32,393)
Total	**38,296**	**35,316**

At 31 December 2016, trade receivables totalling EUR 37,6 million, net of write-downs of EUR 35,7 million, were mainly generated by sales of Internet services, billing of Internet access services, inverse interconnection traffic, advertising revenues, as well as business customer and telephone services provided by the Group.

The analysis of the recoverability of receivables is carried out on a regular basis, adopting a specific policy for calculating the write-down provision by reference to experience and historical trends.

Since the Group's credit exposure is spread over a very large customer base, there is no particular credit concentration risk.

The following table illustrates the ageing (gross of the write-down provision) at 31 December 2016 and 31 December 2015, respectively:

(Thousands of Euro)	**2016**	**2015**
current	20,816	22,085
1 - 180 days	14,806	11,647
181 - 360 days	9,800	9,164
more than 360 days	28,572	24,813
Total Receivables	**73,994**	**67,709**
Bad debt allowance	(35,698)	(32,393)

Total Receivables net of bad debt allowance	38,296	35,316

The following table shows the aging of trade receivables net of the write-down provision at 31 December 2016:

(Thousands of Euro)	2016	2015
current	19,776	20,369
1 - 180 days	10,796	8,450
181 - 360 days	4,176	3,292
more than 360 days	3,549	3,204
Total	**38,296**	**35,316**

The following table illustrates the changes in the bad debt provision during the respective financial years:

(Thousands of Euro)	2016	2015
Bad debt allowance BoP	**(32.393)**	(23.419)
Exchange rate diferrences		
Changes in consolidation areas		(10.126)
Provision	(11.278)	(17.162)
Uses	7.974	18.314
Bad debt allowance EoP	**(35.698)**	**(32.393)**

The items increase/(decrease) in provision and utilizations include the write-down in the current year and the utilizations to write-off any receivables that are no longer recoverable.

Other Receivables and other Current Assets (note 19)

Other Receivables and other Current Assets	31 December 2016	31 December 2015
EUR 000		
Other receivables	12,058	5,151
Accrued income		2
Prepaid expenses	7,790	11,192
Total	**19,848**	**16,345**

Other Receivables amounting approximately to EUR 12 million, mainly include the following:

- receivables for the VAT reimbursement of the Aria Group, equal to EUR 0.2 million;
- other receivables of the Aria Group, in the amount of EUR 0.6 million, due by another telecommunications operator for a contract relating to the use of frequency;
- advances to suppliers of EUR 10.3 million;
- tax and other social security/insurance credits of EUR 0.4 million related to Tiscali S.p.A.;
- EUR 0.3 million mainly attributable to income grants of Tiscali S.p.A..

Prepaid expenses equal to EUR 7.8 million include costs already incurred pertaining to following years, mainly associated with multi-year line rental contracts, hardware and software maintenance costs, insurance and advertising costs.

Other non-current financial assets (note 20)

Other non-current financial assets	**31 December 2016**	**31 December 2015**
EUR 000		
Guarantee deposits	60	60
Other receivables	3	8
Total	**63**	**68**

Liquid funds (note 21)

At 31 December 2016, liquid assets amounted to EUR 1.3 million and include the Tiscali Group's cash, essentially held in bank current accounts. There are no restricted deposits. For more details, please refer to the Cash Flow Statement.

Shareholders' equity (note 22)

Shareholders' equity	31 December 2016	31 December 2015
EUR 000		
Share capital	91,201	169,077
Stock Options Reserve	1,402	559
HFS Reserve	2,626	
Accumulated losses and other reserves	(217,890)	(272,576)
Profit/(loss) for the year	(44,959)	(18,480)
Minority interest		
Total Shareholders' equity	**(167,620)**	**(121,421)**

Changes in the various shareholders' equity items are detailed in the relevant table.

At 31 December, 2016, the share capital amounted to EUR 91.2 million, corresponding to 3,145,281,893 ordinary shares without nominal value. It is worth noting that on 28 April 2016 the Shareholders' Meeting of Tiscali, held in Cagliari on single call, passed a resolution pursuant to art. 2446 of the Civil Code with ensuing amendment of article 5 of the By-laws to fully make up the losses carried forward at 31 dicembre 2015 of EUR 77,875,899.78 by through a share capital reduction of the same amount from EUR 169,076,822.67 to EUR 91,200,922.90.

Minority interests (note 23)

At 31 December 2016 the balance of Minority interests is nil.

Current and non-current financial liabilities (note 24)

Net financial position

The Group's net financial position is shown in the following table:

Financial situation	**31 December 2016**	**31 December 2015**
(EUR 000)		
A. Cash and bank deposits	1,346	4,770
B. Cash equivalents		
C. Securities held for trading		
D. Cash and cash equivalents (A) + (B) + (C)	***1,346***	***4,770***
E. Current financial receivables	***3***	***8***
F. Non-current financial receivables		
G. Current bank payables	14,683	11,593
H. Current portion of bonds issued	375	
I. Current part of long-term loans	13,454	16,895
J. Other current financial payables	9,470	3,612
K. Current financial indebtedness (G) + (H) + (I)	***37,982***	***32,100***
L. Net current financial indebtedness *(K)-(D)-(E)-(F)*	**36,633**	**27,322**
M. Non-current bank loans	80,601	94,546
N. Bonds issued	18,429	
O. Other non-current financial payables	55,339	51,279
P. Non-current financial indebtedness *(M)+(N)+(O)*	**154,369**	**145,826**
Q. Net financial indebtedness *(L)+(P)*	**191,001**	**173,148**

The table above has been drawn up in the light of Consob Communication no. DEM/6064293 dated 28 July 2006.

The table below shows the reconciliation between the net financial position drawn up on the basis of the Consob communication and the net financial position as show in the Report on operations.

	31 December 2016	**31 December 2015**
(EUR mln)		
Consolidated net financial indebtedness	**186.7**	**165.6**
Other cash equivalents and non-current financial receivables	4.3	7.6
Consolidated net financial indebtedness prepared on the basis of Consob communication no. DEM/6064293 dated 28	**191.0**	**173.1**

July 2006

The gross financial debt (current and non-current), amounting to EUR 192,3million, is mainly made up of items shown in the following table:

Breakdown of current and non durrent debt

Breakdown of current and non current debt	**31 December 2016**	**Current portion**	**Non-current portion**
(EUR 000)			
Senior debt (GFA)	87,301	9,665	77,636
Bonds issued	18,804	375	18,429
Bank payables	21,437	18,472	2,964
Total Senior debts and other bank payables	**127,541**	**28,512**	**99,029**
Payables to leasing companies			
Sale & Lease back Sa Illetta	51,766	*4,002*	*47,765*
Other finance leases	12,812	*5,237*	*7,575*
Total payables to leasing companies	**64,578**	**9,239**	**55,339**
Other financial payables	**231**	**231**	**0**
Total indebtedness	**192,351**	**37,982**	**154,369**

The main items shown in the above table are as follows:

- senior debt pursuant to the Restructuring Agreement signed on 29 June 2016 with Intesa San Paolo and BPM for EUR 87.3 million. The new loan of EUR 88 milion enabled the company to repay the senior debt deriving from the Group Facility Agreement (GFA) in full, as restructured under the restructuring Agreements signed on 23 December 2014, and expiring in September 2017;
- payables associated with the convertible debenture loan and converting for EUR 18.8 million (par value of EUR 17 million and fair value of related put option for 1.8 million) subscribed by Rigensis Bank and Otkritie Capital International Ltd, on 7 September 2016;
- other bank payables totalling EUR 21.4 million;
- payables for finance leases, totalling EUR 64.6 million, mainly represented by the Sale and Lease Back agreement signed by reference to the Cagliari office (Sa Illetta) of the Company for EUR 51.8 million.

Senior debt (GFA)

On 29 June 2016 the Tiscali Group signed and Restructuring Agreement with Intesa San Paolo and BPM for the Group's medium and long-term senior debt.

The new loan of EUR 88 million, of which EUR 53 million due to Intesa san paolo and EUR 35 million to Banca Popolare di Milano, allows to fully repay the current senior debt deriving from the Group facility Agreement (GFA) and held by Banca Intesa and some Hedge Funds, restructured in 2014 and expiring in September 2017.

The main characteristics of the new loan are:

- six-year duration with maturity on 31 March 2022;
- repayment plan as follows:
    - repayment of just over half of the loan in 11 six-monthly instalments of EUR 4.3 million starting from March 2017;
    - lump-sum payment of the balance of approximately EUR 40 million in March 2022.
    - total cost of the loan 3-month Euribor+4.5 bps.

The following table summarizes the main elements of the loan.

Loan	Amount	Maturity	Financial institutions	Borrower	Guarantors
First Facility	EUR 35 mln	March 2022	Banca Popolare di Milano S.c.a.r.l.	Tiscali Italia S.p.A.	Tiscali S.p.A., Tiscali International BV Tiscali Financial Services SA Veesible S.r.l. Tiscali UK Holdings Limited

Loan	Amount	Maturity	Financial institutions	Borrower	Guarantors
Second Facility	EUR 52.9 mln	March 2022	Intesa Sanpaolo S.p.A.	Tiscali Italia S.p.A.	Tiscali S.p.A., Tiscali International BV Tiscali Financial Services SA Veesible S.r.l. Tiscali UK Holdings Limited

Covenants

The new loan requires the Company to comply with certain financial requisites (so-called “Financial covenants”) on the consolidated basis of the Tiscali Group, defined at the time the contract was signed.

The covenants in question are the following: (i) net indebtedness/EBITDA; (ii) Debt service Cover Ratio ; (iii) investment thresholds (CAPEX). Additional convenats were also defined with regard to non financial data (no. of registered/active users, ARPU blended, no. of LTE arials installed/in course of installation)

The verification of the aforesaid covenants takes place on a six-monthly basis, each year on 30 June and 31 December, the first verification planned for 31 December 2016.

Aforesaid covenants has been respected on 31 December 2016.

Events of default

The new loan provides for a number of “events of default” upon the occurrence of specific events, such as: (i) failure to fulfil payment obligations; (ii) failure to fulfil the commitments contractually agreed upon; (iii) failure to comply with the financial covenants; (iv) false statements; (v) failure to execute or violation of guarantee documents; (vi) significant cross-default events; (vii) significant “warnings” or “qualifications” by the auditing company; (viii) insolvency, liquidation and winding up of significant group companies; (ix) initiation of insolvency proceedings; (x) initiation of payment enforcing procedures against the Group; (xi) loss of significant disputes (xii) terminationof significant activities of Group companies; (xiii) occurrence of an avent that has a negative effect on the Group’s business.

Rigensis Loan

On 29 July 2016, Rigensis Bank and OCIL completed a Subscription Agreement the terms of which provided for a commitment by Rigensis Bank and OCIL to subscribe Bonds, by 30 September 2016, for EUR 8,500,000.00 and EUR 8,500,000.00 respectively.

The plan for the Bond Issue was approved by resolution of the Board of Directors dated 29 July 2016.

On 5 September 2016 the Shareholders’ Meeting resolved upon the Share Capital increase, irrevocable until the deadline for the possible application for the conversion of the Bonds and limited to the amount of the shares resulting from the exercise of the conversion request.
A total of EUR 17,000,000.00 Bonds were subscribed on 7 September 2016. The remaining EUR 15,000,000.00 were not subscribed and the subscription period expired on 31 January 2017.

The Loan has the following characteristics:

- Total maximum amount: EUR 18,500,000.00
- Currency: EUROUnit value: EUR 500,000.00Type of Bonds: Registered and non-guaranteed “Unsecured convertible notes” Maturity date: 30 September 2020Conversion and related price:
  - with effect from 31 March 2017, each bondholder will be entitled, at any time, to request in writing for the conversion of all its Bonds or part thereof into ordinary shares of the Company to be issued to cover the share capital increase, for a minimum amount EUR 500,000.00 at each request;
  - or where the Bonds were not fully repaid in cash on the Maturity Date, the balance will be automatically converted into ordinary shares of the Company to be issued to cover the share capital increase.

In all cases above, the conversion of the Bonds will take place at the price of EUR 0.06 per Tiscali share, subject to adjustments in line with market practices.

- Characteristics of the newly issued shares: The shares to be offered upon conversion of the Bonds will have a regular dividend thus give their holders the same rights as Tiscali ordinary shares in circulation on the issue date.Redemption: in cash on the Maturity date, together with any accrued interest, except for the cases of conversion and early redemption.
- Early redemption:
    - as of September 30, 2017, the Issuer has the right to repay the Bonds fully or in part, together with interest accrued to the date of repayment, but without additional charges or penalties. Each voluntary early repayment will take place by written communication sent to all bondholders with at least a three-month notice and can be made for a minimum amount of EUR 1,000,000.00 and the related amount will be paid to all the bondholders pro-quota and pari passu;the Common Representative, upon instructions conferred by many bondholders holding at least 66.6% of the amount of the Loan, will have the right to request in writing and with a notice of at least 30 working days that the Bond Issuer repays the Bonds in advance, together with any accrued interest – or that the conversion into shares takes place – in the case where: (i) failure to pay the sums due to the bondholders on each maturity date and the failure is not remedied within 5 business days; (ii) acceleration of any financial debt due by companies of the Tiscali Group for total amount exceeding EUR 10 million; (iii) Tiscali becomes part of a composition with creditors; (iv) the Issuer ceases its activity or a substantial part thereof; (v) any license or permit of the Issuer is revoked and such a revocation significantly jeopardizes the possibility for the Tiscali Group to continue its business as currently carried out.Common Representative: bondholders will appoint a common

  representative, who can exercise any action against the Issuer only subject to authorization received by the bondholders passed with the favorable vote of bondholders holding at least 66.6% of the Loan.
- Issue price: 100% of the nominal value of the Bonds, for a total amount ranging from EUR 17,000,000.00 and EUR 18,500,000.00, subdivided in max. no. 37 securities of EUR 500,000.00 nominal value each. Interest rate, coupon and coupon accruing period: the Bonds will mature a gross annual fixed rate of 7%, payable in cash semi-annually on the last day of each interest period, the first interest period expiring on 31 March 2017. The coupon accruing period of the Bonds will start from the first day of the quarter following the respective subscription date.
- Late payment interest: failure to pay any sum as capital reimbursement, late-payment interest of 2% p.a. will accrue in addition to the interest specified above.
- Commissions: under the terms of the Subscription Agreement, Tiscali will pay Rigensis and ODEF (or other subjects designated by them, if any), on a pro-quota basis, a commission equal to 1.5% of the amount of the Bonds subscribed by them.

As required by IFRS, the conversion option exercisable by Tiscali ("Put Option") was separately accounted for in the consolidated financial statements, since it is an equity instrument; in particular, this option was recognized at its fair value determined by reference to 7 September 2017.

The fair value of the Put Option, estimated at EUR 1.795 million, was recognized as a major financial liability (increasing the amount of the Rigensis Loan, because the instrument was not settled in cash) and lower equity reserve in accordance with IAS 32. The fair value of this option was therefore, treated as a disbursement by Rigensis Bank AS, added to the value of the actual loan granted (i.e. EUR17 million) and thus considered in the amortized cost accounting for this loan.

The Rigensis Loan is not subject to financial covenants.

Other loans

Below is the main information on the loans outstanding at 31 December 2016 for the Aria Group, excluding the loan signed with Rigensis Bank described earlier on:

i) loan of initial EUR 3 million with Banca Intesa San Paolo (former Cassa di Risparmio dell'Umbria), signed in April 2009, maturing in October 2020 (new maturity date renegotiated in 2016), with a residual value at the end of the year 2016 amounting to EUR 2.4 million, plus interest. This loan is not subject to financial covenants.

i) loan of initial EUR 1 million with Banca Intesa San Paolo (former Cassa di Risparmio dell'Umbria), signed in May 2010, maturing in October 2020 (new maturity date renegotiated in 2016), with a residual value at the end of the year 2016 amounting to EUR 0.7 million, plus interest. This loan is not subject to financial covenants.

iii) loan of initial EUR 0.8 milioni with Gepafin, a finance company owned by the Umbria Region, signed in June 2009, maturing in December 2017 and with a residual value at the end of the year 2016 amounting to EUR 0.2 million. This loan is not subject to financial covenants.

iv) loan of initial original EUR 0.8 million with Banca Nazionale del Lavoro, which was signed in November 2009, maturing in October 2017, with a residual value at the end of the year 2016 of EUR 0.1 million. This loan is subject to the following financial covenants:

- Shareholders' equity: not less than EUR 25 million for entire duration of the loan;
- net debt/net equity ratio not exceeding 5 for the duration of the loan;

Failure to comply with these covenants, with reference to annual indicators, entails the right of the lending bank to consider the loan agreement as terminated. At 31 December 2016, the first of the two covenants specified above does not appear to be complied with. Considering the small residual amount of the loan and the close maturity date (October 2017), the financial impact deriving from the potential request for early repayment compared to the original maturity date is deemed to be irrelevant.

Compared to the loans in place at 31 December 2015, please note that in 2016 Aria repaid the original loan of EUR 2 million with the Bank of China, signed in December 2012, and maturing in December 2016.

Besides the aforesaid loans, also note that on 15 July 2015 Aria and the subsidiary Media PA subscribed a restructuring agreement with Unicredit S.p.A. relating to the debt with that financial institution, overdue by then, amounting to approximately EUR 5.8 million. Under the terms of that agreement, Unicredit S.p.A. recognised the Aria Group the following: (a) cancellation from the aforesaid exposure a total of approximately EUR 1.5 million (equal to 26% of the total exposure); (b) a 48-month repayment plan starting from August 2015, no interest charged. The balance at the end of 2016 was EUR 1.6 million for Aria and EUR 1.6 million for Media PA.

Payables for finance leases

The Group's financial leases refer to agreements signed by the subsidiary Tiscali Italia S.p.A. and the Aria Group, and concern:

- the Sales & Leaseback finance lease on the Sa Illetta property, the Company's main office, the balance of which at the reporting date was EUR 51,8 million;
- other finance leases totalling EUR 15.5 million.

As regards other lease contracts, the considerable increase in payables to leasing companies compared to 2015 is mostly attributable to the signing of new contracts relating to the financing of investments in the network infrastructure.

Assets held under finance lease contracts, in line with applicable international accounting principles, are recorded a fixed assets, as shown in the table below:

(Thousand of Euro)	Minimum payments due		Present value of minimum payments due	
	2016	**2015**	**2016**	**2015**
below 1 year	10,681	4,261	8,001	3,470
1-5 years	57,419	40,840	53,897	38,308
abpve 5 years	0	12,987	0	12,972
Total	**68,100**	**58,088**	**64,546**	**54,750**
Minus future financial costs	**3,522**	**3,338**	**0**	**0**
Present value of mininum payments due	**64,578**	**54,750**	**64,546**	**54,750**
Included in Asset and Liabilities				
Debt for financial current			9,239	3,470
Debt for financial non current			55,339	51,279
	0	**0**	**64,578**	**54,750**

Assets held under finance lease contracts, in line with applicable international accounting principles, are recorded a fixed assets, as shown in the table below:

Leases included in Tangible assets *EUR 000*	**Property**	**Plant and machinery**	**Other assets**	**Total**
<u>NET BOOK VALUE</u>				
31 December 2015	44,976	29,066		**74,042**
31 December 2016	43,086	32,236		**75,322**

For the sake of completeness of information here below are also the payments envisaged by operating lease contracts.

(Thousand of Euro)	**2016**	**2015**
Minimum payments due	14,705	15,882
Payments from subleasing	0	
Total	**14,705**	**3,019**

Total commitments relating to payments due for operating lease transactions, which cannot be cancelled, are shown in the following table.

(Thousand of Euro)	2016	2015
below 1 year	1,330	1,393
1-5 years	3,016	4,346
abpve 5 years	0	
Total	**4,346**	**1,436**

Other non-current liabilities (note 25)

Other non-current liabilities	**31 December 2016**	**31 December 2015**
(EUR 000)		
Trade payables	3,998	97
Other payables	1,481	1,871
Total	**5,479**	**1,968**

The balance Other payables of EUR 1.5 million, basically includes:

- EUR 0.3 million for tax payables relating to the Aria Group;
- EUR 0.4 million for guarantee deposits to clients of Tiscali Italia S.p.A.;
- EUR 0.8 million due to Janna S.c.p.a. (which is involved in the management of an underwater fibre optics cable between Sardinia and the mainland and between Sardinia and Sicily), in an area under Tiscali Italia S.p.A's purview.**Liabilities for pension obligations and staff severance indemnities (note 26)**

The table below shows the changes during the period:

(EUR 000)	**31 Dec. 2015**	**Accruals**	**Variation in consolidation area**	**Utilization**	**Payments to Funds (*)**	**Actuarial Loss/(Gain)**	**31 Dec. 2016**
Severance indemnities	6,295	2,523	(295)	(635)	(2,251)	308	5,945
Total	**6,295**	**2,523**	**(295)**	**(635)**	**(2,251)**	**308**	**5,945**

(*) These are payments made to the treasury funds and other supplementary pension funds

The staff severance provision, which comprises indemnities accrued in favour of employees refers to the Parent company, as well as subsidiaries operating in Italy, and it amounts to EUR 5,9 million at 31 December 2016.

In accordance with Italian Law no. 297/1982, the amount due to each employee accrues depending on the service provided, and has to be immediately disbursed when the employee leaves the company. Upon termination of the employment contract, the amount due is calculated based on the duration of the contract and the taxable remuneration of each employee. The liability is annually adjusted by reference to the official cost of living index and the interest established by law, it is not associated with any condition or period of accrual, or any financial funding obligation; therefore, there are no assets serving the provision. In compliance with IAS 19, the provision was recorded as a "Defined-benefit plan".

According to the new rules introduced by Italian Law Decree no. 252/2005, and by Italian Law no. 296/2006 (Finance Act 2007), for companies with at least 50 employees, the staff severance indemnities accrued from 2007 are assigned either to the Social Security Institute (INPS) Treasury Fund (from 1 January) or to supplementary pension funds (from the month of optioning out), and become "Defined-contribution plans". However, the revaluations of the provision existing at 31 December 2006 (carried out on the basis of the official cost of living index and the legal interest) and the quotas accrued with companies with less than 50 employees remain as staff severance indemnities.

Further to IAS 19, for estimating staff severance indemnities, the following methods were used: the Traditional Unit Credit Method for companies with at least 50 employees, and the Projected Unit Credit Cost – service pro rate for the other companies, in accordance with the following stages:

- on the basis of a series of financial hypotheses (increase in living cost, remuneration, etc.), the possible future benefits which might be disbursed in favour of each employee registered in the programme in the case of retirement, death, disability, resignation, etc. were projected The estimate of the future performances takes account of any foreseeable increases corresponding to a further length of service, and to the alleged growth in the remuneration received at the date of the estimate, only for employees of companies with less than 50 employees;the average present value of future performances was calculated at the date of estimate, on the basis of the adopted annual interest rate, and of the probability of each performance to be really disbursed;
- the liability was established for each company concerned, to an extent equal to the average present value of the future benefits which will be generated by the provision existing as of the valuation date, without considering any future provision (for companies with at least 50 employees) or identifying the portion of the average present value of the future benefits which refer to the service already accrued by the employee as of the value date (for the other companies).

Financial assumptions

Inflation rate:	1.75%
Discount rate:	2%

Demographic assumptions:

Mortality:	Mortality tables SIM 2013 M/F – ISTAT 2012 M/F (for the Aria Group)
Disability:	INPS 1998 M/F disability tables
Resignations:	3.50% from 20 to 65 years
Advance payments:	3% from *20* to 65 years
Retirement pension:	66 years and 3 months for men and 63 years and 9 months for women
Length-of-service pension:	42 years and 6 months of service for men and 41 years and 6 months of service for women

As of 1 January, 2013, with retrospective effect, the Company adopted the new version of IAS 19 "employee benefits". The most significant amendment made to the standard concerned the obligation to state all the actuarial gains/losses within the sphere of the OCIs, with consequent elimination of the so-called corridor approach.

Provisions for risks and charges (note 27)

Provision for risks and charges	31 December 2015	Increases in provision	Utilisations	31 December 2016
(EUR 000)				
	10,165	2,2280	(2,453)	9,992
Total	**10,165**	**2,280**	**(2,453)**	**9,992**

At 31 December 2016 the provision for risks and charges amounted to EUR 8 million and mainly includes:

- EUR 0.4 million for disputes with employees;
- EUR 5.4 million for technological risks related to the Aria Group. This provision is justified by the expected disposal of equipment, infrastructures and radio transmission systems for the migration of the current WiMax technology of Aria's network to LTE technology;
- EUR 0.2 million relating to the restructuring of the Aria Group;
- EUR 1.9 million for other provisions of which EUR 1.2 million related to the Aria Group, EUR 0.4 million related to the Parent company Tiscali Spa and EUR 0.2 million to the subsidiary Tiscali italia S.p.a.;
- Provision for penalties on tax overdue related to previous years of Italian companies for EUR 2.0 million.

Provision for deferred taxes (note 28)

Provision for deferred taxes	31 December 2015	Increases in provision	Utilisations	31 December 2016
(EUR 000)				
	628		(90)	538
Total	**628**		**(90)**	**538**

At 31 Decembe, 2016, the provision for deferred taxes amounted to EUR 0.5 million and refers to the tax effect of gains arising on the allocation of the consideration paid for the acquisition of the Aria Group.

Current financial liabilities (note 29)

Current financial liabilities	31 December 2016	31 December 2015
(EUR 000)		
Convertible bond	375	-
Payables to banks	28,137	28,488
Payables for finance leases (short term)	9,239	3,470
Total	**37,751**	**31,958**

Payables to banks and other lenders

The balance Payables to banks of approximately EUR 28.1 million, mainly includes bank debts owed by the Italian subsidiary Tiscali Italia S.p.A. (EUR 23.3 million), of which EUR 9.6 million relating to the short-term portion of the Senior loan (for more details see note 24), Veesible S.r.l. (EUR 1 million) and EUR 3.8 million related to the Aria Group.

Payables for finance leases

Payables for finance leases, amounting to EUR 9.2 million, refer to the short-term portion of payables to leasing companies for finance lease agreements relating to Tiscali Italia S.p.A. For further details, see note 24.

Trade payables (note 30)

Trade payables	31 December 2016	31 December 2015
(EUR 000)		
Trade payables	163,947	131,743
Total	**163,947**	**131,743**

Trade payables refer to amounts due for the supply of telephone traffic, data traffic, supply of commercial materials, technology and services.

Other current liabilities (note 31)

Other current liabilities	31 December 2016	31 December 2015
(EUR 000)		
Accrued expenses	3,234	4,077
Deferred income	34,733	40,059
Other payables	38,533	39,160

Total	**76,500**	**83,296**

Accrued expenses mainly relate to personnel costs.

Deferred income of EUR 34.8 million mainly relate to:

- the capital gain on the disposal relating to the Sale & Leaseback transaction on the Sa Illetta property, amounting to approximately EUR 10.7 million, which is issued on a pro-rata basis corresponding to the term of the lease agreement;
- the deferral of the revenues deriving from the sale of transmission capacity (IRU) pertaining to future financial years, for approximately EUR 5.5 million;
- the deferral of the revenues for the activation of the ADSL and VoIP services relating to other accounting periods for approximately EUR 16.2 million;
- the deferral of revenues accruing in future years, pertaining to the Aria Group, for EUR 2.2 million;

The item Other payables of EUR 40.5 million, mainly includes:

- the balance of VAT payable for EUR 7.4 million;
- Tax payables and amounts due to social security institutions for approximately EUR 15.1 million of which EUR 1 million relating to the Aria Group;
- Tax debts for penalties and interests on overdue for EUR 2.0 million
- amounts due to personnel for EUR 2.3 million ;
- other payables relating to the Aria Group for EUR 5 million;
- payables relating to ministerial grants concerning the Italian subsidiary Tiscali Italia S.p.A. amounting to EUR 3.3 million;
- payables for AGCOM sanctions and IMU fine for EUR 3.4 million;
- amounts due for IRAP and other taxes with regard to Italian subsidiaries, in the amount of EUR 0.8 million;
- other payables totalling EUR 1 million;

Financial instruments

Financial risk management objectives

The Group’s Corporate Treasury division provides business services, coordinates access to the financial markets, monitors and handles the financial risk associated with the operations of the Group by means of internal risk reports which analyze exposures by risk degree and magnitude. These risks include market risks (inclusive of currency risks, fair value interest rate risks, and price risks), credit risks, and risks in cash flow interest rates.

Risk management linked with interest rate

In relation to the outstanding debt, mainly at a fixed rate, the Company does not feel the risk related to fluctuating rates is significant, therefore it has not entered into any risk hedging transactions.

Liquidity risk handling

The following table considers the maturity of financial investments for the next five years, with particular reference to amounts to be paid in fiscal year 2016.

Cash flows shown in the table refer to the nominal amounts due on outstanding loans:

[Table to be inserted]

Fair value

The following tables show the valuations respectively at 31 December, 2016, and at 31 December, 2015, of financial instruments existing as of the balance sheet date:

[Table to be inserted]

The fair value of the financial instruments as indicated above was calculated using the discounted cash flow method, taking as reference the market interest rates, in addition to contractual spreads (where applicable).

Stock Options

On 16 February, 2016, the Ordinary and Extraordinary Shareholders' Meeting of Tiscali S.p.A., held in Cagliari in a single call, approved the 2015-2019 Stock Option Plan intended for Renato Soru as Chairman of the Board of Directors, and the concerned proposal of granting an authorization to the Board for the capital increase of the above-mentioned Plan. The mandate concerns the issuance of 251,622,551 ordinary shares maximum, to the maximum service of 251,622,551 options to be reserved to President Renato Soru, as the beneficiary of the 2015-2019 Stock Option Plan. As reported in the "Information Document on the 2015-2019 Tiscali S.p.A. Stock Option Plan", options granted will be exercisable in three tranches:

- The first, consisting of 157,264,095 Options, for the subscription of an equal number of Tiscali ordinary shares, and to be exercised between 24 December, 2016, and 24 December, 2018, at an exercise price of EUR 0.060 per share;

- The second, consisting of 47,179,228 Options, for the subscription of an equal number of Tiscali ordinary shares, and to be exercised between 24 December, 2017, and 24 December, 2018, at an exercise price of EUR 0.069 per share;

- The third, consisting of 47,179,228 Options, for the subscription of an equal number of Tiscali ordinary shares, and to be exercised between 24 December, 2018, and 24 June, 2019, at an exercise price of EUR 0.078 per share.

Successively, on May 12, 2016, the Board of Directors of Tiscali S.p.A. approved the 2016-2021 Stock Option Plan regarding ordinary shares of Tiscali S.p.A. reserved to the CEO and the Management of the Group, and the following proposal of Capital Increase, also in separate issues, through the issuance of 314,528,189 ordinary shares maximum with no nominal value, to the service of maximum 314,528,189 options valid for the subscription of ordinary shares of the Company to be reserved to the CEO and the Management of the Group as beneficiaries of the 2016-2021 Stock Option Plan, with the exclusion of option right in compliance with the Article 2441, Paragraph 5 and 6 of the Civil Code. The ensuing amendment of the Article 5 of the Articles of Associations, related and consequential resolutions, delegation of powers.

Disputes, contingent liabilities and commitments

During the normal course of its business, the Tiscali Group is involved in certain legal and arbitration proceedings, and is as well subject to tax audit proceedings.

The summary of the main proceedings in which the Group is involved follows.

Civil and administrative proceedings

TeleTu Litigation

On June 2011, Tiscali Italia sued TeleTu S.p.A., at the Court of Milan, demanding damages of approximately EUR 10 million caused by unlawful conduct by the defendant in user migration during the period from January 2009 to April 2011. The defendant filed a counterclaim for alleged similar acts performed by Tiscali Italia, in turn demanding damages of more than EUR 9 million. The outcome of the case is not predictable.

Consip Proceeding

In April 2016, the TAR of Lazio, rejected the appeal submitted by Telecom Italia and Fastweb against the adjudication provision of the SPC Consip tender to Tiscali Italia.

The unsuccessful parties submitted a new appeal against the verdict of the TAR of Lazio at the Council of State, which fixed a hearing in a single hearing to be held on January 19, 2017.

On March 24, 2017, the Council of State issued a reject sentence against the appeal submitted by Telecom Italia against the adjudication – in favour of Tiscali – of the framework agreement for network and connectivity services (SPC) to the public administration.

Vodafone Litigation

In February 2017 it has been notified to Tiscali Italia of Vodafone which appealed at TAR Lazio (Regional Administrative Court) to cancel, after the suspension, the “nulla osta” released in January 2017 by CONSIP for the replacement of Fastweb in place of Tiscali in the SPC contract. The parties have filed their defensive memories, awaiting the hearing to discuss about the suspending hearing. The outcome of the appeal can not be predicted.

Proceedings of criminal nature

In the month of September 2013, Tiscali S.p.A. received by the Public Prosecutor’s Office of Cagliari, in compliance with the Legislative Decree 231/2001, a notice of conclusion of preliminary investigations into alleged conduct of false corporate communications related to the financial statements from 2008 to 2012. The subsidiary company Tiscali Italia received the same notice in January 2014. The offense attributed to the company and some of its managers, provided for by Art. 2622 of the Civil Code, refers to alleged incorrect accounting entries in respect of allowances for doubtful debts. In June 2016, on the conclusion of the preliminary hearing, committed for trial the two companies, in addition to the accused managers. The Companies are setting up the necessary measures of defence for the court phase which started on October 2016.

Segment reporting

Segment reporting is presented on the basis of the following segments:

- Access (BTC and BTB connectivity);
- Media & Advertising;
- Corporate.

Income Statement

31 December 2016 (Thousands of EUR)	Access (BTC connectivity and BTB)	Media & Advertising	Corporate	Other	Cancellation adjustments	Total
Revenue						
From third parties	182,259	14,613	69	-	-	**196,942**
Intra-group	10,793	2,691	5,343	-	(18,827)	-
Total revenues	**193,053**	**17,304**	**5,413**	**-**	**(18,827)**	**196,942**
Operating profit	**(29,014)**	**(888)**	**(7,821)**	**(74)**	**9,364**	**(28,434)**
Portion of results of equity inv. carried at equity						**-**
Net Income (expenses)						(9,418)
Pre-tax result						(37,852)
Income taxes						(69)
Net result from operating activities (on-going)						(37,921)
Income from discontinued operations and / or targeted for disposal						(7,037)
Net operating income						**(44,959)**

Income statement 2015

31 December 2015 (Thousands of EUR)	Access (BTC connectivity and BTB)	Media & Advertising	Corporate	Other	Cancellation adjustments	Total
Revenue						
From third parties	172,642	19,859	115	-	-	**192,616**
Intra-group	5,880	2,456	3,716	-	(12,052)	-
Total revenues	**178,523**	**22,315**	**3,831**	**-**	**(12,052)**	**192,616**
Operating profit	**25,273**	**319**	**(43,820)**	**(31)**	**16,153**	**(2,107)**
Portion of results of equity inv. carried at equity						**-**
Net Income (expenses)						(16,495)
Pre-tax result						(18,602)
Income taxes						(117)
Net result from operating activities (on-going)						(18,719)
Income from discontinued operations and / or targeted for disposal						239
Net operating income						**(18,480)**

Balance Sheet

31 December 2016 (Thousands of EUR)	Access (BTC connectivity and BTB)	Media & Advertising	Corporate	Other	Cancellation adjustments	Total
Assets						
Segment assets	270,055	10,717	887	8	(1,255)	280,413
Equity investments carried at equity	-		-	-		-
Equity investments in other companies	3,859	-	-	-		3,859
Goodwill	**-**		-	-		
HFS activities	6,237					6,237
Total consolidated assets	**280,152**	**10,717**	**887**	**8**		**291,764**
Liabilities						
Segment liabilities	397,649	17,143	617,027	1,622	(578,920)	454,520
HFS Liabilities	3,610					3,610
Total consolidated liabilities	**401,259**	**17,143**	**617,027**	**1,622**	**(577,670)**	**459,380**

31 December 2015 (Thousands of EUR)	Access (BTC connectivity and BTB)	Media & Advertising	Corporate	Other	Cancellation adjustments	Total
Assets						
Segment assets	260,332	14,045	14,141	67		288,585
Equity investments carried at equity	-		-	-		-
Equity investments in other companies	1,874	-	-	-		1,874
Goodwill	**-**		-	-	()	()
Total consolidated assets	**262,206**	**14,045**	**14,141**	**67**		**290,458**
Liabilities						
Segment liabilities	299,697	15,854	678,558	1,641	(583,871)	411,879
Total consolidated liabilities	**299,697**	**15,854**	**678,558**	**1,641**	**(583,871)**	**411,879**

Commitments and other guarantees

A breakdown of guarantees given in 2016 is shown in the table below.

(Euro 000)	31 December 2016	31 December 2015
Guarantees given to third parties (sureties)	141,866	150,822
Commitments	-	3,415
Totale	**141,866**	**154,237**

Sureties given mainly refer to the guarantee given for the loans granted by financial institutions to the Tiscali Group.

The same item includes the surety issued by Tiscali S.p.A. to guarantee the amount of the loan related with the Sale & Lease Back transaction concerning the Sa Illetta property, for an amount of EUR 51.7 million, carried out by the subsidiary Tiscali Italia S.p.A., and the amount of EUR 2.2 million relating to other guarantees. Other guarantees mainly include:

- EUR 1.8 million for guarantees issued by Tiscali Italia S.p.A., mainly represented by EUR 0.8 million in favour of the Janna Consortium to guarantee commitments undertaken when subscribing the share capital increase and EUR 0.7 million in favour of the Autonomous Region of Sardinia;
- EUR 0.4 million in guarantees provided by the Aria Group mostly in favour of Telecom Italia S.p.A.

Although it is not relevant at consolidated level, it should be noted that the parent company has provided guarantees for credit lines and leasing to the subsidiary Tiscali Italia SpA for EUR 35.9 and EUR 36.8 million respectively, in the years 2016 and 2015. In addition, in both years 2015 and 2014, the parent company has commitments of EUR 1.6 million related to the maintenance of credit lines granted to the subsidiary Tiscali Italia SpA.

Non-recurring transactions

Under the provisions of the Consob Resolution no. 15519 dated 27 July 2006, it is reported that in FY 20165, non-recurring transactions were recorded with a total negative effect on the Group's income statement equal to EUR 2.3 million, which mainly includes the negative impact of assets write down related to held for sale activities, partially compensated by write-offs of trade positions.

The following table shows the exposure in the consolidated income statement of the amounts related to non-recurring transactions:

Non-recurring transactions	2016	2015
Revenue	0.0	0.0
Other income	2.2	13.0
Purchase of external materials and services	4.3	-1.7
Personnel costs	0.9	0.0
Other operating expense (income)	0.0	5.2
Adjusted Gross Operating Result (EBITDA)	**7.5**	**16.5**
Write-downs accounts receivable from customers	0.0	-5.1
Gross Operating Result (EBITDA)	**7.5**	**11.4**
Restructuring costs, provisions for risks and write-downs	-5.7	-4.1
Operating profit (EBIT)	**1.8**	**7.3**
Net financial income (charges)	4.3	-0.4
Pre-tax profit	**6.1**	**6.9**
Income taxes	0.0	0.0
Net result from operating activities (ongoing)	**6.1**	**6.9**
Income from discontinued operations and / or targeted for disposal	(8.3)	0.0
Net result for the period	**-2.2**	**6.9**

Atypical and/or unusual transactions

Pursuant to Consob Communication dated 28 July 2006, it is hereby specified that during 2016 the Company did not enter into any atypical and/or unusual transactions, as defined by the above mentioned Communication.

Related-party transactions

Dealings with non-consolidated Group companies

The Group has no significant dealings with non consolidated Group companies.

Dealings with other related parties

During the year, the Tiscali Group had a number of dealings with related parties, under conditions considered normal on the respective reference markets, taking into account the characteristics of the goods and services provided.

The table below summarises the balance sheet and income statement values recorded in the Tiscali Group's consolidated financial statements at 31 December 2016 as arising from transactions with related parties.

The most significant balances, as of 31 December 2016, summarized by service supplier, follows:

Income Statement Values	**Notes**	**2016**	**2015**
(Euro 000)			
Studio Racugno	1	(9)	(72)
Monteverdi S.r.l.	2	(33)	(36)
Aria S.p.A.	3		420
Convertible Bond	4	(132)	
Board of Statutory Auditors and Directors		(5.252)	(311)
Total Suppliers of Materials and Services		**(5.426)**	**2**
Total		**(5.426)**	**2**

Asset Values	**Note**	**2016**	**2015**
(Euro 000)			
Studio Racugno	1	(32)	(59)
Monteverdi S.r.l.	2	(9)	-
Board of Statutory Auditors and Directors		(1.102)	(333)
Convertible Bond	4	(9,402)	
Stock Option Reserve		(1.402)	
Total		**(11,947)**	**(392)**

(1) Studio Racugno: the director Gabriele Racugno, member of Tiscali SpA's Board of Directors since 21 December 2009, offers to Tiscali Italia S.p.A. legal assistance, in court proceedings and in extrajudicial settings.

(2) Monteverdi S.r.l: a company participated by the majority shareholder Renato Soru. The relationship in question refers to a lease of a space used for the storage of business records.

(3) Aria S.p.A.: a company acquired by Tiscali Group on 24 December 2015, following the merger by incorporation of Aria Italia SpA into Tiscali SpA. In Advance of the effective date of the merger, Tiscali Italia SpA had provided connectivity services.

(4) Part of the bond subscribed by OCIL

Remuneration of directors, statutory auditors and executives with strategic responsibility

With regard to the performance of their functions, in the parent company and other consolidated subsidiaries, the remuneration due to directors and statutory auditors of Tiscali, Tiscali Italia in 2016 is presented below:

(Thousands of Euro)	**2016**	**2015**
Directors	1,522	782
Statutory Auditors	247	175
Total	**1,769**	**958**

The total value of the cost incurred in 2016 for the remuneration due to executives with strategic responsibility amounted to roughly EUR 2.1 million.

List of subsidiaries included in the consolidation area

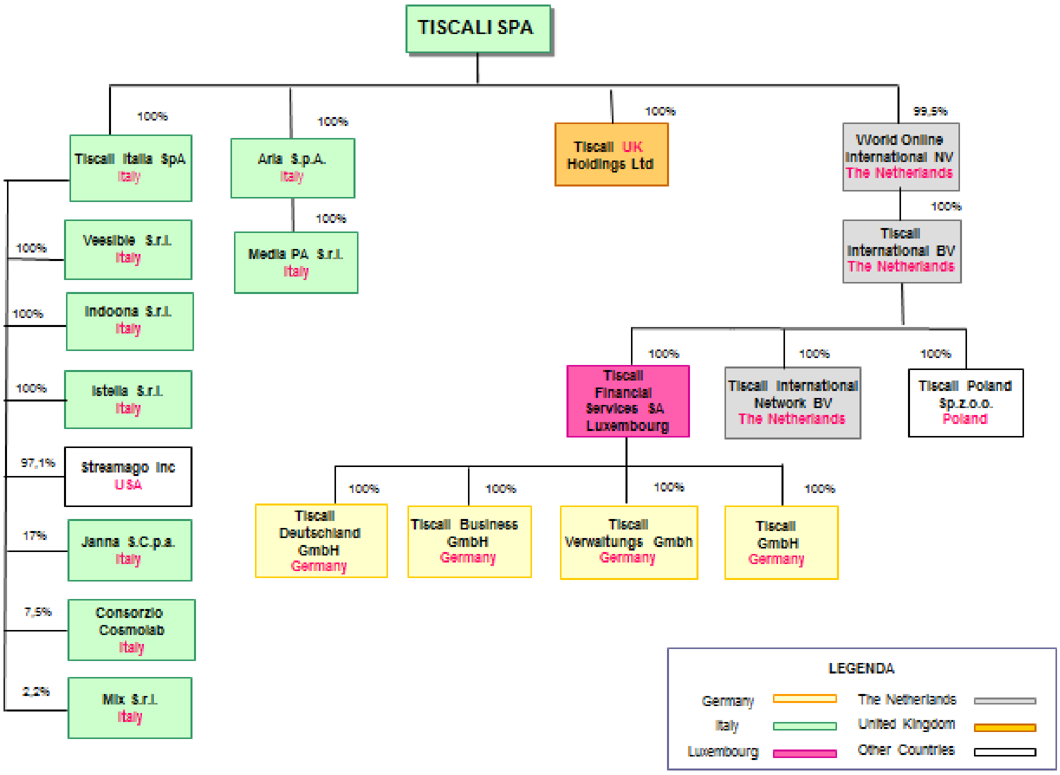
A list of the companies included in the consolidation area follows:

Name	**HQ**	**% of participation**
Tiscali S.p.A.	Italia	
Tiscali Italia S.p.A.	Italia	100.00%
Veesible S.r.l.	Italia	100.00%
Indoona S.r.l.	Italia	100.00%
Istella S.r.l.	Italia	100.00%
Streamago Inc.	U.S.A.	97.1%
Aria S.p.A.	Italia	100.00%
Media PA S.r.l.	Italia	100.00%
Tiscali Holdings UK Ltd	UK	100.00%
World Online International NV	Olanda	99.50%
Tiscali International BV	Olanda	99.50%
Tiscali Financial Services SA	Lussemburgo	99.50%
Tiscali Deutschland GmbH	Germania	99.50%
Tiscali GmbH	Germania	99.50%
Tiscali Verwaltungs Gmbh	Germania	99.50%
Tiscali Business GmbH	Germania	99.50%
Tiscali International Network B.V.	Olanda	99.50%

List of equity investments in other companies recognised under other non-current financial assets.

Mix S.r.l.	Italia
Janna S.c.p.a.	Italia
Consorzio Cosmolab	Italia
Tiscali Poland Sp Z.O.O.	Polonia

Group at 31 December 2016



Annex - Information pursuant to Article 149 duodecies of the Consob Issuers' Regulations

Type of service	Subject providing the service	Beneficiary	Compensation
(Thousands of euro)			
Financial audit	EY S.p.A.	Tiscali S.p.A.	331
	EY S.p.A.	Subsidiaries	242
Other professional services	EY S.p.A.	Tiscali S.p.A.	153
	EY S.p.A.	Subsidiaries	
TOTAL			**726**

Cagliari, 28 April 2017

The CEO

Riccardo Ruggiero

The Executive appointed to draft the Corporate and Accounting Documents

Pasquale Lionetti

2016 Consolidated Financial Statements certification in compliance with Article 81-ter of the CONSOB Regulation No. 11971 dated 14 May 1999 and subsequent amendments and additions

The undersigned, Riccardo Ruggiero in capacity of Chief Executive Officer, and Pasquale Lionetti, in capacity of The Executive appointed to draft the Corporate and Accounting Documents of Tiscali S.p.A., hereby certify, with account also being taken of the provisions of Article 154-bis, Paragraphs 3 and 4, of Italian Legislative Decree No. 58 dated 24 February 1998:

- the adequacy in relation to the Company's characteristics;
- the effective application of the administrative and accounting procedures for the formation of the financial statements in FY 2016.

It is also hereby certified that the financial statements as of 31 December 2016:

- have been drafted were prepared in compliance with the International Financial Reporting Standards (IFRS) adopted by the European Union, as well as with the legislative and regulatory provisions in force in Italy;
- are consistent with the results of accounting books and entries;
- are suitable for providing a true and fair view of the equity, economic and financial situation of the issuer and all the companies included in the consolidation area.

Lastly, it is hereby certified that the Directors' Report includes a reliable analysis of the references to important events which have taken place during the year and of their effect on the consolidated financial statements, together with a description of the main risks and uncertainties

Cagliari, 28 April 2017

The CEO

The Executive appointed to draft the Corporate and Accounting Documents

Riccardo Ruggiero

Pasquale Lionetti

Tiscali S.p.A. financial statements as of 31 December 2016

7 Tiscali SpA – Accounting Statements and Explanatory Notes

7.1 Income statement

Consolidated income Statement	2016	2015
(Euro)		
Revenue	5,412,635	3,831,020
Other income	-	-
Purchase of external materials and services	(4,271,555)	(1,739,304)
Staffing costs	(2,465,459)	(1,492,107)
Other operating income/ (costs)	188,264	657,373
Write-down of receivables	1,331,425	(35,248,594)
Restructuring costs and other write-downs	(234,975)	(2,466,657)
Depreciation	-	-
Operating profit	**(39,665)**	**(36,458,269)**
Net Income (expenses)	-	-
Earning before tax	(279,109)	191,913
Income taxes	**(318,775)**	**(36,266,356)**
Result from operating activities (on-going)	(30,678)	91,683
Income from discontinued operations and / or targeted for disposal	**(349,452)**	**(36,174,673)**
Net profit	-	-

7.2 Comprehensive income statement

(EUR Million)	Note	2016	2015
Operating result		**(349)**	**(36,175)**
Other items on comprehensive income statement:			
Items on comprehensive income statement that will subsequently be reclassified to FY Profit / (loss)			
Items on comprehensive income statement that will not subsequently be reclassified in FY Profit / (loss)		(8)	7
(Loss) / profit from revaluation of defined benefit plans			
Total other items on comprehensive income statement			
Total operating results of Comprehensive income statement		**(357)**	**(36,167)**
Attributable to:			
Parent Company Shareholders		0	0
Minority Shareholders		**(357)**	**(36,167)**

7.3 Financial and economic results

7.3 Financial and economic results	31 december 2016	31 december 2015
(Eur)		
Non-current assets		
Intangible Assets	0	0
Real estate properties, plants and machineries	(0)	(0)
Equity investments	176,493,735	176,493,735
Other financial assets	21,846,429	2,431,459
	176,493,735	**176,493,735**
Current assets		
Trade receivables	6,569,527	1,257,364
Other receivables and other current assets	671,362	836,546
Cash and cash equivalents	22,088	70,989
	6,569,527	**1,257,364**
Assets held for sale	54,053	**0**
Total assets	**205,657,193**	**181,090,093**
Capital and reserves		
Capital	91,200,923	169,076,823
Results of previous years and Other Reserves	(1,132,701)	(41,743,903)
Result of the FY	(349,452)	(36,174,673)
Total Shareholders Equity	**89,718,769**	**91,158,247**
Non Current Liabilities		
Convertible Bond	18,428,797	-
Other non-current liabilities	73,613,349	31,015,394
Liabilities for retirement benefits and severance indemnities	186,626	204,419
Provisions for risks and charges	2,460,981	687,655
	94,689,753	**31,907,468**
Current liabilities		
Convertible Bond	374,932	
Payables to suppliers	6,717,283	6,143,809
Other current liabilities	14,152,503	51,880,571
	21,244,718	**58,024,380**
Liabilities held for sale	3,954	-
Total net assets and liabilities	**205,657,193**	**181,090,093**

7.4 Statement of changes in shareholders' equity (EUR)

(Euro)	Capital	Legal reserve	Other reserves	Reserves for stock options	Reserves for employee benefits		Accumulated losses and Loss for the period	Total
Balance as of 1Jan 2015	**92,052,030**	**90,734**	**(3,522,413)**	**-**	**(49,975)**	**-**	**(26,903,812)**	**61,666,565**
Increases /Decreases		-						**-**
Capital increase and merge with Aria Italia Spa	77,024,793		(7,115,736)					**69,909,057**
Put Option Rigensis			(4,250,000)					**(4,250,000)**
								-
Net result					7,299		(36,174,673)	**(36,167,374)**
Balance as of 31 dec 2015	**169,076,823**	**90,734**	**(14,888,149)**	**-**	**(42,676)**	**-**	**(63,078,485)**	**91,158,247**
Increases /Decreases	(77,875,900)		14,797,415	1,401,796			63,078,485	**1,401,796**
Restructuring costs			(689,000)					**(689,000)**
Put Option Rigensis			(1,795,000)					**(1,795,000)**
								-
Net result					(7,821)		(349,452)	**(357,273)**
Balance as of 31 dec 2016	**91,200,923**	**90,734**	**(2,574,734)**	**1,401,796**	**(50,497)**	**-**	**(349,452)**	**89,718,770**

7.5 Cash Flow Financial statement

CASH FLOW STATEMENT (Eur)	2016	2015
OPERATIONS		
Result from operating activities	**(349.452)**	**(36,174,673)**
Adjustments for:		
Depreciation of tangible assets	-	-
Amortisation of intangible assets	-	-
Receivable write-down provision	(1.331.425)	35,248,594
Provision (release) risks	(146.650)	350,000
Stock option	1.401.796	
Other changes	1.818.473	(226,166)
Cash flow from operations before changes in working capital	**1.392.742**	**(802,245)**
(Increase)/Decrease in receivables	(5.312.164)	(4,357,433)
Increase/(Decrease) in payables to suppliers	772.977	(626,106)
Net changes in the provisions for risks and charges	(85.000)	-
Net change in provision for staff severance indemnities	(38.614)	(56,714)
Changes in other liabilities	(464.464)	(127,193)
Changes in other assets	165.184	160,350
Changes in working capital	**(4.962.081)**	**(5,007,096)**
CASH AND CASH EQUIVALENTS DERIVING FROM OPERATIONS	**(3.569.339)**	**(5,809,341)**
INVESTMENT ACTIVITIES		
- Changes in other financial assets		-
- Cash flow from business combinations	0	3,177
- Purchases of tangible fixed assets		
- Purchases of intangible fixed assets	-	-
- Payments for the sale of financial fixed assets	-	-
NET CASH USED IN INVESTING ACTIVITIES	**0**	**3,177**
FINANCING ACTIVITIES	**0**	
Increase (decrease) in other non-current liabilities s		27,097,577
Decrease (Increase) in financial asset		(21,588,392)
Bond	3.570.534	
Changes in shareholders' equity	-	-
NET CASH DERIVING FROM/(USED IN) FINANCING ACTIVITIES	**3.570.534**	**5,509,185**
Decrease/(increase) held for sale activities	(50.095)	
NET INCREASE/(DECREASE) IN NET CASH AND CASH EQUIVALENTS	**(48.900)**	**(296,979)**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE FINANCIAL YEAR	**70.989**	**367,968**
CASH AND CASH EQUIVALENTS	**22.089**	**70,989**

7.6 Explanatory notes

Tiscali S.p.A. (hereinafter referred to as "Tiscali" or "the Company" and, together with its subsidiaries, "the Group" or "Tiscali Group") is a joint-stock company incorporated under the laws of the Italian Republic at the Cagliari Companies' Register. Tiscali S.p.A. is the Parent Company of the Tiscali Group, which offers integrated Internet access services, telephony and multimedia services, namely positioning itself in the segment of IP-technology services which enable the provision of voice and Internet services on the same technology platform.

The financial information included in these statement is presented in euro (EUR), which is the currency used to conduct most of the parent company's operations.

The income statement and the statement of financial position, the financial statement, the statement of changes in shareholders' equity are all presented in Euro, while values indicated in the explanatory notes are presented in thousand Euro.

Considerations regarding business continuity and foreseeable development of the management

The Tiscali Group ended FY 2016 with a consolidated loss of EUR 45 million (influenced by the negative effect of EUR 2.3 million, resulting from non-recurring transactions concluded during the period including write-downs equal to Euro 8,4 accounted for in the result of assets sold or held for sale) and with a negative net worth equal to EUR 167.6 million. In addition, as of 31 December 2016 the Group reported gross financial debt equal to EUR 192.3 million and current liabilities exceed the current (non-financial) assets for EUR 183.6 million.

As of 31 December 2015, the consolidated loss was around EUR 18.5 million (influenced by the positive effect of EUR 6.9 million, resulting from non-recurring transactions concluded during the year) and with a negative shareholders' equity equal to EUR 121.4 million. In addition, as of 31 December 2015, the Group reported gross financial debt equal to EUR 177.9 million and current liabilities exceeding the current (non-financial) assets for EUR 162.5 million.

As previously underlined, the financial year 2016 for the Tiscali Group represented a year of significant change, which remarkably affected both organisation and development strategies.

In particular, in 2016 the Company focused on the core objective of returning to grow, with new focus on the core business and the strengthening of its financial structure:

- The successful completion of the **operational integration with Aria** which provided Tiscali with important synergies, the acquisition of a strategic asset like 40MHz of spectrum on 3.5GHz frequency and the launch, during the year, of the new UltraBroadBand LTE services under the Tiscali brand;
- The further exploitation of the **3.5GHz frequency, which has become a key for the future developments of 5G services**, as proven by the agreement entered into in 2016 with Fastweb for use of that frequency in urban areas, not strategic for Tiscali's LTE Fixed Wireless coverage plans, for a value of EUR 2.5 million per year from 2018 to 2023, expiring date of license usage rights
- **Return to growth on the core Business**, thanks to the trend reversal, after several years, of the Fixed BroadBand portfolio (+20 thousands customers in the 2nd half of 2016);
- **Refocusing on core activities** through the successful conclusion of the sale of the "Business" business unit to Fastweb, the outsourcing of IT activities to Engineering and the full valorization of OTT activities – even through assets dismissal options;
- **Strengthening the Group's financial structure** by refinancing the group's long-term debt, extending the maturity of the debt and reducing total cost.

These transactions are detailed in paragraph 4.2.

In short, and with special reference to business ongoing, these transactions granted, and will grant, Tiscali some significant benefits:

- the debt structure is more sustainable, with longer redemption timing and reduced charges;
- the Company can benefit from a significant intake of new financial resources (EUR 25 million with wire transfer plus EUR 20 million services to use immediately in the following years), thanks to the sale of the "Business" business unit to Fastweb;

- the foundations are laid to reduced future costs thanks to the outsourcing of IT services to Engineering and the streamlining and value-adding (also through alienation) of OTT assets;
- the foundations are laid for a further value-adding of the 3.5Ghz frequency spectrum asset, with the emergence of a prospective significant increase in value, not included in the current carrying amount of the spectrum in the financial statements;
- the Company is brought again in a virtuous growth path, as first fundamental step in the implementation of the Company's Business Plan.

The Group also made significant investments in 2016 both for the acquisition of new customers and for the development of the infrastructure needed for the implementation of the LTE plan. Part of these investments were funded through the framework agreement signed with Huawei in September 2016 and the use of new finance leases (multi-year debts) resulting in an increase of negative net working capital.

During the last months of 2016 and the first months of 2017 there was an increase in expired debts towards suppliers, payment orders and injunctions for certain specific positions, in addition to the delay in paying tax debts and social security benefits. On March 31 2017, the Group collected the full-line price of the Business Branch and allocated some of these resources to reduce the above-mentioned debt, as well as concluding a series of actions aimed at defining the plans for return with the major suppliers (ie TIM and BT).

The actions outlined above will help reduce the financial tensions in the short term and, together with the actions outlined below, respect the main deadlines.

While taking account of the above, as well as the aforesaid positive effects of transactions already carried out and to be performed in the next few months on the Group economic and financial structure, the Management analysed the results for 2016, underlying the main differences with respect to the forecasts made in the business plan drawn up for the financial statements at 31 December 2015, and approved by the BoD on 25 March 2016 ("Business Plan" or "2016-2021 Plan"), and drafted a new Business Plan for the 2017-2021 years (2017-2021 Plan), which would include the effects of the extraordinary transactions just completed (especially the sale of the Tiscali Business BU to Fastweb), and entail a change in the business profile and area and new targets for the Tiscali Group.

In line with the above-mentioned strategy, the new 2017-2021 Plan envisages a boost in investments aimed at:

- further developing the proprietary LTE network, on the 3.5GHz frequency, to cover around 50% of the Italian population with the latest LTE 4G+ UltraBroadBand Fixed Wireless services, with capacity up to 100MBps, and special focus on the "Foreign" Digital Divide, where the offer of these services for the other operators is particularly deficient and the competition level is lower;
- developing offers of fibre on the Open Fiber network with capacity up to 1GBps, especially in urban areas and in line with the development plans of the Open Fiber fibre transport network.

The 2017-2021 Plan contemplates an incremental investment plan compared to the 2016-2021 Plan and entailsthe necessity for further financial resources, in addition to those generated by the Group through its operating cash flows.

On 26 April 2017, Investment Construction Technology (ICT) Group LTD shareholder, through a confort letter, has therefore expressed its willingness to pay in or to raise by one or more third parties new financial resources between EUR 13 and15 million, during 2017, it being understood that technical payment modalities will be defined subsequently.

Moreover, the Company asked the Banks (Intesa SanPaolo and Banca Popolare di Milano) that refinanced the senior debt in June 2016, to waive the advanced payment envisaged by contracts in relation to the collection of revenue generated by the sale of the Tiscali Business BU, , as well as grant to reset contractual covenants in light of the new 2017-2021 Plan.

Furthermore, Intesa SanPaolo was asked a standstill of 18 months on the payments due by Tiscali Italia with regard to the Second Facility Agreement. Tiscali Italia, in light of the above requests, did not provide for the payment of the installment of the Second Facility Agreement expiring on 31 March 2017 (Euro 1.7 million in capital and Euro 1.2 million in interest).

Lastly, it should be noted that Tiscali Italia has asked the leasing companies to redefine the overall amortization schedule for lease payments for Sa Illetta's property, including a standstill on payments due until September 30, 2018 included. Up to date, 1.2 million euro of payment commitments related to overall overdue debt on 31 December 2016 has not been paid. Up to date, negotiations are ongoing, but leasing companies have not yet formally answered to Company requests.

Up to date, we have already taken a number of meetings between the Group management and the technical and commercial structures of the aforementioned credit institutions and the preparatory activities for the operation have already been completed.

On 26 April 2017, each of the banks sent Tiscali a comfort letter in order to communicate, inter alia, that they started the preliminary phase of the operations, and subject to the 2017 financial contribution guaranteed by Investment Construction Technology (ICT) Group LTD shareholder in the aforesaid terms, to confirm their commitment in submitting the matter to the competent bodies for the credit approval.

Within this context, and taking account of the aforesaid, the achievement of a situation of equity, economic and financial balance for the Group is subordinate to the achievement of the results envisaged in the 2017-2021Plan, included the related financial sources, and, in particular, on the realisation of the forecasts and the assumptions contained therein relatingto the evolution of the telecommunications market and the accomplishment of the growth objectives set (in a market context characterised by strong competitive pressure).

Management Board's assessment

The Board of Directors pointed out that the Group:

- generated in the year 2016, before working capital changes, cash from operating activities and cash equivalents of approximately EUR 27.9 million;
- carried out the operating merger of industrial, commercial and administration structures of the Aria Group into Tiscali, while achieving important cost synergies and strengthening the presence of Tiscali in the field of the broadband access, especially thanks to the launching of the new Wireless Fixed LTE services, with capacity up to 100MBps;
- focused on the growth of Tiscali's core business, through a reversed trend regarding the fixed Broadband customers portfolio (up by 20,000 in December 2016, compared to June 2016), focused on the Group resources on core activities, through the successful sale of the Business BU to Fastweb, the outsourcing of IT activities to Engineering and the value-adding of OTT activities (also throught a sale) that are no longer considered as strategic;
- owns an essential asset like the 3.5GHz spectrum, which is considered as the key for the development of 5G services and it is reasonable to assumethat will achieving a prospective value, which is much higher than the carrying amount that Tiscali entered in its financial statements;
- positively concluded the Group long-term debt refinancing operations (Senior Loan and Convertible Bond Loan), thus improving its structure in terms of residual life and debt costs;

- prepared a new business plan for the years 2017-2021, which includes the effects of the extraordinary transactions carried out and underlines the Group growth strategy focused on the development of Core Business activities (Fixed BroadBand, Fiber, LTE BroadBand Fixed Wireless and Mobile).

The Directors, highlight, as already stated in the preparation of Financial Statements for 2015, that the going concern assumption is based on the achievement of the targets set out in the Plan 2017-2021, which shows uncertainties with particular reference to the evolution of the telecommunications market and the achievement of its growth targets, relating in particular to Ultrabroadband LTE services, the main development area envisaged in the Plan, within a market characterized by strong competition.

In analysing what has already been implemented in 2016, as part of the path to enable the Group to achieve long-term financial and economic balance - especially the Group debt reduction that took place in the year 2015, the overall restructuring of the long-term debt occurred in 2016, - the Directors recognize that to date relevant uncertainties remain related to events or circumstances that could rise significant doubts on the Group's ability to continue to operate on the basis of the going concern assumption.

Nevertheless, after implementing the necessary analysis and considering the relevant uncertainties identified in light of the aforementioned elements, the Directors are confident in i) being able to achieve the targets envisaged in the Plan 2017- 2021, even in a market context characterized by strong competitive pressure, (ii) the delivery of a loan of Euro 13-15 million in 2017 by Investment Construction Technology (ICT) Group LTD shareholder (iii) the positive finalization of the granting of standstill by the Finance Institutions and the Leasing companies, iv) maintenance by the bank of financial support so far guaranteed and and have a reasonable expectation that the Group has adequate resources to continue its business in a foreseeable future. They have therefore adopted the going concern assumption in preparing these financial statements.

This opinion is of course the result of a subjective judgement, where, with respect to the events described above, the degree of likelihood of their occurrence is compared to the opposite situation. It should be noted that the forecast underlying the determination of the Board, is likely to be contradicted by events. Precisely because the Board is aware of the inherent limitations of its determination, said Board of Directors will maintain constant monitoring on the progression of the factors taken into account (as well as any circumstances that would acquire additional importance), in order to take the necessary measures promptly.

Business Outlook

In line with the above and with the targets set out in the Business Plan, the Company undertakes, for the next few months, to focus on Core Business in order to strengthen its presence on the Italian market of Fixed and Mobile BroadBand. This will be made possible thanks to:

- the progressive acceleration in the installation of LTE antennae for a higher coverage of the ULtraBroadBand Fixed Wireless services, while planning to have around 500 LTE antennae installed by the end of 2017;
- the progressive consolidation of growth trend in Fixed BroadBand customer base, especially thanks to the focus on offers for very high capacity Fibre based on the agreement signed with Oper Fiber;
- a new communication strategy focused on the new Tiscali brand, renewed in the first months of 2017 and focused on supporting the acquisition of new customers and a general relaunching of Tiscali trademark;
- the progressive acceleration on the growth of the mobile customer base, also thanks to the development of special offers for Fixed-Mobile integrated solutions

Greater attention will be also cast on the identification of all actions required to increase the overall efficiency of the Company and the consequent reduction in costs.

Form and content of the accounting statements

Draft principles

The 2016 Statutory Financial Statements represent the separate financial statements of the Parent Company Tiscali S.p.A., and have been drafted in compliance with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") as approved by the European Union, as well as the provisions issued by way of implementation of the Article 9 of Italian Legislative Decree No. 38/2005. IFRS are also understood to be all of the reviewed International Accounting Standards ("IAS") as well as all of the interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") previously called the Standing Interpretations Committee ("SIC").

The preparation of financial statements requires Directors to make certain estimates and, in certain cases, to adopt some assumptions in applying of accounting standards. Items for which, in the circumstances, require the adoption of applicative assumptions, and those more substantially characterized by estimates are disclosed in the note *Critical decisions in applying accounting policies and in using estimates*

Presentation formats

The consolidated financial statements are composed of accounting statements (Income Statement, Statement of Financial Position, Statement of Changes in the Consolidated Shareholders' Equity, and Cash Flow Statement) and of their respective explanatory notes. The Income Statement was drafted in line with the minimum contents fixed by IAS 1 – Presentation of Financial Statements – with costs assignment by nature; the Statement of Assets and Liabilities was drafted by following the scheme pointing out the division of "current/non-current" assets and liabilities; the Cash Flow Statement was drafted by following the indirect method.

Accounting Standards

General Principles

The financial statements were prepared in compliance with the IAS/IFRS International Financial Reporting Standards (IFRS). The main accounting standards are detailed below. These standards were applied consistently to all periods presented.

The preparation of financial statements requires Directors to make certain estimates and in certain cases, and to adopt some assumptions in the application of accounting standards. The areas of the financial statements which, under the circumstances, presuppose the adoption of applicative assumptions and those more fully characterized by estimates made, are described in the subsequent note of this section.

Equity investments in subsidiaries

Equity investments in subsidiaries and affiliated companies are recognised at cost, adjusted for any permanent impairment.

In application of IAS 36, the value of equity investments recognised at cost is reduced if there is impairment or if circumstances emerge that indicate that said cost is not recoverable. If the impairment is discovered to no longer apply or is reduced, the book value is increased to the new estimated recoverable value, within the limits of the value recognised initially.

Impairment of Assets (Impairment)

The book value of equity investments, other intangible assets and properties, plant and machinery is tested for impairment whenever there is an indication that the asset may have suffered impairment. The assets in question are tested annually or more frequently if there is any indication that those assets have suffered impairment. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the Cash Generating Unit (CGU) to which the asset belongs. The recoverable amount if the greater amount between fair value net of sales costs and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax rate that reflects current market assessments of money time value and the specific risks of the asset.

If the recoverable amount of an asset (or cash generating unit) is estimated to be less than its book value, the latter is written down to its recoverable amount. The loss of relevant impairment is recognized in the income statement under write-downs. In the event that a write-down in previous years, no longer has reason to exist, the carrying value of the asset (or cash-generating unit) is increased to the new value resulting from the estimate of its recoverable amount, but not over the net book value that the asset would have had if no impairment had been recognized for the asset loss. An impairment reversal is booked to the income statement.

Other financial assets

Other financial assets are valued, consistently with IAS 39 provisions for financial assets ‘available for sale’, at fair value or alternatively at cost whenever fair value cannot be reliably calculated. Gains and losses from changes in fair value are directly booked to equity until the security is disposed of or is impaired, at which time the cumulative gain or loss previously booked to equity is included in the income statement for the period. The original value is reinstated in the following periods if the reasons for the write-down are considered to no longer apply.

Foreign exchange operations

Transactions in foreign currency are recorded at the exchange rate in force at the time of the transaction.

Monetary assets and liabilities stated in foreign currency are converted at the exchange rate in force at the financial statement reference date. Exchange rate differences generated by the discharge of currency items or by their conversion at rates other than those at their initial recording in the year or at the end of the previous financial year are booked to the income statement.

Loans and receivables

Tiscali S.p.A.’s loans are stated under the “other noncurrent financial assets”, ‘loans to customers”, “other loans and sundry current assets” and “other current financial assets” items and are valued, if they have a fixed maturity, at amortised cost, using the effective interest rate method. When financial assets have no fixed maturity, they are valued at acquisition cost. Valuations are frequently carried out to find objective evidence of impairment of a financial asset or group of assets. If there is objective evidence, the impairment must be recorded as a cost in the income statement for the period.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, on-demand and short-term deposits, in the latter case with an original maturity envisaged of no more than three months.

Debts and financial liabilities

Tiscali S.p.A.’s payables and financial liabilities are stated under the “payables to banks and other financial institutions”, “other non-current liabilities and “payables to suppliers” items and are recorded at face value. Borrowings are initially recognized at cost, equal to the fair value of the consideration received, net of transaction costs. Subsequently, the loans are valued at amortized cost using the effective interest method, calculated considering the issue costs and any other premium or discount applicable to the regulation.

Liabilities due to pension benefits and employees' severance indemnities

The defined benefit plans (as classified by IAS 19), in particular the Staff Severance indemnities relating to employees of the Parent Company and the subsidiaries with registered office in Italy, are recorded on the basis of assessments made at the end of each financial year by independent actuaries. The liability recognized in the balance sheet represents the present value of the obligation payable upon termination of employment, that employees have accrued at the balance sheet date. Please note that there are no assets servicing the plan.

As of 1 January 2007, the 2007 Finance Act and related implementing decrees introduced significant changes in the discipline of severance pay, including the worker's choice regarding the allocation of their accruing TFR to supplementary pension funds or the "Fund Treasury "managed by INPS.

It follows, therefore, that the obligation to INPS and the contribution to supplementary pension schemes, acquire within the meaning of 'IAS 19, the meaning off "Defined contribution plans", while the portions to retain to TFR fund maintain the nature "defined benefit plans".

These legislative changes introduced since 2007 have also led to a revision of the actuarial assumptions and the consequent calculations used to calculate staff severance indemnities, whose effects have been directly recognized in the income statement.

As of 1 January, 2013, with retrospective efficacy, the Company adopted the new version of the accounting standard IAS 19 "employee benefits".

Compensation in the form of equity

The Group has recognized to the Chairman of the Board of Directors Renato Soru, additional benefits via equity plans (stock option plans). These plans have been approved by the Shareholders' Meeting in February 2016 with the simultaneous authorization to the Board of Directors for the capital increase to service the same plan (Stock Option Plan 2015-2019).

The cost, represented by the fair value of the stock options as of the date of allocation will be recorded, for accounting purposes in accordance with IFRS 2- Share-based payment in the income statement with a matching balance directly under shareholders' equity.

Provisions for risks and charge

Provisions for risks and charges relating to potential legal and tax liabilities, are made in respect of the predictions made by the Directors, on the basis of judgments developed by the Group legal and tax advisors, about the likely burden believed reasonable will be taken for the fulfilment of the obligation. In the event that the Group is called, in relation to the final result of such judgments, to fulfil an obligation for a sum other than that estimated, the related effects are reflected in the income statement.

Treasury shares

Treasury shares are booked to reduce the shareholders' equity.

Recognition of income

Revenues are recognised to the extent that it is probable that financial profits will flow to Tiscali S.p.A. and their amount can be reasonably estimated; they are represented net of discounts, allowances and returns.
Revenues from services rendered are recognized in the income statement using the percentage of completion of the service and only when the result of the service can be reliably estimated.

Financial income and expense

Interest received and paid is recognised using the effective interest rate method.

Taxes

Income tax expense for the year includes the tax currently payable and deferred tax.
The current tax is determined on the taxable income. The taxable income for tax purposes differs from the result before taxes reported in the income statement because it excludes items of income and expense that are taxable or deductible in other years; it further excludes items that are not taxable or deductible at all. The liability for current tax is calculated using tax rates enacted at the balance sheet date.

Major decisions in applying accounting policies and in the use of estimates
In the process of applying the accounting policies described in the previous section, Tiscali's directors made some significant decisions importance for the recognition of amounts in the financial statements. The directors' decisions are based on historical experience as well as on expectations associated with the realization of future events, considered reasonable under the circumstances.
The recoverability of the main asset is based on estimates of income and cash flows that the Group believes it will be able to generate in the future. As more fully described in the note “Assessment of business continuity”, achieving the results set forth in the business and financial plan, used for the assessment, depends on whether the forecasts and assumptions contained therein are reached. Some of these variables are beyond the control of the Directors and the Group management, as described in the section “Assessment of business continuity and business outlook”.

Accounting estimates and relevant assumptions

Provisions for liabilities and charges

Provisions for risks and charges relating to potential legal and tax liabilities are made in respect of the predictions made by the Directors, on the basis of judgments developed by the Group legal and tax advisors, about the likely burden that can reasonably be will argued for the fulfilment of the obligation. In the event that the Group is called, in relation to the final result of such judgments, to fulfill an obligation for a sum other than that estimated, the related effects are reflected in the income statement.

Equity investments

Impairment testing, with particular regard to equity investments, is performed annually as indicated previously under “Impairment of assets”. The ability of each unit (investment) to produce cash flows sufficient to recover the value recorded in the financial statements is determined on the basis of forecast economic and financial data of the company concerned or any subsidiaries. The processing of such data, as well as the determination of an appropriate discount rate, requires a significant extent, to make estimates.

Determination of Fair Value

Depending on the instrument or financial statements item to be estimated, the directors identify the most suitable method, doing as much as possible to objective market data. In the absence of market values, that is, quotations, valuation techniques are used with reference to those most commonly used.

Accounting standards, amendments and interpretations effective from 1 January 2015

Below the international accounting standards, changes to existing standards and interpretations, relevant for the Group, taking effect as from 1 January 2016.

- **Amendments to IAS 19 – Employees benefits – plans with defined benefits: contributions by third parties or by employees.**

  These amendments apply to contributions that employees or third parties make to pension funds with defined benefits for semplifying their accounting under specific circumstances.

  The entry into force of this interpretation had no impact on the Group's consolidated financial statements.

- **"Improvements" to IFRS 2010-2012 cycles (issued by the IASB in December 2013).**

  The IASB has issued a series of amendments to 7 principles in force that relate in particular to the definition of vesting conditions in IFRS 2 - Share-based payments, contingent consideration (contingent consideration) In a business combination in IFRS 3 - Business Combinations, the aggregation of operating sectors and the reconciliation of the total assets of the reporting sectors compared to the entity's total assets in IFRS 8 - Operating Sectors, the proportional reassessment of 'Accumulated amortization in IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets and Identification and Some Key Manager Disclosures in IAS 24 - Balance Sheet Disclosures on Related Party Transactions.

  There are no significant impacts on the Group's Financial Statements or Disclosures due to the application of such changes.

- **Amendments to IFRS 11 - Joint arrangements - accounting for the acquisition of interests in joint operations.**

  Amendments to IFRS 11 specify the accounting treatment to be applied in the case of acquisition of interests in joint operations that constitute a business as defined by IFRS 3.

  These changes did not have any impact on the Group's financial statements as there was no acquisition of interest in joint operations during the period.

- **Amendments to IAS 16 and IAS 38 - Clarifications on Amortization Methods deemed Acceptable.**

  With such changes, the IASB wanted to clarify that the use of revenue-based methods for calculating amortization is incorrect as revenue generated by an asset reflects factors other than the consumption of future economic benefits embedded in the asset. Such consumption must be the basic principle for the calculation of amortization.

  These changes have no impact on the Financial Statements as the Group does not use revenue-based methods to calculate amortization.

- **<u>Amendments to IAS 27 - Applying the Equity Method in the Separate Financial Statements.</u>**

  As a result of these changes, the use of the equity method for accounting for investments in subsidiaries, associates and joint ventures will be allowed on an optional basis also in separate financial statements with a retrospective application.

- **<u>Improvements to IFRS for the 2012-2014 cycle (issued by the IASB in September 2014).</u>**

  The IASB has issued a number of changes to 4 principles in force, covering in particular the following aspects: Amendment to the Disclosure Method in IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations, Service Contracts and Applicability Of amendments to IFRS 7 to Interim Financial Statements in IFRS 7 Financial Instruments: Supplementary Information, discount rate to be applied in IAS 19 Employee Benefits, Disclosure of Information Presented "in Other Part of Interim Financial Statements in IAS 34 Interim Financial Statements.

  There are no impacts on the Group's financial statements arising from the application of such changes.

- **<u>Amendments to IAS 1 - disclosure initiative</u>**

  IAS 1 modifications, linked to the disclosure initiative project, aim to clarify and improve the requirements of IAS 1 rather than substantially modify it. Following the application of these amendments, the total comprehensive income statement of the other comprehensive income components of associated companies and JVs should also be distinguished between items that may or may not be reclassified to the income statement.

Accounting standards, amendments and interpretations effective from 1 January 2016 and not yet adopted in advance by the Group

On 29 May 2014, IASB published IFRS 15 standard – Customer contract revenues with the aim of improving quality of revenues accounting. Issuing of such standard is part of convergence project with FASB, related to improvement in Statements comparability.
Goal of this standard is to define the time of transfer as main element of revenue recognition and related amount company is entitled to receive. Thus the standard sets revenue recognition process:

f) Customer contract identification;
g) Service/product execution identification;
h) Amount definition:
i) Amount allocation related to execution;
j) Revenues recognition linked to execution;

Such standard is applicable starting form 1 January 2018.

The Group is still assessing the impact of adopting this new principle. No anticipated application of this principle is envisaged.

On 24 July 2014 IASB published IFRS 9 standard – Financial instruments so articulated:

- Derivatives classification and measurement rules:
- Derivatives impairment rules;
- Hedge accounting application rules;
- Bank accounting changes in liabilities fair value measurement.

Such standard is applicable starting form 1 January 2018.

On 11 September 2014 IASB published some amendments related to IFRS 10 standard – Consolidated Statement and to IFRS 28 standard – Subsidiaries participation and joint ventures. The aim is to clarify the accounting princiles of results related to group intercompany assets dismissals and subsidiaries and joint ventures. Up to date, competent European Bodies have not yet completed amendmend homologation process. Such amendment will have deferred effectiveness at the end of IASB project on equity method.

On 13 January 2016 IASB published new IFRS 16 standard – Leases that substitutes IAS 17 standard.

The new accounting standard uniforms, ahead of the tenant, accounting of financial and operating leases. In fact IFRS 16 enforces the tenant to account in the Balance Sheet assets and liabilities related both to operating and financial leases. Only exclusion related to leasing contract with a duration equal or lower than 12 months or related to an asset of not material value. Such standard is applicable starting form 1 January 2018.

The Group is still assessing the impact of adopting this new principle. No anticipated application of this principle is envisaged.

On 19 January 2016 IASB published some amendments to “IAS 12 – Income Tax” standard. The aim is to clarify how to account deferred tax activities related to debt instruments valorised at fair value. Such standard is applicable starting form 1 January 2017.

On 29 January 2016 IASB published some amendments to “IAS 7 – Statements of Cash Flows” standard. The aim is to clarify integrative information set to be provided to financial statements users to better understand variations of leasing liabilities, including both cash flows changes and non monetary changes. Since initial introduction of such amendment, company shall not published comparable information set related to previous years. Such standard is applicable starting form 1 January 2017.

On 14 December 2016 IASB published some amendments to “IFRS 2 – Classifications and measurements of Share based payments transactions”. The aim is to clarify:

- Effects of maturing condition on measurement of a transaction with payment in shares and regulated by cash;
- Classification of a transaction with payment in shares and regulated net of withholding obligations;
- Accounting rules, if a change in terms and conditions of a transaction with payment in shares move the classification from regulated by cash to regulated by capital instruments.

Since initial introduction of such amendment, company shall apply modifications without publishing previous years accounts, but its retrospective application is allowed only if all three point above are respected. Such standard is applicable starting form 1 January 2018.

Revenues and Other income (note 1)

Operating revenues are represented by:

Revenues (EUR 000)	**2016**	**2015**
(EUR 000)		

Revenues from services to Group companies	5,343	3,716
Revenues from services to third parties	69	115
Revenue	**5,413**	**3,831**
Other income	-	-
Other income	**-**	**-**
Total	**5,413**	**3,831**

Revenues from services provided to Group companies mainly refer to the invoicing of services provided by the Company in favour of the operating subsidiary Tiscali Italia S.p.A., including the charges for the licence to use the Tiscali trademark calculated as a percentage of the sales revenue of the company using said trademark.

Revenues by geographical area	**2016**	**2015**
(EUR 000)		
Revenues from services provided to Group companies	**5,343**	**3,716**
Italy	5,343	3,716
Revenues from services to third parties	**70**	**115**
- Denmark	0	2
- South Africa	40	40
- Switzerland	-	-
- The Netherlands	24	24
- Italy	6	49
	5,413	**3,831**

Purchase of materials and external services (note 2)

	2016	**2015**
(EUR 000)		
Purchase of materials and external services	4,272	1,739
Total	**4,272**	**1,739**

Costs for the purchase of materials and outsourced services include costs for external management consulting services amounting to EUR 1 million, remuneration of Board of Directors of EUR 2.3 million and other costs for external services for EUR 0.2 million and insurance costs of EUR 0.3 million.

Staffing costs (note 3)

Staffing costs refer in detail to:

	2016	**2015**
(EUR 000)		

Salaries and wages	1.823	1,258
Other staffin costs	642	235
Total	**2,465**	**1,492**

The increase in staffing cost compared to the previous FY amounts to EUR 0,9 million and is due to the entry in the Group of a new management from February 2016.
The number of employees as of 31 December 2016 amounts to 13 FTE. The breakdown for category and the corresponding data as of 31 December 2015 follows:

	31 December 2016	31 December 2015
Executives	10	5
Managers	1	-
Employees	2	-
Total	**13**	**5**

Other operating income/ (costs) (note 4)

The breakdown of the costs concerned follows:

	2016	2015
(EUR 000)		
Other operating income / (costs)	(188)	(657)
Total	**(188)**	**(657)**

The item includes mainly write-offs of liabilities of previous FY amounting to EUR 0.2 million.

Write-downs of receivables and other write-downs (note 5)

	2016	2015
(EUR 000)		
Write-down of trade receivables	(1,331)	35,249
Restructuring costs and other write-downs	382	2,117
Provisions for risks and charges	(147)	350
Totale	**(1,096)**	**37,715**

The item *Restructuring costs and other write-downs* includes EUR 0.4 million related to the costs incurred for an operation of capital increase foreseen for the year 2015 and not realized.

The item *Write-down of trade receivables* refers mainly to the alignment of the provision for doubtful debts to the value of the total credit receivable from the subsidiaries

Financial income (charges) (note 6)

	2016	2015
(EUR 000)		
Financial income		
Interests on bank deposits	-	-
Other financial income	3	14
	3	**14**
Financial charges		
Interests and other charges payable to banks	(264)	(3)
Other financial charges	(19)	181
	(282)	**178**
Net Financial Income (Charges)	**(279)**	**192**

Net financial charges refer to EUR 0.2 thousand as adjustment to the calculation of default interest for late payment accrued on the VAT debt over prior years

Income taxes (note 7)

	2016	2015
(EUR 000)		
Current taxes	31	92
Taxes (Income from tax consolidation)	-	-
Net taxes for the FY	**31**	**(92)**

The balance of current taxes includes the IRAP (Regional Income Tax) for the FY amounting to EUR 31 thousand.

Equity investments (note 8)

As of 31 December, 2016, this item included equity investments in subsidiaries amounting to EUR 176 million in total.

SUBSIDIARIES	31 December 2016			31 December 2015		
	Cost	*Revaluation / (Devaluation)*	*Book value*	*Cost*	*Revaluation / (Devaluation)*	*Book value*
Tiscali Italia S.p.A.	150,123	-	150,123	150,123	-	150,123
World Online International N.V.	1,811,994	(1,811,994)	-	1,811,994	(1,811,994)	-
Tiscali Uk Holdings Ltd	-	-	-	-	-	-
Aria S.p.A.	26,370	-	26,370	26,370	-	26,370
	1,988,488	**(1,811,994)**	**176,494**	**1,988,488**	**(1,811,994)**	**176,494**

The following table reports the changes in the period concerned.

SUBSIDIARIES *(EUR 000)*	**Balance 31 December 2015**	**Increases**	**(Disposals)**	***Revaluation / (Devaluation)***	**Other changes**	**Balance 31 December 2016**
(EUR 000)						
Tiscali Italia S.p.A.	150,123	-	-	-	-	150,123
World Online International N.V.	-	-	-	-	-	-
Tiscali Uk Holdings Ltd	-	-	-	-	-	-
Aria S.p.A.	26,370	-	-	-	o	26,370
	176,494	**-**	**-**	**-**	**-**	**176,494**

<u>Assessment of the value reductions in equity investments in subsidiary companies</u>

SUBSIDIARIES *(EUR 000)*	**Registered Offices**	**Share Capital**	**Shareholders' equity**	**Result**	**% Held**	**Book value**
Tiscali Italia S.p.A.	Cagliari	18,794	151	(28,439)	100%	150,123
World Online International N.V.	Maarsen (NL)	(115,519)	-	-	100%	-
Tiscali Uk Holdings Ltd	Londra	59	(338,489)	(6,853)	100%	-
Aria S.p.A.	Roma	27,764	(1,519)	(26,245)	100%	26,370
						176,494

(*) Data as of 31 December, 2016, shown in the reporting packages prepared for consolidation

In consideration of the presence of *impairment* indicators, an impairment test was performed on assets, as per IAS 36 and prescribed in the joint document by Bank of Italy / Consob / ISVAP no. 4 dated 3 March 2010, on the application of IAS/IFRS principles.

Assessment of any loss in value of investments was carried out through the comparison between the book value of the equity investments as of December 31, 2016, and their recoverable value determined on the basis of the following key elements:

- Participation in Tiscali Italia S.p.A.: the Plan assumes non-separable future cash flows among the various Group companies, as they are closely interconnected one another. Therefore, in order to identify the Enterprise value of Tiscali Italia, we have proceeded to spin the fair value of Aria S.p.A. This value has been properly adjusted for the net financial position in order to determine the Equity Value. The book value of the investment was therefore compared with the equity value

- Participation in Aria S.p.A.: for accounting purposes of the business combination with the Aria Group in the Financial Statements as of December 31, 2015, the investment in Aria Spa has been valued at fair value as required by IFRS 3 Revised. For the assessment of recoverability on 31 December 2016 of the investment value, the carrying value of the investments itself as at 31 December 2016 has been compared to its fair value

The value in use was determined on the basis of the cash flows for the years 2017 to 2021, resulting from the 2017-2021 Plan of Tiscali Group (as defined in the Note *"Significant events occuring after the end of the period, operating outlook and assesments on business continuity"*) approved by the Board of Directors on 28 March, 2017. In addition, for the purposes of the impairment test, a five-year time period was used and the normalised cash flow for the year 2020 has been used in order to determine the terminal value.

The main assumptions used to estimate the recoverable amount concern:

- explicit forecast period equal to the residual plan duration, 2017 – 2021;
- EBITDA arising from market and business development hypothesis;
- investments to maintain the expected development of the business and pre-established level of profitability;
- determination of the terminal value calculated as perpetuity based on the projection of the last FY 2020;
- WACC rate determined on the basis of market valuations of the cost of money and specific risks related to the company's core business;
- Long Term Growth – LTG equal to 0%.

The cost of the capital was estimated considering the calculation criteria provided by the CAPM (Capital Asset Pricing Model). In particular, in the WACC determination:

- the beta coefficient was valued considering both the value of Tiscali over various timescales for a period of more than twelve months;
- the spread of the credit on the risk-free element was assessed in line with the conditions of current debt;
- the risk premium was assessed within a prudent range with respect to the current conditions of financial markets.

Based on these parameters, the WACC used for the impairment tests is 7.03%.

The result of the impairment test shows a positive difference between the recoverable value and book value, thus the Group feels that it is not necessary to write down any of the balance sheet assets.

(v) ***Sensitivity analisys on the impairment test results***

In consideration of the current scenario and the results of the impairment tests performed for the period ended on 31 December 2016, an analysis was carried out on the sensitivity of the recoverable value estimated using the discounted cash flow method. The discount rate is considered a key parameter in the estimate of recoverable value. An increase of 1% would lower the positive difference between estimated recoverable value and book value. Such difference would continue to be positive. Furthermore, a sensitivity analysis on the long-term growth rate was also carried out: a 1% increase of that rate, similarly, would reduce the positive difference between the estimated recoverable value and book value; however, this difference would still be positive.

Other non-current financial assets (Note 9)

(EUR 000)	31 December 2016	31 December 2015
Receivables from Group companies	21,846	2,431
Other Receivables	-	-
Total	**21,846**	**2,431**

Other Non-Current Assets include Financial Receivables from Group companies for an amount of EUR 21.8 million.

A breakdown of the Financial Receivables from Group companies follows:

(EUR 000)	31 December 2016	31 December 2015
Tiscali Business Gmbh	2,878	1,522
Tiscali Deutschland Gmbh	555	554
Tiscali Financial Services Sa	40	32
Tiscali International BV	539	251
Tiscali Italia S.p.A.	-	-
Tiscali Verwaltungs Gmbh	75	73
Aria S.p.A.	17,760	0
Veesible S.r.l.	-	-
Total	**21,846**	**2,431**

Trade receivables (Note 10)

(EUR 000)	31 December 2016	31 December 2015
Trade payables	7,844	2,531
Provisions for doubtful receivables	(1,274)	(1,274)
Total	**6,570**	**1,257**

Trade Receivables of Tiscali S.p.A. are mainly associated with intercompany positions as summarised in detail in the following table:

(EUR 000)	31 December 2016	31 December 2015
Tiscali Italia S.p.A.	6,459	1,172
Veesible S.r.l.	35	35
Total	**6,494**	**1,207**

The breakdown of receivables from customers by maturity follows:

	31 December 2016	31 December 2015
(EUR 000)		
Within 12 months	6,163	1.188
Between 1 and 5 years	407	69
Exceeding 5 years	-	-
Total	**6,570**	**1.257**

The book value of trade receivables is approximate to their fair value. It is further emphasized that trade receivables will be due within 12 months and do not present any overdue balance of a significant amount.

Other Receivables and Other Current Assets (Note 11)

	31 December 2016	31 December 2015
(EUR 000)		
Other Receivables	631	470
Accrued income	-	-
Prepaid expenses	40	366
Total	**671**	**837**

The item Other Receivables mainly include receivables from suppliers for advances made during the year for EUR 0.3 million and tax credits for Ires, equal to EUR 0.2 million

Liquid assets (note 12)

At the end of FY 2016, cash and cash equivalents totalled EUR 22,000 and include the company's liquid resources, essentially held in bank current accounts. Reference should be made to the report on operations for a detailed analysis of the financial position.

Net shareholders' equity (Note 13)

EUR 000	**31 December 2016**	**31 December 2015**
Share capital	91,201	169,077
Legal reserve	91	91
Other reserves	-1,223	-14,931
Result from previous fiscal years		-26,904
Result for the fiscal year	-349	-36,175
Total	**89,719**	**91,158**

Detailed statement of Shareholders' Equity items						Summary of uses in the last 3 accounting periods	
	Amount	Utilisation options	Available shares	Available shares with no tax effect	Available share with tax effect	Loss coverage	Other
Share capital	91.201		-	-	-	-	-
Legal reserve	91	B					
Coverage Loss Reserve	-	B				-	
Share Premium Reserve	24						
Other Reserves	(2.695)						
Other Reserves Aria S.p.A.	45						
Stock option reserve							
FY Loss	(349)		-	-	-	-	-
Total	**89.719**		**0**	**-**	**-**	**0**	**-**

Utilisation options – Key:
A For share capital increases
B For loss coverage
C For distribution to shareholders

Other non-current liabilities (Note 14)

	31 December 2016	31 December 2015
(EUR 000)		
Payables to Group companies	73.613	31.015
Total	**73.613**	**31.015**

The balance of Other Non-Current Liabilities concerns financial payables to Group companies for EUR 74.1 EUR, as detailed below:

	31 December 2016	31 December 2015
(EUR 000)		
Tiscali Financial Services SA	-	-
Tiscali Gmbh	3,508	3,518
Tiscali Italia S.p.A.	62,602	24,134
Aria S.p.A.	169	-
Tiscali International Network BV	26	26
Indoona Srl	7	7
Istella Srl	-	4
Veesible S.r.l.	7,301	3,327
Total	**73,613**	**31,015**

The breakdown of Other Non-Current Liabilities by maturity follows:

	31 December 2016	31 December 2015
(EUR 000)		
Within 12 months	-	-
Between 1 and 5 years	73.613	31.015
Exceeding 5 years	-	-
Total	**73.613**	**31.015**

Liabilities for pension benefits and staff severance indemnities (note 15)

The following table shows the changes during the period:

	31 december 2015	Accrual	Variation in consolid area	Utilization	Reserve OCI	31 december 2016
(thousands Euro)						
Severance indemnities	204	4	9	(37)	6	187
Total	**204**	**4**	**9**	**(37)**	**6**	**187**

The staff severance indemnities provision, which includes the indemnities accrued mainly in favour of executives, amounts to EUR 0.2 million.

The liability was discounted back as provided the by accounting standard IAS 19 (2011 review).

In accordance with national regulations and laws, the amount due to each employee matures in compliance with the service provided, and has to be immediately disbursed as the employee leaves the company. At the end of the work relationship, the amount due is calculated pursuant to Italian civil and employment law, on the basis of the duration of the work relationship itself and the taxable remuneration of each employee. The liability is annually adjusted in compliance with the official cost of living index, and with the interest established by law. It is not associated with any condition or period of accrual, or with any financial funding obligation; therefore, there are no assets serving the provision. In compliance with IAS 19, the provision was recorded under “Defined benefit plans”. The main actuarial assumptions used in the assessment follow.

Financial assumptions

<u>Financial assumptions</u>

Inflation rate: 1,75%

Discount rate: 2%

Demographic assumptions:

Mortality: 2013 SIM mortality tables, M/F

Disability: 1998 INPS disability tables, M/F

Resignation: 3.50% from 20 to 65 years of age

Advance payments: 3% from 20 to 65 years of age

Retirement pension: 66 years and 3 months for men, and 63 years and 9 months for women

Retirement pension: 42 years and 6 months for men, and 41 years and 6 months for women

Provisions for risks and charges (Note 16)

The following table shows the variations during the period:

	31 December 2015	Increases	Decreases	Other changes	31 December 2016
(EUR 000)					
Provisions for risks and charges disputes with employees	232	-	(85)	(147)	-
Provisions for Subsidiaries' Loss Coverage	-	-	-	-	-
Other Provisions for Risks and Charges	456	-	-	2,005-	2,461
Total	**688**	**-**	**(85)**	**1,858**	**2,461**

The provision for employee dispute risks and charges refers to legal disputes with third parties or former employees furthered in previous years.

Payables to banks and other lenders (Note 17)

As at the fiscal-year and, there is no payable to banks and other lenders.

Payables to suppliers (Note 18)

	31 December 2016	31 December 2015
(EUR 000)		
Trade paybles to third parties	5,795	5,510
Trade payables to Group companies for materials and services	923	634
Totale	**6,717**	**6,144**

Trade payables to third party suppliers primarily relate to payables for professional consulting services.

The detail of Trade Payables to Group companies follows:

	31 December 2016	31 December 2015
(EUR 000)		
Tiscali Italia S.p.A.	923	634
Total	**923**	**634**

Other Current Liabilities (Note19)

EUR 000	**31 December 2015**	**31 December 2014**
Accrued charges	7	3
Deferred income	516	33,640
Other payables to third parties	13,630	18,237
Total	**14,153**	**51,881**

The item 'Other Payables' is mainly represented by amounts due to tax authorities and social security and welfare institutions, in particular, VAT debt amounts to EUR 7 million.

Guarantees provided and commitments (Note 20)

The detail of guarantees provided follows:

	31 December 2016	31 December 2015
(EUR 000)		
Guarantees provided to third parties (Sureties)	175,600	173,068
Commitments	1,600	1,600
Total	**177,200**	**174,668**

Sureties guaranteed refer for EUR 83 million to the guarantee provided by the Parent Company for the loans granted by financial institutions as part of the restructuring of the Group's debt carried out during 2016.

The same item includes the surety issued by Tiscali S.p.A. to guarantee the amount of the loan associated with the sale & lease back transaction on the Sa Illetta property, amounting to EUR 54 million, carried out by the subsidiary Tiscali Italia S.p.A.

The remaining EUR 37 million refer to guarantees issued by the Parent Company for credit lines and lasing lines to the subsidiary Tiscali Italia S.p.A.

The entire balance of the item 'Commitments' concerns the maintenance of the credit lines granted to the subsidiary Tiscali Italia S.p.A.

Net Financial Position (Note 21)

In compliance with the provisions of the Consob Communication No. DEM/6064293 dated 28 July 2006, it is pointed out that the net financial position at 31 December 2013 is summarised in the following table, drafted on the basis of the format envisaged by the CESR Recommendation dated 10 February 2005 "Recommendations for the consistent implementation of the European Commission's Regulation on Prospectuses":

(EUR 000)	**31 December 2015**	**31 December 2014**
A. Cash	22	-
B. Other cash equivalents		71
C. Securities held for trading	-	-
D. Liquidity (A) + (B) + (C)	**22**	**71**
E. Current financial receivables	**671**	**837**
F. Convertible Bond	375	-
G. Current portion of non-current debt		
H. Other current financial payables	516	33,640
I. Current financial debt (F) + (G) + (H)	**891**	**33,640**
J. Net current financial debt (I) – (E) – (D)	**197**	**32,732**
K. Non-current bank payables	-	-
L. Bonds issued	18,429	-
M. Other non-current payables to Group companies	76,785	31,015
N. Other non-current payables to third parties	-	-
O. Non-current financial debt (K) + (L) + (M) + (N)	**95,214**	**31,015**
P. Net financial debt (J) + (O)	**95,411**	**63,748**

Financial risk management

Financial risk management objectives

The Group's Corporate Treasury division provides business services, co-ordinates access to the local and international financial markets, and monitors and handles the financial risk associated with Group operations by means of internal risk reports which analyse the exposures by degree and magnitude of the risk. These risks include market risks (inclusive of currency risks, fair value interest rate risks and price risks), credit risks and risks in cash flow interest rates.

Market risks

The Company's activities expose it primarily to the financial risk of changes in exchange rates for foreign currency and to the interest rate.

Transactions with related parties

During 2016, the Tiscali S.p.A. had a number of dealings with related parties. These were transactions regulated on an arms'-length basis; the table below summarises the balance sheet and income statement values recorded in the Parent Company's financial statements as of 31 December 2016 arising from transactions with related parties. The following table provides the effects on the income statement:

INCOME STATEMENT	**2016**	**of which related parties**	**% Incidence**
(EUR 000)			
Revenues	5,413	5,343	99%
Other income	-		
Purchase of materials and outsourced services	(4,272)	(3,172)	74%
Payroll and related costs	(2,465)	(1,819)	74%
Other operating costs	188		
Write-downs of receivables from customers	1,331		
Restructuring costs and other write-downs	(235)		
Amortisation/depreciation	-		
Operating result	**(40)**	**351**	
Portion of result of equity investments carried at equity	-		
Net financial income (charges)	(279)	(132)	47%
Pre-tax result	**(319)**	**220**	
Income taxes	(31)		
Net result from operating activities (on-going)	**(349)**	**220**	
Result from assets disposed of and/or destined for disposal	-		
Net result	**(349)**	**220**	

INCOME STATEMENT	2015	of which related parties	% Incidence
(EUR 000)			
Revenues	3,831	3,716	97%
Other income	-		
Purchase of materials and outsourced services	(1,739)	(596)	34%
Payroll and related costs	(1,492)	(1,508)	101%
Other operating costs	657		
Write-downs of receivables from customers	(35,249)	(35,249)	100%
Restructuring costs and other write-downs	(2,467)	(1,120)	45%
Amortisation/depreciation	-		
Operating result	**(36,458)**	**(34,757)**	
Portion of result of equity investments carried at equity	-		
Net financial income (charges)	192	7	3%
Pre-tax result	**(36,266)**	**(34,750)**	
Income taxes	92		
Net result from operating activities (on-going)	**(36,175)**	**(34,750)**	
Result from assets disposed of and/or destined for disposal	-		
Net result	**(36,175)**	**(34,750)**	

The effects on the balance sheet were as follows:

BALANCE SHEET *(EUR 000)*	**2016**	**of which related parties**	**% Incidence**
Non-current assets	198,340	21,846	11.01%
Current assets	7,263	6,494	89.41%
Assets held for sales	54		
Total Assets	**205,657**	**28,340**	
Shareholders' equity	89,719	1,402	1.56%
Total Shareholders' equity	**89,719**	**1,402**	
Non-current liabilities	94,690	82,828	87.47%
Current liabilities	21,245	2,516	11.84%
Liabilities held for sales	4		
Total Liabilities and Shareholders' equity	**205,657**	**86,745**	

BALANCE SHEET *(EUR 000)*	**2015**	**of which related parties**	**% Incidence**
Non-current assets	178,925	2,431	1.36%
Current assets	2,165	1,207	55.74%
Assets held for sales			
Total Assets	**181,090**	**3,638**	
Shareholders' equity	91,158		
Total Shareholders' equity	**91,158**		
Non-current liabilities	31,907	31,015	97.20%
Current liabilities	58,025	35,943	61.94%
Liabilities held for sales			
Total Liabilities and Shareholders' equity	**181,090**	**66,958**	

The most significant balances, at 31 December 2016, summarized by service supplier, are as follows:

INCOME STATEMENT VALUES		2016				2015			
EUR 000		Costs	Devaluations	Interest income/(expense)	Revenues	Costs	Devaluations	Interest income/(expense)	Revenues
Tiscali Business Gmbh	1	-	-	-	-	-	-	2	-
Tiscali Financial Services Sa	1	-	-	-	-	-	-	0	-
Tiscali Finance Sa				-				0	
Tiscali Gmbh	1	-	-	-	-	-	-	(1)	-
Tiscali International BV	1	-	-	0	-	-	-	1	-
Tiscali International Network BV	1	-	-	-	-	-	-	0	-
Tiscali Italia S.p.A.	1	(271)	-	-	5,343	(375)	-	-	3.716
Tiscali Uk Holdings Ltd	1	-	-	-	-	-	(35,249)	5	-
Total Group companies		**(271)**	**0**	**0**	**5,343**	**(375)**	**(35,249)**	**7**	**3.716**
Other related parties									
Statutory Auditors		(120)				(85)			
Directors		(1,459)				(782)			
key management		(1,741)				(861)	(1,120)		
Stock Option		(1,402)							
Convertibile bond		(132)							
Other related parties		**(4,853)**	**0**	**0**	**0**	**(1,728)**	**(1,120)**	**0**	**0**
Total Group companies and other related parties		**(5.124)**	**0**	**0**	**5,343**	**(2,104)**	**(36,369)**	**7**	**3,716**

(1) Group companies

ASSET VALUES *EUR 000*	Notes	2016							
		Trade receivables	Financial receivables	Trade payables	Financial payables (within 12 months)	Financial payables (over 12 months)	Payables to employees	Other current liabilites	Stock Option reserve
Tiscali Business Gmbh	1	-	2,878	-	-				
Tiscali Deutschland Gmbh	1	-	555	-	-				
Tiscali Financial Services Sa	1	-	40						
Tiscali Gmbh	1	-	-	-	-	3,508			
Tiscali International BV	1	-	539	-	516				
Tiscali International Network BV	1	-	-	-	-	26			
Tiscali Italia S.p.A.	1	6,459	-	923	-	62,602			
Tiscali Verwaltungs Gmbh	1	-	75	-	-	-			
Indoona S.r.l.	1	-	-	-	-	7			
Istella S.r.l.	1	-	-	-	-	-			
Veesible S.r.l.	1	35	-	-		7,301			
Aria S.p.A.	1		17,760			169			
Totale imprese del Gruppo		**6.494**	**21,846**	**923**	**516**	**73,613**			
Other related parties									
Statutory Auditors				203					
Directors				74			-	316	
key management				53			137	106	
Stock Option					187	9,214			
Convertibile bond									1.402
Other related parties		**-**	**-**	**330**	**187**	**9,214**	**137**	**422**	**1.402**
Total Group companies and other related parties		**6.494**	**21,846**	**1,253**	**703**	**82,828**	**137**	**422**	**1,402**

(1) Group companies

ASSET VALUES	Note				**2015**				
EUR 000		Trade receivables	Financial receivables	Trade payables	Financial payables (within 12 months)	Financial payables (over 12 months)	Payables to employees	Other current liabilites	Stock Option reserve
Tiscali Business Gmbh	1	-	1,522	-	-				
Tiscali Deutschland Gmbh	1	-	554	-	-				
Tiscali Financial Services Sa	1	-	32						
Tiscali Gmbh	1	-	-	-	-	3,518			
Tiscali International BV	1	-	251	-	33,640				
Tiscali International Network BV	1	-	-	-	-	26			
Tiscali Italia S.p.A.	1	1,172	-	634	-	24,134			
Tiscali Verwaltungs Gmbh	1	-	73	-	-	-			
Indoona S.r.l.	1	-	-	-	-	7			
Istella S.r.l.	1	-	-	-	-	4			
Veesible S.r.l.	1	35	-	-	-	3,327			
Aria S.p.A.			-		-	-			
Other related parties		**1,207**	**2,431**	**634**	**33,640**	**31,015**	**-**	**-**	
Statutory Auditors									
Directors									
key management				133					
Stock Option							246	75	
Convertibile bond							96	1,120	
Other related parties									
Total Group companies and other related parties									-
Other related parties		**-**	**-**	**133**	**-**	**-**	**341**	**1,195**	**-**
Statutory Auditors			**2,431**	**766**	**33,640**	**31,015**	**341**	**1,195**	**-**

(1) Group companies

Disputes, contingent liabilities and commitments

During the normal course of its business, the Tiscali Group is involved in certain legal and arbitration proceedings, as well as being subject to tax audit.

The following is a summary of the main proceedings in which the Group is involved.

Civil and administrative proceedings

TeleTu Litigation

On June 2011, Tiscali Italia sued TeleTu SpA, at the Court of Milan, demanding damages for approximately EUR 10 million due to unlawful conduct by the defendant in user migration during the period of January 2009 – April 2011. The defendant filed a counterclaim for alleged similar acts performed by Tiscali Italia, and in turn demanded damages for more than EUR 9 million. In July 2016, the CTU (Court Appointed Consultant) started its activity. The outcome of the case is not predictable.

Consip Proceeding

In April 2016, the TAR of Lazio, rejected the appeal submitted by Telecom Italia and Fastweb against the adjudication provision of the SPC Consip tender to Tiscali Italia.

The unsuccessful parties submitted a new appeal against the verdict of the TAR of Lazio at the Council of State, which fixed a hearing in a single hearing to be held on January 19, 2017.

On March 24, 2017, the Council of State issued a reject sentence against the appeal submitted by Telecom Italia against the adjudication – in favour of Tiscali – of the framework agreement for network and connectivity services (SPC) to the public administration.

Vodafone Litigation

In February 2017 it has been notified to Tiscali Italia of Vodafone which appealed at TAR Lazio (Regional Administrative Court) to cancel, after the suspension, the “nulla osta” released in January 2017 by CONSIP for the replacement of Fastweb in place of Tiscali in the SPC contract. The parties have filed their defensive memories, awaiting the hearing to discuss about the suspending hearing. The outcome of the appeal can not be predicted.

Proceedings of criminal nature

In the month of September 2013, Tiscali S.p.A. received by the Public Prosecutor’s Office of Cagliari, in compliance with the Legislative Decree 231/2001, a notice of conclusion of preliminary investigations into alleged conduct of false corporate communications related to the financial statements from 2008 to 2012. The subsidiary company Tiscali Italia received the same notice in January 2014. The offense attributed to the company and some of its managers, provided for by Art. 2622 of the Civil Code, refers to alleged incorrect accounting entries in respect of allowances for doubtful debts. In June 2016, on the conclusion of the preliminary hearing, committed for trial the two companies, in addition to the accused managers. The Companies are setting up the necessary measures of defence for the court phase which started on October 2016.

Remuneration of the directors, statutory auditors and executives with strategic responsibility

Pursuant to Article 78 of regulations enforcing Italian Legislative Decree no. 58/1998, issued by CONSOB under Resolution No. 11971/99, the following tables indicate the fees paid to Directors and Statutory Auditors**.**

Name and surname	Position	Term of office	Emoluments for office	Benefits in kind	Other forms of remuneration	Total
Board of Directors *Euro*						
Renato Soru	Chairman and Chief Executive Officer	in office from 30.04.2015 to 16.02.2016	43,750	6,250	1,500	51,500
Gabriele Racugno	Director	in office from 30.04.2015 to 16.02.2016	3,125			3,125
Luca Scano	Director	in office from 30.04.2015 to 16.02.2016	3,125		29,221	32,346
Assunta Brizio	Director	in office from 30.04.2015 to 16.02.2016	3,125			3,125
Franco Grimaldi	Director	in office from 30.04.2015 to 16.02.2016	3,125			3,125
Total						**93,221**

Name and surname	Position	Term of office	Emoluments for office	Benefits in kind	Other forms of remuneration	Total
Board of Directors *Euro*						
Okun Alexander	Chairman	in office from 22.07.2016 AR 31.12.2017 approval	86,944			86,944
Riccardo Ruggiero	Chief Executive Officer	in office from 16.02.2016 AR 31.12.2017 approval	632,955		3,619	636,574
Franco Grimaldi	Director	in office from 16.02.2016 AR 31.12.2017 approval	45,211		7,000	52,211
Paola De Martini	Director	in office from 16.02.2016 AR 31.12.2017 approval	43,472		6,500	49,972
Anna Belova	Director	in office from 16.02.2016 AR 31.12.2017 approval	43,472		7,000	50,472
Konstantin Yanakov	Director	in office from 16.02.2016 al 24.02.2017	43,472		3,000	46,472
Nikolay Katorzhnov	Director	in office from 16.02.2016 al 24.02.2017	43,472		2,500	45,972
Renato Soru	Director	in office from 16.02.2016 AR 31.12.2017 approval	156,250	43,750	151,500	351,500
Alice Soru	Director	in office from 16.02.2016 AR 31.12.2017 approval	45,211			45,211
Total						**1,365,330**

Name and surname	Position	Term of office	Emoluments for office	Benefits in kind	Other forms of remuneration	Total
Board of Statutory Aditors Euro						
Paolo Tamponi	Chairman	in office from 30.04.2015 to 16.02.2016	4,550			4,550
Andrea Zini	Statutory Auditor	in office from 30.04.2015 to 16.02.2016	3,250			3,250
Rita Casu	Statutory Auditor	in office from 30.04.2015 to 16.02.2016	2,167			2,167
Totale						**9,967**

Name and surname	Position	Term of office	Emoluments for office	Benefits in kind	Other forms of remuneration	Total
Board of Statutory Aditors *Euro*						
Paolo Tamponi	Chairman	in office from 16.02.2016 AR 31.12.2017 approval	42,900			42,900
Emilio Abruzzese	Statutory Auditor	in office from 16.02.2016 AR 31.12.2017 approval	33,367			33,367
Valeria Calabi	Statutory Auditor	in office from 16.02.2016 AR 31.12.2017 approval	33,367			33,367
Total						**109,633**

Annex - Information pursuant to Article 149-*duodecies* of the Consob Issuers' Regulations.

The following table, drawn up in accordance with Article 149-*duodecies* of the Consob Issuers' Regulations, indicates the fees for 2015 for auditing services and those for other services provided by the independent auditing firm.

Type of service	Subject providing the services	Beneficiary	Fee (EUR 000)
Accounts auditing	EY S.p.A.	Tiscali S.p.A.	331
Other professional services	EY S.p.A.	Tiscali S.p.A.	153
Total			**484**

Statutory financial statements certification pursuant to Article 81-ter of the CONSOB Regulation No. 11971, dated 14 May, 1999, and subsequent amendments and additions

The undersigned, Riccardo Ruggiero in his capacity as Executive Chairman, and Pasquale Lionetti, in his capacity as Executive appointed to draft the corporate accounting documents of Tiscali S.p.A., hereby certify, being the provisions of Article 154 bis (3 and 4), of Italian Legislative Decree No. 58 dated 24 February 1998 taken into account:

- the adequacy in relation to the Company's characteristics;
- the effective application of the administrative and accounting procedures for the formation of the financial statements in the FY 2016.

Tiscali S.p.A. has adopted the Internal Control Model - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission as the reference framework for the definition and valuation of its internal audit system, with particular reference to the internal controls for the formation of the financial statements: this model represents a body of general reference principles for the internal audit system generally accepted at international level.

It is also hereby certified that the financial statements at 31 December, 2016:

- are consistent with the results of accounting books and entries;
- were prepared in compliance with the International Financial Reporting Standards (IFRS) adopted by the European Union, as well as the legislative and regulatory provisions in force in Italy;
- as far as can be ascertained, are suitable for providing a true and fair view of the equity, economic and financial situation of the issuer.

In conclusion, it is hereby certified that the Parent Company's Report on operations, jointly presented with the Consolidated Report on Operations into a single document, it includes a reliable analysis of the progress and the results of operations, as well as the issuer's situation, and together a description of main risks and uncertainties to which it is exposed.

Cagliari, April 28, 2017

The CEO	**The Executive appointed to draft the Corporate and Accounting Documents**
Riccardo Ruggiero	Pasquale Lionetti

Shared access	Technique for shared access to a local network in which a former monopoly operator rents part of the capacity to other operators: in that portion of the bandwidth the operator can provide Broadband services, whilst the former monopoly operator on the portion of the bandwidth not hired out, continues to provide telephony services.
ADSL	Acronym for Asymmetric Digital Subscriber Line, (the available bandwidth in reception is greater than that available for transmission) to enable internet access at high speed.
ADSL2 +	An ADSL technology that extends the ADSL base capacity by doubling the download bit flow. The bandwidth can reach 24 Mbps in download and 1.5 Mbps in upload and depends on the distance between the DSLAM and the customer's location.
Uncovered Areas	Also called "indirect access areas" to identify the geographic areas which are not directly served by the network owned by Tiscali (see also Bitstream and Wholesale).
ARPU	Average returns for fixed and mobile telephony for the user calculated over a given period for an average number of active (for other operators) or Tiscali Group customers in the same period.
Bitstream	Bitstream (or digital flow) services: service consisting of the supply by an operator of access to the fixed public telephone network of the transmission capacity between an end user workstation and the point of presence of an operator or an ISP that wants to provide broadband services to the end user.
Broadband	Data transmission system in which lots of data is sent simultaneously to increase the actual speed of transmission with a data flow equal to or greater than 1.5 Mbps.
Broadcast	Simultaneous transmission of information to all nodes on a network.
Unique browsers	Number of different browsers that, in a specific time span, can visit a site one or more times.
Access fee	This is the amount debited by national operators for each minute of use of their network by the operators of other networks. This is also called the "interconnection fee".
Capex	Acronym for Capital Expenditure. Identifies the outgoing cash flows generated by the investments in an operating structure.
Carrier	Company that physically makes a telecommunications network available.

Co-location	Dedicated spaces in the machine rooms of an incumbent operator for the installation by Tiscali of its own network devices.
CPS	Acronym for Carrier Pre Selection, a system for preselecting an operator. This enables an operator/supplier of local services to automatically route calls on the network of the carrier selected by a client who no longer has to enter special selection codes.
CS	Acronym for Carrier Selection, a system for selecting an operator. Enables a client to select, by entering a special code, a long distance national or international operator other than that with whom he/she has a network access subscription.
Business customers	SoHos, small medium and large businesses.
Consumer customers	Customers who subscribe to an offer intended for households.
Dial Up	Narrowband internet connection by means of a normal telephone call, usually charged on a time basis.
Digital	This is the way of representing a physical variable in a language that uses only the figures 0 and 1. The figures are transmitted in binary code as a series of impulses. Digital networks, which are rapidly replacing the old analogue networks, allow greater capacities and greater flexibility by using computerised technologies for the transmission and handling of calls. Digital systems offer less noise interference and can include encryption as protection from outside interference.
Double Play	Combined offer of access to the Internet and fixed telephony.
DSL Network	Acronym for Digital Subscriber Line Network, which is a network built from existing telephone lines using DSL technology instruments that, by using sophisticated modulation mechanisms, enable data packets to be sent along copper wires and thus the linking of a telephone handset to a modem at a home or in an office.
DSLAM	Acronym for Digital Subscriber Line Access Multiplexer, a device used in DLS technologies, to multiply the transmission of data at high capacities on telephone wires, where a multiplexer means a device that enables the transmission of information (voice, data, videos) in flows by means of direct and continuous connections between two different points on a network.

Fibre Optic	Thin fibres of glass, silicon or plastic that form the basis of a data transmission infrastructure. A fibre optic cable contains various individual fibres, each capable of carrying a signal (light impulses) over a virtually limitless band length. They are usually used for long distance transmissions, for the transmission of "heavy data" so that the signal arrives protected from interference which it might encounter along its own path. A fibre optic cable's carrying capacity is considerably greater than that of traditional cables and copper wire twisted pairs.
GigaEthernet	Term uses to describe the various technologies that implement the nominal speed of an Ethernet network (the standard protocol for cards and cables for high speed connections between a computer and a local network) of up to 1 gigabit per second.
Home Network	Local network made up from various kinds of terminals, devices, systems and user networks, with related applications and services including all the apparatus installed at user premises.
Hosting	Service that consists of allocating on a web server the pages of a website, thus making it accessible from the internet network.
Incumbent	Former monopoly operator active in the telecommunications field.
IP	Acronym for Internet Protocol, a protocol for interconnecting networks (Inter-Networking Protocol), created for interconnecting ungrouped networks by technology, services and handling.
IPTV	Acronym for Internet Protocol Television, a technology suited for using the IP transport technology to carry television content in digital form, using internet connections.
IRU	Acronym for Indefeasible Right of Use, long term agreements that guarantee the beneficiary the option of using for a long period the grantor's fibre optic network.
ISDN	Acronym for Integrated Service Digital Network, a telecommunications protocol in Narrowband able to carry in an integrated form various kinds of information (voice, data, texts, and images) coded in digital form on the same transmission line.
Internet Service Provider or ISP	Company that provides Internet access to single users or organisations.
Leased lines	Lines whose transmission capacity is made available through leasing contracts for the transmission capacity.

LTE-TDD	Long Term Evolution Time Division Duplex is a mobile data transmission technology that follows international standards developed for LTE and 4G networks. It is a network technology that uses a single frequency to transmit, and it does by alternating between uploading and downloading data with a ratio of dynamic adaptation based on the amount of data exchanged
MAN	Acronym for Metropolitan Area Network, a fibre optic network that extends across a metropolitan area and links a Core Network to an Access Network.
Mbps	Acronym for megabit per second, a unit of measurement that states the capacity (and thus the speed) of data transmission along a computer network.
Modem	Modulator/demodulator. It is a device that modulates digital data in order to permit its transmission along analogue circuits, usually made up of telephone lines.
MNO	Acronym for Mobile Network Operator, an operator of proprietary telecommunications on a mobile network that offers its own services wholesale to all MVNOs (Mobile Virtual Network Operator).
MPF	Acronym for Metallic Path Facility, the pair of copper wires (unscreened twisted pair) that comes from an exchange (MDF -Main Distribution Frame) in an operator's telephone room and arrives at the user's premises (individual or corporate). Connections can be Full or Shared. A Full type connection enables the use of the data service (broadband) in addition to voice traffic. A Shared kind of connection only enables the use of the data service (broadband). In a "shared access" service, the LLU operator (in ungrouped access) provides the ADSL services to the end user, whilst the incumbent operator provides the analogue telephone service using the same access line.
MSAN	Acronym for Multi-Service Access Node, a platform able to carry a combination of traditional services on an IP network and that supports a variety of access technologies such as for example a traditional telephone line (POTS), and ADSL2+ line, a symmetric SHDSL line, VDSL and VDSL2 over a copper or fibre-optic network.
MVNO	Acronym for Mobile Virtual Network Operators: A party that offers mobile telecommunications services to the public, using its own mobile network interconnection structures, its own HLR, its own mobile phone network code MNC, Mobile Network Code), its own customer handling (marketing, invoicing and support) and issuing its own SIM cards, but does not have assigned frequencies and takes advantage, for access, of agreements negotiated or regulated via one or more licensed mobile network operators.

Narrowband	System for connecting to data networks, for example the Internet, by means of a telephone call. In this kind of connection all the bandwidth used for the means of transmission is used as a single channel. One single signal occupies all the available bandwidth. The bandwidth of a communications channel identifies the maximum quantity of data that can be carried by means of transmission of the unit over time. The capacity of a communication channel is limited by the frequency interval that the equipment can sustain and by the distance to be travelled. An example of a Narrowband connection is the common modem narrowband connection at 56 kbps.
OLO	Acronym for Other Licensed Operators, operators other than the dominant one that operate in a national telecommunications services market.
Opex	Acronym for Operating Expenses which are direct and indirect costs that are recoded in the income statement.
Pay-Per-View	System by which a spectator pays to view a single programme (such as a sporting event or a film or concert) at the time it is transmitted or broadcast.
Pay TV	TV channels on payment. To receive Pay TV or Pay-Per-view, you have to connect a decoder and have an access system subject to conditions.
Platform	It is the total of the inputs, including hardware, software and equipment for running and the procedures for production (production platform) or for the management (management platform) or for a special service (service platform).
POP	Acronym for Point of Presence, a site at which telecommunications apparatus is installed and that forms a node on the network.
Portal	Website that forms a point of departure or an entry point for a major group of Internet resources or an Intranet.
Router	Hardware or in some cases software instrument that identifies the next point on the network to which a data packet is to be sent, and routes that data packet towards the end destination.
Service Provider	Party that provides end users and content providers with a range of service, including that of an owned, leased or third party service centre.
Server	Computer component that provides services to other components (typically client calls) via a network.
Set-top-box or STB	Device able to handle and route data, voice and television connections, installed at the end user's premises.
Syndication	The sale of radio and TV transmissions wholesale by a media company that owns the rights and usually the delivery platform also.

SoHo	Acronym for Small office Home office, for small offices, mostly professional offices or small firms.
SHDSL	Acronym for Single-pair High-speed Digital Subscriber Line. SHDSL is a technology for telecommunications of the xDSL family and is made by using direct LLU interconnections and enables high speed connections to be made in a balanced way in both directions (transmission and reception).
Single Play	Service including only broadband data access, not combined with other multiplay components such as voice and IPTV services. Broadband access may be provided through LLU platforms, Wholesale or Bitstream.
Single Play voice	Service including only voice access, not combined with other multiplay components such as broadband and IPTV access. Voice service can also be provided by VOPI and CPS procedures.
SMPF	Acronym for Shared Metallic Path Facilities which is synonymous with Shared Access (ungrouped access).
Triple Play	A combined offering of fixed and/or mobile telephony, Internet and/or TV made by a single operator.
Local loop unbundling or LLU	Unbundled access to a local network, in other words, the possibility that telephone operators have had, since the telecommunications market was deregulated, to use existing physical infrastructures built by another operator to offer its own services to customers, paying a rental to the operator that is the actual owner of the infrastructure.
VAS	Acronym for Value-Added Services; services with added value provide a greater level of function compared with the basic transmission services offered on a telecommunications network for the transfer of information between terminals. These include switched analogue voice communications via cable or wireless, a direct digital point to point network “unrestricted” at 9,600 bits/s; packet switching (called virtual) service; analogue and direct broadband transmission of TV signals and extra services, such as closed user groups; call waiting; reverse charging; call announcement and identification of the number called. The value added services provided over a network, from terminals or specialist centres include exchange services, messaging (MHS) (which can also be used for commercial documents in accordance with a predetermined format); electronic user directories, network and terminal addresses; e-mail; fax, teletext, videotext and videophone. Value added services may also include voice telephony value added services such as free numbers or paid telephone services.

VISP	Acronym for Virtual Internet Service provision (sometimes also called Wholesale ISP). This is selling of Internet services purchased wholesale from an Internet Service Provider (ISP) that has the network infrastructure.
VoD	Acronym for Video On Demand. It is the supply of television programs on request by a user for payment of a subscription or of a sum for each programme (a film, or a football match) purchased. Broadcast in a special way by satellite TV and for cable TV.
VoIP	Acronym for Voice over internet Protocol, a digital technology that enables the transmission of voice packets through Internet, Intranet, Extranet and VPN networks. The packets are carried according to H.323 specifications, which are the ITU (International Telecommunications Union) standard that forms the basis for data, audio, video and communications on IP networks.
VPN	Acronym for Virtual Private Network, which can be realised on Internet or Intranet. Data between workstations and the server of the private network is sent along common public Internet networks, but using protection technologies against any interception by unauthorised persons.
Virtual local loop unbundling or VLLU	Procedure for accessing a local analogue network by which, even in the absence of physical infrastructures, the conditions and terms of access under LLU terms are replicated. This is a temporary access system that is usually replaced by LLU.
xDSL	Acronym for Digital Subscriber Lines, a technology that, by means of a modem, uses the normal telephone twisted pair and transforms the traditional telephone line into a high speed digital connection for the transfer of data. ADSL, ADSL 2, and SHDSL etc. belong to this family of technologies.
WI-FI	Service for connection to the internet at high speed wirelessly.
Wi-Max	Acronym for Worldwide Interoperability for Microwave Access: it is a technology that enables wireless access to broadband telecommunications networks. It has been defined by the WiMAX forum, a world-wide consortium made up of the largest companies in the fixed and mobile telecommunications field that has the purpose of developing, promoting and testing the interoperability of systems based on IEEE standard 802.16-2004 for fixed access and IEEE.802.16e-2005 for fixed and mobile access.
Wholesale	Services that consist of the sale of access services to third parties.

WLR	Acronym for Wholesale Line Rental, selling on by an operator of the telecommunications service for lines affiliated with an Incumbent.

9 Reports