Tiscali Group
Annual Financial Report
as of December 31, 2017

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Tiscali Spa

Registered office in Cagliari, Sa Illetta, SS195 Km 2,3

Share capital EUR 121,507,322.89

Business Registry of Cagliari and VAT No. 02375280928 R.E.A. No. 191784

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1 Key operating and consolidated financial data

Income statement	2017	2016
(EUR mln)		
Revenue	207.6	196.9
Adjusted Gross Operating Result (EBITDA)	29.1	27.1
Operating Result (EBIT)	(22.6)	(28.4)
Result from held for sale and discontinued operations	42.8	(7.0)
Ner Result	0.8	(45.0)
Statement of financial position	**31 december 2017**	**31 december 2016**
(EUR mln)		
Total assets (*)	300.4	285.2
Net Financial Debt (**)	178.9	187.6
Net Financial Debt as per Consob (**)	179.4	191.9
Shareholders' equity (***)	(128.0)	(167.6)
Investments	64.4	56.7
Operating figures	**31 december 2017**	**31 december 2016**
(Migliaia)		
Total number of Clients (****)	**748.2**	**681.2**
Broadband Fixed	451.2	440.2
of which Fiber	*47.1*	*9.8*
Broadband Wireless	66.6	75.0
of which LTE	*49.6*	*10.0*
Mobile	230.4	166.0

Financial and asset data related to the sold assets have been classified in accordance with IFRS 5 (with the subsequent restatement of 2016 financial values). For more details, please see note 9 in the explanatory notes.

(*)Even without changing the Total Assets, it should be noted that a reclassification concerning non-current Asset items has been carried out: in particular: the net book value of the dsl device (modem and CPE) have been reclassified, for a better disclosure of the nature of the investment, from the intangible fixed assets category to the tangible fixed assets one. Said reclassification has been performed, for comparison reasons, also referred to December 31, 2016. The amount of this reclassification is EUR 13.2 million at December 31, 2017 (EUR 6.8 million as of December 31, 2016).

(**) The financial highlights in question include among the financial debts the loans provided by the Ministry of Industry and by the Ministry of University and Research for a total of EUR 0.6 million. The figures as at December 31, 2016 have been restated as well.
In addition, it should be noted that compared to the PFN disclosed pursuant to Article 114 of the TUIR as of 31 December 2017, the PFN of this Annual Report shows a lower net debt of EUR 0.6 million. The differential elements between the PFN of this Annual Financial Report and of that communicated pursuant to art. 114, are the following:

• The long-term portion of the Senior Loan and the financing relating to the Sales & lease Back of Sa Illetta has been reclassified shortly, based on the status of the standstill process on both loans (see also Section 4.8) and according to the provisions of IAS 1. Since the aforementioned standstill requests have not been formalized by December 31, 2017 and since Tiscali has not respected the payment terms provided for in the First and Second Agreement and in the Sa Illetta Sale and Lease Back Agreement, the Group classified these short-term loans despite the fact that the standstill was defined. This reclassification amounts to a total of EUR 108.1 million in the PFN of this Annual Financial Report (EUR 108.7 million as per the PFN disclosed pursuant to Article 144 of the TUIR).
• The amortized value of the senior loan, equal to EUR 87.8 million, is different from EUR 0.5 million compared to the value included in the NFP reported pursuant to Article 114 of TUIR (EUR 88.3 million) as it is based on different financial plan hypothesis. In fact, the amortized value of the senior loan in this Annual Report is based on the financial plan assumptions included in the standstill requests made to the lenders (standstill up to and including September 30, 2019), while the amortized value included in the PFN disclosed pursuant to Article 144 of the TUIR was based on a financial plan that envisaged payments of the residual installments substantially in line with the contracted financial plan;
• Bank / cash payables: compared to the PFN disclosed pursuant to Article 114 of the TUIR, the PFN of this Annual Financial Report includes a balance of payables vs. banks / cash fund of EUR 0.1 million (EUR 17.4 million, against EUR 17,5 million of the PFN pursuant to Article 114 of the TUIR).

(***) The net equity of the parent company, Tiscali Spa, is EUR 43 million as of December 31, 2017 (EUR 89.7 million as of December 31, 2016). On such date, the Company felt under the cases established in Article No. 2446 of the Civil Code. The Shareholders' Meeting called to approve the financial statements for the year ended December 31, 2017 must therefore also deliberate pursuant to the aforementioned article 2446 of the Civil Code.

(****) Please, note that effective from the preparation of the Six-month Consolidated Financial Report as of June 30, 2017, the Company has adopted a new way to classify its customer portfolio, in order to take into account the impact of the sale of the Business branch to Fastweb, and the refocusing strategy on core business better explained in the continuation of this Annual Financial Report (Paragraph 4.2). In particular, customers of voice and data narrowband – CPS, dialup – being progressively disposed, have been excluded from the classification of its customer portfolio. The same data at December 31, 2016 were restated as well. It is also specified that “Fixed Wireless” users include as at December 31, 2017, a number of former inactive customers, amounting to approximately 9,000 units for which marketing and commercial activities for potential future reactivations are being implemented. As at December 31, 2016, the number of former inactive customers amounted to approximately 20,000 unit.

2 Alternative Performance Indicators

In this management report, in addition to the traditional indicators established by the IFRS, an alternative performance indicator has been introduced (EBITDA) used by the Management of the Tiscali Group to monitor and evaluate the operating performance of the Group itself. This indicator, also present in previous financial reports (annual and interim), and whose method of determination has not changed compared to the past, must not be deemed a replacement for the traditional indicators established by the IFRS; in particular, since the EBITDA composition is not regulated by the accounting principles of reference, the determining criteria applied by the Tiscali Group may not be the same as the one adopted by others and, consequently, it may not be comparable.

Regarding said indicator, on December 3, 2015 CONSOB issued notification No. 92543/15 which acts as reference for the Guidelines issued on October 5, 2015 by the European Security and Market Authority regarding the indicator's presentation in the regulated information disseminated or in public prospectuses published effective from July 3, 2016. These regulations, which update the previous CESR (CESR/05 -178b) recommendation, aim at promoting the usefulness and transparency of the alternative performance indicators included in the regulated information on in the prospectuses that fall within the application of Directive 2003/71/EC so as to improve their comparability, reliability and understandability.

In line with the aforementioned notifications, we provide below the criteria adopted to calculate said indicator.

EBITDA: it is the financial performance indicator not defined by the accounting principles of reference and it is calculated as follows:

(Thousands of Euros)	***2017***	***2016***
Result before taxes	**(42.175)**	**(37.852)**
+ Financial Expenses	19.368	13.381
- Financial Income	(61)	(3.963)
+ Result on Investments at equity method	238	0
Operating income	**(22.630)**	**(28.434)**
+ Restructuring costs	3.603	6.018
+ Ammortamenti	48.088	49.544
Gross Operating Result (EBITDA) (*)	**29.061**	**27.128**

In addition, the Management, wishes to highlight as a note to the Profit and Loss Statements included in the Management Report, the EBITDA at gross of the reserve for doubtful accounts, since it deems that such additional information may help to understand the Business trend even if it does not represent an alternative performance indicator such as the aforementioned EBITDA.

(*) Including the revenues obtained from the release of the portion of competence related to period of capital gain generated from the Sale and Lease-Back transaction at the Cagliari facility (Sa Illetta).

3 Administration and Control Bodies

Board of Directors

The Board of Directors has been appointed by the Shareholders' Meeting held on February 16, 2016, and it is in office until the date of approval of the financial statements at December 31, 2017:

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

CEO: 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 auditors
(**) Co-opted with the Board of Directors on February 24, 2017, after the resignations of Directors Konstantin Yanakov and Nikolay Katorzhnov, confirmed by the Shareholders' Meeting dated May 30, 2017.
(#) The Chairman is the legal representative of the Company, the CEO has powers assigned through proxy by the Board of Directors on February 16, 2016.
(1) Control and Risk Committee
(2) Nominations and Remunerations Committee
(3) Committee for Transactions with Related Parties
(4) Investments Committee
(5) Extraordinary Financial Transactions Committee
(6) Appointed by the Chairman with resolution of the Board of Directors dated July 22, 2016

Board of Auditors

The Board of Auditors has been appointed by the Shareholders' Meeting held on February 16, 2016, and it is in office until the date of approval of the financial statements at December 31, 2017:

Chairman:	Paolo Tamponi
Statutory Auditors:	Emilio Abruzzese Valeria Calabi
Alternate Auditors:	Federica Solazzi Badioli Augusto Valchera

Officer in charge of Preparing the Company's Accounting Documents :

Daniele Renna

The Officer in Charge of Preparing the Company's Accounting Documents has been appointed by the Board of Directors on June 27, 2017, and he is in office until the date of approval of the financial statements at December 31, 2017.

Auditing Firm:

Deloitte & Touche Spa

The Auditing firm has been appointed by the Shareholders' Meeting on May 30, 2017, for a period of nine years, from the fiscal year 2017 to the fiscal year 2025.

Management Report

4 Management Report

The Tiscali Group made use of the right to introduce the Management Report of the Parent Company and the consolidated management report in a single document, by highlighting, where appropriate, the relevant matters for the companies included in the consolidation.

4.1 Tiscali market positioning

Founded in 1998, Tiscali Spa(hereinafter also referred to as "Tiscali", the "Company", and, jointly with its subsidiaries the "Group" or the "Tiscali Group") is one of the main alternative telecommunication operators in Italy.

Through an avant-garde network based on IP technologies, Tiscali provides to is clients a wide range of services, from fixed Broadband and fixed Broadband wireless Internet access services to mobile telephony services and value added services combined with more specific and technologically advanced products. This offer also includes voice services (VOIP and CPS - please refer to Glossary section for the meaning of the technical acronimes used in this document) and portal and mobile telephone services, thanks to the agreement for the provision of services reached with TIM (MVNO). From 2016, thanks to the spectrum acquired through the merger with Aria Spa(hereinafter referred to as "Aria") in December 2015, Tiscali Group has also been offering UltraBroadBand LTE Fixed Wireless services over its proprietary access network.

In addition, Tiscali is active in the digital media and on-line advertising segment through:

- www.tiscali.it, one of the main Italian portals that in 2017 had a total average monthly traffic of more than 300 million pageviews;
- Veesible Srl licensee (hereinafter also referred to as "Veesible") which deals with the sale of advertising space for the portal www.tiscali.it but also other major Italian web properties (see section 5.11 for additional information on the future activities of the subsidiary company Veesible Srl).

Fixed Broadband Market Evolution

Regarding the development of the broadband access market from the fixed network, the main market covered by Tiscali, in September 2017 (source: Italian Communications Authority – AGCOM, last available update) the Broadband accesses in Italy reached 16.38 million units, an increase of approximately 950 thousand accesses compared to September 2016. This increase is driven in particular by the Broadband accesses developed on alternative technologies to traditional ADSL, in particular Fiber and Fixed Wireless Broadband, which reached in September 2017 about 4.9 million accesses, an increase of 1.9 million compared to September 2016, while in the same period the traditional xDSL component decreased. This market development is consistent with a general and growing bandwidth demand from users, in line with the development of the applications, in particular of videostreaming.

During 2017, the Tiscali group adopted a series of actions consistent with the development of the aforementioned Broadband market:

- Progressive focus on offers in Fiber with high capacity up to 1,000 MBps, also thanks to the agreement signed in 2016 with Open Fiber (hereinafter also referred to as "OF");
- Progressive spread of the new LTE UltraBroadband Fixed Wireless offer under the Tiscali brand with capacity up to 100 MBps launched in 2016, thanks to the LTE antenna installation plan (installation of about 320 antennas of the end of 2017) compared to about 100 antennas of 2016 and the progressive migration of WiMax users to LTE;
- New communication strategy focused on the new Tiscali brand, renewed in early 2017, and aimed at supporting the process of acquiring new clients and a general relaunch of the Tiscali brand.

In the fixed network Broadband market, the Fixed Broadband client portfolio of Tiscali, reached approximately 451 thousand units in December 2017, compared to 440 thousand units in December 2016: this allowed Tiscali to maintain a substantially stable position with a market share of 3.2%. In particular, the number of Fiber users increased from approximately 10 thousand in December 2016 to over 47 thousand in December 2017 also due to the migration activities of the Customer Base from traditional ADSL solutions to the Fiber solutions implemented by Tiscali. The market continues to be essentially controlled by the incumbents (TIM, Wind, Fastweb, Vodafone) with substantially stable market shares and significant growth only for Vodafone.

Mobile Market

Concerning mobile services, the Italian market recorded a growth in the total number of clients (99.1 million in September 2017 compared to 97.3 million in September 2016 - source: AGCOM) driven by growth in SIM Not Human as a result of the development of Internet of Things (IoT) models.

In the mobile market, where Tiscali operates as an MVNO operator, in December 2017 it recorded a good performance thanks to a competitive voice, SMS and data offer. The portfolio of mobile clients reached 230,400 units in December 2017, an increase of approximately 38.8% in the number of MVNO Mobile clients compared to December 2016 (166 thousand units).

The exponential growth of data traffic on the Mobile network also continues, with growth of more than 65% in September 2017 compared to the same period of the previous year, driven by the spread of Smartphones, Tablets and Wi-Fi 3G / 4G modems as well as by the ever-increasing development of mobile applications by both on-line media and companies.

To compete with ever greater success in this market, in 2017 Tiscali launched the new Open suite with offers designed for the different communication needs of clients, simple and without hidden costs or recharging constraints, with extremely competitive pricing, and capable of offering to clients the opportunity to create their own offer having available about 200 different customizations and to change it free of charge, according to their needs of use.

On-line advertising market

The on-line advertising market recorded an overall result of +1.7% in 2017, mainly generated by growth in the mobile device sector (according to FCP: EUR 70.5 million in 2017 as compared to EUR 44.4 million in 2016 on a total market of EUR 456.17 million in 2017 compared to EUR 448.48 million in 2016) .

On the mobile on-line advertising segment, growth was 58.5% and its impact on the total, amounted to 15.4%, while the collection on the traditional desktop web segment continues to decrease with a year-end result of -5.3% .

Mobile advertising remains one of the main drivers of future growth, still not very much valued today in consideration of the now predominant weight of the audience generated through the use of mobile devices toward traditional PCs (Audiweb December 2017: 21.3 million unique mobile users on average day compared to 10.6 million unique PC users, again on average day).

The still conflicting macroeconomic indicators are the basis of the overall result recorded by the market in 2017.

The long-term vision, however, remains confirmed with indications of growth in the coming years, especially thanks to the growth expected for the mobile advertising segments, native advertising (+ 44.1% compared to 2016 but still with a low incidence of 7.7% on the total market) and video advertising (+ 13.6% compared to 2016 with an incidence on the total market in 2017 of 23.1%). In 2017, the Group's Media & VAS revenues, which represent 6.7% of total revenues, fell by 7.3% compared to 2016.

4.2 Major results obtained in the fiscal year 2016

Over the course of FY 2017, Tiscali has finalized several transactions started in the fiscal year 2016, and continued its paths of growth and *core business* refocusing started the previous year, beginning to benefit from the actions undertaken. In particular, over the course of the first six months of 2017, Tiscali focused on the following actions:

- **Pursuit of Core Business growth** in order to consolidate the counter trend occurred in 2016 regarding the increase in clients:
  - Resuming growth on the Fixed Broadband portfolio thanks to a new distribution and marketing strategy. The Fixed Broadband clients increased from over 440,000 clients in December 2016 to more than 451,000 clients in December 2017, marking a growth of approximately 11,000 clients;
  - Focusing the marketing effort on the super-high capacity UltraBroadBand solutions allowed reaching approximately 100,000 clients UltraBroadBand (Fiber and LTE), that is just slightly less than 20% of the total Fixed BroadBand and Fixed Wireless portfolio at the end of December 2017. Said result was possible thanks to:
    - The progressive expansion of the new LTE UltraBroadband Fixed Wireless offer under the Tiscali brand in the "Extended Digital Divide" areas thanks to the installation of LTE antennas initiated in 2016 and continued also over the course of 2017 (approximately 320 antennas installed at December 2017) and the progressive migration of users WiMax to LTE. Thanks to this LTE client portfolio, Tiscali reached approximately 49.6 thousand clients in december 2017 (10 thousand customers in december 2016). This result was possible also thanks to the strategic agreement signed with Huawei: thanks to which Tiscali has become the first service provider in Italy to develop a Wireless Fiber To The Home (WFTTH) service with LTE 4G+ technology using Huawei 8T8R latest generation antennas on a frequency of 3.5GHz, which allow already to provide capacity up to 100 Mbps;
    - The launch of the very high capacity solutions in Fiber up to 1,000 MBps, in particular in the urban areas, completed the development strategy of the UltraBroadband services already pursued in the Extended Digital Divide with the offer of the LTE Fixed Wireless services. At December 2017, Tiscali reached a portfolio of more than 47 thousand Fiber clients (around 10 thousand customers in December 2016).
  - Fast growth of the Mobile customer base also thanks to the development of Open, a new Tiscali modular mobile offer. Tiscali mobile clients reached 230.4 thousand units in December 2017 (166 thousand units in December 2016).

These positive results have been possible in particular through a new sales and marketing strategy focused especially on:

- an overall rationalization of the offer;
- an overall refocusing of the Consumer, SOHO and SME segments;
- the introduction of a distribution strategy that is "multi-channel" also integrating the pre-existing structure of the former Aria's physical channels (dealers, stores and installers) that led to an increase in investments for the acquisition of the clientele (SAC);
- An improvement of the overall client management processes that contributed to a reduction in the termination of clients;

Consistently with this new market approach strategy, over the course of 2017 Tiscali has inaugurated a new communication strategy which peaked with the communication campaign of June 2017, after years of non appearing on the Italian media.

The campaign was focused on the renewed Tiscali brand and on the new international testimonial (Jeff Bridges), and had as its main goals:

- supporting the acquisition process of new clients through "pull" channels for an expected reduction of the average cost of client acquisition;
- the relaunch of the visibility of the Tiscali brand on the market

➢ **Operating Cost Efficiency** In 2017, the operating cost efficiency program has continued. In particular, Tiscali completed the reorganization of its corporate structure, brining the number of 'full time equivalent' employees (FTE) from 952 units in December 2016 to 642 units in December 2017 through a permanent implementation of the transactions already initiated in 2016 (transfer of the Business branch to Fastweb, outsourcing of IT activities to Engineering, razionalization of Over The Top activities), in addition to further rationalization of the workforce.

➢ **Additional strengthening of the assets and financial structure of the Group,** which in 2017 continued , as also detailed in the following paragraph 4.5, also thanks to:

o An increase in the paid capital reserved to Okritie Capital International Limited (hereinafter referred to also as "OCIL") and Powerboom Investment Limited, for a maximum value of EUR 13 million. The transaction, which was approved with resolution of the Tiscali Board of Directors dated June 27, 2017 ended on August 7, 2017 with the issuing of 314,000,000 shares equally subscribed by OCIL and Powerboom Investment Limited (a Company fully controlled by ICT) each paying EUR 5,903,200 (for additional information please see section 5.11), with a total amount deriving from the transaction of EUR 11,806,400. Negotiations are ongoing to obtain a financing from the aforementioned parties that allows integrating the liquid cash generated by the aforementioned transaction up to a value of EUR 13 million.

o Continuation of the ongoing negotiations with Intesa San Paolo and BancoBPM (formerly BPM), in order to reach a standstill agreement on payments due to the banks in the next months (for more information on developments in the first few months of 2018see section 4.8).

o Continuation of the negotiations with Mediocredito Italiano and Unicredit Leasing ("Pool Leasing"), to redefine an overall amortization of the debt for the lease of the Sa Illetta real estate property (for additional information see section 4.8).

o Collection, on March 31, 2017, of the payment related to the transfer of Business branch to Fastweb, equal to EUR 20 million, pursuant to the finalization of the transfer occurred on February 10, 2017. The capital gain obtained in the amount of EUR 43.8 million has contributed to strengthen Tiscali's assets level, which at December 31, 2017, before the write-down of the investment in Tiscali Italia Spaof Euro 79 million, reached EUR 122.1 million (EUR 89.7 million at December 31, 2016).

o Conversion of the non-guaranteed convertible bond loan and converting "Tiscali conv 2016-2020", occurred on December 14, 2017. The transaction took place through voiding of the 37 bonds subscribed for a nominal value of EUR 18,500,000 and the issuing of 522,598,870 new shares, having the same characteristics of those in circulation, at a price per share of EUR 0.0354 and with a share capital increase of EUR 18,500,000.

  The transaction enabled the Group to strengthen its capital base by reducing the debt to the lending shareholders for EUR 18.5 million and increasing the equity, with a consequent perspective savings of around EUR 1.2 million per year.

The implementation of the financial transactions and agreements referred to above, as set out in the 2017-2021 Business Plan, has allowed an increase in the financial resources available to the Company and the Group, which were used to support the realization of the industrial plan, with the reduction of past due (commercial and fiscal debts). Please refer to the aforementioned Section 4.8 for changes in the business plan occurred in 2018 and the expected effects on business continuity and the further reduction in overdue debts.

4.3 Regulatory Frameworks

The following illustrates in summary the major regulatory frameworks applied over the course of 2017.

TIM - Reference Proposals

In January 2016, AGCOM initiated a public consultation regarding the guidelines for the assessment of the contributions on activation and deactivation of disaggregated access services in order to approve the related reference proposals issued by TIM for the years 2015 and 2016 (resolution 170/15/CIR).
By effect of such resolution, a reduction in activation and termination contributions was expected as well as a slight reduction in other contributions, as well as the extension of the established principles also on the other *wholesale* offers provided by TIM (in particular Bitstream and WLR), leading to a reduction of the related contributions.
At the end of the aforementioned process, AGCOM confirmed the expectations by adopting the following provisions:

i. In January 2017, resolution 653/16/CONS through which ULL activation and deactivation contributions have been defined for the years 2015 and 2016. For said contribution, a reduction has been established compared to the previous years by effect of the adjustment of the underlying decreasing costs. However, the termination contribution in the case of migration proposed at the time of consultation was not confirmed. In addition, cost reductions on the dismantling of sites (co-rental) have been established respect to the proposal issued by TIM. The retroactive financial impact of said resolution for the years 2015 and 2016 had already been identified in the fiscal year 2016, while said reductions led to an overall organic decrease of corporate costs for the related activities effective from January 2017, reflected in the Tiscali Industrial Plan.

ii. In March 2017, resolution 78/17/CONS, which led to the approval, similarly to what had been defined for the ULL services, of an activation and deactivation contribution for the BTS, reduced respect to the previous years, according to the the decalage of the underlying costs.

In addition, the ATM and Ethernet band costs were approved with significant yearly decreases.

Finally, the conditions for the applicability of the so-called administration migration from ATM to ETH have been defined; therefore, the ATM band has been valuated at the (lower) price of the Ethernet band for the completion period of the Ethernet network by TIM (this benefit applies from April 12, 2016).

The reductions consequent to the regulatory interventions led to an overall organic reduction of corporate costs for the related activities effective from January 2017, reflected in the Tiscali Industrial Plan 2017-2021 and in the income statement for 2017.

Fixed network access services market

In February 2017, with resolution 43/17/CONS, the Authority started a new cycle of market analyses for wholesale access services to the fixed network.
These markets include the main wholesale fixed network access services including i) Unbundling and subloop unbundling (ULL and SLU); ii) Bitstream Rame; iii) Bistream NGA and VULA (FTTH and

FTTC); iv) FTTH P2P and GPON; v) WLR; vi) NGA access services (dark fiber, cable ducts, verticals); vii) End to End; viii) Backhauling services.
The objective of the market analysis is assessing the level of market competition and maintaining or amending the existing regulatory obligations.

As part of this procedure, in May 2017, AGCOM submitted to the interested operators a quantitative and qualitative request for information to which Tiscali has promptly responded.
At the end of December 2017, the procedure was extended; therefore, to date, the related consultation from which the new guidelines of the AGCOM on the matter will become known, in particular related to the fees for the main access services, has not yet been published.

In addition, the implementation measures related to the new *equivalence* model adopted by AGCOM within the previous cycle of analyses is still being defined, valid for the period 2015-2017 (resolution No. 623/15/CONS).

In particular, the *equivalence* model proposed by Telecom and approved by the Authority, the so called New Equivalence Model (NME), calls for SLU, ULL, VULA FTTB/H access services, the so called basic services:

i. full assimilation of the retail trade functions to TIM (TIM *Retail)* to an alternative operator incorporated in its relationships with the commercial and technical interfaces of TIM (that is the *Wholesale directorate)*

ii. the provision of basic wholesale access services regulated by the OAOs and TIM *Retail* through its own organizational unit and the same processes, systems and databases and, therefore, through the implementation of a so-called *full equivalence model.*

The main measures through which the NME will be implemented, according to methods and time schedules established by the Authority, currently still being defined, are the following:

1. Migration to the New Chain of Delivery (NCD) of the wholesale access services;
2. Disaggregation of the services ancillary to the wholesale access services (ULL and SLU) related to the provisioning and assurance processes;
3. Streamlining of the reasons for discarding.

Tiscali is actively participating to technical round tables aimed at implementing said measures, which, by streamlining the method of management of information with TIM, will generate major positive effects on the activation and client management processes.

Market analysis regarding the termination of voice calls on individual mobile networks

In February 2017, with resolution 45/17/CONS, the Authority started a new cycle of analysis on the termination on mobile network market to assess the existence of operators with significant market power, as well as whehter to maintain or integrate the regulations in force. As part this process, AGCOM published the related consultation with which it proposes a decalage of the termination rate (from 0.98 eurocent in 2018 to 0,89 eurocent in 2021). Tiscali presented its contribution to the consultation in which it observes that the value of EUR 0.89 cents / min proposed for 2021 is not adequate as it is not in line with the actual and efficient costs of providing the service, as well as unjustifiably high, especially if compared to the European benchmark.
In February 2018, following some clarification requests related to the cost model for determining termination prices, the Authority published some additional information.
According to the deadlines set by AGCOM, the closure of the proceedings is expected for the month of August. Prudentially, no reduction in the termination tariff during the reference period has been foreseen in the Business Plan.

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

The Authority has power also regarding the use of the radio spectrum for electronic communication systems with the aim of favoring the development of broadband and ultrabroadband services.
Among the significant interventions on this matter, on December 19, 2017, the Authority has opened (and made public on January 22, 2018) a procedure for the assessment of the request for extension of the usage rights of the 3.4-3.6 GHz band, respect to the current deadline of 2023, submitted in November 2017 by the operators appointed and active in said band, among which Tiscali.

The procedure was initiated through a public consultation in which the Authority, before providing its opinion to the Ministry for the possible granting of the extension, acquired the feedback of the market on the opportunity and on the potential risks to competition tied to this transaction.

From the consultation document it is possible read that the Authority expressed a positive opinion on the idea of an extension until 2029, while establishing a few related terms and conditions (obligation of annual reporting, obligation of access, trading prohibition, establishment of a cap as an anti-hording measure). The positive outcome of the consultation, announced on 11 April by AGCOM, will have a direct and significant impact for Tiscali as to obtain the extension by the Ministry of Economic Development it will be possible to develop new services on these frequencies according to technological evolution (5G compared to 4G and LTE) that is forecast to see as primary development specifically the band in question.

In fact, having seen the upcoming evolution towards 5G, the Authority has started on February 26, 2018 (and made public on March 5) a procedure aimed at defining the procedures for the assignment of usage rights in the other bands identified as having priority for the development of said technology (700MHz, 3.6-3.8 GHz and 26 GHz) in order to establish a "multi-band" tender regulation for the next assignments.

In particular, the Authority proposes to the market a public consultation to assess the assignment methods and related financial values. This procedure is important for Tiscali because the financial values that will be defined on the basis of the tender procedure established for the 3.6-3.8GHz band, contiguous and “twin” to the Tiscali assigned band, will also be the values (properly recalculated) of the contribution to be paid for the period of extension of its rights of use to 2020, as defined by AGCOM in its proposal to grant the extension communicated on 11 April.

It is reasonable to believe that the Ministry of Economic Development (hereinafter "MISE"), by next June, following the aforementioned positive opinion acquired by Agcom will formalize its positive opinion on the granting of the extension, effectively concluding the procedure on the request for an extension of the rights to use frequencies. The favorable outcome will allow Tiscali to maintain the strategic asset of the frequencies beyond 2023, for a further 6 years and, therefore, to extend the time horizon for the return of its investments.

The granting of the extension of the rights of use also opens a new perspective in terms of new business opportunities in the nascent 5G ecosystem, given the recognition both at international and national level, at different levels, of the 3.4 - 3.8 GHz band (within of which the lots in use at Tiscali are located) as a pioneer and priority band for the development of new services, helping to strengthen Tiscali's position as the owner of a highly strategic asset.

Exploratory analysis on 5G

In December 2016, the Authority, with resolution 557/16/CONS has started an exploratory survey on the development potential of wireless and mobile systems of the fifth generation (5G) and the use of new portions of the spectrum beyond 6 GHz. The procedure aims at reviewing the evolution of the network architectures, the main applications, the development plans on the use of the spectrum and the degree of interest of the market for the candidate frequencies for the 5G.

As part of this procedure, the Authority has requested to the interested operators feedback on the topic in order to identify the regulatory difficulties and acquire the initial feedback with particular reference to matters related to the use of spectrum in the bands of interest identified for said new technology. In particular, the survey concerns the technological developments established by the 5G and the evolution of the network architectures, with specific reference to the consequences on the use of the spectrum, the business models and the development of the market in a 5G perspective.

The result of said exploratory survey was made public on March 6, 2018, at the same time of the start of the consultation on defining the assignment procedure for the usage rights in the 700MHz, 3.6-3.8 GHz and 26 GHz bands, whose content was established in accordance with the results of the exploratory survey.

Tiscali participated in the fact-finding investigation, contributing to the consultation and focusing its positioning on the subject of spectrum management and regulation in this regard, with particular reference to the neighboring 3.6-3.8 GHz band and "twin" band 3.4-3.6 GHz in which it holds rights of use. To this end, he made a contribution and, hearing a hearing, strengthened his position on the importance of extending the existing rights of use and the urgency and importance of the new allocation of rights in the contiguous band in order to contribute to the achieving the objectives set by the Government and the EU on broadband and ultra-broad coverage of the country, while allowing operators to plan over a longer-term horizon with greater certainty to allow the necessary investments

Consumer Protection

Regarding the activities carried out by AGCOM in 2017 on the topic of consumer protection, two provisions appear of particular importance, as follows:

- monthly invoicing for fixed and mobile network services

In March 2017, with resolution 121/17/CONS, the Authority has introduced the prohibition to adopt invoicing periods other than on a monthly basis for fixed telephony services and for "converging" offers, authorizing instead the 28-day invoicing period for mobile telephony.

The resolution 121/17/CONS did not have a negative impact on Tiscali since, for the fixed network, the invoicing method applied was already on a monthly basis, while for the mobile network the Authorities confirmed the renewal of the offers on a period shorter than a standard month.

Also the Legislator intervened on the topic with article 19-quinquiesdecies of law decree No. 148 dated October 16, 2017, converted with amendments from law No. 172 dated December 4, 2017, which established the obligation for operators to charge clients -- at the time of renewal of the offers and invoicing of the services, both for the fixed telephony and mobile telephony -- on a monthly basis or multiples of months.

Tiscali, in order to meet the requirements established by the regulatory news for the mobile telephony services has updated its mobile offers to the monthly invoicing both for new clients (from March 3, 2018) and its customer base, which will be migrated within the terms established by the law (April 4, 2018).

- measure for the free choice of terminal devices

With resolution No. 35/18/CONS, the Authority has opened a public consultation with the aim of acquiring elements and feedback regarding the right of end users to make use of terminal devices of their choice.

Tiscali submitted its feedback requesting that the regulatory provisions keep in due consideration those cases in which there are objective technical reasons and/or quality-related reasons (in particular concerning VoIP and Fixed Wirless Access technologies) to provide the terminal devices as a bundle with the service – thus limiting users' rights – when this is necessary in the interest and for the protection of consumers (or users), which, otherwise would be negatively affected.

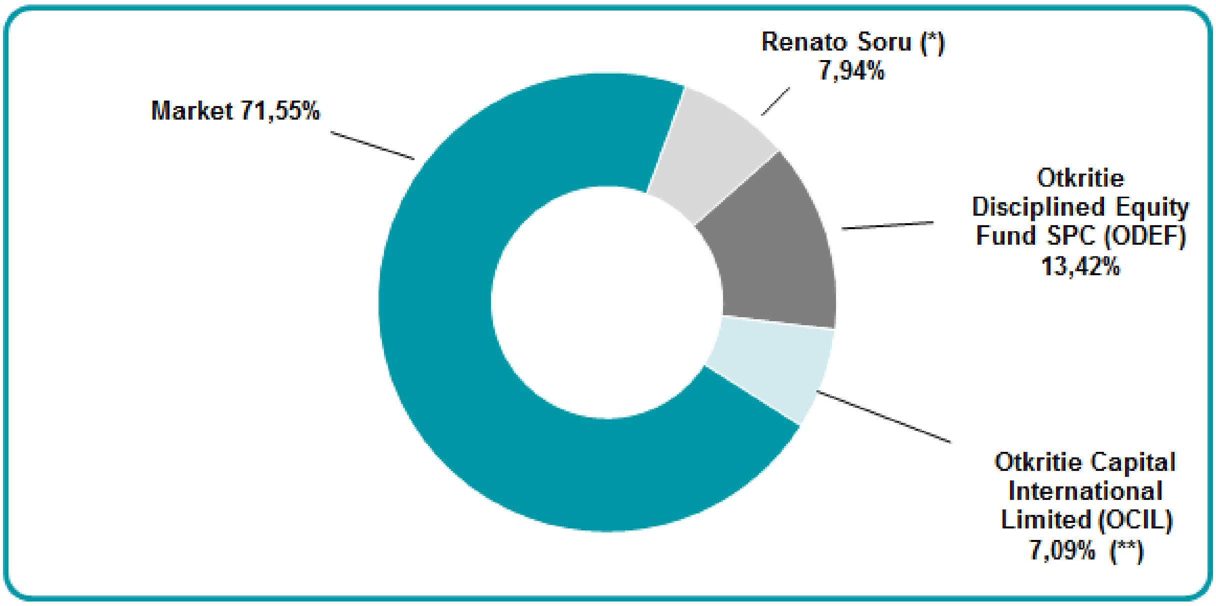
4.4 Tiscali Shares

Tiscali shares are listed on the Italian Stock Exchange (Milan: TIS) since October 1999. At December 31, 2017, the market capitalization amounted to approximately EUR 141,754,955 calculated on the value of EUR 0.0356 per share on a total of 3.981.880.763 shares. At the date of approval by the Directors of this Annual Financial Report, the value per share stands at EUR 0.0309.

Shares Structure:

Below the share structure at December 31, 2017.

Fig. 1 Share structure: % ordinary shares

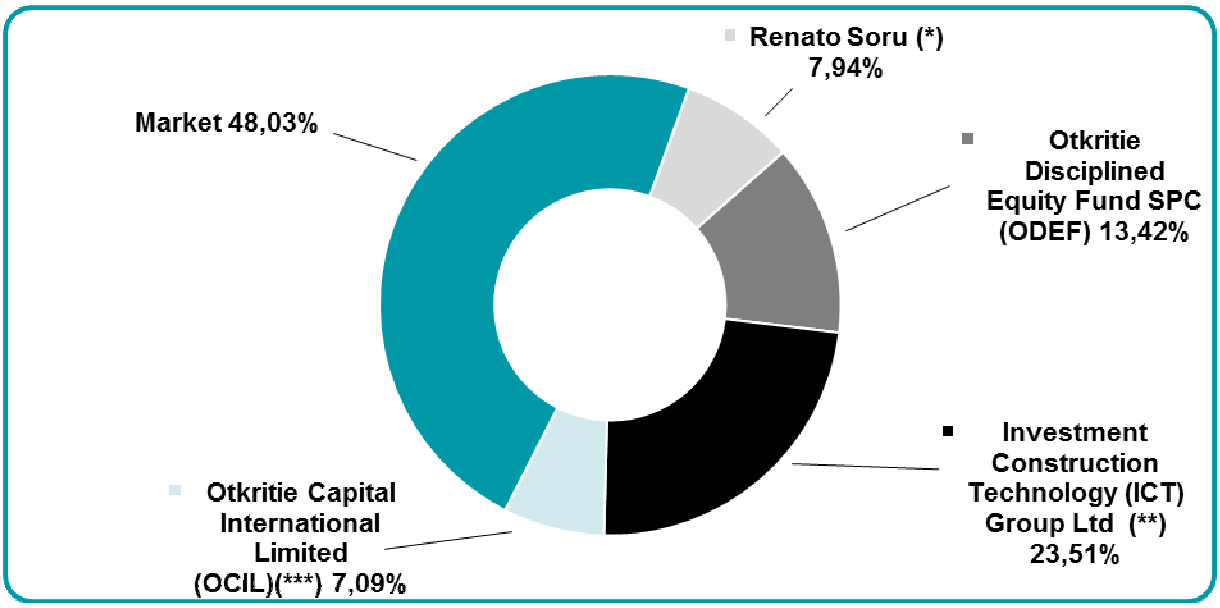


Source: Tiscali

(*) Directly for 6.66% approximately and indirectly through the part-owned companies Monteverdi Srl (0.44%), Cuccureddus Srl (0.83%).

(**) OCIL: LLC "Concer" ROSSIUM "has announced that pursuant to Art. 120 TUF is the ultimate controlling subject of Sova Capital Limited (formerly Otkritie Capital International Limited - OCIL) holder of an interest in Tiscali Spaequal to 7.09% of the share capital.

Fig. 2 Share structure: % of voting rights.



Source: Tiscali

(*) Directly for 6.66% approximately and indirectly through the part-owned companies Monteverdi Srl (0.44%), Cuccureddus Srl (0.83%).

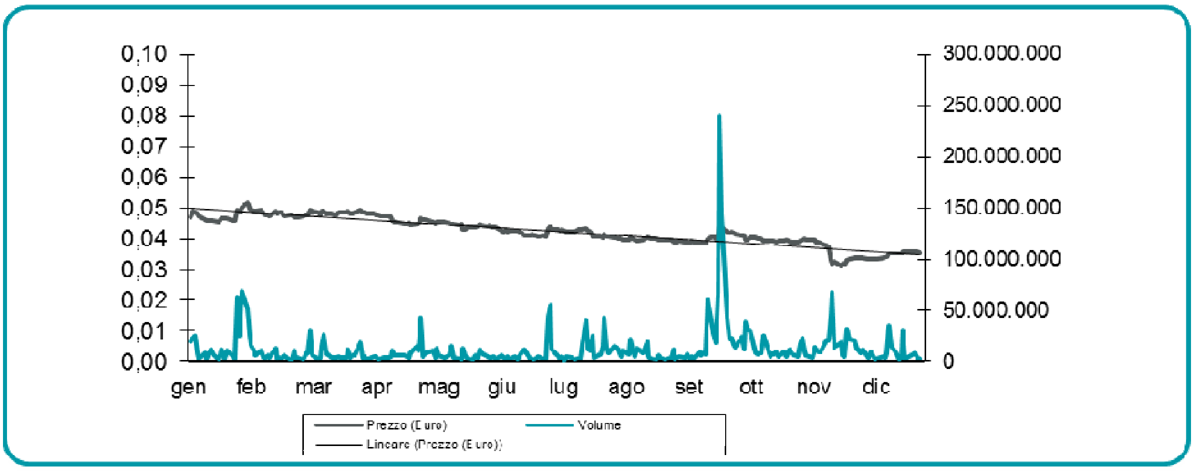
(**) ICT: The investment is held through Powerboom Investments Limited. From communication made pursuant to art. 119 of the Issuers Regulation shows that the company Investment Construction Technology Group Ltd, through its subsidiary Powerboom Investment Limited, by virtue of repurchase agreements for a total amount of shares equal to 23.51%, gives voting instructions from time to time to the relative counterparties, as provided for by specific contractual clauses.

(***) OCIL: LLC "Concer" ROSSIUM "has announced that pursuant to Art. 120 TUF is the ultimate controlling subject of Sova Capital Limited (formerly Otkritie Capital International Limited - OCIL) holder of an interest in Tiscali Spaequal to 7.09% of the share capital.

Tiscali Shares Trend

The graph illustrated below shows the trend of Tiscali shares over the course of the year 2017 characterized by significant tradiing volumes, in particular in the month of September, therefore not connected to capital transactions described above.

Fig. 2 - Shares trend in 2017



Source: Bloomberg Data Processing

The average monthly price in FY 2017 was EUR 0.042. The maximum price in the period was of EUR 0.0519 and it was recorded on January 30, 2017, while the minimum price of EUR 0.0312 was recorded on November 20, 2017.

Trading volumes settled on a daily average of approximately 12.8 million shares for a corresponding daily average value of EUR 0.5 million.

Average trading of Tiscali shares on the Italian Stock Exchange over the year 2017		
	Price (EUR)	**Number of shares**
January	0.047	18,201,131
February	0.048	6,420,203
March	0.048	8,571,688
April	0.046	8,855,386
May	0.045	6,732,615
June	0.042	9,260,974
July	0.042	11,294,946
August	0.040	8,236,424
September	0.040	35,431,249
October	0.040	13,726,851
November	0.036	18,158,824
December	0.035	9,075,211
Medium	**0.042**	**12,830,458**

With reference to the price trend related to Tiscali Ordinary Shares on the "STAR" segment managed by Borsa Italiana Spa, Tiscali's total market capitalization at December 31 is amounted to EUR 141.8 million, compared to the parent company's equity of EUR 43.0 million, which reflects the effect of the write-down carried out at the end of the year by Tiscali Italia Spafor EUR 79 million on the the basis of the impairment test described in greater detail in the explanatory notes and which, as of last year, resulted in Tiscali, as in the previous year, in the case contemplated by Article 2446 of the Italian Civil Code. The spread between market capitalization (EUR +141.8 million) and the value of consolidated equity (EUR -128 million), EUR 269.8 million, is representative of the Group's future profitability prospects, however, reinforced by the recent outcome of the consultation of AGCOM which, giving favorable opinion to the extension of the licenses to 2023 - in the context of the confirmed strategicity of the band in which it operates in the Group compared to the neighbor in which the 5G technology will develop - has significantly enhanced the licenses that the Group Tiscali owns and is recorded in the consolidated financial statements at December 31, 2017 at historical values, net of accumulated amortization, for EUR 27.6 million.

4.5 Major events occurred in the year

January 25, 2017 - A partnership agreement was signed with Open Fiber for the implementation and marketing of the ultra-broadband telecommunication network in Italy

On January 25, 2017 - Tiscali and Open Fiber, a company whose shares are held by Enel and Cassa Depositi e Prestiti, signed an agreement that integrates strategically, and in a complementary way, Tiscali's roll out of the latest generation ultra Broadband LTE Fixed Wireless Access network, which will be developed with particular focus on the areas of the extended digital divide. The agreement, which is operational in 10 cities (Perugia, Cagliari, Bari, Catania, Florence, Genoa, Naples, Padua, Palermo and Venice) sets significant objectives in terms of Tiscali clients on Open Fiber ("Fiber OF") by spring 2019. The migration will take place in parallel to the roll-out plan of the Open Fiber fiber optics network. The Open Fiber work program requires the wiring of at least 80% of the building units, with the times indicated in the roll-out plan.
This agreement is important for the achievement of the customer acquisition targets with Tiscali offers in Fiber Optics as foreseen in the 2017-2021 Business Plan and reconfirmed in the update of the plan which will be discussed in more detail in the following Paragraph 4.8, on which at December 2017 Tiscali is substantially in line in terms of acquisition.
It should be noted that the agreement signed with Open Fiber is subjected to so-called "take or pay" clauses that include the obligation to purchase certain minimum quantities per period currently renegotiated due to some delays attributable to the counterparty in making the service available. Pending the aforementioned negotiations, and on the basis of supplementary agreements signed by the parties, there are no costs not reflected in the financial statements deriving from the application of the contractual rules.

January 25, 2017 - Appointment of the common representative by the Debenture Holders' Meeting

On 24 January 2017, the Meeting of the Debenture Holders constituting the loan called "Tiscali conv 2016-2020" (ISIN Code: IT 0005214827) appointed as common representative for the 2017-2019 three-year period Rigensis Bank AS in the person of Natalja Jevdokimova also resolving on the related remuneration. Please note that in December the bond loan was converted.

February 01, 2017 - Suspension of the Solidarity Agreement

On February 1, 2017 - Tiscali suspended the solidarity agreement as the extraordinary operations have been completed. In addition, two voluntary early retirement programs were implemented that were completed in March 2017 and in June 2017 with impacts that were already reflected in the company restructuring fund in place at December 31, 2016 and with expected effects on the labor cost considered in the development of the 2017-2021 Plan and its update, which will refer to Section 4.8.

February 3, 2017 - Signing of notarial deed for the lease of the IT corporate branch

On February 3, 2017, the Engineering group and Tiscali signed the final agreement for the "full outsourcing" management of Tiscali's IT services.
The positive impact in terms of cost reduction deriving from this outsourcing agreement were already included in the development of the Business Plan 2017-2021 Plan and its update referred to in Section 4.8.

February 10, 2017 - Signing of notarial deed for the transfer of the Tiscali Business branch to Fastweb

On February 10, 2017 - Tiscali and Fastweb signed the notarial deed concerning the transfer of the Tiscali Business branch.
The total economic value of the Transaction is EUR 45 million, of which EUR 25 million in cash and EUR 20 million through Service Vouchers. In compliance with the provisions of the Transfer Agreement, at the Closing Date, Fastweb paid Tiscali Italia the Provisional Price of EUR 12.5 million (of which EUR 5 million in cash and EUR 7.5 million in connectivity services).
Payment of the remaining EUR 32.5 million was subjected to the outcome of the litigation between Consip Spaand TIM related to the Consip Tender, pending before the Council of State, a litigation that was resolved with a rejection of the appeal issued on March 24, 2017. As a result of this occurrence, the final price for the transfer of the business branch was confirmed at EUR 45 million with a resulting gain of EUR 43.8 million posted in the profit and loss statement under the entry "Result of Assets Transferred/Pending Transfer" in application of International Financial Reporting Standard (IFRS 5) concerning the transfer of a business segment pursuant to IFRS 8. The profit and loss statement for FY 2016 was consequently restated in application of IFRS 5 for comparative purposes. In January 2017, and until February 10, corresponding to the transfer date, the Fastweb Business Branch contributed to the Group's revenues and gross profit in the amount of EUR 0.9 million and EUR 0.3 million, respectively.

February 24, 2017 - Co-opting of new Directors and approval of the Information Document concerning the transfer of the Tiscali Business branch to Fastweb

On February 24, 2017 - the Board of Directors acknowledged the resignation of Konstantin Yanakov (ICT - Investment Construction Technology Group Ltd) and Nikolay Katorzhnov (Otkritie-Capital International Limited) from the position of director and it has co-opted, after the favorable opinion of the Board of Statutory Auditors and the Appointments and Remuneration Committed, Dmitry Gavrilin, Managing Director of the ICT - Investment Construction Technology Group Ltd and Sergey Sukhanov, Executive Director of Otkritie-Capital International Limited.
The Board of Directors also approved the Information Document concerning the transfer of the Tiscali Business branch to Fastweb Spa, drawn up pursuant to art. 71, paragraph 1, of the Issuers' Regulations.
The Shareholders' Meeting, held on May 30, 2017, confirmed the appointment of the two above-mentioned Directors.

March 09, 2017 - Tiscali presented its new brand and new "mission"

Tiscali presented its new image and its mission statement to the market: bringing ultrabroad band anywhere, both through fiber and the proprietary wireless network on LTE (WFTTH Wireless Fiber To The Home) technology using the 3.5GHz frequencies, to quickly reach even the places hardly accessible by cable. To achieve this objective, Tiscali makes available network investments, innovation and also a relaunch of its advertising campaigns starting from the relaunch of its brand with a new logo.

May 19, 2017 - Controlled liquidation of Tiscali Poland

On May 19, 2017, Tiscali Poland, a non-operating company controlled by Tiscali, was liquidated without significant impacts on the Income Statement.

June 27, 2017- Proposed paid increase in share capital reserved for OCIL Ltd and Powerboom Investment Ltd

The Tiscali Board of Directors approved the proposal of paid increase in the share capital, in one or more installments, by December 31, 2017, with the exclusion of rights of first refusal pursuant to art. 2441, paragraph 4, of the Civil Code, to be reserved for Otkritie Capital International Limited and Powerboom Investment Limited (a wholly owned subsidiary of ICT - Investment Construction Technology Group Ltd), for a total maximum value of EUR 13,000,000.00 by issuing, even in several installments, a maximum of 314,000,000 ordinary shares having the same characteristics as the ordinary shares in circulation and with no nominal value.

July 26, 2017 - Tiscali and Sky Italia announced their digital partnership

On 26 July 2017, the partnership between Tiscali and Sky Italia was announced to maximize the commercial opportunities in the online market and consolidate their digital audience thanks to new publishing synergies. Tiscali Group chose to entrust, exclusively, online advertising sales to Sky Italia which, starting in August, will manage the sale of advertising on the Tiscali.it portal and on the sites that Veesible, the licensee firm part of the Tiscali Group has in its portfolio and which it will continue to develop, consolidating its role as an aggregator of quality publishers. The agreement will also give rise to new publishing synergies. Tiscali.it, today the eighth site for news in Italy, will expand the proposal for contents of its platform thanks to the inclusion of a selection of Sky videos concerning various themes, from information through SkyTG24 to sports news through Sky Sports, up to great entertainment with contributions from Sky Atlantic, Sky Uno and Sky Cinema.

August 7, 2017 - Completion of the capital increase with the successful subscription and issue of the related shares

The capital increase transaction described in the previous paragraph ended on August 7, 2017 with the issue of 314,000,000 shares equally subscribed by OCIL and ICT, which paid at the same time EUR 5,903,200 each.

The subscription price of the new Shares, equal to EUR 0.0354, was determined on the basis of the weighted average of official prices over a period of 10 stock exchange trading days prior to the date of the Board of Directors that set the aforesaid price, net of the application of a 10% discount.

From an economic-financial and assets point of view, the transaction had the typical effects of a capital increase with the exclusion of the rights of first refusal, further strengthening the asset structure through the reduction of the overall liabilities and ensuring the stability of the shareholders and their renewed and strengthened involvement, without leading to a decrease of the current shareholders of more than 9.99%.

This capital increase was carried out without prior publication of an offer and listing prospectus, by virtue of the exemptions established in article 34 ter, paragraph 1, letters a) and b) and in article 57, paragraph 1, letter a) of the Issuers' Regulations.

September 18, 2017 - Merge of the german entities into Tiscali Financial Services SA

On September 18, 2017, the merge of the following german entities has become effective, with retroeffective effects from January 1, 2017

- Tiscali Deutschland Gmbh
- Tiscali Business Gmbh
- Tiscali Verwaltung Gmbh
- Tiscali Gmbh

The transaction was carried out in order to rationalize and streamline the Group's structure, through mergers and liquidation operations of the "dormant" foreign companies (non-operational and without assets), as envisaged in the 2017-2021 Plan and its update of which will refer to Section 4.8.

November 13, 2017 - the Board of Directors of Tiscali Spaapproved the proposal to modify the convertible bond loan converting "Tiscali conv 2016-2020".

The Board of Directors of Tiscali Spa, which met on November 13, 2017, approved the proposal to modify the convertible bond loan converting "Tiscali conv 2016-2020.
The change in the "Tiscali conv 2016-2020" loan implies the reopening of the subscription deadline for outstanding bonds not yet subscribed for an amount equal to EUR 1.5 million, as well as the change in the conversion price of the bonds into ordinary shares.
This proposal was submitted for approval to the Shareholders' Meeting held on December 14, 2017

December 14, 2017 - the Board of Directors of Tiscali Spaapproved the proposal to modify the convertible bond loan converting "Tiscali conv 2016-2020".

The Meeting of the Debenture Holders and the Extraordinary Shareholders' Meeting held on December 14, 2017 approved the proposal to convert the convertible bond loan Tiscali Conv 2016-2020".
In particular, the conversion occurred as follows:

- the extension of the Subscription Period of the residual amount of unsubscribed bonds amounting to EUR 1.5 million, from January 31, 2017 to January 31, 2018;

- the Conversion Price from EUR 0.06 to a price per share equal to the weighted average market price recorded in the two months preceding the date of the conversion request.

- the number of ordinary shares to be issued for the conversion of the bond issue, approved up to a total of a maximum of 530,000,000 shares.

On December 14, 2017 Otkritie Capital International Limited, already subscriber of EUR 8.5 million (17 bonds), subscribed 3 further bonds for an amount of EUR 1.5 million, equal to the entire residual amount of the bond.

In addition, on December 14, 2017 Tiscali received a request for voluntary conversion from the bond holders Rigensis Bank AS ("Rigensis") and Otkritie Capital International Limited, respectively for EUR 8.5 million (17 bonds) and EUR 10 million (20 bonds).
The Board of Directors also decided the value of the conversion price of the bonds into newly issued shares, equal to EUR 0.0354, equal to the weighted average price of the previous two months.

December 15, 2017 - Capital Increase - 37 bonds of the Convertible Bond Loan "Tiscali conv 2016-2020"

Following the conversion request received from Rigensis Bank AS and Otkritie Capital International Limited on December 14, 2017, the "Tiscali Conv 2016 - 2020 Bond" has been converted on December 15, 2017, through the voiding of 37 bonds subscribed for a nominal value of EUR 18,500,000 and the issuing of 522,598,870 new shares, having the same characteristics as the

outstanding ones, at a price per share of EUR 0.0354 and with an increase in the share capital of EUR 18,500,000.
The new share capital subscribed and paid up amounts to EUR 121,507,322.89

As anticipated, the operation as a whole helped to strengthen the equity of the Tiscali Group, through the reduction of the liabilities to EUR 18.5 million, with consequent prospective savings in interests of approximately EUR 1.2 million per year.

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

4.6.1 Main risks and uncertainties to which Tiscali Spaand the Group are exposed

Risks related to the overall economic situation

The financial, economic and equity situation of the Group is influenced by the various factors constituting the macroeconomic framework, such as changes in GDP (Gross Domestic Product), consumers' trust in the economic system and trends concerning interest rates. The progressive weakening of the economic system, combined with a contraction of income available for households, reduced the general level of consumption.

The activities, strategies and prospects of the Tiscali Group are influenced by the reference macroeconomic context and consequently the Group's economic, financial and equity situation and prospective results are also affected.

Risks connected with the high degree of market competitiveness and price trend

The Tiscali Group operates in the telecommunication service market, characterized by a high level of competitiveness.

With regard to the two main markets in which Tiscali operates, it should be noted that, on the basis of the AGCOM survey dated June 2017, Tiscali's market share at the end of 2016 in the broadband Internet access sector, also considering the contribution of Broadband Fixed Wireless clients acquired as a result of the merger with Aria, is approximately equal to 3.2%, while in the virtual mobile operators (MVNO) sector Tiscali market share is is not significant.

Tiscali main competitors (Telecom Italia, Vodafone, Wind-H3G) are Internet Service Providers owned or controlled by national telecommunications operators that held the monopoly of telecommunications services before the liberalization of the sector (so called Incumbent). These competitors have a strong brand recognition in the countries they belong to, a well-established client base and high financial resources that allow competitors to make substantial investments, particularly in the research sector aimed at developing technologies and services.

Tiscali competes, in addition to telecommunication operators, which could use new access technologies, also with suppliers of other services, such as, for example, satellite television, digital cable television and mobile telephony. These entities (for example SKY and Mediaset Premium), also by virtue of the convergence among the various technologies and among telecommunication and entertainment markets, could extend their offer also to Internet and voice services, with the consequent possible increase in the concentration of the relevant market and the level of competitiveness.

In order to compete with the above competitors, Tiscali's strategy included providing quality Internet access services at competitive prices, focusing the commercial effort on UltraBroadBand solutions (Fiber and LTE) with the highest capacity.

In particular, the Company is continuing to disseminate the new LTE UltraBroadband Fixed Wireless offering to the Tiscali brand in the "Extended Digital Divide " areas, thanks to the installation of the LTE antennas started in 2016 and continued also in 2017, and launched, in particular in urban areas, the very high capacity Fiber offers, to complete the LTE Fixed Wireless offer.

Any inability of the Group to compete successfully in the sectors in which it operates compared to its current or future competitors could negatively affect the market position with consequent loss of clients and negative effects on the business and and the economic and financial situation of the Company and Group companies and on the prospective data considered in the short term to assess the occurrence of the going concern assumption and in the short and long term to assess the recoverability of the concessions and the value of investments in equity investments through the impairment test. The positive outcome of the AGCOM consultation regarding the extension of Tiscali licenses to 2029 in the context of the enhancement of the band in which the Group operates compared to the neighboring one in which the 5G market will develop constitutes a mitigation of the risk under analysis.

Risks related to possible system interruptions, delays or breaches in security systems

The ability of the Tiscali Group to attract and retain clients will continue to depend significantly on the operation of its network and its information systems and, in particular, its continuity and security as well as its servers, hardware and software.

The possible lack of electricity or interruptions in telecommunications, breaches in the security system and other similar unpredictable negative events (such as complete destruction of the datacenter) could cause interruptions or delays in the provision of services, with consequent negative effects on the activities and on the economic, equity and financial situation of the Group and on the prospective data.

The Group, operating in a highly complex market from a technological point of view, is exposed to a high risk inherent in IT and ICT systems. As part of the management of risks related to the damage and malfunctioning of these systems, on which the management of the business is based, the Group invests adequate resources aimed at safeguarding all the IT tools and processes. The core business systems are all highly reliable, the data-center, present in the Cagliari office, is equipped with security systems such as fire and anti-flooding protection.

Cyber Risk

The company IT infrastructures are kept constantly updated according to the needs that arise from the rapid technological development and the need to propose new products on the market.

Considering that the good operation of IT represents a criticality for business continuity, technical and procedural solutions were prepared for the protection of the data-center.

Logical protection is entrusted to equipment specialized in intrusion protection and denial of service and the support of market leading companies coordinated by an on-site team of security professionals.

The operating methods are defined by formal procedures deriving from the implementation of the ISO-27001 management system. The Company is subjected to annual audit by the Certification Authority. Certification is renewed every three years, together with the related Business Continuity Plan. September 2020 is the next certification deadline

About this issue, the Company constantly collaborates with various institutions such as the National Computer Emergency Response Team (CERT), operating at the Ministry of Economic Development, also carrying out activities to detect and counteract cyber attacks.

At the date of this Annual Financial Report, no violations by third parties of Tiscali information systems were reported.

Even though the Tiscali Group adopted strict protocols to protect the data acquired during its operations and operates in strict compliance with current legislation on data protection and privacy, it cannot be excluded that intrusions into its systems may occur in the future, with a consequent negative impact on the economic, financial and equity results of the Tiscali Group.

Finally, it should be noted that the Group companies have in place specific insurance policies to cover the damages that their infrastructures may suffer as a result of the aforementioned events. Nevertheless, if harmful events not covered by insurance policies should occur or, even if covered, such events cause damages exceeding the insured maximum coverages, or due to violations of the company systems, the reputation damage suffered should lead to loss of clients, such circumstances could have a significant negative impact on the activity and financial, economic and assets situation of the Group and on the forecast data.

Risks connected with technological development and commercial offer

The sector in which the Tiscali Group operates is characterized by significant and sudden technological changes, high competition and the rapid obsolescence of products and services. The Group success in the future will also depend on its ability to anticipate such technological changes and to adapt to them in a timely manner by developing products and services that are suitable for meeting client needs.

It should be noted that in particular on KTE Broadband offers Tiscali can rely on:

- greater flexibility in the use of price leverage thanks to the supply of service over a proprietary wireless access network that allows "last mile" copper rental costs not to be paid to TIM;
- a "future-proof" LTE technology thanks to the strategic agreement with Huawei, world leader in the production of LTE equipment on a frequency of 3.5GHz, which allows Tiscali to access the latest generation technologies. This frequency has a very significant strategic value, since, as also emerged in the last Mobile Wolrd Congress held in Barcelona in February 2018, it will be among the first frequency to be used for the development of future 5G UltraBroadband Mobile Data services.

Any inability to adapt to new technologies and therefore to changes in customer needs could have negative effects on the activity and on the financial, economic and assets situation of the Companies of the Group. The positive outcome of the AGCOM consultation on the extension of Tiscali licenses to 2029 in the context of the enhancement of the band in which the Group operates compared to the neighboring one in which the 5G market will develop represents a risk mitigation under analysis by enhancing the LTE technology as a bridge towards that 5G.

Risks related to regulatory development in the sector in which the Group operates

As mentioned in the previous paragraph "4.3. - Regulatory framework", the telecommunication sector in which the Group operates is a highly regulated sector governed by extensive, stringent and articulated legislation and regulations, especially with regard to licensing, competition, frequency allocation, rate fixing, interconnection agreements and leased lines. Legislative, regulatory or political changes affecting the Group activities, as well as sanctions issued by AGCOM, could have negative effects on the activity and reputation and, consequently, on the financial, economic and assets situation of the Companies of the Issuer and on the companies of the Group.

In particular, these changes could lead to the introduction of additional burdens, both in terms of direct disbursements and additional adjustment costs, as well as new liability profiles and regulatory barriers to service supply. Any changes in the regulatory framework, as well as the adoption of measures by AGCOM, could also make it more difficult for the Group to obtain services from other operators at competitive rates or could restrict access to systems and services necessary for the performance of the Group activity.

Moreover, considering the dependence of Group companies on services of other operators, the Group could not be able to promptly implement and/or adapt to any provisions modifying the current regulatory regime and/or regulations in force, with consequent negative effects on activities and on the financial, economic and assets situation of the Companies of the Group and on the forecast data. Despite the situation of uncertainty indicated, at the moment the Group has reflected in its prospective data the impacts of the regulatory changes currently foreseeable.

Risks associated with the Group high financial indebtedness

The development of the Group financial situation depends on various factors, in particular, the achievement of the objectives set out in the Business Plan, general economic conditions, financial markets and sector in which the Group operates.

The actions taken by the Group in 2016 (signing of a new agreement to refinance the senior debt with Intesa San Paolo and BPM and subscription of the convertible bond by Rigensis Bank and Otkritie Capital International Limited) led to an improvement in the structure of long-term financial debt, and a reduction in the overall cost.

The Industrial Plan, in fact, included the expectation of particular events which, despite the uncertainty of the negotiation process with the financing institutions, allowed the financial stability to be considered existing for the twelve months following the approval of the 2016 Financial Statements, confirming the recurrence of the assumption of business continuity.

During the 2017 fiscal year, the Company made the following additional actions aimed at improving the Group financial structure, in order to obtain a financial structure that were consistent with expected cash flows and capable of supporting the development objectives set out in the Business Plan:

- Collection, on March 31, 2017, of the payment related to the transfer of the Business branch to Fastweb, equal to EUR 20 million pursuant to the finalization of the transfer occurred on February 10, 2017.
- increase in paid capital reserved for Otkritie Capital International Ltd (OCIL) and Powerboom Investment Limited (controlled by ICT - Investment Construction Technology Group Ltd), for a maximum value of EUR 13 million. The transaction, approved by the Board of Directors of Tiscali Spaon June 27, 2017, was signed on August 07, 2017 with the issue of 314,000,000 shares subscribed by Otkritie Capital International Ltd and Powerboom Investment Limited, which paid EUR 5,903,200 each at the same time, with a total payment deriving from the transaction equal to EUR 11,806,400;
- continuation of the ongoing negotiations with Intesa San Paolo and BancoBPM (formerly BPM), which were requested a moratorium on payments due by Tiscali Italia under the First Facility Agreement and the Second Facility Agreement, starting from payments due as of September 30, 2017 and until September 30, 2019 (excluded);
- Continuation of negotiations with Mediocredito Italiano and Unicredit Leasing ("Pool Leasing"), to redefine the overall repayment schedule due to the debt for leasing related to the building in Sa Illetta, including, among other things, a moratorium on due payments until September 30, 2019 (excluded);
- Conversion of the convertible bond loan “Tiscali conv 2016-2020”, which took place on December 14, 2017. The transaction was carried out by canceling 37 bonds

subscribed for a nominal value of EUR 18,500,000 and issuing 522,598,870 new shares, having the same characteristics as the outstanding shares, at a price per share of EUR 0.0354 and with a share capital increase of EUR 18,500,000

The performance for 2017, in line with the forecasts of the 2017-2021 Business Plan, its update referred to in Section 4.8, compliance with the extension plans agreed with suppliers and the definition of new extension plans consistent with the cash generation capacity reflected in the update of the 2017-2021 Business Plan, in addition to the confirmation of the support of the banking sector and the positive developments of the transactions carried out in 2017, encourage the management in considering the existence of the financial equilibrium in the time horizon of the twelve months following the approval of this Consolidated Annual Financial Report, as better developed in the subsequent Paragraph 4.8.

Risks relating with fluctuations in interest and exchange rates

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

With regard to the exposure to the risks associated with interest rate fluctuations, in view of the Group's predominant financing method (financial debt as per Restructuring Agreements at a fixed rate) the management consider the risk of interest rate fluctuations to be insignificant.

Risks linked to relations with employees and suppliers

The employees of the Group are protected by several laws and/or collective labor agreements, which ensure they have, through local and national delegations, the right to be consulted concerning specific matters, including the downsizing or closure of departments and a reduction of the workforce. These laws and/or collective labor agreements applicable to the Group and its suppliers could influence its flexibility when strategically redefining and/or repositioning its activities. Tiscali and its suppliers' ability to make staff cuts or take other measures, even temporary, to end the employment relationship, is subject to government authorizations and to the consent of trade unions. Union-organized protests by workers could negatively affect the company's activities.

During the first half of 2017, in line with the Business Plan 2017-2021, the Group implemented two schemes for retirement incentives, joined by a total of 61 staff members. The total charges related to those plans, and to other restricting costs related to personnel, amounted to EUR 4.1 million fully accrued as of December 31, 2107.

The Tiscali Group's business also depends on existing contracts with its strategic suppliers, in particular Telecom Italia, both for the use of network infrastructures and for interconnection.

In particular, there are contracts with Telecom Italia for the provision of direct interconnection services, reverse interconnection, co-location, disaggregated access, single-access flat ADSL Bitstream, shared access and wireless services.

Given the hypothesis that: (i) these contracts should not be renewed at the due date or should be renewed on terms and conditions that are less favorable with respect to those currently existing; or (ii) the Group does not succeed in concluding with TIM the new contracts necessary for the development of its business; or (iii) in the instances specified in the preceding points, Tiscali does not succeed in concluding equivalent agreements with third party operators; or (iv) if a serious contractual breach should occur on the part of the Company or TIM, these circumstances could have negative effects on the activity and the economic, equity and financial situation of the Company and the Group companies, with consequent impact on the possibility to carry on its business activities under appropriate conditions of business continuity.

The terms and conditions of such contracts with TIM are regulatory and there are no elements in the state that may suggest a non-renewal at maturity.

It is to be noted that in the first months of 2017, deferred payment arrangements towards certain some of the major suppliers of the Group have been finalized, such as TIM and British Telecom and that, with reference to the development of investment, there is an ongoing negotiation for the renewal of the contract with Huawei which allow the company to benefit, given the strategic character of Tiscali for the above-mentioned supplier, from postponement clauses already applied as of today, fabourable and consisent with the cash flow gerenation capacity as indicated in the Business Plan.

Concerning the Group's trade payables, it should be noted that as of December 31, 2017, the net expired net trade payables (net of payment plans agreed with the suppliers, active items and disputes with the same suppliers) amounted to EUR 46.2 million.

Furthermore, there were no suspensions of supply relationships such as to jeopardize the ordinary course of business. As of 31 december 2017, payment reminders were received as part of ordinary administrative management. On that date, the main payment orders received by the Company and not paid as negotiation or opposition amounted to EUR 9.1 million, while the total orders received amounted to EUR 12.8 million.

Risks related to the dependence from licenses, authorizations and the exercise of real rights

The Tiscali Group conducts its business on the basis of licenses and authorizations – subject to periodic renewal, modification, suspension or revocation by relevant authorities – and it has rights of access, usage rights and administrative permissions for the building and maintenance of telecommunications network. In order to be able to carry out its business, the Tiscali Group must retain and maintain licenses and permissions, transfer and usage rights, as well as all other administrative authorizations.

The most important authorizations, in the absence of which the Group might not be able to carry out its business or part of it, with the resulting repercussions on business continuity, are the following:

- General authorization for the provision of the "data transmission" service: in case of loss of this authorization – which in turn expires on December 10, 2027 – the Group would no longer be able to provide Internet access services. At present, Tiscali has all the necessary requirements for the renewal of that authorization upon expiry, which to be otbtained will need a new DIA (declaration on the commencement of the activities) to be submitted;
- General authorization (individual license) for "voice service accessible to the public on the national territory", expiring on February 28, 2028: in case of loss of such authorization, the Group would no longer be able to provide voice services which use geographical numbers; at present, Tiscali has all the necessary requirements for the automatic renewal of that authorization upon expiry, which to be otbtained will need a new DIA (declaration on the commencement of the activities) to be submitted;
- General authorization for "electronic communications networks and services", expiring on January 11, 2032: in case of loss of such authorization, the Group would no longer be able to realize network infrastructure and thus provide connectivity services on proprietary infrastructures.
- General authorization for the provision of the "Enhanced Service Provider" mobile service: in case of loss of such authorization – which is scheduled to expire on June 30, 2028 – the Group would no longer be able to provide services (both voice and data) of mobile type.
  Right of use on the entire the national territory of 42MHz of spectrum on 3.5GHz frequency issued by the Ministry of Communications on May 21, 2008 for a total duration of 15 years (therefore until May 21, 2023), in case of loss of such right the Group would no longer be able to provide Broadband Fixed Wireless services. This frequency also has a very significant strategic value, as it is defined at international level, by all standardization organizations as the pioneer band for the development of future 5G services, including Ultra Broadband Mobile Data. As previously explained, it should be noted that, during 2017, Tiscali and the current

owners of the licenses submitted a request to the MISE for the grant of the extension until 2029. Following a first assessment by the Ministry, the opinion of Agcom was requested, this being normal practice. The proposal of the Agcom Resolution containing the opinion concerning the granting of the extension, was submitted to public consultation, which ended on February 21, 2018. The AGCOM Council's final approval of the Resolution took place on April 11, 2018, with subsequent publication of the opinon on the Authority's website. In the event that the MISE, despite having received the positive opinion of AGCOM, should not close the process of granting the extension, Tiscali would be without the guarantee of a certain long-term regulatory framework to protect its ROI, possible only over a medium-long term period, that is with the full enhancement of the license with a view to LTE/5G. As anticipated, to date it is not expected that MISE will not proceed to ratify the extension of the concessions proposed by AGCOM.

Risks related to the turnover of managers and other human resources with key roles

The sector in which the Tiscali Group operates is characterized by a limited availability of specialized personnel. Technological evolution and the need to meet a growing demand for increasingly sophisticated products and services require companies operating in this sector to have resources highly specialized on technologies, applications and related solutions, with a consequent increase in labor market competition and remuneration levels.

In the event that a significant number of specialized professionals or whole working groups dedicated to specific product types leave the Group, and the same could not attract qualified personnel in substitution, the ability to innovate and the growth outlook of the Tiscali Group could be affected, with possible adverse effects on the business and on the economic, financial and financial situation of the Company and the Group companies and failure to realize the expected results in the prospetic data.

Going Concern Risk

In this regard, reference should be made to the note "*4.8 Evaluations regarding the business continuity and foreseeable evolution of operations - Facts and uncertainties with regard to business continuity*".

Risk related to potential disputes and liabilities

For this purpose, please refer to paragraph *"4.9 Disputes, Contingent Liabilities and Commitments"*.

4.6.2 Introduction

The Group offers its products to *consumer* and *business* customers on the Italian market, mainly through five business lines:

(i) *Broadband* Access (LLU, Bitstream, Fixed Wireless, Fiber) including VOIP services;

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

(iii) "Wholesale services" to other operators;

(iv) "Services to Businesses" (so-called B2B) which include, inter alia, VPN services, Hosting, concession of domains and *Leased Lines*, which are getting an ever-decreasing importance due to the transfer of the Business Branch to Fastweb;

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

As described in Note 9 "Assets disposed and/or held for sale", the Group has considered the following business lines sold in the 2017 financial year as significant business segments:

- Tiscali Business branch, which includes customers in the Tiscali Top segment and the framework agreement for connectivity services (SPC) to the public administration. The transaction was finalized on February 10, 2017;
- transfer of the assets related to Over The Top Stremago and Istella projects:
  - The assets of Stremago were sold with as of January 1st, 2017. After the sale of the assets, the Company was canceled on March 8, 2017.
  - The business branch Istella has been transferred from Tiscali Italia to the company Istella on October 4, 2017. On October 16, 2017, the investment in the company Istella, held by Tiscali Italia, was sold.

As required by the International Accounting Standards (IFRS 5), the Group reclassified the economic and financial elements in the statement of Income Statement, Balance Sheet and Cash Flow Statement as such activities are business segments sold since "non-core".

As to the Income Statement, in particular, the revenues and costs of the assets concerned have been reclassified to the item "Result from held for sale and discontinued operations", including the gains realized for a total amount equal to EUR 43.8 million.

With regard to the sale of the Tiscali Business Branch (including the SPC contract), in particular, the revenues of the Branch were reclassified partly from the "Business Services" business line for the revenue component concerning B2B services (VN, Hosting, Leased lines...) and partly from the "Access" business line for the revenue component that includes access services (ADSL, VOIP, VoIP, and mobile telephony).

An analogous reclassification was made to the 2016 income statement items, for comparative purposes.

4.6.3 Consolidated Income Statement

Consolidated Income Statement	2017	2016
(EUR mln)		
Revenue	207.6	196.9
Other income	3.7	3.3
Purchase of external materials and services	143.6	129.1
Personnel costs	29.1	34.9
Other operating expense (income)	(0.2)	(2.3)
Write-downs accounts receivable from customers	9.7	11.3
Gross Operating Result (EBITDA)	**29.1**	**27.1**
Restructuring costs	3.6	6.0
Depreciation	48.1	49.5
Operating profit (EBIT)	**(22.6)**	**(28.4)**
Result on Investments at equity method	0.2	0.0
Financial Income	0.1	4.0
Financial Expenses	19.4	13.4
Pre-tax profit	**(42.17)**	**(37.9)**
Income taxes	0.22	(0.1)
Net result from operating activities (ongoing)	**(42.0)**	**(37.9)**
Result from held for sale and discontinued operations	42.8	(7.0)
Net result for the period	0.8	(45.0)
Minority interests	0.0	0.0
Group Net Result	**0.8**	**(45.0)**

***(*)** Please note that, with respect to the Annual Financial Report 2016, the following changes have been made to the Statement of Income Statement:*

- removal of the level of "Adjusted gross EBITDA" (as described in paragraph 2, Alternative Performance Indicators).

- Separation of Financial Income and Financial Expenses items, instead of a single item Net Financial Income (Expense).

The revenues of the Tiscali Group in FY 2017 amounted to EUR 207.6 million, an increase by 5.4% as compared to EUR 196.9 million recorded in FY 2016.

The net change, equal to EUR 10.7 million, is mainly attributable to the following factors:

- Decrease by EUR 0.9 million in the revenues of Broadband Access segment, explained by the following:
  - Substantial stabilization of revenues of the Fixed BroadBand segment, which in FY 2017 fell slightly as compared to FY 2016 (EUR -0.9 million; -0.7%) after years of sharp reductions, amounting to EUR 132.9 million. This result was achieved thanks to the growth in the total portfolio of Fixed BroadBand customers (+11 thousand units as compared to December 31, 2016), together with a strong improvement in the mix

towards higher-value Fiber solutions (over 47 thousand customers in December 2017 as compared to around 10 thousand at the end of 2016).

  - Reduction in the revenues from Broadband Fixed Wireless for about EUR 2.9 million due to the reduction of WiMax customers' portfolio as compared to December 31, 2016 (down by about 8.4 thousand units, from 75 thousand units as of December 31, 2016 to 66.6 thousand units as of December 31, 2017). This reduction is attributable to the termination of fixed wireless customers resulting from the impossibility of completing the migration process from WiMax to LTE, as well as the interruption, in the second half of 2017, of the sale of WiMax services in areas where the LTE service is not yet available. , due to the blocking of activities and investments planned for the development of the LTE Fixed Wireless network. The delay in investments was determined by the uncertainties relating to the obtainment of the extension on the 3.5GHz frequency (as described in Section 4.8 Evaluations regarding the business continuity and foreseeable evolution of operations - Facts and uncertainties with regard to business continuity, as well as in the previous Pargaro 4.5). The increase of LTE customers' portfolio (with an higher value than WiMax customers) as compared to December 31, 2016 (+39.6 thousand units, from 10 thousand to 49.6 thousand units) only partially compensated the reduction of WiMax customer portfolio.

- MVNO revenues remarkably increased (+35.4% YoY, from EUR 10.7 million in FY 2016 to EUR 14.4 million in FY 2017) thanks to the decided expansion of the Mobile customer portfolio from around 166 thousand in December 2016 to around 230.4 thousand in December 2017.
- "Services to Business and Wholesale" revenues increased by EUR 7.6 million (+40.3%); the growth was mainly due to the wholesale activity, which increased by EUR 8 million, from EUR 4.9 million in December 2016 to EUR 12.9 million in December 2017 for new purchase and sale contracts with third parties.
- "Media & VAS" revenues decreased by EUR 1.1 million with a reduction of 7.3%.
- "Other" revenues amounted to EUR 6.8 million, growing by EUR 4.1 million as compared to the data of FY 2016 (EUR 2.7 billion), as a result of the revenues deriving from the rental of the IT business branch to Engineering, from the agreement with Fastweb for the management of B2B customers until their definitive physical migration to Fastweb and from the growth of revenues from Sa Illetta Headquarter office renting to third parties.

During 2017, Internet access – which includes the Fixed Broadband Access and Fixed Wireless components – it represents about 70.3% of turnover (about 76% in 2016).

Other income, amounting to EUR 3.7 million in 2017, increased by EUR 0.4 million as compared to 2016.

Costs for purchases of materials and services amounted to EUR 143.6 million increased by EUR 14.5 million, compared to 2016, thanks to the increased activity volumes, as well as costs related to IT activities outsourced to Engineering starting from 2017.

The significant reduction of EUR 5.8 million in personnel costs, amounting to EUR 29.1 million in 2017, is linked to the actions aimed to recover efficiency implemented and, in particular, as a result of the outsourcing of IT activities to Engineering, of the sale of B2B branch to Fastweb and of the incentivized retirement plans carried out during the last 12 months, which led to a significant reduction in the average staff as compared to 2016.

The above-mentioned effects, and in particular the positive impact of the reduction of personnel costs, result in a Gross Operating Profit (EBITDA) of EUR 29.1 million, increasing by EUR 1.9 million year-over-year (EUR 27.1 million). It should be noted, however, that the total effects of non-recurring items

[1]in the 2017 financial year on the gross operating result (EBITDA) is zero compared to a positive effect of EUR 7.4 million in 2016.

Depreciation and amortization costs for 2017 amount to EUR 48.1 million, in slight reduction if compared to the EUR 49.5 million accounted for 2016. This item benefits for approximately EUR 1.9 million of the estimated useful life improvement with reference to the base stations network of Aria and its subsidiary Media PA Srl (henceforth also Media PA) revised according to the changed expected residual life expectancy of these activities.

Furthermore, during 2017, restructuring costs have been accounted for EUR 3.6 million, as compared to EUR 6 million in 2016. The restructuring costs incurred in 2017 are maily related to the reorganization and downsizing of the workforce for total EUR 4.1 million (including the costs incurred for the incentivized retirement plans made during the year 2017 for EUR 1.8 million).

As result of the above mentioned items, the net operating result (EBIT), net of provisions, write-downs and restructuring costs, is negative for EUR 22.6 million, recording an increase by EUR 5.8 million as compared to the result for 2016, which was negative by EUR 28.4 million.

The impact on the EBIT of the non recurring items [1]in 2017 is negative for EUR 4.1 million, compared to positive EUR 3.8 million accounted in 2016.

Financial charges amount to EUR 19.4 million, compared to EUR 13.4 million in 2016, and include EUR 6.7 million in resulting from the conversion of the convertible bond loan realized on December 14, 2017 (as described in paragraph 4.5).

The Result of operating activities, negative for EUR 42 million, shows a worsening in relation to the comparable figure for 2016, amounting to EUR 37.9 million, mainly due to the impact of financial charges from the conversion of the convertible bond loan, as described above. Net of this impact, the result of operating activities (ongoing) would have beenEUR -35.3 million, better than the previous year. It should be noted that sustaing these financial charges has allowed the Group to maintaine business continuity thanks to the reduced financial indebtedness related to the maturing bond loan, which would have determined a financial tension that could not be overcome with the ordinary procedures of loan restructuring.

The Result from held for sale and discontinued operations, which is EUR 42.8 million, includes the capital gain on the sale of the BTB business branch to Fastweb (including the SPC Contract) accounted for upon completion of the transfer contract, occurred on February 10, 2017, equal to EUR 43.8 million, in addition to the period result for the same assets held for sale (for further details please refer to Note 9).

The Net Result of the Group is positive for EUR 0.8 million, improving compared to the comparable figure for 2016, negative for EUR 45 million. The improvement in the Group's Net Result, as compared to 2016, is mainly due to the already mentioned positive impact of the capital gain on the sale of the BTB business segment to Fastweb, amounting to EUR 43.8 million.

[1] Pursuant to CONSOB Resolution no. 15519 of 27 July 2006

Operational Income Statement of the Group

The Profit and Loss Statement of the Group (*)	2017	2016
(EUR mln)		
Revenue	207.6	196.9
Access Broadband revenues	145.9	149.6
of which fixed Broadband	132.9	133.8
of which Broadband FWA	13.0	15.8
Revenues from MVNO	14.4	10.7
Business service revenues and Wholesale	26.6	19.0
of which business service & Wh revenues	18.2	12.8
of which revenues from reselling of products	8.4	6.2
Media and value-added service revenues	13.9	15.0
Other revenues	6.8	2.7
Gross operating margin	92.6	93.7
Indirect operating costs	57.7	60.8
Marketing and sales	13.2	8.6
Personnel costs	29.1	34.9
Other indirect costs	15.4	17.3
Other (income) / expenses	(3.9)	(5.5)
Write-down of receivables	9.7	11.3
Gross Operating Result (EBITDA)	29.1	27.1
Restructuring costs	3.6	6.0
Depreciation	48.1	49.5
Operating profit (EBIT)	(22.6)	(28.4)
Net Result pertaining to the Group	0.8	(45.0)

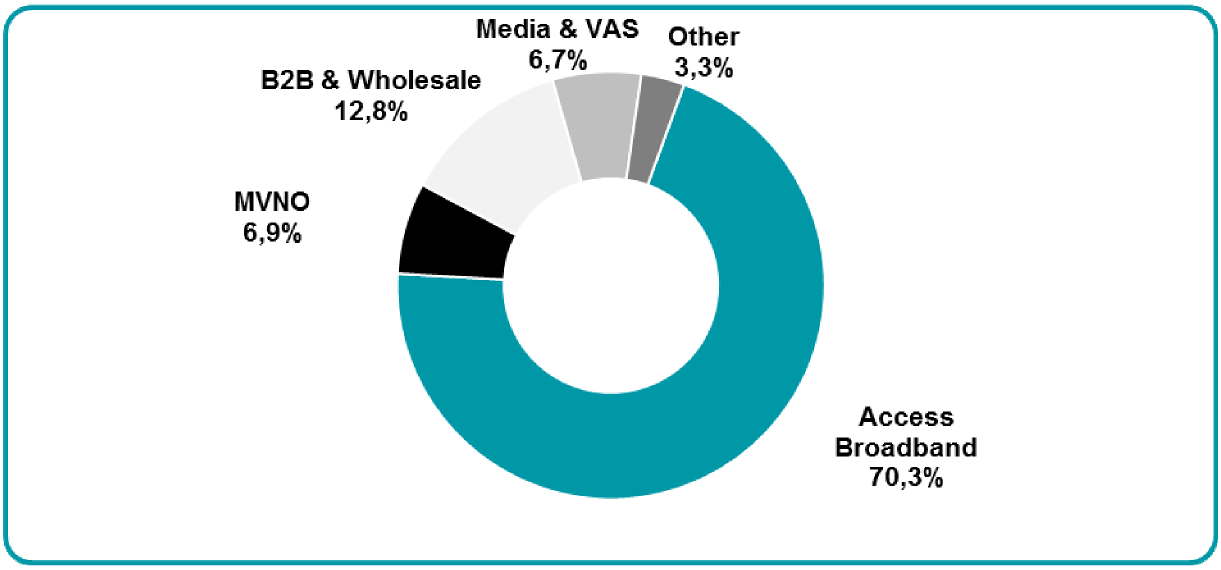
(*) *Please note that, as compared to the Consolidated Half-Year Financial Statements 2016, the following change has been made to the Income Statement:*

- removal of the level of "Adjusted EBITDA" item (as described in paragraph 2, Alternative Performance Indicators).

Please note that gross operating profit (EBITDA) gross of provision for doubtful accounts amounted to EUR 38.8 million in 2017 (EUR 38.4 million in 2016).

Revenue by business segment

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



Source: Tiscali

<u>Broadband Access</u>

The segment concerned, which includes Internet access services, generated revenue for FY 2017 for approximately EUR 145.9 million (EUR 132.9 million from “Fixed Access” and EUR 13 million from “Fixed Wireless Access”), down by 2.5% as compared to the corresponding figure for FY 2016 (EUR EUR 149.6 million).

This revenue item includes the following two components:

- Fixed Access, substantially stabilizing with respect to the 2016 figure (EUR -0.9 million; -0.7%) after years of sharp reductions, which amounted to EUR 132.9 million. This result has been achieved thanks to the growth in the total portfolio of Fixed Broadband customers (+11 thousand units as compared to December 31, 2016), together with a strong improvement in the mix towards higher-value Fiber solutions (47.1 thousand customers in December 2017 as compared to around 9.8 thousand at the end of 2016).
- Fixed Wireless Access, amounting to EUR 13 million as of December 31, 2017, decreasing by 18% as compared to December 31, 2016, as a result of the already mentioned decrease in WiMax customers portfolio, resulting from termination for the impossibility to complete the migration process from WiMax to LTE services and also from the termination of WiMax services sales in areas where the LTE service is still unavailable, less than compensated by the growth of higher-value LTE customers (about 49.6 thousand LTE clients in the portfolio against approximately 10 thousand in December 2016). This trend led to a total reduction in the Fixed Wireless customer portfolio of approximately 8.4 thousand units during the period from December 2016 to December 2017.

As of December 31, 2017, total active clients amounted to 748.2 thousand units, increasing by about 67 thousand units as compared to the figure as of December 31, 2016 (681.2 thousand units) of which clients from “BroadBand Access” amounting to 451.2 thousand units, increasing by about 11 thousand units, clients from “Fixed Wireless” amounting to 66.6 thousand units (of which over 49.6 thousand clients of UltraBroadBand LTE Fixed Wireless), down by about 8.4 thousand units compared to the figure as of December 31, 2016, by about 39.5 thousands unit, and mobile clients amounting to 230.4

thousand units, with a significant growth (+64.4 thousand units) as compared to the comparable data as of December 31, 2016.

Evolution of the customer base (lines)

Customer base		31/12/2017	30/06/2017	31/12/2016	30/06/2016
Total Broadband Fixed		451.151	453.332	440.151	421.649
	o/w Fibra	47.117	22.352	9.838	5.741
Total Broadband Wireless		66.637	61.378	75.003	96.346
	o/w LTE	49.575	34.863	10.029	0
Mobile (6 months in-out)		230.415	201.953	166.021	146.324
Total Clients		**748.203**	**716.663**	**681.175**	**664.319**

It should be noted that the Company, since the Consolidated Financial Statement as of June 30, 2017, has adopted a new representation of its customer portfolio, in order to take into account the impacts of the transfer of the Business branch to Fastweb and the strategy of focusing on the core business. Namely, users of Narrowband voice and data – CPS, Dialup – have not been represented as they are being progressively discontinued. Users were redetermined as of December 31 and June 30, as well.
It should also be noted that "Fixed Wireless" users do include as of December 31, 2017, a number of former inactive customers by about 9,000 units, for which the company is performing marketing and commercial activities for potential future reactivations. As of December 31, 2016, the number of former inactive customers was approximately 20,000.

MVNO

The MVNO segment grew by 35.4%, from EUR 10.7 million in FY 2016 to EUR 14.4 million in FY 2017, thanks to a significant growth of about 64.4 thousand units recorded in the Mobile customers' portfolio (+38.8%). In December 2017, the Mobile customers' portfolio of Tiscali amounted to about 230.4 thousand units.

Business and Wholesale Services

Revenues from business services (VPN, housing, hosting, domains and leased lines services) and from Wholesales revenues for sales related to network services and infrastructure (IRU, sales of Voice traffic) to other operators, excluding those concerning the access and/or Voice products targeted to the same customers base already included in the relevant Business lines, amounted in FY 2017 to EUR 26.6 million, up by 40.3% as compared to EUR 19 million in FY 2016. The growth is mainly dye to the Wholesale activity, which has increased by EUR 8 million, up from EUR 4.9 million in 2016 to EUR 12.9 million in 2017.

Media

In FY 2017, revenues from the Media and value-added services (mainly related to the sale of advertising space) segment amounted to about EUR 13.9 million, down by 7.3% as compared to FY 2016 (EUR 15 million); this reduction is connected with the negative performance of online adversting sales, more and more affected by concentration phenomena by Over-The-Top (Google, Facebook). In order to tackle this issue more effectively, in July 2017 a strategic agreement with Sky has been signed for a joint management of the business of online advertsing sales (Paragraph 4.5).

Other revenues

Other revenues in 2017 amounted to about EUR 6.8 million, up by EUR 4.1 million from the corresponding figure for 2016 (EUR 2.7 million). This growth is due in particular to the revenues from the rent of the IT business branch to Engineering, to the revenues deriving from agreement with Fastweb for the B2B customer service management until their definitive physical migration to Fastweb, and to the increase in revenues from Sa Illetta office rented to third parties.

Indirect operating costs in 2017 amounted to EUR 57.7 million, decreasing as compared to the 2016 (EUR 60.8 million). This reduction is largely due to the sharp reduction in personnel costs, given by the significant reduction in average staff over the period, less then offset by the growth in marketing costs associated with the advertising campaign made in the first half of 2017 for brand revival and support of the process of acquiring new customers.

The components the indirect operating costs follow:

- Marketing costs amounted to about EUR 13.2 million, increasing as compared to 2016 (EUR 8.6 million), as a result of the costs of the communication campaign carried out in 2017, as well as the increase in costs related to the sale of goods and services.
- Payroll and related costs amounted to EUR 29.2 million (14.0% of revenues), decreasing as compared to the data of 2016 (EUR 34.9 million, 17.7% of revenues), mainly due to the downsizing of the workforce happened during 2016 and in 2017.
- Other indirect costs amounted to EUR 15.4 million, decreasing as compared to 2016 (EUR 17.3 million) as a result of the general cost efficiency policies implemented during the year.

Other income/charges

This item includes net other income amounting to EUR 3.9 million as of December 31, 2017, decreasing as compared to 2016 (positive for EUR 5.5 million); it mainly includes the recording of the portion of the 2017 gain realized through the Sale and Lease-Back transaction at Cagliari (Sa Illetta), for about EUR 2.1 million, and an out-of-period income amounting to EUR 1 million from the termination of the Teletu dispute following the transaction with Vodafone, which entailed the waiver by Vadafone of claiming any compensation against Tiscali.

Provisions for doubtful accounts

The provisions for doubtful accounts amount to EUR 9.7 million in 2017 (4.7% of revenues), a reduction in absolute value and as a percentage of revenues as compared to the same figure 2016, equal to EUR 11.3 million (5.7% of revenues).

The effects of the above items determine a **Gross operating result (EBITDA)** amounted to EUR 29.1 million, with an increase by EUR 1.9 billion as compared to the same figure of 2016 (EUR 27.1 million).

Depreciation for 2017 amounted to EUR 48.1 million, slightly down respect to EUR 49.5 million recorded in 2016, notwithstanding the significant investments made in 2017, particularly for the migration of the Fixed Wireless network from WiMax technology to LTE technology.

Moreover, during 2017, the company accounted restructuring costs for EUR 3.6 million, as compared to EUR 6 million of 2016. Restructuring costs mainly refer to restructuring costs incurred by the company in terms of reorganization and downsizing of the staff (including costs incurred for incentive schemes implemented in the first half of 2017 for EUR 1.8 million).

Considering the above mentioned itmes, the net operating result (EBIT), net of provisions, write-downs and restructuring costs, is negative for EUR 22.6 million, with an increase by EUR 5.8 million as compared to 2016, negative for EUR 28.4 million.

The total effect for 2017 of non recurring items[3] on EBIT is negative for EUR 4.1 million, compared to positive EUR 3.8 million for 2016.

Financial charges amounted to EUR 19.4 million, as compared to EUR 13.4 million in 2016, and include EUR 6.7 million in non-recurring costs resulting from the conversion of the convertible bond loan realized on December 14, 2017 (as described in paragraph 4.5).

The result of from assets held for sale and discontinued operations, amounting to EUR 42.8 million, includes the gain on the sale of the B2B business unit to Fastweb (including the SPC contract) recorded at the time the contract was concluded of disposal, which took place on 10 February 2017, amounting to EUR 43.8 million, in addition to the result for the period of the same assets held for sale (for further details, please refer to Note 9).

The Net Result of the Group is positive for EUR 0.8 million, improving compared to the comparable figure for 2016, negative for EUR 45 million. The improvement in the Group's Net Result, as compared to 2016, is mainly due to the already mentioned positive impact of the capital gain on the sale of the BTB business segment to Fastweb, amounting to EUR 43.8 million.

[3] As per CONSOB Resolution No. 15519 dated July 27, 2006

4.6.4 Equity and Financial Position of the Group

Consolidated Statement of Equity and Liabilities (*)	31 december 2017	31 december 2016
(EUR mln)		
Non-current assets	230,8	219,0
Current assets	69,6	59,9
Assets held for sale	(0,0)	6,2
Total Assets	**300,4**	**285,2**
Net equity of the Group	(128,0)	(167,6)
Net equity attributable to minority interests	0,0	0,0
Total net equity	**(128,0)**	**(167,6)**
Non-current liabilities	39,3	171,3
Current liabilities	389,1	277,9
Liabilities directly associated with assets sold	(0,0)	3,6
Total Net equity and Liabilities	**300,4**	**285,2**

(*) It has to be noted that, compared to the Consolidated Balance Sheet included in the 2016 Annual Financial Report, the long-term component of two financial debts related to loans granted by the Ministry of Development and the Ministry of University and Research for a total of EUR 0.9 million as at 31 December 2016, it was reclassified from Current liabilities to non-current liabilities (for EUR 0.3 million). In addition, the item Non-current assets was restated net of the provision for risks classified as at 31 December 2016 in the item Provisions for risks and charges. Finally, it should be noted that the net book value of the dsl equipment (modem and CPE) has been reclassified, to better show the nature of the investment, from the Intangible fixed assets category to the Property, Plant and Machinery category. This reclassification was carried out, for comparative purposes, also with reference to 31 December 2016. The amount of this reclassification amounts to EUR 13.2 million as at 31 December 2017 (EUR 6.8 million as at 31 December 2016).

Assets

Non-current assets

Non-current assets at 31 December 2017 amounted to EUR 230.8 million (EUR 219.0 million as at 31 December 2016). The net increase compared to 31 December 2016, amounting to EUR 11.8 million, is mainly attributable to investments for the period net of the amortization of intangible and tangible fixed assets for the year 2017. The investments, including fixed assets in progress relating, in particular, to purchases of LTE material not yet put into service (due to the delays in the execution of the plan commented previously), in 2017 were equal to approximately EUR 64.4 million, and essentially refer to investments concerning the proprietary LTE access network, the connection and activation of new (Fixed and Wireless) Broadband customers, and to the extension and development of the network to support the growth in bandwidth volumes to be managed. With regard to LTE investments, it is recalled that they are based on a supply agreement with Huawei that extends the payment of the supply to five years, allowing a better correlation of cash outflow to regulate supply with flows of expected revenues. The amount of payables to Huawei as of December 31, 2017 is equal to EUR 17.7 million (of which EUR 10.9 million due beyond one year, while at December 31, 2016, the total debt position was EUR 12.1 million, of which EUR 7.5 million due beyond one year).

Current assets

Current assets as of December 31, 2017 amounted to EUR 69.6 million (EUR 59.9 million as of December 31, 2016), and mainly include receivables from customers which, as of December 31, 2017, amounted to EUR 46.5 million, as compared to EUR 38.3 million as of December 31, 2016. In addition to cash and cash equivalents, amounting to EUR 1.5 million, the item concerned also includes other receivables and other current assets, amounting to EUR 21.6 million, represented by advances to suppliers, prepaid expense for service costs and other receivables.

Shareholder's Equity

The consolidated shareholders' equity amounted to a deficit of EUR 128 million as of December 31, 2017, and recorded a decrease of the total deficit of EUR 39.6 million as compared to December 31, 2016, due to:

- Increase for a share capital increase of EUR 11.8 million subscribed by Otkritie Capital International Limited and Powerboom Investment Limited on August 8, 2017;
- Increase for a share capital increase of EUR 18.5 million following the conversion of the bonds referred to the Tiscali Conv 2016-2020 bond loan, which took place on December 15, 2017;
- Increase related to the positive net result of the statement of comprehensive income amounting to EUR 0.8 million;
- Increase of EUR 6.7 million for charges of the conversion of the Rigensis-Otkritie bond loan subscribed on September 7, 2016 and converted on December 15, 2017
- Increase of EUR 1 million concerning the release of the residual value of the put option, which was valued at EUR 1.8 million at the time the bond was signed;
- Increase in the stock option reserve amounting to EUR 0.6 million.
- Increase in the reserve for employee benefits for EUR 0,3 million;
- Exchange difference resulting from the deconsolidation of the subsidiary Streamago, which took place on March 8, 2017 for negative EUR 0.1 million.
- decrease on the costs for the share capital increase of EUR 0.1 million.

Liabilities

Non-current liabilities

Non-current liabilities as of December 31, 2017, amounted to EUR 39,1 million, reduced as compared to the restated December 31, 2016, figure (EUR 171,3 million). The figure as at 31 December 2016 was restated following a reclassification of EUR 5.4 million to Non-Current Assets.
The reduction is mainly attributable to the following items:

- the loss of the convertible bond loan, whose balance at December 31, 2016 amounted to EUR 18.4 million, which was converted into capital on December 15, 2017;

- reclassification of long term portion of the Senior Loan and Sa Illetta debt from long term debts to short term debts, for an overall amount of EUR 108,1 million (EUR 68,9 million attributable tor the Senior Loan and EUR 39,2 million attributable to the Sa Illetta debt). This reclassification has been made taking into consideration the status of the standstill process and in compliance to IAS 1. Since the aforementioned standstill requests have not been formalized by December 31, 2017 and since Tiscali has not complied with the payment terms provided for in the First and Second Agreement and in the Sa ILLetta Sale and Lease Back Agreement, the Group has classified these loans. in the short term, pending the definition of the standstill. At December 31, 2016, the amount of the aforementioned payables was EUR 139.1 million;

Non-current liabilities include, in addition to the items relating to the financial position, for which reference should be made to the following, the provision for risks and charges for EUR 3.2 million (EUR 4.6 million as at 31 December 2016 the provision for employee severance indemnities of EUR 3.9 million (EUR 5.9 million at 31 December 2016) and trade payables due after one year for EUR 16 million (EUR 1.2 million at 31 December 2016), in addition to other liabilities for EUR 4 million , 9 million (EUR 4.3 million at 31 December 2016).

Current liabilities

Current liabilities amounted to EUR 389.1 million as of December 31, 2017 (as compared to EUR 277.9 million as of December 31, 2016, restated figure) and include mainly the current portion of financial payables (a significant increase following the previously described reclassification of the financial debt), the payables to suppliers, the accrued expenses concerning the purchase of access and rental services and the tax liabilities.

The variation compared the previous year is maily due to the reclassification of long term portion of the Senior Loan and Sa Illetta debt from long term debts to short term debts, for an overall amount of EUR 108,1 million (EUR 68,9 million attributable tor the Senior Loan and EUR 39,2 million attributable to the Sa Illetta debt) , as described in the paragraph above

As of December 31, 2017, net expired trade payables (net of payment plans agreed with suppliers, active and contested assets against the same suppliers) amounted to EUR 46.2 million. At the same date, expired financial payables (net of credit positions) amounted to approximately EUR 20.9 million. There are also expired tax payables amounting to about EUR 11 million. There are overdue balances owed to employees for social sectурity contributions amounting to EUR 1.9 million.

Nevertheless, there is no indication of suspension on supplier relationships that would affect the ordinary running of the business. As of December 31, 2017, payment claims were received under ordinary administrative management. At that date, the most relevant payment claims received by the Company and not paid as they were in negotiation or opposition, totaled EUR 9.1 million, while total received orders amounted to EUR 12.8 million.

4.6.5 Financial situation of the Group

As of December 31, 2017, the Tiscali Group can count on cash, cash equivalents and bank accounts amounting to EUR 1.5 million in total, with a net financial position as of the same date negative for EUR 178.9 million (EUR 187.6 million as of December 31, 2016, restated figure).

As previously mentioned, the Group net financial position as at December 31, 2017 is showing the reclassification of the long term portion of the Senior Loan and Sa Illetta debt from long term debts to short term debts, for an overall amount of EUR 108,1 million (EUR 68,9 million attributable tor the Senior Loan and EUR 39,2 million attributable to the Sa Illetta debt).
This reclassification has been made taking into consideration the status of the standstill process and in compliance to IFRS 3.
Due to the fact that the standstill requested to the banks and to the leasing creditors has not been formalized yet, at the date of the preparation of the present Annual Financial Report, and that Tiscali has not respected the terms of payments stated in the First (and Second) Facility Agreement and in the Sa Illetta sale and lease back agreement, the Company is obliged to classify the above mentioned loans into short term debts.

Instead, in the net financial position as at December 31, 2016, the current portion of the above mentioned loans at that date, was classified into the current liabilities.

Net Financial Position	Notes	31 december 2017	31 december 2016
(Thousands of Euro)			
A. Cash and Bank deposits		1.5	1.3
B. Other cash equivalents		0.0	0.0
C. Securities held for trading		-	-
D. Liquidity (A) + (B) + (C)		***1.5***	***1.3***
E. Current loan receivables		***0.0***	***0.0***
F. Non-current financial receivables	(1)	0.5	4.3
G. Current bank payables	(2)	13.3	14.7
H. Current accounting of bonds issued	(3)	0.0	0.4
I. Current accounting of non-current debts	(4)	94.6	13.5
J. Other current financial debts	(5)	62.2	10.1
K. Current financial debt (G) + (H) + (I)+(J)		***170.0***	***38.6***
L. Net current financial debt (K)-(D)-(E)-(F)		**168.1**	**33.0**
M. Non-current bank Loans	(6)	0.0	80.6
N. Bonds issued	(7)	0.0	18.4
O. Other non-current intercompany debt	(8)	10.8	55.6
P. Non-current financial debt (M)+(N)+(O)		**10.8**	**154.7**
Q. Net Financial Position *(L)+(P)*		**178.9**	**187.6**

(*) The net financial position as of December 31, 2016, has been reclassified respect to the Net Financial Position included in the Annual Financial Report 2016, for effect of the inclusion of two financial debts for loansprovided by the Ministry of Development and the Ministry of University and Research for EUR 0.9 million as of December 31, 2016. The balance of those debts as of December 31, 2017, amounts to EUR 0.6 million.

In addition, it should be noted that compared to the NFP disclosed pursuant to Article 114 of the TUIR as of 31 December 2017, the NFP of this Annual Report shows a lower net debt of € 0.6 million. The differential elements between the NFP of this Annual Financial Report and of that communicated pursuant to art. 114, are as follows:

- *The long-term portion of the Senior Loan and the financing relating to the Sales & lease Back of Sa Illetta has been reclassified shortly, based on the status of the standstill process on both loans (see also Section 4.8) and according to the provisions of IAS 1. Since the aforementioned standstill requests have not been formalized by December 31, 2017 and since Tiscali has not respected the payment terms provided for in the First and Second Agreement and in the Sa Illetta Sale and Lease Back Agreement, the Group classified these short-term loans despite the fact that the standstill was defined. This reclassification amounted to EUR 108.1 million in the NFP of this Annual Financial Report (EUR 108.7 million as per the NFP notified pursuant to Article 144 of the TUIR);*
- *The amortized value of the senior loan, equal to EUR 87.8 million, differs from EUR 0.5 million with respect to the value included in the NFP reported pursuant to Article 114 of the TUIR (EUR 88.3 million) as it is based on different financial plan hypothesis. In fact, the amortized value of the senior loan in this Annual Financial Report is based on the financial plan assumptions included in the standstill requests made by the Company to the lending institutions (standstill up to and including September 30, 2019 - for more details see Section 4.8), while the amortized value included in the NFP disclosed pursuant to Article 144 of the TUIR was based on a financial plan that envisaged payments of the residual installments substantially in line with the contracted financial plan;*
- *Bank / cash payables: compared to the NFP disclosed pursuant to Article 114 of the TUIR, the NFP of this Annual Financial Report includes a balance of payables vs. banks / cash lower of EUR 0.1 million (EUR 17.4 million, against the € 17.5 million of the NFP pursuant to Article 114 of the TUIR).*

Notes:

1. *Includes several guarantee deposits.*
2. *Includes bank payables of Tiscali Italia Spa, Tiscali Spa, Veesible Srl and Aria Group.*
3. *This item included, at December 31, 2016, the component falling due within the year of the convertible bond loan which was converted on December 15, 2017;*
4. *Includes mainly the component falling due within the year of EUR 19.2 million relating to the payable to Senior Lenders (portions of principal and interest repayable within 12 months) in addition to the component expiring after the year, reclassified as expiring within the pending exercise of standstill negotiations with Senior Lenders. The portion expiring after the year reclassified as due within one year is Euro 68.9 million.*
5. *Includes mainly the component falling due within the year, the "Sale & Lease Back Sa Illetta" debt in addition to the component expiring after the year, reclassified as due within the year pending the standstill negotiations with Mediocredito Italiano and Unicredit Leasing ("Pool Leasing"), to redefine the total amortization plan for the leasing debt relating to the property of Sa Illetta. The portion expiring after the year reclassified as due within one year is EUR 39.3 million. The item also includes payables for leasing contracts relating to the financing of network investments and the part falling due within the year of two financial debts related to loans granted by the Ministry of Development and the Ministry of University and Research for EUR 0.6 million.*
6. *This item is equal to zero following the reclassification carried out in consideration of the status of the process of obtaining the standstill on the debt to Senior Lenders. Since, unlike December 31, 2016, Tiscali did not comply with the payment terms set forth in the First (and Second) Facility Agreement and did not obtain a waiver by December, the Group classified this loan as expiring before the end of the year, despite the fact that the standstill is defined. The portion expiring after the year reclassified as due within one year is EUR 68.9 million.*
7. *This item included, at December 31, 2016, the component expiring after the year of the convertible bond loan, which was converted on December 15, 2017;*

(8) This item includes the long-term portion of finance lease payables related to investments for network infrastructure.

The table reported above includes guarantees deposits under “Other cash and cash equivalents” and under “Non-current financial receivables”. For the purpose of providing complete information, the indication of the reconciliation of the financial position above with the financial position prepared in accordance with CONSOB communication No. DEM/6064293 dated July 28, 2006 and reported in the explanatory notes, follows:

(*)	31 december 2017	31 december 2016
(EUR mln)		
Consolidated net financial debt	**178.9**	**187.6**
Non-current financial receivables	0.5	4.3
Consolidated net financial debt prepared on the basis of Consob communication No. DEM/6064293 dated 28 July	**179.4**	**191.9**

(*) The net financial position as of December 31, 2016 has been reclassified from the Net Financial Position included in the Annual Financial Report 2016, for effect of the inclusion of two financial debts for loans provided by the Ministry of Development and the Ministry of University and Research for EUR 0.9 million as of December 31, 2016. The balance of payables as of December 31, 2017, amounts to EUR 0.6 million.

4.7 Assessement of the economic, assets and financial situation of Tiscali Spa

4.7.1 Premise

The tables presented below have been drafted on the basis of the financial statements for the year ended December 31, 2017, to which reference should be made. In this regard, it should be noted that the 2017 financial statements represent the separate financial statements of the Parent Company Tiscali Spa, and was prepared in compliance with the International Accounting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and harmonized by the European Union, as well as the provisions issued in implementation of Art. No. 9 of Legislative Decree No. 38/2005. IFRS also means all the revised international accounting standards (“IAS”), all the interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”), previously called the Standing Interpretations Committee (“SIC”).

4.7.2 Economic Situation of the Parent Company

Consolidated income Statement	2017	2016
(Thousands of Euro)		
Revenues from services and other income	6,768	5,413
Payroll and related, service and other operating costs	(3,944)	(6,549)
Other write-downs	(80,357)	1,096
Net financial (charges)	(7,666)	(279)
Income taxes	31	(31)
Income from discontinued operations and / or targeted for disposal	(54)	-
Net result for the period	**(85,221)**	**(349)**

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 Spa, 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 1.5 million, costs for external management consulting services amounted to EUR 0.3 million, the remuneration for the Board of Directors amounted to EUR 1.5 million (including costs for stock option plans for EUR 0.4 million), costs for external services amount to EUR 0.3 million and insurance costs for EUR 0.2 million. The decrease compared to the previous year is mainly due to the pay-roll costs amounted to EUR 1 million, writedown of penalties for late payment accrued on the VAT payable for previous years, equal to EUR 0.7 million and writedown of debit positions towards consultants for the remaining part.

The other writedowns mainly include EUR 79 milion for the devaluation of the Investment in Tiscali Italia S.p.a, other then EUR 0,2 milion for the adjustment of the provision for doubtful accounts to the value of the total receivable due from foreign subsidiaries.

Net financial charges refer for EUR 0.8 million to the portion of interest accrued on the convertible bond loan subscribed on September 7, 2016 and for EUR 6.7 million to the notional charges deriving from the conversion of the Rigensi-Otkritie bond loan occurred on December 15, 2017, in addition to the calculation of default interest due for late payment of tax payables and payables to suppliers for EUR 0.2 million.

Income from discontinued operations refers to the Streamago company whose assets were sold with effective date from 1 January 2017.

4.7.3 Assets Situation of the Parent Company

(million Euro)	31 december 2017	31 december 2016
Non-current assets	136,582	198,340
Current assets	12,150	7,263
Assets held for sale	-	54
Total Assets	**148,732**	**205,657**
Shareholders' equity	43,026	89,719
Total Net Equity	**43,026**	**89,719**
Non-current liabilities	95,025	94,690
Current liabilities	10,681	21,245
Liabilities held for sale	-	4
Total Net equity and Liabilities	**148,732**	**205,657**

Assets

<u>Non-current assets</u>
Non-current assets mainly include controlling equity investments for a total of EUR 115.1 million (EUR 176.5 million as at December 31, 2016), which reflect the write-off of Tiscali Italia investment for EUR 79 million, they are also included the other financial assets amounting to EUR 21.5 million, essentially represented by financial receivables due to Group companies.

<u>Current assets</u>
Current assets include “Receivables from customers” for EUR 9.7 million and are mainly refereed to subsidiaries, “Other receivables and other current assets” for about EUR 2.2 million, of which EUR 0.6 million relating to tax receivables, accrued income and prepayments on services, EUR 1.5 million of VAT credit accrued in the FY, as well as cash and cash equivalents for EUR 0.2 million.

Shareholders’ Equity

The parent company shareholders' equity amounted to EUR 43 million as of December 31, 2017 and reflect the decrease of EUR 46,7 million as compared to December 31, 2016, due to:

- increase for a share capital increase of EUR 11.8 million subscribed by Otkritie Capital International Limited and Powerboom Investment Limited on August 8, 2017;
- increase for a share capital increase of EUR 18.5 million following the conversion of the bonds referred to the Tiscali Conv 2016-2020 bond loan, which took place on December 15, 2017;
- decrease relative to the negative net result of the statement of comprehensive income amounting to EUR -85,2 million. The net result does include the devaluation of the Investment in Tiscali Italia S.p.A for EUR 79 million ;
- decrease concerning the costs of a capital increase of EUR 0.1 million;

- increase of EUR 6.7 million for notional charges of the conversion of the Rigensis-Otkritie bond loan subscribed on September 7, 2016 and converted on December 15, 2017
- increase of EUR 1 million concerning the release of the residual value of the put option, which was valued at EUR 1.8 million at the time the bond was signed;
- increase in the stock option reserve amounting to EUR 0.6 million;
- increase in the reserve for employee benefits for EUR 0.011 million.

As a result of the loss recorded in the year, the Parent Company falls within the ambit of Article 2446 of the Civil Code; the shareholders' meeting called to approve the financial statements for the year ended December 31, 2017 therefore have also to decide on the measures required by the aforementioned article 2446.

Liabilities

<u>Non-current liabilities</u>
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 for EUR 0.3 million relating to disputes with third parties.

<u>Current Liabilities</u>
Current liabilities not relating to the financial position are mainly represented by payables to suppliers amounting to EUR 5 million (of which EUR 0.5 million due to subsidiaries) and other current liabilities for EUR 5,7 million. The latter include EUR 0.5 million in payables to subsidiaries, EUR 4 million of tax and social security obligations, EUR 0.4 million for Directors remuneration, EUR 0.4 million amounts payable to employees and EUR 0.3 for other debts.

4.7.4 Financial Situation of the Parent Company

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

Financial Situation	31 december 2017	31 december 2016
(Thousands of Euro)		
A. Cash and Bank deposits	247	22
B. Other cash equivalents	-	-
C. Securities held for trading	-	-
D. Liquidity (A) + (B) + (C)	***247***	***22***
E. Current loan receivables	-	-
F. Non-current financial receivables	-	**0**
G. Current bank payables	0	0
H. Current accounting of bonds issued	0	375
I. Current accounting of non-current debts		
J. Other current financial debts	516	516
K. Current financial debt (G) + (H) + (I)+(J)	***516***	***891***
L. Net current financial debt (K)-(D)-(E)-(F)	**268**	***869***
M. Non-current bank Loans	0	-
N. Bonds issued	0	18,429
O. Other non-current intercompany debt	93,878	73,613
P. Other non-current intercompany debt	0	0
Q. Non-current financial debt (M)+(N)+(O)	**93,878**	**92,042**
R. Net Financial Debt (L)+(P)	**94,146**	**92,911**

Note: For purposes' comparison with the Net financial position at 31 December 2017, the net financial position as at 31 December 2016 has been restated excluding, under the item "E. Current financial receivables", non-financial receivables equal to 0.7 million EUR.

The debt for "Bonds issued" was written off due to the conversion of the bond loan previously mentioned.

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

The increase in "Other non-current intercompany debt" relates to transactions connected to the centralized treasury deed agreement.

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

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

	31 dicember 2017	
EUR 000	**Net Result**	**Shareholders' equity**
Shareholders' equity and net profit (loss) of Tiscali S.p.A.	**(85,221)**	**43,026**
Net profit and Shareholders' equity of consolidated companies	341,122	(361,024)
Book value of consolidated equity investments and consolidation entries	(255,074)	189,967
Consolidation's Journals		
Shareholders' equity and net profit (loss) for the year pertaining to the Parent Company	827	(128,031)
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	**827**	**(128,031)**

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

Events and uncertainties relating to the going concern

Balance sheet and financial performance for the period

Tiscali Group closed FY 2017 with a consolidated loss amounting to EUR 0.8 million, improving compared to a loss of EUR 45 million in the previous year. As already anticipated this result was influenced by the positive effect, amounting to EUR 33 million, of the non-recurring transactions concluded in the period (including the capital gain for the transfer of the BTB Business Branch to Fastweb, amounting to EUR 43.8 million, netted by other non recurring costs for EUR 10.8 million).

Tiscali Group closed FY 2017 with a negative consolidated shareholders' equity amounting to EUR 128 million (EUR 167.6 milllion as of December 31, 2016). The shareholders' equity of the parent Tiscali Spaamounts to EUR 43 million at 31 December 2017 (EUR 89.7 million as at 31 December 2016). On that date, the Company is, therefore, in the case referred to in art. 2446 of the Civil Code. The Shareholders' Meeting called to approve the financial statements for the year ended December 31, 2017 must therefore also deliberate on the reduction of the share capital to cover the losses on the basis of the balance sheet prepared pursuant to the aforementioned article 2446 of the Civil Code with reference to 31 December 2017.

Furthermore, as of December 31, 2017, the Group recorded a gross financial debt amounting to EUR 180.8 million, improved respect to the gross financial debt as of December 31, 2016, amounting to EUR 193,1 million, and current liabilities exceeding (non-financial) current assets for EUR 150.9 million, improved respect to the amount of EUR 181 million respectively as of at December 31, 2016

These current liabilities include expired net trade payables (net of payment plans agreed with suppliers, of the receivable items and in dispute with the same suppliers) for EUR 46.2 million, improved respect to th amount of EUR 59.4 million as of Euro as of December 31, 2016, in addition to overdue financial debts (net of credit positions) of approximately EUR 20.9 million (EUR 3.3 million at 31 December 2016), overdue tax payables of approximately EUR 11 million (EUR 16.9 million at 31 December 2016), as well as overdue payables of a social security nature for employees of EUR 1.9 million (EUR 1.4 million as at 31 December 2016).

In confirmation of the positive trend highlighted in the year, it should be noted that at 31 March 2018 the net financial debt amounted to EUR 176.1 million, with an improvement on the figure as at 31 December 2017 of EUR 3.3 million.

Actions implemented in 2017 to support the financial and economic performance of the period

The improvement in the equity, financial and economic performance described above is connected to some actions initiated by the Directors in 2016 and consolidated during 2017.

During 2017, the Company completed the finalization of some operations started during FY 2016 and proceeded with the path of growth and refocusing on the core business started the year before.

In particular, during FY 2017, the company focused on the following actions:

- **Completion of the path of refocusing on the Core Business** (referred to in Paragraphs 4.2 and 4.5) of the sale of Broadband services to Retail Consumer, SOHO and Small Business customers, namely through:
    - closing of the sale of the Large Customers business segment to Fastweb, with relative receipt of the final sale price of approximately EUR 45 million, of which EUR 25 million in cash and EUR 20 million in services to be used by 2022;it is noted, for the sake of completeness, that on the basis of the most current information, it is estimated that the purchase purchase plafond will be used within the next 12 months
    - final transfer of the Streamago and Istella activities as a path of progressive exit from the specific business of Over-The-Top (OTT) services;
    - signature of an agreement with SKY aimed at exclusively entrusting online advertising sales on the Tiscali.it web portal and on the websites that the advertising agency of the Tiscali Group, Veesible, has in its portfolio in SKY Italia. This agreement will maximize the commercial opportunities of the online market, and consolidate the respective digital audiences thanks to new publishing synergies which will allow the Tiscali.it website to enrich the content proposal of its platform, thanks to the inclusion of a selection of SKY contents.
- **Continuation, also in FY 2017, of the growth on the Core Business** in order to consolidate the trend reversal realized in 2016 on customer increase: refer to Paragraph 4.2 for a detailed analysis of this action.
- **Efficiency in operating costs.** During the course of 2017, the path to increase efficiency in operating costs continued. please refer to Paragraph 4.2 for a detailed analysis of this action.
- **Further strengthening of the Group's economic and financial structure,** which continued in 2017, as indicated in detail in the previous Paragraphs 4.2. and 4.5 to which reference is made.

At the end of 2017 and in the first months of 2018, it became clearer how the 3.5GHz frequency, owned by Tiscali, is a strategic asset also for the development of the future Mobile Data 5G services. In the last Mobile World Congress held in Barcelona in February 2018, all the main technological vendors, together with ITU, the world's leading telecommunications standardization body, certified that the 3.5GHz frequency will be among the first to be used for the development of the future 5G UltraBroadBand Mobile Data services, and have started to present a preview of enabling network devices and user terminals.

This evidence, which represents a further confirmation of the asset value of which Tiscali is the owner, followed a period of strong regulatory uncertainty that began in the first part of the year, in which the uncertainty about the probabilities and the related renewal procedures over the natural expiry (2023) of the licenses on the portion of the spectrum on 3.5GHz frequency recorded in Tiscali's assets became more acute.

In this regard, as previously anticipated, consistently with the increasing strategic of the 3.5GHz frequency and, more generally, of the 5G technology, also in Italy the government has accelerated the process for the allocation of all the frequencies enabling the launch and development of future 5G services. In particular:

- The rules for the allocation of 3.6-3.8GHz, 700MHz and 26.5GHz frequencies by the end of 2018 have been included in the 2018 Stability Law;
- In the last months of 2017, the process of granting the extension until 2029 to the current license holders on 3.5GHz frequency (including Tiscali) expiring on 2023 was finally launched. In 2017, the request to MISE for the granting of the extension until 2029 was forwarded by Tiscali and by the current owners of the licenses in question. Following an initial assessment by the Ministry, the opinion of Agcom was requested, this being normal practice. The proposal of the Agcom Resolution containing the opinion on the granting of the extension, had been submitted to a public consultation which ended on February 21, 2018. The AGCOM Council's final approval of the Resolution took place on April 11, 2018 (Resolution No. 503/17 / CONS), with subsequent publication of the opinion on the Authority's website. The MISE, having received the positive opinion of AGCOM, will formally close the process of granting the extension of the rights of use presumably by the summer.

The revision of the 2018-2021 plan

As previously indicated, the positive opinion issued by AGCOM concerning the extension of the 3.5GHz licenses, and the expected subsequent confirmation of the conclusions included therein by MISE, represents an essential requirement for Tiscali to guarantee a long-term regulatory framework to protect the return on the investments necessary for a full exploitation of the license with a view to LTE and 5G.

As a result of this opinion, the Company benefits from a greater market valuation of the licenses accounted in its Financial Statements, and, in this context, has given a mandate to Mediobanca - Banca di Credito Finanziario Spato act as financial advisor to the Company to assess possible strategic options for the Group, as already communicated in the past months.

In view of the above, and considering the above mentioned positive effects of the operations already carried out and underway over the next few months on the Group's financial structure, the management analyzed the results for FY 2017, finding they were influenced by the partial stop of development activities linked to the uncertainties described above in relation to obtaining the extension on the 3.5GHz frequency, which is the fundamental asset on which the growth plans included in the Business Plan 2017-2021 approved by the Board of Directors on April 28, 2017, were based. The delays recorded are mainly linked to the sharp slowdown in investments related to the planned development of the LTE Fixed Wireless proprietary access network in the absence of reasonable certainty about the renewal of the license. This fact, associated with the changed technological and market framework related to the use of frequency owned by Tiscali to support the launch of 5G services and which the company must take into account for the definition of its future development plans, has led to the revision of the above mentioned Business Plan approved by the Board of Directors on April 28, 2017.

In particular, the new Business Plan 2018-2021 (hereinafter referred to as "Business Plan" or "2018-2021 Plan") confirms the strategic guidelines already included in the previous plan, as follows:

- the objective of fully maximising the asset represented by the spectrum owned by Tiscali through the expansion of the proprietary LTE Fixed Wireless access network to cover up to about 50% of the Italian population with new generation LTE UltraBroadBand Fixed Wireless services with capacity up to 100Mbps, with particular focus on the “Extended” Digital Divide areas;

- the full focus on the provision of Fixed network UltraBroadBand services to Consumer and SOHO customers with capacity up to 1Gbps, to support the growth of fixed network customers through higher quality services with significantly lower churn rates;
- the growth in Mobile services in line with what was also recorded in 2017.

The 2018-2021 Plan has revised the times for achieving the aforementioned objectives to take into account, as mentioned, the delays related to the uncertainty of the obtaining the prorogation on the 3.5GHz frequency previously referred to, as well as to optimize the development of the LTE Fixed Wireless network in view of the prospect linked to future 5G services.

Based on these premises, and in line with the provisions of the previous Plan, the investments established in the 2018-2021 Plan in the medium to long term need to find additional financial resources beyond those generated by the Group through its operating cash flow.

The management reiterates that the achievement of a balance sheet, economic and financial situation in short and medium-term of the Group is generally subject to the achievement of the results envisaged in the 2018-2021 Plan and at the availability of the related medium-long term financial resources needed to develop the LTE investment plan, as short-term ones are already available as better analyzed below - including the successful finalization of agreements with financial institutions in a timely manner consistent with short-term business continuity needs and, therefore, the realization of the forecasts and assumptions contained therein related to the evolution of the telecommunications market, to the achievement of the growth targets set in a market context characterized by a strong competitive pressure.

The methods for obtaining financial resources for the 2018-2021 plan

On May 7, 2018, the main shareholders, Investment Construction Technology (ICT) Group Ltd and SOVA Disciplined Equity Fund, formerly known as the Otkritie Disciplined Equity Fund, (henceforth also SOVA), expressed their commitment, formalized in special comfort letters presented to the Company, to provide for the Group's short-term liquidity needs, for an amount equal to Euro 17.5 million each, directly or indirectly through one or more third party lenders, in the course of 2018. The letters show how the technical modalities disbursement, will be defined subsequent to the date of approval of this Financial Report, and may provide for new injections of equity, the disbursement of new loans, the use of hybrid instruments or a mix of such solutions; in this context, therefore, the Board of Directors today resolved to add on the agenda of the Extraordinary Shareholders' Meeting, convened at the same time as the Ordinary Meeting called to approve the financial statements, the assignment of powers for the issue of a convertible bond loan and/or a reserved capital increase of EUR 35 million.

In addition, the 2018-2021 plan envisaged the procurement of additional medium-long financial resources for the development of the investment plan, for which the methods and definitive timing of procurement are still under definition.

In continuity with the past, it was decided to submit an updated request to the credit institutions with which the senior debt was refinanced in June 2016 (Intesa SanPaolo and Banca Popolare di Milano - "Senior Lenders") a moratorium on payments due by Tiscali Italia pursuant to the First Facility Agreement and the Second Facility Agreement, starting from payments due as of September 30, 2017, and up to September 30, 2019 (excluded), as well as obtaining the reset of the contractual covenants to the light of the new Plan 2018-2021.

With regard to the payment of the Second Facility Agreement installment due by Tiscali Italia expired on March 31, 2017, Tiscali has proposed to make such payment on September 30, 2018.

Lastly, it should be noted that Tiscali Italia has requested the Pool Leasing (made up of Mediocredito Italiano and Unicredit) to redefine the overall amortization plan for the leasing debt concerning the property of Sa Illetta, including a moratorium on payments due up to and including September 30, 2019, taking into account that it does not respect the payment commitments unfulfilled amount to a total of overdue and unpaid debts of EUR 4.4 million as of December 31, 2017. Negotiations are ongoing however the leader of the pool does not have the formally replied to the requests made by the Company yet.

To date, numerous meetings have already taken place between the Group's management and the technical and commercial structures of the aforementioned Credit Institutes and leasing companies, and the preparatory activities for the operation have already been completed.

On 9 May 2018, each of the Credit Institutions sent a comfort letter to Tiscali in order to communicate that it will initiate the preliminary investigation relating to the new request for moratorium presented by Tiscali in the terms referred to above,not having detected critical issues regarding the request itself and confirm its commitment to submit the approval of this request to the decision-making bodies, subject i) the contribution of new financial resources to the Group through the commitment of the ICT and SOVA shareholders in the previously indicated terms, ii) payment to Intesa SanPaolo of the installment due at March 31, 2017 in the manner described above, iii) the supply of further documentation on the method of destination of the liquidity generated by the sale of the business business unit and iv) the definition of the terms and conditions of medium and long-term funding sources aimed at supporting the investments envisaged in the Plan. The above four conditions are in fact already fulfilled taking into account the commitment made by the reference Shareholders and the payment for the installment included in the short-term disbursements, since the conditions iii) and iv) have already been fulfilled by an appropriate documentation and confirmation of the existence in the plan of sources of the medium / long-term loans requested.

Final Assessment by the Board of Directors

In this Annual Financial Report, the Board of Directors, with reference to the applicability of the going concern assumption and to the use of the accounting principles proper of an operating company, point out that the Group:

- generated in FY 2017, before working capital changes (negative for EUR 43.3 million), cash and cash equivalents from operating activities amounting to approximately EUR 31,2 million;
- proceeded in the growth of its customers portfolio for Tiscali's core business (the total customers portfolio of the Tiscali Group amounted to 748.2 thousand units in December 2017, with an increase by 67 thousand units as compared to December 2016);
- generated in FY 2017 a growth by 5.4% in total revenues as compared to the previous year;
- has improved the quality of its customer portfolio, achieving about 96.7 thousand UltraBroadBand customers (LTE and Fiber) as of December 2017, against the approximately 19.9 thousand units as of December 2016;
- has created a LTE Fixed Wireless network of 320 antennas in December 2017, thanks to which, with its ULtraBroadBand LTE service, it can cover a market of about 4 million households and businesses, in particular in the "Extended Digital Divide" areas, with capacity up to 100 Mbps;
- completed the focus on the core business of supply of Fixed, Wireless and Mobile BroadBand services to Consumer, SOHO and Small Business customers, by finalizing the sale of the Business segment to Fastweb, the sale of OTT assets and by the contract signed with SKY in relation to the joint management of the online advertising market;
- finalized the reserved capital increase for OCI and ICT, for a total value of EUR 11.8 million, further strengthening the equity structure;

- carried out the conversion of the convertible bond loan, through a reduction in debt and an increase in share capital, for an amount of EUR 18.5 million;
- took note of the publication by AGCOM of the summary of the public consultation called by Resolution No. 503/17 / CONS in which it issued a favorable opinion with respect to the extension of the duration of the aforementioned licenses until December 31, 2029 , indicating the methods for calculating the consideration to be paid for this renewal and indicating the technical and legal obligations to be met in order to achieve such renewal;
- has received from two shareholders a letter of commitment to pay or to obtain from one or more third parties new financial resources in 2018, for a total amount of about EUR 35 million;
- positively continued the negotiations aimed at obtaining the standstill agreements until September 2019 on payments owed to both Intesa SanPaolo and BancoBpm, in relation to the Senior Loan, considering reasonable the fulfillment of all the preliminary conditions set by the Institutes to start the prodromal inquiry procedure for the approval of the standstill by the Financing Institutes;
- positively pursued negotiations with the the Pool Leasing aimed at redefining the amortization plan for the real estate leasing, on the assumption that it is reasonable to finalize the aforementioned process.

The Directors, nonetheless, underscore that the going concern assumption is based on the achievement of the objectives contained in the 2018-2021 Plan, with particular reference to the time frame of the 12 months, and acknowledge that at present there are some material uncertainties about events or circumstances that may cast significant doubt on the Group's ability to continue as a going concern. The above uncertainties are related to the evolution of the telecommunications market and the achievement of the short term growth targets set for Ultrabroadband LTE services, the main development area envisaged in the Business Plan, in a market context characterized by strong competitive pressure as well as the finalization of the standstill procedure by the Credit Institutions and the leasing companies, and the ability to maintain flexibility in the payment times of expired suppliers in line with the cash balance needs.

In light of the above, after having carried out the necessary verifications and assessing the significant uncertainties identified in the light of the above elements, taking into account the aforementioned commitment made by the Shareholders for financial support and the possibility of deferring the payment of certain tax debts in compliance with the regulations in force,they are also confident: i) in the capacity of the company management to be able to execute the actions envisaged in the 2018-2021 Business Plan, with particular reference to the 12-month period envisaged in the Business Plan, even in a market context characterized by strong competitive pressure, ii) in the positive finalization of the granting of moratoriums by the lenders and the pool leasing in the same period of time, considering it reasonable to fulfill all the preliminary conditions set by the institutions, iii) in the maintenance by the banking group and the pool leasing and support providers financial guarantee so far and have, therefore, the reasonable expectation that the Group has adequate resources, taking into account the aforementioned financial support commitments made by the Shareholders, to meet the payment obligations over the next twelve months and to continue the existence operational in a foreseeable future; consequently, the Directors decided to adopt the assumption of business continuity in the preparation of this Annual Financial Report.

This assessment is, of course, the result of a subjective judgment, which considered the likelihood of fulfillment of such events with respect to the opposite situation. It must be emphasized that the prognostic judgment underlying the determination of the Board is likely to be contradicted by the evolution of the facts. Being aware of the intrinsic limits of its determination, the Board of Directors will keep a constant monitoring of the evolution of the events considered (as well as of any further circumstantial evidence) so that it can take promptly the necessary measures.

Business Outlook

Consistent with the above and in line with the objectives of the Business Plan, in the next months the company's committment will be particularly aimed at finalizing agreements with credit institutions and the leasing pool, reducing the overdue contract with suppliers, and consolidating the results achieved in 2017, focusing on the protection of the Italian Fixed and Mobile BroadBand market, on the Consumer, SOHO and SME segments through, in particular, improving the customer mix, leveraging the growth of UltraBroadBand solutions in Fiber and LTE. This thanks to:

- the progressive completion of the migration of WiMax antennas still active at the end of 2017 towards the LTE technology;
- the growth in the number of customers with Fiber solutions up to 1GBps;
- the growth of the mobile customer base in line with what happened in FY 2017, also thanks to the development of specific Fixed-Mobile integrated offer solutions.

Furthermore, the identification of all the actions necessary to increase the overall efficiency level of the company will continue, with the ultimate aim of obtaining further cost reductions, also in light of the competitive advantages resulting from the renewal of existing licenses , in the context of the development of future 5G services, as well as to carry out the prodromal activities to define the medium-long term financing strategy of the overall investment plan.

4.9 Other events after fiscal year end

Please refer to the Paragraph "Other events after fiscal year end".

4.10 Disputes, contingent liabilities and commitments

Please refer to the Paragraph "Disputes, Contingent Liabilities and Commitments" of the Explanatory Notes.

4.11 Non-recurring transactions

Please refer to the Paragraph "Non-recurring Transactions" of the Explanatory Notes.

4.12 Atypical and/or unusual transactions

As per CONSOB Communication dated July 28, 2006, it is specified that, during FY 2017, the Group did not carry out any atypical and/or unusual transactions, as defined in the Communication itself.

4.13 Related-party transactions

With regard to the economic and asset relationships held with related parties, please refer to the Paragraph "Related-party transactions" of the Explanatory Notes of the Consolidated Financial Statement as of December 31, 2017.

4.14 Remunerations to Directors, Auditors and Executives with strategic responsibilities

For the performance of their duties in the Parent Company and in other consolidated companies, the remunerations due for FY 2017 to Directors, Statutory Auditors and executives with strategic responsibilities of the Group companies are as follows:

(EUR 000)	31 december 2017	31 december 2016
Directors	1,552	1,522
Statutory Auditors	221	247
Manager with strategic responsabilities	1,752	2,080
Total Remuneration	**3,525**	**3,850**

4.15 Adhesion to the Tax Consolidation

The Company has exercised the option for consolidated taxation headed by the parent company Tiscali Spafor the following companies:

- Tiscali Spa
- Tiscali Italia Spa
- Veesible Srl
- Indoona Srl
- Aria Spa
- Media PA Srl

The relationships emerging from the adhesion to the consolidated tax system are regulated by a special "Regulation" agreement, which provides for a common procedure for the application of the regulatory and legislative provisions.

Cagliari, May 10 2018

The Chief Executive Officer

Riccardo Ruggiero

The Officer in Charge of Preparing the Company's Accounting Documents

Daniele Renna

5 Corporate Governance Report and Ownership Structure

5.1 Introduction

As per Article No. 123-*bis* of the 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 a report, on an annual basis, providing information on their *Corporate Governance* system and adherence to the Code's Recommendations (as defined below). This report shall be made available to the Shareholders at least 21 days before the Meeting for the approval of financial statements for the year and shall be published in the "*Investor Relations*" section of the Company's website, at www.tiscali.com.
The Board of Directors of Tiscali Spa("**Tiscali**" or the "**Company**"), in compliance with the prescribed obligation and with the intention of providing extensive corporate disclosure to Shareholders and investors, has prepared this report (the "**Report**"), in compliance with the guidelines published by Borsa Italiana Spaand in view of information provided by Assonime.

Therefore, the Report consists of two parts. The first part fully illustrates the corporate governance model adopted by Tiscali and describes the corporate bodies and the shareholders, and other information referred to in the aforementioned Art. No. 123-bis of the Legislative Decree No. 58/98. The second part instead provides detailed disclosure regarding the compliance with the Code's recommendations through a comparison between the choices made by the Company and said recommendations of the Code. On May 10, 2018, the Board of Directors evaluated, as per the Code, the size, composition and operation of the Board and its Committees considering them adequate to the managerial and organizational needs of the Company. The Board took into account the professional qualifications, experience and managerial skills of its members and examined the practical operation of the corporate bodies during 2017. At the date of this Report, only the CEO holds executive powers, and three non-executive Directors are also independent. In its evaluation, the Board took into account the positions held by the Directors in other companies, and the real commitment of the Directors in the Company's operations, while considering that the management maintains a priority role for the execution of the industrial strategy.

5.2 Corporate Governance Structure

5.2.1 General Principles

"*Corporate Governance*" means the overall processes to manage the business with the objective of creating, preserving and increasing value, over time, for Shareholders and investors. These processes must ensure the achievement of corporate goals, maintaining responsible corporate behaviour, transparency and accountability to the Shareholders and the investors. These processes must guarantee the achievement of the company's objectives, the maintenance of socially responsible behavior, transparency and accountability towards Shareholders and investors.

In order to ensure the transparency of management operations, the full disclosure to the market and the protection of relevant corporate interests, the corporate governance system adopted by Tiscali fully draws on the recommendations of the Corporate Governance Code (the "**Code**") Approved by the Committee for *Corporate Governance* in March 2006, as last updated in July 2015 and available at the following address: http://www.borsaitaliana.it/borsaitaliana/regolamenti/corporategovernance/

The Company adopts practices and principles of conduct, formalized in procedures and codes, in line with the indications of Borsa Italiana Spa, the recommendations of CONSOB and with the *best practices* in place at national and international level; furthermore, Tiscali is equipped with an adequate organizational structure to manage, with correct methods, business risks and potential conflicts of interest that might arise between Directors and Shareholders, between majority and minority interests and between the different stakeholders.

5.2.2 Model Adopted

In relation to the management and control system, the Company has adopted the traditional model, which requires the presence of the Board of Directors and the Board of Statutory Auditors. The Company thinks that this system provides a clear division of roles and responsibilities of governing bodies, and an effective management of the Company.

5.2.3 Corporate bodies and auditing company

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

<u>Board of Directors</u>

On 30 April 2015, the Shareholders' Meeting appointed the Board of Directors in office until approval of the financial statements at December 31, 2017. The composition and activities of the Board of Directors during FY 2017 and the date of this Report follows:

Member	Year of birth,	Office	Date of appointment for this term	Executive - Non-Executive - Independent	Date of expiration for this term	Date of first appointment (*)	Other positions held (***)	Participation Meetings BoA	Audit and Risk Committee - role (**)	Committee for Appointments and Remunerations - role (**)	Committee for Transactions with Related Parties – role (***)	Committee for investments (**)	Committee for extraordinary finance operations (**)
Renato Soru****	1957	Director	February 16, 2016	Non-Executive	approval of financial statements as of December 31, 2017	June 9, 1997	-	10/11				M	M
Riccardo Ruggiero	1960	CEO	February 16, 2016	Executive	approval of financial statements as of December 31, 2017	February 16, 2016	-	11/11				P	P
Alexander Okun*****	1952	Chairman	February 16, 2016	Non-Executive	approval of financial statements as of December 31, 2017	February 16, 2016	-	9/11				M	M
Konstantin Yanakov	1977	Director	February 16, 2016	Non-Executive	Resigned on February	February 16, 2016	6	-		M			

Member	Year of birth,	Office	Date of appointment for this term	Executive - Non-Executive - Independent	Date of expiration for this term	Date of first appointment (*)	Other positions held (***)	Participation Meetings BoA	Audit and Risk Committee - role (**)	Committee for Appointments and Remunerations - role (**)	Committee for Transactions with Related Parties – role (***)	Committee for investments (**)	Committee for extraordinary finance operations (**)
					24, 2017								
Nikolay Katorzhnov	1984	Director	February 16, 2016	Non-Executive	Resigned on February 24, 2017	February 16, 2016	6	-		M		M	M
Paola De Martini	1962	Independent Director	February 16, 2016	Non-Executive and Independent TUF	approval of financial statements as of December 31, 2017	February 16, 2016	-	11/11	M	P	P		
Anna Belova	1961	Independent Director	February 16, 2016	Non-Executive and Independent TUF	approval of financial statements as of December 31, 2017	February 16, 2016	2	11/11	P	M	M		
Franco Grimaldi	1955	Independent Director	February 16, 2016	Non-Executive and Independent TUF	approval of financial statements as of December 31, 2017	December 21, 2009	-	11/11	M	M	M		
Alice Soru	1980	Director	February 16, 2016	Non-Executive	approval of financial statements as of December 31, 2017	February 16, 2016	-	11/11					
Sergey Sukhanov	1977	Director	February 24, 2017	Non-Executive	Next Meeting	February 24, 2016	1	10/10					
Dmitry Gavrili	1974	Director	February	Non-Executi	Next Meeti	February		9/10					

Member	Year of birth,	Office	Date of appointment for this term	Executive - Non-Executive - Independent	Date of expiration for this term	Date of first appointment (*)	Other positions held (***)	Participation Meetings BoA	Audit and Risk Committee - role (**)	Committee for Appointments and Remunerations - role (**)	Committee for Transactions with Related Parties – role (***)	Committee for investments (**)	Committee for extraordinary finance operations (**)
n			24, 2017	ve	ng	24, 2016	-						

(*) The position may not have been covered on an ongoing basis from the date of first appointment
(**) This column shows the attendance of Directors at meetings of the Committees and qualifications of the Member within the Committee: "P": Chairperson; "M": member.
(***) Appointments as Directors or statutory auditors in other companies listed on regulated markets (including foreign markets), in financial, banking, insurance or large companies.
(****) Appointed as Chairman by the Board held on February 16, 2016; resigned from office of Chairman on May 12, 2016
(*****) Vice Chairman from February 16, 2016 to May 12, 2016 – Chairman since May 12, 2016

It should be noted that he Board currently in office was elected on the basis of the single list presented jointly by Renato Soru, Aria Telecom Holding BV and the Otkritie Disciplined Equity Fund to the Shareholders' Meeting held on February 16, 2016.

It is recalled that the Board expires with the approval of this Annual Financial Report.

<u>Board of Auditors</u>

On April 30, 2015 the Shareholders' Meeting elected the Board of Auditors in office until approval of the financial statements as of December 31, 2017. The Board of Auditors was composed of Paolo Tamponi, Andrea Zini, Rita Casu, Statutory Auditors; and Piero Maccioni and Valeria Secchi, Substitute Auditors.

Subsequently, upon the resignation all Auditors submitted in December 2015, the Shareholders' Meeting appointed a new Board of Auditors on February 16, 2016. The composition and the activity of the Board of the Auditors during FY 2017 and until the date of this report follows:

Regular auditor	**Date of birth**	**Office**	**Date of appointment for this mandate**	**Date of first appointment: (*)**	**Independence Code**	**Partipation to the Board meetings from 16.2.2016 to the date of this report**	**No. of positions held in issuers**
Paolo Tamponi	24/JUL/1962	Chairman	February 16, 2016	December 21, 2009	Yes	11/11	-
Emilio Abruzzese	18/JUL/1957	Statutory Auditor	February 16, 2016	February 16, 2016	Yes	10/11	-
Valeria Calabi	22/AUG/1966	Statutory Auditor	February 16, 2016	February 16, 2016	Yes	10/11	-
Federica Solazzi Badioli	23/DEC/0966	Substitute Auditor	February 16, 2016	February 16, 2016	Yes	-	-
Augusto Valchera	1/JUN/1966	Substitute Auditor	February 16, 2016	February 16, 2016	Yes	-	-

(*) The position may not have been covered on an ongoing basis from the date of first appointment

It should be noted that he Board currently in office was elected on the basis of the single list presented jointly by Renato Soru, Aria Telecom Holding BV and the Otkritie Disciplined Equity Fund to the Shareholders' Meeting held on February 16, 2016.

Please note that the Board decays with the approval of this Annual Financial Report.

<u>The Officer in Charge of Preparing the Company's Accounting Documents</u>
As established by Article 14 of the Company's Articles of Association and in compliance with the provisions of Law No. 262/2005, dated April 30, 2015, the Board of Directors appointed as Officer in charge of preparing the Company's accounting documents Mr. Pasquale Lionetti, manager of the Company in possession of the necessary qualifications and proven experience in the accounting and finance field. After Mr. Lionetti left the Company, the Board of Directors appointed on June 27, 2018, Mr. Daniele Renna as Officer in charge of preparing the company's accounting documents. Mr. Renna is a manager of the Company in possession of the necessary qualifications and proven experience in the accounting and finance field. The office of Mr. Renna will expire with renewal of the Board of Directors subsequent to the approval of the 2017 financial statements.

<u>Auditing Company</u>

The appointment to perform the audit, pursuant to Law No.39/2010, was awarded, on the basis of the proposal formulated by the Board of Statutory Auditors, to the company Deloitte & Touche S.p.A. by the Board of Directors held on May 30, 2017. This appointment will expire with the approval of the 2025 financial statements by the Shareholders' Meeting.

The convened Shareholders' Meeting will be called to resolve on the integration of the Deloitte & Touche Sparemuneration in relation to the Deloitte & Touche Spaproposal for the limited examination of the consolidated non-financial statement.

<u>Committees</u>
In the meeting of the Board of Directors dated February 16, 2016, the following internal committees were established:

- *Control and Risk Committee,* composed of Anna Belova (Chairman), Paola De Martini and Franco Grimaldi;
- *Appointment and Remuneration Committee,* composed of Paola De Martini (Chairman), Konstantin Yanakov, Nikolay Katorzhnov, Anna Belova and Franco Grimaldi;
- *Transactions with Related Parties Committee*, composed of Paola De Martini (Chairman), Anna Belova and Franco Grimaldi;
- *Investments Committee*, composed of Riccardo Ruggiero (Chairman), Renato Soru, Alexander Okun and Nikolay Katorzhnov;
- *Extraordinary Financing Transactions Committee*, composed of Riccardo Ruggiero (Chairman), Renato Soru, Alexander Okun, Nikolay Katorzhnov And Anna Belova.

Following the resignations of Konstantin Yanakov and Nikolay Katorzhnov dated February 2017, these members have been replaced by Sergey Sukhanov and Dmitry Gavrilin.
The committees will expire in conjunction with the Board of Directors upon approval of the financial statements as of December 31, 2017.

<u>Supervisory Body</u>
During the board meeting of April 30, 2015, the new Supervisory Body was appointed, composed of Attorney Maurizio Piras, external member acting as Chairperson, Angelo Argento, external member, and Carlo Mannoni, Head of the corporate function Regulatory Affairs; following the resignation of Mr. Mannoni, he was replaced in September 2015 by Paolo Sottili, head of the HR department of the Company. Following the resignation of Mr. Sottili, the meeting of the Board held on November 29,

2016, Daniele Renna was appointed as member of the Supervisory Body. Following his appointment as Officer in Charge, Mr. Renna resigned from his office as member of the Supervisory Body in June 2017. In the meeting of the Board held on September 20, 2017, with favourable opinion of Appointment and Remuneration Committee, Francesca Marino has been appointed as member of the Supervisory Body. The Supervisory Body will remain in office until approval of the financial statements as of December 31, 2017 and will also carry out its supervisory functions on the subsidiaries Tiscali Italia Spa and Veesible Srl.

<u>Director in charge of the internal control risk and risk management</u>
In line with the recommendations of the Self-Governance Code, the meeting of the Board held on April 30, 2015, the then Director Luca Scano was appointed Director in charge of the internal control and risk management (hereinafter also referred to as Director in Charge). As a result of the appointment of the Board of Directors occurred on February 16, 2015, the office was entrusted to the CEO.

<u>Secretary of the Board of Directors</u>
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 date of this report, the share capital subscribed and paid amounts to EUR 121,507,322.89, divided into 3,981,880,763 ordinary shares with no par value, freely transferable in accordance with law without there being any securities that confer special control rights.

<u>Share-based incentive plan</u>
The Shareholders' Meeting held on February 16, 2016, approved the 2015-2019 Stock Option Plan (hereinafter referred to as 2015-2019 Plan) intended for Renato Soru as Chairman of the Board of Directors, and the related authorization for the Board to increase the share capital for a maximum amount of Eur 16,371,192.25 to cover for the above Plan. The authorization concerns the issue of up to 251,622,551 ordinary shares, to cover a maximum of 251,622,551 stock options to be reserved to the beneficiary of the Plan. For more information, please refer to the Information Document on the 2015-2019 Stock Option Plan issued by Tiscali Spa, prepared by the Board of Directors pursuant to Article No. 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 share capital for a maximum amount of Eur 25,193,708 to be allocated to the capital with exclusion of the rights option pursuant to Article No. 2441, paragraphs 5 and 6, of the 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 the document pursuant to Article No. 114-bis of the Consolidated Finance Act (TUF) already prepared during the meeting approval and available in the *Governance* section of the Company website.
During 2017, in relation to the resignation of four executives originally beneficiaries of the plan, No. 56,385,123 options have been ceased. The total number of options established in the second Plan is therefore reduced to 258,143,066 options as of December 31, 2017.

<u>Increases authorised pursuant to Art. 2443 of the Italian Civil Code</u>

By a resolution dated February 16, 2016, the Shareholders' Meeting (i) cancelled the resolution dated September 29, 2015, in which the Shareholders' Meeting granted the Board of Directors approval, in accordance with Article No. 2443, Paragraph 2 of the Civil Code, to increase the share capital from March 1 to 31, 2018, by issuing up to a total of 250,000,000 no par value ordinary shares at a subscription price of EUR 0.06, aimed at subscription by Bank Otkritie Financial Corporation, and (ii) approved simultaneously a resolution to the Board of Directors pursuant to Article No. 2443, Paragraph 2, of the Civil Code, to increase the share capital from March 1 to 31, 2018, by issuing up to a total of 250,000,000 no par value ordinary shares at a subscription price of EUR 0.06. The increase is aimed at subscription by Rigensis Bank AS.

The following table specifies the name or the entity name of the Shareholders with voting rights holding a stake of more than 5% that have informed the Company and CONSOB of their participation. There are no restrictions on voting rights or the transfer of securities.

Shareholders	Percentage	Shares
Renato Soru	**7,94%**	**316.050.508**
by Cuccureddus	0,83%	33.112.352
by Monteverdi	0,44%	17.609.873
by Soru directly	6,66%	265.328.283
by Andalas		-
Market	**48,02%**	**1.912.177.949**
Investment Construction Technology (ICT) Group Ltd	**23,523%**	**936.667.194**
by Powerboom Investments Limited	23,523%	936.667.194
LLC "Concern "ROSSIUM"	**7,094%**	**282.485.876**
by Sova Capital Limited	7,094%	282.485.876
SOVA Disciplined Equity Fund SPC (SDEF)	**13,423%**	**534.499.236**
Total Tiscali Shares	**100,0%**	**3.981.880.763**

The remaining 48.03% of the share capital is distributed by the market.
There are no statutory restrictions on voting rights or the transfer of securities, such as limitations on ownership of securities or acceptance clauses. In addition, there are no special systems for exercising voting rights in case of employee share ownership, which exercise their right in accordance with the provisions of the Company's Articles of Association.

Shareholders' Agreements
As of the date of this report, the Company is not aware of any Shareholders' Agreements in place.

5.2.5 Amendments to significant agreements of the Company because of a change of Control

In case of *change of control* of the Company or certain companies within the Group, relevant under the loan agreements with senior creditors of the Company, an amendment of the financing agreements is foreseen. In particular, the change of control implies the requirement of prepayment with reference to the aforementioned financing arrangements.

5.3 Report on compliance with the recommendations contained in the Corporate Governance Code

5.3.1 Board of Directors

Role

The Board of Directors plays a prominent role in the life of the Company, since it is the body entrusted with management of the company, as well as the task of strategic and organizational guidelines and as such is responsible for identifying the Company objectives and the achievement thereof.
This body has, pursuant to Article No. 14 (Powers of the Administrative Body) of the Company's Articles of Association in force, all the powers of ordinary and extraordinary administration. The Board of Directors reviews and approves the strategic, industrial and financial plans of the Company and the Group owning it; it reports quarterly to the Board of Auditors on the activities carried out and the most significant economic, financial and equity transactions carried out by the Company or its subsidiaries, according to Article No. 150 of the TUF and in compliance with the procedure approved by the Board of Directors on April 28, 2017. The functions and powers exercised by the Company's Board of Directors, also in its function of strategic guidance, supervision and control of corporate activities, as provided for in the Company's Articles of Association and implemented in operational practice, are substantially in line with the provisions of the principles and application criteria of Article No. 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 the 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 of the Board of Directors

The Articles of Association establishes that the Chairman of the Board of Directors shall convene the Board, presiding over and coordinating its activities. At the Board of Directors meetings, the Chairman shall ensure that the Directors are provided, with reasonable advance, the documentation required to allow the Board to discuss the matters under examination. The Chairman of the Board of Directors is Alexander Okun.

Chief Executive Officer
The Articles of Association also stipulate that the Board of Directors may, within the limits of law, nominate one or more Chief Executive Officers, 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 EUR 10 million.

The delegated bodies report, at meetings of the Board of Directors and in other occasions to the other Board Members and the Board of Statutory Auditors, the transactions of most relevant economic, financial and capital impact made by the Company or its subsidiaries. In addition, they provide adequate and continuous information to the Board of Directors in relation to atypical or unusual transactions which approval is not reserved to said Board, as well as on the most significant activities carried out in the context of the powers and duties conferred. It is common procedure, except in cases of necessity and urgency, that these activities are submitted in advance to the Board of Directors so that the same may decide upon them in a knowledgeable and thoughtful manner.

Non-Executive, Minority and Independent Directors

In compliance with the provisions of Law No. 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 about the presence of Independent Directors within the Board. The Company complies with the Code and, currently, there are three Independent Directors within a Board of nine members, of which only Riccardo Ruggiero, CEO, is in possession of the executive powers delegated by the Board.

The Board, at the time of appointment and, in any case, annually when this Report is prepared, assesses the independence of the Directors, in consideration of the information provided by the individuals concerned, and will ensure appropriate disclosure to the market by publishing said Report. In the view of that analysis, the existence of the independence requirements was confirmed for Paola De Martini, Anna Belova and Franco Grimaldi on its meeting held on 9 May 2018.

With regard to the administrative or control positions in other companies, the Board did not deem it necessary to define general criteria regarding the maximum number of offices compatible with the effective performance of the role of director in the Company, notwithstanding the duty of each Board Member to evaluate the compatibility of the offices of Director and Statutory Auditor, possibly held in other companies listed on regulated markets, in financial companies, banks, insurance or large companies, with the diligent performance of the duties assumed as Board Member of the Company. It should be noted that none of the Board Members cover roles in Boards of Statutory Auditors of other listed companies, banking, financial or insurance companies or large companies.

The Company publishes, in a special section called "*Governance"* on the website www.tiscali.com the *professional curricula* of its Directors, to allow Shareholders and Investors to assess professional experience and authoritativeness of members of the Board of Directors.

Meetings

The Board of Directors meets on a regular basis and however, at the time of approval of the quarterly reports, the six-month reports and the drafting of financial statements. It is a well-established practice that external managers and consultants are also called to attend the Board of Director's meeting, according to the specific nature of the topics addressed, this also in order to facilitate timely and in-depth knowledge of the Company and the Group, as well as increasing the capacity to supervise the Board of Directors on business activities. As shown in the table below, during FY 2017, the Board of Directors met eight times, while during FY 2018, to the date of this report, the Board of Directors met three times. All of the Directors and members of the Board of Statutory Auditors have attended most the aforementioned meetings, as evidenced by the details shown below.

Meetings	24/Feb/ 2017	27/Mar/ 2017	28/Apr/ 2017	27/Jun/ 2017	31/Jul/ 2017	20/Sept/ 2017	13/Nov/ 2017	14/Dec/ 2017	16/Mar/ 2018	10/May/ 2018
Directors present	7/9	8/9	9/9	9/9	7/9	9/9	7/9	9/9	9/9	9/9
Percentage	78%	89%	100%	100%	78%	100%	78%	100%	89%	100%
Auditors		3/3	3/3	3/3						3/3

present	3/3				2/3	3/3	2/3	3/3	3/3	
Percentage	100%	100%	100%	100%	66%	100%	66%	100%	100%	100%

The average duration of the meetings of the Board was approximately 50 minutes.

The Board of Directors and the Board of Statutory Auditors are sent draft documents in advance to be approved jointly with any information and instrumental documents to the various resolutions. These are sent by the Corporate Administrative Office, which proceeds to gather the documents from the sectors responsible and to forward them with as much notice as possible. In general, the documentation is sent jointly with the convening notice for the Board meeting, as an exception, if not yet available, some documents may be sent after the convening notice but always with sufficient advance notice regarding the meeting. It is noted that the established procedure in the case of particularly voluminous or complex documentation, is to provide support for the Board Members with an *executive summary* specifically prepared by the competent corporate departments, which summarize the most significant and relevant points of the documents placed before the Board.

On November 13, 2017, the Board of Directors approved the calendar of its Meeting for the year 2018:

- March 16, 2018 (Approval of the Annual Financial Statements draft as of December 31, 2017),
- April 27, 2018 (Annual Shareholders' Meeting),
- September 14, 2018 (Approval of the Six-Month Report as of June 30, 2018).

Subsequently, at its meeting on March 16, the Board resolved to change the calendar by setting approval for the draft financial statements by May 10, 2018, and the annual Shareholders' Meeting by June 29, 2018.

<u>Appointment of Directors</u>

Article 11 (Board of Directors) of the Company's Articles of Association provides for the appointment of Directors, a list voting system, which ensures the appointment of a number of Directors, also among those listed, who have not obtained the majority votes, and ensures transparency and fairness of the appointment procedure. The right to submit the lists is granted to Shareholders who, alone or jointly with other Shareholders, represent at least the percentage of Share capital required by applicable regulations; in particular, CONSOB ruled that the shareholding required for the presentation of a list for 2018 is equal to 4.5% of the share capital. The aforementioned system ensures, therefore, that even minority Shareholders have the power to submit their own lists. Any person entitled to vote may vote for one list only. The Company has adjusted the current appointment systems to Law no. 120/2011 on gender equality concerning the access to management and supervisory bodies of companies listed on regulated markets; therefore, each list has to submit a number of candidates belonging to the less represented gender at least equal to the minimum number required by law.

The election procedure of Directors is as follows:
a.1) Regardless of the number of lists submitted, subject to the restrictions provided within this statute, for the purposes of election of Directors, no account shall be taken of lists that have not obtained a percentage of votes equal to at least half of that required this provision for the submission of said lists.
a.2) If only one list is submitted, all 9 candidates within it will be elected.

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

a.3.a) if two lists are submitted, the following will be elected: (i) the first 6 candidates on the first list by number of votes cast by shareholders; (ii) the first 3 candidates on the second list by number of votes cast by shareholders;

a.3.b) if three lists are submitted, the following will be elected: (i) the first 4 candidates on the first list by number of votes cast by shareholders; (ii) the first 3 candidates on the second list by number of votes cast by shareholders; (iii) the first 2 candidates on the third list by number of votes cast by shareholders;
a.3.c) if four lists are submitted, the following will be elected: (i) the first 3 candidates on the first list by number of votes cast by shareholders; (ii) the first 2 candidates in the second list by number of votes cast by shareholders; (iii) the first 2 candidates on the third list by number of votes cast by shareholders; (iv) the first 2 candidates of the fourth list by number of votes cast by shareholders;

a.3.d) if five lists are submitted, the following will be elected: (i) the first 3 candidates on the first list by number of votes cast by shareholders; (ii) the first 2 candidates on the second list by number of votes cast by shareholders; (iii) the first 2 candidates on the third list by number of votes cast by the shareholders; (iv) the first candidate on the list for the fourth list by number of shareholder votes; (v) the first candidate on the fifth list by number of shareholder votes;

a.3.e) if six or more lists are submitted, the following will be elected: (i) the first 3 candidates on the first list by number of votes cast by shareholders; (ii) the first 2 candidates on the second list by number of votes cast by shareholders; (iii) the first candidate on the third list by number of votes cast by shareholders; (iv) the first candidate from the fourth list by number of votes cast by shareholders; (v) the first candidate of the fifth list by the number of votes cast by shareholders; (vi) the first candidate on the sixth list by the number of votes cast by shareholders;

a.4) If two or more lists are submitted and none of them is voted on by at least 34% of the share capital, the applicants will be allocated among the various lists as follows:

a.4.a) if two lists are submitted, the following will be elected: (i) the first 6 candidates on the first list by number of votes cast by shareholders; (ii) the first 3 candidates on the second list by number of votes cast by shareholders;

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

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

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

a.5) in the event that there are two lists voted on by at least 34% of the share capital without any of them having reached a percentage higher than 50%, the provisions under previous point a.3) will apply;

a.6) in case the event that there are two lists voted on by at least 34% of the share capital of which one has reached a percentage higher than 50%, the provisions under the previous point a.4) will apply.

Where, in any cases pursuant to this point a), one or more lists obtain a number of votes greater than the percentage specified at point a.1) but lower than 5% of the share capital, for the purpose of identifying the Directors to be elected : (i) only the most voted among them will be taken into account; (ii) only the first candidate indicated on said list will be elected; (iii) any remaining Directors attributable to such a list under the provisions of the preceding paragraphs 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 referenced by the preceding points a.5) and a.6), will be allocated to the list with the highest number of absolute votes, subject to what is indicated therein, respectively, with regard to allocation of Directors on several lists from the first to the last.
Where, under the aforementioned appointment procedure, at least two members who meet the independence requirements established by applicable law are elected, the last elected party not in possession of these requirements taken from the list that obtained the highest number of votes cast by shareholders after the first, that is not connected in any manner, even indirectly, with the shareholders who submitted or voted for this latter list must be replaced by the first candidate subsequently listed on said list who is in possession of such requirements and if as a result of such replacement, a member in possession of the independence requirements established by the applicable legislation still needs to be elected, the last of those elected not in possession of said requirements, drawn from the list that obtained the most votes, will be replaced with the first candidate subsequently listed on said list who is in possession of said requirements.
Where the Board of Directors elected in accordance with the above, does not allow for compliance with the balance between genders pursuant to current regulations, the last elected of the most represented gender of the list with the highest number of votes cast by shareholders, lack the number necessary to ensure compliance with the requirement and are replaced by the first unelected candidates of the less represented gender on the same list. In the absence of candidates of the less represented gender on the list with the highest number of votes cast by shareholders in sufficient number to proceed with replacement, the aforementioned criterion will apply to subsequent lists receiving the highest votes from which the elected candidates have been taken. If by applying the aforementioned criteria, it may not however be possible to identify the appropriate replacements, the Assembly will supplement the body with the legal majority, ensuring the fulfilment of the required balance between the genders required within the legal framework.
Pursuant to the aforementioned Article No. 11 (Board of Directors), the lists for proposal of appointment to the office of Director must be submitted to the registered headquarters at least twenty-five days before the date set for the Meeting, together with a description of the *professional curricula* of the candidates and a declaration by which each party accepts the appointment, certifying that there are no reasons for ineligibility or incompatibility, as well as certifying that the requirements of integrity and professionalism required by applicable regulations and Bylaws, substantially in line with the principles and criteria contained in Article No. 5 of the Code, are in place. No later than twenty-one days before the date scheduled for the Meeting, the lists and the accompanying documentation should be disclosed as required by law. In the event of resolution to appoint individual members of the Board of Directors, the system of appointment by list vote, which Article No. 11 (Board of Directors) of the Articles of Association provides for solely in case of complete renewal of the Board of Directors, will not apply.

Although based on the provisions of the aforementioned Article 11 (Board of Directors) and the aforementioned considerations on the Directors' appointment system, ensures a fair system, respectful of minority interests, the Board of Directors, however, has deemed it appropriate that the Committee for Remuneration also assume functions in terms of appointments, thus becoming the Committee for Appointments and Remunerations. For more information, also with reference to the information required by Article No. 123-bis, First Paragraph, Letter (i) and the Code of Conduct, please refer to the Remuneration Report to be submitted to the Meeting convened to approve the financial statements as of December 31, 2017.

To date, the Board has decided not to adopt a plan for the succession of executive Directors.

5.3.2 Shareholders' Meetings

In accordance with the principles and application criteria referred to in Article No. 9 of Code, the Company encourages and facilitates the participation of Shareholders at the 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 Shareholders4 Meetings, dedicated a proper section called *"Investor Relations"* of the www.tiscali.com website, which allows access to such documentation in electronic format.
As suggested by the third policy application in Article No. 9 of the Code, the Shareholders' Meeting adopted its own Meeting Regulations, latest version dated April 29, 2011, also available on the Company's website. The Meeting Regulations were adopted with the aim of ensuring an orderly and effective performing of the meetings, define the rights and duties of all participants, and establish clear and unambiguous rules, without intending in any way to limit or restrict the right of each shareholder to express its opinions and demand explanations on the matters on the agenda. The Board of Directors thinks that the prerogatives of the minority interests should be respected when approving resolutions, because the current Articles of Association do not require majorities other than those specified by law.
In compliance with Article No. 2370 of the Civil Code and with Article No. 8 (Participation in the Meeting) of the Articles of Associations, the Shareholders from which the Company has received communication sent by the authorized intermediary as per the current regulations, certifying the ownership of shares on the so-called record date, as well as any voting proxy, may participate in the Meeting.

5.3.3 Board of Auditors

Appointment and Composition

Consistent with the first principle of Article No. 8 of the Code, concerning the appointment of the Statutory Auditors, Article No. 18 (Board of Statutory Auditors) of the Articles of Association provides a list voting system which guarantees the transparency and fairness of the appointment procedure and protects the rights of minority interests.
Only Shareholders who alone or jointly with other Shareholders can document that they hold at least the percentage of Share Capital envisaged by applicable legislation, will have the right to submit the lists. The lists must indicate five candidates listed in numerical order, starting with the one who has seniority professionally. CONSOB established that the shareholding required for submission of a list for 2016 is equal to 2.5% of the share capital. Each Shareholder may submit or participate in submission of only one list and each candidate may appear on only one list subject to penalty of ineligibility. The lists of appointment proposals must be filed at the registered headquarters at least twenty-five days before the date scheduled for the Meeting, together with a description of the *professional curricula* of the candidates and a declaration in which each accepts the appointment proposal, and states that there are no reasons for ineligibility or incompatibility, as well as the existence of requirements of integrity and professionalism required by applicable legislation and the Articles of Association. No later than twenty-one days before the date scheduled for the Meeting, the lists and the accompanying documentation should be disclosed as required by law.
Each Shareholder may vote for only one list. The following are elected: a) the list that obtained the most votes, in the progressive order in which they appear in the list, two Acting Members and two Alternate Members b) the third Acting Members is the first candidate on the list obtaining the highest number of votes after the first. In compliance with Law No. 262/2005, as amended by Legislative Decree No. 303/2006, the Chairmanship of the Board of Statutory Auditors goes to the first candidate on the list that obtains the highest number of votes after the first. The Company also took steps to supplement the appointment system for the Board of Statutory Auditors in order to ensure, however, compliance with Law No. 120/2011 on so-called gender equality.

Requisites

Article 18 (Statutory Board of Auditors) of the Articles of Association state that at least one of the Acting Statutory Auditors, and at least one of the Alternate Auditors, should be chosen from those listed in the register of auditors who have worked on statutory audits for a period of not less than three years. Statutory Auditors failing to meet the aforementioned condition must have gained at least a total of three-year experience in specific activities in any way related to the corporate purpose and, in any event, relevant to the telecommunications sector. The aforementioned article also stipulates that parties, which are already holding offices as Acting Statutory Auditors in more than five listed companies, cannot be appointed as Statutory Auditors.
In a special section called *Investor Relations* on the website www.tiscali.com, the Company publishes the professional curricula of its Statutory Auditors, so that the Shareholders and investors may assess the professional experience and the authoritativeness of the Board of Statutory Auditors members.

Activities

The members of the Board of Statutory Auditors operate autonomously and independently, in constant liaison with the Audit and Risk Committee, attending its meetings regularly, and with the *Internal Audit* department, in line with the principles and application criteria of Article No. 8 of the Code.
During the year under report, the Board of Statutory Auditors met 20 times, at the presence of all the Statutory Auditors, and recording an average duration of the meetings of approximately two hours and fifty minutes. For the financial year 2018, until the expiration date set for the Shareholders' Meeting of 26 June 2018, at least 10 meetings are expected, 8 of which already held.

5.3.4 Committees internal to the Board of Directors and other Governance bodies

At the date of this report, the following internal Board Committees follows: Audit and Risk Committee, Appointments and Remuneration Committee, Transactions with Related Parties Committee, Investment Committee and Extraordinary Financial Transactions Commitee. They are to remain in office until approval of the financial statements as of December 31, 2017, such as the Officer in Charge of Preparing the Company's Accounting Documents, the Internal Auditing Officer and the Supervisory Body.

Audit and Risk Committee (reference)

For information on the Internal Audit and Risk Committee, reference may be made to the *Internal Audit* paragraph below.

Remuneration and Appointment Committee

Since March 2001, the Company's Board of Directors, established its own internal Remuneration Committee, as required by the third principle of Article No. 6 of the Code and relevant 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 composed of Paola De Martini (Chairperson), Anna Belova, Franco Grimaldi, Dmitry Gavrilin and Sergey Sukhanov; the latter replace Konstantin Yanakov and Nikolay Katorzhnov, who were initially appointed and then resigned on February 24, 2017. The current Committee succeeded the one elected during the Board meeting dated April 30, 2015 which had appointed Franco Grimaldi (Chairperson), Assunta Brizio and Gabriele Racugno, no longer holding office following the resignation of the majority of Board Members occurred in December 2015.
The Committee submits proposals to the Board of Directors for the remuneration of the CEO and other Directors with special duties and, in general, recommendations for the remuneration of key management personnel of the Group, assists the Board of Directors in preparing and implementing

any remuneration plans based on shares or financial instruments, and assesses the adequacy and application of the Remuneration Policy. In addition, the Committee makes proposals regarding the appointment of Directors, in the event of co-option, of the top management of the Company and other corporate figures. As part of its duties, the Committee may retain external advisors at the Company's expense. The Committee meets when the need arises, upon the request of one or more members. Upon convening and implementation of meetings, the provisions of the Articles of Association shall apply, mutatis mutandis.
During FY 2017 and at the date of this report, the Appointments and Remunerations Committee met six times: February 24, April 28, June 27, September 20, October 27, 2017; May 10, 2018. The Appointments and Remunerations Committee assessed and approved the annual reports on remuneration, later approved by the Board of Directors and submitted to the Assembly, and the proposed appointment of certain company officers and contracts with the Executive Chairman and the CEO were discussed and approved, then submitting them to the Board of Directors, as more fully described in the Remuneration 2017 Report. Committee meetings have been attended by all members of the Board of Statutory Auditors. The meetings had an average duration of approximately 30 minutes.

Transactions with Related Parties Committee

The Committee for Transactions with Related Parties is responsible for the functions required by the CONSOB regulations and by the Regulations for Transactions with Related Parties, adopted by the Company on November 12, 2010 and entered into force on January 1, 2011 (hereinafter, the "RPT Regulations"), as later amended on April 28, 2017. The RPT Regulations define the rules, procedures and standards aimed at ensuring the transparency and substantial and procedural fairness of transactions undertaken with related parties carried out by Tiscali. The current Committee, appointed by the Board at its meeting on February 16, 2016, is composed of three Non-Executive and Independent Directors, Paola De Martini (Chairperson), Anna Belova and Franco Grimaldi, and succeeded the one elected in the meeting of the Board dated April 30, 2015, that had appointed Franco Grimaldi (Chairperson), Assunta Brizio and Gabriele Racugno, which no longer held office upon resignation of the majority of the Directors during December 2015. The Committee shall perform the following functions: (i) give its non-binding opinion on the interest of the Company's fulfilment of minor transactions (as defined in the RPT Regulations) and the economic advantages and substantial fairness of the relevant conditions; (ii) in the case of major transactions (as defined in the RPT Regulations), it is also involved in the negotiations and in the investigation phase and then expresses its reasoned binding opinion, subject to special approval procedures, in the interest of the Company upon completion of the transaction in question, and the economic advantage and substantial fairness of the relative conditions.
During FY 2017 and at the date of this report, the Committee met four times: April 27, June 27, September 29, 2017; and May 9, 2018. Committee meetings have been attended by all members of the Board of Statutory Auditors. The meetings had an average duration of approximately 30 minutes.

5.3.5 Internal Auditing

The Company already formalized the organizational structure of internal auditing in October 2001. On 25 March 2004, following the changes to the Corporate Governance Code for listed companies and the Borsa Italiana Spasuggestions, the Board of Directors updated the organizational structure of the internal auditing system of the Company, after the structure was updated also to take into account the amendments to the Code of Conduct. The internal auditing system is in line with the principles and application criteria contained in Article No. 7 of the Code.

Internal Auditing System

The internal auditing system is the set of processes designed to monitor the efficiency of company transactions, the reliability of financial reporting and compliance with laws and regulations, as well as the safeguarding of company assets.
The Board of Directors has the top responsibility for the internal auditing system, which sets the guidelines and periodically verifies the adequacy and effectiveness, ensuring that the main business risks are identified and appropriately managed. In addition to a continuous comparison and interchange between the various corporate bodies involved, the Audit and Risk Committee prepares every six months, upon approval of the draft of financial statements and the six-month interim report, a special report on the system of corporate governance of the Company and the Group and the activities undertaken during the period, the information issued by the Supervisory Board and the Internal Auditing Manager are annexed to the Committee's report. The Board of Directors examines the aforementioned information and evaluates the governance system jointly with the Internal Audit plans. With reference to FY 2017, during the meetings held on April 28 and September 20, respectively, during approval of the draft financial statements as of December 31, 2016 and the six-month report as of June 30, 2017, the Board has deemed the internal auditing system adequate relating to the needs of the Company, to the regulations in force and to the recommendations of the Code, approving the plans for Internal Audit.

The Audit and Risk Committee plays a key role in the internal auditing system; for its tasks and operation, please make reference to the next paragraph. Other bodies that are part of the internal auditing system are the Director In Charge, whose duties were taken over in the new Board of Directors which took office last February 16, 2016 by the Chief Executive Officer and the Internal Audit department.

The Director In Charge operationally implements the instructions of the Board of Directors on internal auditing, also proceeding to the actual identification and management of key business risks, submitting them for the assessment of the Board of Directors. The Director In Charge proposes to the Board of Directors the appointment of the Chief Internal Auditor, whose support is used in the performance of its functions.

The Chief Internal Auditor is equipped with the resources to carry out his functions and does not report hierarchically to any operational area manager; he reports on his work to the CEO and to the Board of Directors, as well as to the Audit and Risk Committee and the Board of Statutory Auditors, at least every three months. The Chief Internal Auditor has operational responsibility for coordinating activities of the Internal Auditing department, as it does not report to any operational manager hierarchically and is in possession of the necessary professional skills to perform pertaining duties in line with the recommendations of the Code. In order to further strengthen the independence requirement, the Chief Internal Auditor, and therefore the Internal Auditing department, hierarchically report to the Chairperson of the Audit and Risk Committee while, from an administrative point of view, they report to the CEO, whose powers include the provision of suitable means to the Chief Internal Auditor and the Internal Auditing department. The Audit and Risk Committee, in reviewing the work plan prepared by the Chief Internal Auditor, also assesses the suitability of the means and resources granted. The Board of Directors met on September 20, 2017, upon opinion of the Audit and Risk Committee and of the Board of Statutory Auditors, has appointed Ms. Francesca Marino as new Chief Internal Auditor (not an employee of the Tiscali Group).

During the intervening period from the previous Report, the main activities in the area of internal auditing by the Chief Internal Auditor, the Committee and the *Internal Audit* department were the following:

- assessment of the Group's governance and the activity conducted by each auditing bodies;
- preparation of six-monthly reports for the Board of Directors on governance activities;

- assessment of the activity of the Supervisory Body and updating, dissemination and application of the "Organization, management and control model" of the Group pursuant to Legislative Decree No. 231/2001;
- implementation of the auditing plan 2017, in particular with the verification procedures for management of contracting and activation of customers, purchasing of goods and services for the needs of the Company and the collection and recovery of customer accounts receivable;
- preparation of the 2018 Audit Plan;
- verifying the adequacy of administrative and accounting procedures for the preparation of the six-month interim report and the 2017 Financial Statements in order to assess their efficacy. This activity is also aimed at the certification pursuant to Article No. 154-bis of the TUF.
- Following the evaluations on the "Model of Organization, Management and Control" pursuant to Legislative Decree No. 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 the full compliance with the requirements referred to in Article No. 154-bis of the TUF. These activities were carried out with the support of a specialized external company.

Audit and Risk Committee

The Board of Directors, in line with the recommendations of the Code, has established an Audit and Risk Committee, with advisory and consulting functions, currently comprised of three Independent Directors of the Company. The Audit and Risk Committee has consultative and advisory functions with the aim of improving the functionality and the ability for strategic planning of the Board of Directors in relation to the internal auditing system. In particular:

a) It assists the Board of Directors in setting guidelines for the internal auditing system and periodically verifies the adequacy and correct operation of the same, ensuring that the main business risks are identified and appropriately managed;
b) assesses the work plan prepared by the Chief Internal Auditor and is being sent periodic reports by him/her;
c) assesses, jointly with the Company's Directors and the Independent Auditors, the adequacy of accounting standards adopted and their consistency for the purpose of preparing the consolidated financial statements;
d) evaluates proposals submitted by auditing firms to obtain the relative audit engagement, as well as the work plan prepared for the audit and the results described in the report and letter of recommendations, and more generally interacts institutionally with the auditing company;
e) assesses proposals of engagement of an advisory nature formulated by the auditing company – or by its affiliated companies – to the benefit of Group companies;
f) assesses proposals of an advisory nature to the benefit of Group companies, in case they are for significant amounts;
g) reports to the Board of Directors at least twice a year, at the time of the annual and six-month report on the activities performed and on the adequacy of the internal auditing system;
h) performs the other duties that may be assigned by the Board of Directors.

Committee meetings are attended by the entire Board of Statutory Auditors, its Chairperson or an Auditor delegated by the Chairperson of the Board of Statutory Auditors. In view of the topics discussed from time to time, the Chairperson of the Audit and Risk Committee may invite to participate other parties, in addition to the CEO, such as the auditing company, the General Manager or the Chief Financial Officer, if any, and the Officer in Charge of Preparing the Company's Accounting Documents, etc.

The meetings of the Audit and Risk Committee are held, usually, before meetings of the Board of Directors scheduled for approval of quarterly reports, six-month report and the draft annual financial statements, and at least once every six months. The Chairman of the Audit and Risk Committee ensures that members are provided reasonably in advance of the meeting date, the documentation and information necessary to the work, except in cases of necessity and urgency. The work of the Committee is however summarized in written form.

During FY 2017 the Audit and Risk Committee met two times: April 28 and September 20; during 2018, to date, on May 9. At all meetings of the Committee were attended by the entire Board of Statutory Auditors. In agreement with the topics on the agenda, the following attended the meetings: the Chief Internal Auditor, the Supervisory Body and the Officer in Charge of Preparing the Company's Accounting Documents, and the representatives of the auditing company or Directors and consultants of the Company. All meetings were regularly convened and recorded, and had an average duration of approximately 45 minutes.

5.4 Internal auditing relative to accounting and financial information

5.4.1 Introduction

The internal control and corporate reporting must be understood as a process that, by involving several company departments, provides reasonable assurance as to the reliability of financial information, the reliability of financial reporting and compliance with applicable regulations. The meaningful correlation with the risk management process, which consists of the process of identifying and analysing those factors which may affect the achievement of business goals, is clear, and the main purpose is to determine how these risks can be managed and monitored properly and rendered as harmless as possible. A system of appropriate and effective risk management can indeed mitigate the adverse effects on business objectives, including the reliability, accuracy, reliability and timeliness of accounting and financial information.

5.4.2 Key characteristics of the current risk management and internal auditing systems in relation to the financial reporting process

A) Phases of the Risk Management and Internal Audit System in relation to the financial reporting process

Identification of financial reporting risks

The risk identification activity is conducted primarily through the selection of relevant entities (companies) for the Group and, later, through the analysis of risks that are found along the business processes giving rise to financial reporting.

This activity includes: i) the definition of quantitative criteria in relation to income and asset contributions provided by individual companies in the last financial statements and the selection rules with minimum thresholds. The consideration of qualitative factors is not excluded; ii) identifying key processes, combined with material data and information, namely accounting items for which there is a not remote possibility of containing errors with a potential significant impact on financial information.

For each significant account, the most significant “statements” are identified, always according to evaluations based on risk analysis. The financial statements assertions are represented by the existence, completeness, after the event, from the assessment, from rights and obligations and the presentation and disclosure. The risks therefore relate to the possibility that one or more account statements are not properly represented, with a consequent impact on the information itself.

Assessment of financial reporting risks
The risk assessment is carried out both on an overall company level and at level of specific processes. The first area includes risks of fraud, improper operation of IT systems or other unintentional errors. At process level, risks related to financial reporting (underestimation, overestimation of items, inaccuracy

of information, etc.) should be analysed at the level of the activities that make up the business processes.

Identification of controls against identified risks
As a preliminary activity, attention is paid to company-level controls connected to data/information and relevant statements, which are identified and assessed both by monitoring of the reflection at the process level and at a general level. The company-level controls are designed to prevent, detect and mitigate any significant errors, although not operating at the process level.

Assessment of controls against identified risks
The assessment of the control system used is a function of several elements: timing and frequency; adequacy; operational compliance; organizational assessment. The overall control analysis overseeing each risk is defined autonomously as a summary of the assessment process of the adequacy and compliance correlating to said controls. Said analyses summarise considerations on the effectiveness and efficiency of the individual risk monitoring controls and the overall assessment on risk management is split into assessments of existence, adequacy and compliance. Information flows with the results of the activity performed submitted to administrative bodies by the Reporting Officer in support to accounting documents.

B) Roles and departments involved
The Reporting Officer is substantially at the top of the system that oversees financial reporting and informs company management on the matter. In order to carry out his/her tasks, the Reporting Officer has the power to set out the organizational guidelines for an appropriate structure as part of its function; the Officer also is equipped with the means and tools to carry out its activities; and has the ability to collaborate with other organizational units.

A variety of corporate departments contribute with information of economic and financial nature. Therefore, the Reporting Officer sets up systematic and successful relationships with these departments. The Reporting Officer is bound to promptly inform the Board of Auditors should critical issues emerge of an accounting, equity and financial nature.

The Consolidated Accounts Department serves as an intermediate layer and a link between the Reporting Officer and the Administrative Advisors within the Tiscali Group, arranging to collect, test, assemble, monitor the information received by the latter. The Consolidated Accounts Department cooperates with the Reporting Officer with regard to the documentation of accounting processes and their related updating over time. The Administrative Advisors of the Group gather operational information, check it and guarantee the adequate flow of information concerning the transposition of pertaining external regulations from time to time.

A steady flow of information is provided among the three levels described above, through which the Reporters inform the Consolidated Financial Statements Department and the Reporting Officer, both on the methods in which management and control activity is carried out for the preparation process of accounting documents and financial information, and on any critical issues that emerged during the period and the remedial action implemented to overcome any problems.
The model used is believed to allow for providing sufficient guarantees for proper accounting and financial information.

5.5 Organisation, management and control model as per Legislative Decree No. 231/2001

The company has long adopted the "Organization, Management and Control Model pursuant to Legislative Decree No. 231/2001" (hereinafter referred to as the "Model"); during 2010, the process primarily aimed at adapting the Model to new regulatory changes and the new reality of the Company and the Tiscali Group; the new Model and Code of Ethics, were approved by the Board of Directors held on November 12, 2010. Subsequently, at its meeting held on May 14, 2013, the Board approved the new Model, updated to recent regulatory changes, especially with regard to crimes against the

Public Administration, individuals, work safety and the environment. The Model also applies to other Group operating subsidiaries, Tiscali Italia Spaand Veesible Srl, in agreement with their specific characteristics and risk profile.

The Board of Directors held on April 30, 2015, appointed the new Supervisory Board, which replaces the previous one expiring with the approval of the 2014 Financial Statements. In order to ensure independence and effective action of the Body, it currently consists of two qualified members external to the Company, and by one internal member: Attorney Maurizio Piras, External Member who acts as Chairperson, Paolo Sottili, head of the Company's HR function, and Attorney Angelo Argento, external member. Following the resignation of Paolo Sottili, Daniele Renna was appointed as member of the Supervisory Body on November 29, 2016. Following the fact that Daniele Renna does no longer hold that role, in the Board meeting held on September 20, 2017, Francesca Marino was appointed as member of the Supervisory Body. The Body established as such expires with the approval of the 2017 Financial Statements and, up to said date, it also operates for the subsidiaries Tiscali Italia Spa and Veesible Srl.

5.6 Governance of the Transactions with Related Parties

On April 28, 2017, with a positive opinion of the independent Directors, the Company's Board of Directors approved the new Regulations for Transactions with Related Parties (hereinafter referred to as "the Regulations") in accordance with Article No. 2391-*bis* of the Civil Code and of CONSOB Regulation No. 17221 dated March 12, 2010, available on the Company's website www.tiscali.com under the "Documents/Information Documents" section. The Regulations governing transactions with related parties carried out by Tiscali Spaand its subsidiaries or associates, replaces the one previously in place and came into force on May 1, 2017. In FY 2017, a related-party transaction was examined under the Regulations, with regard to the increase in divisible paid share capital, in one or more installments, within December 31, 2017, excluding the option right pursuant to Artcile No. 2441, paragraph 4, of the Civil Code, to be reserved to Otkritie Capital International Limited and Powerboom Investment Limited, for a total maximum amount of EUR 13,000,000.00 to be settled in one or more instances, by issuing, also in several tranches, a maximum of No. 314,000,000 ordinary shares with the same characteristics as outstanding ordinary shares with no par value.

5.7 Confidential information and market disclosure. Investor Relations

An *Investor Relations* department operates in the Company, which is entrusted with the task of establishing a dialogue with Shareholders and institutional investors. The *Investor Relations* department, prepares, among other things, the text of press releases and, according to the kind of each press release, oversees, in consultation with the Legal and Corporate Affairs department, the internal approval procedure. Furthermore, it deals with their publication, also through a network of external companies professionally specialized in such tasks.

Disclosure is ensured not only by press releases, but also through periodic meetings with institutional investors and the financial community, as well as by extensive documentation made available on the website www.tiscali.com in the section "*Investor Relations*". The use of online communication, which mainly benefits non-institutional public, is considered as essential by the Company, as it makes possible a homogeneous distribution of information. Tiscali undertakes to systematically oversee to the accuracy, completeness, continuity and updating of financial matters disclosed via the Company's website. One may also contact the company through a specific e-mail address (ir@tiscali.com).

Directors, Statutory Auditors and top management of Tiscali and its subsidiaries are obliged to maintain the confidentiality of documents and information acquired in carrying out their tasks. Any dealings between these parties and the press and other mass media, as well as with financial analysts and institutional investors, which involve confidential documents and information concerning Tiscali or the Group, must only occur through the Chief of Investor Relations, with the exception of interviews and statements made by the executive Directors.

Management and, in any case, all employees and collaborators are required to maintain the confidentiality of *price sensitive* documents and information acquired as a result of, and during the performance of their duties and cannot communicate them to others except for work-related reasons of function or position, unless such documents or information have already been published in the due forms. The aforementioned parties are prohibited from giving interviews to the press, or making any public statements, which contain information on relevant facts, classified as "confidential" pursuant to Article No. 181 of the Legislative Decree No. 58/1998, which have not been included in press releases or documents already disclosed to the public, or expressly authorized by the *Investor Relations* department. In accordance to what is stated in Paragraph 2 of Article No. 114 of the Legislative Decree No. 58/1998, the Company has established procedures for reporting by the various corporate department to the *Investor Relations* department of events deemed *price sensitive.* Implementing Article No. 115-bis of the Legislative Decree No. 58/1998 concerning keeping a register of persons with access to classified information, the Company has established at the *Investor Relations* department a register of persons, who, because of their working or professional activity or because of their duties, have access to this type of information. In accordance with the aforementioned legislation, the register, managed with IT systems, contains: the identity of any person having access to classified information, the reason why such person has been included on the list, the date on which such person was recorded in the register, the date of update of the information relating to that person.
The Board of Directors, in its meeting held on April 28, 2017, approved the procedures for managing the register of persons with access to classified information and the company procedure for the public disclosure of classified information.

5.8 Policy on Diversity of the Board of Directors and the Board of Statutory Auditors

The Board of Directors, in its meeting held on May 10, 2018, and following the proposal made by the Appointments and Remuneration Committee, adopted the Policy on Diversity of the Board of Directors and the Board of Statutory Auditors (hereafter referred to as the "Policy") concerning the composition of the governing and control bodies relating to aspects such as age, gender composition, education and professional background.

The aforementioned Policy describes the optimal characteristics of the composition of the Board of Directors and the Board of Statutory Auditors, so that they can exercise their duties in the most effective way, taking decisions that can concretely make use of the contribution of a plurality of qualified points of view, able to examine the issues under discussion from different perspectives. The purpose of the Policy is, mainly, to orientate the candidacies formulated by the Shareholders during the renewal of the governing and control bodies, ensuring on this occasion an adequate consideration of the benefits that can derive from a harmonious composition of the same, aligned to the various diversity criteria indicated above.

The Appointments and Remuneration Committee also takes into account the indications of this Policy when called upon to propose the Board of Directors candidates to becoming members of the Board, taking into consideration any reports received from Shareholders, which in certain cases are predetermined.

Consolidated Financial Statements
of Tiscali Spa
as of December 31, 2017

6 Consolidated Financial Statements and Explanatory Notes

6.1 Income Statement

Consolidated income Statement (*)	Notes	2017	2016
(Thousands of Euros)			
Revenues	*1*	207,620	196,942
Other incomes	*2*	3,725	3,280
Purchase of materials and external services	*3*	143,596	129,133
Personnel cost	*4*	29,143	34,942
Other operating charges (incomes)	*3*	(199)	(2,270)
Write-downs of receivables from customers	*5*	9,745	11,288
Restoration costs and other write-downs	*6*	3,603	6,018
Amortizations	*12-13*	48,088	49,544
Operating income		**(22,630)**	**(28,434)**
Result on Investments at equity method		238	0
Financial Income	*7*	61	3,963
Financial Expenses	*7*	19,368	13,381
Result before taxes		**(42,175)**	**(37,852)**
Income tax	*8*	220	(69)
Net Result of current activities (continued)		**(41,955)**	**(37,921)**
Result from held for sale and discontinued operations	*9*	42,781	(7,037)
Net result for the fiscal year	*10*	**827**	**(44,959)**
To be attributed to:			
- Result pertaining the Parent Company		**827**	**(44,959)**
- Result pertaining Third Parties		0.00	0.0
Profit (loss) per share			
Profit per share from current and transferred activities:			
- Base		0.00	**(0.01)**
- Diluted		0.00	**(0.01)**
Profit per share from current activities:		0.00	**0.00**
- Base		(0.01)	**(0.01)**
- Diluted		(0.01)	**(0.01)**

(*)*It should be noted that, with respect to the 2016 Annual Financial Report, the following amendment to the Income Statement has been made:*

- *separation of the items Financial Income and Financial Charges, in place of the single item Net Financial Income (Charges)*

It should also be noted that the economic values relating to Assets disposed and/or held for sale of 2016 have been appropriately reclassified in accordance with IFRS5. For more details, see Note 9.

6.2 Comprehensive Income Statement

Comprehensive Income Statement (*)	Notes	2017	2016
(Thousands of Euros)			
Result for the period		**827**	**(44,959)**
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		329	(308)
(Loss)/profit from revaluation on plans with defined benefits		*329*	*(308)*
Total of other elements for the comprehensive Income Statement:		**329**	**(308)**
Total result of the comprehensive Income Statement		**1,156**	**(45,267)**
To be attributed to:			
Shareholders of the Parent Company		**1,156**	**(45,267)**
Minority Shareholders		0	0
		1,156	**(45,267)**

6.3 Balance Sheet

Statement of Assets and Liabilities	Notes	31 december 2017	31 december 2016
(Thousands of Euros)			
Non-current assets			
Intangible assets	12	99,067	91,899
Immovable properties, plants and machinery	13	127,303	118,916
Other financial assets	14	4,421	8,180
Deferred tax assets	15	1	10
		230,793	**219,005**
Current assets		0	0
Stock in hand	16	0	360
Receivables from customers	17	46,540	38,296
Other receivables and other current assets	18	21,639	19,848
Other current financial assets	19	0	63
Liquid assets	20	1,465	1,346
		69,644	**59,914**
Assets directly related to held for sales	9	(0)	6,237
Total assets	0	**300,436**	**285,156**
		0	0
Capital and reserves		0	0
Capital		121,507	91,201
Stock option reserve		2,010	1,402
Reserve related to assets held for sale		(0)	2,627
Results from previous fiscal years and other reserves		(252,400)	(217,891)
Results for the fiscal year pertaining to the Group		827	(44,959)
Net assets pertaining to the Group	21	**(128,031)**	**(167,620)**
Third party interests		0	0
Net assets pertaining to third parties	22	**0**	**0**
Total net assets		**(128,031)**	**(167,620)**
		0	0
Non-current liabilities		0	0
Convertible Bond	23	0	18,429
Payables to banks and other financing parties	23	(0)	80,888
Payables for property leases	23	10,809	55,339
Other non-current liabilities	24	20,947	5,479
Payables for pension plans and severance pays	25	3,897	5,945
Provisions for liabilities and charges	26	3,239	4,638
Provisions for deferred taxes	27	448	538
		39,340	**171,256**
Current Liabilities		0	0
Convertible bond	23	(0)	375
Payables to banks and other financing parties	23	108,502	28,783
Payables for property leases	23	61,529	9,239
Trade payables	28	154,913	163,947
Other current liabilities	29	64,183	75,566
		389,127	**277,910**
Payables directly related to held for sale	9	(0)	3,610
TOTAL NET ASSETS AND LIABILITIES		**300,436**	**285,156**

It should be noted that the assets values relating to Assets disposed and/or held for saleof FY 2016 have been appropriately reclassified in accordance with IFRS5. For more details, see Note 9.

(*) It should be noted that, compared to the Consolidated Balance Sheet included in the 2016 Annual Financial Report, the following reclassifications were made with respect to the balances as of December 31, 2016:

- two financial paybales related to loans provided by the Ministry of Development and the Ministry of University and Research for a total of EUR 0.9 million as of 31 December 2016, have been reclassified from Other Current Liabilities to the item Payables to Banks and Other Financial Institutions (Short-Term) for the short-term component, equal to EUR 0.3 million, and to the item Payables to Banks and Other Financial Institutions (Long-Term) for the long-term component, equal to EUR 0.6 million. The balance of these loans amounts to EUR 0.6 million as of December 31, 2017, and is included in the item Payables to Banks and Other Financial Institutions (Short-Term)

- the net book value of the dsl equipment (modem and CPE) has been reclassified from the Intangible Fixed Assets item to the Fixed Assets item. This reclassification was carried out, for comparative purposes, also on assets as of December 31, 2016. This reclassification amounts to EUR 13.2 million as of December 31, 2017 (EUR 6.8 million as of December 31, 2016)

- the balance of the Plant and Machinery item as of December 31, 2016 was reclassified for EUR 5.4 million, offset by a provision for risks for consistent classification adopted as of 31 December 2017.

6.4 Cash Flow Statements

(Thousands of Euro)	Note	2017	2016
OPERATING ACTIVITIES (*)		(41,955)	(37,921)
Adjustments for:			
Amortization of tangible assets	12-13	18,601	15,201
Amortization of intangible assets	12-13	29,487	34,343
Provision for write-downs accounts receivables from customers	5	9,745	11,288
Gain on disposal of non-current assets	2	(2,108)	(2,178)
Stock Option figurative cost		608	1,402
Income taxes	8	(220)	69
Release of provisions for risks	6	(278)	(1,107)
Write-offs and settlement agreements with suppliers		(4,777)	(4,664)
Other changes	2-3-4-6	2,561	9,823
Bond conversion costs	7	6,655	0
Financial Charges / income	7	12,890	9,418
Cash flows from operating activities before changes in working capital		***31,209***	***35,673***
Changes in receivables	17	(17,450)	(15,382)
Change in inventories	16	360	553
Changes in payables to suppliers	28	1,438	35,040
Change in payables to long-term suppliers	24	(16,164)	3,342
Net change in provisions for risks and charges	26	(1,074)	(1,346)
Net change in provisions for TFR	25	(550)	(427)
Changes in other liabilities	29	(11,285)	(6,675)
Changes in other assets	18	1,415	(4,376)
Changes in working capital		**(43,310)**	**10,728**
AVAILABILITY CASH FLOWS GENERATED BY OPERATING ACTIVITIES		**(12,101)**	**46,402**
INVESTMENT ACTIVITY			
Change in other financial assets	14-19	3,568	3,320
Acquisitions of Fixed Tangible Assets	12-13	(24,657)	(22,667)
Acquisitions of Intangible assets	12-13	(39,771)	(34,070)
o/w due to voucher utilization (no cash effect)	12-13	7,338	0
Change in payables related to acquisitions of Assets	24	31,632	0
AVAILABILITY OF CASH AND CASH EQUIVALENTS FOR INVESTMENT ACTIVITIES		**(21,890)**	**(53,417)**
FINANCIAL ASSETS			
Changes in payables to banks	23	(8,414)	(3,415)
of which:		0	0
Repayment of share capital and interest Senior debt		(3,392)	(772)
Increase/Decrease in current accounts overdrafts		(5,021)	(2,643)
Changes in bond	23	(1,513)	571
Repayment/acceptance of financial leasing	23	5,359	8,850
Exchange rate effect	7	(38)	9
OCI reserves	21	0	0
Changes in Net Equity	21	30,306	0
- o/w due to bond conversion (no cash effect)	21	(17,000)	0
AVAILABILITY CASH ARISING FROM/ (USED IN) FINANCIAL ACTIVITIES		**8,701**	**6,015**
INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS IN THE PERIOD		**(25,290)**	**(1,000)**
AVAILABILITY CASH ARISING FROM ASSETS SOLD/ HELD FOR SALE	9	25,408	(2,408)
AVAILABILITY CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**1,346**	**4,754**
CASH AND CASH EQUIVALENTS AT YEAR-END		**1,464**	**1,346**

(*) It should be noted that the changes in the items relating to Transactions with Related Parties have not been reported in the Cash Flow Statement since their amount is not significant.

6.5 Statement of Changes in Shareholders' Equity

(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, 2017	**91,201**		**1,402**	**(1,939)**	**(258,283)**	**(167,620)**	0	**(167,620)**
Capital Increase	**30,306**				(145)	**30,162**		**30,162**
Bond conversion costs					7,747	**7,747**		**7,747**
Other movements			608			**608**		**608**
Currency transl. diff. (Streamago)					(84)	**(84)**		**(84)**
Total result of the comprehensive Income Statement				329	827	**1,156**		**1,156**
Balance as of december 31th, 2017	**121,507**		**2,010**	**(1,610)**	**(249,939)**	**(128,031)**	0	**(128,031)**

(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 increase	**(77,876)**		1,402		77,187	**713**		**713**
Put option Rigensis loan					(1,795)	**(1,795)**		**(1,795)**
Reclass value for opening of OCI Aria reserve				(108)	108			
Currency translation difference (Streamago)					150	**150**		**150**
Total result of the comprehensive Income Statement				(308)	(44,959)	**(45,267)**		**(45,267)**
Balance as of december 31th, 2016	**91,201**		**1,402**	**(1,939)**	**(258,283)**	**(167,620)**		**(167,620)**

6.6 Income Statement pursuant to CONSOB Resolution No. 15519 dated July 27, 2006

Consolidated income Statement (*)	Notes	2017	of which related parties	2016	of which related parties
(Thousands of Euros)					
Revenues	*1*	207,620	66	196,942	17
Other incomes	*2*	3,725		3,280	
Purchase of materials and external services	*3*	143,596	2,267	129,133	2,904
Personnel cost	*4*	29,143	1,740	34,942	2,159
Other operating charges (incomes)	*3*	(199)		(2,270)	
Write-downs of receivables from customers	*5*	9,745		11,288	
Restoration costs and other write-downs	*6*	3,603		6,018	
Amortizations	*12-13*	48,088		49,544	
Operating income		**(22,630)**	**(3,941)**	**(28,434)**	**(5,047)**
Result on Investments at equity method		238			
Financial Income	*7*	61		3,963	
Financial Expenses	*7*	19,368		13,381	(132)
Result before taxes		**(42,175)**	**(3,941)**	**(37,852)**	**(5,179)**
Income tax	*8*	220		(69)	
Net Result of current activities (continued)		**(41,955)**	**(3,941)**	**(37,921)**	**(5,179)**
Result from held for sale and discontinued operations	*9*	42,781		(7,037)	
Net result for the fiscal year	*10*	**827**	**(3,941)**	**(44,959)**	**(5,179)**
To be attributed to:					
- Result pertaining the Parent Company		**827**		**(44,959)**	
- Result pertaining Third Parties					
Profit (loss) per share					
Profit per share from current and transferred activities:					
- Base		0.000	0.000	**(0.014)**	
- Diluted		0.000	0.000	**(0.011)**	
Profit per share from current activities:					
- Base		(0.011)	0.000	**(0.012)**	
- Diluted		(0.009)	0.000	**(0.009)**	

(*) *It should be noted that, with respect to the 2016 Annual Financial Report, the following amendment to the Income Statement has been made:*

- *separation of the items Financial Income and Financial Charges, in place of the single item Net Financial Income (Charges);*
- *the figures related to the related parties for the FY 2017 do not include the fees for statutory auditors (erroneously reported in 2016 in the item 'Purchases of materials and external services', for an amount equal to 247 thousand euros).*

It should also be noted that the economic values relating to Assets disposed and/or held for sale have been appropriately reclassified. For further details, please see the Note concerned.

6.7 Balance Sheet in accordance with CONSOB Resolution No. 15519 dated July 27, 2006

Statement of Assets and Liabilities	Notes	31 december 2017	of which related parties	31 december 2016	of which related parties
(Thousands of Euros)					
Non-current assets					
Intangible assets	12	99,067		91,899	
Immovable properties, plants and machinery	13	127,303		118,916	
Other financial assets	14	4,421		8,180	
Deferred tax assets		1		10	
		230,793		**219,005**	
Current assets					
Stock in hand	15			360	
Receivables from customers	16	46,540		38,296	17
Other receivables and other current assets	17	21,639		19,848	
Other current financial assets	18			63	
Liquid assets	19	1,465		1,346	
		69,644		**59,914**	**17**
Assets directly related to held for sales	9	(0)		**6,237**	
Total assets		**300,436**		**285,156**	**17**
Capital and reserves					
Capital		121,507		91,201	
Stock option reserve			2,010	1,402	1,402
Reserve related to assets held for sale		()		2,626	
Results from previous fiscal years and other reserves		(250,389)		(217,890)	
Results for the fiscal year pertaining to the Group		827		(44,959)	
Net assets pertaining to the Group	20	**(128,031)**	**2,010**	**(167,620)**	**1,402**
Third party interests					
Net assets pertaining to third parties					
Total net assets		**(128,031)**		**(167,620)**	
Non-current liabilities					
Convertible Bond	21			18,429	9,214
Payables to banks and other financing parties	21	()		80,888	
Payables for property leases	21	10,809		55,339	
Other non-current liabilities	22	20,947		5,479	
Payables for pension plans and severance pays	23	3,897		5,945	
Provisions for liabilities and charges	24	3,239		4,638	
Provisions for deferred taxes	25	448		538	
		39,340		**171,256**	**9,214**
Current Liabilities					
Convertible bond	21	()		375	187
Payables to banks and other financing parties	21	108,502		28,783	
Payables for property leases	21	61,529		9,239	
Trade payables	26	154,913	71	163,947	185
Other current liabilities	27	64,183	577	75,566	643
		389,127	**648**	**277,910**	**1,015**
Payables directly related to held for sale	9	(0)		3,610	
TOTAL NET ASSETS AND LIABILITIES		**300,436**	**2,658**	**285,156**	**11,631**

It should be noted that the asset values relating to Assets disposed and/or held for sale have been appropriately reclassified. For further details, please see the Note concerned.

(*) It should be noted that, compared to the Consolidated Balance Sheet included in the 2016 Annual Financial Report, the following reclassifications were made with respect to the balances as of December 31, 2016:

- two financial paybales related to loans provided by the Ministry of Development and the Ministry of University and Research for a total of EUR 0.9 million as of 31 December 2016, have been reclassified from Other Current Liabilities to the item Payables to Banks and Other Financial Institutions (Short-Term) for the short-term component, equal to EUR 0.3 million, and to the item Payables to Banks and Other Financial Institutions (Long-Term) for the long-term component, equal to EUR 0.6 million. The balance of these loans amounts to EUR 0.6 million as of December 31, 2017, and is included in the item Payables to Banks and Other Financial Institutions (Short-Term)

- the net book value of the dsl equipment (modem and CPE) has been reclassified from the Intangible Fixed Assets item to the Fixed Assets item. This reclassification was carried out, for comparative purposes, also on assets as of December 31, 2016. This reclassification amounts to EUR 13.2 million as of December 31, 2017 (EUR 6.8 million as of December 31, 2016);

- the balance of the Plant and Machinery item as of December 31, 2016 was reclassified for EUR 5.4 million, offset by a provision for risks for consistent classification adopted as of 31 December 2017.

It should also be noted that the figure related to the related parties of year 2017 do not include the fees for statutory auditors (erroneously reported in 2016 under the item Payables to Suppliers for an amount of 316 thousand Euro).

6.8 Explanatory Notes

Tiscali Spa(hereinafter referred to as “Tiscali” or the “Company”, and jointly with its subsidiaries the “Tiscali Group”), is a limited company incorporated in Italy and registered at the Registry Office of Companies of Cagliari, with registered office in Cagliari, Sa Illetta.

Tiscali is one of the leading alternative telecommunications companies in Italy, and offers its customers, individuals and companies, a wide range of communication services: Internet access in fixed broadband and broadband fixed wireless mode, mobile services and value added services (mail, web streaming, security services, etc. ...).

Because of its unbundling network (ULL), its range of innovative services, and its well-known brand, Tiscali ranks in a high position in the Italian telecommunications market.

These consolidated financial statements (hereinafter referred to as the “Financial Statements”) have been prepared using the Euro (EUR) as the accounting currency, as this is the currency used to conduct most of the Group’s operations; all values are rounded off to thousands of Euro (EUR 000), unless otherwise stated. Foreign activities are included in the consolidated financial statements in accordance with the principles described in the following notes.

In preparing these financial statements, the Directors have assumed the existence of the going concern assumption, as more fully justify in the following paragraph 6.8.1, and therefore have prepared the financial statements using the principles and criteria applicable to the companies in operation.

6.8.1 Assessment of the business as a going-concern and business outlook - Events and uncertainties relating to the going concern

Balance sheet and financial performance for the period

Tiscali Group closed FY 2017 with a consolidated loss amounting to EUR 0.8 million, improving compared to a loss of EUR 45 million in the previous year. As already anticipated this result was influenced by the positive effect, amounting to EUR 33 million, of the non-recurring transactions concluded in the period (including the capital gain for the transfer of the BTB Business Branch to Fastweb, amounting to EUR 43.8 million, netted by other non recurring costs for EUR 10.8 million).

Tiscali Group closed FY 2017 with a negative consolidated shareholders' equity amounting to EUR 128 million (EUR 167.6 milllion as of December 31, 2016). The shareholders' equity of the parent Tiscali Spaamounts to EUR 43 million at 31 December 2017 (EUR 89.7 million as at 31 December 2016). On that date, the Company is, therefore, in the case referred to in art. 2446 of the Civil Code. The Shareholders' Meeting called to approve the financial statements for the year ended December 31, 2017 must therefore also deliberate on the reduction of the share capital to cover the losses on the basis of the balance sheet prepared pursuant to the aforementioned article 2446 of the Civil Code with reference to 31 December 2017.

Furthermore, as of December 31, 2017, the Group recorded a gross financial debt amounting to EUR 180.8 million, improved respect to the gross financial debt as of December 31, 2016, amounting to EUR 193,1 million, and current liabilities exceeding (non-financial) current assets for EUR 150.9 million, improved respect to the amount of EUR 181 million respectively as of at December 31, 2016.

These current liabilities include expired net trade payables (net of payment plans agreed with suppliers, of the receivable items and in dispute with the same suppliers) for EUR 46.2 million, improved respect to th amount of EUR 59.4 million as of Euro as of December 31, 2016, in addition to overdue financial debts (net of credit positions) of approximately EUR 20.9 million (EUR 3.3 million at 31 December 2016), overdue tax payables of approximately EUR 11 million (EUR 16.9 million at 31 December 2016), as well as overdue payables of a social security nature for employees of EUR 1.9 million (EUR 1.4 million as at 31 December 2016).

In confirmation of the positive trend highlighted in the year, it should be noted that at 31 March 2018 the net financial debt amounted to EUR 176.1 million, with an improvement on the figure as at 31 December 2017 of EUR 3.3 million.

Actions implemented in 2017 to support the financial and economic performance of the period

The improvement in the equity, financial and economic performance described above is connected to some actions initiated by the Directors in 2016 and consolidated during 2017.

During 2017, the Company completed the finalization of some operations started during FY 2016 and proceeded with the path of growth and refocusing on the core business started the year before. In particular, during FY 2017, the company focused on the following actions:

- **Completion of the path of refocusing on the Core Business (referred to in Paragraphs 4.2 and 4.5)** of the sale of Broadband services to Retail Consumer, SOHO and Small Business customers, namely through:
    - closing of the sale of the Large Customers business segment to Fastweb, with relative receipt of the final sale price of approximately EUR 45 million, of which EUR 25 million in cash and EUR 20 million in services to be used by 2022;
    - final transfer of the Streamago and Istella activities as a path of progressive exit from the specific business of Over-The-Top (OTT) services;
    - signature of an agreement with SKY aimed at exclusively entrusting online advertising sales on the Tiscali.it web portal and on the websites that the advertising agency of the Tiscali Group, Veesible, has in its portfolio in SKY Italia. This agreement will maximize the commercial opportunities of the online market, and consolidate the

respective digital audiences thanks to new publishing synergies which will allow the Tiscali.it website to enrich the content proposal of its platform, thanks to the inclusion of a selection of SKY contents.

- **Continuation in FY 2017, of the growth on the Core Business** in order to consolidate the trend reversal realized in 2016 on customer increase: please refer to Paragraph 4.2 for a detailed analysis of this action.
- **Efficiency in operating costs.** During the course of 2017, the path to increase efficiency in operating costs continued. please refer to Paragraph 4.2 for a detailed analysis of this action.
- **Further strengthening of the Group's economic and financial structure,** which continued in 2017

  Please refer to previous Paragraph 4.2 for a detailed analysis of the action.

At the end of 2017 and in the first months of 2018, it became clearer how the 3.5GHz frequency, owned by Tiscali, is a strategic asset also for the development of the future Mobile Data 5G services. In the last Mobile World Congress held in Barcelona in February 2018, all the main technological vendors, together with ITU, the world's leading telecommunications standardization body, certified that the 3.5GHz frequency will be among the first to be used for the development of the future 5G UltraBroadBand Mobile Data services, and have started to present a preview of enabling network devices and user terminals.

This evidence, which represents a further confirmation of the asset value of which Tiscali is the owner, followed a period of strong regulatory uncertainty that began in the first part of the year, in which the uncertainty about the probabilities and the related renewal procedures over the natural expiry (2023) of the licenses on the portion of the spectrum on 3.5GHz frequency recorded in Tiscali's assets became more acute.

In this regard, as previously anticipated, consistently with the increasing strategic of the 3.5GHz frequency and, more generally, of the 5G technology, also in Italy the government has accelerated the process for the allocation of all the frequencies enabling the launch and development of future 5G services. In particular:

- The rules for the allocation of 3.6-3.8GHz, 700MHz and 26.5GHz frequencies by the end of 2018 have been included in the 2018 Stability Law;
- In the last months of 2017, the process of granting the extension until 2029 to the current license holders on 3.5GHz frequency (including Tiscali) expiring on 2023 was finally launched. In 2017, the request to MISE for the granting of the extension until 2029 was forwarded by Tiscali and by the current owners of the licenses in question. Following an initial assessment by the Ministry, the opinion of Agcom was requested, this being normal practice. The proposal of the Agcom Resolution containing the opinion on the granting of the extension, had been submitted to a public consultation which ended on February 21, 2018. The AGCOM Council's final approval of the Resolution took place on April 11, 2018 (Resolution No. 503/17 / CONS), with subsequent publication of the opinion on the Authority's website. The MISE, having received the positive opinion of AGCOM, will formally close the process of granting the extension of the rights of use presumably by the summer.

The revision of the 2018-2021 Plan

As previously indicated, the positive opinion issued by AGCOM concerning the desired extension of the 3.5GHz, licenses, following that we are waiting the ratification of the conclusions included therein by MISE, represents an essential requirement for Tiscali to guarantee a long-term regulatory framework to protect the return investments necessary for a full exploitation of the license with a view to LTE and 5G.

As a result of this opinion, the Company benefits from a greater valuation by the market of the licenses registered in the assets, and, in this context, has given a mandate to Mediobanca - Banca di Credito Finanziario Spato act as financial advisor to the Company to assess possible strategic options for the Group, as already communicated in the past months.

In view of the above, and considering the above mentioned positive effects of the operations already carried out and underway over the next few months on the Group's financial structure, the management analyzed the results for FY 2017, finding they were influenced by the partial stop of development activities linked to the uncertainties described above in relation to obtaining the extension on the 3.5GHz frequency, which is the fundamental asset on which the growth plans included in the Business Plan 2017-2021 approved by the Board of Directors on April 28, 2017, were based. The delays recorded are mainly linked to the sharp slowdown in investments related to the planned development of the LTE Fixed Wireless proprietary access network in the absence of reasonable certainty about the renewal of the license. This fact, associated with the changed technological and market framework related to the use of frequency owned by Tiscali to support the launch of 5G services and which the company must take into account for the definition of its future development plans, has led to the revision of the above mentioned Business Plan approved by the above-mentioned Board of Directors on April 28, 2017.

In particular, the new Business Plan 2018-2021 (hereinafter referred to as "Business Plan" or "2018-2021 Plan") confirms the strategic guidelines already included in the previous plan, as follows:

- the objective of fully maximising the asset represented by the spectrum owned by Tiscali through the expansion of the proprietary LTE Fixed Wireless access network to cover up to about 50% of the Italian population with new generation LTE UltraBroadBand Fixed Wireless services with capacity up to 100Mbps, with particular focus on the "Extended" Digital Divide areas;
- the full focus on the provision of Fixed network UltraBroadBand services to Consumer and SOHO customers with capacity up to 1Gbps, to support the growth of fixed network customers through higher quality services with significantly lower churn rates;
- the growth in Mobile services in line with what was also recorded in 2017.

The Plan 2018-2021 has revised the times for achieving the aforementioned objectives to take into account, as mentioned, the delays related to the uncertainty of the obtaining the prorogation on the 3.5GHz frequency previously referred to, as well as to optimize the development of the LTE Fixed Wireless network in view of the prospect linked to future 5G services.

Based on these premises, and in line with the provisions of the previous Plan, the investments established in the 2018-2021 Plan in the medium to long term need to find additional financial resources beyond those generated by the Group through its operating cash flow.

The management reiterates that the achievement of a balance sheet, economic and financial situation in short and medium to long term of the Group is generally subject to the achievement of the results envisaged in the 2018-2021 Plan and at the availability of the related financial resources medium-to-long term to develop the LTE investment plan, as short-term ones are already available as better analyzed below - including the successful finalization of agreements with financial institutions in a timely manner consistent with short-term business continuity needs and, therefore, the realization of the forecasts and assumptions contained therein related to the evolution of the telecommunications market, to the achievement of the growth targets set in a market context characterized by a strong competitive pressure

The methods for obtaining financial resources for the 2018-2021 Plan

On May 7, 2018, the main shareholders, Investment Construction Technology (ICT) Group Ltd and SOVA Disciplined Equity Fund, previously known as the Otkritie Disciplined Equity Fund (henceforth also SOVA), expressed their commitment, formalized in special comfort letters presented to the Company, to provide for the Group's short-term liquidity needs, for an amount equal to Euro 17.5

million each, directly or indirectly through one or more third party lenders, in the course of 2018. The letters show how the technical modalities disbursement, will be defined subsequent to the date of approval of this Financial Report, and may provide for new injections of equity, the disbursement of new loans, the use of hybrid instruments or a mix of such solutions; in this context, therefore, the Board of Directors today resolved to place on the agenda of the Extraordinary Shareholders' Meeting convened at the same time as the Ordinary Meeting called to approve the financial statements and also the assignment of powers for the issue of a convertible bond loan and/or a reserved capital increase of EUR 35 million.

In addition, the 2018-2021 Plan envisaged the procurement of additional medium-long financial resources for the development of the investment plan, for which the methods and definitive timing of procurement are still under definition.

In continuity with the past, it was decided to submit an updated request to the credit institutions with which the senior debt was refinanced in June 2016 (Intesa SanPaolo and Banca Popolare di Milano - "Senior Lenders") a moratorium on payments due by Tiscali Italia pursuant to the First Facility Agreement and the Second Facility Agreement, starting from payments due as of September 30, 2017, and up to September 30, 2019 (excluded), as well as obtaining the reset of the contractual covenants to the light of the new Plan 2018-2021.

With regard to the payment of the Second Facility Agreement installment due by Tiscali Italia expired on March 31, 2017, Tiscali has proposed to make such payment on September 30, 2018.

Lastly, it should be noted that Tiscali Italia has requested the Pool leasing companies (made up of Mediocredito Italiano and Unicredit) to redefine the overall amortization plan for the leasing debt concerning the property of Sa Illetta, including a moratorium on payments due up to and including September 30, 2019, taking into account there are payment commitments unfulfilled amounting to a total of overdue and unpaid debts of EUR 4.4 million as of December 31, 2017. Negotiations are ongoing, however the Pool leader hasn't the formally replied to the requests made by the Company yet.

To date, numerous meetings have already taken place between the Group's management and the technical and commercial structures of the aforementioned Credit Institutes and leasing companies, and the preparatory activities for the operation have already been completed.

On 9 May 2018, each of the Credit Institutions sent a comfort letter to Tiscali in order to communicate that it will initiate the preliminary investigation relating to the new request for moratorium presented by Tiscali in the terms referred to above, not having detected critical issues regarding the request itself and confirm its commitment to submit the approval of this request to the decision-making bodies, subject to *i)* the contribution of new financial resources to the Group through the commitment of the ICT and SOVA shareholders in the previously indicated terms, *ii)* payment to Intesa SanPaolo of the installment due at March 31, 2017 in the manner described above, *iii)* the supply of further documentation on the method of destination of the liquidity generated by the sale of the business business unit and *iv)* the definition of the terms and conditions of medium and long-term funding sources aimed at supporting the investments envisaged in the Plan. The above four conditions are in fact already fulfilled taking into account the commitment made by the reference Shareholders and the payment for the installment included in the short-term disbursements, since the conditions iii) and iv) have already been fulfilled by an appropriate documentation and confirmation of the existence in the plan of sources of the medium- to long-term loans requested.

Final Assessment by the Board of Directors of the business concern

In this Annual Financial Report, the Board of Directors, with reference to the applicability of the going concern assumption and to the use of the accounting principles proper of an operating company, point out that the Group:

- generated in FY 2017, before working capital changes (negative for EUR 43.3 million), cash and cash equivalents from operating activities amounting to approximately EUR 31,2 million;
- proceeded in the growth of its customers portfolio for Tiscali's core business (the total customers portfolio of the Tiscali Group amounted to 748.2 thousand units in December 2017, with an increase by 67 thousand units as compared to December 2016);
- generated in FY 2017 a growth by 5.4% in total revenues as compared to the previous year;
- has improved the quality of its customer portfolio, achieving about 96.7 thousand UltraBroadBand customers (LTE and Fiber) as of December 2017, against the approximately 19.9 thousand units as of December 2016;
- has created a LTE Fixed Wireless network of 320 antennas in December 2017, thanks to which, with its ULtraBroadBand LTE service, it can cover a market of about 4 million households and businesses, in particular in the "Extended Digital Divide" areas, with capacity up to 100 Mbps;
- completed the focus on the core business of supply of Fixed, Wireless and Mobile BroadBand services to Consumer, SOHO and Small Business customers, by finalizing the sale of the Business segment to Fastweb, the sale of OTT assets and by the contract signed with SKY in relation to the joint management of the online advertising market;
- finalized the reserved capital increase for OCI and ICT, for a total value of EUR 11.8 million, further strengthening the equity structure;
- carried out the conversion of the convertible bond loan, through a reduction in debt and an increase in share capital, for an amount of EUR 18.5 million;
- took note of the publication by AGCOM of the summary of the public consultation called by Resolution No. 503/17 / CONS in which it issued a favorable opinion with respect to the extension of the duration of the aforementioned licenses until December 31, 2029 , indicating the methods for calculating the consideration to be paid for this renewal and indicating the technical and legal obligations to be met in order to achieve such renewal;
- has received from two shareholders a letter of commitment to pay or to obtain from one or more third parties new financial resources in 2018, for a total amount of about EUR 35 million;
- positively continued the negotiations aimed at obtaining the standstill agreements until September 2019 on payments owed to both Intesa SanPaolo and BancoBpm, in relation to the Senior Loan, considering as reasonable the fulfillment of all the preliminary conditions set by the Institutes to start the prodromal inquiry procedure for the approval of the standstill by the Financing Institutes;
- positively pursued negotiations with the the Pool Leasing aimed at redefining the amortization plan for the real estate leasing, on the assumption that it is reasonable to finalize the aforementioned process.

The Directors, nonetheless, underscore that the going concern assumption is based on the achievement of the objectives contained in the 2018-2021 Plan, with particular reference to the time frame of the 12 months, and acknowledge that at present there are some material uncertainties about events or circumstances that may cast significant doubt on the Group's ability to continue as a going concern. The above uncertainties are related to the evolution of the telecommunications market and the achievement of the short term growth targets set for Ultrabroadband LTE services, the main development area envisaged in the Business Plan, in a market context characterized by strong competitive pressure as well as the finalization of the standstill procedure by the Credit Institutions and the leasing companies, and the ability to maintain flexibility in the payment times of expired suppliers in line with the cash balance needs.

In light of the above, after having carried out the necessary verifications and assessing the significant uncertainties identified in the light of the above elements, taking into account the aforementioned commitment made by the Shareholders for financial support and the possibility of deferring the payment of certain tax debts in compliance with the regulations in force,they are also confident*:* *i)* in the capacity of the company management to be able to execute the actions envisaged in the 2018-2021 Business Plan, with particular reference to the 12-month period envisaged in the Business Plan, even in a market context characterized by strong competitive pressure, *ii)* in the positive finalization of the granting of moratoriums by the lenders and the pool leasing in the same period of time, considering it reasonable to fulfill all the preliminary conditions set by the institutions, *iii)* in the maintenance by the banking group and the pool leasing and support providers financial guarantee so far and have, therefore, the reasonable expectation that the Group has adequate resources, taking into account the aforementioned financial support commitments made by the Shareholders, to meet the payment obligations over the next twelve months and to continue the existence operational in a foreseeable future; consequently, the Directors decided to adopt the assumption of business continuity in the preparation of this Annual Financial Report.

This assessment is, of course, the result of a subjective judgment, which considered the likelihood of fulfillment of such events with respect to the opposite situation. It must be emphasized that the prognostic judgment underlying the determination of the Board is likely to be contradicted by the evolution of the facts. Being aware of the intrinsic limits of its determination, the Board of Directors will keep a constant monitoring of the evolution of the events considered (as well as of any further circumstantial evidence) so that it can take promptly the necessary measures.

Business Outlook

Consistent with the above and in line with the objectives of the Business Plan, in the next months the company's committment will be particularly aimed at finalizing agreements with credit institutions and the leasing pool, reducing the overdue contract with suppliers, and consolidating the results achieved in 2017, focusing on the protection of the Italian Fixed and Mobile BroadBand market, on the Consumer, SOHO and SME segments through, in particular, improving the customer mix, leveraging the growth of UltraBroadBand solutions in Fiber and LTE. This thanks to:

- the progressive completion of the migration of WiMax antennas still active at the end of 2017 towards the LTE technology;
- the growth in the number of customers with Fiber solutions up to 1GBps;
- the growth of the mobile customer base in line with what happened in FY 2017, also thanks to the development of specific Fixed-Mobile integrated offer solutions.

Furthermore, the identification of all the actions necessary to increase the overall efficiency level of the company will continue, with the ultimate aim of obtaining further cost reductions, also in light of the competitive advantages resulting from the renewal of existing licenses , in the context of the development of future 5G services, as well as to carry out the prodromal activities to define the medium-long term financing strategy of the overall investment plan.

6.8.2 Other Events after Fiscal Year End

<u>March 16, 2018 - The Board of Directors of Tiscali Spapostpones the approval of the financial statements for the FY ended December 31, 2017</u>

The Board of Directors of Tiscali Spa has resolved to postpone the approval of the financial statements for the FY ended December 31, 2017, making use of the 180-day longer term, pursuant to Article No. 2364, paragraph 2, of the Civil Code, as permitted by Article No. 7 of the Articles of Association. This is to complete the preparation of a new business plan for the years 2018-2021, which is an essential part of the approval process for the financial statements. At the meeting held on March 16, 2018, the guidelines of the Business Plan were approved, the final version were approved on May 10, 2018, together with that of the FY 2017 draft budget, following the completion of the evaluation process of the request for the extension of the rights to use the frequencies by the Authority (AGCOM) and the Ministries responsible for the matter. In consideration of the above, the Board of Directors resolved to meet again within April 27, 2018 to examine the Issuer's Draft Financial Statements and the Consolidated Financial Statements as of December 31, 2017. The Shareholders' Meeting of the Company, originally scheduled for April 27, 2018, will consequently be postponed and will be held by June 29, 2018 (the Board of Directors called to approve this Annual Financial Report calls for it to be called in ordinary and extraordinary session on June 26, 2018). The dates of the Board and of the Shareholders' Meetings for the approval of the Company's financial and consolidated financial statements as of December 31, 2017, as well as any changes with respect to what hereby indicated, were promptly communicated to the regulatory authorities and to the public in the manner and within the deadlines required by law.

<u>Cagliari, March 27, 2018</u>
With a press release issued on March 27, 2018, the Company reported it has granted Mediobanca – Banca di Credito Finanziario S.p.A. a mandate to act as financial advisor of the Company to assess possible strategic options for the Group on December 15, 2017. The exploration of the above options is still ongoing.

<u>24 April 2018 - Modification of the calendar of corporate events for deferment of the approval date of the Annual Financial Report for the 2017 financial year.</u>
The Board of Directors of Tiscali Spa examined the status of the negotiations with the Senior Lenders (Intesa Sanpaolo and Banco BPM) for an extension of the standstill previously requested to the above lenders, as well as the status of negotiations with potential investors and finally the process on the request to extend the rights to use the 3.4-3.6GHz frequencies to the competent authorities. They then resolved to postpone approval of the Annual Financial Report for the 2017 financial year to a subsequent board meeting to be held on 10 May 2018, as well as to postpone the date of the Shareholders' Meeting for approval to this board meeting of the financial statements for the financial year 2017, which will be held, in accordance with the information already communicated, by June 29, 2018.

6.8.3 Structure and contents of the Consolidated Financial Statements

The 2017 Consolidated Financial Statements 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. 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 Directors to make a few estimates and, in specific cases, adopt assumptions in applying the accounting principles. The areas of the financial statements which, in such circumstances, presuppose the adoption of application assumptions; those most characterized by the making of estimates are described in the following note *Critical decisions taken in the application of accounting standards and in the use of estimates.*

The consolidated annual financial statements will be audited by the company Deloitte & Touche Spa.

In application of Legislative Decree no. 254 of 30 December 2016 Tiscali Spa, as "parent company", has prepared a consolidated non-financial statement as a separate report with respect to the consolidated financial statements, called "Sustainability Report", which contains the information required by the Decree itself.

On May 10, 2018 the Company also approved the consolidated non-financial declaration (Sustainability Report 2017), which will be submitted to the limited examination by Deloitte & Touche Spa.

The publication of the sustainability report is announced in a press release containing the indication of the section of the Tiscali Spa website where the consolidated non-financial statement is published. "Financial Statements Schemes".

Budget schedules

The preparation of the consolidated financial statements as of December 31, 2017 in compliance with IAS 1 – "Presentation of Financial Statements" calls for:

- A statement of the assets/liabilities and financial status: the IFRS call for assets and liabilities to be classified as current and non-current or, alternatively, according to the order of their liquidity. The Group has chosen the current and non-current classification criteria and with the evidence, in two separate items, of "Assets disposed and/or held for sale" and "Liabilities Transferred and/or 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 disposed and/or held for sale". 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: as permitted by the principles of reference, the cash flow statement has been prepared and presented using the indirect method.

- In reference to the CONSOB resolution No. 15519 dated July 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 (EUR 000).

Segment Information

With its Directive (EC) No. 1358/2007 dated November 21, 2007, the Commission of European Communities 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) They are part of a single coordinated program of discontinuation of an important independent branch of operation or geographical area of operation;
c) The asset is the subsidiary originally acquired exclusively for its sale.

The analysis of the composition of the comprehensive income deriving from the activities under examination is reported in the explanatory notes.

The equity and economic effects of the disposals are shown in the note *Assets transferred/to be transferred.*

Seasonality of revenues

Tiscali is not significantly affected by seasonality of the business.

Consolidation criteria

The consolidation area includes the Parent Company Tiscali Spa 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.

Variations of the consolidation area

The consolidation area of the Group includes Tiscali Spa 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".*

The main variations in terms of consolidation of the Group occurred during FY 2017 follow:

- liquidation of Tiscali Poland, which took place on May 16, 2017;
- transfer of Streamago:

  the assets of Streamago have been sold with effect from January 1, 2017. Subsequently, an application was made to cancel the company in the state of Delaware. The dissolution certificate of Streamago was issued on March 8, 2017;
- transfer of Istella:

  the Istella company branch, extrapolated from Tiscali Italia's assets / liabilities, was transferred from Tiscali Italia to the company Istella on October 4, 2017. On October 16, 2017, the holding in the company Istella was sold to third parties;

Although not having an impact on the determination of the scope of consolidation, it should be noted that during the year the merger of the following German subsidiaries into Tiscali Financial Services SA, with effect from January 1, 2017:

- o Tiscali Deutschland Gmbh
- o Tiscali Business Gmbh
- o Tiscali Verwaltung Gmbh
- o Tiscali Gmbh

Furthermore, as described in the Note "Result of Assets disposed and/or held for sale" the business branch Tiscali Business was sold (including the framework contract for public administration connectivity services – SPC contracts). The closing of the the transaction took place on February 10, 2017. Please refer to the concerned Note for further details.

It should also be noted that, within the reorganization and liquidation process of the foreign companies that the Group has put in place, the Directors have not detected any potential tax and legal risks with regard to this reorganization, on the basis of the assessments made by external consultants.

Please see the note "Assets disposed and/or held for sale" concerning the transfers finalized in FY 2017.

The consolidation scope as of December 31, 2017 is as follows:

Name	Registered office	Shareholding owned by	Values as of December 31, 2017 (EUR/000)			Percentage of direct shareholding	Percentage of Group shareholding (**)
			Share Capital	Net Equity	Net Result		
Tiscali S.p.A.	Italy	Parent Company	121,507	43,026	(85,221)	n.a.	n.a.
Tiscali Italia S.p.A.	Italy	Tiscali S.p.A.	18,794	13,478	13,070	100,0%	100,0%
Veesible S.r.l.	Italy	Tiscali Italia S.p.A.	600	430	(867)	100,0%	100,0%
Indoona S.r.l.	Italy	Tiscali Italia S.p.A.	10	5	(4)	100,0%	100,0%
Aria Group (#)	Italy	Tiscali S.p.A.	27,764	24,289	(5,481)	100,0%	100,0%
Tiscali Holdings UK Ltd (*)	UK	Tiscali S.p.A.	59	(10)	338,479	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	(615)	(537)	100,0%	99,5%
Tiscali International Network B.V. (*)	Netherlands	Tiscali International BV	18	16,959	499	100,0%	99,5%
Tiscali Financial Services SA (*)	LUX	Tiscali International BV	31	(415,560)	(4,237)	100,0%	99.5%

(*) Data disclosed by the companies through reporting packages for consolidated purposes as of December 31, 2017

(**) Group's participation percentage

(#) Data disclosed in the reporting package of Aria Group, prepared for consolidated purposes as of December 31, 2017

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 fair values were determined.

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 foreign companies' financial statements of 2017 and 2016 were as follows:

	December 31, 2017		December 31, 2016	
	average	**final**	**average**	**final**
Pound Sterling	0.8827	0.8872	0.84441	0.85618

Other intangible assets

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:

- the following general conditions indicated by IAS 38 for the capitalization of intangible assets are met: (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) which 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 24 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.

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 FY 2017 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 plants have been subjected to an average depreciation rate of around 7% as far as the Consolidated Financial Statements as at December 31, 2016. while a 10% rate is applied to the WiMax Core Network plants.

With reference to the estimate of the useful life of these assets, being the residual value of the same relative to the physical infrastructure following the devaluation of the technological part, the Directors, based on the positive evolution related to the extension of the related licenses, decided to proceed with the revised useful life, aligned with 2029, new estimate of the period of disposal of the antennas. This update of the useful life led to a benefit in terms of lower amortization and depreciation of approximately EUR 1.9 million in the period.

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 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.

If the recoverable amount of an asset (or of a cash-generating unit) is estimated to be lower than the relative book value, it is reduced to the lower recoverable value. The loss in value of these assets is recorded in the income statement, under the item write-downs. In the event that a write-down carried out in previous years has no more reason to be maintained, the book value of the asset (or of the cash-generating unit) is increased to the new value deriving from the estimate of its recoverable value, but not beyond the net carrying amount that the asset would have had if the write-down for loss of value had not been carried out. The recovery of value is charged to the income statement.

The Company has identified the operating segments subject to disclosure in 3, based on the requirements of IFRS 8. For the purposes of impairment testing, however, the "Corporate" operating segment is tested jointly with the "Access" operating segment, as it shares with the same a significant amount of assets. It should also be noted that the Corporate financial sector has mainly intercompany cash flows.

Inventories

Inventories are valued at the lower of cost and net realizable value. The cost refers, in the circumstances and in the light of the characteristics of the Group's activity, to the direct materials. The cost is calculated using the average cost method.

Financial Instruments

Loans and receivables
The Group's receivables are shown in the items "other non-current financial assets", "receivables from customers", "other current receivables and other current assets" and "other current financial assets", and include security deposits, trade receivables, receivables from others generated within the characteristic activity.

They are valued, if they have a fixed maturity, at amortized cost, using the effective interest method.
When financial assets do not have a fixed maturity, they are valued at acquisition cost. Loans with a maturity of more than one year, non-interest bearing or that accrue interests lower than the market, are discounted using market rates.

Evaluations are regularly carried out to verify whether there is objective evidence that a financial asset or group of assets may have suffered impairment. If objective evidence exists, the loss in value must be recognized as a cost in the income statement for the period.

Cash and cash equivalents
Cash and cash equivalents include cash on hand, sight deposits and short-term deposits, in the latter case with an original maturity of no more than three months.

Debts and financial liabilities
The Group's payables and financial liabilities are shown in the "bonds", "payables to banks and other lenders", "payables for finance leases", "other non-current liabilities", "payables to suppliers", and include trade payables, payables to others, debts of a financial nature, including payables for loans received for advances on the sale of receivables and for financial leasing transactions.

Payables are initially recognized at cost, equal to the fair value of the consideration received, net of accessory charges. Subsequently, these payables are measured at amortized cost using the effective interest method, calculated considering the issue costs and any further premium or discount envisaged for settlement.

Financial derivatives
The Group does not use derivatives.

Liabilities due to pensions and employee severance indemnities

The employee benefits are the remuneration paid by the company in exchange for the work performed by the employee or by virtue of the termination of the employment relationship.

Post-employment benefits are defined on the basis of programs, even if not formalized, which according to their characteristics are divided into "defined contribution" programs and "defined benefit" programs.

In the defined contribution plans the obligation of the company, limited to the payment of contributions to the State or to a legally separate asset or entity (so-called fund), is determined on the basis of the contributions due.

The liability relating to defined benefit plans is determined on the basis of actuarial assumptions and is recognized on an accrual basis in line with the working period necessary to obtain the benefits.

For defined benefit plans, the changes in the value of net liabilities (so-called revaluations) deriving from actuarial gains (losses), resulting from changes in actuarial assumptions used or adjustments based on past experience, are recognized in the statement of comprehensive income; from the performance of the activities serving the plan different from the component included in the net interest. The revaluations of the net liabilities for defined benefits, recognized in the shareholders' equity reserve pertaining to the other components of the overall profit, are not subsequently reclassified to the income statement.

Provisions for liabilities and charges

Provisions for risks and charges relating to potential liabilities of a legal and tax nature are made against the forecasts made by the Directors, based on the assessments made by the Group's legal and tax advisors, regarding the probable burden that is reasonable will be incurred for the performance of the obligation. In the event that the Group is called, in relation to the final outcome of the judgments, to fulfill an obligation to an extent different from that envisaged, the related effects would subsequently be reflected in the income statement.

Recognition of income

Revenues are recognized to the extent that it is probable that the Group will receive economic benefits and their amount can be determined reliably; they are represented net of discounts, rebates and returns.

Revenues from services rendered are recognized in the income statement with reference to the stage of completion of the service and only when the result of the service can be reliably estimated.

In particular, the recording in the income statement of the revenues deriving from Internet connection services (narrowband and broadband) and voice services, is based on the traffic actually produced at the reference date and / or the periodic service fee accrued on the same date.

Revenues related to the activation of broadband services (ADSL) are recognized in the income statement on a linear basis over a period of 24 months. The portions not attributable to the period 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 Group companies, considering the temporary and permanent changes envisaged by applicable law, based on the best possible interpretation of company events.

Deferred tax liabilities are generally recognized for all taxable temporary differences relating to Group companies and investments in associated companies.

Deferred tax assets, originating from temporary differences and/or previous tax losses, are normally recognized to the extent that it is probable that there will be future taxable results that allow the use of such deductible temporary differences and/or previous tax losses.

Earnings Per Share

The basic result per ordinary share is calculated by dividing the portion of the Group's economic result attributable to ordinary shares by the weighted average number of ordinary shares outstanding during the year, excluding treasury shares.

For the purposes of calculating the diluted earnings per ordinary share, the weighted average number of shares outstanding is changed assuming the subscription of all potential shares deriving, for example, from the conversion of bonds and the exercise of rights on shares with a dilutive effect and potential dilutive effect deriving from the assignment of shares to the beneficiaries of the stock option plans already accrued.

6.8.4 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 assessment of the recoverability of the main asset items is based on the estimate of the income and financial flows that the Group believes will be able to generate in the future. As better explained in Note 6.8.1. *“Assessment of the business continuity and foreseeable evolution of operations - Facts and uncertainties with regard to business continuity*”, the achievement of the results indicated in the industrial and financial plan taken as reference for this assessment is subject to the realization of the forecasts and assumptions contained therein , in a market context characterized by strong competitive pressure.

<u>Assumptions for the application of the accounting standards</u>

Activation costs and customer acquisition
SACs (Subscriber Acquisition Costs) are capitalized and amortized over a 24-month period.

Impairment of Assets (Impairment
)
The impairment test is carried out annually, or more frequently during the year, according to the procedures indicated in the previous section, 'Business combinations and goodwill'. The ability of each 'unit' to generate cash flows to recover the portion of goodwill allocated to it is determined on the basis of the economic and financial data of the entity to which the goodwill refers. The processing of these prospective data, as well as the determination of an appropriate discount rate, require, to a significant extent, the making of estimates.

Funds related to personnel

Provisions related to personnel funds, and in particular to the Severance Pay provision, are determined on the basis of actuarial assumptions; the changes in these hypotheses could have significant effects on these funds.

Allowance for doubtful accounts

The recoverability of receivables is assessed taking into account the risk of their non-collection, their length of service and losses on receivables recorded in the past by type of similar receivables, thus taking historical information into account. There is a risk that exogenous elements, such as the performance of the economy and income per head, may not be consistent with the past and, therefore, a pejorative trend may not be captured by the historical information available.

Provisions for risks and charges

Provisions for risks and charges relating to potential liabilities of a legal and tax nature are made against the forecasts by the Directors, based on the assessments expressed by the Group's legal and tax advisors, regarding the probable burden deemed reasonable incurred for the purpose of fulfilling the obligation. In the event that the Group is called, in relation to the final outcome of the judgments, to fulfill an obligation to an extent different from that envisaged, the related effects would subsequently be reflected in the income statement.

Determination of fair value

Depending on the instrument or balance sheet item to be assessed, the Directors identify the most appropriate methodology, making as much as possible reference to the objective market data. In the absence of market values, therefore quotations, valuation techniques are used with reference to those most used in practice.

Determination of revenues

The recognition of revenues related to Broadband and MVNO access services is made through the use of complex information systems, which, through the use of contractual and consumption data of individual customers, draw up reports used in order to estimate the appropriations aimed at recognizing revenues. The complexity of these estimates derives from several factors, and inter alia *i)* the complexity of the information systems involved; *ii)* the presence of multiple tariff plans proposed in the past that still generate significant revenue streams; *iii)* the high number of users and iv) by the relevance of the allocations made manually.

Accounting Standards, Amendments and Interpretations effective from January 1, 2017

The following amendments have been applied for the first time by the Group starting from January 1, 2017:

- On January 29, 2016, the IASB published the document "Disclosure Initiative (Amendments to IAS 7)" which contains amendments to the International Accounting Standard IAS 7. The purpose of the document is to provide some clarifications to improve disclosure on financial liabilities. In particular, the amendments require the provision of information that enables users of the financial statements to understand the changes in liabilities arising from financing transactions, including changes resulting from monetary movements and changes deriving from non-monetary movements. The amendments do not provide for a specific format to be used for the disclosure. However, the amendments introduced require that an entity must provide a reconciliation between the initial balance and the final balance for liabilities arising from financial transactions. The presentation of comparative information relating to previous financial years is not required. The Tiscali Group has adopted this amendment. The related disclosure is shown in the Explanatory Notes - Note 21;
- On January 19, 2016, the IASB published the document "Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to IAS 12)" which contains amendments to the International Accounting Standard IAS 12. The purpose of this document is to provide some clarifications on the recognition of deferred tax assets on unrealized losses in the valuation of financial assets of the "Available for Sale" category on the occurrence of certain circumstances and on the estimate of taxable income for future years. The adoption of these amendments had no impact on the Consolidated Financial Statements of the Group.

Accounting standards, amendments and interpretations IFRS and IFRIC approved by the European Unon, not yet applicable on a compulsory basis and not early adopted by the Group as of December 31, 2017

- On May 28, 2014, the IASB published the standard IFRS 15 – Revenue from Contracts with Customers, which, together with further clarifications published on April 12, 2016, is intended to replace IAS 18 – Revenue and IAS 11 – Construction Contracts, as well as the interpretations IFRIC 13 – Customer Loyalty Programs, IFRIC 15 – Agreements for the

Construction of Real Estate, IFRIC 18 – Transfers of Assets from Customers and SIC 31 – Revenues-Barter Transactions Involving Advertising Services. The standard establishes a new model for revenue recognition, which will apply to all contracts entered into with customers, with the exception of those that fall within the scope of application of other IAS / IFRS standards such as leases, insurance contracts and financial instruments. The fundamental steps for accounting for revenues according to the new model are:

- The identification of the contract with the customer;
- The identification of the performance obligations of the contract;
- The determination the price;
- The allocation of the price to the performance obligations of the contract;
- The criteria for recording the revenue when the entity satisfies each performance obligation.

The standard is applicable starting from January 1, 2018. The amendments to IFRS 15, Clarifications to IFRS 15 – Revenue from Contracts with Customers, were published by the IASB in April 2016.

The Directors intend to apply IFRS 15 by adopting the modified retrospective approach.

Based on the analyzes carried out, the Directors expect the application of IFRS 15 not to have a significant impact on the amounts recorded as revenues and on the related disclosures reported in the consolidated financial statements of the Group.

- On July 24, 2014, the IASB published the final version of IFRS 9 – Financial Instruments. The document includes the results of the IASB project aimed at replacing IAS 39. The new standard must be applied from financial statements starting on January 1, 2018 or later.

The standard introduces new criteria for the classification and measurement of financial assets and liabilities. In particular, for financial assets, the new standard uses a single approach based on the management methods of the financial instruments and on the characteristics of the contractual cash flows of the financial assets in order to determine the evaluation criterion, replacing the different rules provided by the IAS 39. For financial liabilities, on the other hand, the main change occurred concerns the accounting treatment of changes in the fair value of a financial liability designated as a financial liability measured at fair value through the income statement, in the event that these changes are due to the change in creditworthiness of the issuer of the liability itself. According to the new standard, these changes must be recognized in the “Other comprehensive income” statement and no longer in the income statement. Moreover, in the amendments to non-substantial liabilities it is no longer allowed to spread the economic effects of the renegotiation on the residual duration of the debt by changing the effective interest rate at that date, but the related effect will have to be recorded in the income statement.

Concerning impairment, the new standard requires the estimate of losses on receivables to be carried out on the basis of the expected losses model (and not on the incurred losses model used by IAS 39) using information that can be supported, available without unreasonable charges or efforts, that include historical, current and future data. The standard provides that this impairment model applies to all financial instruments, i.e. to financial assets measured at amortized cost, to those valued at fair value through other comprehensive income, to loans deriving from rental contracts and to trade receivables.

Finally, the standard introduces a new model of hedge accounting for the purpose of adapting the requirements of the current IAS 39, which have sometimes been considered too stringent and not suitable for reflecting the company’s risk management policies. The main novelties of the document concern:

- the increase in the types of transactions eligible for hedge accounting, also including the risks of non-financial assets/liabilities eligible to be managed in hedge accounting;
- the amendments in the accounting method for forward contracts and options, when included in a hedge accounting relationship in order to reduce the volatility of the income statement;
- the amendments to the effectiveness test by replacing the current methods based on the 80-125% parameter with the principle of the "economic relationship" between the hedged item and the hedging instrument; furthermore, an evaluation of the retrospective effectiveness of the hedging relationship will no longer be required.

The greater flexibility of the new accounting rules is counterbalanced by additional requests for information on the company's risk management activities.

The Directors intend to apply IFRS 9 by adopting the modified retrospective approach.

Based on the analyzes carried out, the Directors expect the application of IFRS 9 not to have a significant impact on the amounts and related disclosures reported in the consolidated financial statements of the Group.

- On January 13, 2016, the IASB published IFRS 16 – Leases, which is intended to replace IAS 17 – Leases, as well as the interpretations IFRIC 4 – Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

  The new standard provides a new definition of lease and introduces a criterion based on the control (right of use) of an asset to distinguish leasing contracts from service contracts, identifying as discriminants: the identification of the asset, the right to replace the same asset, the right to substantially obtain all the economic benefits deriving from the use of the asset and the right to direct the use of the asset subject of the contract.

  The standard establishes a single model for recognition and evaluation of leasing contracts for the lessee, which provides for the recording of the asset subject to lease, also operating, in the assets with a financial debt offset, also providing the possibility of not recognizing as leasing contracts involving low-value assets and leases with a contract term of 12 months or less. Conversely, the Standard does not include significant changes for landlords.

  The standard applies from January 1, 2019 but early application is permitted, only for companies that have already applied IFRS 15 – Revenue from Contracts with Customers.

  The Directors have initiated a project for the implementation of the new principle which provides for a first phase of detailed analysis of contracts and accounting impacts and a second phase of implementation and/or adjustment of administrative processes and accounting system. The Directors intend to apply IFRS 16 by adopting the modified retrospective approach.

  The Directors expect the application of IFRS 16 not to have a significant impact on the amounts and related disclosures reported in the consolidated financial statements of the Group. However, it is not possible to provide a reasonable estimate of the effects until the Group has completed a detailed analysis of the related leasing contracts.

- On September 12, 2016, the IASB published the document "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts". For the entities whose business predominantly consists of the insurance business, the amendments aim to clarify the concerns deriving from the application of the new IFRS 9 standard (from January 1, 2018) to the financial assets, before the replacement of the current IFRS 4 standard with the standard IFRS 17 Insurance Contracts, on the basis of which financial liabilities are instead valued, takes place.

  The changes introduce two possible approaches:

- overlay approach
- deferral approach.

The approaches will allow:

- the possibility of recording in the comprehensive income statement (i.e. in the Other Comprehensive Income statement), instead of in the income statement, the effects deriving from the application of IFRS 9 rather than IAS 39 to some designated financial assets prior to the application of the new principle having insurance contracts as subjects ("overlay approach").
- The possibility of availing of a temporary exemption from the application of IFRS 9 up to the first between the date of application of the new principle on insurance contracts or the year beginning January 1, 2021. The entities that differ the application of IFRS 9 will continue to apply the current standard IAS 39 ("Deferral approach").

The Directors do not expect a significant effect on the Group's consolidated financial statements from the adoption of these amendments.

Accounting Principles, Amendments and Interpretations IFRS not yet approved by the European Union

At the date of this Report, the competent bodies of the European Union have not yet completed the approval process necessary for the adoption of the amendments and principles described below.

- On May 18, 2017, the IASB published IFRS 17 – Insurance Contracts, which is intended to replace IFRS 4 – Insurance Contracts.

  The objective of the new standard is to ensure that an entity provides relevant information that faithfully represents the rights and obligations arising from the insurance contracts issued. The IASB has developed the standard to eliminate inconsistencies and weaknesses in existing accounting policies by providing a single principle-based framework to take into account all types of insurance contracts, including reinsurance contracts that an insurer holds. The new standard also provides for presentation and disclosure requirements to improve comparability between entities belonging to this sector. The new standard measures an insurance contract based on a General Model or a simplified version of this, called the Premium Allocation Approach ("PAA").

  The main features of the General Model are:

  - the estimates and assumptions of future cash flows are always the current ones;
  - the measurement reflects the time value of money;
  - the estimates provide for an extensive use of information observable on the market;
  - there is a current and explicit measurement of the risk;
  - the expected profit is deferred and aggregated in groups of insurance contracts at the time of initial recognition; and,
  - the expected profit is recorded in the contractual coverage period taking into account the adjustments deriving from changes in the assumptions relating to the cash flows relating to each group of contracts.

  The PAA approach is expected to provide a measurement of the liability for remaining coverage group of insurance contracts provided that, upon initial recognition, the entity expects that such liability is reasonably an approximation of the General Model. Contracts with a coverage period of one year or less are automatically eligible for the PAA approach. The simplifications deriving from the application of the PAA method do not apply to the assessment of liabilities for existing claims, which are measured with the General Model. However, it is not necessary to discount those cash flows if it is expected that the balance to be paid or collected will take place within one year from the date on which the claim occurred.

The entity must apply the new standard to insurance contracts issued, including reinsurance contracts issued, to reinsurance contracts held and also to investment contracts with a discrectonary participation feature (DPF).

The standard is applicable starting from January 1, 2021 but early application is permitted, only for entities that apply IFRS 9 – Financial Instruments and IFRS 15 – Revenue from Contracts with Customers.

The Directors do not expect a significant effect on the consolidated financial statements of the Group from the adoption of this standard.

- On 20 June 2016, the IASB published the document "Classification and measurement of share-based payment transactions (Amendments to IFRS 2)" which contains amendments to the International Accounting Standard IFRS 2. The amendments provide some clarifications concerning the accounting for the effects of vesting conditions in the presence of cash-settled share-based payments, the classification of share-based payments with net settlement characteristics and the booking of changes to the terms and conditions of a share-based payment that amend the classification from cash-settled to equity-settled. The amendments apply from January 1, 2018.

  The Directors do not expect a significant effect on the consolidated financial statements of the Group from the adoption of this standard.

- On December 8, 2016, the IASB published the document "Annual Improvements to IFRSs: 2014-2016 Cycle" which incorporates the amendments to certain standards as part of the annual improvement process. The main changes concern:
  - IFRS 1 First-Time Adoption of International Financial Reporting Standards – Deletion of short-term exemptions for first-time adopters. The amendment to this standard is applicable at the latest from the financial years beginning on January 1, 2018 and concerns the elimination of some short-term exemptions established in paragraphs E3-E7 of the Appendix E of IFRS 1, as the benefit of these exemptions is considered obsolete.
  - IAS 28 Investments in Associates and Joint Ventures – Measuring investees at fair value through profit or loss: an investment-by-investment choice or a consistent policy choice. The amendment clarifies that the option for a venture capital organization or other such qualified entity (such as an investment fund or similar entity) to measure investments in associates and joint ventures valued at fair value through profit or loss (rather than applying the equity method) to each individual investment at the time of initial recognition. The amendment applies from January 1, 2018.
  - IFRS 12 Disclosure of Interests in Other Entities – Clarification of the scope of the Standard. The amendment clarifies the scope of application of IFRS 12, specifying that the disclosure required by the standard, with the exception of that provided for in paragraphs B10-B16, applies to all equity investments that are classified as held for sale, held for distribution to shareholders or as discontinued operations in accordance with the provisions of IFRS 5. This amendment is applicable from January 1, 2017; however, since it has not yet been approved by the European Union, it was not adopted by the Group as of December 31, 2017.

  The Directors do not expect a significant effect on the consolidated financial statements of the Group from the adoption of this standard.

- On December 8, 2016, the IASB published the document "Foreign Currency Transactions and Advance Consideration (IFRIC Interpretation 22)". The purpose of the interpretation is to provide guidelines for transactions in foreign currency where the non-cash advance or down payments are recognized in the financial statements, prior to the recognition of the related asset, cost or revenue. This document provides indications on how an entity must determine the date of a transaction, and consequently, the spot exchange rate to be used when foreign currency transactions occur in which payment is made or received in advance.

The interpretation clarifies that the transaction date is the earlier one between:

a) the date on which the advance payment or down payment received is recorded in the entity's financial statements;

b) the date on which the asset, the cost or revenue (or part of it) is recorded in the financial statements (with the consequent reversal of the advance payment or of down payment received).

If there are many payments or receipts in advance, a transaction date must be identified for each of them. IFRIC 22 is applicable starting from January 1, 2018.

The Directors do not expect a significant effect on the consolidated financial statements of the Group from the adoption of this interpretation.

- On December 8, 2016, the IASB published the document "Transfers of Investment Property (Amendments to IAS 40)" which contains amendments to the International Accounting Standard IAS 40. These amendments clarify the transfers of a property to, or from, investment property. In particular, an entity must reclassify a property in, or from, real estate investments only when there is evidence that a change in use of the property has occurred. This change must be traced back to a specific event that has happened and should not therefore be limited to a change in intentions on the part of an entity's management. These changes are applicable from January 1, 2018.

  The Directors do not expect a significant effect on the consolidated financial statements of the Group from the adoption of this interpretation.

- On June 7, 2017, the IASB published the interpretative document IFRIC 23 – Uncertainty over Income Tax Treatments. The document deals with the issue of uncertainties on the tax treatment to be adopted in the field of income taxes.

  The document provides that the uncertainties in determining liabilities or assets for taxes are reflected in the financial statements only when it is probable that the entity will pay or recover the amount in question. Furthermore, the document does not contain any new disclosure obligations but underlines that the entity will have to establish whether it will be necessary to provide information on the considerations made by management and related to the uncertainty inherent in the accounting of taxes, in accordance with IAS 1.

  The new interpretation applies from 1 January 2019, but early application is permitted.

  The Directors do not expect a significant effect on the consolidated financial statements of the Group from the adoption of this interpretation.

- On October 12, 2017, the IASB published the document "Prepayment Features with Negative Compensation (Amendments to IFRS 9)". This document specifies that a debt instrument that provides for an early redemption option could comply with the characteristics of the contractual cash flows ("SPPI" test) and, consequently, could be measured using the amortized cost method or the fair value through other comprehensive income even if the "reasonable additional compensation" envisaged in the event of early repayment is a "negative compensation" for the lender. The amendment applies from January 1, 2019, but early application is permitted.

The Directors do not expect a significant effect on the consolidated financial statements of the Group from the adoption of these amendments.

- On October 12, 2017, the IASB published the document “Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)”. This document clarifies the need to apply IFRS 9, including the requirements related to impairment, to other long-term interests in associates and joint ventures for which the equity method is not applied. The amendment applies from January 1, 2019, but early application is permitted.

  The Directors do not expect a significant effect on the consolidated financial statements of the Group from the adoption of these amendments.

- On December 12, 2017, the IASB published the document “Annual Improvements to IFRSs 2015-2017 Cycle” which incorporates the amendments to certain principles as part of the annual improvement process. The main changes concern:

  - IFRS 3 Business Combinations and IFRS 11 Joint Arrangements: the amendment clarifies that when an entity obtains control of a business that represents a joint operation, it must re-measure the interest previously held in that business. However, this process is not envisaged if joint control is obtained.
  - IAS 12 Income Taxes: the amendment clarifies that all the fiscal effects related to dividends (including payments on financial instruments classified within shareholders' equity) should be accounted for in a manner consistent with the transaction that generated these profits (income statement, Other Comprehensive Income or equity).
  - IAS 23 Borrowing costs: the amendment clarifies that in the case of loans that remain in place even after the reference qualifying asset is ready for use or for sale, these become part of the totality of the loans used to calculate the financing costs.

  The amendments apply from January 1, 2019, but early application is permitted.

  The Directors do not expect a significant effect on the consolidated financial statements of the Group from the adoption of these amendments.

- On September 11, 2014, the IASB published an amendment to IFRS 10 and IAS 28 Sales or Contribution of Assets between an Investor and its Associate or Joint Venture. The document was published in order to resolve the current conflict between IAS 28 and IFRS 10.

  As per the provisions of IAS 28, the gain or loss resulting from the sale or transfer of a non-monetary asset to a joint venture or associate in exchange for a share of the latter’s capital is limited to the portion held in the joint venture or associate by other investors unrelated to the transaction. Contrarily, IFRS 10 requires the recognition of the entire profit or loss in the event of loss of control of a subsidiary, even if the entity continues to hold a non-controlling share in it, including in this case the sale o transfer of a subsidiary company to a joint venture or associate. The amendments introduced provide that in a sale/transfer of an asset or a subsidiary to a joint venture or associate, the amount of profit or loss to be recorded in the financial statements of the seller/transferor depends on whether the assets or the subsidiaries sold/transferred constitute or not a business, as defined in IFRS 3. In the event that the assets or subsidiary company sold/transferred represent a business, the entity must recognize the profit or loss on the entire share previously held; otherwise, the share of profit or loss relating to the portion still held by the entity must be eliminated. At present, the IASB has suspended the application of this amendment.

  The Directors do not expect a significant effect on the consolidated financial statements of the Group from the adoption of these amendments.

6.8.5 Comments on Income Statements and Balance Sheet Notes

Revenues (Note 1)

Revenues	2017	2016
(EUR 000)		
Revenues	207.620	196.942
Total	**207.620**	**196.942**

Revenues of FY 2017 increased by 5.4% as compared to those realized in 2016. For greater details on the increase in revenues, their breakdown and their trend as compared to the 2017-2021 Business Plan, please refer to the Management Report.

Other Income (Note 2)

Other Income	2017	2016
(EUR 000)		
Other Income	3.725	3.280
Total	**3.725**	**3.280**

Other income includes, primarily, the release of the 2017 share of the capital gain realized with the Sale and Lease-Back transaction on the Cagliari (Sa Illetta) office for approximately EUR 2.1 million and an incidence of EUR 1 million deriving from the closing of the Teletu dispute following the transaction carried out with Vodafone, which entailed the waiver by Vadafone itself of the claims for compensation against Tiscali.

Purchase of materials and outsourced services and other operating cost (income) (Note 3)

Purchase of materials and outsourced services, payroll and other operating costs	2017	2016
(EUR 000)		
Line/traffic rental and interconnection costs	76,604	71,091
Costs for use of third party assets	5,098	5,030
Portal services costs	5,319	5,275
Marketing costs	13,202	8,596
Cost of goods to be sold	8,313	6,205
Other services	35,059	32,938
Other operating expenses (income)	(199)	(2,270)
Totale	**143,397**	**126,863**

The item “Costs for use of third-party assets” mainly includes costs of voice traffic and fees for Fixed Broadband services (ADSL). The increase in this item is mainly attributable to the ADSL fees, in relation to the increased number of users of fixed bradband as compared to FY 2016 (an increase of 11 thousand units) in addition to the higher costs of mobile traffic, attributable to the growth of MVNO users (an increase of 64.4 thousand units).

The increase in marketing costs, amounting to EUR 4.6 million, is mainly attributable to the communication campaign carried out in the first half of 2017 to relaunch the brand and to support the acquisition process of new customers (EUR 1.2 million), the increase in barter costs on the subsidiary Veesible (an increase by EUR 3.3 million).

The item "Costs for the purchase of goods for resale" includes the costs for the purchase of hardware and software intended for resale. The increase in this item totals EUR 2.1 million as compared to June 2016 against an increase in related revenues of EUR 2.2 million.

The item "Other services" includes costs for the maintenance and operation of industrial sites and administrative offices, rentals, consultancy and professional expenses, billing costs, postal expenses, travel expenses, and other general costs.

The increase compared to 2016, equal to EUR 2.1 million, is mainly due to the following items:

- costs related to the invoicing of IT services carried out by Enginnering for EUR 4.6 million, commencing in February 2017 in relation to the rental of the IT business unit to Engineering;
- a decrease in consultancy and professional expenses of approximately EUR 0.8 million, of which approximately EUR 0.6 million due to excerpts of certain debit positions due to consultants;
- a decrease by EUR 1.7 million in other general services, to be attributed mainly to industrial maintenance costs.

Personnel Costs (Note 4)

Staffing cost	**2017**	**2016**
(EUR 000)		
Wages and salaries	18,424	23,521
Other staffing costs	10,719	11,421
Total	**29,143**	**34,942**

As anticipated in the Management Report, the decrease in personnel costs is mainly attributable to the actions aimed at the reorganization and reduction of the workforce undertaken in 2016 and continued in the first half of 2017, which enabled a better reorganization of resources and a decrease in the number of units, with a reduction by 310 units as compared to December 31, 2016, as shown in the following table:

Number of Units

	31 december 2017	31 december 2016
Managers	19	25
Middle Managers	51	86
Employee	565	831
Workers	4	6
External	3	4
Totale	**642**	**952**

In particular, the reduction in the number of units is, as already indicated in the previous Note 4, mainly attributable to the following extraordinary operations:

1. the leasing of the IT business to Engineering, which involved the transfer of approximately 170 units for the 7 year duration of the contract, starting from 2017;
2. the sale of the Fastweb business branch, which involved the transfer of 45 units;
3. the sale of the Streemago business branch, which involved the transfer of 8 units.
4. incentive retirement plans, which led to a permanent reduction of 61 employees, 51 of whom employees between March and June 2017.

Write-down of receivables from Customers (Note 5)

Write-downs of receivables from customers	2017	2016
(EUR 000)		
Provisions for bad debts	9.745	11.288
Total	**9.745**	**11.288**

The item "Write-down of receivables from Customers" totalled EUR 9.7 million, whose incidence, as compared to revenues, equals to 4.7% and decreased as compared to December 2016 (equal to 5.7%). Please refer to the note "Receivables from Customers" for further details.

Restructruring Costs and other charges (Note 6)

Restructuring costs	2017	2016
(EUR 000)		
Restructuring costs	3.603	6.018
Total	**3.603**	**6.018**

The item "Restructuring Costs and other charges" maily includes the following elements:

- restructuring charges related to the reorganization and downsizing of the workforce for a total of EUR 4.1 million;
- release of provisions recorded in 2016 in the item restructuring costs on penalties relating to previous tax debts for Italian companies for EUR 2 million;
- writedown of assets for approximately EUR 0.8 million;
- provision for taxation of EUR 0.5 million;

- provision for employee disputes for EUR 0.1 million.

Financial income and financial charges (Note 7)

The breakdown of the items Financial income and financial charges for the year is shown below, totaling a negative balance of EUR 19.3 million.

Net financial income (charges)	**2017**	**2016**
(Thousands of EUR)		
Financial income		
Interest on bank deposits	(1)	10
Other financial income	63	3,953
Total	**61**	**3,963**
Financial charges		
Interest and other charges due to banks	5,589	7,779
Other financial charges	13,779	5,602
Total	**19,368**	**13,381**
Net financial income (charges)	**(19,306)**	**(9,418)**

The item "Financial Income", which in FY 2017 amounts to EUR 61 thousand, in FY 2016 included the income deriving from the accounting of the Rigensis Loan at amortized cost due to the early closure of this loan. The Rigensis loan has been replaced by the Convertng Bond Loan Rigensis-Otkirite, subscribed in September 2016 and converted on December 14, 2017.

The item "Financial Charges" amounts to about EUR 19.3 million, mainly includes the following elements:

- interest expense, relating to the loan to Senior Lenders of EUR 3.9 million (EUR 5.8 million in 2016);
- financial charges on the convertible bond loan held by Tiscali Spa for EUR 0.8 million (EUR 0.3 million in FY 2016, in addition to EUR 1.2 million on the previous Rigensis loan);
- interest expense on bank current accounts for EUR 0.9 million attributable to Tiscali Italia Spa and the Aria Group (EUR 0.9 million in FY 2016);
- default interest payable for EUR 2.1 million (EUR 2 million in FY 2016);
- interest expense on financial leases and IRU for approximately EUR 2.4 million (EUR 1 million in FY 2016); the increase is connected to the increase in financial leases stipulated in 2017 against investments in the network infrastructure;
- bank charges for EUR 2.5 million (EUR 2.6 million in FY 2016);
- write-down of investments and financial receivables from non-controlled companies (Janna) for EUR 16 thousand;
- EUR 6.7 million of figurative charges deriving from the conversion of the Rigensi-Otkritie bond loan occurred on December 15, 2017, recorded in the income statement with a contra-entry in equity.

Income taxes (Note 8)

Income taxes	2017	2016
EUR 000		
Current taxes	(138)	132
Deferred taxes	(82)	(63)
Total	**220**	**(69)**

The balance of current taxes includes the IRAP cost due for FY 2017.

The uncertainties connected to the realization of the results of the Business Plan and the realization of future taxable results, better described in the previous Paragraphs 4.8 and 6.8.1 "Assessment on the business continuity and foreseeable evolution of the management - Facts and uncertainties regarding the business continuity" have prompted the Directors not to proceed with the recognition of deferred tax assets (see note 14 below).

Operating assets disposed of and/or assets held for sale (Note 9)

Sale to Fastweb

In December 2016, two agreements were signed as part of a strategic partnership between Fastweb and Tiscali: an agreement to sell the business branch Tiscali Business (including the framework contract for public administration connectivity services – SPC contracts), and an agreement with which Tiscali makes available to Fastweb the use of a part of Tiscali's 3.5 Ghz frequencies for the development of a latest-generation convergent network in the major Italian cities.

The economic value of the sale agreement of the B2B branch is equal to EUR 45 million, of which EUR 25 million in cash and EUR 20 million in services that can be used free of charge by February 2022. For the sake of completeness, it should be noted that, based on the most current information, it is estimated that the service purchase plafond will be used within the next 12 months.

The transfer price was paid in two tranches, in the first half of 2017, based on the provisions of the transfer agreements:

a) the first tranche (Provisional Price) was paid at closing, which took place on February 10, 2017. On that date, EUR 12.5 million were paid, of which EUR 5 million with cash payment and EUR 7.5 million in vouchers for services;
b) the second tranche (Earn Out), equal to EUR 32.5 million, of which EUR 20 million paid in cash and EUR 12.5 million in service vouchers, was paid on March 31, 2017, after the completion of the transaction of the transfer contract, following the ruling rejecting the appeal submitted by TIM at the Council of State against the award of the SPC contract to Tiscali.

The completion of the contract and the consequent collection of the residual price allowed the Company to strengthen its financial and industrial structure. The proceeds from the sale were in fact used to repay past trade and tax debts and to make the investments in the size established in the 2017-2021 Business Plan.

The capital gain, equal to EUR 43.8 million, recorded in the result of the assets held for sale, was determined as the difference between the sale price (EUR 45 million) and the net book value of the assets sold at the date of completion of the contract (February 10, 2017), equal to EUR 1.2 million.

Stremago

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

240 thousand US dollars to cover the costs of the interim period. The sale took effect from January 1, 2017. From the accounting point of view, the sale in question did not generate any capital gains/losses in the first half of 2017, as the Company, as of December 31, 2016, had aligned the net book value of assets at their sale price.
Furthermore, the agreement provides for the transfer to Docler (carried out on April 1, 2017) of 8 employees previously employed by Tiscali Italia.
Streamago Inc., which became non-operational due to the aforementioned sale of assets, was liquidated on March 8, 2017.

Istella

On October 4, 2017, the business branch Istella was separated from Tiscali Italia and transferred to Istella, a subsidiary of Tiscali Italia itself.

The business branch Istella includes, among the assets, the residual value of the hardware related to the search engine, the receivables from the Treccani publisher regarding the contract for the supply of services for the Encyclopedia of the same name, and the liabilities related to the debts to suppliers of fixed assets and payables to staff dedicated to the Istella project (10 resources). These net values are lower than the fair value.

On October 16, 2017 the partnership in the Istella company was sold to third parties.

As required by the International Accounting Standard IFRS 5, the economic and equity items subject to disposal (business unit and legal entity) have been reclassified, respectively, for the income statement, by the specific revenue/cost lines to the line “Result of activities disposed and/or held for sale” and, for the balance sheet, from the specific lines of Assets/Liabilities to “Assets transferred and/or held for sale”, “Liabilities transferred and/or held for sale” and from the “Reserve for assets held for sale”.

The economic and equity values of the assets held for sale follow:

Profit and Loss HFS - IFRS 5	2017	2016
(Thousands of Euro)		
Revenues	**937.6**	**10,237.5**
Costs	**854.5**	**4,098.1**
Gross Margin	**83.1**	**6,139.4**
Indirect Costs	**1,380.4**	**3,269.5**
Marketing & Sales	35.7	20.1
Personnel costs	715.4	2,714.0
Other indirect costs	629.3	535.4
Other (income) / costs	1.4	-206.6
Recievables write downs	0.0	69.6
EBITDA	**-1,298.8**	**3,007**
D&A	15.6	1,455.1
Income from sale of assets to Fastweb	43,825.8	
		8,589.4
Non recurring costs (income)	-269.9	
EBIT	**42,781.3**	**-7,037.6**
Net Income	**42,781.3**	**-7,037.2**

Assets and Liabilities HFS - IFRS 5	31 december 2017	31 december 2016
(Thousands of Euro)		
Non current Assets	0.0	3,523.0
o/w:		
Intangible assets		2,961.5
Tangible assets		560.5
Other non current assets		1.0
Current assets	0.0	2,713.8
o/w:		
Receivables		2,571.5
Other Receivables and current assets		0.0
Cash and Cash equivalents		142.3
Total Assets	**0.0**	**6,236.9**
Non current liabilities	0.0	295.4
Current liabilities	0.0	3,315.5
o/w:		
Trade payables		2,516.6
Personnel debt		571.2
Other current liabilities		227.7
Total liabilities	**0.0**	**3,610.8**
Net assets held for sale	**0.0**	**2,626.0**

Earning (Loss) per share (Note 10)

The earnings per share of “operating assets” amounted to EUR -0.011 and calculated by dividing the net result of current activities 2017 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 3,981,880,763.

The diluted earnings per share of “operating assets” is equal to EUR -0.009 and was calculated by dividing the net result of current activities 2017 attributable to the ordinary shareholders of the Parent company, amounting to EUR -42 million,, by the weighted average number of potential shares in circulation during the year, equal to 4,491,646,380.

The number of potential shares deriving from the potential exercise of the outstanding Stock Option plans (number of options equal to 509,765,617) was considered for the calculation of the weighted number of potential shares.

Assessment of possible reductions in the value of assets – "Impairment Test" (Note 11)

As foreseen in the previously indicated accounting policies, an impairment test was performed on assets, in accordance with IAS 36 and prescribed in the joint Bank of Italy/CONSOB/ISVAP document Bo. 4 dated March 3, 2010 on the application of the IAS/IFRS principles.

The impairment test on assets was performed by comparing the value of assets reported as of December 31, 2017, 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 segment disclosures. The impairment test on assets was performed on the Cash Generating Units identified. As indicated in the section on accounting policies followed by the Group, the Company has identified three operating segments subject to disclosure based on the requirements of IFRS 8. For the purposes of the impairment test, however, the "Corporate" CGU is tested together with the "Access" CGU as it shares a significant amount of assets with it. It should also be noted that the Corporate financial sector has mainly intercompany cash flows.

(ii) Criteria for estimating the recoverable amount.

The value in use of the Cash Generating Units (CGU) was determined on the basis of the discounting of cash flows for the years 2018-2021 deriving from the 2018-2021 Plan of the Tiscali Group (as defined in the Note "Assessment regarding business continuity and business outlook - Facts and uncertainties with regard to business continuity ") approved by the Board of Directors on May 10, 2018. For the purposes of the impairment test, a period of four years was used and the cash flow of the 2021 normalized for the purposes of determining the terminal value.

The main assumptions used to estimate the recoverable amount are:

- 4-year explicit forecast period (2018-2021);
- EBITDA arising from market and business development assumptions;
- investments consistent with the the business outlook and pre-established level of profitability;
- determination of the terminal value calculated as perpetuity based on the projection of the year 2021, 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 1,5%.

The instruments used for determining the WACC are the followings:

- Risk Free Rate

  The market rate for a risk-free investment has been calculated considering the risk free rate USA (at 180 days) corrected taking into consideration the Italian inflation rate (from Bloomberg as at 31 December 2017). It amounts to 1.7%.

- Country Risk Premium

  The country risk premium has been calculated taking into consideration the Credit default Risk of 10 years USA Swaps, compared to the Credit Default Risk of 10 years Italian Swaps. It represents the risk factor of the country Italia, and it amounts to 1.5%.

- Beta unlevered and Beta relevered

The Beta unlevered has been calculated as an average of the Beta unlevered of a panel of companies similar to Tiscali (as far as dimensions/ sectors/ structure). It amounts to 0.57.
The Beta unlevered has been corrected taking into consideration the following two factors related specifically to Tiscali Group:
- Tiscali Debt/ equity ratio, defined as a 1 ratio (50% debt - 50% equity)
- Tiscali tax structure

Including the above factors, a Beta relevered rate has been defined, amounting to 1.01

- Market Risk Premium. The risk premium assigned by the market has been drawn from the Fernandez 2017 survey.

- Size Premium. The Size Premium has been calculated on the basis of the Duff and Phelps table, and represents the level of risk of Tiscali respect to the other companies included in the panel. It amounts to 2.8%.

- Company Specific Risk Premium. The company risk premium has been defined in the amount of 2%.

Based on these parameters, the WACC used for the impairment tests was 8.9%.

At consolidation level, the test showed a positive difference between the recoverable value and the consolidated book value, thus the Company considers 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 and expected scenario and of the results of the impairment tests conducted for the period ended December 31, 2017, a sensitivity analysis of the recoverable value was carried out using the discounted cash flow method. It is believed that the discount rate is a key parameter in the estimate of the recoverable value. A change in the +/- 1% range of this rate would not have significant effects on the cover level. With other variables being equal, the WACC, which would render the present cover null, is equal to 22% (against 8.9% used by the Company).

A sensitivity analysis on the long-term growth rate was also carried out. From these analyzes it emerged that a zero growth rate (compared to a 1.5% rate used by the company) would not produce significant effects on the level of cover.

(iv) ***Considerations concerning the presence of external impairment indicators***

Taking into account the current market situation, considerations have been made regarding the existence of external indicators of loss of value, with particular reference to what is expressed by the financial market. To this end, the market capitalization of the Tiscali Group does not reveal any elements that differ from the result of the impairment procedure. In particular, as previously indicated, the market capitalization amounted to approximately EUR 141,754,955 as of 31 December 2017.

Intangible Assets (Note 12)

Intangible assets *(EUR 000)*	Computers, software and development costs	Concessions and similar rights	Broadband service activation costs	Other intangible assets	Intangible assets under development and advances	Total
HISTORICAL COST						
1 January 2017	**4,715**	**195,033**	**120,307**	**27,965**	**2,163**	**350,184**
Increases		11,618	18,326	3,306	6,520	39,771
Reclassification IFRS 5						
Devaluation & write off						
Other Changes (disposal)	(54)	(7,251)		()		(7,305)
Reclassifications			122	1,488	(5,624)	(4,015)
31 december 2017	**4,661**	**199,401**	**138,754**	**32,759**	**3,060**	**378,635**
ACCUMULATED AMORTIZATION						
1 January 2017	**4,715**	**131,635**	**96,281**	**25,654**		**258,285**
Increases in amortization		11,694	15,794	1,095		28,583
Reclassification IFRS 5			()			()
Devaluation & write off						
Other Changes (disposal)	(54)	(7,246)				(7,300)
Reclassifications						
31 december 2017	**4,661**	**136,083**	**112,075**	**26,749**		**279,568**
NET BOOK VALUE						
31 December 2016	**()**	**63,398**	**24,025**	**2,312**	**2,163**	**91,899**
31 december 2017	**()**	**63,318**	**26,679**	**6,010**	**3,060**	**99,067**

It is specified that, in order to offer greater comparability of the consolidated financial statements and aligning with the most common accounting practices, the balance of the "Broadband service activation costs" category at 31 December 2016 related to the net book value of the DSL (modem and CPE) has been reclassified to the Fixed Assets category. The amount of this reclassification as at 31 December 2016 amounted to EUR 6.8 million (EUR 13.2 million as at 31 December 2017).

The movements of intangible assets during FY 2017 follow:

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

The balance of *Concessions and Similar Rights* equals to EUR 63.3 million, and includes:

- EUR 33.3 million for licenses and software, of which EUR 27.6 million related to the WiMax license and related charges incurred by the Aria Group. The remaining part of the item includes the costs related to the design tools of the LTE base stations, the activation and remote management of the devices installed at the customer site, licenses for the use of the VOIP platform and software for managing customers (billing, customer care) and ERP systems;
- EUR 28.8 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; whose main suppliers are Telecom Italia, Interoute, Fastweb, Infracom;
- EUR 1.1 million for software licences.

The overall increase of FY 2017 amounts to EUR 11.6 million, of which EUR 4 million is attributable to software licenses and EUR 7.5 million to to costs incurred for the purchase of multi-annual rights for the use of the fiber optic network (IRU - Indefeasible Right of Use). Depreciation for the period, calculated according to the criteria highlighted in the Annual Financial Report, amounted to EUR 11.7 million.

The item "*Other changes*" for EUR 7.2 million does include the following elements:

- EUR 1.2 million of historic cost decrease, to be read together with the corresponding decrease in the corresponding depreciation fund, are due to the partial closing of the historical cost of an IRU for which Tiscali Italia exercised a renewal option before the expiration of the contract. The company therefore created a new asset determined by the residual value of the previous sum added to the value of the renewal option, while the part already amortized was reversed against the related accumulated depreciation;
- EUR 6 million due to the write off of assets owned by Tiscali Italia Spa.

The item *Broadband Service Activation Costs* amounts to EUR 26.7 million. The increase in FY 2017 of EUR 18.3 million relates to the acquisition costs and customer activation for the ADSL service. Depreciation for the period, calculated according to the criteria highlighted in the Annual Financial Report, amounted to EUR 15.8 million.

The "Other changes" for EUR 122 thousands are related to reclassification of assets from the category "Intangible assets in progress and advances" relating to assets that have been amortized over the period.

"Other Intangible Fixed Assets" amount to EUR 6 million related mainly to the subsidiary Tiscali Italia Spa Investment costs are mainly related to the LTE core network installation services. The increase in FY 2017 amounts to EUR 3.3 million.

This item includes reclassifications for EUR 1.5 million. These are reclassifications of assets from the category "Intangible assets in progress and advances" relating to assets that have been started their depreciation process in the period.

"Intangible Assets in progress and Advances", amount to EUR 3.1 million.

The category "Intangible assets in progress and advance payments" also decreased for EUR 4 million, for tangible assets that are erroneously classified under "Intangible assets in progress and advance payments" as at 31 December 2016.

Property, Plant and Machinery (Note 13)

The following table shows the changes occurred in FY 2017:

Tangible assets (EUR 000)	Property	Plant and machinery	Other tangible assets	Tangible assets under construction	Total
HISTORICAL COST					
1 January 2017	**64,260**	**411,178**	**6,320**	**7,825**	**489,584**
Increases		15,845	30	8,782	24,657
Reclassification IFRS 5					
Devaluation & write off		(5,867)		6	(5,861)
Other Changes (disposal)		(69,565)		(23)	(69,589)
Reclassifications		10,888		(6,873)	4,015
31 december 2017	**64,260**	**362,479**	**6,350**	**9,716**	**442,806**

ACCUMULATED DEPRECIATION					
1 January 2016	**21,174**	**344,500**	**4,994**		**370,668**
Increases in depreciation	1,302	18,027	161		19,491
Reclassification IFRS 5		()			()
Devaluation & write off		(5,091)			(5,091)
Other Changes (disposal)		(69,565)			(69,565)
Reclassifications					
31 december 2017	**22,476**	**287,871**	**5,155**		**315,502**
NET BOOK VALUE					
31 December 2016	**43,086**	**66,678**	**1,326**	**7,825**	**118,916**
31 december 2017	**41,784**	**74,608**	**1,196**	**9,716**	**127,303**

It should be noted that the balance as at 31 December 2016 of the "Plant and Machinery" category was reclassified (down) with a contra-entry to the provision for risks of EUR 5.4 million. During the year, writedowns of EUR 0.7 million were recorded for plant and machinery with a gross value of EUR 5.8 million, against which the provisions for the aforementioned provision for risks and charges for EUR 5.1 million.

The item *Property*, amounting to EUR 41.8 million, mainly relates to the Cagliari office (Sa Illetta), which was subject to a Sale & Lease back financial transaction in 2007. The decrease for the year is related to the amortization for the period of EUR 1.3 million, calculated according to the previously described criteria. With reference to this item, with reference to this item, the capital gain portion deriving from the accounting of the aforementioned Sale & Lease back transaction amounting to EUR 2.1 million is recorded.

Plant and machinery (EUR 74.6 million) includes specific network equipment such as routers, DSLAM, servers, and transmission devices installed at the LLU sites.

This item includes EUR 23 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.

This item includes, to the voice “other changes (disposal)” EUR 69.6 million related to the write off of assets in Tiscali Itali S.p.A., which have terminated their useful life. The same amount of EUR 69.6 million is showed as variation in the accumulated depreciation.

Furthermore, this category includes reclassifications for EUR 10.9 million. This amount includes the following reclassifications:

• reclassification of fixed assets from the category "Tangible assets in progress" for EUR 6.9 million, attributable to assets entered into service during 2017;

• reclassifications of assets from the category "Intangible assets in progress and payments on account" for EUR 4 million, attributable to assets that are erroneously classified under "Intangible assets in progress and payments on account" as at 31 December 2016.

"Other tangible assets", whose balance amounts to EUR 1.2 million, include furniture and furnishings, electronic and electromechanical office equipment as well as motor vehicles. The decrease for the year is related to the amortization for the period, calculated according to the criteria highlighted in the Annual Financial Report, for EUR 161 thousand.

The item "Tangible assets in progress and advances", whose balance amounts to EUR 9.7 million, mainly includes investments in network infrastructure of which a slowdown in the installation occurred due to the regulatory uncertainties referred to in the Report on Operations and in particular to Section 4.8.

Other non-current financial assets (Note 14)

Other non-current financial assets	31 december 2017	31 december 2016
(EUR 000)		
Guarantee deposits	506	4,321
Other receivables	295	
Equity investments in other companies	3,621	3,859
Total	**4,421**	**8,180**

Guarantee deposits are represented by deposits paid in the context of carrying out the activity on multi-year contracts. The decrease as compared to FY 2016 relate to the release of guarantees for the CONSIP, recorded as of December 31, 2016, for EUR 3.8 million, following the transfer of the business branch B2B to Fastweb.

Other financial receivables are due by the Janna S.c.p.a. consortium.

Investments in other companies are financial assets available for sale and are mainly represented by Janna S.c.p.a., (EUR 3.6 million), a consortium company which deals with the management of a submarine fiber-optic cable laid between Sardinia and the peninsula and between Sardinia and Sicily.

In 2017, following some events that had an impact on the investee's governance, the Directors carried out an assessment of the Group's influence on this investment, concluding that it had acquired significant influence. Among the events relevant to the achievement of this conclusion, we highlight:

a) the successful appointment by the subsidiary of a Tiscali executive to the office of Chairman of the Board of Directors;

b) the acknowledgment that the majority shareholder, the Autonomous Region of Sardinia, has expressed its willingness to leave the social structure;

c) the adoption, for the first time in the history of the investee company, of some decisions by the shareholders' meeting of the majority (all decisions had always been taken unanimously) and, in particular, without the favorable vote of the shareholder majority, thanks to the favorable vote of the three minority shareholders;

d) the increase in the participation of minority shareholders following the verification of certain contributions not carried out by the majority shareholder;

Following this assessment, the investment, previously valued at cost, was valued at 31 December 2017 using the equity method. The differential of the initial value with respect to the portion of shareholders' equity, equal to EUR 1.7 million, was considered representative of the higher implicit values of the investee's assets which, as mentioned, owns some submarine optical fiber cables which present a significant market value.

In 2017, the accounting for the equity investment in Janna led to an adjustment of its value of EUR 238 thousand.

The following table shows the main economic-financial data at December 31, 2017 of the investee Janna:

Name	Registered office	Shareholding owned by	Balance as at December 31st, 2017 (€/000)				Percentage of direct shareholding	Balance as at 31.12.17 (/000)
			Share Capital	Net Equity	Total Assets	Net Result		
Janna S. C. p.a.	Italia	Tiscali Italia S.p.A.	13.717,4	8.186,3	9.170,7	-1.801,8	17%	3.613

Deferred tax assets (Note 15)

As of December 31, 2017, 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 668.2 million and timing differences for EUR 21.6 million. The taxes losses refer to:

- the Parent company and the Italian subsidiaries for a total of EUR 429.5 million;
- Tiscali International BV and the Dutch and Luxembourg subsidiaries for a total of Eur 14.3 million;
- Tiscali UK Holdings for a total of EUR 224.5 million.

Tax losses have unlimited expiration, with the exception of losses relating to Tiscali International BV and the Dutch subsidiaries.

It should be noted that in 2017 the Company started the liquidation process of Tiscali UK Holdings. As a consequence, the previous tax losses will be less with the termination of the subsidiary itself.

Inventories (Note 16)

As of December 31, 2017, inventories amounted to zero; it should be noted in fact that the assets originating the recording of inventories were completed and invoiced during the period.

Trade Receivables (Note 17)

Trade receivables	31 december 2017	31 december 2016
(EUR 000)		
Trade receivables	89,406	73,994
Write-down provision	(42,866)	(35,698)
Total	**46,540**	**38,296**

As of December 31, 2017, trade receivables, totalling EUR 46.9 million, net of write-downs of EUR 42.9 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 telephony 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. In particular, it should be noted that the estimate of the risk of collectability of receivables is already carried out at the time of registration of the receivables taking into account the general risk of non-collectability of receivables not past due at the reference date, which can be deduced from the historical experience.

The following table illustrates the ageing (gross of the write-down provision) as of December 31, 2017, and December 31, 2016, respectively:

Aging Receivables_ gross of Bad debt	31 december 2017	31 december 2016
(EUR 000)		
not overdue	18,653	20,816
1 - 180 days	17,335	14,806
181 - 360 days	9,611	9,800
oltre 360 days	43,806	28,572
Total Receivables	**89,406**	**73,994**
Bad debt	(42,866)	(35,698)
Total Receivables net of bad debt	**46,540**	**38,296**

The following table shows the aging of trade receivables net of the write-down provision as of December 31, 2017:

Aging Receivables_ net of Bad debt	31 december 2017	31 december 2016
(EUR 000)		
not overdue	17,428	19,776
1 - 180 days	13,595	10,796
181 - 360 days	4,643	4,176
oltre 360 days	10,874	3,549
Total	**46,540**	**38,296**

The increase in receivables overdue by more than 360 days is partly due to the updating of some administrative procedures that were completed in 2018. All exposures past due at risk are hedged by the related provision for bad debts.

The following table illustrates the changes in the bad debt provision during the respective FY:

Bad debt allowance variations	**31 december 2017**	**31 december 2016**
(EUR 000)		
Bad debt allowance BoP	(35,698)	(32,386)
Provision	(9,745)	(11,285)
Utilizations	2,578	7,974
Bad debt allowance Eop	**(42,866)**	**(35,698)**

The provision for the year amounts to EUR 9.7 million.

The item provisions and utilisations includes the write-down made during the current year and the uses for the elimination of credit positions that can no longer be recovered.

Other Receivables and other Current Assets (note 18)

Other Receivables and other Current Assets	**31 december 2017**	**31 december 2016**
EUR 000		
Other receivables	13,599	12,058
Accrued income	3	
Prepaid expenses	8,037	7,790
Total	**21,639**	**19,848**

Other Receivables amounting approximately to EUR 13.6 million, mainly include the following:

- Other Receivables of the Aria Group, in the amount of EUR 0.5 million, due by another telecommunications operator for a contract relating to the use of frequency;
- Other Receivables for EUR 11.1 million, of which EUR 8.5 million relate to the residual amount settled in services provided for the transfer of the B2B branch to Fastweb. This amount was recorded at the time of the transfer (net of VAT) for EUR 16.3 million, and was subsequently reduced in relation to the invoices actually issued by Fastweb upon the purchase of the services. As at April 30, the credit decreased to EUR 8.1 million.
- Tax and other social security/insurance credits of EUR 2 million, of which EUR 1.6 million of VAT credit.

Prepaid expenses equal to EUR 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 Current Financial Assets (Note 19)

Other current financial assets	31 december 2017	31 december 2016
EUR 000		
Guarantee deposits		60
Other receivables		3
Total	**0**	**63**

The other current financial assets are nil as of December 31, 2017.

The reduction as compared to the figure as of December 31, 2016, is due to the disposal, occurred in 2017, of the guaranteed deposits, equal to EUR 60 thousand, by the Dutch subsidiary Tiscali International BV, in relation to the imminent liquidation (within 12 months) of the society itself.

Liquid assets (note 20)

As of December 31, 2017, liquid assets amounted to EUR 1.5 million and include the Tiscali Group's cash, essentially held in bank current accounts. There are no restricted deposits.

Shareholders' equity (Note 21)

Shareholders' equity	31 december 2017	31 december 2016
EUR 000		
Share capital	121,507	91,201
Stock Options Reserve	2,010	1,402
Accumulated losses and other reserves	(252,400)	(215,264)
Profit/(loss) for the year	827	(44,959)
Minority interest		-
Total Shareholders' equity	**(128,031)**	**(167,620)**

Changes in the various shareholders' equity items are detailed in the relevant table.

As of December 31, 2017, the share capital amounted to EUR 121.5 million, corresponding to 3,981,880,763 ordinary shares with no par value (as compared to 3,145,281,893 shares as at December 31, 2016).

During FY 2017, the following capital increases have been performed:

- On August 7, 2017, through the issue of 314,000,000 shares jointly subscribed by OCIL and ICT, which simultaneously paid Euro 5,903,200 each;
- on December 15, 2017, by converting the bonds referred to in the "Tiscali Conv 2016 – 2020 bond", which ended with the voiding of No. 37 bonds subscribed for a nominal value of EUR 18,500,000 and the issue of 522,598,870 new shares, having the same characteristics as those outstanding, at a price per share of EUR 0.0354 and an increase in the share capital of EUR 18,500,000.

The increase in accumulated losses and other reserves is mainly attributable to the following elements:

- carry forward of the losses accrued in 2016 for EUR 44.9 million;

- increase in the item "Other reserves" for Euro 7.7 million, of which EUR 6.7 million for the notional charges deriving from the conversion of the bond loan subscribed on September 7, 2016 and converted on December 15, 2017 and EUR 1 million related to the release of the residual value of the put option, which was valued at the time the bond was signed for EUR 1.8 million, in addition to charges relating to the capital increase;

- increase in the translation reserve deriving from the conversion of the balances of the subsidiary Streamago, liquidated in March 2017 for EUR -0.1 million;

- increase in the reserve for employee benefits for EUR 0,3 million

Minority Interest (Note 22)

As of December 31, 2017, the balance of Minority interests is nil.

Current and Non-Current Financial Liabilities (Note 23)

As previously mentioned, since the present Group Annual Financial Report, the Company has reclassified the long term portion of the Senior Loan and Sa Illetta debt from long term debts to short term debts, for an overall amount of EUR 108,1 million (EUR 68,9 million attributable tor the Senior Loan and EUR 39,2 million attributable to the Sa Illetta debt).
This reclassification has been made taking into consideration the status of the standstill process and in compliance to IAS 1. Due to the fact that the standstill requested to the banks and to the leasing creditors has not been formalized yet, at the date of the preparation of the present Annual Financial Report, and that Tiscali has not respected the terms of payments stated in the First (and Second) Facility Agreement and in the Sa Illetta sale and lease back agreement, the Company is obliged to classify the above mentioned loasn into short term debts

Current financial liabilities	**31 december 2017**	**31 december 2016**
(EUR 000)		
Convertible bond	()	375
Payables to banks and other financing parties	108,502	28,783
Payables for finance leases (short term)	61,529	9,239
Total	**170,032**	**38,397**

Convertible Bond – current portion
The item “convertible bond” is void, as the convertible bond loan and the conversion underwritten by Rigensis Bank and Otkritie Capital International Ltd, on September 7, 2016, was converted on December 15, 2017.

Payables to banks and other financing parties – current portion
The item “Payables to Banks”, amounting to approximately EUR 108.5 million, mainly includes bank payables held by the Italian subsidiary Tiscali Italia SpA. for EUR 100 million, of which EUR 87.8 million relating to the current component of the Senior loan (better described below) and other bank debts of Tiscali Italia for EUR 12.2 million, in addition to bank debts of Veesible Srl (EUR 1 million) and the Aria Group (EUR 6.8 million).

The balance of Tiscali Italia S.p.A also includes two financial debts related to loans granted by the Ministry of Development and the Ministry of University and Research for EUR 0.6 million. As of December 31, 2016, the balance of the aforementioned payables (the short term component was equal to EUR 0.6 million) was reclassified from the item Other current liabilities.

Payables for Financial Leases – current portion

"Payables for Financial leases", equal to to EUR 61.5 million, refer to the short-term portion of payables to leasing companies for financial leasing contracts pertaining to Tiscali Italia Spa. For details, see the paragraph in the continuation of this Note.

Non Current financial liabilities	31 december 2017	31 december 2016
(EUR 000)		
Convertible bond		18,429
Payables to banks and other financing parties	()	80,888
Payables for finance leases (long term)	10,809	55,339
Total	**10,809**	**154,656**

Convertible Bond - long-term portion

The item “Bond Loan” is void, as the convertible bond loan and the conversion underwritten by Rigensis Bank and Otkritie Capital International Ltd, on September 7, 2016, was converted on December 15, 2017.

Payables to banks and other lenders - long-term portion

The item “Payables to Banks”, is nil as at December 31, 2017. This is maily due to the fact that the long-term component of the Senior loan for EUR 68.9 million has been reclassified to short term, following the non-conclusion, at December 31, 2017, of the negotiations relating to the rescheduling of the debt.

It is highlighted the balance as of December 31, 2016, has been reclassified to take into account the long-term component of two financial debts relating to loans granted by the Ministry of Development and the Ministry of University and Research for EUR 0.6 million, reclassified from the Other Current liabilities.

Payables for financial leases - long-term portion

Payables for financial leases, amounting to EUR 10.8 million, refer to the long-term portion of payables to leasing companies for financial leasing contracts pertaining to Tiscali Italia Spa. The reduction for the period is instead attributable to the long-term debt component of the Sa Illetta loan, amounting to EUR 39.3 million, which was reclassified to short-term payables. For details see the paragraph in the continuation of these explanatory notes.

Net financial position

The Group’s net financial position is shown in the following table:

Net Financial Position	31 december 2017	31 december 2016
(EUR 000)		
A. Cash and bank deposits	1,465	1,346
B. Cash equivalents		
C. Securities held for trading		
D. Cash and cash equivalents (A) + (B) + (C)	***1,465***	***1,346***
E. Current financial receivables		***3***
F. Non-current financial receivables		
G. Current bank payables	13,284	14,683
H. Current portion of bonds issued	()	375
I. Current part of long-term loans	94,580	13,454
J. Other current financial payables	62,167	10,117
K. Current financial indebtedness (G) + (H) + (I)	***170,032***	***38,628***
L. Net current financial indebtedness *(K)-(D)-(E)-(F)*	**168,567**	**37,279**
M. Non-current bank loans	()	80,601
N. Bonds issued		18,429
O. Other non-current financial payables	10,809	55,626
P. Non-current financial indebtedness *(M)+(N)+(O)*	**10,809**	**154,656**
Q. Net financial indebtedness *(L)+(P)*	**179,376**	**191,935**

(*)The Net Financial Position as of December 31, 2016 has been restated with respect to the Net Financial Position included in the 2016 Annual Financial Report due to the inclusion of two financial debts related to loans provided by the Ministry of Development and the Ministry of University and Research for EUR 0.9 million as of December 31, 2016. The balance of these debit positions as of December 31, 2017 amounted to EUR 0.6 million.

In addition, it should be noted that compared to the NFP disclosed pursuant to Article 114 of TUIR as of 31 December 2017, the NFP of this Annual Report shows a lower net debt of EUR 0.6 million. The differential elements between the NFP of this Annual Financial Report and of that communicated pursuant to art. 114, are the following:

• The long-term portion of the Senior Loan and the financing relating to the Sales & lease Back of Sa Illetta has been reclassified shortly, based on the status of the standstill process on both loans (see also Section 4.8) and according to the provisions of IAS 1. Since the aforementioned standstill requests have not been formalized by December 31, 2017 and since Tiscali has not respected the payment terms provided for in the First and Second Agreement and in the Sales & lease Back of Sa Illetta Agreement, the Group has classified these short-term loans pending the definition of the standstill. This reclassification amounts to EUR 108.1 million in the NFP of this Annual Financial Report (EUR 108.7 million as per the NFP disclosed pursuant to Article 144 of the TUIR).

• The amortized value of the senior loan, equal to EUR 87.8 million, is different from EUR 0.5 million compared to the value included in the NFP reported pursuant to Article 114 of TUIR (EUR 88.3 million) as it is based on different financial plan hypothesis. In fact, the amortized value of the senior loan in this Annual Report is based on the financial plan assumptions included in the standstill requests made by the Company to the lending institutions (standstill up to and including September 30, 2019 - for further details see Par. 4.8), while the amortized value included in the NFP disclosed pursuant to Article 144 of the TUIR was based on a financial plan that envisaged payments of the residual installments substantially in line with the contracted financial plan;

• Bank / cash payables: compared to the NFP disclosed pursuant to Article 114 of the TUIR, the NFP of this Annual Financial Report includes a balance of payables vs. banks / cash fund of EUR 0.1 million (EUR 17.4 million, against EUR 17,5 million of the NFP pursuant to Article 114 of the TUIR).

The table above has been drawn up in the light of CONSOB Communication No. DEM/6064293 dated July 28, 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 Management Report.

(*)	31 december 2017	31 december 2016
(EUR mln)		
Consolidated net financial debt	**178.9**	**187.6**
Non-current financial receivables	0.5	4.3
Consolidated net financial debt prepared on the basis of Consob communication No. DEM/6064293 dated 28 July	**179.4**	**191.9**

(*)The Net Financial Position as of December 31, 2016 has been restated with respect to the Net Financial Position included in the 2016 Annual Financial Report due to the inclusion of two financial debts related to loans granted by the Ministry of Development and the Ministry of University and Research for EUR 0.9 million as of December 31, 2016. The balance of these debit positions as of December 31, 2017 amounted to EUR 0.6 million.

The gross financial debt (current and non-current), amounting to EUR 180.8 million, is mainly made up of items shown in the following table:

Breakdown of current and non current debt

Breakdown of current and non current debt	31 december 2017	Current portion	Non-current portion
(EUR 000)			
Senior debt	87,812	87,812	0
Bonds issued		0	0
Bank payables	20,053	20,053	0
Total Senior debts and other bank payables	**107,864**	**107,864**	**0**
Payables to leasing companies			
Sale & Lease back Sa Illetta	52,230	*52,230*	*0*
Other finance leases	20,108	*9,300*	*10,809*
Total payables to leasing companies	**72,338**	**61,529**	**10,809**
Other financial payables	**638**	**638**	**0**
Total payables to leasing companies and other financial payables	**72,976**	**62,167**	**10,809**
Total indebtedness	**180,840**	**170,032**	**10,809**

The main items shown in the above table are as follows:

- senior debt pursuant to the Restructuring Agreement signed on June 29, 2016, with Intesa San Paolo and BPM for EUR 87.8 million;
- other bank payables totalling EUR 20 million;
- payables for finance leases, totalling EUR 72.3 million, mainly represented by the Sale and Lease Back agreement signed by reference to the Cagliari office (Sa Illetta) of the Company for residual EUR 52.2 million;
- Ministerial loans totalling EUR 0.6 million;

The table below shows the monetary and non-monetary variations of the financial liabilities recorded in FY 2017:

Cash and no cash variations of Financial liabilities	31 December 2016	Cash movements (repayments/ new debt)	Accrued Interests	Reclass	Bond Conversion	31 December 2017
(EUR 000)						
Senior debt	87,301	(3,392)	3,903			**87,812**
Bonds issued	18,804	(1,513)	801		(18,092)	
Bank payables	21,436	(1,383)				**20,053**
Sale & Lease back Sa Illetta	51,767		463			**52,230**
Other finance leases	12,812	5,186	2,110			**20,108**
Other finance liabilities	1,164	(526)				**638**
Financial liabilities	**193,284**	**(1,628)**	**7,277**		**(18,092)**	**180,841**

Senior Debt

On June 29, 2016, the Tiscali Group signed a refinancing agreement with Intesa San Paolo and Banca Popolare di Milano ("Financial Institutions" or "Credit Institutions") concerning medium- and long-term senior debt of the Group .

The senior loan, with an initial nominal value of EUR 88 million (of which EUR 53 million to Intesa San Paolo and EUR 35 million to BancoBpm), amounts to EUR 85.3 million as of December 31, 2017, after tge payment of the principal amount of EUR 2.6 million due at March 31, 2017 to Banca Popolare di Milano.

In 2017, the Company forwarded to both lenders a moratorium on payments due by Tiscali Italia under the First Facility Agreement and the Second Facility Agreement, starting from payments due on September 30, 2017, and until September 30, 2019 (excluded), as well as to grant a reset of the contractual covenants in light of the new Plan 2018-2021.

In the first half of 2017, the Group made a payment to Banca Popolare di Milano for the portion of principal and interest maturing on 31 March 2017, as per the financial plan (EUR 2.6 million of capital and EUR 0.8 million of interest).

Regarding the payment due by Tiscali Italia of the Second Facility Agreement installment expired on March 31, 2017, (principal amounting to EUR 1.7 million and interest amounting to EUR 1.2 million), Tiscali has proposed to make such payment on September 30, 2018.

The portions of suspended principal and interest will be due at the end of the financial plan, which expires on March 31, 2022, and will be added to the portions of principal and interest due on that date. The standstill agreements described above determined a different distribution of payments during the financial plan, and therefore the effective rate of financing changed slightly, from 5.16% as of December 31, 2016, to 4.98%.

On May 9, 2018, each of the Credit Institutions sent a comfort letter to Tiscali in order to communicate that it will initiate the investigation process related to the transaction, not having detected critical status regarding the request and confirm its commitment, subject *i)* to the contribution of new financial resources to the Group through the commitment of the ICT and SOVA members in the terms previously indicated, *ii)* the payment to Intesa SanPaolo of the installment due at March 31, 2017 in the manner described above, *iii)* the provision of further documentation regarding the method of destination of the liquidity generated by the sale of the business business unit and *iv)* to the definition of terms and conditions of medium and long-term funding sources aimed at supporting the investments envisaged in the Business Plan. The above four conditions are in fact already fulfilled taking into account the commitment made by the reference Shareholders and the payment for the installment included in the short-term disbursements, since the conditions *iii)* and *iv)* have already been fulfilled by an appropriate documentation and confirmation of the existence in the plan of sources of the medium- to long-term loans requested

Covenants

The senior loan requires the Company to comply with certain financial requisites (so-called "Financial covenants").

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). Further operative covenants are expected as well.

In the current phase of negotiating the standstill and resetting the contractual covenants, the management will not proceed with the notification of compliance with these covenants as the reference business plan has changed substantially. In particular, it should be noted that the delay in the payment of the installments of the loan, as well as the failure to communicate the contractual covenants, is the cause of potential requests for acceleration of repayment of the credit by the lenders.

Moreover, the loan agreement provides for remedies for the delay in the payment of installments which, if activated, make the right to acceleration of reimbursement by the credit institutions void.

Event of default

The 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.

The following table summarizes the main elements of the loan.

Loan	Amount	Maturity	Financial institutions	Borrower	Guarantors
First Facility	EUR 32.4 mln	March 2022	Banca Popolare di Milano S.c.a.r.l.	Tiscali Italia Spa	Tiscali Spa,
					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 Spa	Tiscali Spa,
					Tiscali International BV
					Tiscali Financial Services SA
					Veesible S.r.l.
					Tiscali UK Holdings Limited

Bond Loan

On 7 September 2016, Rigensis Bank and Otkritie Capital International Ltd, subscribed a convertible bond loan, for a nominal amount of EUR 17 million.

As required by the financial plan, on April 7, 2017 the Company made the payment of the interest accrued from September 7, 2016 to March 31, 2017, amounting to EUR 0.7 million.

On December 14, 2017, the Bondholders' Meeting and the Extraordinary Shareholders' Meeting unanimously voted in favor of the proposed amendment of the unsecured convertible bond loan "Tiscali Conv 2016-2020", approved by Shareholders' Meeting on September 5, 2016. In particular, the following amendments were made:

- the extension of the Subscription Period of the residual amount of non-underwritten bonds equal to EUR 1.5 million, from January 31, 2017 to January 31, 2018;
- the Conversion Price from EUR 0.06 to a price per share equal to the weighted average of the market price recorded in the last two months preceding the date of the conversion request;
- the number of ordinary shares to be issued for the conversion of the bond loan, approved up to a total of a maximum of No. 530,000,000 shares.

This change in the terms of the obligation was negotiated between the Company and the Bondholders in order to favor the strengthening of the Group's capital.

On December 15, 2017, following the conversion request received from Rigensis Bank AS ("Rigensis") and SOVA Capital Limited (previously known as Otkritie Capital International Limited – OCIL) on December 14, 2017, the full conversion of the bonds was carried out and completed with the annulment of No. 37 bonds subscribed for a nominal value of EUR 18,500,000 and the issue of 522,598,870 new shares, having the same characteristics as those outstanding, at a price per share of EUR 0.0354 and with an increase in the share capital of EUR 18,500,000.

The operation as a whole favors the strengthening of the Tiscali Group's capital, through the reduction of the debt for EUR 18.5 million, following the conversion of the unsecured convertible bond loan "Tiscali Conv 2016-2020" into ordinary shares of the company, with a consequent perspective savings of around EUR 1.2 million per year.

The conversion of the Bond Loan generated figurative expenses, accounted for by Tiscali Spa, for EUR 6.7 million, generated by the amendments approved by the Shareholders' Meeting to the settlement of this Bond. These changes, which actually led to an improvement in the conversion conditions aimed at encouraging early repayment - which occurred on December 15, 2017 - changed the Fair Value of the liability with respect to the Fair Value calculated on the basis of the original conditions. The increase in the negative fair value caused by these changes, equal to EUR 6.7 million, was recorded in the income statement for the year among financial charges with a contra-entry in the shareholders' equity reserve, thus not having any impact on the value of the net equity at December 31, 2017, much less on the liquidity absorbed or generated.

Other Loans

Below is the main information on the loans outstanding as of December 31, 2017 for the Aria Group:

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 2017 amounting to EUR 2.4 million, plus interest. This loan is not subject to financial covenants.

ii) 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 2017 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 2017 amounting to EUR 0.1 million. This loan is not subject to financial covenants.

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 2017 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 Spa 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 52.2 million;
- other finance leases totalling EUR 20.1 million.

As regards other lease contracts, the considerable increase in payables to leasing companies compared to 2016 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:

Leases included in Tangible assets *EUR 000*	**Property**	**Plant and machinery**	**Other assets**	**Total**
NET BOOK VALUE				
31 December 2016	43,134	23,173		**66,307**
31 December 2017	41,784	21,044		**62,828**

For the sake of completeness of information here below are also the payments envisaged by operating lease contracts.

(EUR 000)	31 december 2017	31 december 2016
Minimum lease payments	10,041	14,705
Sublease payments	-	-
Total	**10,041**	**14,705**

Total commitments relating to payments due for operating lease transactions, which cannot be cancelled, are shown in the following table.

(EUR 000)	31 december 2017	31 december 2016
Within 12 months	1,352	1,330
Between 1 and 5 years	1,969	3,016
Beyond 5 years	5	
Total	**3,326**	**4,346**

Other Non-current Liabilities (Note 24)

Other non-current liabilities	**31 december 2017**	**31 december 2016**
(EUR 000)		
Trade payables	16,023	3,998
Other payables	4,925	1,481
Total	**20,947**	**5,479**

The item "Payables to suppliers" refers to the long-term component of payables to suppliers. These debts are recorded at their current value. The increase is connected to the agreement with Huawei which provides for the deferred payment of the debt for investments in tangible assets.

The balance Other payables of EUR 4.9 million, basically includes:

- EUR 2.7 million for tax payables for files to be settled in the long term;
- EUR 1.2 million of payables to Engineering relating to the severance pay of employees, deriving from the rental of the business branch to the same Engineering;
- EUR 0.3 million for guarantee deposits to customers of Tiscali Italia Spa;
- EUR 0.7 million due to Janna Scpa (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 25)

The table below shows the changes during the period:

(EUR 000)	31 december 2016	Accruals	Reclass to Other debts	Utilization	Payments to Funds (*)	OCI Reserve	31 december 2017
Severance Indemnities	5,945	1,795	(1,310)	(550)	(1,654)	(329)	3,897
Total	**5,945**	**1,795**	**-1,310**	**(550)**	**(1,654)**	**(329)**	**3,897**

(*) 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 3.9 million as of December 31, 2017.

The “Reclass to other debst” for Euro 1.3 million refers to the termination indemnity relating to Engineering's employees. As a result of the renting of the IT business unit to Engineering, the provision accrued up to the time the branch was hired assumed the nature of debt to Engineering, which will be paid progressively in relation to the payment of the accrued TRF to the resigning employees.

In application of IAS 19, for the evaluation of the staff severance indemnities the methods called Traditional Unit Credit Method were used, for companies with at least 50 employees and Projected Unit Credit Cost - service pro rate, for the others articulated according to the following phases:

- were projected on the basis of a series of financial assumptions (increase in the cost of living, salary increase, etc.), the possible future benefits that could be paid to each employee enrolled in the program in the event of retirement, death, disability, resignation, etc. The estimate of future benefits takes into account any foreseeable increases corresponding to the additional length of service as well as the presumable increase in the level of remuneration received at the measurement date only for employees of companies with less than 50 employees;
- the average current value of the future services was calculated at the valuation date, on the basis of the annual interest rate adopted and the probability that each service has actually been disbursed;
- the liability for each company concerned was defined, equal to the average present value of future benefits that will be generated by the fund existing at the valuation date, without considering any future provision (for companies with at least 50 employees) or by identifying the share of the value current average of future benefits that refers to the service already accrued by the employee in the company on the date of the evaluation (for the others)

Financial assumptions

Inflation rate: 1.75%

Discount rate: 1.5%

Demographic assumptions:

Mortality: Mortality tables SIM 2016 M/F

Disability: INPS 1998 M/F disability tables

Resignations: 3.5% from 18 to 65 years

Advance payments: 3% from 18 to 65 years

Retirement pension: 66 years and 3 months for men and 63 years and 9 months for women

Retirement pension: in accordance with current legislation

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 26)

Provision for risks and charges	31 December 2016	Increases in provision	Reverse to PL	Utilisations	30 June 2017
(EUR 000)					
Provision for risks and charges	4,638	2,113	(2,005)	(1,508)	3,238
Total	**4,638**	**2,113**	**(2,005)**	**(1,508)**	**3,238**

As of December 31, 2017, the provision for risks and charges amounted to EUR 3.2 million and mainly includes:

- EUR 1.6 million for other provisions, of which EUR 0.9 million related to the Aria Group, EUR 0.4 million related to Tiscali Italia, and EUR 0.3 million to Tiscali Spa; these provisions are mainly connected to risk for disputes with suppliers;
- EUR 0.6 million for disputes with employees;
- EUR 0.5 million for the tax provision (of which EUR 360 thousand for TARSU);
- EUR 0.4 million for provision for a supplementary indemnity to be paid to customers.

During the period, the Company also released EUR 2 million relating to the provision set aside in 2016 on penalties for late payments of tax debts of previous years, payable by Italian companies, recorded in the income statement under the item "Restructuring costs" (Note 6).

Reference should be made to the following note: “Disputes, contingent liabilities and commitments” for the update of the status of disputes, against which the provision for risks is deemed to represent the best estimate of the liability risk for the Group based on the available knowledge.

Provisions for deferred taxes (Note 27)

Provision for deferred taxes	31 December 2016	Increases in provision	Utilisations	30 June 2017
(EUR 000)				
provision for deferred taxes	538		(90)	448
Total	**538**		**(90)**	**448**

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.

Trade Payables (Note 28)

Trade payables	31 december 2017	31 december 2016
(EUR 000)		
Trade payables	154,913	163,947
Total	**154,913**	**163,947**

Payables to suppliers refer to trade payables for the supply of telephony traffic, data traffic, the supply of materials and technologies and services, as well as the provision of long-term investments (mainly LTE network infrastructures).

As of December 31, 2017, overdue trade payables (net of payment plans agreed with suppliers, of active items and in dispute with the same suppliers) amounted to EUR 46.2 million.

Other current Liabilities (Note 29)

Other current liabilities	31 december 2017	31 december 2016
(EUR 000)		
Accrued expenses	1,409	3,234
Deferred income	30,788	34,733
Other payables	31,986	37,599
Total	**64,183**	**75,566**

Accrued expenses mainly relate to personnel costs.

Deferred income of EUR 30.8 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 8.6 million, which is issued on a pro-rata basis corresponding to the term of the lease agreement (EUR 10.7 million as of December 31, 2016);
- the deferral of the revenues deriving from the sale of transmission capacity (IRU) pertaining to future financial years, for approximately EUR 6 million (EUR 5.5 million as of December 31, 2016);
- the deferral of the revenues for the activation of the ADSL and VoIP services relating to other accounting periods for approximately EUR 15.1 million (EUR 16.2 million as of December 31, 2016);
- the deferral of revenues accruing in future years, pertaining to the Aria Group, for EUR 1.1 million (EUR 2.2 million as of December 31, 2016).

The item Other payables of EUR 32 million, mainly includes:

- the balance of VAT payable for EUR 0.1 million;
- Tax payables and amounts due to social security institutions for approximately EUR 15.9 million (EUR 23.8 million as of December 31, 2016). As of December 31, 2017, the portion of past due payables to tax authorities amounted to EUR 11 million, while the portion of social security payables past due on the same date amounted to EUR 1.9 million;
- amounts due to personnel for EUR 2.4 million (EUR 2.2 million as of December 31, 2016);
- other payables for EUR 13.6 million (EUR 11.5 million as of December 31, 2016) mainly composed of payables to other public institutions.

6.8.6 Other information

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 2017.

Cash flows shown in the table refer to the nominal amounts due on outstanding loans:

31 december 2017	Balance as at 31 december 2017	Cash out	lower then 1 year	from 1 year to 5 years	higher the 5 years
(Thousands of Euro)					
Senior Loan	87,812	89,426	89,426	-	-
Bond	-	-	-	-	-
Financial lease	72,338	72,298	72,298	-	-
Trade payables and debt	207,858	207,858	186,911	20,947	-
Bank debts	20,053	20,053	20,053	0	0

31 december 2016	Balance as at 31 december 2016	Cash out	lower then 1 year	from 1 year to 5 years	higher the 5 years
(Thousands of Euro)					
Senior Loan	87,301	104,515	12,565	46,319	45,632
Bond	18,804	21,838	1,265	20,573	-
Financial lease	64,578	67,115	17,528	36,585	13,002
Trade payables and debt	207,957	207,957	202,478	5,479	-
Bank debts	21,437	21,437	21,437	0	0

Please refer to Section 4.8 for considerations on the ability to meet payment obligations with a maturity of less than one year in the context of the assessments made by the Directors on the occurrence of the going concern assumption.

Fair value

The following tables show the valuations respectively as of December 31, 2017, and as of December 31, 2016, of financial instruments existing as of the balance sheet date:

	31 december 2017	
	Balance	Fair Value
(Thousands of Euro)		
Senior Loan	87,812	88,575
Bond	-	-
Bank debts	20,053	20,053
Financial lease	72,338	72,298

	31 december 2016	
	Balance	Fair Value
(Thousands of Euro)		
Senior Loan	87,301	89,235
Bond	18,804	17,437
Bank debts	21,437	21,437
Financial lease	64,578	64,593

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 February 16, 2016, the Extraordinary and Ordinary Shareholders' Meeting of Tiscali Spa, met under a single suommons, approved the 2015-2019 Stock Option Plan intended to Renato Soru as Chairman of the Board of Directors, and the concerning proxy proposal to the Council for the increase in share capital at the service of the said Plan. The proxy concerns 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 2015-2019Stock Option Plan. As reported in the "Information Document on the 2015-2019 Stock Option Plan of 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 to be exercised between December 24, 2016 and December 24, 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 to be exercised between December 24, 2017 and December 24, 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 to be exercised between December 24, 2018 and June 24, 2019 at an exercise price per share of EUR 0.078.

Successively, on May 12, 2016, the Board of Directors of Tiscali Spa approved the 2016-2021 Stock Option Plan regarding ordinary shares of Tiscali Spa 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 No. 2441, Paragraph 5 and 6 of the Civil Code. The ensuing amendment of Article No. 5 of the Articles of Associations, related and consequential resolutions, delegation of powers.

During 2017, in relation to the resignation of four executives originally beneficiaries of the plan, No. 56,385,123 options have been ceased. The total number of options established in the second Plan is therefore reduced to 258,143,066 options as of December 31, 2017.

The valuation of the stock option plans was carried out at the time of initial recognition, with the inclusion in the income statement of the cost portion during the vesting period with a contra-entry to the shareholders' equity reserve.

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

Appeal at the TAR against the AGCM penalty PS10027

In June 2017, AGCM notified Tiscali the penalty PS10027, amounting to EUR 1 million, for the adoption of illegal conduct in violation of the rules of the consumption code for the implementation of the consumer rights directive, in the context of distance marketing of fixed and/or mobile telephony services. The Company implemented the necessary corrective actions in order to eliminate the potentially incorrect conduct and proceeded to file an appeal at the Lazio Regional Administrative Court (TAR) in July, aimed to obtain the anulment of the sanction, upon suspension. On August 2, 2017, the TAR issued a verdict on a provisional basis, denying the anulment of the effects of the sanctioning measure, but not pronouncing itself on the suspension of the proceedings, since that was postponed to the judgment of merit. On 9 May 2018 an in-depth discussion of the appeal on the merits was held at the I section of the TAR of Lazio, and the Board postponed the decision. The non-peremptory term for the publication of the sentence provided for by the Administrative Procedure Code is 45 days. At present, the Directors, on the basis of the opinions received from their legal advisors, consider an estimate on the outcome of the dispute as unreliable.

Opposition to the Porzio & Partners srl injunction

On July 5, 2017, Porzio & Partners notified an injunction totalling EUR 1 million with which it required the payment of invoices relating to professional consultancy given to Tiscali as part of the Consip SPC tender. The Company has objected breaches of contract. At present, it is not possible to express a forecast on the outcome of the controversy. The amount of the liability is recorded under payables to service providers.

Opposition to the WIND Tre Spa injunctions

On June 6, 2016, and September 20, 2017, Wind notified two injunctions for payment issued by the Court of Cagliari for receivables due from Tiscali Italia Spa and Aria Spa, relating to the provision of OLO-OLO connectivity and interconnection services. The Company has filed an appeal in opposition to the Court of Cagliari, asking the judge to rule on the non-existence of the conditions for the provision of the provisional enforceability, as well as, following the counterclaim request, to rule on the correct quantification of the respective credit claims. The case concerning the first dispute is postponed for admission of the preliminary evidence to October 2020. At present, it is not possible to express a forecast on the outcome of the case. The amount of the liability is recorded under payables to service providers.

Opposition to Telecom Italia Sparkle injunction

On November 22, 2017, the company Telecom Italia Sparkle notified an injunction for payment, with a a corresponding court order issued by the Court of Rome for receivables due from Tiscali Italia Spa relating to the provision of wholesale voice services. The Company is preparing its defense and providing for the payment of the sum related to services received and not contested, while for the sums object of the dispute an opposition judgment has been initiated. At present, it is not possible to express a forecast on the outcome of the case. The amount of the liability is recorded under payables to service providers.

Summons by Crotone Calcio

In February 2018, Giovanni Vrenna and Crotone Calcio cited Tiscali Italia Spa, as editor of the news outlet tiscali.it, following the publication of a news article reported to the parties. Among the requests advanced there is a claim for damages assessed by the parties in about EUR 1 million. The Company is preparing its defense by organizing its own constitution in the proceedings. At present, it is not possible to express a forecast on the outcome of the case.

Proceedings of a criminal nature

In September 2013, Tiscali Spa received, pursuant to Legislative Decree No. 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 Tiscali Italia received the same notice in January 2014. The offense against the Company and some Directors refers to alleged incorrect accounting entries in respect of provisions for doubtful debts, as per Article No. 2622 of the Civil Code. In June 2016, at the end of the preliminary hearing, the two companies were sent to trial, as well as the Directors accused. The trial phase began in October 2016 and is still ongoing. At the date of this Report the trial is ongoing, with the examination of the various texts and on the basis of the most recent opinion of the lawyers representing Tiscali Italia, the evolution of the dispute and its outcome are not foreseeable.

Tax dispute on penalties for VAT late payment relating to FY 2013

During the first half of 2017, Tiscali Italia filed an appeal against the notification by Equitalia of a tax file relating to penalties, calculated to a full extent, and interest on the late payment of VAT relating to the income tax year 2013 (for a total amount equal to around EUR 3.6 million). The appeal was filed as, in the opinion of the company, that tax file had not been preceded by an amicable notice by the Revenue Agency, notified under the law. Upon becoming aware of the existence of the amicable notice (as mentioned, incorrectly notified in the opinion of the Company), the Company first proceeded to formulate a remission request to Equitalia. This request was rejected by the Cagliari Revenue Agency, despite the obvious presence of double taxation, and therefore the company, in view of the obvious violation of the law, has filed opposition. The judgment is currently pending before the Provincial Tax Commission (CTP) of Cagliari and the hearing is scheduled for October 16.
In the meantime, the same CTP of Cagliari, at the request of the company, ordered the suspension of the collection by Equitalia, so that Tiscali Spa was able to continue paying the amicable notice, for which he obtained the recognition of a payment for instalments plan by the Revenue Agency. However, contacts have been made with the latter for an amicable settlement.
With regard to the portion of the penalties for late payment, allocated to the allowance for risks and charges in 2016, after the appeal was filed and pending the precautionary procedure aimed at suspending the tax file issued by the Collection Agent, the provision of "*rottamazione*" (tax scrapping) as per Legislative Decree No. 148/2017 then converted into Law No. 172/2017 was issued. The Company therefore benefited from the facilitated resolution, and simultaneously released the provision for risks allocated as the sanctions in question were written off.

Fair Value

As of December 31, 2017, there were no assets/liabilities recognized at fair value.

Segment reporting

Segment reporting is presented on the basis of the following segments:

- Access (BTC and BTB connectivity);
- Media & Advertising;

- Corporate.

31 december 2017 (Thousands of EUR)	Access (BTC connectivity and BTB)	Media & Advertising	Corporate	Total
Revenue				
From third parties	193,903	13,621	97	207,620
Intra-group	19,842	6,210	(26,053)	-
Total revenues	**213,745**	**19,831**	**(25,956)**	**207,620**
Operating profit	**(23,416)**	**(806)**	**1,592**	**(22,630)**
Result on Investments at equity method	-	-	-	238
Financial Income				61
Financial Expenses				19,368
Pre-tax result				**(42,175)**
Income taxes				220
Net result from operating activities (on-going)				**(41,955)**
Income from held for sale and discontinued operations				42,781
Net operating income	-	-	-	**827**

31 december 2016 (Thousands of EUR)	Access (BTC connectivity and BTB)	Media & Advertising	Corporate	Total
Revenue				
From third parties	182,259	14,613	69	**196,942**
Intra-group	10,793	2,691	(13,484)	-
Total revenues	**193,053**	**17,304**	**(13,415)**	**196,942**
Operating profit	**(29,014)**	**(888)**	**1,468**	**(28,434)**
Result on Investments at equity method				-
Financial Income				3,963
Financial Expenses				13,381
Pre-tax result				**(37,852)**
Income taxes				(69)
Net result from operating activities (on-going)				**(37,921)**
Income from held for sale and discontinued operations				(7,037)
Net operating income				**(44,959)**

Income Statement

Information on the performance of the operating segments was reported in the Report on Operations to which reference should be made.

The "Corporate" segment includes the Tiscali Spa holding company, the Italian minor companies, the "dormants" foreign companies and the consolidation eligibility adjustments.

Balance Sheet

31 december 2017 (Euro 000)	Access(BTC connectivity and BTB)	Media & Adversing	Corporate adjustmen	Totale
Assets				
Segment assets	285,643	8,555	2,618	296,815
Equity investments carried at equity	-	-	-	-
Equity investments in other companies	3,621	-	-	3,621
Goodwill	-	-	-	
Assets held for sale	-	-	-	-
Total consolidated assets	**289,264**	**8,555**	**2,618**	**300,436**
Liabilities				
Segments liabilities	404,810	12,918	10,740	428,468
Liabilities held for sale	-	-	-	()
Total consolidated liabilities	**404,810**	**12,918**	**10,740**	**428,468**

31 december 2016 (Euro 000)	Access(BTC connectivity and BTB)	Media & Adversing	Corporate adjustmen	Totale
Assets				
Segment assets	270,055	10,717	(359)	280,413
Equity investments carried at equity				-
Equity investments in other companies	3,859			3,859
Goodwill				
Assets held for sale	6,237			6,237
Total consolidated assets	**280,152**	**10,717**	**(359)**	**290,509**
Liabilities				
Segments liabilities	397,649	17,143	39,729	454,520
Liabilities held for sale	3,610			3,610
Total consolidated liabilities	**401,259**	**17,143**	**39,729**	**458,129**

The "Corporate" segment includes the Tiscali Spa holding company, the Italian minor companies, the "dormants" foreign companies and the consolidation eligibility adjustments.

Commitments and other guarantees

A breakdown of guarantees given in 2017 is shown in the table below.

(Euro 000)	31 december 2017	31 december 2016
Guarantees given to third parties (sureties)	138,819	141,866
Commitments	-	-
Totale	**138,819**	**141,866**

Sureties given mainly refer to the guarantee given for loans granted by lenders to the Tiscali Group for a total of EUR 137.5 million (EUR 85.3 million for the Senior Loan and EUR 52.2 million for the Sa Illetta debt).

The same item includes the surety issued by Tiscali Spa to guarantee the amount of the loan related with the Sale & Lease Back transaction concerning the Sa Illetta property, for an amount of EUR 52.2 million, carried out by the subsidiary Tiscali Italia Spa, and the amount of EUR 1.2 million relating to other guarantees. Other guarantees mainly include:

- EUR 0.8 million for guarantees issued by Tiscali Italia Spa, mainly represented by EUR 0.7 million in favour of the Janna Consortium to guarantee commitments undertaken when subscribing the share capital increase, and EUR 0.1 million of various guarantees;
- 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 24 million and EUR 35.9 million respectively, in the FY 2017 and 2016. In addition, in both years 2017 and 2016, 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 July 27, 2006, it is reported that in FY 2017, non-recurring transactions were recorded with a total negative effect on the Group's income statement equal to EUR 33 million. They were considered "non-recurring" for the purpose of providing the information required by CONSOB Resolution no. 15519 of 27 July 2006, those transactions that are not part of the ordinary management of the Group even when they occurred in previous years or are expected to occur in the next financial years. Following the dissemination of the ESMA guidelines on Alternative Performance Measures, and the indications contained therein with reference to the qualification of non-recurring transactions, the Directors reduced the type of transactions defined as non-recurring, thus also adjusting the indications provided in the previous financial statements as at December 31, 2016.

In particular, during the 2017 non-recurring costs/ income were recorded, mainly identifiable as follows:

- gain on the sale of the business branch Business (including SPC contracts) to Fastweb, following the completion of the contract, which took place on February 10, 2017 (see Note 9 for further details) for EUR 43.8 million;
- figurative costs deriving from the conversion of the Rigensis-Otkritie bond loan on December 15, 2017 for EUR 6.7 million;

• personnel restructuring charges and reduction of workforce of EUR 4.1 million;

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

Non-recurring transactions	2017	2016
Revenue	0.0	0.0
Other income	0.0	2.2
Purchase of external materials and services	0.0	4.3
Personnel costs	0.0	0.9
Other operating expense (income)	0.0	0.0
Write-downs accounts receivable from customers	0.0	0.0
Gross Operating Result (EBITDA)	**0.0**	**7.4**
write-downs	**(4.1)**	**(3.6)**
Operating profit (EBIT)	**(4.1)**	**3.8**
Financial income	0.0	4.2
Financial expenses	**(6.7)**	**0.0**
Pre-tax profit	**(10.8)**	**8.1**
Income taxes	**0.0**	**0.0**
Net result from operating activities (ongoing)	**(10.8)**	**8.1**
Income from BTB sale to Fastweb	**43.8**	**0.0**
Other charges related to held for sale	**0.0**	**(8.6)**
Net result for the period	**33.0**	**(0.5)**

Atypical and/or unusual transactions

Pursuant to CONSOB Communication dated July 28, 2006, it is hereby specified that during FY 2017 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 as of December 31, 2017, as arising from transactions with related parties.

The most significant balances, as of December 31,2017, summarized by service supplier, follows:

Income Statement Values	Notes	2017	2016
(Euro 000)			
Studio Racugno	1		(9)
Monteverdi S.r.l.	2	(29)	(33)
Open Campus	3	66	17
Open Campus	3	(66)	(17)
Directors		(3,304)	(3,603)
Convertible Bond	4		(132)
Stock option	5	(608)	(1,402)
Total Suppliers of Materials and Services		**(3,941)**	**(2,687)**

Asset Values	Notes	31 december 2017	31 december 2016
(Euro 000)			
Studio Racugno	1		(32)
Monteverdi S.r.l.	2	(18)	(9)
Open Campus	3		17.00
Open Campus	3		(17)
Directors		(630)	(786)
Convertible Bond	4		(9,402)
Total Suppliers of Materials and Services		**(648)**	**(10,229)**
Stock Option Reserve	5	(2,010)	(1,402)
Net assets pertaining to the Group		**(2,010)**	**(1,402)**
Total		**(2,658)**	**(11,631)**

It should be noted that the 2017 economic values do not include the fees to statutory auditors (erroneously reported in 2016 under the item C.d.A for an amount of EUR 247 thousand). Similarly, the assets do not include payables for fees to statutory auditors (erroneously reported in 2016 under Item C.d. for an amount of EUR 316 thousand).

(1) Studio Legale Racugno: the former Director Gabriele Racugno, member of the Board of Directors of Tiscali Spa from December 21, 2009 until December 29, 2015, offered Tiscali Italia Spa legal, judicial and extrajudicial assistance.

(2) Monteverdi S.r.l.: company participated by the majority shareholder, Renato Soru. The relationship concerned refers to a leasing contract for a space used for the storage of business documentation.

(3) Open Campus: company owned 80% by Alice Soru, member of the Board of Directors of Tiscali Spa. There are two ongoing contracts with Open Campus, one according to which Tiscali Italia purchases brand promotion services from Open Campus, and the other according to which Tiscali Italia rents an equipped office areas to Open Campus for the performance of its activities. The two contracts are not related one to each other

(4) Convertible Bond Loan: subscribed on September 7, 2016 by Rigensis Bank AS and Otkritie Capital International Limited (OCIL) and converted into capital on December 15, 2017. The share of OCIL, equal to 50%, was a related party in the 2016 financial year. The economic effect shown in the table as of December 31, 2016 relates to the interest for the period accrued by the OCIL Bondholder, while the amount shown in the balance sheet is related to the debt on the same date. As of December 31, 2017, once the conversion of the bond loan took place, the aforementioned related party ceased.

(5) *Stock Option: the company has some management incentive plans in the form of Stock Options (please refer to the paragraph "Stock Options").*

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 and Tiscali Italia in 2017 follows:

(EUR 000)	31 december 2017	31 december 2016
Directors	1,552	1,522
Statutory Auditors	221	247
Manager with strategic responsabilities	1,752	2,080
Total Remuneration	**3,525**	**3,850**

List of subsidiaries included in the consolidation area

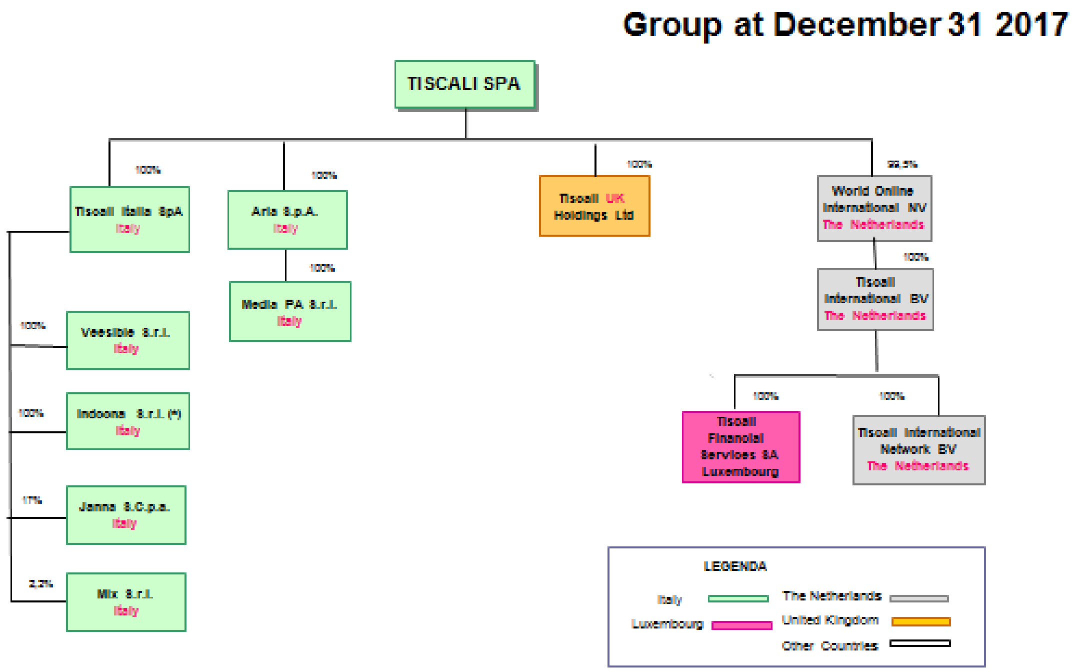
A list of the companies included in the consolidation area follows:

Name	Registered office	Percentage of Group shareholding
Tiscali S.p.A.	Italy	
Tiscali Italia S.p.A.	Italy	100.00%
Veesible S.r.l.	Italy	100.00%
Indoona S.r.l.	Italy	100.00%
Aria S.p.A.	Italy	100.00%
Media PA S.r.l.	Italy	100.00%
Tiscali Holdings UK Ltd	UK	100.00%
World Online International NV	Netherlands	99.50%
Tiscali International BV	Netherlands	99.50%
Tiscali Financial Services SA	LUX	99.50%
Tiscali International Network B.V.	Netherlands	99.50%

List of equity investments in other companies recognised under other non-current financial assets.

Mix S.r.l.	Italy
Janna S.c.p.a.	Italy

Tiscali Group Chart as of December 31, 2017



(*) Company in liquidation

Annex - Information pursuant to Article No. 149-duodecies of the CONSOB Issuers' Regulations

The following table, drawn up in accordance with Article No. 149-duodecies of the CONSOB Issuers' Regulations, indicates the fees for 2017 for auditing services and those for other services provided by the independent auditing firm to the Tiscali Group.

Type of Service	Party providing the Service	Beneficiary	Fees
(EUR 000)			
Financial Audit	Deloitte&Touche SPA	Parent Company – Tiscali S.p.A.	232
	Deloitte&Touche SPA	Subsidiaries	70
Other professional Services	Deloitte&Touche SPA	Parent Company – Tiscali S.p.A.	135
	Deloitte&Touche SPA	Subsidiaries	-
Other Professional Services	Deloitte&Touche SPA	Parent Company – Tiscali S.p.A.	-
	Deloitte&Touche SPA	Subsidiaries	-
Total			**436**

Cagliari, May 10, 2018

The Chief Executive Officer

Riccardo Ruggiero

The Officer in charge of Preparing the Company's Accounting Documents

Daniele Renna

2016 Consolidated Financial Statements certification in compliance with Article No. 81-ter of the CONSOB Regulation No. 11971 dated May 14, 1999 and subsequent amendments and additions

The undersigned, Riccardo Ruggiero in capacity of Chief Executive Officer, and Daniele Renna, in capacity of the Officer in charge of Preparing the Company's Accounting Documents of Tiscali Spa, hereby certify, with account also being taken of the provisions of Article No. 154-bis, Paragraphs 3 and 4, of Italian Legislative Decree No. 58 dated February 24, 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 2017.

Tiscali Spa has adopted as a reference framework for the definition and evaluation of its internal control system, with particular reference to internal controls for the preparation of the financial statements, the *Internal Control – Integrated Framework model issued by the Committee of Sponsoring Organizations of the Treadway Commission* which represents a body of general principles of reference for the internal control system generally accepted at international level.

It is also hereby certified that the financial statements as of December 31, 2017:

- 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 Managers' 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, May 10, 2018

The Chief Executive Officer

The Officer in charge of Preparing the Company's Accounting Documents

Riccardo Ruggiero

Daniele Renna

Tiscali Spa
Financial Statements
as of December 31, 2017

7 Tiscali Spa – Financial Statements and Explanatory Notes

7.1 Income statement

Consolidated income Statement	**Notes**	**2017**	**2016**
(Eur)			
Revenue	1	6,768,177	5,412,635
Purchase of external materials and services	2	(2,649,743)	(4,271,555)
Staffing costs	3	(1,493,718)	(2,465,459)
Other operating income/ (costs)	4	199,749	188,264
Write-down of receivables	5	(172,365)	1,331,425
Restructuring costs and other write-downs	5	(80,184,160)	(234,975)
Operating profit		**(77,532,059)**	**(39,665)**
Result on Investments at equity method		-	-
Financial Income		128	3,337
Financial Expenses	6	7,665,877	282,447
Earning before tax		**(85,197,809)**	**(318,775)**
Income taxes	7	30,958	(30,678)
Result from operating activities (on-going)		**(85,166,851)**	**(349,452)**
Income from discontinued operations and / or targeted for d	8	(54,053)	-
Net profit		**(85,220,904)**	**(349,452)**

7.2 Comprehensive Income Statement

(EUR Million)	Note	2017	2016
Operating result		**(85,221)**	**(349)**
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)		**11**	**(8)**
(Loss) / profit from revaluation of defined benefit plans		-	-
Total other items on comprehensive income statement		-	-
Total operating results of Comprehensive income statement		**(85,209)**	**(357)**
Attributable to:			
Parent Company Shareholders		(85,209)	**(357)**
Minority Shareholders			
		(85,209)	**(357)**

7.3 Statement of Assets and Liabilities

Statement of Assets and Liabilites	Notes	31 december 2017	31 december 2016
(thousands Euro)			
Non-current assets			
Equity investments	9	115,084,733	176,493,735
Other financial assets	10	21,497,675	21,846,429
		136,582,408	**198,340,163**
Current assets			
Trade receivables	11	9,701,093	6,569,527
Other receivables and other current assets	12	2,201,256	671,362
Cash and cash equivalents	13	247,393	22,088
		12,149,742	**7,262,977**
Assets held for sale		-	54,053
Total assets		**148,732,150**	**205,657,193**
Capital and reserves			
Capital		121,507,323	91,200,923
Results of previous years and Other Reserves		6,739,941	(1,132,701)
Result of the FY		(85,220,904)	(349,452)
Total Shareholders Equity	**14**	**43,026,360**	**89,718,769**
Non Current Liabilities			
Other non-current liabilities	15	94,699,753	73,613,349
Liabilities for retirement benefits and severance indemnities	16	-	186,626
Provisions for risks and charges	17	325,161	2,460,981
Convertible Bond	18	-	18,428,797
		95,024,914	**94,689,753**
Current liabilities			
Convertible Bond	18	-	374,932
Payables to suppliers	20	5,022,600	6,717,283
Other current liabilities	21	5,658,277	14,152,503
		10,680,876	**21,244,718**
Liabilities held for sale		-	3,954
Total net assets and liabilities		**148,732,150**	**205,657,193**

7.4 Statement of Changes in Net Equity (EUR)

(Euro)	Capital	Legal reserve	Other reserves	Reserves for stock options	Reserves for employee benefits	Reserve for losses coverage	Accumulated losses and Loss for the period	Total
Balance as of 1Jan 2016	**169,076,823**	**90,734**	**(14,888,149)**	**-**	**(42,676)**	**-**	**(63,078,485)**	**91,158,247**
Increases /Decreases	(77,875,900)						63,078,485	**1,401,796**
Capital increase and merge with Aria Italia Spa								**(689,000)**
Put Option Rigensis								**(1,795,000)**
Net result							(349,452)	**(357,274)**
Balance as of 31 dec 2016	**91,200,923**	**90,734**	**(2,574,734)**	**1,401,796**	**(50,497)**	**-**	**(349,452)**	**89,718,770**
Capital increase	30,306,400							**30,161,600**
Other movements								**608,421**
Bond Conversion costs								**7,746,992**
reclassification to losses coverage								**-**
Net result			-	-	11,481		(85,220,904)	**(85,209,423)**
Balance as of 31 dec 2017	**121,507,323**	**90,734**	**5,027,458**	**2,010,217**	**(39,016)**	**-**	**(85,570,356)**	**43,026,360**

7.5 Cash Flow Statement

(Thousands of Euro)	2017	2016
Result from Operating acttivities	**(85,166,851)**	**(349,452)**
Adjustments for:		
Amortization of tangible assets	0	0
Amortization of intangible assets	0	0
Provision for write-downs accounts receivables from customers	172,365	(1,331,425)
Stock Option figurative cost	608,421	1,401,796
Release of provisions for risks	(2,058,796)	(146,650)
Bond Conversions costs	6,654,972	0
Devaluation of Investments in Group companies	79,000,000	0
Other changes	(822,137)	1,818,473
Cash flows from operating activities before changes in working capital	**(1,612,026)**	**1,392,742**
Changes in receivables	(54,600)	(5,312,164)
Changes in payables to suppliers	1,119,949	772,977
Net change in provisions for risks and charges	(222,000)	(85,000)
Net change in provisions for TFR	(99,583)	(38,614)
Changes in other liabilities	(8,561,131)	(464,464)
Changes in other assets	(1,529,894)	165,184
Changes in working capital	***(9,347,259)***	***(4,962,081)***
AVAILABILITY CASH FLOWS GENERATED BY OPERATING ACTIVITIES	**(10,959,285)**	**(3,569,339)**
INVESTMENT ACTIVITY		
Change in other financial assets	0	0
Acquisitions of Fixed Tangible Assets	(0)	0
Acquisitions of Intangible assets	1	0
Variation in Investments in Group companies	0	0
AVAILABILITY OF CASH AND CASH EQUIVALENTS FOR INVESTMENT ACTIVITIES	**1**	**0**
Changes in intercompany financial liabilities	(600,193)	0
Changes in intercompany financial assets	0	0
Changes in other liabilities	(3,309)	0
Changes in bond	(1,513,055)	3,570,534
Exchange rate effect	(1,298)	0
Changes in Net Equity	13,306,400	0
AVAILABILITY CASH ARISING FROM/ (USED IN) FINANCIAL ACTIVITIES	**11,188,545**	**3,570,534**
AVAILABILITY CASH ARISING FROM ASSETS SOLD/ HELD FOR SALE	(3,954)	(50,095)
INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS IN THE PERIOD	**225,308**	**(48,900)**
AVAILABILITY CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**22,088**	**70,989**
CASH AND CASH EQUIVALENTS AT YEAR-END	**247,395**	**22,089**

7.6 Explanatory Notes

Tiscali Spa (hereinafter referred to as “Tiscali” or the “Company” and jointly with its subsidiaries the “Group” or the “Tiscali Group”) is a joint stock company founded in Italy and registered at the Business Registry of Cagliari. Tiscali heads the Tiscali Group, which provides its clients integrated Iternet access, telephony and multimedia services, in particular positioning itself in the IP technology services segments, which allow the provision of Internet and voice services through the same technologic platform.

These Financial Statements are prepared using Euros (EUR) as the currency since this was the currency used for the majority of the transactions performed by the Group.

The income statement and balance sheet, the cash flow statement, the statement of changes in equity are presented in Euro (EUR), while the values shown in the explanatory notes are presented in thousands of Euros (EUR 000).

Evaluations on the business continuity and business outlook – Facts and uncertainties regarding the business continuity

Balance sheet and financial performance for the period

The Company closed FY 2017 with a net equity of EUR 43 million (EUR 90 million at 31 December 2016) and a loss of EUR 85 million, affected by the write-down of the investment of Tiscali Italia SpA. for EUR 79 million (compared to a loss of EUR 0.3 million in the previous year). At December 31, 2017, the net financial position was negative and equal to EUR 94 million and is mainly made up of non-current financial payables to Group companies for EUR 93.8 million (compared to a negative net financial position as of December 31, 2016). equal to EUR 92 million, of which EUR 73.6 million for non-current financial payables to Group companies). These financial payables are recorded under non-current financial liabilities and their repayment is expected to take place in the medium term through the use of dividend flows from subsidiaries. On the basis of these considerations, therefore, and considering the prevalent nature of a holding company, the Directors believe that the Company's continuity considerations are closely correlated and can not be separated from the considerations made on the business continuity of the Tiscali Group.

Abou that, Tiscali Group closed FY 2017 with a consolidated loss amounting to EUR 0.8 million, improving compared to a loss of EUR 45 million in the previous year. As already anticipated this result was influenced by the positive effect, amounting to EUR 33 million, of the non-recurring transactions concluded in the period (including the capital gain for the transfer of the BTB Business Branch to Fastweb, amounting to EUR 43.8 million, netted by other non recurring costs for EUR 10.8 million).

Tiscali Group closed FY 2017 with a negative consolidated shareholders’ equity amounting to EUR 128 million (EUR 167.6 milllion as of December 31, 2016). The shareholders' equity of the parent Tiscali Spa amounts to EUR 43 million at 31 December 2017 (EUR 89.7 million as at 31 December 2016). On that date, the Company is, therefore, in the case referred to in art. 2446 of the Civil Code. The Shareholders' Meeting called to approve the financial statements for the year ended December 31, 2017 must therefore also deliberate on the reduction of the share capital to cover the losses on the basis of the balance sheet prepared pursuant to the aforementioned article 2446 of the Civil Code with reference to 31 December 2017.

Furthermore, as of December 31, 2017, the Group recorded a gross financial debt amounting to EUR 180.8 million, improved respect to the gross financial debt as of December 31, 2016, amounting to EUR 193,1 million, and current liabilities exceeding (non-financial) current assets for EUR 150.9 million, improved respect to the amount of EUR 181 million respectively as of at December 31, 2016

These current liabilities include expired net trade payables (net of payment plans agreed with suppliers, of the receivable items and in dispute with the same suppliers) for EUR 46.2 million, improved respect to th amount of EUR 59.4 million as of Euro as of December 31, 2016, in addition to overdue financial debts (net of credit positions) of approximately EUR 20.9 million (EUR 3.3 million at 31 December 2016), overdue tax payables of approximately EUR 11 million (EUR 16.9 million at 31 December 2016), as well as overdue payables of a social security nature for employees of EUR 1.9 million (EUR 1.4 million as at 31 December 2016).

In confirmation of the positive trend highlighted in the year, it should be noted that at 31 March 2018 the net financial debt amounted to EUR 176.1 million, with an improvement on the figure as at 31 December 2017 of EUR 3.3 million.

Actions implemented in 2017 to support the financial and economic performance of the period

The improvement in the equity, financial and economic performance described above is connected to some actions initiated by the Directors in 2016 and consolidated during 2017.

During 2017, the Company completed the finalization of some operations started during FY 2016 and proceeded with the path of growth and refocusing on the core business started the year before.

In particular, during FY 2017, the company focused on the following actions:

- **Completion of the path of refocusing on the Core Business (referred to in Paragraphs 4.2 and 4.5)** of the sale of Broadband services to Retail Consumer, SOHO and Small Business customers, namely through:
    - closing of the sale of the Large Customers business segment to Fastweb, with relative receipt of the final sale price of approximately EUR 45 million, of which EUR 25 million in cash and EUR 20 million in services to be used by 2022;
    - it is noted for the sake of completeness that on the basis of the most current information, it is estimated that the purchase purchase plafond will be used within the next 12 months
    - final transfer of the Streamago and Istella activities as a path of progressive exit from the specific business of Over-The-Top (OTT) services;
    - signature of an agreement with SKY aimed at exclusively entrusting online advertising sales on the Tiscali.it web portal and on the websites that the advertising agency of the Tiscali Group, Veesible, has in its portfolio in SKY Italia. This agreement will maximize the commercial opportunities of the online market, and consolidate the respective digital audiences thanks to new publishing synergies which will allow the Tiscali.it website to enrich the content proposal of its platform, thanks to the inclusion of a selection of SKY contents.
- **Continuation, also in FY 2017, of the growth on the Core Business** in order to consolidate the trend reversal realized in 2016 on customer increase: refer to Paragraph 4.2 for a detailed analysis of this action.
- **Efficiency in operating costs.** During the course of 2017, the path to increase efficiency in operating costs continued. please refer to Paragraph 4.2 for a detailed analysis of this action.
- **Further strengthening of the Group's economic and financial structure,** which continued in 2017, as indicated in detail in the previous Paragraphs 4.2. and 4.5 to which reference is made.

At the end of 2017 and in the first months of 2018, it became clearer how the 3.5GHz frequency, owned by Tiscali, is a strategic asset also for the development of the future Mobile Data 5G services. In the last Mobile World Congress held in Barcelona in February 2018, all the main technological vendors, together with ITU, the world's leading telecommunications standardization body, certified that the 3.5GHz frequency will be among the first to be used for the development of the future 5G

UltraBroadBand Mobile Data services, and have started to present a preview of enabling network devices and user terminals.

This evidence, which represents a further confirmation of the asset value of which Tiscali is the owner, followed a period of strong regulatory uncertainty that began in the first part of the year, in which the uncertainty about the probabilities and the related renewal procedures over the natural expiry (2023) of the licenses on the portion of the spectrum on 3.5GHz frequency recorded in Tiscali's assets became more acute.

In this regard, as previously anticipated, consistently with the increasing strategic of the 3.5GHz frequency and, more generally, of the 5G technology, also in Italy the government has accelerated the process for the allocation of all the frequencies enabling the launch and development of future 5G services. In particular:

- The rules for the allocation of 3.6-3.8GHz, 700MHz and 26.5GHz frequencies by the end of 2018 have been included in the 2018 Stability Law;
- In the last months of 2017, the process of granting the extension until 2029 to the current license holders on 3.5GHz frequency (including Tiscali) expiring on 2023 was finally launched. In 2017, the request to MISE for the granting of the extension until 2029 was forwarded by Tiscali and by the current owners of the licenses in question. Following an initial assessment by the Ministry, the opinion of Agcom was requested, this being normal practice. The proposal of the Agcom Resolution containing the opinion on the granting of the extension, had been submitted to a public consultation which ended on February 21, 2018. The AGCOM Council’s final approval of the Resolution took place on April 11, 2018 (Resolution No. 503/17 / CONS), with subsequent publication of the opinion on the Authority’s website. The MISE, having received the positive opinion of AGCOM, will formally close the process of granting the extension of the rights of use presumably by the summer.

The revision of the 2018-2021 Plan

As previously indicated, the positive opinion issued by AGCOM concerning the desired extension of the 3.5GHz, licenses, following that we are waiting the ratification of the conclusions included therein by MISE, represents an essential requirement for Tiscali to guarantee a long-term regulatory framework to protect the return investments necessary for a full exploitation of the license with a view to LTE and 5G.

As a result of this opinion, the Company benefits from a greater valuation by the market of the licenses registered in the assets, and, in this context, has given a mandate to Mediobanca - Banca di Credito Finanziario Spato act as financial advisor to the Company to assess possible strategic options for the Group, as already communicated in the past months.

In view of the above, and considering the above mentioned positive effects of the operations already carried out and underway over the next few months on the Group's financial structure, the management analyzed the results for FY 2017, finding they were influenced by the partial stop of development activities linked to the uncertainties described above in relation to obtaining the extension on the 3.5GHz frequency, which is the fundamental asset on which the growth plans included in the Business Plan 2017-2021 approved by the Board of Directors on April 28, 2017, were based. The delays recorded are mainly linked to the sharp slowdown in investments related to the planned development of the LTE Fixed Wireless proprietary access network in the absence of reasonable certainty about the renewal of the license. This fact, associated with the changed technological and market framework related to the use of frequency owned by Tiscali to support the launch of 5G services and which the company must take into account for the definition of its future development plans, has led to the revision of the above mentioned Business Plan approved by the above-mentioned Board of Directors on April 28, 2017.

In particular, the new 2018-2021 Business Plan (hereinafter referred to as “Business Plan” or “2018-2021 Plan”) confirms the strategic guidelines already included in the previous plan, as follows:

- the objective of fully maximising the asset represented by the spectrum owned by Tiscali through the expansion of the proprietary LTE Fixed Wireless access network to cover up to about 50% of the Italian population with new generation LTE UltraBroadBand Fixed Wireless services with capacity up to 100Mbps, with particular focus on the “Extended” Digital Divide areas;
- the full focus on the provision of Fixed network UltraBroadBand services to Consumer and SOHO customers with capacity up to 1Gbps, to support the growth of fixed network customers through higher quality services with significantly lower churn rates;
- the growth in Mobile services in line with what was also recorded in 2017.

The Plan 2018-2021 has revised the times for achieving the aforementioned objectives to take into account, as mentioned, the delays related to the uncertainty of the obtaining the prorogation on the 3.5GHz frequency previously referred to, as well as to optimize the development of the LTE Fixed Wireless network in view of the prospect linked to future 5G services.

Based on these premises, and in line with the provisions of the previous Plan, the investments established in the 2018-2021 Plan in the medium to long term need to find additional financial resources beyond those generated by the Group through its operating cash flow.

The management reiterates that the achievement of a balance sheet, economic and financial situation in short and medium-term of the Group is generally subject to the achievement of the results envisaged in the 2018-2021 Plan and at the availability of the related financial resources medium-long term to develop the LTE investment plan, as short-term ones are already available as better analyzed below - including the successful finalization of agreements with financial institutions in a timely manner consistent with short-term business continuity needs and, therefore, the realization of the forecasts and assumptions contained therein related to the evolution of the telecommunications market, to the achievement of the growth targets set in a market context characterized by a strong competitive pressure

The methods for obtaining financial resources for the 2018-2021 plan

On May 7, 2018, the main shareholders, Investment Construction Technology (ICT) Group Ltd and SOVA SOVA Disciplined Equity Fund known as the Otkritie Disciplined Equity Fund (henceforth also SOVA), expressed their commitment, formalized in special comfort letters presented to the Company, to provide for the Group's short-term liquidity needs, for an amount equal to Euro 17.5 million each, directly or indirectly through one or more third party lenders, in the course of 2018. The letters show how the technical modalities disbursement, will be defined subsequent to the date of approval of this Financial Report, and may provide for new injections of equity, the disbursement of new loans, the use of hybrid instruments or a mix of such solutions; in this context, therefore, the Board of Directors today resolved to place on the agenda of the Extraordinary Shareholders' Meeting convened at the same time as the Ordinary Meeting called to approve the financial statements and also the assignment of powers for the issue of a convertible bond loan and/or a reserved capital increase of EUR 35 million.

In addition, the 2018-2021 plan envisaged the procurement of additional medium-long financial resources for the development of the investment plan, for which the methods and definitive timing of procurement are still under definition.

In continuity with the past, it was decided to submit an updated request to the credit institutions with which the senior debt was refinanced in June 2016 (Intesa SanPaolo and Banca Popolare di Milano - "Senior Lenders") a moratorium on payments due by Tiscali Italia pursuant to the First Facility Agreement and the Second Facility Agreement, starting from payments due as of September 30, 2017, and up to September 30, 2019 (excluded), as well as obtaining the reset of the contractual covenants to the light of the new Plan 2018-2021

With regard to the payment of the Second Facility Agreement installment due by Tiscali Italia expired on March 31, 2017, Tiscali has proposed to make such payment on September 30, 2018.

Furthermore, it should be noted that Tiscali Italia has requested the Pool leasing companies (made up of Mediocredito Italiano and Unicredit) to redefine the overall amortization plan for the leasing debt concerning the property of Sa Illetta, including a moratorium on payments due up to and including September 30, 2019, taking into account that it does not respect the payment commitments unfulfilled amount to a total of overdue and unpaid debts of EUR 4.4 million as of December 31, 2017. Negotiations are ongoing however the leader of the pool does not have the formally replied to the requests made by the Company yet.

To date, numerous meetings have already taken place between the Group's management and the technical and commercial structures of the aforementioned Credit Institutes and leasing companies, and the preparatory activities for the operation have already been completed.

On 9 May 2018, each of the Credit Institutions sent a comfort letter to Tiscali in order to communicate that it will initiate the preliminary investigation relating to the new request for moratorium presented by Tiscali in the terms referred to above,not having detected critical issues regarding the request itself and confirm its commitment to submit the approval of this request to the decision-making bodies, subject *i)* the contribution of new financial resources to the Group through the commitment of the ICT and SOVA shareholders in the previously indicated terms, *ii)* payment to Intesa SanPaolo of the installment due at March 31, 2017 in the manner described above, *iii)* the supply of further documentation on the method of destination of the liquidity generated by the sale of the business business unit and *iv)* the definition of the terms and conditions of medium and long-term funding sources aimed at supporting the investments envisaged in the Plan. The above four conditions are in fact already fulfilled taking into account the commitment made by the reference Shareholders and the payment for the installment included in the short-term disbursements, since the conditions *iii)* and *iv)* have already been fulfilled by an appropriate documentation and confirmation of the existence in the plan of sources of the medium / long-term loans requested.

Final Assessment by the Board of Directors on the going concern

In this Annual Financial Report, the Board of Directors, with reference to the applicability of the going concern assumption and to the use of the accounting principles proper of an operating company, point out that the Group:

- generated in FY 2017, before working capital changes (negative for EUR 43.3 million), cash and cash equivalents from operating activities amounting to approximately EUR 31,2 million;
- proceeded in the growth of its customers portfolio for Tiscali's core business (the total customers portfolio of the Tiscali Group amounted to 748.2 thousand units in December 2017, with an increase by 67 thousand units as compared to December 2016);
- generated in FY 2017 a growth by 5.4% in total revenues as compared to the previous year;
- has improved the quality of its customer portfolio, achieving about 96.7 thousand UltraBroadBand customers (LTE and Fiber) as of December 2017, against the approximately 19.9 thousand units as of December 2016;
- has created a LTE Fixed Wireless network of 320 antennas in December 2017, thanks to which, with its ULtraBroadBand LTE service, it can cover a market of about 4 million households and businesses, in particular in the "Extended Digital Divide" areas, with capacity up to 100 Mbps;
- completed the focus on the core business of supply of Fixed, Wireless and Mobile BroadBand services to Consumer, SOHO and Small Business customers, by finalizing the sale of the Business segment to Fastweb, the sale of OTT assets and by the contract signed with SKY in relation to the joint management of the online advertising market;
- finalized the reserved capital increase for OCI and ICT, for a total value of EUR 11.8 million, further strengthening the equity structure;

- carried out the conversion of the convertible bond loan, through a reduction in debt and an increase in share capital, for an amount of EUR 18.5 million;
  - took note of the publication by AGCOM of the summary of the public consultation called by Resolution No. 503/17/CONS in which it issued a favorable opinion with respect to the extension of the duration of the aforementioned licenses until December 31, 2029 , indicating the methods for calculating the consideration to be paid for this renewal and indicating the technical and legal obligations to be met in order to achieve such renewal;
- has received from two shareholders a letter of commitment to pay or to obtain from one or more third parties new financial resources in 2018, for a total amount of about EUR 35 million;
  - positively continued the negotiations aimed at obtaining the standstill agreements until September 2019 on payments owed to both Intesa SanPaolo and BancoBpm, in relation to the Senior Loan, considering reasonable the fulfillment of all the preliminary conditions set by the Institutes to start the prodromal inquiry procedure for the approval of the standstill by the Financing Institutes;
  - positively pursued negotiations with the the Pool Leasing aimed at redefining the amortization plan for the real estate leasing, on the assumption that it is reasonable to finalize the aforementioned process.

The Directors, nonetheless, underscore that the going concern assumption is based on the achievement of the objectives contained in the 2018-2021 Plan, with particular reference to the time frame of the 12 months, and acknowledge that at present there are some material uncertainties about events or circumstances that may cast significant doubt on the Group's ability to continue as a going concern. The above uncertainties are related to the evolution of the telecommunications market and the achievement of the short term growth targets set for Ultrabroadband LTE services, the main development area envisaged in the Business Plan, in a market context characterized by strong competitive pressure as well as the finalization of the standstill procedure by the Credit Institutions and the leasing companies, and the ability to maintain flexibility in the payment times of expired suppliers in line with the cash balance needs.

In light of the above, after having carried out the necessary verifications and assessing the significant uncertainties identified in the light of the above elements, taking into account the aforementioned commitment made by the Shareholders for financial support and the possibility of deferring the payment of certain tax debts in compliance with the regulations in force,they are also confident: *i)* in the capacity of the company management to be able to execute the actions envisaged in the 2018-2021 Business Plan, with particular reference to the 12-month period envisaged in the Business Plan, even in a market context characterized by strong competitive pressure, *ii)* in the positive finalization of the granting of moratoriums by the lenders and the pool leasing in the same period of time, considering it reasonable to fulfill all the preliminary conditions set by the institutions, *iii)* in the maintenance by the banking group and the pool leasing and support providers financial guarantee so far and have, therefore, the reasonable expectation that the Group has adequate resources, taking into account the aforementioned financial support commitments made by the Shareholders, to meet the payment obligations over the next twelve months and to continue the existence operational in a foreseeable future; consequently, the Directors decided to adopt the going concern assumption in the preparation of this Annual Financial Report.

This assessment is, of course, the result of a subjective judgment, which considered the likelihood of fulfillment of such events with respect to the opposite situation. It must be emphasized that the prognostic judgment underlying the determination of the Board is likely to be contradicted by the evolution of the facts. Being aware of the intrinsic limits of its determination, the Board of Directors will keep a constant monitoring of the evolution of the events considered (as well as of any further circumstantial evidence) so that it can take promptly the necessary measures.

Business Outlook

Consistent with the above and in line with the objectives of the Business Plan, in the next months the company's committment will be particularly aimed at finalizing agreements with credit institutions and the leasing pool, reducing the overdue contract with suppliers, and consolidating the results achieved in 2017, focusing on the protection of the Italian Fixed and Mobile BroadBand market, on the Consumer, SOHO and SME segments through, in particular, improving the customer mix, leveraging the growth of UltraBroadBand solutions in Fiber and LTE. This thanks to:

- the progressive completion of the migration of WiMax antennas still active at the end of 2017 towards the LTE technology;
- the growth in the number of customers with Fiber solutions up to 1GBps;
- the growth of the mobile customer base in line with what happened in FY 2017, also thanks to the development of specific Fixed-Mobile integrated offer solutions.

Furthermore, the identification of all the actions necessary to increase the overall efficiency level of the company will continue, with the ultimate aim of obtaining further cost reductions, also in light of the competitive advantages resulting from the renewal of existing licenses , in the context of the development of future 5G services, as well as to carry out the prodromal activities to define the medium-long term financing strategy of the overall investment plan.

7.6.1 Structure and contents of the financial statements

Preparation Criteria

The financial statements for FY 2017 constitute the separate financial statements of the Parent Company Tiscali Spa, and has been prepared according to the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and harmonized by the European Union. 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 Directors to make a few estimates and, in specific cases, adopt assumptions in applying the accounting principles. The areas of the financial statements which, in such circumstances, presuppose the adoption of application assumptions; those most characterized by the making of estimates are described in the following note *Critical decisions taken in the application of accounting standards and in the use of estimates.*

Financial Statements Format

The Financial Statements are composed of accounting statements (Income Statement, Statement of Financial Position, Statement of Changes in Net Equity, and Cash Flow Statement), with explanatory notes. The Income Statement was drawn up in line with the minimum contents as fixed by IAS 1 – Presentation of Financial Statements – with costs assignment by nature; the Statement of Financial Position was drawn up by following the scheme pointing out the division of "current/non-current" assets and liabilities; the Cash Flow Statement was drawn up by following the indirect method.

Accounting Principles

<u>General principles</u>

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 management to make certain estimates and in certain cases, the adoption of assumptions in the application of accounting standards by the Directors. 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 and associates

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 and, in any case, at the close of the annual financial statements. 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 Spa's credits are stated under the "Other Non-current Financial Assets", "Receivables from Customers", "Other Current Receivables and 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, sight and short-term deposits, in the latter case with an original maturity of no more than three months.

Debts and Financial Liabilities

The debts and financial liabilities of Tiscali Spa are disclosed in the "Payables to banks and other lenders", "Other non-current liabilities", "Payables to suppliers" items, and are recorded at nominal value. Financial liabilities 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.

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's Meeting in February 2016, with the simultaneous authorization to the Board of Directors for the capital increase to service the same plan (2015-2019 Stock Option Plan).

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 counter entry directly recognized to Shareholders' equity.

Provisions for risks 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 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 would be reflected in the income statement.

Treasury shares

Treasury shares are recorded as a reduction of Shareholders' equity.

Reognition of income

Revenues are recognised to the extent that it is probable that financial profits will flow to Tiscali Spa 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

Receivable and payable interest is recognised using the effective interest rate method.

Taxes

Current income tax expense for the year includes current and deferred tax.

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 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 the business as a going-concern", 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 the business as a going-concern and future outlook – Facts and uncertainties relating to the going concern*".

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.

Investments, intangible and tangible assets

The impairment test, in particular as regards the investments, is carried out if indicators emerge that the assets may have suffered impairment as indicated above 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 whose change is in some cases out of management control.

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 January 1, 2017

The following amendments have been applied for the first time by the Group starting from January 1, 2017:

- On January 29, 2016, the IASB published the document "Disclosure Initiative (Amendments to IAS 7)" which contains amendments to the International Accounting Standard IAS 7. The purpose of the document is to provide some clarifications to improve disclosure on financial liabilities. In particular, the amendments require the provision of information that enables users of the financial statements to understand the changes in liabilities arising from financing transactions, including changes resulting from monetary movements and changes deriving from non-monetary movements. The amendments do not provide for a specific format to be used for the disclosure. However, the amendments introduced require that an entity must provide a reconciliation between the initial balance and the final balance for liabilities arising from financial transactions. The presentation of comparative information relating to previous financial years is not required. The Tiscali Group has adopted this amendment. The related disclosure is shown in the Explanatory Notes - Note 24;
- On January 19, 2016, the IASB published the document "Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to IAS 12)" which contains amendments to the International Accounting Standard IAS 12. The purpose of this document is to provide some clarifications on the recognition of deferred tax assets on unrealized losses in the valuation of financial assets of the "Available for Sale" category on the occurrence of certain circumstances and on the estimate of taxable income for future years. The adoption of these amendments had no impact on the financial statements of the Company.

Accounting standards, amendments and interpretations IFRS and IFRIC approved by the European Unon, not yet applicable on a compulsory basis and not early adopted by the Group as of December 31, 2017

- On May 28, 2014, the IASB published the standard IFRS 15 – Revenue from Contracts with Customers, which, together with further clarifications published on April 12, 2016, is intended to replace IAS 18 – Revenue and IAS 11 – Construction Contracts, as well as the interpretations IFRIC 13 – Customer Loyalty Programs, IFRIC 15 – Agreements for the Construction of Real Estate, IFRIC 18 – Transfers of Assets from Customers and SIC 31 – Revenues-Barter Transactions Involving Advertising Services. The standard establishes a new model for revenue recognition, which will apply to all contracts entered into with customers, with the exception of those that fall within the scope of application of other IAS / IFRS standards such as leases, insurance contracts and financial instruments. The fundamental steps for accounting for revenues according to the new model are:
    - The identification of the contract with the customer;
    - The identification of the performance obligations of the contract;
    - The determination the price;

- The allocation of the price to the performance obligations of the contract;
- The criteria for recording the revenue when the entity satisfies each performance obligation.

The standard is applicable starting from January 1, 2018. The amendments to IFRS 15, Clarifications to IFRS 15 – Revenue from Contracts with Customers, were published by the IASB in April 2016.

The Directors intend to apply IFRS 15 by adopting the modified retrospective approach.

Based on the analyzes carried out, the Directors expect the application of IFRS 15 not to have a significant impact on the amounts recorded as revenues and on the related disclosures reported in the financial statements of the Company.

- On July 24, 2014, the IASB published the final version of IFRS 9 – Financial Instruments. The document includes the results of the IASB project aimed at replacing IAS 39. The new standard must be applied from financial statements starting on January 1, 2018 or later.

The standard introduces new criteria for the classification and measurement of financial assets and liabilities. In particular, for financial assets, the new standard uses a single approach based on the management methods of the financial instruments and on the characteristics of the contractual cash flows of the financial assets in order to determine the evaluation criterion, replacing the different rules provided by the IAS 39. For financial liabilities, on the other hand, the main change occurred concerns the accounting treatment of changes in the fair value of a financial liability designated as a financial liability measured at fair value through the income statement, in the event that these changes are due to the change in creditworthiness of the issuer of the liability itself. According to the new standard, these changes must be recognized in the "Other comprehensive income" statement and no longer in the income statement. Moreover, in the amendments to non-substantial liabilities it is no longer allowed to spread the economic effects of the renegotiation on the residual duration of the debt by changing the effective interest rate at that date, but the related effect will have to be recorded in the income statement.

Concerning impairment, the new standard requires the estimate of losses on receivables to be carried out on the basis of the expected losses model (and not on the incurred losses model used by IAS 39) using information that can be supported, available without unreasonable charges or efforts, that include historical, current and future data. The standard provides that this impairment model applies to all financial instruments, i.e. to financial assets measured at amortized cost, to those valued at fair value through other comprehensive income, to loans deriving from rental contracts and to trade receivables.

Finally, the standard introduces a new model of hedge accounting for the purpose of adapting the requirements of the current IAS 39, which have sometimes been considered too stringent and not suitable for reflecting the company's risk management policies. The main novelties of the document concern:

- the increase in the types of transactions eligible for hedge accounting, also including the risks of non-financial assets/liabilities eligible to be managed in hedge accounting;
- the amendments in the accounting method for forward contracts and options, when included in a hedge accounting relationship in order to reduce the volatility of the income statement;
- the amendments to the effectiveness test by replacing the current methods based on the 80-125% parameter with the principle of the "economic relationship" between the hedged item and the hedging instrument; furthermore, an evaluation of the retrospective effectiveness of the hedging relationship will no longer be required.

The greater flexibility of the new accounting rules is counterbalanced by additional requests for information on the company's risk management activities.

The Directors intend to apply IFRS 9 by adopting the modified retrospective approach.

Based on the analyzes carried out, the Directors expect the application of IFRS 9 not to have a significant impact on the amounts and related disclosures reported in the financial statements of the Company.

- On January 13, 2016, the IASB published IFRS 16 – Leases, which is intended to replace IAS 17 – Leases, as well as the interpretations IFRIC 4 – Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

  The new standard provides a new definition of lease and introduces a criterion based on the control (right of use) of an asset to distinguish leasing contracts from service contracts, identifying as discriminants: the identification of the asset, the right to replace the same asset, the right to substantially obtain all the economic benefits deriving from the use of the asset and the right to direct the use of the asset subject of the contract.

  The standard establishes a single model for recognition and evaluation of leasing contracts for the lessee, which provides for the recording of the asset subject to lease, also operating, in the assets with a financial debt offset, also providing the possibility of not recognizing as leasing contracts involving low-value assets and leases with a contract term of 12 months or less. Conversely, the Standard does not include significant changes for landlords.

  The standard applies from January 1, 2019 but early application is permitted, only for companies that have already applied IFRS 15 – Revenue from Contracts with Customers.

  The Directors have initiated a project for the implementation of the new principle which provides for a first phase of detailed analysis of contracts and accounting impacts and a second phase of implementation and/or adjustment of administrative processes and accounting system. The Directors intend to apply IFRS 16 by adopting the modified retrospective approach.

  The Directors expect the application of IFRS 16 not to have a significant impact on the amounts and related disclosures reported in the financial statements of the Company. However, it is not possible to provide a reasonable estimate of the effects until the Group has completed a detailed analysis of the related leasing contracts.

- On September 12, 2016, the IASB published the document "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts". For the entities whose business predominantly consists of the insurance business, the amendments aim to clarify the concerns deriving from the application of the new IFRS 9 standard (from January 1, 2018) to the financial assets, before the replacement of the current IFRS 4 standard with the standard IFRS 17 Insurance Contracts, on the basis of which financial liabilities are instead valued, takes place.

  The changes introduce two possible approaches:

  - overlay approach
  - deferral approach.

  The approaches will allow:

  - the possibility of recording in the comprehensive income statement (i.e. in the Other Comprehensive Income statement), instead of in the income statement, the effects deriving from the application of IFRS 9 rather than IAS 39 to some designated financial assets prior to the application of the new principle having insurance contracts as subjects ("overlay approach").

- o The possibility of availing of a temporary exemption from the application of IFRS 9 up to the first between the date of application of the new principle on insurance contracts or the year beginning January 1, 2021. The entities that differ the application of IFRS 9 will continue to apply the current standard IAS 39 ("Deferral approach").

The Directors do not expect a significant effect on the Company financial statements from the adoption of these amendments.

Accounting Principles, Amendments and Interpretations IFRS not yet approved by the European Union

At the date of this Report, the competent bodies of the European Union have not yet completed the approval process necessary for the adoption of the amendments and principles described below.

- On May 18, 2017, the IASB published IFRS 17 – Insurance Contracts, which is intended to replace IFRS 4 – Insurance Contracts.

  The objective of the new standard is to ensure that an entity provides relevant information that faithfully represents the rights and obligations arising from the insurance contracts issued. The IASB has developed the standard to eliminate inconsistencies and weaknesses in existing accounting policies by providing a single principle-based framework to take into account all types of insurance contracts, including reinsurance contracts that an insurer holds. The new standard also provides for presentation and disclosure requirements to improve comparability between entities belonging to this sector. The new standard measures an insurance contract based on a General Model or a simplified version of this, called the Premium Allocation Approach ("PAA").

  The main features of the General Model are:

  - o the estimates and assumptions of future cash flows are always the current ones;
  - o the measurement reflects the time value of money;
  - o the estimates provide for an extensive use of information observable on the market;
  - o there is a current and explicit measurement of the risk;
  - o the expected profit is deferred and aggregated in groups of insurance contracts at the time of initial recognition; and,
  - o the expected profit is recorded in the contractual coverage period taking into account the adjustments deriving from changes in the assumptions relating to the cash flows relating to each group of contracts.

  The PAA approach is expected to provide a measurement of the liability for remaining coverage group of insurance contracts provided that, upon initial recognition, the entity expects that such liability is reasonably an approximation of the General Model. Contracts with a coverage period of one year or less are automatically eligible for the PAA approach. The simplifications deriving from the application of the PAA method do not apply to the assessment of liabilities for existing claims, which are measured with the General Model. However, it is not necessary to discount those cash flows if it is expected that the balance to be paid or collected will take place within one year from the date on which the claim occurred.

  The entity must apply the new standard to insurance contracts issued, including reinsurance contracts issued, to reinsurance contracts held and also to investment contracts with a discrectonary participation feature (DPF).

  The standard is applicable starting from January 1, 2021 but early application is permitted, only for entities that apply IFRS 9 – Financial Instruments and IFRS 15 – Revenue from Contracts with Customers.

The Directors do not expect a significant effect on the financial statements of the Company from the adoption of this standard.

- On 20 June 2016, the IASB published the document "Classification and measurement of share-based payment transactions (Amendments to IFRS 2)" which contains amendments to the International Accounting Standard IFRS 2. The amendments provide some clarifications concerning the accounting for the effects of vesting conditions in the presence of cash-settled share-based payments, the classification of share-based payments with net settlement characteristics and the booking of changes to the terms and conditions of a share-based payment that amend the classification from cash-settled to equity-settled. The amendments apply from January 1, 2018.

  The Directors do not expect a significant effect on the financial statements of the Company from the adoption of this standard.

- On December 8, 2016, the IASB published the document "Annual Improvements to IFRSs: 2014-2016 Cycle" which incorporates the amendments to certain standards as part of the annual improvement process. The main changes concern:
  - IFRS 1 First-Time Adoption of International Financial Reporting Standards – Deletion of short-term exemptions for first-time adopters. The amendment to this standard is applicable at the latest from the financial years beginning on January 1, 2018 and concerns the elimination of some short-term exemptions established in paragraphs E3-E7 of the Appendix E of IFRS 1, as the benefit of these exemptions is considered obsolete.
  - IAS 28 Investments in Associates and Joint Ventures – Measuring investees at fair value through profit or loss: an investment-by-investment choice or a consistent policy choice. The amendment clarifies that the option for a venture capital organization or other such qualified entity (such as an investment fund or similar entity) to measure investments in associates and joint ventures valued at fair value through profit or loss (rather than applying the equity method) to each individual investment at the time of initial recognition. The amendment applies from January 1, 2018.
  - IFRS 12 Disclosure of Interests in Other Entities – Clarification of the scope of the Standard. The amendment clarifies the scope of application of IFRS 12, specifying that the disclosure required by the standard, with the exception of that provided for in paragraphs B10-B16, applies to all equity investments that are classified as held for sale, held for distribution to shareholders or as discontinued operations in accordance with the provisions of IFRS 5. This amendment is applicable from January 1, 2017; however, since it has not yet been approved by the European Union, it was not adopted by the Group as of December 31, 2017.

  The Directors do not expect a significant effect on the Company's financial statements from the adoption of these amendments.

- On December 8, 2016, the IASB published the document "Foreign Currency Transactions and Advance Consideration (IFRIC Interpretation 22)". The purpose of the interpretation is to provide guidelines for transactions in foreign currency where the non-cash advance or down payments are recognized in the financial statements, prior to the recognition of the related asset, cost or revenue. This document provides indications on how an entity must determine the date of a transaction, and consequently, the spot exchange rate to be used when foreign currency transactions occur in which payment is made or received in advance.

  The interpretation clarifies that the transaction date is the earlier one between:

  c) the date on which the advance payment or down payment received is recorded in the entity's financial statements;

d) the date on which the asset, the cost or revenue (or part of it) is recorded in the financial statements (with the consequent reversal of the advance payment or of down payment received).

If there are many payments or receipts in advance, a transaction date must be identified for each of them. IFRIC 22 is applicable starting from January 1, 2018.

The Directors do not expect a significant effect on financial statements of the Company from the adoption of this interpretation.

- On December 8, 2016, the IASB published the document "Transfers of Investment Property (Amendments to IAS 40)" which contains amendments to the International Accounting Standard IAS 40. These amendments clarify the transfers of a property to, or from, investment property. In particular, an entity must reclassify a property in, or from, real estate investments only when there is evidence that a change in use of the property has occurred. This change must be traced back to a specific event that has happened and should not therefore be limited to a change in intentions on the part of an entity's management. These changes are applicable from January 1, 2018.

  The Directors do not expect a significant effect on financial statements of the Company from the adoption of this interpretation.

- On June 7, 2017, the IASB published the interpretative document IFRIC 23 – Uncertainty over Income Tax Treatments. The document deals with the issue of uncertainties on the tax treatment to be adopted in the field of income taxes.

  The document provides that the uncertainties in determining liabilities or assets for taxes are reflected in the financial statements only when it is probable that the entity will pay or recover the amount in question. Furthermore, the document does not contain any new disclosure obligations but underlines that the entity will have to establish whether it will be necessary to provide information on the considerations made by management and related to the uncertainty inherent in the accounting of taxes, in accordance with IAS 1.

  The new interpretation applies from 1 January 2019, but early application is permitted.

  The Directors do not expect a significant effect on financial statements of the Company from the adoption of this interpretation.

- On October 12, 2017, the IASB published the document "Prepayment Features with Negative Compensation (Amendments to IFRS 9)". This document specifies that a debt instrument that provides for an early redemption option could comply with the characteristics of the contractual cash flows ("SPPI" test) and, consequently, could be measured using the amortized cost method or the fair value through other comprehensive income even if the "reasonable additional compensation" envisaged in the event of early repayment is a "negative compensation" for the lender. The amendment applies from January 1, 2019, but early application is permitted.

  The Directors do not expect a significant effect on financial statements of the Company from the adoption of this interpretation.

- On October 12, 2017, the IASB published the document "Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)". This document clarifies the need to apply IFRS 9, including the requirements related to impairment, to other long-term interests in associates and joint ventures for which the equity method is not applied. The amendment applies from January 1, 2019, but early application is permitted.

  The Directors do not expect a significant effect on financial statements of the Company from the adoption of this interpretation.

- On December 12, 2017, the IASB published the document "Annual Improvements to IFRSs 2015-2017 Cycle" which incorporates the amendments to certain principles as part of the annual improvement process. The main changes concern:
    - IFRS 3 Business Combinations and IFRS 11 Joint Arrangements: the amendment clarifies that when an entity obtains control of a business that represents a joint operation, it must re-measure the interest previously held in that business. However, this process is not envisaged if joint control is obtained.
    - IAS 12 Income Taxes: the amendment clarifies that all the fiscal effects related to dividends (including payments on financial instruments classified within shareholders' equity) should be accounted for in a manner consistent with the transaction that generated these profits (income statement, Other Comprehensive Income or equity).
    - IAS 23 Borrowing costs: the amendment clarifies that in the case of loans that remain in place even after the reference qualifying asset is ready for use or for sale, these become part of the totality of the loans used to calculate the financing costs.

  The amendments apply from January 1, 2019, but early application is permitted.

  The Directors do not expect a significant effect on financial statements of the Company from the adoption of this interpretation.

- On September 11, 2014, the IASB published an amendment to IFRS 10 and IAS 28 Sales or Contribution of Assets between an Investor and its Associate or Joint Venture. The document was published in order to resolve the current conflict between IAS 28 and IFRS 10.

  As per the provisions of IAS 28, the gain or loss resulting from the sale or transfer of a non-monetary asset to a joint venture or associate in exchange for a share of the latter's capital is limited to the portion held in the joint venture or associate by other investors unrelated to the transaction. Contrarily, IFRS 10 requires the recognition of the entire profit or loss in the event of loss of control of a subsidiary, even if the entity continues to hold a non-controlling share in it, including in this case the sale o transfer of a subsidiary company to a joint venture or associate. The amendments introduced provide that in a sale/transfer of an asset or a subsidiary to a joint venture or associate, the amount of profit or loss to be recorded in the financial statements of the seller/transferor depends on whether the assets or the subsidiaries sold/transferred constitute or not a business, as defined in IFRS 3. In the event that the assets or subsidiary company sold/transferred represent a business, the entity must recognize the profit or loss on the entire share previously held; otherwise, the share of profit or loss relating to the portion still held by the entity must be eliminated. At present, the IASB has suspended the application of this amendment.

  The Directors do not expect a significant effect on financial statements of the Company from the adoption of this interpretation.

7.6.2 Comments on Income Statements and Balance Sheet Notes

Revenues and other income (Note 1)

Operating Revenues are represented by:

Revenues	2017	2016
(EUR 000)		
Revenues from services provided to Group companies	6,671	5,343
Revenues from services to third parties	97	69
Revenue	**6,768**	**5,413**
Other income	-	-
Other income	-	-
Total	**6,768**	**5,413**

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 Spa, 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	2017	2016
(EUR 000)		
Revenues from services provided to Group companies	**6,671**	**5,343**
- Italy	6,671	5,343
Revenues from services to third parties	**97**	**70**
- South Africa	43	40
- The Netherlands	24	24
- Italy	29	6
Total	**6,768**	**5,413**

Purchase of materials and outsourced services (Note 2)

	2017	2016
EUR 000		
Purchase of materials and outsourced services	2,650	4,272
Total	**2,650**	**4,272**

Costs for the purchase of materials and outsourced services include costs for external management consultancy services for EUR 0.3 million, retributions to the Board of Directors for EUR 1.9 million, other costs for external services for EUR 0.3 million and insurance costs of EUR 0.2 million. The reduction compared to 2016 is mainly attributable to the reduction in fees paid to the board of Directors for EUR 0.6 million and the reduction in consultancy fees for EUR 0.7 million.

Payroll Costs (Note 3)

Payroll and related costs are stated in detail as follows:

(EUR 000)	2017	2016
Wages and Salaries	1,061	1,823
Other Payroll costs	432	642
Total	**1,494**	**2,465**

The decrease in personnel costs compared to the previous year is equal to EUR 1 million and is due to the reduction in the number of managerial staff, as part of the cost efficiency process referred to in the previous paragraphs.

At December 31, 2017, the number of FTE units amounted to 5. The breakdown by category and the corresponding balance at December 31, 2016, are presented below.

	December 31, 2017	December 31, 2016
Managers	5	10
Middle Managers	-	1
Employees	-	2
Total	**5**	**13**

Other operating income/ (costs) (note 4)

The table below shows a breakdown of these costs:

(EUR 000)	2017	2016
Other operating income (costs)	(200)	(188)
	-	-
Total	**(200)**	**(188)**

The item mainly includes excerpts of liabilities from previous years of about EUR 0.2 million.

Write-downs of receivables and other write-downs (note 5)

(EUR 000)	2017	2016
Write-down of trade receivables	172	(1,331)
Restructuring costs and other write-downs	1,184	382
Devaluation of investments in Group companies	79,000	-
Provisions for risks and charges	-	(147)
Totale	**80,357**	**(1,096)**

The item "Write-down of trade receivables" mainly refers to the alignment of the provision for doubtful debts to the value of the total receivable claimed from subsidiaries

The item *Restructuring costs and other write-downs* covers for EUR 1.2 million the personnel restructuring costs (incentives for early retirement).

The item *Devaluation of investments in Group companies* refers to the devaluation of the Investment in Tiscali Italia S.p.A, which have been needed following the impairment test performed as at December 31, 2017 (refer to the section Verification of any impairment of assets - "impairment test" in note 9*)*.

Financial income (charges) (Note 6)

	2017	2016
(EUR 000)		
Financial Income		
Interests on bank deposits	0	0
Other financial income	0	3
	0	**3**
Financial Charges	***0***	-
Interests and other charges due to banks	(805)	(267)
Other financial charges	(6,861)	(15)
	(7,666)	**(282)**
Net financial income (charges)	**(7,666)**	**(279)**

Net financial charges refer for EUR 0.8 million to the portion of interest accrued on the convertible bond loan subscribed on September 7, 2016 and for EUR 6.7 million to the notional charges deriving from the conversion of the Rigensi-Otkritie bond loan occurred on December 15, 2017, in addition to the calculation of default interest due for late payment of tax payables and payables to suppliers for EUR 0.2 million.

Income Tax (Note 7)

	2017	2016
(EUR 000)		
Current tax	(43)	(31)
Tax (income from tax consolidation)	74	-
Net tax for the FY	**31**	**(31)**

The balance of current taxes includes the IRAP for the FY, in the amount of EUR 31 thousand.

Result of assets sold and / or intended for sale (note 8)

The result of the sold assets, amounting to EUR 54.1 thousand, relates to the write-off of receivables from the Streamago company whose assets have been sold with effect from 1 January 2017.

Equity Investment (Note 9)

As of December, 31, 2017, this item included equity investments in subsidiaries totalling EUR 115.1 million.

SUBSIDIARIES	31 december 2017			31 december 2016		
(EUR 000)	*Cost*	*Revaluation / (Devaluation)*	*Boook value*	*Cost*	*Revaluation / (Devaluation)*	*Boook value*
Tiscali Italia S.p.A.	150,123	(79,000)	71,123	150,123	-	150,123
World Online International N	1,811,994	(1,811,994)	-	1,811,994	(1,811,994)	-
Tiscali Uk Holdings Ltd	-	-	-	-	-	-
Aria Italia S.p.A.	26,370	17,591	43,961	26,370	-	26,370
	1,988,488	**(1,873,403)**	**115,085**	**1,988,488**	**(1,811,994)**	**176,494**

It should be noted that in 2017 the investment in Aria increased by EUR 17.6 million, in relation to the waiver of the credit of Tiscali Italia towards Aria, carried out on 27 April 2017.

The table below summarizes changes occurred in the period.

SUBSIDIARIES *(EUR 000)*	Balance 31 december 2016	Increases	(Disposals)	Revaluation / (Devaluation)	Other changes	Balance 31 december 2017
Tiscali Italia S.p.A.	150,123	-	0	- 79,000.00	-	71,123
World Online International N.V.	-	-	-	-	-	-
Tiscali Uk Holdings Ltd	-	-	-	-	-	-
Aria Italia S.p.A.	26,370	17,591	-	-	-	43,961
	176,494	**17,591**	- -	**79,000**	-	**115,085**

<u>Impairment test on the value reductions in equity investments in subsidiary companies</u>

SUBSIDIARIES	Registered Offices	Share Capital	Shareholders' equity	Result	% Held	Book value	Difference between book value and net
(EUR 000)							
Tiscali Italia S.p.A.	Cagliari	18,794	13,478	13,070	100%	71,123	57,645
World Online International N.V.	Maarsen (NL)	115,519	-	-	100%	-	-
Tiscali Uk Holdings Ltd	Londra	59	(10)	338,479	100%	-	10
Aria Spa	Roma	27,764	24,289	(5,481)	100%	43,961	19,672
						115,085	**77,327**

As required by the accounting standards, the verification of any loss in value of the investments recorded as at 31 December 2017 (Impairment test) of the assets was carried out.
The verification of any loss in value of the assets was carried out by comparing the book value of the investments as at 31 December 2017 and their value in use.

1. Impairment test on the participation in Aria
For the purposes of the impairment test, the fair value of Aria Spa was determined, through the valuation of the latent surplus value present in the licenses held by the Company. This surplus was determined using the values emerging from a recent transaction with a third party that involved a portion of these licenses. The impairment test carried out did not reveal the need to write down the investment in Aria Spa.

Aria's equity was taken as an initial reference, including the result for the period, adjusted to take into account the fair value of the 3.5 Ghz license determined on the basis of the trade agreement stipulated in 2017 with Fastweb.

The impairment test carried out on the investment in Aria Spa showed that the asset value of Aria Spa (fair value) is higher than the carrying amount of the investment.

2. Impairment test on the participation in Tiscali Italia

For the purposes of the impairment test, the Tiscali Italia Equity Value was determined. The Tiscali Italia Equity Value was determined starting from the Group's Equity Value, reduced by the Aria Equity Value (as determined previously).

For more details regarding the determination of the Group's enterprise value (definition CGU, hypothesis underlying the calculation of the Discounted Cash Flows, determination of the WACC), please refer to Note 11 of paragraph 6.8 *Explanatory notes* to the consolidated financial statements.

The impairment test carried out on the investment in Tiscali Italia Spa showed that the capital value of Tiscali Italia was lower than the carrying amount of the investment, for an amount of approximately EUR 79 million. As a result, the carrying amount of the investment in Tiscali Italia was written down by an amount of EUR 79 million, in order to align it with its value in use.

This write-down is the result of the revision of the Tiscali Business Plan which became necessary as a result of the period of extreme regulatory uncertainty that began in the first part of 2017, in which uncertainty over the probabilities became more acute and the related renewal methods beyond the natural expiration date (2023) of the licenses on the 3.5GHz frequency portion recorded in the Group's balance sheet assets, which had a negative effect on the Company's 2017 performance and on its expected performance.

As already indicated above, this uncertainty scenario caused during the second half of 2017 an unavoidable block in the investment path that the company had undertaken and therefore in the company's growth plans, as well as a partial revision of the profitability expectations. future. At the end of 2017, a path defined in concert by AGCOM and MISE finally took place which, in April 2018, led to the release of the positive opinion by AGCOM in relation to the issue of the extension until 2029.

These events inevitably resulted in the revision of the Business Plan, which, due to the cumulative delay in investments, is characterized by lower growth rates compared to the previous Business Plan approved in April 2017 and, consequently, by cash flows used to purposes of determining the value in use of the minor investee.

Other non-current financial assets (Note 10)

	31 december 2017	31 december 2016
(EUR 000)		
Receivables from other companies of the Group	21,498	21,846
Other Receivables	-	-
Total	**21,498**	**21,846**

Other Non-current Financial Assets include financial receivables from Group companies amounting to EUR 21.5 million.

The financial receivables from Group companies are detailed below:

	31 december 2017	31 december 2016
(EUR 000)		
Tiscali Business Gmbh	-	2,878
Tiscali Deutschland Gmbh	-	555
Tiscali Financial Services Sa	3,506	40
Tiscali International BV	516	539
Tiscali Italia S.p.A.	9,736	-
Tiscali Verwaltungs Gmbh	-	75
Aria S.p.A.	6,993	17,760
Veesible S.r.l.	746	-
Total	**21,498**	**21,846**

The net decrease to the subsidiary Aria Spa of approximately EUR 10.7 million is due to the credit waiver by Tiscali Spafor EUR 17.6 million and to the increases in financial items which took place during the year 2017 for EUR 7 million for the cash requirements of the subsidiary.

The payables to the German companies, following the merger of the same in Tiscali Financial Services SA in 2017, are reflected in the balance as at 31 December 2017 of Tiscali Financial Services SA.

Trade Receivables (Note 11)

	31 december 2017	31 december 2016
(EUR 000)		
Receivables from Customers	10,201	7,844
Allowance for doubtful accounts	(500)	(1,274)
Total	**9,701**	**6,570**

Receivables from customers of Tiscali Spa are mainly associated with intra-group positions, as summarised in detail in the following table:

	31 december 2017	31 december 2016
(EUR 000)		
Tiscali Italia S.p.A.	9,536	6,459
Veesible S.r.l.	35	35
Total	**9,571**	**6,494**

The breakdown of receivables from customers by maturity follows:

	31 december 2017	31 december 2016
(EUR 000)		
Within 12 months	9,592	6,163
Between 1 – 5 years	109	407
Beyond 5 years	-	-
Total	**9,701**	**6,570**

(EUR 000)	31 december 2017	31 december 2016
Within 12 months	9.592	6.163
Between 1 – 5 years	109	407
Beyond 5 years	-	-
Total	**9.701**	**6.570**

The book value of trade receivables is approximate to their fair value. It should also be noted that receivables from customers do not present any overdue balances of a significant amount.

Other Receivables and Other Current Assets (Note 12)

(EUR 000)	31 december 2017	31 december 2016
Other Receivables	2,014	631
Accrued Income	0	-
Prepaid Expenses	187	40
Total	**2,201**	**671**

Other Receivables primarily include VAT receivable amounting to EUR 1.5 million, tax receivables for IRES amounting to EUR 0.2 million and other tax amounting to EUR 0.1 million.
The change compared to the previous year is mainly attributable to VAT receivables, which at 31 December 2016 were zero.

Liquid Assets (Note 13)

At the end of FY 2017, liquid assets amounted to EUR 0.2 million and include the company’s liquid resources, essentially held in bank current accounts. Reference should be made to the dedicated section of the Managerments’ Report for a detailed analysis of the financial position.

Shareholders’ Equity (Note 14)

(EUR 000)	31 december 2017	31 december 2016
Share capital	121,507	91,201
Legal reserve	91	91
Other reserves	6,999	(1,223)
Result from previous fiscal years	(349)	0
Result for the fiscal year	(85,221)	(349)
Total	**43,026**	**89,719**

Changes in the shareholders’ equity items are detailed in the relevant table, to which reference should be made.

The costs incurred for the capital increase, totalling EUR 0.1 million, were recorded as a reduction of shareholders' equity, under the item *Other reserves*, in accordance with the relevant accounting standards.

The item *Other Reserves* included EUR 6.7 million for the notional charges deriving from the conversion of the Rigensi-Otkritie bond loan, subscribed on September 7, 2016 and converted on December 15, 2017; EUR 1 million relating to the release of the residual value of the put option, which had been valued at the time of subscription of the bond at EUR 1.8 million plus EUR 0.6 million for the Stock Option reserve.

The number of shares, representing the share capital of the Parent Company, is 3,981,880,763, with no par value, against n. 3,145,281,893 shares as of December 31 last year. It should be noted that during FY 2017 the following capital increases were carried out:

- On August 7, 2017, through the issue of 314,000,000 shares jointly subscribed by Otkritie Capital International Ltd and ICT – Investment Construction Technology Group Ltd, which simultaneously paid Euro 5,903,200 each. The capital increase transaction described in the previous paragraph ended on August 7, 2017, with;
- on December 15, 2017, by converting the bonds referred to in the Tiscali Conv 2016 – 2020 bond issue, which ended with the voiding of No. 37 bonds subscribed for a nominal value of EUR 18,500,000 and the issue of 522,598,870 new shares, having the same characteristics as those outstanding, at a price per share of EUR 0.0354 and an increase in the share capital of EUR 18,500,000

At the end of the FY, Tiscali Spa recorded a loss of EUR 85.2 million. The net result does include the devaluation of the Investment in Tiscali Italia S.p.A for EUR 79 million.

The following table shows the composition of the Shareholders' equity with reference to availability and distributable nature:

Detailed statement of Shareholders' Equity items						Summary of uses in the last 3 accounting	
	Amount	Utilisation options	Available share	Distributable share with no tax effect	Distributable share with tax effect	Loss coverage	Other
Share Capital	121,507	B	-	-	-	63,078	14,797
Legal Reserve	91	B	0	0	0		
Reserve to Cover Loss	-	B	0	0	0		
Share Premium Reserve	24						
Other Reserves	4,919	A-B-C	0	0	0		
Other Reserves Aria S.p.A.	45		0	0	0		
Stock Option Reserve	2,010		0	0	0		
Previous Fiscal Years' Losses	(349)		0	0	0		
Fiscal Year's Losses	(85,221)		-	-	-		
			0	0	0		
Total	**43,026**	**-**	**-**	**-**		**63,078**	**14,797**

Utilisation options _Key:
A For share capital increases
B For loss coverage
C For distribution to shareholders

Other Non-Current Liabilities (Note 15)

	31 december 2017	31 december 2016
(EUR 000)		
Payables to Group companies	93,878	73,613
Other Payables	822	0
Total	**94,700**	**73,613**

The balance of Other Payables refers to the tax payables for files to be settled in the long term.

The financial payables to group companies totalling EUR 93.9 million, detailed in the following table:

	31 december 2017	31 december 2016
(EUR 000)		
Tiscali Financial Services SA	3,506	-
Tiscali Gmbh	-	3,508
Tiscali Italia S.p.A.	78,300	62,602
Aria S.p.A.	4,653	169
Tiscali International Network BV	26	26
Indoona Srl	4	7
Istella Srl	-	-
Veesible S.r.l.	7,390	7,301
Total	**93,878**	**73,613**

The breakdown of Other non-current liabilities by maturity follows:

	31 december 2017	31 december 2016
(EUR 000)		
Within 12 months	-	-
Between 1 and 5 years	94,700	73,613
Beyond 5 years	-	-
Total	**94,700**	**73,613**

These financial payables are recorded under non-current financial liabilities, and their repayment is expected to take place in the medium term using dividend flows from subsidiaries.

Liabilities for pensions and employees' severance indemnity (Note 16)

The table below shows the changes occurred during the period:

(EUR 000)	31 december 2016	Accruals	Reclass (*)	Utilization	Payments to Funds (*)	OCI Reserve	31 december 2017
Severance Indemnities	187	101	(79)	(99)	(98)	(11)	0
Totale	**187**	**101**	**(79)**	**(99)**	**(98)**	**(11)**	**0**

The employees' severance indemnity provision, which comprises the indemnities accrued mainly in favour of executives, amounts to zero.

Provisions for Liabilities and Charges (Note 17)

The table below shows the changes during the period:

	31 december 2016	Increases	Decreases	Other changes	31 december 2017
(EUR 000)					
Provisions for risks and charges disputes with emp	-	-	-	-	-
Provisions for Subsidiaries' Loss Coverage	-	-	-	-	-
Other Provisions for Risks and Charges	(2,461)	(145)	2,281	-	(325)
Total	**(2,461)**	**(145)**	**2,281**	**-**	**(325)**

The Provisions for Liabilities and Charges on Personnel Disputes refers to legal disputes with third parties or former employees started in previous years. It should be noted that the allocation of the penalties for late payment accrued on the VAT payable for previous years, equal to EUR 2 million, was released following the request for the so-called "rottamazione" (debt reduction equal to penalties and interest on late payments accrued) submitted in FY 2017 crediting the income statement to the item Restructuring Costs and Other Writedowns.

Bond Loan (Note 18)

On December 15, 2017, the conversion the bonds referred to in the Tiscali Conv 2016 – 2020 bond issue, have been closed and ended with the voiding of No. 37 bonds subscribed for a nominal value of EUR 18,500,000 and the issue of 522,598,870 new shares, having the same characteristics as those outstanding, at a price per share of EUR 0.0354 and an increase in the share capital of EUR 18,500,000.

Payables to banks and other lenders (note 19)

There are no debts to banks and other lenders at the balance sheet date.

Payables to Suppliers (Note 20)

	31 december 2017	31 december 2016
(EUR 000)		
Trade Payables to Third Parties	4,473	5,795
Trade Payables to Group companies for materials and services	549	923
Total	**5,023**	**6,717**

Trade payables to third party suppliers relate mainly to payables for professional consultancy services.

It should be noted that Trade Payables are due within 12 months and their book value as of the date of this Report is considered as approximate to their fair value.

Trade payables due to Group companies are detailed below:

	31 december 2017	31 december 2016
(EUR 000)		
Tiscali Italia S.p.A.	549	923
Total	**549**	**923**

Other Current Liabilities (Note 21)

	31 december 2017	31 december 2016
(EUR 000)		
Prepaid Expenses	0	0
Deferred Income	3	7
Other Payables to the Group Companies	516	516
Other Payables	5,139	13,630
Total	**5,658**	**14,153**

Other Payables is essentially represented by tax, social security and welfare institutions payables, in particular totalling EUR 4 million; by payables to executives amounting to EUR 0.5 million; by payables to employees amounting to EUR 0.4 million; by payables for insurance totalling EUR 0.2 milion. The reduction compared to 31 December 2016 is primarily related to the VAT debt, which is zero at 31 December 2017, while at 31 December 2016 it amounted to EUR 7 million.

Guarantees Pledged and commitments (Note 22)

Guarantees pledged are detailed as follows:

	31 december 2017	31 december 2016
(EUR 000)		
Guarantees (Sureties) Pledged to Third Parties	161,592	175,600
Commitments	1,600	1,600
Total	**163,192**	**177,200**

Sureties Pledged include EUR 85.3 million in relation 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.

The same item includes the surety given by Tiscali Spa to guarantee the amount of the loan associated with the Sale & Lease Back transaction on the Sa Illetta property, for an amount of EUR 52.2 million, carried out by the subsidiary Tiscali Italia Spa.

The remaining EUR 24.1 million are related to guarantees pledged by the Parent Company for credit and leasing lines to the subsidiaries Tiscali Italia Spa and to Veesible S.r.l.

The entire balance of the item *Commitments* concerns the maintenance of the credit facilities granted to the subsidiary Tiscali Italia Spa.

Net Financial Position (Note 23)

In compliance with the provisions of the CONSOB Communication No. DEM/6064293 dated July 28, 2006, it is pointed out the net financial position as of 31 December 2017 is summarised in the following table, drafted on the basis of the format described by the CESR Recommendation dated February 10, 2005, "Recommendations for the consistent implementation of the European Commission's Regulation on Statements":

Financial Situation	31 december 2017	31 december 2016
(Thousands of Euro)		
A. Cash and Bank deposits	247	22
B. Other cash equivalents	-	-
C. Securities held for trading	-	-
D. Liquidity (A) + (B) + (C)	***247***	***22***
E. Current loan receivables	-	-
F. Non-current financial receivables	-	**0**
G. Current bank payables	0	0
H. Current accounting of bonds issued	0	375
I. Current accounting of non-current debts		
J. Other current financial debts	516	516
K. Current financial debt (G) + (H) + (I)+(J)	***516***	***891***
L. Net current financial debt (K)-(D)-(E)-(F)	**268**	***869***
M. Non-current bank Loans	0	-
N. Bonds issued	0	18,429
O. Other non-current intercompany debt	93,878	73,613
P. Other non-current intercompany debt	0	0
Q. Non-current financial debt (M)+(N)+(O)	**93,878**	**92,042**
R. Net Financial Debt (L)+(P)	**94,146**	**92,911**

Note: For the purposes of comparison with the Net financial position at 31 December 2017, the net financial position as at 31 December 2016 has been restated not considering, under "E. Current financial receivables", non-financial receivables equal to EUR 0, 7 million.

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, 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 2017, Tiscali Spa maintained some relationships with related parties which, mainly, refer to intragroup transactions and to Directors.

These were transactions regulated by market conditions; the table below summarises the balance sheet and income statement values recorded in the Parent Company’s financial statements as of December 31, 2017, arising from transactions with related parties.

The effects on the income statement follow:

Consolidated income Statement	2017	of which related parties	%
(Eur)			
Revenue	6,768	6,671	99%
Purchase of external materials and services	(2,650)	(2,368)	89%
Staffing costs	(1,494)	(1,253)	84%
Other operating income/ (costs)	200		
Write-down of receivables	(172)		
Restructuring costs and other write-downs	(80,184)		
Operating profit	**(77,532)**	**3,050**	
Result on Investments at equity method	-		
Financial Expenses	7,666	-	
Earning before tax	**(85,198)**	**3,050**	
Income taxes	31		
Result from operating activities (on-going)	**(85,167)**	**3,050**	
Income from discontinued operations and / or targeted for disposal	(54)		
Net profit	**(85,221)**	**3,050**	

Consolidated income Statement	2016	of which related parties	%
(Eur)			
Revenue	5,413	5,343	99%
Purchase of external materials and services	(4,272)	(3,053)	71%
Staffing costs	(2,465)	(1,819)	74%
Other operating income/ (costs)	188		
Write-down of receivables	1,331		
Restructuring costs and other write-downs	(235)		
Operating profit	**(40)**	**471**	
Result on Investments at equity method	-		
Financial Income	**3**		
Financial Expenses	**282**	132	47%
Earning before tax	**(319)**	**339**	
Income taxes	(31)		
Result from operating activities (on-going)	**(349)**	**339**	
Net profit	**(349)**	**339**	

(*) It should be noted that the 2016 economic values in the column "of which related parties" do not include the remuneration of statutory auditors (erroneously reported in 2016 under the item "Acquisitions of external materials and services" for an amount of EUR 120 thousand)

The effects on the balance sheet follow:

Balance Sheet	31 december 2017	of which related parties	%
(million Euro)			
Non-current assets	136,582	21,498	15.74%
Current assets	12,150	9,571	78.77%
Total Assets	**148,732**	**31,068**	
Shareholders' equity	43,026	2,010	4.67%
Total Net Equity	**43,026**	**2,010**	
Non-current liabilities	95,025	93,878	98.79%
Current liabilities	10,681	1,655	15.50%
Total Net equity and Liabilities	**148,732**	**97,543**	

Balance Sheet (*)	31 december 2016	of which related parties	%
(million Euro)			
Non-current assets	198,340	21,846	11.01%
Current assets	7,263	6,494	89.41%
Assets held for sale	54		
Total Assets	**205,657**	**28,340**	
Shareholders' equity	89,719	1,402	1.56%
Total Net Equity	**89,719**	**1,402**	
Non-current liabilities	94,690	82,828	87.47%
Current liabilities	21,245	2,313	10.89%
Liabilities Held for sale	4		
Total Net equity and Liabilities	**205,657**	**86,542**	

(*) Please note that the 2016 balance sheet values in the column "of which related parties" do not include the remuneration to the statutory auditors (erroneously reported in 2016 under the item "Current liabilities" for an amount of EUR 203 thousand).

The most significant balances, as of December 31, 2017, summarized by service supplier, follow:

INCOME STATEMENT VALUES		2017			
EUR 000		Cost	Devaluation	Interest income (expense)	Revenues
Tiscali Italia S.p.A.	1	(196)	-	-	6,671
		-	-	-	-
Total Group companies		**(196)**	-	-	**6,671**
Other Related Parties					
Board of Directors' Remuneration		(1,552)	-	-	-
Strategic Executives' Remuneration		(1,265)	-	-	-
Stock Option		(608)	-	-	-
Convertible Bond Loan		-	-	-	-
Other Related Parties		**(3,426)**	-	-	-
Total Group Companies and other Related Parties		**(3,621)**	-	-	**6,671**

(1) Group companies

INCOME STATEMENT VALUES		2016			
EUR 000		Cost	Devaluation	Interest income (expense)	Revenues
Tiscali Italia S.p.A.	1	(271)	-	-	5,343
		-	-	-	-
Total Group companies		**(271)**	-	-	**5,343**
Other Related Parties					
Board of Directors' Remuneration		(1,459)	-	-	-
Strategic Executives' Remuneration		(1,741)	-	-	-
Stock Option		(1,402)	-	-	-
Convertible Bond Loan		(132)	-	-	-
Other Related Parties		**(4,733)**	-	-	-
Total Group Companies and other Related Parties		**(5,004)**	-	-	**5,343**

(1) Group companies

BALANCE SHEET VALUES *EUR 000*	Notes	31 dicember 2017							
		Trade Receivables	Financial receivables	Trade payables	Financial payables (within 12 months)	Financial payables (beyond 12 months)	Payables to personnel	Other Current Liabilities	Stock Option Reserve
Tiscali Business Gmbh	1	-	-	-	-	-	0	0	0
Tiscali Deutschland Gmbh	1	-	-	-	-	-	0	0	0
Tiscali Financial Services Sa	1	-	3,506	-	-	3,506	0	0	0
Tiscali Gmbh	1	-	-	-	-	-	0	0	0
Tiscali International BV	1	-	516	-	516	-	0	0	0
Tiscali International Network	1	-	-	-	-	26	0	0	0
Tiscali Italia S.p.A.	1	9,536	9,736	549	-	78,300	0	0	0
Tiscali Verwaltungs Gmbh	1	-	-	-	-	-	0	0	0
Indoona S.r.l.	1	-	-	-	-	4	0	0	0
Veesible S.r.l.	1	35	746	-	-	7,390	0	0	0
Aria S.p.A.	1	-	6,993	-	-	4,653	0	0	0
Total Group Companies		**9,571**	**21,498**	**549**	**516**	**93,878**	-	-	-
Other Related Parties									
Board of Directors' Remuneration		-	-	0	-	-	-	465	0
Strategic Executives' Remuneration		-	-	53	-	-	-	72	0
Convertible Bond Loan		-	-	0	-	-	-	-	0
Stock Option		-	-	0	-	-	-	-	2,010
Other Related Parties		-	-	**53**	-	-	-	**537**	**2,010**
Total Group Companies and other Related Parties		**9,571**	**21,498**	**603**	**516**	**93,878**	-	**537**	**2,010**

(1) Group companies

BALANCE SHEET VALUES

EUR 000

	Notes	31 dicember 2016							
		Trade Receivables	Financial receivables	Trade payables	Financial payables (within 12 months)	Financial payables (beyond 12 months)	Payables to personnel	Other Current Liabilities	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 I	1	-	-	-	-	26	-	-	-
Tiscali Italia S.p.A.	1	6,459	-	923	-	62,602	-	-	-
Tiscali Verwaltungs Gmbh	1	-	75	-	-	-	-	-	-
Indoona S.r.l.	1	-	-	-	-	7	-	-	-
Veesible S.r.l.	1	35	-	-	-	7,301	-	-	-
Aria S.p.A.	1	-	17,760	-	-	169	-	-	-
Total Group Companies		**6,494**	**21,846**	**923**	**516**	**73,613**	-	-	-
Other Related Parties									
Board of Directors' Remuneration		-	-	74	-	-	-	316	-
Strategic Executives' Remuneration		-	-	53	-	-	137	106	-
Convertible Bond Loan		-	-	-	187	9,214	-	-	-
Stock Option		-	-	-	-	-	-	-	1,402
Other Related Parties		-	-	**127**	**187**	**9,214**	**137**	**422**	**1,402**
Total Group Companies and other Related Parties		**6,494**	**21,846**	**1,050**	**703**	**82,828**	**137**	**422**	**1,402**

(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

Tax dispute on penalties for VAT late payment relating to FY 2013

During the first half of 2017, Tiscali Italia filed an appeal against the notification by Equitalia of a tax file relating to penalties, calculated to a full extent, and interest on the late payment of VAT relating to the income tax year 2013 (for a total amount equal to around EUR 3.6 million). The appeal was filed as, in the opinion of the company, that tax file had not been preceded by an amicable notice by the Revenue Agency, notified under the law. Upon becoming aware of the existence of the amicable notice (as mentioned, incorrectly notified in the opinion of the Company), the Company first proceeded to formulate a remission request to Equitalia. This request was rejected by the Cagliari Revenue Agency, despite the obvious presence of double taxation, and therefore the company, in view of the obvious violation of the law, has filed opposition. The judgment is currently pending before the Provincial Tax Commission (CTP) of Cagliari and the hearing is scheduled for October 16.
In the meantime, the same CTP of Cagliari, at the request of the company, ordered the suspension of the collection by Equitalia, so that Tiscali Spa was able to continue paying the amicable notice, for which he obtained the recognition of a payment for instalments plan by the Revenue Agency. However, contacts have been made with the latter for an amicable settlement.
With regard to the portion of the penalties for late payment, allocated to the allowance for risks and charges in 2016, after the appeal was filed and pending the precautionary procedure aimed at suspending the tax file issued by the Collection Agent, the provision of "*rottamazione*" (tax scrapping) as per Legislative Decree No. 148/2017 then converted into Law No. 172/2017 was issued. The Company therefore benefited from the facilitated resolution, and simultaneously released the provision for risks allocated as the sanctions in question were written off.

Remuneration of Directors, Statutory Auditors and Executives with Strategic Responsibility

Pursuant to Article No. 78 of the implementing regulation of the Legislative Decree No. 58/1998, issued by CONSOB under Resolution No. 11971/99, the fees paid to Directors and Statutory Auditors follow.

Name and Surname	Position	Term of Office	Remuneration for the Position	Non-monetary benefits	Other forms of Remuneration	Total EUR
Board of Directors						
Okun Alexander	Chairman	In office from 22 Jul 2016 to the approval of the financial statements as of 31 Dec 2017	133,836	0	0	133,836
Riccardo Ruggiero	CEO	In office from 16 Feb 2016 to the approval of the financial statements as of 31 Dec 2017	728,000	4,867	0	732,867
Franco Grimaldi	Director	In office from 16 Feb 2016 to the approval of the financial statements as of 31 Dec 2017	52,000	0	5,383	57,383
Paola De Martini	Director	In office from 16 Feb 2016 to the approval of the financial statements as of 31 Dec 2017	50,000	0	30,000	80,000
Anna Belova	Director	In office from 16 Feb 2016 to the approval of the financial statements as of 31 Dec 2017	50,000	0	6,919	56,919
Konstantin Yanakov	Director	In office from 16 Feb 2016 to 1 Feb 2017	4,384	0	0	4,384
Nikolay Katorzhnov	Director	In office from 16 Feb 2016 to 1 Feb 2017	4,384	0	0	4,384
Dmitry Gavrilin	Director	In office from 24 Feb 2017 to the approval of the financial statements as of 31 Dec 2017	42,466	0	2,000	44,466
Sergey Sukhanov	Director	In office from 24 Feb 2017 to the approval of the financial statements as of 31 Dec 2017	42,466	0	2,000	44,466
Renato Soru	Director	In office from 16 Feb 2016 to the approval of the financial statements as of 31 Dec 2017	50,000	16,017	300,000	366,017
Alice Soru	Director	In office from 16 Feb 2016 to the approval of the financial statements as of 31 Dec 2017	50,000	0	0	50,000
Total						**1,574,720**

It should be noted that during the fiscal year a decrease of EUR 0.2 million was recorded relating to debit positions due to the Directors accrued in previous years.

Name and Surname	Position	Term of Office	Remuneration for the Position	Non-monetary benefits	Other forms of Remuneration	Total EUR
Statutory Auditors						
Paolo Tamponi	Chairman	In office from 16 Feb 2016 to the approval of the financial statements as of 31 Dec 2017	46,800	0	0	46,800
Emilio Abruzzese	Standing Statutory Auditor	In office from 16 Feb 2016 to the approval of the financial statements as of 31 Dec 2017	36,400	0	5,045	41,445
Valeria Calabi	Standing Statutory Auditor	In office from 16 Feb 2016 to the approval of the financial statements as of 31 Dec 2017	36,400	0	0	36,400
Total						**124,645**

It is also to be noted that, the total cost incurred in FY 2017 for the retribution to executives with strategic responsibility amounts to about EUR 1.9 million. This charge includes, among others, the contribution by the Group to public and corporate pension funds for EUR 0.4 million.

Annex - Information pursuant to Article No. 149-duodecies of the CONSOB Issuers' Regulations.

The following table, drawn up in accordance with Article No. 149-duodecies of the CONSOB Issuers' Regulations, indicates the fees for FY 2017 for auditing services and those for other services provided by the independent auditing firm.

Type of Service	Party providing the Service	Beneficiaty	Compensi
(EUR)			
Financial Audit	Deloitte & Touche SPA	Parent Company – Tiscali S.p.A.	231,500
Other professional Services required by law	Deloitte&Touche SP	Parent Company – Tiscali S.p.A.	135,000
Other Professional Services	Deloitte & Touche SPA	Parent Company – Tiscali S.p.A.	
Total			**366,500**

Certification of the Annual Financial Statements pursuant to CONSOB Regulation No. 11971 dated May 14, 1999, and subsequent amendments and addenda

The undersigned, Riccardo Ruggiero as Chief Executive Officer, and Daniele Renna, as the Officer in Charge of preparing the company's accounting documents for Tiscali Spa, certify, also pursuant to Article No. 154-bis, paragraphs 3 and 4, of the Legislative Decree No. 58 dated February 24, 1998:

- the adequacy of the Report in relation to the Company's characteristics;
- the effective application of the administrative and accounting procedures for the preparation of the Annual Financial Statements for the FY 2017.

Tiscali Spa 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 assessment of its internal audit system, with particular reference to the internal controls for the formation of the financial statements: this model represents a framework of general reference standards for the internal audit system generally accepted at international level.

Furthermore, it is hereby certified that the Annual Financial Statements for the FY 2017:

- correspond to entries of accounting books and records;
- are drawn up in compliance with the *International Financial Reporting Standards* adopted by the European Union, and with the provisions of law and regulations currently applicable in Italy;
- are suitable for providing a truthful and accurate representation of financial, economic and assets position of the issuer.

Finally, it is hereby certified that the Parent Company's Management Report, presented together with the Consolidated Management Report in a single document, includes a reliable analysis of the performance and results of operations, as well as the situation of the issuer, together with the description of the main risks and uncertainties to which it is exposed.

Cagliari, May 10, 2018

The Chief Executive Officer	**The Officer in charge of Preparing the Company's Accounting Documents**
Riccardo Ruggiero	Daniele Renna

Glossary

Shared access	Technique of unbundled access to a local network, in which the former monopoly operator rents part of the frequency spectrum to other operators: the operator can supply broadband services in this section of the spectrum, while the former monopoly operator continues to supply telephony services on the unused portion of spectrum .
ADSL	Acronym for Asymmetric Digital Subscriber Line, an asymmetric (the receiving bandwidth is greater than the bandwidth available for transmission) DSL technology which allows high-speed internet access.
ADSL2+	ADSL technology, which extends the capacity of the ADLS base by doubling the flow of bits in download. The bandwidth can reach up to 24 Mbps for downloads and 1.5 Mbps for uploads, depending on the distance between the SDLAM and the user's home.
Areas not covered	Also called "indirect access areas", they identify geographical areas that are not directly served by the Tiscali network (see also Bitstream and Wholesale).
ARPU	Average revenue from fixed and mobile telephony services by user calculated over a determined period for an average number clients of the Tiscali Group or active clients (for other operators) in the same period.
Bitstream	*Bitstream* (or numerical flow) service: a service consisting of the supply on the part of the access operator of the fixed telephone line of the transmission capacity between the location of the final user and the point of presence of an operator or ISP offering wide bandwidth to the final user.
Broadband	System of data transmission in which multiple data is sent simultaneously to increase the effective speed of transmission with a data flow equivalent or superior to 1.5 Mbps.
Broadcast	Simultaneous transmission of information to all nodes of a network.
Unique browsers	The number of different browsers that, in a determined period of time, access a site one or more times.
Access fee	It is the amount debited by national operators for each minute of use of their network by managers of other networks. It is also called "interconnession fee".
Capex	Acronym for Capital Expenditure. Identifies outgoing cash flows generated by investments in the operating structure.
Carrier	Company that makes the telecommunication network physically 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 used 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 the grantor's fibre optic network for a long period.

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 data transmission mobile technology which follows the LTE international standards and which was developed for 4G networks. It is a network technology, which uses one frequency only for transmitting in time-sharing, in other words alternatively between data upload and download with a dynamic adaptation ratio based on the amount of exchanged data.
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	Pay TV channels. 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 o 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 multi play 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 multi play components such as broadband and IPTV access. Voice service can also be provided by VoIP 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 functionality 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 forwarding and identification of the number called**.** The value added services provided over a network, from terminals or specialist centres include message handling systems (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 owns 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 worldwide 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, resale by an operator of the telecommunications service for lines affiliated with an Incumbent.