Tiscali Group
Annual Financial Report
as at 31 December 2018

The Board of Directors of Tiscali S.p.A. authorized the publication of this document on March 29, 2019. This document is available online on www.tiscali.it

Tiscali Spa
Registered office in Cagliari, Sa Illetta, SS195 Km 2,3
Share capital EUR 43,065,376
Business Registry of Cagliari and VAT No. 02375280928 R.E.A. No. 191784

Table of Contents

1 Key operating and consolidated financial data

Income statement	2018	2017 (*)
(EUR mln)		
Revenue	165.2	201.4
Adjusted Gross Operating Result (EBITDA)	20.5	29.1
Operating Result (EBIT)	(34.1)	(22.6)
Result from held for sale and discontinued operations	128.5	42.9
Ner Result	83.2	0.8

Statement of financial position	31 December 2018	31 December 2017 (*)
(EUR mln)		
Total assets	346.1	300.4
Net Financial Debt	152.1	178.9
Net Financial Debt as per Consob	152.6	179.4
Shareholders' equity (**)	(44.7)	(128.0)
Investments	18.2	64.4

Operating figures	31 December 2018	31 December 2017
(thousands)		
Total number of Clients	**640.1**	**748.2**
Broadband Fixed	382.8	451.2
of which Fiber	*79.1*	*47.1*
Broadband Wireless	58.8	66.6
of which LTE	*47.8*	*49.6*
Mobile	198.5	230.4

(*)The economic data for the year 2017 have been restated as follows: 1) the release of the deferred tax provision of EUR 80 thousand relating to the sale to Fastweb carried out in 2017 has been reclassified from the item "Income taxes" to the item "Result of assets sold and/or destined for sale" for comparative purposes as compared to 2018; 2) following the application of IFRS 15, the Company proceeded to offset revenues and costs relating to visibility exchange operations (barters) carried out in 2017 and 2018. In particular, the 2017 barter revenues for the year were equal to EUR 6.2 million and, therefore, the revenues presented for the year 2017 in the approved financial statements amounted to EUR 207.6 million.
(**) At the date of approval of this consolidated annual financial report for the year ended on December 31, 2018, Tiscali S.p.A. does not fall under the cases established in Article No. 2446 or 2447 of the Civil Code.

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 assess its operating trend. This indicator, present also in other financial reports (annual reports and interim financial reports) 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 the EBITDA indicator by the Tiscali Group. In particular, the EBITDA has been calculated as follows:

(Thousands of Euros)	***2018***	***2017***
Result before taxes	**(45,061)**	**(42,175)**
+ Financial Expenses	11,623	19,368
- Financial Income	(1,088)	(61)
+ Result on Investments at equity method	429	238
Operating income	**(34,097)**	**(22,630)**
+ Restructuring costs	6,668	3,603
+ Depreciation and Amortization	47,957	48,088
Gross Operating Result (EBITDA) (*)	**20,528**	**29,061**

(*) Including the EUR 2.1million revenues obtained from the release of the portion of yearly competence related to period of capital gain generated from the Sale and Lease-Back transaction at the Cagliari facility (Sa Illetta).

Restructuring costs mainly relate to reorganization costs and the downsizing of the workforce, and are considered to be non-recurring as they are related to the processes of rationalization of the Group's core business which are not destined to be repeated over time but are instead connected to the ongoing operational streamlining phase.

3 Strategic Agreement with Fastweb and effects on the Tiscali S.p.A and the Tiscali Group as an ongoing concern

As described in more detail in this consolidated annual financial report for the year ended December 31, 2018, as a result of the agreement finalized on November 16, 2018, with Fastweb, the Tiscali Group has completed a complex corporate reorganization operation that allowed it – also thanks to the finalization dated March 28, 2019, of the Agreements for the Restructuring of the Financial Debt with the Financial Institutions and the Pool Leasing (as defined below) – to implement the New 2018-2021 Business Plan, certified for Tiscali Italia and Aria pursuant to Article No. 67 of the Royal Decree No. 267/1942, which provides for the equity and financial balance of the business continuity of the Company and of the Group during the entire period of the plan and not only in the time frame of the next twelve months with respect to which the recurrence assessments of the business continuity is carried out.

In particular, as per the agreement dated November 16, Fastweb has acquired the license held by Aria S.p.A (subsidiary of Tiscali S.p.A) for 42 MHz in the 3.5 Ghz band and the Tiscali Italia S.p.A. business branch Fixed Wireless Access (FWA). At the same time, Tiscali has obtained full access to the Fastweb fiber-based network infrastructure, and maintained access to the FWA infrastructure sold to Fastweb at an agreed price. Therefore, Tiscali will continue to provide LTE FWA services to its customers in areas of extended digital divide and will also leverage access to the Fastweb high-performance fiber network to increase its nationwide landline coverage, increasingly focusing on its retail offerings.

The total economic value of this agreement (Strategic Agreement with Fastweb) is nominal EUR 198 million, of which EUR 130 million cash (of which EUR 50 million settled on November 16, and EUR 80 million to be collected by June 30, 2019), a wholesale agreement (supply of materials and services) for a total value of EUR 55 million and EUR 13 million to assume payables to suppliers.

Furthermore, on 28 March 2019, the Group closed the Senior Debt restructuring agreements and the Sa Illetta property transfer agreement with the Financial Institutes and Pool Leasing respectively ("Financial Debt Restructuring Agreements").

In the remainder of this report, and in particular the paragraph "Assessment of the business as an ongoing concern and future outlook", the terms of the Strategic Agreement with Fastweb and of the Financial Debt Restructuring Agreements signed with the financial institutions and with the Leasing Pool are described in detail, and the considerations that make us believe that the Tiscali Group will operate as a going concern over the next 12 months and can reasonably implement the New 2018-2021 Business Plan, despite the usual uncertainties related to the dependence of the implementation of forecast data from uncontrollable exogenous variables typical of the reference market in which the

Group operates, together with other uncertainties better detailed in the paragraph “Assessment of the businsess as an ongoing concern and business outlook” are recalled.

4 Administration and Control Bodies

Board of Directors

The Board of Directors has been appointed by the Shareholders' Meeting held on June 26, 2018, and is in office until the date of approval of the financial statements at December 31, 2020:

Chairman: Alexander Okun (#) (4)

CEO: Alex Kossuta (#)

Anna Belova (*) (1) (2) (3)

Alina Sychova (2)

Paola De Martini (*) (1) (2) (3)

Oleg Anikin (1)

Renato Soru

(*) Independent auditors

(#) The Chairman is the legal representative of the Company, the CEO has powers of ordinary and extraordinary administration assigned through proxy by the Board of Directors on June 26, 2018

(1) Control and Risk Committee

(2) Nominations and Remunerations Committee

(3) Committee for Transactions with Related Parties

(4) Appointed as Chairman with resolution of the Board of Directors dated June 26, 2018

Board of Auditors

The Board of Auditors has been appointed by the Shareholders' Meeting held on June 26, 2018, and is in office until the date of approval of the financial statements at December 31, 2020:

Chairman: Barbara Tadolini

Statutory Auditors: Emilio Abruzzese

Valeria Calabi

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 26, 2018, and he is in office until the date of approval of the financial statements at December 31, 2020. Prior to that date, Mr. Daniele Renna had held the same office of Officer in charge until June 27, 2017.

Auditing Firm:

Deloitte & Touche SpA

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

Management Report

5 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.

5.1 Tiscali market positioning

Founded in 1998, Tiscali S.p.A. (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) and portal and mobile telephone services, thanks to the agreement for the provision of services reached with TIM (MVNO). From 2016 and until November 2019, thanks to the spectrum acquired through the merger with Aria S.p.A. (hereinafter referred to as "Aria" in this report) in December 2015, Tiscali Group has also offered UltraBroadBand LTE Fixed Wireless services over its proprietary access network. Furthermore, Tiscali is active in the digital media and online advertising segment through:

- www.tiscali.it, one of the main Italian portals that in 2017 had a total average monthly traffic of more than 218.4 million pageviews;
- Veesible S.r.l. 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.

Fixed Broadband Market Evolution

Regarding the development of the broadband access market from the fixed network, the main market covered by Tiscali, in September 2018 (source: Italian Communications Authority – AGCOM, last available update) the Broadband accesses in Italy reached about 17 million units, an increase of approximately 710 thousand accesses year over year (YoY). 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 2018 about 7.7 million accesses, an increase by 2.87 million accesses from September 2017, more than 45% of the total Broadband lines; the DSL component has instead decreased by 2.15 million units. In this sector, we would point out the dynamics of NGA access (in FTTC and FTTH technology): accesses in FTTC technology (fiber on mixed copper network) grow in a year by over 70%, reaching 5.79 million units thanks to the increase of TIM wholesale services, while FTTH access increases by over 50% and at the end of September amounted to about 800 thousand units, thanks in particular to the growth of services offered by Open Fiber. FWA access, which at the end of September amounted to 1.18 million lines with an increase by 20.3% YoY, have also increased.

The TIM market share (44.5%) decreased by 1.1% YoY, followed by Vodafone with 15.4%, Fastweb (14.8%) and Wind (14.4%); Tiscali is at 2.8%.

During the course of 2018, the Tiscali group continued with the strategy launched in 2017 for the development of the Fiber market described above through:

1. 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”) and on the offers on FTTC (fiber on mixed copper network) and thanks to the agreement signed with Fastweb in 2018;
2. Progressive spread of the new LTE UltraBroadband Fixed Wireless offer under the Tiscali brand with capacity up to 100 MBps launched in 2016

In the fixed network Broadband market, the Fixed Broadband client portfolio of Tiscali, reached approximately 382.8 thousand units in December 2018, decreased as compared to 451.2 thousand units in December 2017, mainly due to the reduction in the activity of promotion of the company’s products which took place throughout the year 2018, due to the scarce financial resources available to the company before the definitive subscription of the above-described Strategic Agreement with Fastweb.

In particular, the number of Fiber users increased from approximately 47 thousand in December 2017 to over 79 thousand in December 2018, also due to the migration of the Customer Base from traditional ADSL solutions to fiber solutions implemented by Tiscali. The market continues to be essentially controlled by the incumbents (TIM - Telecom Italia, Wind, Fastweb, Vodafone) with substantially stable market shares and slight growth only for Wind3.

Mobile Market

As per mobile services, the Italian market recorded in September 2018 (Source: AGCOM) a growth in the total number of clients by 3.8 million YoY: 103.2 million in September 2018 as compared to 99.1 million in September 2017, of which 19.8 million unit are “M2M” (Machine to Machine) sims, amounting to 19% of the total, that grew YoY by 4.6 million, and 83.3 are “human” sims making “voice only” and “voice + data”, down by 0.8 million YoY and up by 0.4 million on the quarter, due to the entrance of Iliad on the market.

With reference to the overall sims, TIM is confirmed as market leader with 31%. With regard to the “human” segment, in the first quarter of activity Iliad reached 2.7%. Although Wind3 remains the main operator with 33.2% of the “human” lines, it has lost 2.2%.

In the MVNO segment, in which Tiscali operates and which accounts for 10.2% of Human sims, the first operator is Poste Mobile with a share of 47.2%; Fastweb ranks second with 20.4%. Tiscali, which from last March is part of the AGCOM survey, in September 2018 had a 2.8%market share.

In the mobile market, where Tiscali operates as an MVNO operator, in December 2018 the company recorded a portfolio of mobile clients of about 198.5 thousand units, a decrease by 13.8% as compared to December 31, 2017 (about 230 thousand clients). The reduction compared to 31 December 2017 is connected to a general increase in competitive pressure also following the entry of Iliad as a new entrant on the Italian Mobile market.

The exponential growth of data traffic on the Mobile network also continues, with a growth of more about 53.8% in June 2018 as compared to the same period of the previous year, with an average monthly consumption growth of almost 55%, equal to 3.63 Giga/month driven by the increasing use of video, streaming and on-demand applications.

To compete with ever greater success in this increasingly competitive market, in 2018 Tiscali continued to market 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 that offer 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. The evolution of the Open suite has followed the growing demand for bandwidth of end customers by proposing more advantageous combinations especially with regards to data traffic.

Online Advertising Market

In 2018, the on-line advertising market recorded an overall result of +4.3%, mainly generated by a growth of investments in the smartphone sector (according to FCP: from a weight of 20.2% in 2017 to 25.3% in 2018, with an absolute value that exceeds EUR121 million out of a total market of EUR 478 million).

The collection on the traditional web desktop and tablet segment also recorded a decrease by -2.5% this year. The turnover of smart TV and consoles grew by double digits (+21.8%), even if the investments on these devices in absolute value still amount to less than EUR1 million.

Mobile advertising remains one of the main drivers of future growth, even though still today the investments do not reflect the growth in time spent by users and the audience generated through the use of smartphones as compared to traditional PCs (Audiweb December 2018: 27.9 million unique mobile users on average day compared to 11.4 million unique PC users, again on average day).

The stagnant trend of the Italian economy and the absence of a significant recovery in growth have influenced the trend of the advertising market during 2018.

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, particularly as regards investments in video-mobile formats and the growth of investments in smart TV contents.

In 2018, the Group's Media & VAS ney revenues represent 4.1% of total revenues (EUR 6.7 million), a decrease as compared to the comparative figure at 31 December 2017.

5.2 Main results obtained during the FY 2018 and subsequent events

In 2018, the Tiscali Group activities focused in particular on the preparatory actions for obtaining the extension of the license held on the 3.5GHz frequency and on the negotiation of the Strategic Agreement with Fastweb (signed on November 16, 2018, whose details will be given below) aimed at the full exploitation of the same frequency and the possibility of having access to the Fastweb Fiber access infrastructure in wholesale mode, to extend the size of the expressible market for Fiber services to end users (hereinafter referred to as "Strategic Operation with Fastweb"). Furthermore, the negotiation process of agreements aimed at debt management, both of the one expired with the main strategic suppliers and of the financial one with Financial Institutions and Pool Leasing, continued and was completed successfully in March 2019 with the signing of the Financial Debt Restructuring Agreements (please refer to the paragraph "Strategic Agreement with Fastweb" for further details on the agreement finalized on November 16, 2018, and to the paragraph "Financial Measures and New 2018-2021 Business Plan and its asseveration as per Article 67" for details on the agreements to renegotiate the financial debt with Financial Institutions and Pool Leasing).

Extension of the license on the 3.5GHz frequency

In the first 6 months of 2018, preparatory activities were finalized to obtain the extension of the license on 3.5GHz frequency of which Tiscali is the holder, from its natural expiry date established in May 2023 until December 2029, thus extending the duration of the license of over 6 years.

This extension, obtained on 12 November, was essential for the finalization of the Strategic Agreement with Fastweb and of the Financial Debt Restructuring Agreements with the Financial Institutions and the Pool Leasing, consolidating the real value of the 3.5GHz frequency also by virtue of its use for the development of future 5G services.

It is in fact well-known that the 3.5GHz frequency, of which Tiscali was proprietary, is universally considered among the "pioneer" frequencies for the development of 5G services. 5G services are considered one of the main drivers of growth for the telecommunications sector for the years to come. Operators, as shown by the auction trend for the award of the 5G spectrum, are making huge investments in the new 5G technologies, which however will need medium-long times for a positive economic return. For this reason, the use of the Tiscali spectrum sold by the Group in the Strategic Operation with Fastweb in this field has the advantage of having the frequency immediately available for a sufficiently considerable number of years.

As per the extension, it should be noted that:

- the public consultation launched by AGCOM on the resolution containing the opinion requested by the MiSE to AGCOM about the conditions for granting the extension to 3.5GHz owners which had made a formal request in the last few months of 2017 had been completed in February 2018;
- in April 2018, AGCOM sent a positive opinion to the MiSE regarding the granting of the extension to the owners which had requested it (with the sole exception of TIM);
- in July 2018 Tiscali received from the MiSE the letter requesting formal acceptance of specific conditions contained in the AGCOM opinion as propaedeutic conditions for the extension. In particular, in this letter the MiSE set the extension charges in an amount equal to the basic auction prices of the 3.6GHz-3.8GHz frequencies, appropriately reproportioned on specific duration and size of the Tiscali frequencies;
- in September, Tiscali replied to the MiSE, formally accepting all the conditions for extension, thus substantially concluding the process for obtaining the extension of the frequencies until 2029;
- in October 2018, finally, the MiSE issued a favorable opinion to the transfer of the right to third parties to the maintenance of the right to the extension obtained by Tiscali (see following paragraph);
- on November 12, the MiSE confirmed the conditions, non-onerous for the Tiscali Group, for the extension to 2029 of the license which was then sold to Fastweb on November 16.

The assignment of the licenses for a nominal value of EUR198 million made it possible to consolidate the present and prospective value of the spectrum that Tiscali held in the context of the 5G services development plan.

For the sake of completeness, it should be noted that the main national telecommunications operators (TIM, Vodafone, Wind3 and Iliad) have appealed to the Lazio Regional Administrative Court against the Ministry of Economic Development; the appeal's assumptions are dealt with in the following paragraph "The New 2018-2021 Business Plan and its Asseveration as per Article No. 67".

The New 2018-2021 Business Plan and its asseveration as per Article 67

The Group has developed and approved a 2018-2021 Business Plan (hereinafter referred to also as the "New 2018-2021 Business Plan") which, taking into account the effects that the Strategic Operation of the spectrum to Fastweb would have implied on the development strategies and on the financial structure of the Tiscali group, aims to guarantee the Group's business continuity and relaunch, also taking into account the positive finalization of the agreements for the restructuring of financial debt with the Financial Institutions and the Pool Leasing which was concluded with the signature of the respective Financial Debt Restructuring Agreement on March 28, 2019.

In particular, the New 2018-2021 Business Plan includes, inter alia, financial measures which provides for both the restructuring of senior debt and the restructuring of the leasing debt relating to the property of Sa Illetta. Therefore, the senior loan with Intesa San Paolo and BPM, of about EUR 95.9 million as at March 28, 2019, has been inlcuded in the New 2018-2021 Business Plan as follows:

- New deadline: 30 September 2024
- Repayment plan structured as follows:
    - A prepayment of EUR 20 million to be made on July 1, 2019, followed by a three-year period of pre-amortization;
    - amortization of EUR 25 million to be paid in 5 six-monthly installments from March 31, 2022 to March 31, 2024;
    - balance of the residual debt, equal to EUR 40 million, to be paid in full on September 30, 2024, together with unpaid interest at the date, amounting to approximately EUR 9 million.
- Interest rate:
    - 1.0% rate on the portion of debt to be amortized over the 2022-2024 period (approximately EUR 25 million);
    - 1.25% rate on the portion of debt to be repaid in full on September 30, 2024 (approximately EUR 40 million).

The conditions and terms of the financial measures described above have been confirmed by the agreements signed by the Group and by Intesa San Paolo and BPM on March 28, 2019 ("Senior Debt Restructuring Agreement").

Likewise, with regard to the "Sale & Lease Back Sa Illetta" debt outstanding with Mediocredito Italiano and Unicredit Leasing (the "Pool Leasing"), the final agreement with the Pool Leasing was signed on March 28, 2019 ("Agreement for the Restructuring of the Sa Illetta Lease" and, together with the Senior Debt Restructuring Agreement, the "Debt Restructuring Agreements") which for the property to return to the possession of the leasing companies and for Tiscali to pay on July 1, 2019 a payment of indemnity equal to EUR10 million to fully repay the residual debt.

The net book value of the property as at 31 December 2018 amounts to EUR 40.5 million, while the lease payable recorded in short-term financial payables amounts to EUR 53 million.

At the same time, Tiscali will enter into a rental agreement for the entire building, for a period of 9 years, renewable, with an annual fee of 2,150,000 euros plus VAT with the right to sublease.

Lastly, it should be noted that, within the scope of the financial measures included in the New 2018-2021 Business Plan, a financial strengthening was expected by the reference shareholders, which was realized with the subscription, on January 31, 2019, by the reference shareholders ICT and Sova Disciplined Equity Fund of the 2019-2020 Convertible Bond (as described in more detail in paragraph "5.9 Other events after year-end") for a nominal amount of EUR10.6 million, paying a price of approximately EUR10 million.

The New 2018-2021Plan bases its assumptions on the important strategic agreement underwritten with Fastweb, and is based on the full confirmation of Tiscali's focus on its "Core Business", that is, the sale of Fixed Broadband and UltraBroadband, Fixed Wireless and Mobile services to consumer retail customers, SOHOs and SMEs, within a framework of a progressive redefinition of the operating model which, following the sale of part of the network infrastructure to Fastweb, will increasingly focus on the capacity to develop new services, on Marketing and Sales activities and on excellence in customer management.

This process will be facilitated by the wholesale agreement signed with Fastweb, that allows for an expansion of the addressable market deriving from the possibility of continuing to market LTE Fixed Wireless services in the *Extended Digital Divide* areas and accessing the Fastweb Fiber network, allowing Tiscali to expand the addressable market for fiber services without further incremental investments from approximately 8 million households and businesses to around 18 million.

The New Business Plan also provides for the relaunch of the Tiscali brand to support the marketing of services, thanks to significant investments in communication thanks to the proceeds from the Strategic Agreement with Fastweb.

This plan therefore represents an opportunity for a re-launch of Tiscali, which can use the resources acquired from the sale to refocus its business in line with the size and investment capacity of the company and the changed technological and market environment (Fiber, 5G).

As anticipated, on March 27, 2019, the asseveration report pursuant to Article No. 67, paragraph 3, letter d) of the Royal Decree dated 16 March 1942, No. 267 of the New 2018-2021 Business Plan for the companies Tiscali Italia and Aria has been signed by the appointed professional.

Strategic Agreement with Fastweb

During the last quarter of 2017, Tiscali mandated a financial advisor of the Company to assess possible strategic option for the Group. Within this mandate, the interest of Fastweb to evaluate a potential strategic agreement has emerged, concerning, in particular, the 3.5GHz frequency owned by Tiscali, and the Fixed Wireless access network infrastructure which has been realized to exercise this frequency. The complex negotiation of this Strategic Agreement has committed Tiscali for the entire April-July 2018 period.

On 30 July 2018, Tiscali signed a preliminary agreement with Fastweb (hereinafter referred to also as "Transfer Agreement"), aimed at strengthening the strategic partnership launched in December 2016 with Fastweb.

The structure of the PReliminay Transfer Agreement was based on three pillars:

- the sale by Aria (a Tiscali group company holding the license) of the 42 MHz license in the 3.5 GHz frequency;
- the sale by Tiscali Italia of a Fixed Wireless Access (FWA) company branch, including all the FWA infrastructures (836 towers) owned by the Tiscali group on that date, as well as the transfer of 34 employees;
- a wholesale agreement (hereinafter referred to also as "Wholesale Agreement"), which allowed the Tiscali group to obtain full access to the Fastweb Fiber access network infrastructure and the FWA infrastructure sold to Fastweb.

The Preliminary Sale agreement was finalized on November 16, 2018 through the signing of the definitive agreements (the "Sale Agreement") and with the payment of the part of the first installment of the expected price, totaling EUR 50 million, residual on advance payments previously made by Fastweb to support Tiscali's temporary liquidity needs that emerged during the trading period. This subscription took place following the occurrence of all the conditions precedent, and in particular:

1) the approval by the Ministry of Economic Development, on November 12, 2018, to the transfer of the right of use and of the maintenance of the extension of the right to use of frequencies up to 2019;
2) the receipt on November 14 and 15 of the comfort letter by the Financial Institutions and the Pool Leasing, which undertake to bring into approval the Debt Restructuring Agreements on terms and conditions consistent with those reflected in the New 2018-2021 Business Plan;
3) the asseveration of the New 2018-2021 Business Plan as per Article No. 67, paragraph 3, letter d), of the Royal Decree dated 16 March 1942, No. 267, of Tiscali Italia and Aria, subject to the conclusions of the Debt Restructuring transactions.

As already said, the asseveration was issued subject to the completion of the Financial Debt Restructuring Agreements described in the previous paragraph "The New 2018-2021 Business Plan and its asseveration pursuant to Article No. 67".

As per the charge to be incurred for the extension of the concession for the use of frequencies to 2029, as determined by the MISE, it should be noted that the same is fully borne by Fastweb.

The consideration agreed with Fastweb for the acquisition of the frequency and assets of the Fixed Wireless infrastructure, restated in its valuation on November 12, amounts for nominal EUR198 million, of which:

- EUR 130 million cash (of which EUR 50 million to be settled on the closing date and the remaining EUR80 million to be paid by June 30, 2019);
- EUR 55 million for "in-kind" vouchers to be spent on services that the Tiscali Group can acquire from Fastweb, on the basis of the conditions contained in the Wholesale Agreement; and
- the acquisition by Fastweb of about EUR 13 million of trade payables.

Thanks to the Strategic Agreement finalized with Fastweb on November 16, 2018, Tiscali will be able to undertake a new corporate process consistent with the expectations of the New 2018-2021 Business Plan, with a consequent relaunch of its business activities, based on the following assumptions:

- the significant improvement in the equity and financial structure, guaranteed by the contribution of about EUR 198 million by Fastweb in the above-described forms. In particular, this contribution will make it possible to substantially reduce overdue debts, in particular tax and trade liabilities;
- the restructuring of senior financial debt and the leasing debt relating to the Sa Illetta property, consistent with the capacities of cash generation highlighted in the New 2018-2021 Business Plan;
- the significant increase in the coverage of Fiber services for its end users, thanks to the possibility to access the Fastweb Fiber access network, guaranteed by the wholesale agreement signed, which will allow – without any incremental investments – the offer in the market for Fiber services, from the current about 8 million households and businesses to around 18 million;
- the possibility of continuing to provide LTE FWA services to its customers in areas of extended digital divide, still being able to access the Fixed Wireless infrastructure sold to Fastweb, in the specific conditions contained in the wholesale agreement signed. Moreover, Tiscali will benefit from the fact that Fastweb will complete the migration of the residual antennas from WiMax to LTE at its own expense, expanding also in this case the LTE market addressable, from the current about 4 million households and businesses to about 6.5 million, in addition to bear the charges related to the extension of the rights to use of frequencies up to 2029. This commitment is contained in the Strategic Agreement with Fastweb;
- the definition of a relaunch plan also based on investments in communication aimed at revitalizing the Tiscali brand and strengthening the company's digital strategy, in order to

support the acquisition of new customers, in particular Fiber, LTE Fixed Wireless and Mobile customers;

- the possibility of future access to also 5G services developed by Fastweb on the spectrum sold as well, which guarantees Tiscali a better prospective competitive position also in the context of Mobile Data services, one of the main drivers for the future development of the telecommunications market.

By virtue of the above, Tiscali will be able to implement a new development plan, focusing its strategy on the development of new services and on the marketing, sales and customer management activities, reducing costs and investments dedicated to the management and development of network infrastructures.

Therefore, consistently with the provisions of the New 2018-2021 Business Plan, Tiscali will continue to focus on its core business, i.e. the sale of UltraBroadBand services (Fiber and LTE) to Consumer, SOHO and SME customer segments, as well as the sale of Mobile services.

Moreover, Tiscali will be able to progressively rationalize its infrastructures, benefiting over time from a significant reduction in operating costs and investments, with a view to strengthening its business model and the overall risk profile of the company.

It should also be noted that the main national telecommunications operators (TIM, Vodafone, Wind3 and Iliad) have submitted an appeal to the Lazio Regional Administrative Court against the Ministry of Economic Development, against the permit to sell licenses from Aria to Fastweb, in addition to having made a further appeal to the Lazio Regional Administrative Court against the Ministry of Economic Development, against the decision to grant Aria (and the other operators grantees of band on the frequencies 3.4-3.6 GHz, with the exclusion of TIM) an extension of the right of use for consideration for a further 6 years, up to 31 December 2019 (the “Disputes Against the Strategic Operation with Fastweb”). These disputes, initiated against the Ministry of Economic Development – and therefore not under the control of the Company – are of unpredictable evolution; however, it should be noted that a ruling by the Regional Administrative Court in favor of the appellants could theoretically lead to the annulment of the sale with legal and accounting effects that cannot be defined to date.

5.3 Regulatory Framework

The main areas of the regulatory framework that took place during 2018 are summarized below.

TIM Reference Offers

With resolution 34/18/CIR at the end of March 2018, AGCOM approved Telecom Italia’s reference offers for wholesale unbundled access services and placement for 2017.

The main changes as compared to the current regime concern:

- the economic conditions, for the year 2017, of one-off contributions that suffer a 12% reduction for termination and a 18% reduction for activation;
- the conditions of supply Number Portability (NP) to which, starting from January 1, 2017, the *bill and keep* model applies (in which each one bears its own costs without wholesale remuneration);
- the economic conditions and procedures to be adopted for the disposal of the placement resources, whose entry in force is established on the date of publication of the approved Reference Offer (April 27, 2018).

With resolution no. 87/18/CIR at the end of June 2018, AGCOM approved Telecom Italia's Reference Offers for bitstream access services on copper and fiber optic networks for the year 2017. The main changes concern the economic conditions, for the year 2017, of the services that are subject to cost orientation (one-off contribution, band – ATM and Ethernet – and ancillary services).

In particular, this resolution establishes a substantial reduction in the fees of the Ethernet band (of about 30%) with retroactive effect starting from January 1, 2017, following the in-depth analysis and measurements carried out within a specific technical table with operators.

The impacts of these resolutions were included in the New Business Plan 2019-2021.

Update of the fixed network access service 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.

After collecting the preliminary qualitative and quantitative information from all the Operators concerned, AGCOM has repeatedly postponed the procedure.

In December 2018, with a press release, the Authority announced the imminent start of the consultation – which, however, has not yet been published – and has anticipated its contents: new pricing system with a gradual increase in the price of unbundling and bitstream-copper, and a trend towards reduction in the prices of access services on the fiber network; the possible identification of differentiated geographical remedies; the project of voluntary legal separation of TIM in particular in terms of non-discrimination and equivalence. This legal framework has been taken into account in the New 2018-2021 Business Plan.

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

In February 2017, with resolution 45/17/CONS, the Authority started a new cycle of analyses on the termination on mobile network market to assess the existence of operators with significant market power, as well as whether 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).
Furthermore, as compared to the previous provision, the Authority proposed to identify a greater number of operators with significant market power by adding five operators to the list of SMP operators (Digi Italy, Fastweb, Iliad, Vectone and Welcome Italia).
Tiscali presented its contribution to the consultation in which it pointed out that the value of 0.89 eurocent/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.
The proceeding ended in January 2019 with the publication of Resolution 599/18/CONS.
With this provision, the Authority confirmed its initial orientation, identifying twelve notified operators for which symmetrical tariffs have been established. Furthermore, for the first time, the obligation to control the prices for the supply of interconnection kits was imposed, while the cost accounting obligation imposed on Telecom Italia, Vodafone and WindTre operators was removed.
The authority has finally revised down the previous decalage proposal for the termination rate whose value per minute will increase from EUR 0.90 cents forecast for 2019 to EUR 0.67 cents in 2021.
With regard to this issue, the resolution adopted by AGCOM in August 2018 was taken into account in the New 2018-2021 Business Plan.

Exploratory analysis on 5G

The Authority continued the activities initiated with resolution 557/16/CONS (December 2016) concerning 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 aimed 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.
Tiscali participated in the in-depth investigation, focusing its positioning on the subject of spectrum management and the concerned regulation, with particular reference to the 3.6-3.8 GHz neighboring and “twin” band of 3.4-3.6 GHz band, in which it holds rights of use. To this end, it made a contribution and, in a hearing, strengthened his position on the importance of the extension of 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 enable the necessary investments.
The outcome of this survey was made public on 6 March 2018, highlighting that, albeit at present a preference for traditional allocation methods, with rights of use granted on an exclusive basis, is generally maintained, new forms of shared access to the spectrum are being considered with interest by some subjects, mainly among the potentially new entrants in the mobile and/or wireless market.

The outcomes collected in the survey merged into the important project of the 5G pioneer bands allocation plan and in the consultation on the definition of procedures for the allocation of rights of use in the 700 MHz bands, 3.6-3.8 GHz and 26 GHz, and have indirectly led to an extension of the Group’s license for a further 6 years, as already thoroughly commented previously.

Consumer Protection

An intense regulatory activity framed the Authority’s actions on consumer protection between the end of 2017 and the first half of the current year, with particular attention to issues related to tariff transparency and freedom of choice for consumers in the market.

During its inspection, which began in November 2016 and ended in June 2017, the Antitrust has contested, among other things, an unlawful conduct concerning the conclusion of distance contracts by proceeding with the start of the line activation process during the withdrawal period (14 days) without contemplating the possibility for the consumer to expressly request for the service be provided within the deadline, exercising the right of reconsideration as required by the amended Consumer Code. The proceeding ended with the imposition of a EUR 1 million fine. During 2018, the Lazio Regional Administrative Court, where an appeal was filed against this sanction, confirmed the amount of the fine.

In addition, the Antitrust Authority – with a communication dated 5 July 2018 – following a preliminary investigation initiated in the first few months of 2018, identified an unfair practice relating to having carried out advertising campaigns without providing, or providing with insufficient clarity, information on geographical and technological limits of ultra broadband services. The incorrect practice was sanctioned with the imposition of a EUR 300 thousand fine.

The main proceedings adopted by AGCOM are the following:

1. measures for the free choice of terminal devices

In February 2018, 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.

The proceeding closed at the beginning of August with the publication of Resolution No. 348/18/CONS, with which the Authority established the existence of the freedom of choice of terminals for the Internet access service by the users, and introduced a series of measures to protect this right.

Tiscali is proceeding with the implementation of all actions aimed at fulfilling regulatory measures. In particular, the necessary actions were taken immediately to make the terminal associated with the service offered always optional, both for new subscribers and for the customer base until the release of the developments that will make the device optional.

Requirements that present a greater level of criticality, both in terms of technical/procedural impact and in terms of investment, will instead be adopted in the medium term, that is in the course of 2019.

2. transparency measures in Broadband and UltraBroadband retail offers

At the end of February, with Resolution 33/18/CONS, the Authority launched a public consultation aimed at defining the technical characteristics and the corresponding names of the various types of physical infrastructure used for the provision of electronic communications services.

The final provision, adopted in July with Resolution No. 292/18/CONS, establishes that operators providing connectivity services via a fixed connection must guarantee, both in advertising messages and in commercial and contractual communications, full transparency in the presentation of physical infrastructures on which these are provided, and specifies cases and modalities with which the operators can use the term “fiber” or not. In addition, operators will have to integrate communications with specific symbols aimed at indicating, in a simplified manner, the type of infrastructure used.

With reference to the Tiscali Group, the Company promptly proceeded to adapt to the new regulatory measures, amending the sales and subscription pages of its services, product names, advertising material, as well as the material sent to its customers immediately after the conclusion of the contract (welcome pack).

3. guidelines on how to dispose of and transfer users in membership contracts

In May 2018, with Resolution No. 204/18/CONS, the Authority launched a public consultation proposing new guidelines on the methods and costs of disposal and transfer of users, following the provisions of the Annual Market Act and competition (Law No. 124/2017) which, in this regard, has amended the so-called Bersani Decree.

The proceeding ended with the publication, on 2 November 2018, of Resolution No. 487/18/CONS with which the Authority establishes the new rules governing the transfer to another Operator, or the withdrawal by the users.

The new regulation of withdrawal expenses applies not only to the costs incurred by operators to dispose of or transfer the user – who, according to the law, must be commensurate with the contract value and the costs incurred by the company – but also to the ones concerning the reimbursement of

the discounts provided in the case of promotional offers, as well as the costs related to the payment of the residual installments of the products and the services offered together with the main service.
With particular regard to the costs incurred by the operator, the resolution concerned overturns the previous regulation, as it establishes that the deactivation fee chargeable to the user must be determined by the minimum value between the implied price of the offer (which is the average of the fee calculated for the first 24 months of contractual commitment) and the costs actually incurred by the operator to cease or migrate the service.
By virtue of these provisions, Tiscali has taken steps to redefine, downwards, the amounts charged to the customer, taking into account the New 2018-2021 Business Plan.

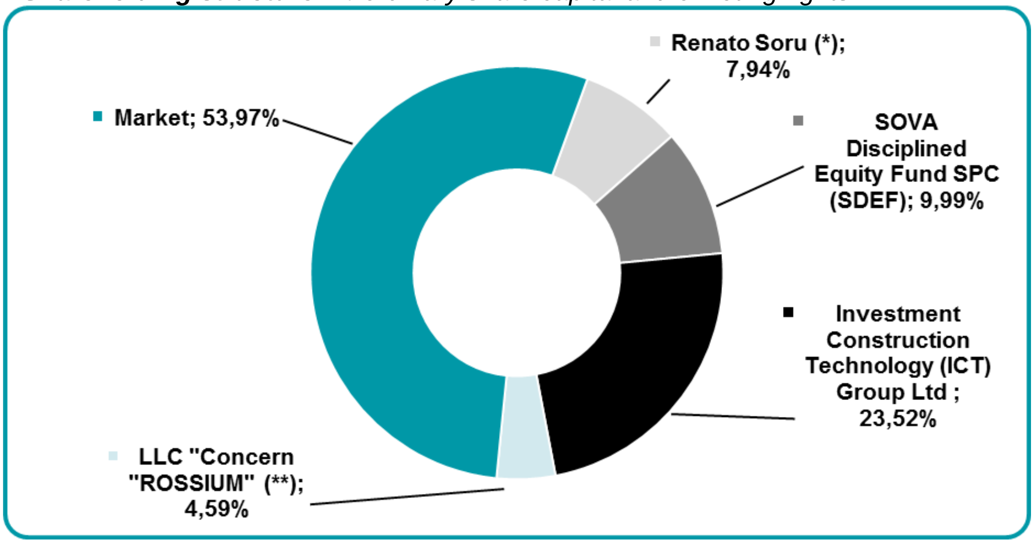
5.4 Tiscali's Shares

Tiscali shares are listed on the Italian Stock Exchange (Milan: TIS) since October 1999. As at 31 December 2018, the market capitalization amounted to approximately EUR 56,144,519 calculated on the value of EUR 0.01410 per share on a total of 3.981.880.763 shares. At the date of approval by the Directors of this Annual Financial Report as at December 31th, 2018, the value per share stands at EUR 0.0144, with a market capitalization of EUR 57.3 million.

Shares structure:

Below the share structure as at 31 December 2018

Fig. 1 Shareholding structure: *% ordinary share capital and of voting rights*



Source: Tiscali

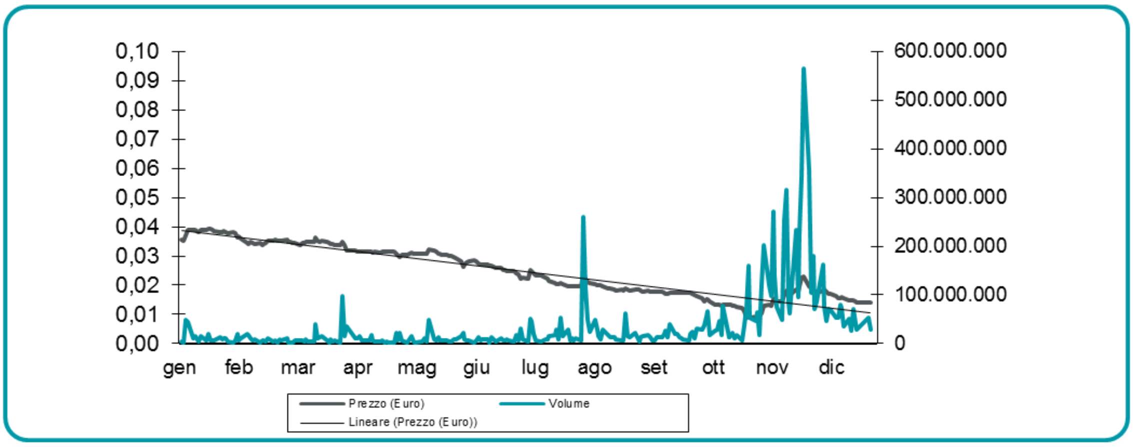
(*) Directly for 6.66% approximately and indirectly through the part-owned companies Monteverdi Srl (0.44%), Cuccureddus Srl (0.83%).

(**) Indirectly through Sova Capital Limited (former Otkritie Capital International Limited) (100%)

Tiscali Shares Trend

The graph illustrated below shows the trend of Tiscali shares over the course of the FY 2018, characterized by significant trading volumes, in particular in the month of November

Fig. 2 – Shares trend during the FY 2018



Source: Bloomberg data processing

The average monthly price in the FY 2018 was EUR 0.025. The maximum price in the period was of EUR 0.0394 and it was recorded on 16 January 2018, while the minimum price of EUR 0.0087 was recorded on 26 October 2018.

Trading volumes settled on a daily average of approximately 38.4 million shares for a corresponding daily average value of EUR 0.863 million.

Average trading of Tiscali shares on the Italian Stock Exchange over the year 2018		
	Price (EUR)	Number of shares
January	0.038	12,621,403
February	0.035	7,718,134
March	0.034	14,406,769
April	0.031	8,378,591
May	0.030	9,876,037
June	0.026	9,068,822
July	0.022	28,486,263
August	0.019	24,754,945
September	0.017	16,783,477
October	0.012	41,024,367
November	0.017	184,104,723
December	0.016	59,926,675
Medium	**0.025**	**34,762,517**

As can be seen from the table, in the second half of 2018 contracting volumes were higher than the volumes traded up in the first semester 2018. In particular, during the week of 12 November, in which the significant events described above took place which make it possible to consider the New 218-2021 Business Plan as achievable, and which favours business continuity, the trading volumes amounted to 178 million shares and the maximum price was EUR 0.18.

Tiscali's total market capitalization; which as at 31 December 2018 amounted to EUR 56.1 million, is compared to the parent company's equity of EUR 43.2 million (with a consolidated deficit equity of EUR 44.7 million). The difference between the stock market capitalization (EUR +56.1 million) and the consolidated shareholders' equity (EUR -44.7 million), equal to EUR 100.8 million, is representative of the future profitability of the Group, incorporated in the cash flows resulting from the New 2018-2021 Business Plan.

5.5 Major events occurred in fiscal year 2018

The major events occurred during fiscal year 2018, following the approval of 2017 Financial Statements by the Board of Directors in office at that time, follow:

<u>22 May 2018 – Resignation of the CEO</u>

On 22 May 2018 Riccardo Ruggiero resigned from his post of CEO.

<u>25 May 2018 – Appointment of the new Director General Alex Kossuta</u>

On 25 May 2018, the Board of Directors of Tiscali S.p.A. conferred on Alex Kossuta the position of Director General.
With the entry of the new Director General, the proxies within the Board have been adjusted in order to facilitate the Company in the timely execution of the provisions of the 2018-2021 Business Plan approved on 10 May 2018, as well as in pursuing the already-defined objectives and work programs.

The proposal of agreement between the Company and Mr. Kossuta had been approved by the Appointments and Remuneration Committee and by the Board of Directors on 22 May. On 25 May 2018, Mr. Kossuta took over the same position as Director General also in Tiscali Italia S.p.A.

26 June 2018 – Approval of the 2017 Financial Statements and appointments of the new members of the Board of Director and the Board of Auditors

Tiscali Ordinary and Extraordinary Shareholders' Meeting approves all the items on the agenda: approval of the Financial Statements for the year ended December 31, 2017; appointment of the members of the Board of Directors; appointment of the members of the Board of Statutory Auditors and its Chairman.

Tiscali ordinary Shareholders’ Meeting, after determining the number of members of the Board of Directors at 7, has provided for the renewal of the Board of Directors, which had arrived at the end of its mandate. The new Board then proceeded to confirm the Chairman of the Board of Directors in the person of Alexander Okun and the appointment of the Chief Executive Officer in the person of Alex Kossuta, former Director General. The members of the new Board of Directors are: Alexander Okun, Alex Kossuta, Oleg Anikin, Anna Belova (independent member), Paola De Martini (independent member), Alina Sychova and Renato Soru.

The Shareholders’ Meeting resolved that the Directors of the Company will remain in office until the approval of the financial statements for the year which will close at 31 December 2020, and approved the remuneration to be attributed to the Directors.

On the same date, the Appointments and Remuneration Committee was also appointed, composed of Paola De Martini (Chairman), Anna Belova and Alina Sychova.

Tiscali Ordinary Shareholders’ Meeting also provided for the renewal of the Board of Statutory Auditors, which had arrived at the end of its mandate. The members of the new Board of Statutory Auditors are: Barbara Tadolini (Chairman), Emilio Abruzzese, Valeria Calabi. The Shareholders’ Meeting resolved that the appointed Board of Statutory Auditors will remain in office until the approval of the financial statements for the year which will close at 31 December 2020, and approved the remuneration to be attributed to its members.

12 July 2018 – Liquidation of Indoona S.r.l.

On 12 July 2018, the liquidation of the company Indoona Srl was finalized.

30 July 2018 – Strategic Agreement with Fastweb for strengthening the strategic partnership

As previously reported, on 30 July 2018, Tiscali closed and agreement with Fastweb a Preliminary Sale Agreement aimed at strengthening the strategic partnership initiated in December 2016 with Fastweb.

10 September 2018 – Risk Control Committee, Convertible Bond Loan and change to the event calendar

The Board of Directors of Tiscali S.p.A. (the "Company"), which met on 10 September 2018, established the Control and Risk Committee, with the appointment of Anna Belova (Chairman), Paola De Martini and Oleg Anikin, and of the Committee for Transactions with Related Parties, with the appointment of Paola De Martini (Chairman) and Anna Belova.

On that date, the Company also announced that negotiations were commenced with the main Shareholders of the Company (ICT and Sova Disciplined Equity Fund), for the subscription of a convertible cum-warrant bond for a maximum of EUR 15.6 million. These negotiations were interrupted in October, as announced by the Company with a press release dated 23 October.

Also on 10 September 2018, the Board of Directors resolved to postpone the approval of the half-year report as at 30 June 2018 – originally scheduled for 14 September – after September 30, given the pending negotiations with Fastweb.

9 October 2018 – Liquidation of Tiscali Uk Holdings

On 9 October 2018, the liquidation of the company Tiscali Uk Holdings was finalized.

14 November and 15 November 2018 – Receipt of comfort letter by the Financial Institutions and the Pool Leasing

As anticipated and better detailed in paragraph 5.2, on 14 and 15 November 2018 the Company received confirmation through comfort letter of the agreements negotiated with the Senior Lenders and the Pool Leasing, agreements reflected in the New 2018-2021 Business Plan.

15 November 2018 – Receipt of the certification by the asseverating expert

On 15 November 2018, the asseveration procedure as per Article 67, paragraph 3, letter d) of the

Royal Decree dated 16 March 1942, No. 267, of the New 2018-2021 Business Plan for the companies Tiscali Italia and Aria was positively closed. This positive conclusion is conditional on the final signature of the Financial Debt Restructuring Agreements.

16 November 2018 – Closing of the Strategic Agreement with Fastweb and letters of commitment from the reference shareholders to the disbursement of bridge loans

As previously illustrated, on 16 November 2018 the companies Tiscali Italia S.p.A. and Aria S.p.A. signed the Strategic Agreement with Fastweb concerning the LTE business unit and the license to use the 3.5GHz frequency. On the same date, the remaining part of the first tranche of the price for a total of EUR 50 million was collected.

On the same date, the reference shareholders ICT and Sova Disciplined Equity Fund sent the Board of Directors of Tiscali S.p.A. a letter in which they commit to the disbursement of two EUR 5 million bridge loans each, aimed at making available financial resources to the group, also in order to facilitate the approval by the decision-making bodies of the Financial Institutes and Pool Leasing of the Financial Debt Restructuring Agreements.

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

5.6.1 Main risks and uncertainties to which Tiscali S.p.A. and 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.

As well as the other operators of the sector, the activities, strategies and prospects of the Tiscali Group are influenced by the consumers' propensity to purchase, also affected by the reference macroeconomic context.

Risks associated with the sale of licenses to Fastweb

As better described in the paragraph "Strategic Agreement with Fastweb", Aria sold the right to use the 3.5GHZ licenses (and related radio links) for Euro 183 million, plus VAT. A portion of this consideration, amounting to Euro 134 million, is expected to be collected in June 2019. There is therefore a degree of uncertainty about the possibility that Fastweb will not be able to honor this payment in June 2019. This credit is however guaranteed by the sole shareholder of Fastweb, Swisscom.

Furthermore, a portion of the consideration that will be collected in June, will be through Fastweb's recognition of a credit for future purchases of services (vouchers), for an amount of Euro 55 million (VAT included). This credit must be used (under penalty of forfeiture of the credit) within a limited period of time, or within the 5th year following the date of payment, or by 30 June 2024. This voucher can be used for multiple services offered by Fastweb and can be used freely by all the companies of the Tiscali Group and, therefore, it is considered remote the possibility that this voucher is not used entirely within the indicated deadline.

It should also be noted that the main national telecommunications operators, TIM, Vodafone, Wind3 and Iliad, have appealed to the Lazio Regional Administrative Court against the Ministry of Economic Development against the permit to sell licenses from Aria to Fatsweb, in addition to having made further appeal , again to the Lazio Regional Administrative Court and against the Ministry of Economic Development against the decision to grant to Aria (and to the other operators assigned band on the 3.4-3.6GHz frequencies, with the exclusion of TIM) an extension of the right of use on behalf of for a further 6 years, up to 31 December 2019. These disputes brought against the Ministry of Economic Development – and therefore not under the direct control of the Company – are unpredictable; however, it should be noted that in the event of a ruling by the Regional Administrative Court in favor of the appellants, it could theoretically lead to the annulment of the sale with still not definable legal and accounting problems.

However, the Tiscali group considers this risk to be remote.

<u>Risks connected with the high degree of market competitiveness and price trend</u>

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, Tiscali's market share as at June 2018 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 2.8%, while in the virtual mobile operators (MVNO) sector the market share of Tiscali – for the first time in the AGCOM report since March – amounts to 2.8%.

Tiscali main competitors (Telecom Italian Vodafone, Wind3) 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 suppliers (for instance 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 its competitors, Tiscali's strategy included providing quality Internet access services at competitive prices, focusing the commercial effort on UltraBroadBand solutions (Fiber and LTE) with very high capacity.

The Strategic Agreement with Fastweb goes towards strengthening and consolidating this strategy, in particular thanks to the expansion of the potential market with Fiber services (passing without incremental investments from a coverage of 8 million to a coverage of about 18 million households and businesses) and the possibility of continuing to use the Wireless infrastructure sold to Fastweb for the supply of Tiscali branded Wireless LTE services in the “Digital Divide Extended” areas, also thanks to the completion of the migration from WiMax technology to LTE technology that Fastweb is committed to make its own expenses within the first half of 2019.

The possible Group’s inability to compete successfully in the sectors in which it operates with respect to its current or future competitors may adversely affect the market position with consequent loss of customers and negative effects on the company's business, assets position and financial position of the Company and of the Group companies, and the forecast data of the New 2019-20121 Business Plan 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 the investments in the participations through the impairment test. The benefits obtained by the Group thanks to the Strategic Agreement with Fastweb regarding the expansion of the overall addressable market constitute a mitigation of the risk being analyzed.

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.

Any electrical power failure or any interruption in telecommunications, security system violations and other similar unforeseeable negative events (such as the complete destruction of the data -enter) could cause interruptions or delays in the supply of services, with consequent negative effects on the activity and financial, economic and assets situation of the Group.

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; in this case , 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 of the New 2018-2021 Business Plan.

The Strategic Agreement with Fastweb has no material impact on the risk level being analyzed.

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.

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 Strategic Agreement with Fastweb guarantees Tiscali without any incremental investment access to a state-of-the-art Fiber infrastructure and the possibility to continue to access the latest generation of LTE Fixed Wireless access network infrastructure. Furthermore, this agreement guarantees Tiscali that it will be able to access the future 5G infrastructures that Fastweb will implement on the 3.5GHz frequency covered by the agreement, assuring the company access to a key future technology for the development of new services to customers and orders of magnitude of total investment that Tiscali alone would not have been able to sustain. This operation therefore contributes to the mitigation of the risk being analyzed.

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

As mentioned in the previous paragraph "5.3. - 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 and on the New 2018-2021 Business Plan.

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 of the New 2018-2021 Business Plan. Despite the situation of uncertainty indicated, at the moment the Group has reflected in its forecast data the impacts of the regulatory changes currently foreseeable.

The Strategic Agreement with Fastweb has no material impact on the level of risk being analyzed.

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 New 2018-2021 Business Plan, general economic conditions, financial markets and sector in which the Group operates. The Directors believe that this risk is mitigated as a result of the Strategic Agreement with Fastweb, the Financial Debt Restructuring Agreements signed with the Financial Institutions and the Pool Leasing on 28 March 2019, of the agreements negotiated with the main suppliers, as better described in the paragraph “Assessment of the business as an ongoing concern and future outlook”.

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 course of the year Tiscali Italia and Aria stipulated with the trade unions a Solidarity Plan which involves all executives and office staff (about 633 employees).

The contract envisaged an average reduction in working hours (and relative RAL) by 19%, which commenced from 1 July 2018 and stopped on 31 December 2018.

The Group has realized a saving in personnel costs deriving from the application of the solidarity contract equal to about EUR 2 million in the second half of 2018.

The Tiscali Group's business also depends on existing contracts with its strategic suppliers, mainly TIM and Fastweb, on which depends the possibility of the Group to have access to its market.

Wuth the above mentioned strategic suppliers are in place contracts 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 are regulatory and there are no elements in the state that may suggest a non-renewal at maturity.

With reference to the TIM supplier, it should also be noted that in the course of 2018, the management of overdue trade payables to suppliers continued, through the stipulation of additional deferred payment agreements that are more in line with the capacity of cash generation reflected in the New 2018-2021 Business Plan.

With reference to the Fastweb supplier, it should be noted that, following the signing of the Strategic Agreement, the Group has a credit usable for the payment of these services for a nominal value of Euro 55 million, which – based on the current estimates – should allow the acquisition of these services over the next 24-36 months, without using the Group's financial resources.

Concerning the Group's trade payables, it should be noted that as of December 31, 2018, the net expired trade payables (net of payment plans agreed with the suppliers, active items and disputes with the same suppliers) amounted to EUR 57.7 million.

Furthermore, there were no suspensions of supply relationships such as to jeopardize the ordinary course of business. As of 31 December, 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 being negotiated or opposed were EUR 31 million, while the injunctions received totaled EUR 13.7 million.

The Strategic Agreement signed with Fastweb and the related contribution of incremental financial resources will allow Tiscali to progressively reduce overdue debts and risks related to the overall management of suppliers, as better explained in the following paragraph "Assessment on the business as an ongoing concern and future outlook".

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 – after the Strategic Agreement with Fastweb – 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 obtained 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 Decembery 31, 2038: 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 obtained 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 December 31, 2038 – the Group would no longer be able to provide services (both voice and data) of mobile type.

Please note that the right of use in the entire national territory of 42MHz of spectrum on 3.5GHz frequency issued by the Ministry of Communications on 21 May 2008 for a total duration of 15 years (i.e. until 21 May 2023), has been renewed to 2029 at non-onerous conditions for the Tiscali Group, and that the licenses were sold to Fastweb on 16 November.

<u>Risks related to the turnover of managers and other human resources with key roles</u>

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 achieve the results foreseen in the New 2018-2021 Business Plan.

The Strategic Agreement with Fastweb contributes to re-establishing expectations for the development of the Group's business, in line with the retention of qualified personnel.

Going Concern Risk

For this purpose, please refer to paragraph *"5.8 Assessment of the business as a going-concern and future outlook"*.

Risk related to potential disputes and liabilities

For this purpose, please refer to paragraph *"5.10 Disputes, Contingent Liabilities and Commitments"*.

5.6.2 Introduction

The Group offers its products to *consumer* and *business* customers on the Italian market, mainly through the following 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.

The economic-equity data shown below include the effect of the transfer to Fastweb of the license on the 3.5GHz frequency spectrum, which was owned by the Tiscali group, as well as of the related "Fixed Wireless Access" business unit. As a result of this, the economic and equity items relating to the assets sold (and/or held for sale) have been reclassified to the appropriate items in the Income Statement and Balance Sheet. For comparative purposes, the economic and financial data for the 2017 financial year have also been reclassified.

For more details on the sales carried out in the FY 2018 and the assets held for sale, please refer to Note 9 of paragraph "7.14 Explanatory Notes".

5.6.3 Consolidated Income Statement

Consolidated Income Statement	2018	2017 (*)
(EUR mln)		
Revenue	165.2	201.4
Other income	3.5	3.7
Purchase of external materials and services	114.2	137.4
Personnel costs	24.3	29.1
Other operating expense (income)	0.0	(0.2)
Write-downs accounts receivable from customers	9.6	9.7
Gross Operating Result (EBITDA)	**20.5**	**29.1**
Restructuring costs	6.7	3.6
Depreciations & amortizations	48.0	48.1
Operating result (EBIT)	**(34.1)**	**(22.6)**
Result from the investments evaluated at equity method	(0.4)	(0.2)
Financial Income	1.1	0.1
Financial Expenses	11.6	19.4
Income (loss) before tax	**(45.1)**	**(42.2)**
Taxation	(0.2)	0.1
Net result from operating activities (ongoing)	**(45.3)**	**(42.0)**
Result from held for sale and discontinued operations	128.5	42.9
Net result for the period	83.2	0.8
Minority interests	0.0	0.0
Group Net Result	**83.2**	**0.8**

(*)The economic data for the year 2017 have been restated as follows: 1) the release of the deferred tax provision of EUR 80 thousand relating to the sale to Fastweb carried out in 2017 has been reclassified from the item "Income taxes" to the item "Result of assets sold and/or destined for sale" for comparative purposes as compared to 2018; 2) following the application of IFRS 15, the Company proceeded to offset revenues and costs relating to visibility exchange operations (barters) carried out in 2017 and 2018. In particular, the 2017 barter revenues for the year were equal to EUR 6.2 million and, therefore, the revenues presented for the year 2017 in the approved financial statements amounted to EUR 207.6 million.

Operational Income Statement of the Group

Premise

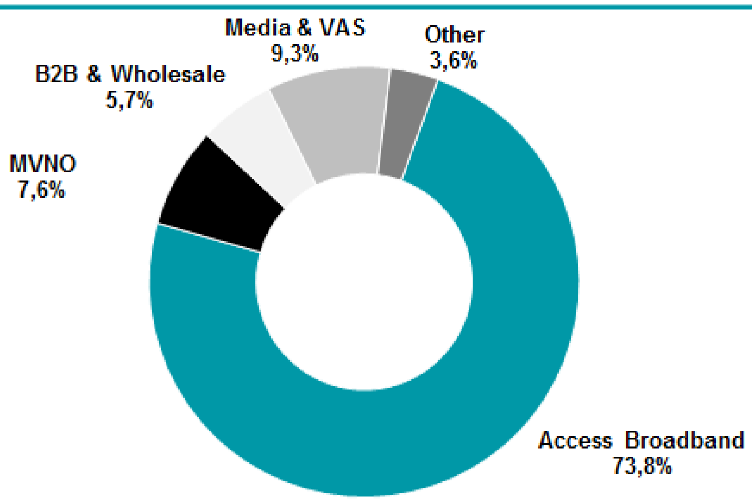
In the following table, for the purposes of a managerial representation of the components of the income statement, the Group's revenues were shown both before the barter (visibility exchange transactions) component included in the item "Media revenues and value added services", amounting to EUR 7.1 million in 2018 (EUR 6.2 million in 2017), both net of this component.

The Profit and Loss Statement of the Group	2018	2017 (*)
(EUR mln)		
Gross Revenues	172.3	207.6
Revenue	165.2	201.4
Access Broadband revenues	132.7	145.9
of which fixed Broadband	118.2	132.9
of which Broadband FWA	14.5	13.0
Revenues from MVNO	12.7	14.4
Business service revenues and Wholesale	7.5	26.6
of which business service & Wh revenues	7.2	18.2
of which revenues from reselling of products	0.3	8.4
Media and value-added service revenues	6.7	7.7
Other revenues	5.5	6.8
Gross operating margin	70.9	86.8
Indirect operating costs	44.2	51.9
Marketing and sales	3.2	7.3
Personnel costs	24.3	29.1
Other indirect costs	16.8	15.4
Other (income) / expenses	(3.5)	(3.9)
Write-down of receivables	9.6	9.7
Gross Operating Result (EBITDA)	20.5	29.1
Restructuring costs	6.7	3.6
Depreciations & amortizations	48.0	48.1
Operating result (EBIT)	(34.1)	(22.6)
Net Result pertaining to the Group	83.2	0.8

(*)The economic data for the year 2017 have been restated as follows: 1) the release of the deferred tax provision of EUR 80 thousand relating to the sale to Fastweb carried out in 2017 has been reclassified from the item "Income taxes" to the item "Result of assets sold and/or destined for sale" for comparative purposes as compared to 2018; 2) following the application of IFRS 15, the Company proceeded to offset revenues and costs relating to visibility exchange operations (barters) carried out in 2017 and 2018. In particular, the 2017 barter revenues for the year were equal to EUR 6.2 million and, therefore, the revenues presented for the year 2017 in the approved financial statements amounted to EUR 207.6 million.

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 2018 for approximately EUR 132.7 million (EUR 118.2 million from “Fixed Access” and EUR 14.5 million from “Fixed Wireless Access”), down by 13.1% as compared to the corresponding figure for FY 2017 (EUR 145.9 million).

This revenue item is mainly due to the following:

- the reduction in revenues of the Fixed Broadband segment for EUR 14.7 million (-11%), which amount to EUR 118.2 million, as compared to EUR 132.9 million in 2017. This reduction is directly related to the reduction in the overall portfolio of Fixed Broadband customers, which decreased by approximately 68.3 thousand units, from around 451.2 thousand units in December 2017 to 382.8 thousand units in December 2018. However, the number of Fiber customers (higher value and higher profitability) continued to increase significantly, from approximately 47.1 thousand units in December 2017 to over 79.1 thousand units in December 2018. The reduction in the portfolio is related to the slowdown in commercial activity previously described and to exceptional activities of termination of customers or for arrears (due to the conclusion of credit recovery procedures and related write-off thereof) or related to processes of forced technological migration of licenses (e.g. migration of Bitstream customers from ATM technology to Ethernet technology);

- the increase in Broadband Fixed Wireless revenues of approximately EUR 1.5 million (11.9%), due to the improvement in the customer mix and the increase in the weight of LTE customers with greater ARPU, despite the decrease in the total BroadBand Fixed Wireless customer portfolio (from 66.6 thousand as at 31 December 2017 to 58.8 thousand as at 31 December 2018).

Evolution of the customer base (lines)

Active Customer base	31/12/2018	31/12/2017
Total Broadband Fixed	382,830	451,151
o/w Fibra	79,138	47,117
Total Broadband Wireless	58,811	66,637
o/w LTE	47,815	49,575
Mobile (6 months in-out)	198,506	230,415
Total Customers	**640,147**	**748,203**

It should be noted that "Fixed Wireless" users do include as of December 31, 2018, a number of former inactive customers waiting to be activated by about 5,000 units, for which the company is performing marketing and commercial activities for potential future reactivations. As of December 31, 2017, the number of former inactive customers expected to be activated was approximately 9,000.

MVNO

The MVNO segment decreased by 11.9%, from EUR 14.4 million in FY 2017 to EUR 12.7 million in FY 2018, due to a decrease of about 31.9 thousand units recorded in the Mobile customers' portfolio (-13.8%). In December 2018, the Mobile customers' portfolio of Tiscali amounted to about 198.5 thousand units.

Concerning the total customer portfolio, as at 31 December 2018 total active users amounted to 640.1 thousand units, down by around 108.1 thousand units as compared to 31 December 2017, in particular due to the reduction in the fixed BroadBand customer portfolio for the above-explained reasons.

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 2018 to EUR 7.5 million, down by 71.7% as compared to EUR 26.6 million in FY 2017.

The decrease is mainly due to the change of product sale strategy for business customers with low marginality, and to the reduction of revenues from the wholesale recorded in 2018.

Media and value-added services

In FY 2018, revenues from the Media and value-added services (mainly related to the sale of advertising space) segment amounted to about EUR 6.7 million, decreasing by EUR 1 million as compared to FY 2017 (EUR 7.7 million), due to the decrease of the market on the traditional online segment.

Other revenues

Other revenues in FY 2018 amounted to about EUR 5.5 million, down by EUR 1.3 million from the corresponding figure for FY 2017 (EUR 6.8 million).

Indirect operating costs in FY 2018 amounted to EUR 44.2 million, decreasing as compared to the FY 2017 (EUR 51.9 million).

The components of the indirect operating costs follow:

- Marketing costs amounted to about EUR 3.2 million, strongly decreasing as compared to FY 2017 (EUR 7.3 million), as a consequence of the aforementioned slowed commercial activity suffered in 2018 due to the scarce financial resources available to the company before the definitive signing of the Strategic Agreement with Fastweb;
- Payroll and related costs amounted to EUR 24.3 million (14.7% of revenues), decreasing as compared to the data of FY 2017 (EUR 29.1 million, 14.5% of revenues), mainly due to the introduction of Solidarity contracts in the second half of 2018 and of the reduction of the workforce of FY 2017 and 2018.
- Other indirect costs amounted to EUR 16.8 million, increasing as compared to FY 2017 (EUR 15.4 million) due to an increase in fees for professional services and consultancy services for EUR 0.9 million and the costs related to the fine imposed by AGCOM for EUR 1.3 million.

Other income/charges

This item includes net other income amounting to EUR 3.5 million, decreasing as compared to FY 2017 (positive for EUR 3.9 million); it mainly includes the recording of the portion of the FY 2018 gain realized through the Sale and Lease-Back transaction at Cagliari (Sa Illetta), for about EUR 2.1 million, and the cancellation of debt position towards an asset supplier for EUR 0.8 million.

Provisions for doubtful accounts

The provisions for doubtful accounts amount to EUR 9.6 million as of December 31, 2017 (5.8% of revenues), stable in absolute value but increased as a percentage of revenues as compared to the same figure of FY 2017, equal to EUR 9.7 million (4.8% of revenues) due to extraordinary dismissal activities on customers in arrears in FY 2018.

The effects of the above items determine a Gross operating result (EBITDA) amounting to EUR 20.5 million, with a decrease by EUR 8.5 billion as compared to the same figure of FY 2017 (EUR 29.1 million). It should be noted that the total of the effects of non-recurring items[1] in 2018 on the gross operating result (EBITDA) is negative for EUR 1.4 million, as compared to a neutral effect in FY 2017.

Depreciation for the period amounted to EUR 48 million, in line as compared to EUR 48.1 million recorded in FY 2017.

Furthermore, in 2018 restructuring costs were booked for 6.7 million euros, as compared to 3.6 million euros in 2017.In particular, these are due to restructuring charges concerning the reorganization and downsizing of the workforce.

Considering the above-mentioned items, the net operating result (EBIT), net of provisions, write-downs and restructuring costs, is negative for EUR 34.1 million, with an decrease by EUR 11.5 million as compared to FY 2017, negative for EUR 22.6 million. The total effects of non-recurring items in 2018 on the operating result (EBIT) is a negative EUR 8 million as compared to the negative EUR 4.1 million in 2017. As anticipated, non-recurring items mainly include restructuring charges for the reorganization and downsizing of the workforce for 6 million euros, in addition to a charge of 1.3 million euros for two penalties imposed by AGCM. The first sanction, amounting to 1 million euros, was imposed to have Tiscali Italia S.p.A. adopted unlawful conduct in violation of the rules of the consumer code transposing the consumer rights directive, in the distance marketing of fixed and / or mobile telephony services. The second sanction, amounting to EUR 0.3 million, was imposed for an incorrect practice concerning the realization of advertising campaigns without providing, or providing with insufficient clarity, information on the geographical and technological limits of ultra broadband services.

Financial charges amounted to EUR 11.6 million, as compared to EUR 19.4 million in 2017.

Financial income, amounting to EUR 1.1 million, and include an income of EUR 1.1 million from a transaction concluded by the subsidiary Aria with a major Italian bank, which led to the cancellation of part of the financial debt.

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

The Result of operating activities (ongoing), negative for EUR 48 million, a EUR 6 million decrease in relation to the comparable figure for FY 2017 which amounted to EUR 42 million.

The Result from assets sold and/or held for sale is EUR 128.5 million in FY 2018, as compared to a positive result of EUR 42.9 million in FY 2017. The result for FY 2018 is determined by the net gain arising from the transfer to Fastweb of the 42 MHz license in the 3.5 GHz frequency and of the Fixed Wireless Access (FWA) business unit, finalized on 16 November 2018. The result of the assets sold and/or held for sale for FY 2017 includes instead a EUR 43.8 million gain from the sale of the B2B business to Fastweb (including the SPC contract) booked at the time the sale contract was finalized, on 10 February 2017.

The Net Result of the Group amounts to EUR 83.2 million, significantly improving as compared to the comparable figure for FY 2017, positive for EUR 0.8 million, mainly due to the positive impact of the capital gain on the aforementioned transfer.

5.6.4 Equity and Financial Position of the Group

Introduction

As already described in the Introduction to the Income Statement, it is noted that, similarly, the assets related to assets sold and/or held for sale have been reclassified in the appropriate Balance Sheet items.

For comparative purposes, the economic and financial data for the 2017 financial year have also been reclassified,

For more details on the sales carried out in the financial year 2018 and the assets held for sale, please refer to Note 9 of paragraph “7.14 Explanatory Notes”.

Consolidated Statement of Equity and Liabilities	31 december 2018	31 december 2017 (*)
(EUR mln)		
Non-current assets	164.5	163.3
Current assets	181.6	69.6
Assets directly related to held for sales	(0.0)	67.5
Total Assets	**346.1**	**300.4**
Net equity of the Group	(44.7)	(128.0)
Net equity attributable to minority interests	0.0	0.0
Total net equity	**(44.7)**	**(128.0)**
Non-current liabilities	24.9	31.0
Current liabilities	365.9	384.8
Payables directly related to held for sale	(0.0)	12.7
Total Net equity and Liabilities	**346.1**	**300.4**

(*) The 2017 figures related to assets/liabilities sold and/or held for sale in 2018 have been restated for comparative purposes

Assets

Non-current assets

Non-current assets at December 31, 2018, amounted to EUR 164.5 million (EUR 163.3 million as at December 31, 2017).

The increase of EUR 1.2 million compared to 31 December 2017 is mainly attributable to the following factors: i)) accounting for the long-term portion of the receivable from Fastweb for services of EUR 25.6 million (pursuant to the Strategic Agreement with Fastweb, as extensively described in the paragraph "Strategic Agreement with Fastweb), ii) a decrease of EUR 24.2 million in tangible and intangible assets, attributable primarily to the amortization for the period (EUR 48 million), net of investments for the period of EUR 18.2 million.

Consistent with the general slowdown in operating activities described in 2018 described above, the investment activity of the Tiscali group was also limited to network maintenance investments and related to the activation of customers, in particular Fibra and LTE. For this reason, total investments in 2018 amounted to EUR 18.2 million, down sharply compared to 2017 (EUR 64.4 million).

Current assets

Current assets at December 31, 2018 amounted to EUR 181.6 million (EUR 69.6 million at December

31, 2017). This growth is mainly due to the recognition of the short-term credit (cash plus service credit) relating to the balance of the price that Fastweb will pay in June 2019 for the purchase of the 3.5GHz frequency and of the “Fixed Wireless Access” business unit, accounted for in current non-current loans of EUR 110.5 million (including the tax credit to Fastweb for tax refunds relating to the transaction for EUR 2.7 million, as provided for by contract).
Current assets include trade receivables which, at December 31, 2018, amounted to EUR 34.9 million, compared to EUR 46.5 million at December 31, 2017, of cash and cash equivalents, equal to EUR 18.9 million (EUR 1,5 million at 31 December 2017), and other receivables and other current assets, amounting to EUR 127.7 million (EUR 21.6 million at 31 December 2017. This last item includes, in addition to receivables from Fastweb mentioned above for EUR 110.5 million, other receivables for advances to suppliers, sundry credit and prepaid expenses relating to service costs.

Assets held for sale

Assets held for sale are nil in 2018.
For comparative purposes, at December 31, 2017 the assets (and related accumulated depreciation) transferred to Fastweb (FWA) on November 16, 2018 have been reclassified, while the assets which have exhausted their benefits were written down in 2018, for a total value of EUR 69.2 million.

Shareholders’ Equity

The consolidated shareholders' equity is in deficit with EUR 44.7 million at December 31, 2018, an improvement of EUR 83.3 million compared to the net equity at December 31, 2017, equal to EUR 128 million. The change is attributable to the result for the FY.

Liabilities

Non-current liabilities

Non-current liabilities at 31 December 2018 amounted to EUR 24.9 million and were down by EUR 6.1 million compared to the figure at 31 December 2017 (EUR 31 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 8.1 million (EUR 3.2 million at 31 December 2017), severance indemnity provision of EUR 3.3 million (EUR 3.6 million at 31 December 2017), the provision for deferred taxes is zero (as well at 31 December 2017) amounts due to suppliers due over 12 months for EUR 3,3 millions (EUR 8,4 million at 31 December 2017), other payables of EUR 3 million (EUR 4.9 million at 31 December 2017).

Current liabilities

Current liabilities amount to EUR 365.9 million at 31 December 2018 (compared to EUR 384.8 million, a figure restated at 31 December 2017) and mainly include financial payables due within 12 months, payables to suppliers, accrued liabilities relating to the purchase of access and rent services and tax debts.

At December 31, 2018, net past due trade payables (net of payment plans agreed with suppliers, assets and disputes with the same suppliers) amounted to EUR 57.7 million. At the same date, overdue financial payables were reported (net of credit positions) of approximately EUR 36.7 million. There are also overdue tax payables amounting to approximately EUR 18.2 million. There are also overdue payables of a social security nature towards employees for EUR 0.5 million. Furthermore, there are no suspensions of supply relationships such as to jeopardize the ordinary course of business. At 31 December 2018, payment reminders were received as part of ordinary administrative management. At that date, the main orders for payment received by the Company and not paid as they were in a state of negotiation or opposition amounted to EUR 13.7 million while the total orders received amounted to EUR 31 million (of which EUR 16.9 million attributable to an order for payment paid in part on 31 December 2018 and entirely by 31 January 2019).

It should be noted that, the transfer of trade payables and other payables to suppliers for approximately EUR 13 million was included in the context of the Strategic Agreement with Fastweb.

Liabilities held for sale

The liabilities destined to be sold at December 31, 2018 are nil.

For comparative purposes, at 31 December 2017 the liabilities included in the business unit transferred to Fastweb on 16 November 2018, have been reclassified, which include trade payables for EUR 11.6 million, payables to personnel and relative provision for severance indemnities of EUR 0.4 million and other provisions for EUR 0,4 million.

At December 31, 2018, the liabilities included in the business unit FWA were sold.

5.6.5 Financial situation of the Group

As at 31 December 2018, the Tiscali Group can count on cash, cash equivalents and bank accounts amounting to EUR 19 million in total, with a net financial position as at the same date negative for EUR 152.1 million (EUR 178.9 million as at 31 December 2017).

Net Financial Position	Notes	31 december 2018	31 December 2017
(Million Euros)			
A. Cash and Bank deposits		19.0	1.5
B. Other cash equivalents		-	-
C. Securities held for trading		-	-
D. Liquidity (A) + (B) + (C)		***19.0***	***1.5***
E. Current loan receivables		-	-
F. Non-current financial receivables	(1)	0.5	0.5
G. Current bank payables	(2)	6.6	13.3
H. Current accounting of bonds issued		-	-
I. Current accounting of non-current debts	(3)	97.0	94.6
J. Other current financial debts	(4)	60.8	62.2
K. Current financial debt (G) + (H) + (I)+(J)		***164.4***	***170.0***
L. Net current financial debt (K)-(D)-(E)-(F)		**144.9**	**168.1**
M. Non-current bank Loans	(5)	-	-
N. Bonds issued		-	-
O. Other non-current intercompany debt	(6)	7.1	10.8
P. Non-current financial debt (M)+(N)+(O)		**7.1**	**10.8**
Q. Net Financial Position *(L)+(P)*		**152.1**	**178.9**

Notes

(1) Includes several guarantee deposits.

(2) Includes bank payables of Tiscali Italia S.p.A., Tiscali S.p.A., Veesible S.r.l. and Aria Group.

(3) Includes the following: i); the component falling due within the financial year of EUR 27.3 million relating to the debt with Senior Lenders (principal and interest repayable within 12 months), ii) the component originally due beyond the exercise of the above loan, reclassified as due within the FY due to the presence of certain events of default and pending completion of the Senior Debt Restructuring Agreements, amounting to EUR 64.9 million, iii) the short-term installments of other long-term bank loans for EUR 4.7 million.

(4) Includes the following elements: i) the short-term component of the "Sale and Lease Back Sa Illetta" debt of EUR 22.4 million; (ii) the component originally due beyond the year of the same debt, reclassified as expiring within the FY due to the presence of certain events of default and pending completion of the Agreements for the Restructuring of the Sa Illetta Lease for EUR 30.6 million, iii) the short-term portion of payables for financial leases related to investments for the network infrastructure for EUR 7.6 million and iv) the short-term portion of the loans provided by the Ministry for Universities and Research and by the Ministry of Productive Activities for EUR 0.2 million.

(5) This item is equal to zero following the reclassification carried out (in compliance with the provisions of IAS 1) in consideration of the status of the process of completion of the Senior Debt Restructuring Agreements and the Sa Illetta Leasing Restructuring Agreement (referred to previous notes 3) and 4))

(6) This item includes the long-term portion of finance lease payables relating to investments for the network infrastructure of EUR 7.1 million. This item shows a significant reduction following the reclassification carried out (in compliance with the provisions of IAS 1) in consideration of the status of the process of finalizing the Senior Debt Restructuring Agreements and the Sa Illetta Leasing Restructuring Agreement (referred to the previous notes). 3) and 4))

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 2018	31 December 2017
(EUR mln)		
Consolidated net financial debt	**152.1**	**178.9**
Non-current financial receivables	0.5	0.5
Consolidated net financial debt prepared on the basis of Consob communication No. DEM/6064293	**152.6**	**179.4**

5.7 Assessment of the economic, assets and financial situation of Tiscali S.p.A.

5.7.1 Introduction

The tables presented below have been drafted on the basis of the financial statements for the year ended 31 December 2018, to which reference should be made. In this regard, it should be noted that the 2018 financial statements represent the separate financial statements of the Parent Company Tiscali S.p.A., 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").

5.7.2 Economic situation of the Parent Company

Consolidated income Statement	**2018**	**2017**
(Thousands of Euro)	-	-
Revenues from services and other income	4,656	6,768
Payroll and related, service and other operating costs	(4,144)	(3,944)
Other write-downs	(240)	(80,357)
Net financial (charges)	(5)	(7,666)
Income taxes	(127)	31
Income from discontinued operations and / or targeted for disposal	-	(54)
	-	-
Net result for the period	**140**	**(85,221)**

Revenues from services and other income mainly refer to the invoicing of services provided by the Company in favor of the operating subsidiary Tiscali Italia S.p.A., including the charges for the license 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 1.3 million, professional expenses amounted to EUR 0.8 million, while retribution for the Board of Directors amounted to EUR 1.4 million and other general and external services cost amount to EUR 1.5 million.

The item Restructuring costs and other write-downs mainly includes the alignment of the allowance for doubtful accounts to the value of total receivables due from foreign subsidiaries for EUR 0.1 million and staff restructuring charges for EUR 0.13 million.

Net financial charges relate to defaulting charges. At 31 December 2017, this item included the portion of interest accrued on the convertible bond loan subscribed on 7 September 2016 for EUR 0.8 million, the notional charges deriving from the conversion of the Rigensis-Otkritie bond loan on 15 December 2017 for EUR 6.7 million, in addition to default interest for late payment of tax payables and payables to suppliers for EUR 0.2 million.

The result of the divested assets was zero at 31 December 2018, while at 31 December 2017 the amount of 54 thousand Euro referred to the write-off of receivables from Streamago, whose assets were sold with effect from 1 January 2017.

5.7.3 Assets Situation of the Parent Company

(million Euro)	31 december 2018	31 december 2017
Non-current assets	193,326	136,582
Current assets	14,045	12,150
Assets held for sale	-	-
Total Assets	**207,370**	**148,732**
Shareholders' equity	43,192	43,026
Total Net Equity	**43,192**	**43,026**
Non-current liabilities	143,258	95,025
Current liabilities	20,920	10,681
Liabilities held for sale	-	-
Total Net equity and Liabilities	**207,370**	**148,732**

Assets

Non-current assets

Non-current assets mainly include controlling investments for a value of EUR 115 million (EUR 115 million at December 31, 2017). Also included are other financial assets of EUR 78.2 million (EUR 21.5 million at 31 December 2017), essentially represented by financial receivables from Group companies.

Current assets

Current assets include Trade receivables of EUR 13.2 million and refer mainly to subsidiaries, "Other receivables and other current assets" for around EUR 0.7 million, of which EUR 0.4 million relate to receivables taxes and EUR 0.2 million of prepaid expenses on services, in addition to cash and cash equivalents of EUR 0.2 million.

Shareholders' Equity

The shareholders' equity of the Parent Company amounts to EUR 43.2 million at December 31, 2018 and reflects an increase of EUR 165 thousand compared to December 31, 2017 due to the following factors:

• comprehensive income in the income statement of EUR 140 thousand;

• decrease in the stock option reserve for EUR 13 thousand;

• increase of the reserve for employee's benefits for EUR 39 thousand, to be released in the income statement.

Liabilities

Non-current liabilities

In addition to the items pertaining to the financial position, for which reference should be made to the following note, the non-current liabilities include the provisions for risks and charges for a value of EUR 13.4 thousand relating to provisions for legal disputes with third parties.

Current liabilities

Current liabilities not related to the financial position are mainly represented by payables to suppliers for EUR 5.6 million (of which EUR 0.4 million due to subsidiaries) and other current liabilities for EUR 15.3 million. The latter item include EUR 13.7 million in tax and social security debts, EUR 0.6 million in payables due to Directors, EUR 0.1 million in payables to employees and EUR 0.4 million in other payables.

5.7.4 Financial Situation of the Parent Company

The financial situation of the Parent Company is summarized in the following table:

Financial Situation	31 december 2018	31 december 2017
(Thousands of Euro)		
A. Cash and Bank deposits	158	247
B. Other cash equivalents	-	-
C. Securities held for trading	-	-
D. Liquidity (A) + (B) + (C)	***158***	***247***
E. Current loan receivables	-	-
F. Non-current financial receivables	**78,241**	**21,498**
	-	-
G. Current bank payables	-	-
H. Current accounting of bonds issued	-	-
I. Current accounting of non-current debts	-	-
J. Other current financial debts	-	-
K. Current financial debt (G) + (H) + (I)+(J)	-	-
L. Net current financial debt (K)-(D)-(E)-(F)	**(78,398)**	***(21,745)***
M. Non-current bank Loans	-	-
N. Bonds issued	-	-
O. Other non-current intercompany debt	143,398	94,394
P. Other non-current intercompany debt	-	-
Q. Non-current financial debt (M)+(N)+(O)+ (P)	**143,398**	**94,394**
R. Net Financial Debt (L)+(Q)	**64,999**	**72,648**

**Note: For comparative purposes with the net financial position as at December 31, 2018, the net financial position as at December 31, 2017 has been restated considering, under the item “E.Current loan receivables”, the financial receivables from group companies.*

“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” is related to the operations concerning the centralized treasury contract.

5.7.5 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.

EUR 000	31 december 2018 Net Result	Shareholders' equity
Shareholders' equity and net profit (loss) of Tiscali S.p.A.	**140**	**43.192**
Net profit and Shareholders' equity of consolidated companies	79.083	(281.848)
Book value of consolidated equity investments and consolidation entries	3.975	193.942
Consolidation's Journals		
Shareholders' equity and net profit (loss) for the year pertaining to the Parent Company	83.198	(44.715)
Shareholders' equity and net profit (loss) for the year pertaining to minority shareholders		
Shareholders' equity and net profit (loss) for the year as per the Consolidated Financial Statements	**83.198**	**(44.715)**

The difference between the shareholders' equity of the Parent Company and the consolidated financial statements is due to the fact that for statutory purposes the losses of the current year of Tiscali Italia and Aria are not considered durable and therefore are not included in the form of write-down of equity investments while, for consolidated purposes, the losses are included in the Group's net equity flows in the years in which they accrue.

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

Asset-financial and economic situation of the period

The Tiscali Group closed the FY 2018 with a negative consolidated shareholders' equity of EUR 44.7 million, an improvement as compared to EUR 128 million as at 31 December 2017. The change in equity is mainly attributable to the result for the FY. During the FY, the Tiscali Group in fact recorded a profit of EUR 83.2 million, an improvement as compared to the profit of EUR 0.8 million recorded in the FY 2017. The 2018 profit is mainly attributable to the net gain on the sale of the 40 MHz license in the 3.5 Ghz band and of the Fixed Wireless Access (FWA) to Fastweb, equal to EUR 128.5 million (see the following paragraph "Effects of the 2018-2021Business Plan and Strategic Agreement with Fastweb" for more details); in 2017, the profit also benefited from the effect of a capital gain of EUR 43.8 million connected with a transaction entered into with Fastweb.

As at 31 December 2018, the Group also reported gross financial debt of EUR 171.6 million, an improvement as compared the gross financial debt recognized as at 31 December 2017, equal to EUR 180.8 million, and current liabilities higher than current (non-financial) assets for EUR 38.8 million, an improvement as compared to EUR 150.9 million as at 31 December 2017. The positive change of the latter figure, equal to EUR 112.1 million, is mainly attributable to the short term portion of the receivables due from Fastweb for EUR 110.5 million relating to the sale of the aforementioned 40 MHz license fee in the 3.5 Ghz band and the FWA business branch.

Current liabilities include overdue trade payables (net of payment plans agreed with suppliers, as well as receivables and disputed receivables from the same suppliers) for EUR 57.7 million, down from the corresponding amount of EUR 46, 2 million as at 31 December 2017, in addition to overdue financial debts (net of credit positions) of approximately EUR 36.9 million (EUR 20.9 million as at 31 December 2017), overdue tax payables of approximately EUR 18.2 million (EUR 11 million as at 31 December 2017), as well as overdue payables of a social security nature for employees of EUR 0.5 million (EUR 1.9 million as at 31 December 2017). During the FY, agreements were signed for the settlement of payables to suppliers for EUR 4.6 million (EUR 4.8 million in 2017).

Effects of the 2018-2021Business Plan and Strategic Agreement with Fastweb

As previously described, the Tiscali Group had been engaged, during the first half of 2018 and until November 2018, in a series of activities (in particular the obtainment of the extension on the license for the 3.5GHz frequency spectrum it owned, which took place on 12 November, and the negotiation of the strategic agreement with Fastweb, finalized on 16 November 2018) which limited its operational action and created a discontinuity with respect to the development path established in the previous 2018-2021 Business Plan approved contextually with the results of the FY 2017, determining the realization of results which were worse than expected. Pending this process and in the broader context of uncertainty on the future evolution of the Group, it should be noted, among other things, that the financial resources established by the Shareholders in the previous 2018-2021 Business Plan have not been made available; this has exacerbated financial tensions and relations with some suppliers following the increase in the overdue recorded.

The New Business Plan 2018-2021 of the Tiscali group, certified for Tiscali Italia and Aria pursuant to Article N. 67 of the Royal Decree 267/1942, prepared considering the effects of the closing of the transaction with Fastweb on 16 November, and the signature of the Financial Debt Restructuring Agreements dated 28 March 2019, defines the new development path for the Group as a result of the sale, based on the following key elements:

- **Redefinition of the operating model:** following the Strategic Operation with Fastweb, the Tiscali Group is to progressively change its operating model, reducing the direct management of network infrastructures and at the same time increasingly concentrating on the ability to develop new services, on the activities Marketing and Sales and excellence in customer management.

- **Strong reduction in investment commitments**, consistent with the new operating model and with the changed portfolio of activities managed by the company as a result of the sale.
- **Confirmation of the focus on the "core business"**: the New 2018-2021 Business Plan provides for the full focus of the Tiscali Group on the "core business" of the sale of BroadBand and UltraBroadBand services (Fixed, Fixed Wireless and Mobile) to Consumer retail, SOHO and EMS customers.
- **Expansion of the addressable market**: this strategy will have the possibility to develop on a broader market than the one previously held by the Tiscali Group, thanks to the beneficial effects of the wholesale agreement signed with Fastweb, which allows:
    - on the one hand, **to continue to market LTE Fixed Wireless services** in the "Extended Digital Divide" areas thanks to the conditions of wholesale access to the assigned Wireless network provided for by the agreement and indeed on a wider market thanks to Fastweb's commitment to complete the migration of the same network from WiMAX technology to LTE technology at its own expense (from about 4 million to about 6.5 million households and businesses covered by the LTE service);
    - or on the other, to access the Fastweb Fiber network, allowing Tiscali – without further incremental investments – **to expand the addressable market of Fiber services** from about 8 million households and businesses to around 18 million
- **Full relaunch of the Tiscali brand to support the marketing of services**, by virtue of the investments in communication established in the New 2018-2021Business Plan, and possible thanks to the proceeds from the Strategic Agreement with Fastweb.
- **Future access to 5G services**, thanks to the possibility of using the Fastweb 5G network to commercialize the future 5G Mobile services to its customers, thus increasing the overall value proposition of its Mobile offer, also in light of the extension of the license term to 2029.
- **Strengthening of the Group's financial and equity structure thanks to**:
    - **the reduction the level of overall debt**, especially debt to suppliers, essential for normalizing the relationship with strategic suppliers and revitalizing the company's operating activities and payables to tax authorities and social security institutions;
    - **the rescheduling and restructuring of the current outstanding debt** (Senior Loan and Financial Leasing relating to Sa Illetta), pursuant to the Debt Restructuring Agreements signed with the Banks and the Leasing Companies;

- **the financial strengthening** through the issue of the 2019-2020 Convertible Bond for EUR 10 million.

This plan therefore represents an opportunity for a relaunch of Tiscali, which can use the resources acquired from the sale to refocus its business in line with the size and investment capacity of the company and the changed technological and market environment (Fiber, 5G).

As already mentioned – with the signature of the Financial Debt Restructuring Agreements dated 28 March 2019 – the financial requirements of the New 2018-2021 Business Plan are consistent with the Group's resources deriving both from its operations and from the collection of fees provided for by the sale itself.

Despite the improved balance sheet and financial situation determined by the sale to Fastweb, the signing of the Debt Restructuring Agreements and the subscription of the 2019-2020 Convertible Bond by the reference Shareholders, the management reiterates that the achievement of the Group's short, medium and long-term capital, economic and financial equilibrium situation is always subordinated to the achievement of the results expected in the New 2018-2021 Business Plan – which provides for the achievement of the economic equilibrium in 2021 – and therefore the realization of 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 strong competitive pressure.

Final Assessment by the Board of Directors on the business as an ongoing concern

In this 2018 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:

- slowed its growth path for the reasons set out in the previous paragraphs and consequently recorded in 2018 a decline in its customer base on the core business in the year 2018 (the total customer portfolio of the Tiscali Group is equal to 640 thousand units in December 2018, down by around 108 thousand units as compared to December 2017);
- generated in FY 2018, before working capital changes (negative for EUR 25.3 million), cash and cash equivalents from operating activities amounting to approximately EUR 24.6 million;
- received, following the favorable opinion on the granting of the extension of the licenses for the 3.5GHz spectrum expressed by the AGCOM with Resolution No. 503/17/CONS;
- signed a Strategic Agreement with Fastweb, whose structure and nature have been extensively described in the previous paragraphs. This agreement was executed on

November 16, 2018, and led to the entry of financial resources relating to the first part of the price for EUR 50 million in addition to the finalization of the payment of EUR 13 million in trade payables, with a forecast by 30 June 2019 to collect the additional EUR 80 million;

- issued a convertible bond with a nominal value of EUR 10.6 million, fully subscribed at 95% by the relevant shareholders ICT and Sova Disciplined Equity Fund on 31 January 2019;
- signed the Senior Debt Restructuring Agreement on 28 March 2019;
- signed the Agreement for the Restructuring of the Sa Illetta Leasing on 28 March 2019;
- drew up the New 2018-2021 Business Plan, which includes in particular the impact of the sale to Fastweb, the Financial Debt Restructuring Agreements with the Financial Institutions and the Pool Leasing, the effects of the disbursement of the bridge loans, and consequently redefines the new strategy for the development of Tiscali Group. This plan, approved on 12 November 2018 by the Board of Directors, was certified with the asseveration as per Article N. 67 of the Royal Decree 267/1942 issued on 27 March 2019 for Tiscali Italia and Aria by Giovanni Naccarato.

The Directors – pointing out that the going concern assumption is based on the achievement of the objectives contained in the New 2018-2021 Business Plan – acknowledge that at present the realization of the New 2018-2021 Business Plan is, in any case, subject to some residual material uncertainties, and in particular:

1. the payment of the residual portion of the price provided for by the Strategic Agreement with Fastweb, even in reference to the uncertainties connected with the Controversies against the Strategic Agreement with Fastweb arisen following the announcement of such operation;
2. the increase in the customer base in market trend characterized by strong competitive pressure;
3. the maintenance of support from suppliers that have overdue receivables from the Group until the completion of the plan aimed to reduce the overdue, concentrated in the first half of 2019 and realized using the new financial resources generated by the sale to Fastweb, by the restructuring of debts and from the subscription of the 2019-2020 Convertible Bond that will allow to realign the payment terms to the average terms of the reference sector, as reflected in the New 2018-2021 Business Plan.

This said, the Directors, (i) in light of the events occurred between 16 November 2018 and 28 March 2019, and (ii) the significant liquidity injection following the collection of the first tranche of the Strategic Agreement with Fastweb, think that the uncertainties previously pointed out will cease and that:

- the second payment tranche (equal to EUR 80 million) will also be collected within the contractually time frame established, and the financial savings deriving from the wholesale agreement with Fastweb will take place in accordance with the new 2018-2021 Business Plan;
- the management will be able to maintain the support from the suppliers, also thanks to the actions aimed at immediately reducing the expired payables using the extraordinary financial resources coming from the cash in of the first tranche of the sale price provided in the Strategic Agreement with Fastweb;
- the size of the benefit to the income statement, balance sheet and financial position, deriving from the Strategic Agreement with Fastweb and from the finalization of the restructuring of the financial debt are so significant as to suggest that – even in the presence of the aforementioned situation of uncertainty on the realization of the New 2018-2021 Business Plan in the next twelve months, deriving from the existence of uncontrollable exogenous variables that can make results worse than those expected in the forecast data – the assets and financial balances are not at risk.

It is on this basis therefore that the Directors have a reasonable expectation that the business can be considered as an ongoing concern over the next twelve months and that the Group can use the accounting principles of the assumption of going concern in the preparation of this consolidated annual financial report as at 31 December 2018.

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 New 2018-2021 Business Plan, the company's commitment will be particularly aimed at the full implementation of that plan, with particular focus on:

- the full restart of commercial activities, after the slowdown suffered during the entire FY 2018, with a particular focus on the acquisition of new Fiber and LTE customers for a full exploitation of the wholesale agreements signed with Fastweb;
- the relaunch of the Tiscali brand to support the process of acquiring new customers;

- the transformation path of the company's operating model, in line with the renewed focus on all the activities of developing new services, Marketing, Sales and customer management;
- the efficiency plan in operating costs also due to the simplification of the infrastructures made possible by the positive effects of the Strategic Agreement with Fastweb;
- the final subscription of payment plans with the main strategic suppliers to normalize the level of expired commercial debt and to gurantee the support of suppliers for the full realization of the objectives of the New 2018-2021 Business Plan.

5.9 Other events after the financial year end

Please refer to the Note 7.11 "Other events after the financial year end".

5.10 Disputes, contingent liabilities and commitments

Please refer to the paragraph "Disputes, contingent liabilities and commitments" in the Explanatory Notes.

5.11 Non-recurring transactions

Please refer to the paragraph "Non-recurring transaction" in the Explanatory Notes.

5.12 Atypical and/or unusual transactions

As per CONSOB Communication dated 28 July 2006, it is specified that, during FY 2018, the Group did not carry out any atypical and/or unusual transactions, as defined in the Communication itself.

5.13 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 31 December 2017.

5.14 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 2018 to Directors, Statutory Auditors of the Group companies are as follows:

(EUR 000)	31 december 2018	31 december 2017
Directors	1,375	1,552
Statutory Auditors	219	221
Manager with strategic responsabilities	1,519	1,752
Total Remuneration	**3,113**	**3,525**

5.15 Adhesion to the Tax Consolidation

The Company has exercised the option for consolidated taxation headed by the parent company Tiscali S.p.A. for the following companies:

- Tiscali S.p.A.
- Tiscali Italia S.p.A.
- Veesible S.r.l.
- Aria S.p.A.
- Media PA S.r.l.

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, 29 March 2019

The Chief Executive Officer	**The Officer in Charge of Preparing the Company’s Accounting Documents**
Alex Kossuta	**Daniele Renna**

6 Corporate Governance Report and Ownership Structure

6.1 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 S.p.A. ("**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 S.p.A. and 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 29 March 2019, 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 FY 2018. 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.

6.2 Corporate Governance Structure

6.2.1 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 behavior, 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 2018 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 S.p.A., 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.

6.2.2 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.

6.2.3 Corporate Bodies and Auditing Company

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

Board of Directors

On 30 April 2015, the Shareholders' Meeting appointed the Board of Directors in office until approval of the financial statements at December 31, 2017. Subsequently, following the resignation in December 2015 by all the Statutory Auditors, the Shareholders' Meeting held on 16 February 2016 appointed a new Board of Directors. The composition and activities of the Board from 1 January to 26 June 2018 are as follows:

Member	Renato Soru****	Riccardo Ruggiero	Alexander Okun*****	Paola De Martini	Anna Belova	Franco Grimaldi	Alice Soru	Sergey Sukhanov	Dmitry Gavrilin
Year of birth,	1957	1960	1952	1962	1961	1955	1980	1977	1974
Office	Director	CEO	Chairman	Independent Director	Independent Director	Independent Director	Director	Director	Director
Date of appointment for this term	February 16, 2016	February 16, 2016	February 16, 2016	February 16, 2016	February 16, 2016	February 16, 2016	February 16, 2016	February 24, 2017	February 24, 2017
Executive - Not executuve - Indipendent	Non-Executive	Executive	Non-Executive	Non-Executive and Independent TUF	Non-Executive and Independent TUF	Non-Executive and Independent TUF	Non-Executive	Non-Executive	Non-Executive
Date of expiration for this term	26 June 2018	26 June 2018	26 June 2018	26 June 2018	26 June 2018	26 June 2018	26 June 2018	26 June 2018	26 June 2018
Date of first appointment (*)	9 June 1997	16 February 2016	16 February 2016	16 February 2016	16 February 2016	21 December 2009	16 February 2016	24 February 2017	24 February 2017
Other positions held (***)	-	-	-	-	-	-	-	-	-
Participation - Meeting - CdA	4-mag-19	5-mag-19	5-mag-19	5-mag-19	5-mag-19	5-mag-19	5-mag-19	5-mag-19	5-mag-19
Audit and Risk Committee - role (**)	-	-		M	P	M			
Committee for Appointments and Remunerations - role (**)	-	-		P	M	M			
Committee for Transactions with Related Parties – role (**)	-	-		P	M	M			
Committee for investments (**)	M	P	M						
Committee for extraordinary finance operations (**)	M	P	M						

(*) 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 16 February 2016; resigned from office of Chairman on 12 May 2016

(*****) Vice Chairman from 16 February 2016 to 12 May 2016 – Chairman since 12 May 2016

It should be noted that the Board in office until 26 June 2018 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.

On June 26, 2018, the Shareholders' Meeting appointed the Board of Directors which will remain in office until the approval of the financial statements for the year ended December 31, 2020. The composition and activities of the Board from the date of appointment until the date of this Report are shown belo:

Member	Year of birth.	Office	Date of appointment for this term	Executive - Not executuve - Indipendent	Date of expiration for this term	Date of first appointment (*)	Other positions held (***)	Participation - Meeting - CdA	Audit and Risk Committee - role (**)	Committee for Appointments and Remunerations - role (**)	Committee for Transactions with Related Parties – role (***)
Alexander Okun	1952	Chairman	26 June 2018	Non-Executive	Approval of the financial statements as at 31 December 2020	16 February 2016		17/18			
Alex Kossuta	1969	CEO	26 June 2018		Approval of the financial statements as at 31 December 2020	26 June 2019		18/18			
Renato Soru	1957	Director	26 June 2018	Non-Executive	Approval of the financial statements as at 31 December 2020	9 June 1997		12/18			
Paola De Martini	1962	Independent Director	26 June 2018	Non-Executive and Independent TUF	Approval of the financial statements as at 31 December 2020	16 February 2016	1	15/18	M	P	P
Anna Belova	1961	Independent Director	26 June 2018	Non-Executive and Independent TUF	Approval of the financial statements as at 31 December 2020	16 February 2016	2	17/18	P	M	M
Oleg Anikin	1969	Director	26 June 2018	Non-Executive	Approval of the financial statements as at 31 December 2020	26 June 2019		16/18	M		
Alina Sychova	1977	Director	26 June 2018	Non-Executive	Approval of the financial statements as at 31 December 2020	26 June 2019		18/18		M	

(*) 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.

It should be noted that the Board currently in office was elected on the basis of three lists presented by Renato Soru (minority list), Sova Capital Limited and ICT Holding Limited.

<u>Board of Auditors</u>

On 30 April 2015, the Shareholders' Meeting elected the Board of Auditors in office until approval of the financial statements as of December 31, 2017. Subsequently, following the resignation in December 2015 by all the Statutory Auditors, the Shareholders' Meeting held on 16 February 2016 appointed a new Board of Auditors. The composition and activities of the Board from 1 January to 26 June 2018 are as follows**:**

Regular auditor	Date of birth	Office	Date of appointment for this mandate	Date of first appointment:	Independence Code	Participation to the Board meetings from 01/01/18 to 6/26/18	No. of positions held in issuers
Paolo Tamponi	24/JUL/1962	Chairman	February 16, 2016	December 21, 2009	Yes	8/8	-
Emilio Abruzzese	18/JUL/1957	Statutory Auditor	February 16, 2016	February 16, 2016	Yes	8/8	-
Valeria Calabi	22/AUG/1966	Statutory Auditor	February 16, 2016	February 16, 2016	Yes	8/8	-
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

The Shareholders' Meeting held on 26 June 2018 appointed a new Board of Statutory Auditors. The composition and activities of the Board from 26 June 2018 to the date of this report are as follows:

Regular auditor	Date of birth	Office	Date of appointment for this mandate	Date of first appointment (*):	Independence Code	Participation to the Board meetings from 26 June 2018 to the date of this report	No. of positions held in issuers
Barbara Tadolini	1960	Chairman	26 June 2018	26 June 2018	Yes	7/7	-
Emilio Abruzzese	1957	Statutory Auditor	26 June 2018	16 February 2016	Yes	7/7	-
Valeria Calabi	24341	Statutory Auditor	26 June 2018	16 February 2016	Yes	7/7	-
Lorenzo Arienti	29897	Substitute Auditor	26 June 2018	26 June 2018	Yes		-
Pietro Braccini	27957	Substitute Auditor	26 June 2018	26 June 2018	Yes		-

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

It should be noted that the Board currently in office was elected on the basis of two lists presented by Sova Capital Limited and ICT Holding Limited.

<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. Daniele Renna, manager of the Company in possession of the necessary qualifications and proven experience in the accounting and finance field. The position of Mr. Renna was renewed by the Board of Directors on 26 June 2018, and will expire with renewal of the Board of Directors subsequent to the approval of the 2020 financial statements.

Auditing Company

The appointment to perform the audit was awarded 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.

Committees

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 as described above, expired in June 2018 with the approval of the financial statements as at 31 December 2017. The Council appointed on June 26, 2018, appointed the following Committes:

- *Appointment and Remuneration Committee*, composed of Paola De Martini (Chairman), Anna Belova, Alina Sychova, on 26 June 2018;
- *Control and Risk Committee*, composed of Anna Belova (Chairman), Paola De Martini e Oleg Anikin, on 10 September 2018;
- *Transactions with Related Parties Committee*, composed of Paola De Martini (Chairman) and Anna Belova, on 10 September 2018.

Supervisory Body (SB)

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 S.p.A. and Veesible Srl.

On 20 July 2018 the Board of Directors, with the favorable opinion of the Appointments and Remuneration Committee, appointed the new Supervisory Body, which will remain in office until the approval of the financial statements as at 31 December 2020, made up of Maurizio Piras (Chairman), Francesca Marino and Maria Sardelli.

Director in charge of the internal control risk and risk management

In line with the recommendations of the Self-Governance Code, the meeting of the Board of directors held on 26 June 2018 appointed Alex Kossuta as Director in charge of the internal control risk and risk management (hereinafter referred to also as “Director in Charge”), in continuity with the previous appointment in which this office was entrusted to the CEO.

Secretary of the Board of Directors

On 26 June 2018, 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.

6.2.4 Shareholding

At the date of this report, the share capital subscribed and paid amounts to EUR 43,065,376.20, divided into 3,981,880,763 ordinary shares with no par value, listed at the MTA market segment, freely transferable in accordance with law without there being any securities that confer special control rights.

OTHER FINANCIAL INSTRUMENTS (attributing the right to subscribe newly issued shares)

	Listed / not listed	N° of circulating instruments	Category of shares serving the conversion / exercise	Number of shares serving the conversion / exercise
Convertible loan	not listed	106 convertible bonds Tiscali conv 2019-2020*	Ordinary	Up to maximum 1.300.000.000
Warrant	-	-	-	-

** for further information, see the documentation relating to the Tiscali Conv convertible bond, 2016-2020, available on the company website*

<u>Share-based incentive plans</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 S.p.A., 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 2018, in relation to the resignation of 1 Executive and of the CEO, originally beneficiaries of the plan, No. 147,828,278 options have been ceased. The total number of options established in the second Plan is therefore reduced to 194,930,554 options as of 31 December 2018.

Increases authorized pursuant to Art. 2443 of the Italian Civil Code

At the meeting of 31 January 2019, the Board of Directors exercised the proxy granted pursuant to Art. 2443 of the Italian Civil Code by the Shareholders' Meeting dated 26 June 2019, approving the issue of the Tiscali Conv 2019-2020 bond loan. For further information, please refer to the documentation published on the Company's website http://investors.tiscali.it/it/azioni/prestito_obbligazionario.php

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. At the approval date of this Report, there are no restrictions on voting rights or the transfer of securities.

Shareholder	Percentage of the ordinary share capital and voting shares	Shares owned
Investment Construction Technology (ICT) Group Ltd	**23.523%**	**936,667,194**
Of which Powerboom Investments Limited	*23.523%*	
LLC "Concern "ROSSIUM" (by Sova Capital Ltd)	**4.589%**	**182,711,479**
SOVA Disciplined Equity Fund SPC (SDEF)	**4.997%**	**199,001,504**
Renato Soru	**7.940%**	**316,050,508**
Of which Cuccureddus	0.830%	
Of which Monteverdi	0.440%	
Of which direct Soru	6.440%	

The remaining 58,95% 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.

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

6.3.1 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 two Independent Directors within a Board of seven members, of which only Alex Kossuta, 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, and Anna Belova on its meeting held on 26 June 2018 and 21 March 2019.
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 2018 the Board of Directors met eighteen times, while during FY 2019, to the date of this report, the Board of Directors met four 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 2018	16/3	24/4	10/5	22/5	21/6	26/6	4/7	16/7
Directors present	8/9	9/9	9/10	9/11	9/12	7/7	7/7	7/7
Percentage	89%	100%	100%	100%	100%	100%	100%	100%
Auditors present	3/3	3/3	3/3	3/3	3/3	3/3	3/3	3/3
Percentage	100%	100%	100%	100%	100%	100%	100%	100%

Meetings 2018	20/7	30/7	10/9	21/9	9/11	12/11	22/11	6/12	20/12
Directors present	7/7	6/7	5/7	7/7	7/7	6/7	7/7	7/7	7/7
Percentage	100%	86%	71%	100%	100%	86%	100%	100%	100%
Auditors present	3/3	3/3	3/3	3/3	3/3	3/3	3/3	3/3	2/3
Percentage	100%	100%	100%	100%	100%	100%	100%	100%	66%

Meetings 2019	23/1	31/1	5/3	19/3	27/3	29/3
Directors present	7/7	4/7	6/7	6/7	5/7	7/7
Percentage	100%	100%	86%	86%	71%	100%
Auditors present	3/3	3/3	3/3	3/3	3/3	3/3
Percentage	100%	100%	100%	100%	100%	100%

The average duration of the meetings of the Board was approximately 60 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 20 December 2018, the Board of Directors approved the calendar of its Meeting for the year 2019:

- 29 March 2019 (Approval of the Annual Financial Statements draft as at 31 December 2018),
- 13 May 2019 (Annual Shareholders' Meeting),
- 12 September 2019 (Approval of the Six-Month Report as at 30 June 2018).

Appointment of Directors

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 with its Resolution N. 20273/2018 ruled that the shareholding required for the presentation of a list 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.

Elected candidates if, arranged in a single decreasing ranking on the basis of the quotients obtained, they have obtained the highest ratios, without prejudice to the appointment of the candidate listed first in the minority list, i.e. the one which obtained the highest number of votes among those regularly presented and voted and that is not connected – even indirectly – with the shareholders who presented or voted for the list with the highest number of votes.

If a person who, according to current legislation, is connected to one or more shareholders who presented or voted for the first list by number of votes, voted for a minority list, the existence of such linking relationship is relevant only if the vote was decisive for the election of the minority administrator. In any case, the applicable laws and regulations apply from time to time.

In the event of an equal quotient for the last Director to be elected, the one on the list that obtains the highest number of votes will be preferred and, with the same number of votes, the one with the oldest age.

If at the end of the voting there were not enough appointed Directors with the requisites of independence, or if the respect of gender balance was not assured, the first hypothesis would be to exclude the candidate who would have been elected with the lowest quotient and who does not meet the independence requirements and, in a second hypothesis, to exclude the candidate with the lowest quotient, whose election would result in non-compliance with gender balance. The excluded candidates will be replaced by the subsequent candidates in the ranking, the election of whom determines compliance with the provisions relating to the requirements of independence and gender balance. This procedure will be repeated until the number of Directors to be elected is completed. If, having adopted the aforementioned criterion, it was not possible to complete the number of Directors to be appointed, the appointment of the missing Directors will be immediately provided by the Assembly, with a resolution adopted by a simple majority of those present on the proposal of the shareholders present.

a.2) If only one list is presented, all the directors will be drawn, in progressive order, only from the list presented, provided that the same obtains the majority of votes.

If at the end of the voting there were not enough appointed Directors with the requisites of independence, or if the respect of gender balance was not assured, the first hypothesis would be to exclude the candidate who would have been elected with the lowest quotient and who does not meet the independence requirements and, in a second hypothesis, to exclude the candidate with the lowest quotient, whose election would result in non-compliance with gender balance. The excluded candidates will be replaced by the subsequent candidates in the ranking, the election of whom determines compliance with the provisions relating to the requirements of independence and gender balance. This procedure will be repeated until the number of Directors to be elected is completed. If, having adopted the aforementioned criterion, it was not possible to complete the number of Directors to be appointed, the appointment of the missing Directors will be immediately provided by the Assembly, with a resolution adopted by a simple majority of those present on the proposal of the shareholders present.

b) if, pursuant to the appointment procedure above, at least two members who meet the independence requisites established by the applicable legislation were elected, the last of the elect who do not meet these requirements taken from the list that obtained the most number of votes cast by shareholders after the first, and who is not connected in any way, not even indirectly, with the shareholders who presented or voted this last list will have to be replaced with the first candidate subsequently listed in that list who is in possession of such requirements and, if following such replacement a member still remains to be elected who meets the independence requirements established by applicable law, the last of those elected who do not meet these requirements from the list that obtained the highest number of votes must be replaced with the first candidate subsequently listed on that list that meets these requirements;

c) if the Board of Directors elected pursuant to the foregoing does not allow compliance with the gender balance provided for by the regulations in force, the last elected representatives of the most represented gender, of the list resulting first by number of votes expressed by shareholders, fail in the number required to ensure compliance with the requirement and are replaced by the first unelected candidates from the same list of the less represented gender. In the absence of candidates of the less represented gender on the list resulting first by the number of votes expressed by the shareholders in sufficient number to proceed with the replacement, the aforesaid criterion will apply to the successive more voted lists, from which the elected candidates have been drawn. If, applying the above criteria, it is not possible to identify suitable replacements, the Shareholders' Meeting integrates the body with the majorities required by law, ensuring the satisfaction of the requirement of gender balance provided for by the regulations in force;

d) the appointment mechanism by means of list voting above is applied only in case of full renewal of Directors; for the appointment of Directors who, for any, reason are not appointed pursuant to the aforementioned procedure, the Shareholders' Meeting resolves with the majority pursuant to the law in force, in compliance with the regulatory requirements for the representation of genders; this requirement also applies to the co-optations made by the Board itself pursuant to the applicable regulations. 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, 2018.

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

6.3.2 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.

6.3.3 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, with Resolution No. 20273/2018, established that the shareholding required for submission of a list for 2019 is equal to 4.5% 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 and up to the date of this Report, the Board of Statutory Auditors met 16 times, at the presence of all the Statutory Auditors, and recording an average duration of the meetings of approximately 120 minutes. For FY 2019, at least 12 meetings are expected to be held, 2 of which have already been held

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

At the date of this report, the following internal Board Committees have been established: Audit and Risk Committee, Appointments and Remuneration Committee, Transactions with Related Parties Committee. The Officer in Charge of Preparing the Company's Accounting Documents, the Internal Auditing Officer and the Supervisory Body are to remain in office until approval of the financial statements as at 31 December 2020.

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 26 June 2018, is composed of three Non-Executive Directors, two of whom Independent: Paola De Martini (Chairman), Anna Belova, Alina Sychova. The current Committee succeeds the previous one composed of Paola De Martini (Chairperson), Anna Belova, Franco Grimaldi, Dmitry Gavrilin and Sergey Sukhanov.

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 2018 and at the date of this report, the Appointments and Remunerations Committee met four times: 10 and 22 May, 26 June and 19 March 2019. 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 2018 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 12 November 2010 and entered into force on 1 January 2011 (hereinafter, the "RPT Regulations"), as later amended on 28 April 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 10 September 2018, is composed of three Non-Executive Directors, two of whom are Independent, Paola De Martini (Chairman), Anna Belova e Oleg Anikin. 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 2018 and at the date of this report, the Committee met four times: 9 May, 10 September, 20 December and 19 March 2019. The Committee meetings have been attended by all members of the Board of Statutory Auditors. The meetings had an average duration of approximately 30 minutes.

6.3.5 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 S.p.A. suggestions, 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 2018, during the meetings held on 10 May and 22 November respectively, during approval of the draft financial statements as 31 December 2017 and the six-month report as at 30 June 2018, 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 26 June 2018 and, upon opinion of the Audit and Risk Committee and of the Board of Statutory Auditors, has appointed Francesca Marino (external consultant) as new Chief Internal Auditor.

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 2018, 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 2019 Audit Plan;
- verification of 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. This activity requires the involvement of a specialized external company and, at the date of this report, the selection of proposals received from the various companies involved for this assignment is underway.

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 2018, the Audit and Risk Committee met three times: 9 May, 10 September and 22 November; during FY 2019, to date, on 21 and 28 March. 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 60 minutes.

6.4 Internal auditing relative to accounting and financial information

6.4.1 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 analyzing 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.

6.4.2 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 analyzed 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 summarize 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.

6.5 Organization, 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, in the meeting held on 14 May 2013, the Board approved the new Model updated to recent regulatory interventions especially with regard to crimes against the Public Administration, individual personality, occupational safety and the environment. In November 2018, a new updated model was adopted by the Group’s operating subsidiary, Tiscali Italia S.p.A., in accordance with its specificity and risk profile.

At the meeting held on 20 July 2018, the Board of Directors appointed the new Supervisory Body of the Company, composed of Attorney Maurizio Piras (Chairman), Ms. Francesca Marino and Attorney Maria Sardelli. The appointment of the Supervisory Body will expire with the approval of the financial statements as at 31 December 2020. The current SB replaces the previous one due to expiry with the approval of the 2017 financial statements and composed of Attorney Maurizio Piras (Chairman), Ms. Francesca Marino and Attorney Angelo Argento.

6.6 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 12 March 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 S.p.A. and its subsidiaries or associates, replaces the one

previously in place and came into force on 1 May 2017.
During FY 2018 and up to the date of this report, the Committee assessed on two occasions a related party transaction pursuant to the Rules and related to the issue of a convertible bond loan to be resolved by the Board of Directors within the proxy granted by the Shareholders' Meeting dated 26 June 2018 and reserved to the reference shareholder ICT Holding Ltd. The transaction was approved with the favorable opinion of the Committee on 31 January 2019, following the resolution passed by the Board of Directors; for all in-depth information please refer to the documentation published on the Company's website (http://investors.tiscali.it/it/azioni/prestito_obbligazionario.php). In addition, at the meeting of 21 March 2019, a minor transaction was assessed with Istella S.p.A., of which the director Renato Soru is a partner.

6.7 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.

6.8 Diversity Policies

The Board of Directors, in its meeting dated 10 May 2018 and on the proposal of the Nomination and Remuneration Committee, adopted the Diversity Policy of the Board of Directors and the Board of Statutory Auditors (hereinafter referred to as the “Policy”) in relation to the composition the administrative and management bodies relating to aspects such as age, gender composition and training and professional development.
The aforementioned Policy describes the optimal characteristics of the composition of the Board of Directors and of 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, first of all, to orientate the candidacies formulated by the Shareholders during the renewal of the administrative 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.
Of the indications contained in this Policy, the Appointments and Remuneration Committee also takes into account if it is called upon to propose candidates to the Board of Directors to the Board of Directors, taking into consideration any reports received from Shareholders, in certain predetermined cases.

Consolidated Financial Statements of Tiscali S.p.A. as at 31 December 2018

7 Consolidated Financial Statements and Explanatory Notes

7.1 Income Statement

Consolidated income Statement	Notes	2018	2017 (*)
(Thousands of Euros)			
Revenues	1	165,188	201,429
Other incomes	2	3,542	3,725
Purchase of materials and external services	3	114,210	137,405
Personnel cost	4	24,326	29,143
Other operating charges (incomes)	3	43	(199)
Write-downs of receivables from customers	5	9,622	9,745
Restructuring costs	6	6,668	3,603
Depreciations & amortizations	12-13	47,957	48,088
Operating result		**(34,097)**	**(22,630)**
Result from the investments evaluated at equity method		(429)	(238)
Financial Income	7	1,088	61
Financial Expenses	7	11,623	19,368
Income (loss) before tax		**(45,061)**	**(42,175)**
Taxation	8	(224)	139
Net result from operating activities (ongoing)		**(45,286)**	**(42,035)**
Result from held for sale and discontinued operations	9	128,484	42,862
Net result	10	**83,198**	**827**
To be attributed to:			
- Result pertaining the Parent Company		**83,198**	**827**
- Result pertaining Third Parties		-	-
Profit (loss) per share			
Profit per share from current and transferred activities:			
- Base		0.021	0.000
- Diluted		0.019	0.000
Profit per share from current activities:			
- Base		(0.011)	(0.011)
- Diluted		(0.010)	(0.009)

(*)The economic data for the year 2017 have been restated as follows: 1) the release of the deferred tax provision of EUR 80 thousand relating to the sale to Fastweb carried out in 2017 has been reclassified from the item "Income taxes" to the item "Result of assets sold and/or destined for sale" for comparative purposes as compared to 2018; 2) following the application of IFRS 15, the Company proceeded to offset revenues and costs relating to visibility exchange operations (barters) carried out in 2017 and 2018. In particular, the 2017 barter revenues for the year were equal to EUR 6.2 million and, therefore, the revenues presented for the year 2017 in the approved financial statements amounted to EUR 207.6 million.

7.2 Comprehensive Income Statement

Comprehensive Income Statement	Notes	2018	2017 (*)
(Thousands of Euros)			
Result for the period		**83,198**	**827**
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		132	329
(Loss)/profit from revaluation on plans with defined benefits		*132*	*329*
Total of other elements for the comprehensive Income Statement:		**132**	**329**
Total result of the comprehensive Income Statement		**83,329**	**1,156**
To be attributed to:			
Shareholders of the Parent Company		83,329	**1,156**
Minority Shareholders		0	-
		83,329	**1,156**

7.3 Balance Sheet

Statement of Assets and Liabilities	Notes	31 december 2018	31 december 2017 (*)
(Thousands of Euros)			
Non-current assets			
Intangible assets	*12*	55,608	65,556
Property, plants and machinery	*13*	79,032	93,320
Other financial assets	*14*	29,861	4,421
Deferred tax assets	*8*		1
		164,501	**163,299**
Current assets			
Trade receivables	*15*	34,927	46,540
Other receivables and other current assets	*16*	127,692	21,639
Cash and cash equivalents	*19*	18,977	1,465
		181,596	**69,644**
Assets directly related to held for sales	9	(0)	67,494
Total assets		**346,097**	**300,436**
Capital and reserves			
Share Capital		43,065	121,507
Stock option reserve		(13)	2,010
Reserve related to assets held for sale		0	54,793
Results from previous fiscal years and other reserves		(170,965)	(307,169)
Results for the fiscal year pertaining to the Group		83,198	827
Shareholders' equity_ Group	*18*	**(44,715)**	**(128,031)**
Shareholders' equity_ third parties		0	0
Shareholders' equity_ third parties	*19*	**0**	**0**
Total Shareholders' equity		**(44,715)**	**(128,031)**
Non-current liabilities			
Obligation under finance leases	*20*	7,132	10,809
Other non-current liabilities	*21*	6,398	13,330
Employee severance indemnities	*22*	3,294	3,586
Provisions for liabilities and charges	*23*	8,083	3,239
		24,907	**30,963**
Current Liabilities			
Banks overdrafts and loans	*20*	103,826	108,502
Obligation under finance leases	*20*	60,608	61,529
Trade payables	*24*	134,840	150,705
Other current liabilities	*25*	66,632	64,067
		365,906	**384,804**
Payables directly related to held for sale	*9*	0	12,700
Total Shareholders' equity and Liabilities		**346,097**	**300,436**

(*) The balance sheet data for 2017 relating to assets / liabilities sold and / or destined to be sold in the year 2018 have been restated for comparative purposes

7.4 Cash Flow Statement

(Thousands of Euro)	Notes	2018	2017
OPERATING ACTIVITIES (*)		**(45,286)**	**(41,955)**
Adjustments for:			
Amortization of tangible assets	12-13	18,651	18,601
Amortization of intangible assets	12-13	29,306	29,487
Provision for write-downs accounts receivables from customers	5	9,622	9,745
Gain on disposal of non-current assets	2	(2,110)	(2,108)
Stock Option figurative cost		(13)	608
Income taxes	8	224	(220)
Release of provisions for risks	6	5,340	(278)
Write-offs and settlement agreements with suppliers		(4,614)	(4,777)
Other changes	2-3-4-6	2,945	2,561
Bond conversion costs	7	0	6,655
Financial Charges / income	7	10,535	12,890
Cash flows from operating activities before changes in working capital		***24,601***	***31,209***
Changes in receivables	15	1,931	(17,450)
Change in inventories		0	360
Changes in payables to suppliers	25	(19,316)	1,438
Change in payables to long-term suppliers	21	(8,327)	(16,164)
Net change in provisions for risks and charges	23	(425)	(1,074)
Net change in provisions for TFR	22	(268)	(550)
Changes in other liabilities	25	403	(11,285)
Changes in other assets	16	680	1,415
Changes in working capital		**(25,322)**	**(43,310)**
AVAILABILITY CASH FLOWS GENERATED BY OPERATING ACTIVITIES		**(721)**	**(12,101)**
INVESTMENT ACTIVITY			
Change in other financial assets	14	(280)	3,568
Acquisitions of Fixed Tangible Assets	12-13	(3,625)	(24,657)
Acquisitions of Intangible assets	12-13	(14,535)	(39,771)
o/w due to voucher utilization (no cash effect)	12-13	493	7,338
Change in payables related to acquisitions of Assets	21	8,536	31,632
AVAILABILITY OF CASH AND CASH EQUIVALENTS FOR INVESTMENT ACTIVITIES		**(9,411)**	**(21,890)**
FINANCIAL ASSETS			
Changes in payables to banks	20	(10,919)	(8,414)
of which:			
Repayment of share capital and interest Senior debt		0	(3,392)
Increase/Decrease in current accounts overdrafts		(10,919)	(5,021)
Changes in bond		0	(1,513)
Repayment/acceptance of financial leasing	20	(5,641)	5,359
Exchange rate effect	7	(14)	(38)
OCI reserves	18	0	0
Changes in Net Equity	18	(0)	30,306
- o/w due to bond conversion (no cash effect)	18	0	(17,000)
AVAILABILITY CASH ARISING FROM/ (USED IN) FINANCIAL ACTIVITIES		**(16,574)**	**8,701**
INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS IN THE PERIOD		**(26,706)**	**(25,290)**
AVAILABILITY CASH ARISING FROM ASSETS SOLD/ HELD FOR SALE	9	44,218	25,408
AVAILABILITY CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**1,465**	**1,346**
CASH AND CASH EQUIVALENTS AT YEAR-END		**18,977**	**1,464**

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.

7.5 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, 2018	**121,507**	**24**	**2,010**	**(1,610)**	**(249,963)**	**(128,031)**	**0**	**(128,031)**
Share Capital reduction	(78,442)	(24)	(2,010)		80,476	-		-
Other movements			(13)			**(13)**		**(13)**
Currency transl. difference.								
Total result of the comprehensive Income Statement				132	83,198	**83,329**		**83,329**
Balance as of December 31th, 2018	**43,065**	**-**	**(13)**	**(1,478)**	**(86,289)**	**(44,715)**	**0**	**(44,715)**

(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)**

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

Consolidated income Statement	Notes	2018	of which related parties	2017 (*)	of which related parties
(Thousands of Euros)					
Revenues	1	165,188	97	201,429	66
Other incomes	2	3,542		3,725	
Purchase of materials and external services	3	114,210	1,681	137,405	2,267
Personnel cost	4	24,326	1,262	29,143	1,740
Other operating charges (incomes)	3	43		(199)	
Write-downs of receivables from customers	5	9,622		9,745	
Restructuring costs	6	6,668		3,603	
Depreciations & amortizations	12-13	47,957		48,088	
Operating result		**(34,097)**	**(2,846)**	**(22,630)**	**(3,941)**
Result from the investments evaluated at equity method		(429)		(238)	
Financial Income	7	1,088		61	
Financial Expenses	7	11,623		19,368	
Income (loss) before tax		**(45,061)**	**(2,846)**	**(42,175)**	**(3,941)**
Taxation	8	(224)		139	
Net result from operating activities (ongoing)		**(45,286)**	**(2,846)**	**(42,035)**	**(3,941)**
Result from held for sale and discontinued operations	9	128,484		42,862	
Net result	10	**83,198**	**(2,846)**	**827**	**(3,941)**
To be attributed to:					
- Result pertaining the Parent Company		**83,198**		**827**	
- Result pertaining Third Parties		-		-	
Profit (loss) per share					
Profit per share from current and transferred activities:					
- Base		0.021	0.000	**0.000**	
- Diluted		0.019	0.000	**0.000**	
Profit per share from current activities:					
- Base		(0.011)	0.000	**(0.011)**	
- Diluted		(0.010)	0.000	**(0.009)**	

(*)The economic data for the year 2017 have been restated as follows: 1) the release of the deferred tax provision of EUR 80 thousand relating to the sale to Fastweb carried out in 2017 has been reclassified from the item “Income taxes” to the item “Result of assets sold and/or destined for sale” for comparative purposes as compared to 2018; 2) following the application of IFRS 15, the Company proceeded to offset revenues and costs relating to visibility exchange operations (barters) carried out in 2017 and 2018. In particular, the 2017 barter revenues for the year were equal to EUR 6.2 million and, therefore, the revenues presented for the year 2017 in the approved financial statements amounted to EUR 207.6 million.

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

Statement of Assets and Liabilities	Notes	31 December 2018	of which related parties	31 december 2017 (*)	of which related parties
(Thousands of Euros)					
Non-current assets					
Intangible assets	12	55,608		65,556	
Property, plants and machinery	13	79,032		93,320	
Other financial assets	14	29,861		4,421	
Deferred tax assets	8			1	
		164,501		**163,299**	
Current assets					
Trade receivables	15	34,927	78	46,540	
Other receivables and other current assets	16	127,692	72	21,639	75
Cash and cash equivalents	17	18,977		1,465	
		181,596	**150**	**69,644**	**75**
Assets directly related to held for sales	9	(0)		**67,494**	
Total assets		**346,097**	**150**	**300,436**	**75**
Capital and reserves					
Share Capital		43,065		121,507	
Stock option reserve		(13)	(13)	2,010	2,010
Reserve related to assets held for sale		0		54,793	
Results from previous fiscal years and other reserves		(170,965)		(307,169)	
Results for the fiscal year pertaining to the Group		83,198		827	
Shareholders' equity_ Group	18	**(44,715)**	**(13)**	**(128,031)**	**2,010**
Shareholders' equity_ third parties		0		0	
Shareholders' equity_ third parties	19	**0**		0	
Total Shareholders' equity		**(44,715)**		**(128,031)**	
Non-current liabilities					
Obligation under finance leases	20	7,132		10,809	
Other non-current liabilities	21	6,398		13,330	
Employee severance indemnities	22	3,294		3,586	
Provisions for liabilities and charges	23	8,083		3,239	
		24,907		**30,963**	
Current Liabilities					
Banks overdrafts and loans	20	103,826		108,502	
Obligation under finance leases	20	60,608		61,529	
Trade payables	24	134,840	97	150,705	71
Other current liabilities	25	66,632	713	64,067	577
		365,906	**810**	**384,804**	**648**
Payables directly related to held for sale	9	0		12,700	
Total Shareholders' equity and Liabilities		**346,097**	**646**	**300,436**	**2,583**

(*) The balance sheet data for 2017 relating to assets / liabilities sold and / or destined to be sold in the year 2018 have been restated for comparative purposes

7.8 Explanatory Notes

Tiscali S.p.A. (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 described in more detail in the following paragraph, therefore have drafted the financial statements using the principles and criteria applicable to companies in operation.

7.9 Assessment of the business as a going concern and business outlook

Asset-financial and economic situation of the period

The Tiscali Group closed the FY 2018 with a negative consolidated shareholders' equity of EUR 44.7 million, an improvement as compared to EUR 128 million as at 31 December 2017. The change in equity is mainly attributable to the result for the FY. During the FY, the Tiscali Group in fact recorded a profit of EUR 83.2 million, an improvement as compared to the profit of EUR 0.8 million recorded in the FY 2017. The 2018 profit is mainly attributable to the net gain on the sale of the 40 MHz license in the 3.5 Ghz band and of the Fixed Wireless Access (FWA) to Fastweb, equal to EUR 128.5 million (see the following paragraph "Effects of the 2018-2021Business Plan and Strategic Agreement with Fastweb" for more details); in 2017, the profit also benefited from the effect of a capital gain of EUR 43.8 million connected with a transaction entered into with Fastweb.

As at 31 December 2018, the Group also reported gross financial debt of EUR 171.6 million, an improvement as compared the gross financial debt recognized as at 31 December 2017, equal to EUR 180.8 million, and current liabilities higher than current (non-financial) assets for EUR 38.8 million, an improvement as compared to EUR 150.9 million as at 31 December 2017. The positive change of the latter figure, equal to EUR 112.1 million, is mainly attributable to the short term portion of the receivables due from Fastweb for EUR 110.5 million relating to the sale of the aforementioned 40 MHz license fee in the 3.5 Ghz band and the FWA business branch.

Current liabilities include overdue trade payables (net of payment plans agreed with suppliers, as well as receivables and disputed receivables from the same suppliers) for EUR 57.7 million, down from the corresponding amount of EUR 46, 2 million as at 31 December 2017, in addition to overdue financial debts (net of credit positions) of approximately EUR 36.9 million (EUR 20.9 million as at 31 December 2017), overdue tax payables of approximately EUR 18.2 million (EUR 11 million as at 31 December 2017), as well as overdue payables of a social security nature for employees of EUR 0.5 million (EUR 1.9 million as at 31 December 2017). During the FY, agreements were signed for the settlement of payables to suppliers for EUR 4.6 million (EUR 4.8 million in 2017).

Effects of the 2018-2021Business Plan and Strategic Agreement with Fastweb

As previously described, the Tiscali Group had been engaged, during the first half of 2018 and until November 2018, in a series of activities (in particular the obtainment of the extension on the license for the 3.5GHz frequency spectrum it owned, which took place on 12 November, and the negotiation of the strategic agreement with Fastweb, finalized on 16 November 2018) which limited its operational action and created a discontinuity with respect to the development path established in the previous 2018-2021 Business Plan approved contextually with the results of the FY 2017, determining the realization of results which were worse than expected. Pending this process and in the broader context of uncertainty on the future evolution of the Group, it should be noted, among other things, that the financial resources established by the Shareholders in the previous 2018-2021 Business Plan have not been made available; this has exacerbated financial tensions and relations with some suppliers following the increase in the overdue recorded.

The New Business Plan 2018-2021 of the Tiscali group, certified for Tiscali Italia and Aria pursuant to Article N. 67 of the Royal Decree 267/1942, prepared considering the effects of the closing of the transaction with Fastweb on 16 November, and the signature of the Financial Debt Restructuring Agreements dated 28 March 2019, defines the new development path for the Group as a result of the sale, based on the following key elements:

- **Redefinition of the operating model:** following the Strategic Operation with Fastweb, the Tiscali Group is to progressively change its operating model, reducing the direct management of network infrastructures and at the same time increasingly concentrating on the ability to develop new services, on the activities Marketing and Sales and excellence in customer management.
- **Strong reduction in investment commitments**, consistent with the new operating model and with the changed portfolio of activities managed by the company as a result of the sale.
- **Confirmation of the focus on the "core business"**: the New 2018-2021 Business Plan provides for the full focus of the Tiscali Group on the "core business" of the sale of BroadBand and UltraBroadBand services (Fixed, Fixed Wireless and Mobile) to Consumer retail, SOHO and EMS customers.
- **Expansion of the addressable market**: this strategy will have the possibility to develop on a broader market than the one previously held by the Tiscali Group, thanks to the beneficial effects of the wholesale agreement signed with Fastweb, which allows:
  - on the one hand, **to continue to market LTE Fixed Wireless services** in the "Extended Digital Divide" areas thanks to the conditions of wholesale access to the assigned Wireless network provided for by the agreement and indeed on a wider market thanks to Fastweb's commitment to complete the migration of the same network from WiMAX technology to LTE technology at its own expense (from about 4 million to about 6.5 million households and businesses covered by the LTE service);
  - or on the other, to access the Fastweb Fiber network, allowing Tiscali – without further incremental investments – **to expand the addressable market of Fiber services** from about 8 million households and businesses to around 18 million
- **Full relaunch of the Tiscali brand to support the marketing of services**, by virtue of the investments in communication established in the New 2018-2021Business Plan, and possible thanks to the proceeds from the Strategic Agreement with Fastweb.
- **Future access to 5G services**, thanks to the possibility of using the Fastweb 5G network to commercialize the future 5G Mobile services to its customers, thus increasing the overall value proposition of its Mobile offer, also in light of the extension of the license term to 2029.
- **Strengthening of the Group's financial and equity structure thanks to**:
  - **the reduction the level of overall debt**, especially debt to suppliers, essential for normalizing the relationship with strategic suppliers and revitalizing the company's operating activities and payables to tax authorities and social security institutions;

- **the rescheduling and restructuring of the current outstanding debt** (Senior Loan and Financial Leasing relating to Sa Illetta), pursuant to the Debt Restructuring Agreements signed with the Banks and the Leasing Companies;
- **the financial strengthening** through the issue of the 2019-2020 Convertible Bond for EUR 10 million.

This plan therefore represents an opportunity for a relaunch of Tiscali, which can use the resources acquired from the sale to refocus its business in line with the size and investment capacity of the company and the changed technological and market environment (Fiber, 5G).

As already mentioned – with the signature of the Financial Debt Restructuring Agreements dated 28 March 2019 – the financial requirements of the New 2018-2021 Business Plan are consistent with the Group’s resources deriving both from its operations and from the collection of fees provided for by the sale itself.

Despite the improved balance sheet and financial situation determined by the sale to Fastweb, the signing of the Debt Restructuring Agreements and the subscription of the 2019-2020 Convertible Bond by the reference Shareholders, the management reiterates that the achievement of the Group’s short, medium and long-term capital, economic and financial equilibrium situation is always subordinated to the achievement of the results expected in the New 2018-2021 Business Plan – which provides for the achievement of the economic equilibrium in 2021 – and therefore the realization of 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 strong competitive pressure.

Final Assessment by the Board of Directors on the business as an ongoing concern

In this 2018 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:

- slowed its growth path for the reasons set out in the previous paragraphs and consequently recorded in 2018 a decline in its customer base on the core business in the year 2018 (the total customer portfolio of the Tiscali Group is equal to 640 thousand units in December 2018, down by around 108 thousand units as compared to December 2017);
- generated in FY 2018, before working capital changes (negative for EUR 25.3 million), cash and cash equivalents from operating activities amounting to approximately EUR 24.6 million;

- received, following the favorable opinion on the granting of the extension of the licenses for the 3.5GHz spectrum expressed by the AGCOM with Resolution No. 503/17/CONS;
- signed a Strategic Agreement with Fastweb, whose structure and nature have been extensively described in the previous paragraphs. This agreement was executed on November 16, 2018, and led to the entry of financial resources relating to the first part of the price for EUR 50 million in addition to the finalization of the payment of EUR 13 million in trade payables, with a forecast by 30 June 2019 to collect the additional EUR 80 million;

- issued a convertible bond with a nominal value of EUR 10.6 million, fully subscribed at 95% by the relevant shareholders ICT and Sova Disciplined Equity Fund on 31 January 2019;
- signed the Senior Debt Restructuring Agreement on 28 March 2019;
- signed the Agreement for the Restructuring of the Sa Illetta Leasing on 28 March 2019;
- drew up the New 2018-2021 Business Plan, which includes in particular the impact of the sale to Fastweb, the Financial Debt Restructuring Agreements with the Financial Institutions and the Pool Leasing, the effects of the disbursement of the bridge loans, and consequently redefines the new strategy for the development of Tiscali Group. This plan, approved on 12 November 2018 by the Board of Directors, was certified with the asseveration as per Article N. 67 of the Royal Decree 267/1942 issued on 27 March 2019 for Tiscali Italia and Aria by Giovanni Naccarato.

The Directors – pointing out that the going concern assumption is based on the achievement of the objectives contained in the New 2018-2021 Business Plan – acknowledge that at present the realization of the New 2018-2021 Business Plan is, in any case, subject to some residual material uncertainties, and in particular:

4. the payment of the residual portion of the price provided for by the Strategic Agreement with Fastweb, even in reference to the uncertainties connected with the Controversies against the Strategic Agreement with Fastweb arisen following the announcement of such operation;
5. the increase in the customer base in market trend characterized by strong competitive pressure;
6. the maintenance of support from suppliers that have overdue receivables from the Group until the completion of the plan aimed to reduce the overdue, concentrated in the first half of 2019 and realized using the new financial resources generated by the sale to Fastweb, by the restructuring of debts and from the subscription of the 2019-2020 Convertible Bond that will allow to realign the payment terms to the average terms of the reference sector, as reflected in the New 2018-2021 Business Plan.

This said, the Directors, (i) in light of the events occurred between 16 November 2018 and 28 March 2019, and (ii) the significant liquidity injection following the collection of the first tranche of the Strategic Agreement with Fastweb, think that the uncertainties previously pointed out will cease and that:

- the second payment tranche (equal to EUR 80 million) will also be collected within the contractually time frame established, and the financial savings deriving from the wholesale agreement with Fastweb will take place in accordance with the new 2018-2021 Business Plan;
- the management will be able to maintain the support from the suppliers, also thanks to the actions aimed at immediately reducing the expired payables using the extraordinary financial resources coming from the cash in of the first tranche of the sale price provided in the Strategic Agreement with Fastweb;
- the size of the benefit to the income statement, balance sheet and financial position, deriving from the Strategic Agreement with Fastweb and from the finalization of the restructuring of the financial debt are so significant as to suggest that – even in the presence of the aforementioned situation of uncertainty on the realization of the New 2018-2021 Business Plan in the next twelve months, deriving from the existence of uncontrollable exogenous variables that can make results worse than those expected in the forecast data – the assets and financial balances are not at risk.

It is on this basis therefore that the Directors have a reasonable expectation that the business can be considered as an ongoing concern over the next twelve months and that the Group can use the accounting principles of the assumption of going concern in the preparation of this consolidated annual financial report as at 31 December 2018.

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.

7.10 Business outlook

Please refer to paragraph 5.8.

7.11 Other events after the year-end

<u>10 January 2019 – conclusion of the preparatory activities for the issue of an EUR 10.6 million Convertible Bond Loan</u>

On that date, the Company announced that, as part of the actions to find the financial resources necessary to implement the New 2018-2021 Business Plan approved by the Board of Directors on 12 November 2018, it concluded the preparatory activities necessary for the issue of a convertible bond loan reserved for qualified investors pursuant to Article 34-ter, paragraph 1(b), of the CONSOB Regulation No. 11971 dated 14 May 1999 (Issuers' Regulation) and of Article 35, paragraph 1(d) of the CONSOB Regulation No. 20307 dated 15 February 2018 (Intermediaries' Regulation), in execution of the delegated powers, pursuant to Article No. 2420-ter and of Article No. 2443 of the Civil Code, by the Shareholders' Meeting on 26 June 2018 ("Delegations").

The Company reached, and signed on that date, an agreement with the shareholders ICT Holding Limited (related party) and Sova Disciplined Equity Fund SPC for the subscription of the aforementioned EUR 10.6 million Convertible Bond Loan divided into equal shares ("Bond Loan") which will make it possible to find liquidity for a total of approximately EUR 10 million, corresponding to the commitment assumed by the aforementioned shareholders on 16 November 2018. The issue of the Bond will be performed without the prior publication of an offer prospectus by virtue of the exemption to the publication of a prospectus provided for in Article No. 34-ter, paragraph 1, lett. b) of the Issuers' Regulation. The bonds will not be listed on any regulated market, have a one-year duration and have no coupon (interest-free). The subscription price of the bonds will be equal to 95% of the nominal value. The bonds may be converted at the request of the subscribers after two months from the issue and at the request of the Issuer at maturity. The conversion price is equal to 85% of the weighted average price of the Issuer's shares recorded at the end of the trading of the last 10 working days prior to the conversion request date. Deloitte & Touche SpA expressed its opinion on the adequacy of the proposed criteria for the purpose of determining the issue price of the new shares to be issued for the conversion of the Bond Loan. Pursuant to the Regulation on Related Party Transactions adopted by CONSOB with Resolution NO. 17221 dated 12 March 2010 and subsequent amendments ("Related Parties Regulation"), ICT Holding Limited is a related party, being a Relevant Shareholder with a stake of 23.52% of the Company's share capital. The signing of the agreement with ICT qualifies as a transaction of greater importance based on the criterion of the relevance index of the value referred to in the Related Parties Regulation.

For the purpose of approving the Bond, the Company has made use (pursuant to Article No. 10 of the Related Party Regulation) of the approval procedure identified pursuant to Article No. 7 of the Related Parties Regulation (established for minor transactions) and Article No. 5.3 of the Regulation of Related Parties Transactions approved by the Company on 28 April 2017, following which a favorable opinion

was issued to the Board of Directors.
On the same date, the Company published the Explanatory Report pursuant to Article No. 2441, Paragraph 6, and Article No. 2443, Paragraph 1 of the Civil Code, and Article No. 72, Paragraphs 1 and 6 of the CONSOB Regulation No. 11971 dated 14 May 1999, prepared by the Board of Directors of Tiscali S.p.A. for the issue of the bond loan.

31 January 2019 – Subscription by the reference shareholders ICT and Sova Disciplined Equity Fund of the 2019-2020 Convertible Bond for a nominal amount of EUR 10.6 million

The Board of Directors of the Company, which met on 31 January 2019, resolved, in partial exercise of the powers it was conferred by the Shareholders' Meeting dated 26 June 2018, the issue of a Convertible Bond Loan for EUR 10.6 million, as well as the capital increase to service the Bond Loan. On that date, the Bond Loan was fully subscribed for a nominal value of EUR 10.6 million by the shareholders ICT Holding Limited and Sova Disciplined Equity Fund SPC, in equal shares of nominal EUR 5.3 million each.

28 March 2019 – Signature of the Final Agreements for the Restructuring of Financial Debt with Financial Institutions and Pool Leasing

Please refer to paragraph 5.2 of the Financial Report e to the previous paragraph 7.9 for a detailed disclosure on these agreements and their effects.

7.12 Accounting Standards

The 2018 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, as well as to the provisions implementing Article No. 9 of the Legislative Decree No. 38/2005. The IFRS include also all the International Accounting Standards ("IAS") and all the interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") previously known as Standing Interpretations Committee ("SIC").

The preparation of the Financial Statements requires 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 annual financial statements, as required by the relevant legislation, have been prepared on a consolidated basis and are subject to audit by Deloitte & Touche Spa.

In compliance with the Legislative Decree No. 254 dated 30 December 2016, Tiscali Spa, as the “parent company”, has prepared a consolidated non-financial statement as a separate report with respect to the consolidated financial statement, called “Sustainability Report”, which contains the information required by the same Decree.

The Company, on 29 March 2019 also approved the consolidated non-financial statement (2018 Sustainability Report), which will be subjected to a limited examination by the auditing company Deloitte & Touche Spa.

The publication of the Sustainability Report is disclosed by means of a press release containing the indication of the section of the Tiscali Spa website where the non-financial consolidated statement is published.

Financial Statements Schemes

The preparation of the consolidated financial statements as at 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,* which includes charges and incomes directly entered in the Net equity at net of fiscal effects.
- Cash Flow Statement: as allowed by the reference principles, the Group has decided to use the indirect method to draft and represent the Cash Flow Statement.
- 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 & Advertising;
- 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 within 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 likely, 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 following components are shown in a single item and net of the relative tax effects in the income statement under the heading "Assets disposed and/or held for sale":

- the result for the period realized by the subsidiaries held for sale, including the possible adjustment of their net assets to the market value (fair value);
- the result inherent to the assets 'sold', including the result of the period realized by the subsidiaries up to the date of transfer of control to third parties, together with the profits and/or losses deriving from the transfer.

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 sold and/to held for sale.*

Please refer to Note 9 of the paragraph "7.14 Explanatory Notes" for further information on the Assets disposed and/or held for sale.

Seasonality of revenues

Tiscali is not significantly affected by seasonality of the business.

Consolidation criteria

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

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

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

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

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

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

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

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

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

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

Unconsolidated investments in other unlisted companies that do not represent a Joint Venture or an associated investment, for which the fair value cannot be reliably determined, are valued at cost adjusted for impairment losses

<u>Variation of the consolidation area</u>

The consolidation area of the Group includes the Tiscali S.p.A. (Parent company) Financial Statements 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 the consolidation scope of the Group occurred during FY 2018 follow:

- liquidation of Indoona S.r.l. on 12 July 2018;
- liquidation of Tiscali UK Holdings on 9 October 2018

Moreover, please refer to Note 9 "Assets disposed and/or held for sale" for details concerning the operation of transfer of the right of use of the 42 MHz license in the 3.5 GHz owned by Aria and of the FWA business branch to Fastweb perfected in FY 2018.

As at 31 December 2018, the consolidation area follows:

Name	Registered office	Shareholding owned by	Values as of December 31, 2018 (EUR/000)			Percentage of direct shareholding	Percentage of Group shareholding (**)
			Share Capital	Net Equity	Net Result		
Tiscali S.p.A.	Italy	Parent Company	43,065	43,192	140	n.a.	n.a.
Tiscali Italia S.p.A.	Italy	Tiscali S.p.A.	18,794	(26,917)	(40,485)	100,0%	100,0%
Veesible S.r.l.	Italy	Tiscali Italia S.p.A.	600	603	170	100,0%	100,0%
Aria Group (#)	Italy	Tiscali S.p.A.	15,583	147,950	123,659	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	(1,188)	(573)	100,0%	99,5%
Tiscali International Network B.V. (*)	Netherlands	Tiscali International BV	18	17,473	514	100,0%	99,5%
Tiscali Financial Services SA (*)	LUX	Tiscali International BV	31	(419,768)	(4,208)	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 from the consolidated reporting package of the Aria Group, drafted for the consolidated financial statements as at 31 December 2018

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.

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:

1. 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 amortization or accumulated impairment losses. Amortization 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 in.

Broadband Service activation costs

Acquisition costs and activation of customers are amortized over a period of 36 months.

IRU

The *IRU* are classified as "concessions and similar rights" and consist of costs incurred for the acquisition of the registration rights of use of the fiber 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 are recognized in the income statement on an estimated basis.

The minimum and maximum rates of depreciation applied in FY 2018 are shown below:

Real Estate	3%
Plants	12%-20%
Machineries	12%-25%

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 FY 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, waiting for the application of IFRS 16 on January 1, 2019 which will determine the effects best analyzed below.

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 is the greater amount between fair value net of sales costs and its value in use.

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

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

Financial instruments

Loans and Receivables

The receivables of the Group are stated in the items “Other Non-Current Financial Assets”, “Trade Receivables”, “Other Receivables and Other Current Assets” and “Other Current Financial Assets”, and include guarantee deposits, trade receivables, loans to others generated as part of the core business.

They are valued, in case they have a fixed term, at amortized cost using the effective interest method. When financial assets have no fixed maturity, they are valued at acquisition cost. Receivables due beyond one year, bear interest or bear interest below market are discounted using market rates.

Assessments are frequently carried out to find objective evidence of impairment of a financial asset or group of assets. If any such evidence exists, the impairment loss should be recognized as an expense in the income statement in the period.

Cash and cash equivalents

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

Debts and financial liabilities

The debts and financial liabilities of the Group are disclosed in the items “Bonds”, “Due to Banks and Other Lenders”, “Finance Lease Liabilities”, “Other Non-Current Liabilities”, “Payables to Suppliers”, and include trade payables, payables to others, the financial payables, including payables for loans received for advances on the sale of loans and finance leases.

Trade payables and other payables are stated at nominal value. Borrowings are initially recognized at cost, equal to the fair value of the consideration received, net of transaction costs. Subsequently, the loans are valued at amortized cost using the effective interest method, calculated considering the issue costs and any other premium or discount applicable to the regulation.

Financial derivatives

The Group does not use derivatives.

Liabilities due to pensions and employee severance indemnities

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.

Benefits subsequent to the employment relationship are defined on the basis of programs which, even if not formalized, according to their characteristics are divided into “defined-contribution” and “defined-benefit” programs.

For defined-contribution plans, the company’s obligation, limited to the payment of contributions to the State or to a legally separate asset or entity (the 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 consistent with the working period necessary to obtain the benefits.

For defined-benefit plans, the changes in the value of the net liability (so-called revaluations) deriving from actuarial gains (losses) resulting from changes in the actuarial assumptions used or adjustments based on past experience are recognized in the statement of comprehensive income, and from the return on assets serving the plan other than the component included in the net interest. The revaluations of the net liability for defined benefits, recorded in the shareholders’ equity reserve relating to the other components of the overall profit, are not subsequently reclassified to the income statement.

Provisions for liabilities and charges

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

Recognition of income

Revenue is recognized to the extent that it is probable that economic benefits will flow to the Group and the revenue can be measured reliably; revenues are stated net of discounts, allowances and returns.

Revenues from services rendered are recognized in the income statement using the percentage of completion of the service and only when the result of the service can be reliably estimated.

In particular, the income statement of revenues from Internet access services (narrowband and broadband) and voice services, takes place on the basis of actual traffic produced at the reference date and/or service periodic fee payable at that date.

Revenues related to the activation of broadband services (ADSL) are recognized in the income statement on a linear basis over a period of 36 months. Portions not attributable to the period are recorded under other current liabilities, as deferred income.

Barter revenues, if related to trade in services of a similar nature, are recorded at the net value of the exchange made. If the underlying services have dissimilar characteristics, the performance values are presented at fair value unless this fair value can be reliably estimated.

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 in the fiscal year.

Taxes

Income taxes include all taxes calculated on the taxable income of the companies of the Group, considering the temporary and permanent changes established by applicable legislation, based on the best possible interpretation of corporate events.

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

Any deferred tax assets, arising from temporary differences and/or tax losses carried forward, are taken over to the extent that it is considered likely that there may be future taxable tax results that allow the use of these deductible temporary differences and/or tax losses.

Earnings per Share

Basic earnings per ordinary share is calculated by dividing the share of the Group's profit attributable to ordinary shares by the weighted average number of ordinary shares outstanding during the year, excluding treasury shares.

For the purposes of diluted earnings per ordinary share, the weighted average number of shares outstanding is adjusted by assuming the subscription of all the potential shares deriving, for example, the conversion of bonds and exercise of rights on dilutive shares and potential dilutive effect of the allocation of shares to the beneficiaries of the Stock Option plans already accrued.

7.13 Major decisions in applying accounting policies and use of estimates

In the process of applying the accounting policies described in the previous section, Tiscali's Directors made some significant decisions importance for the recognition of amounts in the financial statements. The directors' decisions are based on historical experience as well as on expectations associated with the realization of future events, considered reasonable under the circumstances.

The recoverability of the main asset is based on estimates of income and cash flows that the Group believes it will be able to generate in the future. As better explained in the Note 6.8.1 *"Assessment of the business as an ongoing concern and business outlook"* the achievement of the results set out in the New 2018-2021 Business Plan, used for the assessment, depends on whether the forecasts and assumptions contained therein, in a market characterized by strong competitive pressure.

Assumptions for the application of the accounting standards

Activation costs and customer acquisition

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

Impairment of Assets (Impairment)

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

Provisions for personnel

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

Bad Debts Provisions

The recoverability of receivables is assessed taking into account the risk of not collecting themselves, their age and losses on loans recorded in the past for similar receivables, therefore taking into account historical information. There is a risk that exogenous elements, such as the performance of the economy and per capita incomes, may not be consistent with the past and, therefore, their pejorative trend may not be captured by the historical information available.

Provisions for liabilities and charges

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

Determination of Fair Value

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

Determination of Revenues

Revenue related to Broadband Access and MVNO services is recognized through the use of complex information systems, which, through the use of the contractual and consumption data of individual customers, process reports used to estimate allocation aimed at the recognition of revenues. The complexity of these estimates is given by several factors, and inter alia i) by the complexity of the information systems involved; ii) by the presence of multiple tariff plans proposed in the past that still generate important revenue streams; iii) by the high number of users; and iv) by the relevance of the allocations manually made.

ACCOUNTING STANDARDS, AMENDMENTS AND IFRS INTERPRETATIONS EFFECTIVE FROM 1 JANUARY 2018

The following amendments have been applied for the first time by the Group starting from 1 January 2018:

- Principle IFRS 15 – Revenue from Contracts with Customers (published on 28 May 2014 and supplemented by further clarifications published on 12 April 2016) which is intended to replace IAS 18 – Revenue and IAS 11 – Construction Contracts, as well as 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 principle, which is to be implemented from 1 January 2018, establishes a new revenue recognition model, which will apply to all contracts with customers except those that fall within the scope of application of other IAS/IFRS principles such as leases, insurance contracts and financial instruments. The fundamental steps for the accounting of revenues according to the new model follow:
    - The identification of the contract with the customer;
    - The identification of the performance obligations contained in the contract;
    - The determination of the price;
    - The allocation of the price to the performance obligations contained in the contract;
    - The revenue recognition criteria when the entity meets each performance obligation.

  The assessment of the impacts of the introduction of IFRS 15 involved the analysis of the main contractual cases for the main types of revenue. These analyzes showed that the services offered are attributable to the same generic performance obligation as they are substantially similar, have the same transfer model to the customer and respond to the customer's need to communicate, transmit and receive information.

  Specific assessments have been made concerning:

  1. The installation fee
  2. The modem
  3. Ancillary offers
  4. Barter Agreements

  The assessments carried out did not reveal any material impacts (including tax effects) due to the introduction of the new revenue recognition principle, except for an impact in terms of classification which led to a recalculation of the 2018 revenues for this type of services, amounting to EUR 7.1 million (EUR 6.2 million in 2017), showing offset revenues and costs from advertising barter transaction..

- On 24 July 2014, the IASB published the final version of **IFRS 9 – *Financial Instruments: recognition and measurement***. 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 1 January 2018.

  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 new principle has been applied since 1 January 2018.

Starting from 1 January 2018, the Group changed the credit impairment model from the model required under IAS 39 for incurred losses to the expected credit loss model introduced by the new accounting standard and recognized at the time initial registration of the credit based on historical data or prospective elements. The assessments were carried out on all the categories of receivables identified in the context of the management of trade receivables and did not determine impacts to be considered as adjustments to the valuations already carried out until the end of 31 December 2017.

With regard to the classification of financial assets, no impacts have been identified on the valuation of most financial assets that are managed exclusively through a "hold to collect" business model whose valuation takes place at amortized cost.

With regard to the change introduced by IFRS 9 regarding hedge accounting, the Group does not have explicit or implicit derivative instruments.

- On 20 June 2016, the IASB published the **Amendments to IFRS 2 – "Classification and measurement of share-based payment transactions"** (published on 20 June 2016), 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 have been applied since January 1, 2018.

The adoption of this amendment had no effect on the Group's consolidated financial statements.

- On 8 December 2016, the IASB published the document ***"Annual Improvements to IFRSs: 2014-2016 Cycle"*** which partially incorporates the pre-existing principles, 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 has been applied since 1 January 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 has been applied since 1 January 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 has been applied since 1 January 2018.

  The adoption of these amendments had no effect on the Group's consolidated financial statements.

- On December 8, 2016, the IASB published the **IFRIC Interpretation 22 *"Foreign Currency Transactions and Advance Consideration"*.** 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:
    - the date on which the advance payment or down payment received is recorded in the entity's financial statements;
    - 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. The IFRIC 22 has been applied since 1 January 2018. The adoption of this interpretation had no effect on the Group's consolidated financial statements.

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 AT 31 DECEMBER 2018

- IFRS 16 – Leases (published on 13 January 2016), 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, which the Group does not intend to make. The Directors expect that the application of IFRS 16 may have an impact on the amounts and on the related disclosure reported in the consolidated financial statements of the Group starting from 1 January 2019. However, the impact analysis has not been completed yet, also in consideration of the changes to the Group's business determined by the Strategic Agreement with Fastweb and the financial structure changed following the signature of the Financial Debt Restructuring Agreements.

- On 12 October 2017, the IASB published an **amendment to IFRS 9 *"Prepayment Features with Negative Compensation"***. 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, which the Directors do not intend to make. The Directors do not expect a significant effect on the consolidated financial statements of the Group from the adoption of these amendments from 1 January 2019.

- On 7 June 2017, the IASB published the interpretation ***"Uncertainty over Income Tax Treatments (IFRIC Interpretation 23)***. The document deals with the issue of uncertainties on the tax treatment to be adopted in the field of income taxes. In particular, the Interpretation requires an entity to analyze the uncertain tax treatments (individually or as a whole, depending on the characteristics), always assuming that the tax authority examines the tax position in question, having full knowledge of all information relevant. In the event that the entity considers it unlikely that the tax authority will accept the tax treatment followed, the entity shall reflect the effect of the uncertainty in the measurement of its current and deferred income taxes. 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. The Directors do not expect a significant effect on the consolidated financial statements of the Group from the adoption of this interpretation.

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 12 October 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 12 December 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 7 February 2018, the IASB published the document **"Plant Amendment, Curtailment or Settlement (Amendments to IAS 19)**". The document clarifies how an entity must recognize a change (i.e. a curtailment or a settlement) of a defined benefit plan. The changes require the entity to update its assumptions and re-measure the liability or net asset arising from the plan. The amendments clarify that after the occurrence of this event, an entity uses updated hypotheses to measure the current service cost and the interests for the rest of the reference period following the event. The directors do not expect a significant effect on the Group's consolidated financial statements from the adoption of these amendments.

- On 22 October 2018, the IASB published the document **"Definition of a Business (Amendments to IFRS 3)"**. The document provides some clarifications regarding the definition of business for the purpose of a correct application of IFRS 3. In particular, the amendment clarifies that, while a business usually produces an output, the presence of an output is not strictly necessary to identify a business in the presence of an integrated set of activities/processes and assets. However, to meet the definition of a business, an integrated set of activities/processes and assets must include, at a minimum, an input and a substantial process that together contribute significantly to the ability to create output. To this end, the IASB has replaced the term "ability to create an output" with "ability to contribute to the creation of an output" to clarify that a business can exist even without the presence of all the inputs and processes necessary to create an output.
  The amendment also introduced a test ("Concentration Test"), optional for the entity, to determine whether a set of activities/processes and assets purchased is not a business. If the test gives a positive result, the set of activities/processes and assets purchased does not constitute a business and the principle does not require further verification. If the test gives a negative outcome, the entity will have to carry out further analyses on the activities/processes and assets purchased to identify the presence of a business. To this end, the amendment has added numerous illustrative examples to IFRS 3, in order to make the practical application of the new definition of business understandable in specific cases.
  The amendments apply to all business combinations and acquisitions of assets subsequent to 1 January 2020, but early application is permitted.
  Given that this amendment will be applied to the new acquisition transactions that will be concluded starting from 1 January 2020, any effects will be recognized in the consolidated financial statements closed after that date.

- On 31 October 2018, the IASB published the document **“Definition of Material (Amendments to IAS 1 and IAS 8)”**. The document introduced a change in the definition of “relevant” contained in IAS 1 – Presentation of Financial Statements and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors. The purpose of this amendment is to make the definition of “relevant” more specific and to introduce the concept of “obscured information” alongside the concepts of omitted or incorrect information already present in the two principles being amended. The amendment clarifies that an information is “obscured” if it has been described in such a way as to produce an effect similar to the one that would have been produced if this information had been omitted or incorrect for primary readers of a financial statement.
  The Directors do not expect a significant effect on the consolidated financial statements of the Group from the adoption of this amendment.

- On 11 September 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 or 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.

7.14 Explanatory Notes

Introduction

The symbol (*) included in the detailed tables of the notes to the financial statements distinguishes the economic and financial data that have been reclassified to the specific items of the income statement and balance sheet relating to the assets sold and / or destined to be sold as they relate to disposals in 2018 (or classified as held for sale in 2018).

Revenues (Note 1)

Revenues	2018	2017 (#)
(EUR 000)		
Revenues	165,188	201,429
Total	**165,188**	**201,429**

(#) Following the application of IFRS 15, the Company proceeded to offset revenues and costs relating to visibility exchange operations (barters) carried out in 2017 and 2018.

Revenues of FY 2018 decreased as compared to those realized in FY 2017. For greater details on the decrease in revenues and their breakdown please refer to the Management Report.

Other Income (Note 2)

Other Income	2018	2017
(EUR 000)		
Other Income	3,542	3,725
Total	**3,542**	**3,725**

Other income includes, primarily, the release of the 2018 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 (EUR 2.1 million in FY 2017), in addition to the income deriving from a transaction with a fixed asset provider which resulted in the write-off of a debt of EUR 0.8 million and a contribution for tax credits of EUR 0.5 million..

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

Purchase of materials and outsourced services, payroll and other operating costs	2018	2017
(EUR 000)		
Line/traffic rental and interconnection costs	70,675	76,604
Costs for use of third party assets	5,370	5,098
Portal services costs	3,230	5,003
Marketing costs	3,160	7,328
Cost of goods to be sold	334	8,313
Other services	31,441	35,059
Other operating expenses (income)	43	(199)
Totale	**114,253**	**137,206**

The item “Costs for lease lines/traffic and interconnection” decreased by EUR 5.9 million as compared to 2017, due to the contraction in business volumes, as described in the “Report on Operations”.
The item “Costs for use of third-party assets” mainly includes costs of voice traffic and fees for Fixed Broadband services (ADSL). This item is substantially in line with the FY 2017datum.
The costs for the portal services decreased by EUR 1.8 million as compared to FY 2018, consistently with the decrease in the related revenues.

Marketing costs decreased by around EUR 4.2 million, as a result of the slowdown in commercial activity suffered in FY 2018 due to the limited financial resources available to the company before the definitive signing of the Strategi Agreement with Fastweb.
The item “Costs for the purchase of goods for resale” includes the costs for the purchase of hardware and software for resale. The decrease in this cost item, in FY 2018, is attributable in particular to the changed strategy on the sale of products to business customers whose revenues are correspondingly reduced by EUR 8 million (from about EUR 8.3 million in FY 2017 to EUR 0.3 million in FY 2018).
The item “Other services” includes the costs of maintenance and management of industrial sites and administrative offices, rents, consulting and professional charges, billing costs, postage, travel expenses, other general costs and the cost of sales of wholesale data services. The latter item shows a decrease by approximately EUR 3.6 million as compared to the FY 2018 (from EUR 3,6 million in the year 2017 to 3 thousands Euro in the year 2018) . The reduction is attributable to the changed strategy on the sale of

wholesale services adopted in FY 2018;

The other cost items included in “Other services” are substantially in line with 2018.

Staffing Costs (Note 4)

Staffing cost	2018	2017
(EUR 000)		
Wages and salaries	15,090	18,424
Other staffing costs	9,237	10,719
Total	**24,326**	**29,143**

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 2017, as well as to th application of the Solidarity Contracts, which enabled a better reorganization of resources and a decrease in the number of units, with a reduction by 59 units as compared to 31 December 2017, as shown in the following table:

Number of Units (full time equivalent)

	31 December 2018	31 December 2017
Managers	17	19
Middle Managers	45	51
Employee	517	565
Workers	1	4
External	3	3
Totale	**583**	**642**

The number of units as at this report amounts to 567 units.

Write-down of receivables from Customers (Note 5)

Write-downs of receivables from customers	2018	2017
(EUR 000)		
Provisions for bad debts	9,622	9,745
Total	**9,622**	**9,745**

The item “Provisions for bad debts” amounts to EUR 9.6 million (5.8% of revenues), a slight increase as compared to EUR 9.7 million in FY 2017 (4.8% of revenues).

As described above, the analyses carried out by the Group in order to estimate the provision for bad debts in light of the new accounting standard IFRS 9, applied as from 1 January 2018, did not lead to significant changes with respect to the estimation uses made before the application of IFRS 9 with reference to the assessment of the risk of non-collection of receivables.

Restructuring Costs (Note 6)

Restructuring costs	2018	2017
(EUR 000)		
Restructuring costs	6,668	3,603
Total	**6,668**	**3,603**

The item "Restructuring Costs" mainly includes provisions for group restructuring charges linked to the reduction in the workforce, developed also in connection with the changed business strategy resulting from the Strategic Agreement with Fastweb.

Net financial income (charges) (Note 7)

A breakdown of Net financial income (charges) for the FY is provided below, with a negative balance of EUR 10.5 million.

Net financial income (charges)	2018	2017
(Thousands of EUR)		
Financial income		
Interest on bank deposits	0	(1)
Other financial income	1,088	63
Total	**1,088**	**61**
Financial charges		
Interest and other charges due to banks	5,012	5,589
Other financial charges	6,611	13,779
Total	**11,623**	**19,368**
Net financial income (charges)	**(10,535)**	**(19,306)**

The item Financial income mainly includes income for EUR 1.1 million deriving from a transaction concluded by the subsidiary Aria with a credit institution, which resulted in the write-off of financial debt.

The item “Financial Charges” amounts to about EUR 11.6 million, mainly includes the following elements:

- interest expense, relating to the loan to Senior Lenders of EUR 4,2 million (EUR 3,9 million in FY 2017);
- interest expense on bank current accounts for EUR 0.8 million attributable to Tiscali Italia S.p.A. and the Aria Group (EUR 0.9 million in FY 2017);
- default interest payable for EUR 3.2 million (EUR 2.1 million in FY 2017);
- interest expense on financial leases and IRU for approximately EUR 1.2 million (EUR 2.4 million in FY 2017);
- bank charges for EUR 2.2 million (EUR 2.5 million in FY 2017)

The change in the year is also attributable to the presence, in the previous year, of figurative charges deriving from the conversion of the Rigensis-Otkritie bond loan which took place on December 15, 2017 equal to EUR 6.7 million.

Income Taxes (Note 8)

Income taxes	**2018**	**2017 (*)**
EUR 000		
Current taxes	224	(138)
Deferred taxes	0	(1)
Total	**(224)**	**139**

The balance includes current taxes cost due for FY 2017.

Results from the operating assets disposed of and/or assets held for sale (Note 9)

<u>*Strategic Agreement with Fastweb*</u>

As thoroughly commented in the Management Report, during the last quarter of 2017 Tiscali had given a mandate to a financial advisor to act in favor of the Company to evaluate possible strategic options for the Group. In the context of the execution of this mandate, the advisor noted the interest of Fastweb to evaluate a possible strategic agreement concerning in particular the 3.5GHz frequency owned by Tiscali and the Fixed Wireless access network infrastructure that was created for the exercise of this frequency.

In this context, on 30 July 2018, Tiscali signed a preliminary agreement with Fastweb (hereinafter referred to also as “Transfer Agreement”), aimed at strengthening the strategic partnership launched in

December 2016 with Fastweb.

The structure of the agreement with the Fastweb group is based on three pillars:

- the sale by Aria (a Tiscali group company holding the license) of the 42 MHz license in the 3.5 GHz frequency;
- the sale by Tiscali Italia of a Fixed Wireless Access (FWA) company branch, including all the FWA infrastructures (836 towers) owned by the Tiscali group on that date, as well as the transfer of 34 employees;
- a wholesale agreement (hereinafter referred to also as "Wholesale Agreement"), which allowed the Tiscali group to obtain full access to the Fastweb Fiber access network infrastructure and the FWA infrastructure sold to Fastweb.

The Preliminary Sale agreement was finalized on November 16, 2018 through the signing of the definitive agreements (the "Strategic Agreement with Fastweb") and with the payment of the part of the first installment of the expected price, totaling EUR 50 million, residual on advance payments for EUR 5 million previously made by Fastweb to support Tiscali's temporary liquidity needs that emerged during the trading period.

The consideration agreed with Fastweb for the acquisition of the frequency and assets of the Fixed Wireless infrastructure, restated in its valuation on November 12, amounts for nominal EUR 198 million, of which:

- EUR 130 million cash, of which EUR 80 million to be paid by June 30, 2019;
- EUR 55 million for "in-kind" vouchers to be spent on services that the Tiscali Group can acquire from Fastweb, on the basis of the conditions contained in the Wholesale Agreement;
- the takeover by Fastweb of approximately EUR 13 million in trade payables.

The agreed price for the sale of the FWA business unit by Tiscali Italia is EUR 2 million, of which EUR 1 million was collected at the closing date and the remaining EUR 1 million to be collected by 30 June 2019. The related receivable was recorded under Continuing assets, under "Other receivables and other current assets".

The agreed fee for the transfer of the license for 42 Mhz in the 3.5 GHz frequency by Aria is equal to EUR 183 million, of which EUR 50 million have been collected on Novembre 16th, 2018; the residual amount of EUR 134 million (of which EUR 80 million for cash and EUR 55 million for voucher services) will be due by 30 June 2019. The receivables from Fastweb for the fees yet to be collected have been booked in the continuous assets. These receivables, amounting to a total of EUR 132.4 million (net of EUR 1.6 million relating to the discounting of the credit services component) were divided between a long-term portion, equal to EUR 25.6 million (recorded under "Other financial assets") and the short-term portion for EUR 106.8 million (recorded under "Other receivables and other current assets"). Moreover, under continuing operations, the item "Other current receivables and other assets" includes the receivable from Fastweb for tax refunds of EUR 2.7 million. This item is related to taxes pertaining to the transaction that were contractually allocated to the two parties to the extent of 50%.

The net carrying amount of the Group's net assets sold at the closing date (November 16, 2018) amounted to EUR 42.4 million, and consisted of the following elements:

1. The 3.5 GHz frequency license, accounted for by the Aria Group for a net residual value of EUR 22.8 million;
2. Infrastructures relating to the Fixed Wireless Access branch, headed by Tiscali Italia for an NBV of EUR 11.5 million (including the IRU Fastweb held by Tiscali Italia);
3. Infrastructures relating to the Fixed Wireless Access branch, held by Tiscali Italia (former Aria and Media PA assets, written down and sold to Tiscali Italia for EUR 100 thousand) for an NBV of EUR 20.8 million;
4. Payables to assigned personnel (33 employees) for a book value of EUR 0.5 million (including the provision for employee severance indemnities for EUR 0.3 million accrued to date)
5. Trade payables to service and infrastructure suppliers relating to the business unit sold, for a book value of EUR 12.2 million.

The result of the assets sold includes the capital gain determined by the difference the net discounted sale price and the net book value of the assets sold as well as being influenced by the following charges attributable to the sale and/or accessories to the sale itself

1) Devaluation of out of branch assets sold whose future usefulness has been eliminated as a result of the sale (personnel costs capitalized on assets relating to the transferred branch) for EUR 8 million booked in Tiscali Italia;
2) financial charges relating to the assets sold for EUR 0.3 million;
3) ancillary costs relating to the sale (professional expenses), amounting to EUR 2 million;
4) positive impact of release of deferred tax liabilities of EUR 0.4 million;
5) negative effect of current taxes for EUR 2.7 million relating to the transaction.

The net capital gain on disposal, net of the charges related to the sale incurred up to the closing date, amounts to EUR 128,5 million.

It should also be noted that the main national telecommunications operators, TIM, Vodafone, Wind3 and Iliad, have appealed to the Lazio Regional Administrative Court against the Ministry of Economic Development against the permit to sell licenses from Aria to Fatsweb, in addition to having made further appeal , again to the Lazio Regional Administrative Court and against the Ministry of Economic Development against the decision to grant to Aria (and to the other operators assigned band on the 3.4-3.6GHz frequencies, with the exclusion of TIM) an extension of the right of use on behalf of for a further 6 years, up to 31 December 2019. These disputes brought against the Ministry of Economic Development – and therefore not under the direct control of the Company – are unpredictable; however, it should be noted that in the event of a ruling by the Regional Administrative Court in favor of the appellants, it could theoretically lead to the annulment of the sale with still not definable legal and accounting problems.

As prescribed by the International Financial Reporting Standard IFRS 5, the economic and financial elements object of the transfer (Business unit and legal entity) have been reclassified, respectively, for the income statement, by the specific revenue / cost lines to the line “Result from held for sale and discontinued operations" and for the balance sheet, by the specific lines of assets / liabilities to the lines" Assets directly related to held for sales"," Payables directly related to held for sale "and to the" Reserve for assets held for sale ”.

For comparative purposes, the balance sheet items relating to the disposal carried out in 2018 have been reclassified also for 2017.

It should be noted that, for the purposes of a correct accounting representation of the costs relating to ongoing activities, the amortization of the assets belonging to the transferred branch as at 16 November 2018 were reclassified to the amortization of continuing operations, for a total amount of EUR 8.3 million.

The following tables represent the economic and financial elements relating to the assets sold and / or destined for sale:

Profit and Loss HFS - IFRS 5	**2018**	**2017**
(Thousands of Euro)		
Revenues	-	**937.6**
Costs	-	**854.5**
Gross Margin	-	**83.1**
Indirect Costs	-	**1,380.4**
Marketing & Sales	-	35.7
Personnel costs	-	715.4
Other indirect costs	1,994.7	629.3
Other (income) / costs	-	1.4
Recievables write downs	-	0.0
EBITDA	**-1,994.7**	**-1,298.8**
D&A	-	15.6
Income from sale of assets to Fastweb (2017)	132,687.9	43,825.8
Non recurring costs (income)	-	-269.9
EBIT	**130,693.2**	**42,781.3**
Tax	**2,667.4**	
Deferred Tax	**-457.7**	**-80.7**
Net Income	**128,483.5**	**42,862.1**

Assets and Liabilities HFS - IFRS 5	31 December 2018	31 December 2017
(Thousands of Euro)		
Non current Assets	(0.0)	67,493.6
o/w:		
Intangible assets	(0.0)	32,426.6
Tangible assets	(0.0)	35,067.0
Other non current assets	0.0	0.0
Current assets	(0.0)	(0.0)
o/w:		
Receivables	0.0	0.0
Other Receivables and current assets	0.0	0.0
Cash and Cash equivalents	(0.0)	(0.0)
Total Assets	**(0.0)**	**67,493.6**
Non current liabilities	0.0	759.3
Current liabilities	(0.0)	11,940.9
o/w:		
Trade payables	0.0	11,825.0
Personnel debt	0.0	115.9
Other current liabilities	(0.0)	(0.0)
Total liabilities	**(0.0)**	**12,700.2**
Net assets held for sale	**(0.0)**	**54,793.4**

Earning (Loss) per Share (Note 10)

The result per share of “continuing operations” is equal to EUR -0.0012 and was calculated by dividing the net loss of continuing operations in 2018 attributable to ordinary shareholders of the Parent Company, equal to EUR 48 million, for the average number weighted by the ordinary shares outstanding during the year, equal to 3,981,880,763.

The diluted earnings per share of continuing operations amounted toEUR -0.011 and was calculated by dividing the loss for the period attributable to ordinary shareholders of the Parent Company, equal to EUR 48 million, by the weighted average number of potential shares in circulation during the year, amounting to 4,428,433,868.

The number of potential shares deriving from the potential exercise of the outstanding Stock Option plans (number of options equal to 446,553,106) was considered for the calculation of the weighted number of potential shares.

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

Following the significant transactions carried out in 2018 (extensively described in Notes 5.5 and 5.8), the Directors have drawn up a **New 2018-2021 Business Plan**, which was certified for the companies Tiscali Italia and Aria pursuant to Article No. 67 of the Royal Decree No. 267/1942.

The new Plan includes the effects of the effects of the Strategic Agreement with Fastweb and of the Financial Debt Restructuring Agreements with the Financial Institutions and with the Pool Leasing, as well as the changed business strategies.

The Group, in compliance with the provisions included in IAS 36, has therefore verified the possible presence of impairment indicators as at 31 December 2018. The verification of any loss in value of the assets was carried out by comparing the value of registration of assets as at 31 December 2018, and their value in use, determined on the basis of the following fundamental 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. 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 CGU (Cash Generating Unit) was determined on the basis on the cash flows for the years 2019 to 2021 resulting from the New 2018-2021 Business Plan of the Tiscali Group (as defined in the Note *"Business outlook and assessment of the business as an ongoing concern"* approved by the CEO of the Company on 19 February 2018, delegated by the Board of Directors.

Therefore, the terminal value for the purposes of the impairment test was calculated using a 3-year time span and the normalized cash flow for FY 2021.

The main assumptions used to estimate the recoverable amount concern:

- 3-year explicit forecast period (01 January 2019 – 31 December 2021);
- EBITDA arising from market and business development assumptions;
- investments to maintain the expected development of the business and pre-established level of profitability;
- determination of the terminal value calculated as perpetuity based on the projection of the year 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 WACC has been calculated as follows:

- Risk Free Rate. The market rate for a risk-free investment, the U.S. risk-free rate was considered adjusted taking into account the Italian inflation rate. It amounts to 2.1%;
- Country Risk Premium. The country risk premium was calculated taking into account the 10-year U.S. Swap default, as compared to the 10-year Italian Swap default risk. It represents the country's risk factor for Italy and amounts to 1.8%;
- Beta unlevered and Beta relevered.

  The unlevered Beta rate was calculated as the average of the unlevered Beta rates of a group of companies similar to Tiscali (as regards size, sector and structure) and amounts to 0.58.

  The unlevered Beta rate was adjusted taking into consideration the following two factors specifically related to the Tiscali Group:

  - Tiscali's debt/equity ratio, defined as ratio 1 (50% of debt – 50% of shareholders' equity);

  - Tiscali's tax structure.

  Including the aforementioned factors, a beta relevered rate of 1.03% was defined.
- Market Risk Premium. The risk premium attributed by the market was taken from the 2017 Fernandez survey and is equal to 5.5%;
- Size Premium. The Premium Size was calculated based on the "Duff and Phelps" table and represents the risk level of Tiscali as compared to the other companies included in the panel and amounts to 2.7%;
- Company Specific Risk Premium. The corporate risk premium was set at 1%.

Based on these parameters, the WACC used for the verifications is 8.8% (8.9% in FY 2017). At the consolidated level, the test showed a positive difference between the recoverable value and the consolidated book value, therefore the Company believes that it is not necessary to write down any assets of the balance sheet.

(iii) Sensitivity analysis of the impairment test results

In consideration of the current and expected scenario, and of the results of the impairment tests performed for the period ended on 31 December 2018, an analysis was carried out on the sensitivity of the recoverable value estimated using the discounted cash flow method. It is believed that the discount rate is a key parameter in estimating the recoverable value. A sensitivity analysis on the long-term growth rate was also carried out, which revealed that a a WACC higher than 1% (9.8%) would not produce significant effects on the cover level.

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

(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 about EUR 56.1 million as at 31 December 2018.

Intangible Assets (Note 12)

In order to provide a better representation, EUR 259 thousand of intangible assets have been reclassified among tangible assets.

The movements of intangible assets during FY 2018 are shown in the table below:

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 2018	**4,661**	**135,301**	**138,754**	**30,487**	**1,976**	**311,179**
Increases		4,748	7,342	1,578	867	14,535
Reclassification IFRS 5	(2)	(7)				(9)
Devaluation & write off		(1,289)	(744)			(2,033)
Other Changes (disposal)		(75)	(667)	(15)	(286)	(1,043)
Reclassifications		156	173	510	(580)	259
31 December 2018	**4,659**	**138,835**	**144,859**	**32,561**	**1,976**	**322,889**
ACCUMULATED AMORTIZATION						
1 January 2018	**4,661**	**102,527**	**112,075**	**26,360**		**245,623**
Increases in amortization		6,865	15,589	938		23,391
Reclassification IFRS 5	(2)	(4)	()			(6)
Devaluation & write off		(971)	(684)			(1,654)
Other Changes (disposal)		(73)				(73)
Reclassifications						
31 December 2018	**4,659**	**108,344**	**126,980**	**27,298**		**267,281**
NET BOOK VALUE						
31 December 2017	**()**	**32,775**	**26,679**	**4,127**	**1,976**	**65,556**
31 December 2018	**()**	**30,491**	**17,878**	**5,263**	**1,976**	**55,608**

It should be noted that the overall increases in the amortization fund for intangible assets, amounting to EUR 23.4 million, do not correspond to the amortization of the income statement (equal to EUR 25.9 million). The difference, equal to EUR 2.5 million, is represented by the amortization of the aforementioned assets reclassified in the assets sold and/or held for sale sold, which the Group deemed appropriate to represent in the costs of managing ongoing activities in order to provide a correct representation of the same ongoing activities consistent with the future structure of the activity.

The item *Development Costs* includes the development costs for personalized application software for the exclusive use of the Group. They have been fully amortized.

The balance of *Concessions and Similar Rights* equals to EUR 30.5 million, and mainly includes:

- EUR 7.7 million for licenses and software. This voice includes the costs related to the licenses for the use of the VOIP platform and software for managing customers (billing, customer care) and ERP systems;
- EUR 22.5 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*). This item relates to IRU and accounted for by the Tiscali Italia subsidiary, whose main suppliers are Telecom Italia, Interoute, Fastweb, Infracom;
- EUR 0.3 million for software licences.

The overall increase of FY 2018 amounts to EUR 4.7 million, of which EUR 4.4 million is attributable to software licenses and EUR 0.3 million 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 6.8 million.

Furthermore, this item includes reclassifications for EUR 156 thousand. These are reclassifications of intangible assets from the category "Intangible assets in progress and advances", relative investments entered into depreciation in the FY.

The item *Broadband Service Activation Costs* amounts to EUR 17.9 million. The increase in FY 2018 of EUR 7.3 million relates to the acquisition costs and customer activation for the ADSL service.

Furthermore, this item includes reclassifications for EUR 173 thousands. These are reclassifications of intangible assets from the category “Intangible assets in progress and advances”, relating to investments which depreciation in the period.

Depreciation for the period, calculated according to the criteria highlighted in the annual financial report, amounted to EUR 15.5 million.

Other Intangible Fixed Assets amount to EUR 5.3 million related mainly to the subsidiary Tiscali Italia S.p.A. Investment costs are mainly related to the LTE core network installation services. The increase in FY 2018 amounts to EUR 1.6 million.

This item includes reclassifications for EUR 510 thousands. These are reclassifications of intangible assets from the category “Intangible assets in progress and advances” relating to investments entered into depreciation in the period for EUR 251 thousand, in addition to reclassifications from Tangible assets in progress for investments incorrectly classified as Tangible Assets in progress as at 31 December 2017 for the difference.

Intangible Assets in progress and Advances amount to EUR 2 million. This item mainly includes software systems being implemented for EUR 1.2 million and an IRU not yet in depreciation for EUR

0.4 million.

During 2018 the amount of EUR 156 thousand of intangible assets in progress was reclassified from the category in question to the categories “Concessions and similar rights”, the amount of 173 thousand euros was reclassified to the item “Broadband service activation costs” and the amount of 251 thousand euros was reclassified in the “Other intangible assets” in item relation to investments entered into depreciation during the period.

Property, Plant and Machinery (Note 13)

The following table shows the changes occurred in FY 2018:

Tangible assets (EUR 000)	Property	Plant and machinery	Other tangible assets	Tangible assets under construction	Total
HISTORICAL COST					
1 January 2018	**64,260**	**306,596**	**6,350**	**9,716**	**386,923**
Increases		3,439	14	172	3,625
Devaluation & write off		(1)	(24)		(25)
Other Changes (disposal)		(362)	(22)	(1,034)	(1,418)
Reclassifications		2,104	5	(2,369)	(259)
31 December 2018	**64,260**	**311,777**	**6,323**	**6,486**	**388,846**
ACCUMULATED DEPRECIATION					
1 January 2018	**22,476**	**265,972**	**5,155**		**293,603**
Increases in depreciation	1,302	14,805	153		16,260
Devaluation & write off		(1)	(19)		(20)
Other Changes (disposal)		(7)	(22)		(29)
31 December 2018	**23,779**	**280,769**	**5,266**		**309,814**
NET BOOK VALUE					
31 December 2017	**41,784**	**40,625**	**1,196**	**9,716**	**93,320**
31 December 2018	**40,481**	**31,008**	**1,057**	**6,486**	**79,032**

It should be noted that the overall increases in the depreciation of tangible fixed assets, equal to EUR 16.3 million, do not correspond to the amortization of the income statement (equal to EUR 22.1 million). The difference, equal to EUR 5.8 million, is represented by the amortization of reclassified tangible assets in the assets sold and/or held for sale, which the Company deemed appropriate to represent in the costs of managing ongoing activities in order to give a representation correct of the same ongoing activities.

In order to provide a better representation, EUR 259 thousand booked as at 31 December 2017 under intangible assets have been classified as tangible assets.

The Property is including the carrying amount of the building relating to the Cagliari office (Sa Illetta) , amounting to EUR 40,5 million. The decrease in the period is attributable to the depreciation amounting to EUR 1.3 million: the closing of the agreement with the Pool Leasing for the sale of the property happened in March 2019 and will therefore be recorded in the Consolidated Financial Statements for FY 2019.

Plant and machinery for EUR 31 million includes specific network equipment such as routers, DSLAM, servers, and transmission devices installed at the LLU sites.

The period investments amount to EUR 3.4 million.

This item includes reclassifications of tangible assets for EUR 2.1 million from the item “Tangible assets in progress” to the item “Plants and machinery” relating to investments entered in amortization and during FY 2018. Depreciation for the period, calculated according to the criteria highlighted in the annual financial report, amounted to EUR 14.8 million.

Other tangible assets, whose balance amounts to EUR 1.1 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 previously highlighted, for EUR 153 thousand.

The item *Tangible assets in progress and advances*, whose balance amounts to EUR 6.5 million, mainly includes investments in network infrastructure. These are mainly network equipment acquired also in relation to metropolitan fiber optic rings being renewed in 2019 for EUR 3.5 million, as well as modems not yet entered into depreciation for EUR 1 million. The period investments amount to EUR 0.2 million.

This balance is net of reclassifications for EUR 2.4 million. These mainly relate to the reclassification of tangible assets from the “Tangible assets in progress” category for investments that started to depreciate during FY 2018 in the category “Plant and Machinery”.

In addition, EUR 259 thousand of intangible assets in progress were reclassified from the category “Intangible assets in progress” to the category “Plants and Machinery”.

Other non-current financial assets (Note 14)

Other non-current financial assets *(EUR 000)*	31 December 2018	31 December 2017
Guarantee deposits	526	506
Other receivables	25,609	295
Equity investments in other companies	3,727	3,621
Total	**29,861**	**4,421**

Guarantee deposits are represented by deposits paid in the context of carrying out the activity on multi-year contracts.

Other financial receivables are mainly represented by the long-term component of receivables due from Fastweb from the subsidiary Aria, by virtue of the sale agreement signed on 16 November 2018 for EUR 25.6 million.

Investments in other companies are financial assets available for sale and are mainly represented by Janna S.c.p.a. (EUR 3.7 million, EUR 3.6 million in FY 2017) 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 this regard, it should be noted that in FY 2017, following some events that had an impact on the governance of the investee, the Directors carried out an assessment of the Group's influence on this investment, concluding that they had acquired significant influence. This position is also confirmed in 2018.

In 2018, the accounting with the equity investment method in Janna led to a write-down of the same of EUR 0.4 million. Compared to the value as at 31 December 2017, in addition to the aforementioned write-down, increases for future capital increases of the subsidiary for EUR 0.5 million should be noted.

The following table shows the main economic-financial data as at 31 December 2018 of the subsidiary Janna:

Name	Registered office	Shareholding owned by	Values as of December 31, 2018 (EUR/000)			Percentage of direct shareholding	Book Value as at 31.12.18	Book Value as at 31.12.17
			Share Capital	Net Equity	Net Result			
Janna S.C,p.a.	Italia	Tiscali Italia S.	13,717	8,248	(2,523)	17%	3,719	3,613

Trade Receivables (Note 15)

Trade receivables	31 December 2018	31 December 2017
(EUR 000)		
Trade receivables	57,772	89,406
Write-down provision	(22,844)	(42,866)
Total	**34,927**	**46,540**

As at 31 December 2018, trade receivables, totaling EUR 34.9 million, net of write-downs of EUR 22.8 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.

In accordance to the new IFRS 9 princliple, the review of the write-down logic, based on historical indicators and forecast elements, applied to the different categories of receivables identified in the context of the management of trade receivables, did not entail substantial changes to the estimates of write-down of receivables made by the Group on the basis of the previous criteria.

The following table shows the movements in the provision for bad debts during the respective financial years:

Bad debt allowance variations	31 December 2018	31 December 2017
(EUR 000)		
Bad debt allowance BoP	**(42,866)**	**(35,698)**
Provision	(9,622)	(9,745)
Utilizations	29,644	2,577
Bad debt allowance Eop	**(22,844)**	**(42,866)**

The provision for the period amounts to EUR 9.6 million.

The item increase/decrease in Provisions and Utilizations includes the write-down in the current year and the utilizations to write-off any receivables that are no longer recoverable.

The significant utilizations of the FY 2018 are connected to an incisive selection action of the portfolio that led to the reduction in the number of customers, eliminating those that were in arrears or non-solvent.

The schedule below (gross of the bad debt provision) as at 31 December 2018 and 31 December 2017 is shown below.

Aging Receivables_ gross of Bad debt	31 December 2018	31 December 2017
(EUR 000)		
not overdue	14,307	18,653
1 - 180 days	12,037	17,335
181 - 360 days	11,041	9,611
oltre 360 days	20,387	43,806
Total Receivables	**57,772**	**89,406**
Bad debt	(22,844)	(42,866)
Total Receivables net of bad debt	**34,927**	**46,540**

:

The following table shows the aging of trade receivables net of the write-down provision as at 31 December 2018:

Aging Receivables_ net of Bad debt	31 December 2018	31 December 2017
(EUR 000)		
not overdue	13,116	17,428
1 - 180 days	8,566	13,595
181 - 360 days	6,177	4,643
oltre 360 days	7,068	10,874
Total	**34,927**	**46,540**

The increase in overdue receivables over 360 highlighted is partly due to the update of some administrative procedures which was completed in 2018. All the overdue exposures at risk are covered by the related provision for bad debts.

Other Receivables and other Current Assets (Note 16)

Other Receivables and other Current Assets	**31 December 2018**	**31 December 2017**
EUR 000		
Other receivables	119,816	13,599
Accrued income	0	3
Prepaid expenses	7,876	8,037
Total	**127,692**	**21,639**

Other receivables, amounting to around EUR 119.8 million, mainly refer to:

- the short-term component of receivables from Fastweb relating to the sale agreement signed on 16 November 2018 for EUR 110.3 million,
- other receivables for EUR 9.1 million, consisting mainly of other receivables of Tiscali Spa for EUR 0.5 million and EUR 7.4 million of receivables of Tiscali Italia from Fastweb relating to the residual payment settled in services relating to the sale of the branch B2B to the same Fastweb. With reference to this amount, it should be noted that the continued use of the same was guaranteed by the signing of the Sale Agreement which provided, inter alia, the modification of the terms of use of this voucher in order to align them to the needs of the Group in light of the changed business in line with the New Business Plan 2018-2021;
- receivables from the tax authorities and other social security institutions for EUR 0.3 million.

Prepaid expenses, whose balance is 7.8 million euros, include costs already incurred and accrued in subsequent years, mainly relating to multi-year lease agreements for lines, hardware and software maintenance costs, insurance costs and advertising.

Liquid Assets (Note 17)

As at 31 December 2018, liquid assets amounted to EUR 18.9 million and include the Tiscali Group's cash and cash equivalents, essentially held in bank current accounts. There are no restricted deposits

Shareholders' Equity (Note 18)

Shareholders' equity	**31 December 2018**	**31 December 2017**
EUR 000		
Share capital	43,065	121,507
Additional Paid In Capital		24
Stock Options Reserve	(13)	2,010
Accumulated losses and other reserves	(170,965)	(252,400)
Profit/(loss) for the year	83,198	827
Minority interest		-
Total Shareholders' equity	**(44,715)**	**(128,031)**

Changes in the various shareholders' equity items are detailed in the relevant table. As at 31 December 2018, the parent company Tiscali S.p.A. share capital amounted to EUR 43.1 million, corresponding to 3,981,880,763 ordinary shares with no par value.

The shareholders' meeting held on 26 June 2018 resolved to reduce the share capital in Tiscali Spa, pursuant to Article No. 2446 of the Italian Civil Code, from 121,507,322.89 to 43,065,376.20 euros, to cover previous losses. At the same time, the reserves as at 31 December 2018 were canceled (share premium reserve, legal reserve and stock option reserve), with the exception of the reserve for employee benefits (negative for EUR 39 thousand).

The stock options reserve is negative for EUR 13.4 thousand. The decrease, as compared to 31 December 2018, of EUR 2,061 thousand, can be analysed as follows:

- cancellation of the balance as at 31 December 2018 for EUR 2,010 thousand (as part of the capital reduction to cover previous years' losses, approved on 26 June 2018);
- decrease in the opening value of the stock option reserve as at 1 January 2018 due to the elimination of a total of No. 119,597,634 options with respect to the original plan (as described in the paragraph "Stock options"), for EUR 88.5 thousand;
- an increase in the cost related to the remaining options for the FY 2018, for EUR 75.1 thousand euros.

As mentioned in point 1), the stock options reserve was zeroed following the reduction of the share capital resolved by the Shareholders' Meeting.

However, since the stock option reserve is unavailable to the Company (since this is a reserve set up for the benefit of the Shareholders owning the rights in question), the Company has decided to restore the opening value as at 1 January 2018 of the reserve (equal to to EUR 2,010 thousand), with the counterpart of the reduction of the share capital for the same amount. The transaction will be carried out during the Meeting for the approval of these financial statements. Following this transaction, the share capital will amount to EUR 41,055,159.31, while the stock option reserve will amount to EUR 2 million.

Minority Interest (Note 19)

As at 31 December 2018, the balance of Minority interests is nil (nil also as at 31 December 2017).

Current and Non-Current Financial Liabilities (Note 20)

<u>Introduction</u>

On 28 March 2019, the Company (as described in Note 5.5 and more in detail in the continuation of this Note) signed the Debt Restructuring Agreements and the Sa Illetta Restructuring Agreement with the Financing Institutions and the Leasing Pool.

The conditions and terms included in these Agreements are not reflected in the financial statements as at 31 December 2018 since they were completed after that date.

Therefore, the senior loan and the Sa Illetta lease were accounted for on the basis of the conditions and parameters contained in the contracts in force prior to the date of signing of the Financial Debt Restructuring Agreements and in particular are classified as current having lost the benefit of the term for effect of failure to comply with contractual provisions for the settlement of past installments.

Current financial liabilities	31 December 2018	31 December 2017
(EUR 000)		
Payables to banks and other financing parties	103,826	108,502
Payables for finance leases (short term)	60,608	61,529
Total	**164,434**	**170,032**

Payables to banks and other lenders – current portion

The item "Due to Banks", amounting to approximately EUR 103.8 million, mainly includes bank debts to the Italian subsidiary Tiscali Italia Spa for EUR 99 million, of which EUR 92.2 million relating to the component current of the Senior loan (better described below) and other bank debts of Tiscali Italia for EUR 6.6 million, in addition to bank debts of the Aria Group (EUR 4.8 million).

The balance of Tiscali Italia Spa also includes two financial debts relating to loans granted by the Ministry of Development and the Ministry of University and Research for EUR 0.2 million.

Payables for Financial Leases – current portion

“Payables for financial leases”, equal to EUR 60.6 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 2018	31 December 2017
(EUR 000)		
Payables for finance leases (long term)	7,132	10,809
Total	**7,132**	**10,809**

Payables for Financial Leases – long-term portion

“Payables for finance leases”, amounting to EUR 7.1 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 attributable to the lower debt due beyond 31 December 2017.

Net Financial Position

The Group’s net financial position is shown in the following table:

Net Financial Position	31 December 2018	31 December 2017
(EUR 000)		
A. Cash and bank deposits	18,977	1,465
B. Cash equivalents	-	-
C. Securities held for trading	-	-
D. Cash and cash equivalents (A) + (B) + (C)	***18,977***	***1,465***
E. Current financial receivables		
F. Non-current financial receivables		
G. Current bank payables	6,739	13,284
H. Current portion of bonds issued	-	-
I. Current part of long-term loans	96,885	94,580
J. Other current financial payables	60,810	62,167
K. Current financial indebtedness (G) + (H) + (I)	***164,434***	***170,032***
L. Net current financial indebtedness *(K)-(D)-(E)-(F)*	**145,457**	**168,567**
M. Non-current bank loans	-	-
N. Bonds issued	-	-
O. Other non-current financial payables	7,132	10,809
P. Non-current financial indebtedness *(M)+(N)+(O)*	**7,132**	**10,809**
Q. Net financial indebtedness *(L)+(P)*	**152,589**	**179,376**

The table above has been drawn up in the light of CONSOB Communication No. DEM/6064293 dated 28 July 2006.

The table below shows the reconciliation between the net financial position drawn up on the basis of the CONSOB communication and the net financial position as show in the Management Report.

	31 December 2018	31 December 2017
(EUR mln)		
Consolidated net financial debt	**152.1**	**178.9**
Non-current financial receivables	0.5	0.5
Consolidated net financial debt prepared on the basis of Consob communication No. DEM/6064293 dated 28 July	**152.6**	**179.4**

The gross financial debt (current and non-current), amounting to EUR 171,6 million, is mainly made up of items shown in the following table:

<u>Breakdown of current and non-current debt</u>

Breakdown of current and non current debt	31 December 2018	Current portion	Non-current portion
(EUR 000)			
Senior debt	92,187	92,187	0
Bank payables	11,437	11,437	0
Total Senior debts and other bank payables	**103,624**	**103,624**	**0**
Payables to leasing companies			
Sale & Lease back Sa Illetta	53,003	*53,003*	*0*
Other finance leases	14,738	*7,606*	*7,132*
Total payables to leasing companies	**67,741**	**60,608**	**7,132**
Other financial payables	**202**	**202**	**0**
Total payables to leasing companies and other financial payables	**67,943**	**60,810**	**7,132**
Total indebtedness	**171,566**	**164,434**	**7,132**

The main items shown in the above table are as follows:

- senior debt pursuant to the Restructuring Agreement signed on 29 June 2016, with Intesa San Paolo and BPM for EUR 92.2 million;
- other bank payables totaling EUR 11.4 million;
- payables for finance leases, totaling EUR 67.7 million, mainly represented by the Sale and Lease Back agreement signed by reference to the Cagliari office (Sa Illetta) of the Company for EUR 53 million;
- Ministerial loans totaling EUR 0.2 million.

The table below shows the monetary and non-monetary variations of the financial liabilities recorded in FY 2018:

Cash and no cash variations of Financial liabilities	31 December 2017	Cash movements (repayments/ new debt)	Accrued Interests	Reclass	31 December 2018
(EUR 000)					
Senior debt	87,812	0	4,375		**92,187**
Bonds issued					
Bank payables	20,053	(8,616)	0		**11,437**
Sale & Lease back Sa Illetta	52,230	0	773		**53,003**
Other finance leases	20,108	(6,508)	1,138		**14,738**
Other finance liabilities	638	(436)	0		**202**
Financial liabilities	**180,841**	**(15,560)**	**6,286**		**171,566**

Senior Debt

On 29 June 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.

Following the realization of some default conditions, as more fully described in the report on operations, the Group started a long a complex negotiation whose process was concluded on 28 March 2019, date in which the Group signed the Financial Institutions (Intesa Sanpaolo and BancoBpm) the Debt Restructuring Agreement, according to the following terms:

- New deadline: 30 September 2024
- Repayment plan structured as follows:
  - a prepayment of EUR 20 million to be made on July 1, 2019, followed by a three-year period of pre-amortization;
  - amortization of EUR 25 million to be paid in 5 six-monthly installments from March 31, 2022 to March 31, 2024;
  - balance of the residual debt, equal to EUR 40 million, to be paid in full on September 30, 2024, together with unpaid interest at the date, amounting to approximately EUR 9 million.
- Interest rate:
  - 1.0% rate on the portion of debt to be amortized over the 2022-2024 period (approximately EUR 25 million);
  - 1.25% rate on the portion of debt to be repaid in full on September 30, 2024 (approximately EUR 40 million).

Sale and Lease back Sa Illetta

Following the fulfillment of some default conditions, during the FY 2018 the Group forwarded to the Pool Leasing the request to obtain a review of the contractual agreements and, in particular, the acceptance by the Pool Leasing of the Sa Illetta Leasing Restructuring Agreement proposal.

On 14 November 2018, the Pool Leasing sent a comfort letter to Tiscali, in which it undertook to bring the aforementioned proposal to the approval of the competent deliberative bodies in a short time.

The Sa Illetta Leasing Restructuring Agreement was signed on 28 March 2019.

This Agreement provides for the property to return in the possession of the leasing companies at a value that will be defined following an evaluation carried out by an independent expert. Was this appraised value to turn out to be lower than the residual debt on the date of passage of the possession, Tiscali will pay a total payment equal to the difference between this expert value and the value of the residual debt, for a total maximum amount of EUR 10 million to pay of the residual debt in full.

The value of the property as at 31 December 2018 amounted to EUR 40.5 million, while the lease payable recognized in short-term financial payables amounted to EUR 53 million.

At the same time, Tiscali will enter into a rental agreement for the entire building, for a period of 6 years, renewable, with an annual fee of EUR 2,150,000.00 plus VAT with the right to sublease.

As previously said, the conditions and terms included in the proposed Debt Restructuring Agreements are not reflected in the financial statements as at 31 December 2018 since they were completed after that date, while they are an essential element of the financial sustainability of the New 2018-2021 Business Plan as better described in the report on operations and in the considerations on the occurrence of the going-concern assumption.

Covenants

The senior loan and the Sa Illetta leasing contract provide for the Company to comply with certain financial and operating requirements (so-called “Covenants”) which, if not met, give the possibility of acceleration to financial counterparties.

The covenants established by the Debt Restructuring Agreements provide for verification on a half-yearly basis starting from December 2019, and were established on the basis of the 2018-2021 Business Plan, which was not determined applying the IFRS 16, considering a margin of tolerance between 15% and 25%, depending on the cases.

In the event of problems arising from the application of IFRS 16, the Company will require the Lenders to make a calculation with the same scope.

Event of default

The loan, even in the version proposed in the Restructuring Agreement of the Senior Debt; 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) termination of significant activities of Group companies; (xiii) occurrence of an event that has a negative effect on the Group’s business.

The following table summarizes the main elements of the loan until 31 December 2018, although later restructured.

Senior Loan	Amount	Due date	Senior Lenders	Contractor	Guarantor
First Facility	EUR 32,4 ml	mar-22	Banca Popolare di Milano S.c.a.r.l	Tiscali Italia S.p.A.	Tiscali S.p.A Tiscali International BV Tiscali Financial Services SA Veesible S.r.l. Tiscali Uk Holdings Limited
Senior Loan	**Amount**	**Due date**	**Senior Lenders**	**Contractor**	**Guarantor**
Second Facility	EUR 52,9 ml	mar-22	Intesa San Paolo S.p.A.	Tiscali Italia S.p.A.	Tiscali S.p.A Tiscali International BV Tiscali Financial Services SA Veesible S.r.l. Tiscali Uk Holdings Limited

Other loans

The main information on the loans outstanding as at 31 December 2018:

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 as at 31 December 2018 amounting to EUR 2.4 million, plus interest. This loan is not subject to financial covenants.

i) loan of initial EUR 1 million with Banca Intesa San Paolo (former Cassa di Risparmio dell'Umbria), signed in May 2010, maturing in October 2020, with a residual value as at 31 December 2018 amounting to EUR 0.7 million, plus interest. This loan is not subject to financial covenants.

iii) loan of initial EUR 0.8 million with Gepafin, a finance company owned by the Umbria Region, signed in June 2009, expiring in December 2018, with a residual value as at 31 December 2018 of EUR 24 thousand. This loan is not subject to financial covenants.

In addition to the aforementioned loans, it should be noted that on 15 July 2015 the Group had subscribed a restructuring agreement with a financial institution relating to the debt with that institution, overdue by then, amounting to approximately EUR 5.8 million. Under the terms of that agreement, the institution recognized the Group the following: (a) cancellation from the aforesaid exposure a total of approximately EUR 3.1 million (equal to 26% of the total exposure); (b) a 48-month repayment plan starting from August 2015, no interest charged. This agreement was further negotiated during the first half of 2018: the residual referred to in the first agreement, amounting to a total of EUR 3.1 million, was subject to a further write-off for EUR 1,1 million, and for the remainder of a total of EUR 2.2 million was agreed a repayment plan in 11 monthly installments payable from August 2018 and until June 2019, with a 1% fixed interest. The residual value as at 31 December 2018 is equal to EUR 1.3 million, not past due.

Leasing

The assets subject to a finance lease, in application of international accounting standards, are booked under fixed assets as shown in the following table:

Leases included in Tangible assets *EUR 000*	**Property**	**Plant and machinery**	**Other assets**	**Total**
NET BOOK VALUE				
31 December 2017	41,784	6,738		**48,522**
31 December 2018	40,481	5,120		**45,601**

The following table represent the current value of the minimum payments due for financial leasing:

(EUR 000)	**Minimum lease payments**		**Present value of minimum lease payments**	
	31 December 2018	**31 December 2017**	**31 December 2018**	**31 December 2017**
Not longer than 1 year	62,586	64,686	60,608	61,529
Longer than 1 year and not longer than 5 years	7,814	11,914	7,132	10,809
Longer than 5 years	0	0	0	0
Total	70,400	**76,600**	67,741	**72,338**
Less future finance charges (-)	2,660	4,262	0	0
Present value of minimum lease payments	67,741	**72,338**	67,741	**72,338**
Included in the financial statements as:				
Current borrowings			60,608	61,529
Non-current borrowings			7,132	10,809
	0	**0**	**67,741**	**72,338**

For completeness of information, the payments established by the operating lease contracts are also reported below.

(EUR 000)	**31 december 2018**	**31 december 2017**
Minimum lease payments	1,354	10,041
Sublease payments	0	
Total	**1,354**	**10,041**

The total commitments relating to payments due for non-cancellable operating lease transactions follow:

(EUR 000)	31 december 2018	31 december 2017
Within 12 months	1,256	1,352
Between 1 and 5 years	732	1,969
Beyond 5 years	0	5
Total	**1,988**	**3,326**

Other Non-Current Liabilities (Note 21)

Other non-current liabilities	**31 December 2018**	**31 december 2017 (*)**
(EUR 000)		
Trade payables	3,338	8,405
Other payables	3,059	4,925
Total	**6,398**	**13,330**

The item "Trade Payables" refers to the long-term component of payables to suppliers (see Note 24). These payables are recorded at their current value. It should be noted that the Strategic Agreement with Fastweb provides for an acceptance by the same of EUR 13 million mainly relating to relationships with suppliers classified in this item, before their reclassification in the item Liabilities held for Sale (Note 9).

The balance Other payables of EUR 3 million, basically includes:

- EUR 0.9 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 the Group;
- EUR 0.6 million due to Janna S.c.p.a. (which is involved in the management of an underwater fiber 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 22)

The table below shows the changes during the FY:

(migliaia di Euro)	31 December 2017 - pubblished	Reclass HFS	31 December 2017 - restated	Accruals	Utilization	Payments to Funds (*)	OCI Reserve	31 December 2018
	3,897	(311)	3,586	1,524	(268)	(1,416)	(132)	3,294
Totale	**3,897**	**(311)**	**3,586**	**1,524**	**(268)**	**(1,416)**	**(132)**	**3,294**

(*) These are payments made to the treasury funds and other supplementary pension funds

The staff severance provision, which comprises indemnities accrued in favor of employees refers to the Parent company, as well as subsidiaries operating in Italy, and it amounts to EUR 3.3 million as of 31 December 2018.

Further to IAS 19, for estimating staff severance indemnities, the following methods were used: the Traditional Unit Credit Method for companies with at least 50 employees, and the Projected Unit Credit Cost – service pro rate for the other companies, in accordance with the following stages:

- on the basis of a series of financial hypotheses (increase in living cost, remuneration, etc.), the possible future benefits which might be disbursed in favor of each employee registered in the programme in the case of retirement, death, disability, resignation, etc. were projected The estimate of the future performances takes account of any foreseeable increases corresponding to a further length of service, and to the alleged growth in the remuneration received at the date of the estimate, only for employees of companies with less than 50 employees;
- the *average present value of future performances* was calculated at the date of estimate, on the basis of the adopted annual interest rate, and of the probability of each performance to be really disbursed;
- the liability was established for each company concerned, to an extent equal to the *average present value of the future benefits* which will be generated by the provision existing as of the valuation date, without considering any future provision (for companies with at least 50 employees) or identifying the portion of the average present value of the future benefits which refer to the service already accrued by the employee as of the value date (for the other companies).

Financial Assumptions

Inflation Rate: 1,50%

Discount Rate: 1.57%

<u>Demographic assumptions:</u>

Mortality:	Mortality tables ISTAT 2016 M/F
Disability:	INPS Tables M/F
Resignations:	100% to the achievement of AGO requirements
Advance payments:	3.50% from 18 to 65 years
Turnover Frequency:	3.00% from 18 to 65 years

A sensitivity analysis was carried out on the main valuation parameters, which shows the impacts on the balance sheet value of the severance indemnity fund as these parameters vary.

The following table shows a summary of the impacts of these changes in percentage terms compared to the book value of the fund itself:

	Delta % respect to the 2018 balance of the Staff Severance Provision
Turnover Rate + 1%	-0.6%
Turnover Rate - 1%	0.7%
Inflation Rate + 0,5%	3.7%
Inflation Rate - 0,5%	-3.5%
Discount Rate + 0,5%	-5.5%
Discount Rate - 0,5%	6.1%

Provisions for risks and charges (Note 23)

	31 December 2017	Increases in provision	Reverse to PL	Utilisations	31 December 2018
(EUR 000)	3,239	5,764	(381)	(538)	8,083
Total	**3,239**	**5,764**	**(381)**	**(538)**	**8,083**

As at 31 December 2018, the provision for risks and charges amounted to EUR 8 million and mainly includes:

- personnel restructuring and downsizing costs for EUR 5.6 million;
- EUR 1.1 million for other provisions; these provisions are mainly connected to risk for disputes with suppliers;
- EUR 0.2 million for disputes with employees;

-
- EUR 0.6 million for the tax provision;
- EUR 0.4 million for provision against a supplementary indemnity to be paid to agents.

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.

Trade Payables (Note 25)

Trade payables	31 December 2018	31 December 2017 (*)
(EUR 000)		
Trade payables	134,840	150,705
Total	**134,840**	**150,705**

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 at 31 December 2018, overdue trade payables (net of payment plans agreed with suppliers, of active items and in dispute with the same suppliers) amounted to EUR 57.7 million.

Other Current Liabilities (Note 25)

Other current liabilities	31 December 2018	31 December 2017 (*)
(EUR 000)		
Accrued expenses	646	1,409
Deferred income	25,491	30,788
Other payables	40,495	31,870
Total	**66,632**	**64,067**

Accrued expenses mainly relate to personnel costs.

Deferred income of EUR 25.5 million mainly relate to:

- the deferral of the revenues deriving from the Sale & Lease Back on the Cagliari building for EUR 6.5 million
- the deferral of the revenues deriving from the sale of transmission capacity (IRU) pertaining to

future financial years, for approximately EUR 5,1 million (EUR 6 million as at 31 December 2017);

- the deferral of the revenues for the activation of the ADSL and VoIP services relating to other accounting periods for approximately EUR 13,8 million (EUR 15.1 million as at 31 December 2017);
- the deferral of revenues accruing in future years, pertaining to the Aria Group, for EUR 0,1 million (EUR 1.1 million as at 31 December 2017).

The item Other payables of EUR 40.5 million, mainly includes:

- VAP payables for EUR 12 million (0.1 million as at 31 December 2017);
- Tax and social secutity institutions payables for approximately EUR 14.6 million (EUR 15.9 million as at 31 December 2017);
- Debts towards personnel for EUR 1.6 million (EUR 2.4 million as at 31 december 2017)
- other payables for EUR 12.3 million (EUR 13.6 million as at 31 December 2017) mainly composed of payables to other public institutions.

The past due portion of these payables amounts to EUR 18.8 million.

7.15 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 2018.

Cash flows shown in the table refer to the nominal amounts due on outstanding loans:

31 december 2018	Balance as at 31 december 2018	Cash out	lower then 1 year	from 1 year to 5 years	higher the 5 years
(Thousands of Euro)					
Senior Loan	92,187	104,244	9,173	95,071	-
Financial lease	67,741	67,741	67,741	-	-
Trade payables and debt	181,493	181,493	175,096	6,398	-
Bank debts	11,437	11,437	11,437	0	0

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

Please refer to Paragraph 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 at 31 December 2018, and as at 31 December 2017, of financial instruments existing as of the balance sheet date:

	31 december 2018	
	Balance	Fair Value
(Thousands of Euro)		
Senior Loan	92,187	92,531
Bank debts	11,437	11,437
Financial lease	67,741	68,704

	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

The fair value of the financial instruments as indicated above was calculated using the discounted cash flow method, taking as reference the market interest rates, in addition to contractual spreads (where applicable).

Stock Options

On 16 February 2016, the Extraordinary and Ordinary Shareholders' Meeting of Tiscali S.p.A., met under a single summons, 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 2015-2019 Stock Option Plan. As reported in the "Information Document on the 2015-2019 Stock Option Plan of Tiscali S.p.A.", the options granted will be exercisable in three tranches:

- the first, consisting of No. 157,264,095 Options, for the subscription of an equal number of Tiscali ordinary shares and to be exercised between 24 December 2016 and 24 December 2018 at an exercise price per share of EUR 0.060;
- the second, consisting of No. 47,179,228 Options, for the subscription of an equal number of Tiscali ordinary shares and to be exercised between 24 December 2017 and 24 December 2018 at an exercise price per share of EUR 0.069;
- the third, consisting of No. 47,179,228 Options, for the subscription of an equal number of Tiscali ordinary shares and to be exercised between 24 December 2018 and 24 June 2019 at an exercise price per share of EUR 0.078.

Successively, on May 12, 2016, the Board of Directors of Tiscali S.p.A. approved the 2016-2021 Stock Option Plan regarding ordinary shares of Tiscali S.p.A. reserved to the CEO and the Management of the Group, and the following proposal of Capital Increase, also in separate issues, through the issuance of 314,528,189 ordinary shares maximum with no nominal value, to the service of maximum 314,528,189 options valid for the subscription of ordinary shares of the Company to be reserved to the CEO and the Management of the Group as beneficiaries of the 2016-2021 Stock Option Plan, with the exclusion of option right in compliance with the Article 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.

In 2018, two other executives left, the CEO Riccardo Ruggiero, (whose term ended on 26 June 2018, the date on which the Assembly approved the 2017 Budget was held) and a director who died in April 2018. These terminations led to the loss of further 63,212,511 options.

As at 31 December 2018, the total number of options in this second Stock Option Plan amounted to 194,930,554 options.

The valuation of the stock option plans was carried out at the time of initial recognition, with entry in the income statement of the cost portion during the vesting period with the equity reserve as a contra entry

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.

<u>Civil and administrative proceedings</u>

Opposition to the WIND Tre S.p.A. injunctions

On 6 June 2016 and 20 September 2017, Wind notified two injunctions for payment issued by the Court of Cagliari for receivables due from Tiscali Italia S.p.A. and Aria S.p.A. 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 is postponed for admission of the preliminary evidence to October 2020, while the second has been held at reserve by the Judge. At present, it is not possible to express a forecast on the outcome of the case. The amount of the invoices related to the injunction for payment is recorded under trade payables.

Opposition to Telecom Italia Sparkle injunction

On 22 November 2017, Telecom Italia Sparkle notified an injunction for payment, with a corresponding court order issued by the Court of Rome for receivables due from Tiscali Italia S.p.A. relating to the provision of wholesale voice services. The Company provided 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 invoices related to the injunction for payment is recorded under trade payables.

Summons by Crotone Calcio

In February 2018 Giovanni Vrenna and Crotone Calcio cited Tiscali Italia S.p.A., 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. The amount of the liability is recorded under trade payables.

Proceedings of a Criminal Nature

In September 2013, Tiscali S.p.A. received from the Public Prosecutor's Office at the Court of Cagliari, 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.

Fair Value

In order to provide the classification of financial instruments at fair value as required by IFRS 13, determined on the basis of the quality of the sources of inputs used in the assessment, the fair value measurements of the Group's financial instruments have been classified in the 3 levels established by IFRS 7. In particular, the hierarchy of fair value consists of the following levels:

• Level 1: corresponds to prices quoted on active markets;

• Level 2: corresponds to prices calculated through elements taken from observable market data;

• Level 3: corresponds to prices calculated through other elements different from observable market data.

As at 31 December 2018, 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.

Income statement

31 december 2018 *(Thousands of EUR)*	Access (BTC connectivity and BTB)	Media & Advertising	Corporate	Total
Revenue				
From third parties	158,475	6,646	67	165,188
Intra-group	18,749	5,276	(24,025)	-
Total revenues	**177,224**	**11,922**	**(23,958)**	**165,188**
Operating profit	**(34,359)**	**279**	**(17)**	**(34,097)**
Result on Investments at equity method				429
Financial Income				1,088
Financial Expenses				11,623
Pre-tax result				**(45,061)**
Income taxes				(224)
Net result from operating activities (on-going)				**(45,286)**
Income from held for sale and discontinued operations				128,484
Net operating income				**83,198**

31 december 2017 (*) *(Thousands of EUR)*	Access (BTC connectivity and BTB)	Media & Advertising	Corporate	Total
Revenue				
From third parties	193,586	7,746	97	**201,429**
Intra-group	19,842	6,210	(26,053)	-
Total revenues	**213,429**	**13,957**	**(25,956)**	**201,429**
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				139
Net result from operating activities (on-going)				**(42,035)**
Income from held for sale and discontinued operations				42,862
Net operating income				**827**

Information on the performance of the operating segments has been reported in the Management Report to which reference is made.

The "Corporate" segment includes the holding company Tiscali Spa, the smaller Italian companies, the "dormant" foreign companies, and the consolidation elision entries and adjustments.

Balance Sheet

31 December 2018 *(Euro 000)*	Access(BTC connectivity and BTB)	Media & Adversing	Corporate adjustmen	Totale
Assets				
Segment assets	336,999	4,520	852	342,371
Equity investments carried at equity	-	-	-	-
Equity investments in other companies	3,727	-	-	3,727
Goodwill	-	-	-	
Assets held for sale	0	-	-	0
Total consolidated assets	**340,725**	**4,520**	**852**	**346,097**
Liabilities				
Segments liabilities	364,977	5,157	20,679	390,812
Liabilities held for sale	0	-	-	0
Total consolidated liabilities	**364,977**	**5,157**	**20,679**	**390,812**

31 December 2017 (*) *(Euro 000)*	Access(BTC connectivity	Media & Adversing	Corporate adjustmen	Totale
Assets				
Segment assets	216,466	8,555	2,618	227,638
Equity investments carried at equity	-	-	-	-
Equity investments in other companies	3,621	-	-	3,621
Goodwill	-	-	-	
Assets held for sale	69,177	0	0	69,177
Total consolidated assets	**289,264**	**8,555**	**2,618**	**300,436**
Liabilities				
Segments liabilities	392,110	12,918	10,740	415,767
Liabilities held for sale	12,700	0	0	12,700
Total consolidated liabilities	**404,810**	**12,918**	**10,740**	**428,468**

The “Corporate” segment includes the holding company Tiscali Spa, the smaller Italian companies, the “dormant” foreign companies, and the consolidation elision entries and adjustments.

Commitments and other guarantees

A breakdown of guarantees given in 2018 is shown in the table below:

(migliaia di Euro)	31 dicembre 2018	31 dicembre 2017
Garanzie prestate a terzi (fideiussioni)	139,605	138,819
Impegni	0	
Totale	**139,605**	**138,819**

Sureties given mainly refer to the guarantee given for the loans granted by financial institutions to the Tiscali Group for a total of EUR 138.3 million (EUR 85.3 million concerning Senior Loan and EUR 53 million concerning the Sa Illetta debt).

The same item includes EUR 1.3 million of other guaranties, of which the guarantee issued by Tiscali Italia S.p.A. in favor of the Janna Consortium to guarantee commitments undertaken when subscribing the share capital increase, and EUR 0.6 million of various guarantees issue dby Tiscali italia S.p.A. itself.

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 18.8 million and EUR 24 million respectively, in the FY 2018 and 2017.

In addition, the Parent company has provided guarantees for credit lines and leasing to the subsidiary Veesible S.r.l. for EUR 0.8 million in the year 2018.

Furthermore, the Parent company, in both years 2018 and 2017, has commitments of EUR 1.6 million related to the maintenance of credit lines granted to the subsidiary Tiscali Italia SpA.

Non-recurring Transactions

Under the provisions of the CONSOB Resolution No. 15519 dated 27 July 2006, it is reported that in FY 2018, non-recurring transactions were recorded with a total effect on the Group's income statement equal to EUR 110 million. The 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 were considered as "non-recurring" for the purpose of providing the information required by CONSOB Resolution No. 15519 dated July 27, 2006.

In particular, during the FY non-recurring costs were recorded, mainly identifiable as follows:

- Capital gain on the sale of the 40 Mhz license in the 3.5 Ghz band and of the Fixed Wireless Access (FWA) company branch to Fastweb, following the completion of the contract, which took place on 16 November 2018 for EUR 128.5 million (see Note 9 for further details)
- Income for EUR 1,1 million deriving from a transaction carried out by the subsidiary Aria with Unicredit, which led to the write-off of the related financial debt;
- fine imposed by AGCM for the adoption by Tiscali Italia of an unlawful conduct in violation of the rules of the consumer code transposing the consumer rights directive, in the distance market of fixed and/or mobile telephony services. During 2018, the Lazio TAR, to which an appeal was submitted against this fine, confirmed the amount of approximately EUR 1.3 million;
- Increase in personal restructuring charges for downsizing of staff for EUR 5.9 million;
- other restructuring costs for EUR 0.7 million.

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

Non-recurring transactions	2018	2017
Revenue	0.0	0.0
Other income	0.0	0.0
Purchase of external materials and services	(1.3)	0.0
Personnel costs	0.0	0.0
Other operating expense (income)	0.0	0.0
Write-downs accounts receivable from customers	0.0	0.0
Gross Operating Result (EBITDA)	**(1.3)**	**0.0**
Restructuring costs, provisions for risks and write-downs	**(6.6)**	**(4.1)**
Operating profit (EBIT)	**(7.9)**	**(4.1)**
Financial income	1.1	0.0
Financial expenses	0.0	(6.7)
Pre-tax profit	**(6.9)**	**(10.8)**
Income taxes	**0.0**	**0.0**
Net result from operating activities (ongoing)	**(6.9)**	**(10.8)**
Income from BTB sale to Fastweb	**128.5**	**43.8**
Other charges related to held for sale	**0.0**	**0.0**
Net result for the period	**121.6**	**33.0**

Atypical and/or unusual transactions

Pursuant to the 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 summarizes the balance sheet and income statement values recorded in the Tiscali Group's consolidated financial statements as at 31 December 2018 and 31 December 2017, as arising from transactions with related parties:

Income Statement Values	Notes	2018	2017
(Euro 000)			
Monteverdi S.r.l.	1	(29)	(29)
Open Campus	2	33	66
Open Campus	2	(33)	(66)
Istella	3	64	
Directors		(2,894)	(3,304)
Stock option	4	13	(608)
Total Suppliers of Materials and Services		**(2,846)**	**(3,941)**
Total Expenses & Income		**(2,846)**	**(3,941)**

Balance Sheet Values	Notes	31 December 2018	31 December 2017
(Euro 000)			
Monteverdi S.r.l.	1	(45)	(18)
Open Campus	2		-
Open Campus	2		
Istella	3	78	
Directors		(766)	(630)
Receivables deriving from the Istella sale	5	72	75
Total Suppliers of Materials and Services		**(660)**	**(573)**
Stock Option Reserve	4	13	(2,010)
Net assets pertaining to the Group		**13**	**(2,010)**
Total		**(646)**	**(2,583)**

1. *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.*
2. *Open Campus: company owned 80% by Alice Soru, member of the Board of Directors of Tiscali S.p.A 80% owned by Alice Soru, member of the Board of Directors of Tiscali Spa until 26 June 2018. On that date, on which the Shareholders' Meeting of Tiscali Spa which approved the 2017 Financial Statements was held, the members of the Board of Directors of Tiscali Spa have completed their mandate. The mandate of Alice Soru has not been renewed. Tiscali Italia has entered into two contracts with Open Campus. With the first contract, Tiscali Italia purchases brand promotion services from Open Campus, while with the second it grants an equipped area to Open Campus activities. The two contracts are not related. The economic values relating to the contracts in question shown in the related party table relate to the period from January to June 2018.*
3. *Istella: a company owned 64% by the shareholder and member of the Board of Directors of Tiscali S.p.A. Renato Soru. The report in question refers to the supply, by Tiscali, of IT services (hosting of network equipment), starting from October 2018.*
4. *Stock Option: the company has some management incentive plans in the form of Stock Options (please refer to the paragraph “Stock Options” for further details).*
5. *Claims arising from the transfer of Istella. These are the receivables due from the purchaser of Istella (Mr. Renato Soru) in relation to the sale of the company itself on 16 October 2017.*

It should be noted that on 16 November the reference Shareholders signed letters of commitment for the disbursement of bridge loans of EUR 5 million each, in the context of the broader financial debt and business restructuring agreements by finalizing the transaction with Fastweb subject of the 16 November Sale Agreement. On 31 January 2019, the same shareholders subscribed a convertible bond loan for a nominal amount of EUR 10.6 million.

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 FY 2018 follows:

(EUR 000)	31 december 2018	31 december 2017
Directors	1,375	1,552
Statutory Auditors	219	221
Manager with strategic responsabilities	1,519	1,752
Total Remuneration	**3,113**	**3,525**

List of subsidiaries included in the consolidation area

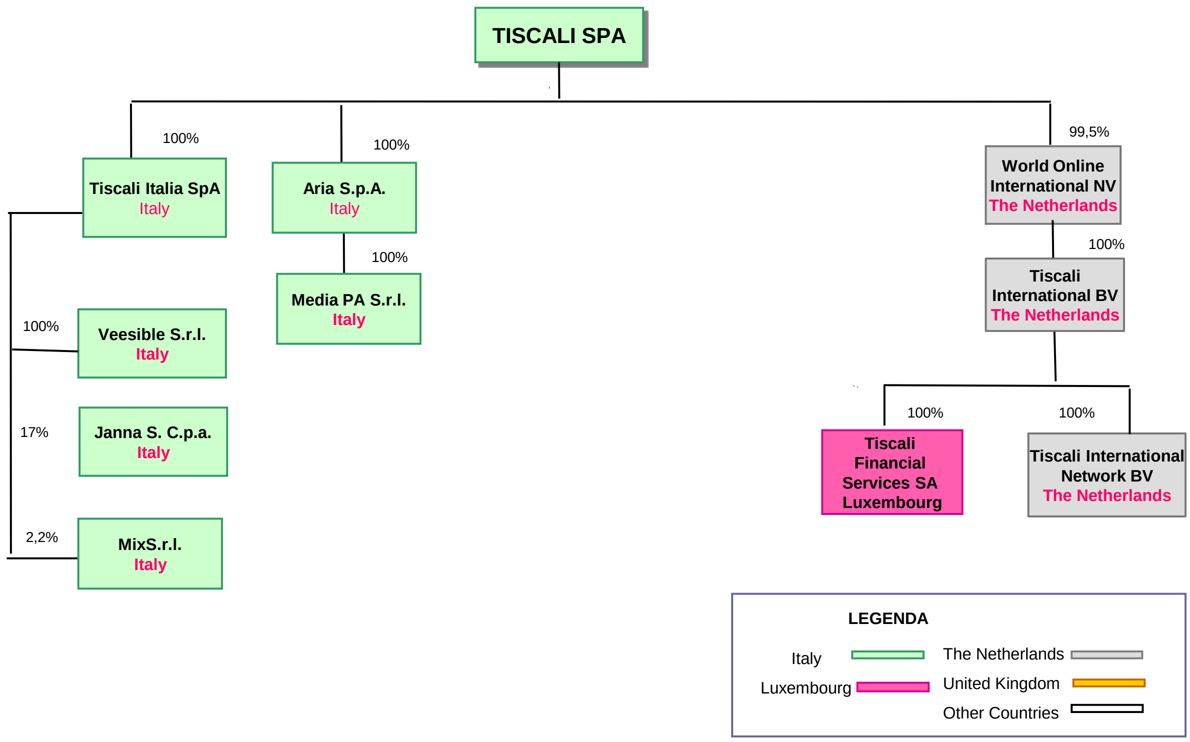
A list of the companies included in the consolidation area follows:

Name	Location	Percentage of shares held
Tiscali S.p.A.	Italia	
Tiscali Italia S.p.A.	Italia	100.00%
Veesible S.r.l.	Italia	100.00%
Aria S.p.A.	Italia	100.00%
Media PA S.r.l.	Italia	100.00%
World Online International NV	Olanda	99.50%
Tiscali International BV	Olanda	99.50%
Tiscali Financial Services SA	Lussemburgo	99.50%
Tiscali International Network B.V.	Olanda	99.50%

List of equity investments in other companies recognized under other non-current financial assets.

Mix S.r.l.	Italia
Janna S.c.p.a.	Italia

The Tiscali Group as at 31 December 2018:



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 2018 for auditing services and those for other services provided by the independent auditing firm:

Type of Service	Party providing the Service	Beneficiary	Fees
(EUR 000)			
Financial Audit	Deloitte&Touche SPA	Parent Company – Tiscali S.p.A.	320
	Deloitte&Touche SPA	Subsidiaries	64
Other professional Services	Deloitte&Touche SPA	Parent Company – Tiscali S.p.A.	37
	Deloitte&Touche SPA	Subsidiaries	-
Total			**421**

Cagliari, 29 March 2019

The Chief Executive Officer **The Officer in charge of Preparing the**

Company's Accounting Documents

Alex Kossuta

Daniele Renna

2018 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 Alex Kossuta, in his capacity of Chief Executive Officer, and Daniele Renna, in his capacity of the Officer in charge of Preparing the Company's Accounting Documents of Tiscali S.p.A., 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 2018.

Tiscali S.p.A. 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 at 31 December 2018:

- 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, 29 March 2019

The Chief Executive Officer	**The Officer in charge of Preparing the Company's Accounting Documents**
Alex Kossuta	Daniele Renna

Tiscali S.p.A.
Financial Statements
as at 31 December 2018

8 Tiscali S.p.A. – Financial Statements and Explanatory Notes

8.1 Income Statement

Consolidated income Statement	Notes	2018	2017
(Eur)			
Revenue	1	4,652,354	6,768,177
Other income	1	3,886	-
Purchase of external materials and services	2	(2,813,918)	(2,649,743)
Staffing costs	3	(1,293,211)	(1,493,718)
Other operating income/ (costs)	4	(37,294)	199,749
Write-down of receivables	5	(109,734)	(172,365)
Restructuring costs and other write-downs	5	(130,123)	(80,184,160)
Operating profit		**271,961**	**(77,532,059)**
Financial Income		66	128
Financial Expenses	6	(5,111)	(7,665,877)
Earning before tax		**266,917**	**(85,197,809)**
Income taxes	7	(127,294)	30,958
Result from operating activities (on-going)		**139,623**	**(85,166,851)**
Income from discontinued operations and / or targeted foı	8	-	(54,053)
Net profit		**139,623**	**(85,220,904)**

8.2 Comprehensive Income Statement

(EUR)	Note	2018	2017
Operating result	14	**139,623**	**(85,220,904)**
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)		**39,016**	**11,000**
- of which (Loss) / profit from revaluation of defined benefit plans		-	-
Total other items on comprehensive income statement		-	-
Total operating results of Comprehensive income statement		**178,639**	**(85,209,904)**
Attributable to:	14		
Parent Company Shareholders		178,639	**(85,209,904)**
Minority Shareholders			
	14	**178,639**	**(85,209,904)**

8.3 Statement of Assets and Liabilities

Statement of Assets and Liabilites	Notes	31 december 2018	31 december 2017
(EUR)			
Non-current assets			
Equity investments	9	115,084,732	115,084,733
Other financial assets	10	78,240,917	21,497,675
		193,325,648	**136,582,408**
Current assets			
Trade receivables	11	13,232,735	9,701,093
Other receivables and other current assets	12	654,307	2,201,256
Cash and cash equivalents	13	157,547	247,393
		14,044,589	**12,149,742**
Total assets		**207,370,238**	**148,732,150**
Capital and reserves			
Capital		43,065,376	121,507,323
Results of previous years and Other Reserves		(13,490)	6,739,941
Result of the FY		139,623	(85,220,904)
Total Shareholders Equity	**14**	**43,191,509**	**43,026,360**
Non Current Liabilities			
Other non-current liabilities	15	143,760,726	95,215,551
Provisions for risks and charges	16	13,429	325,161
		143,774,156	**95,540,712**
Current liabilities			
Bank debts	0	-	-
Payables to suppliers	17	5,604,045	5,022,600
Other current liabilities	18	14,800,528	5,142,479
		20,404,573	**10,165,079**
Total net assets and liabilities		**207,370,238**	**148,732,150**

8.4 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 1 Jan 2017	**91,200,923**	**90,734**	**(2,574,734)**	**1,401,796**	**(50,497)**	**-**	**(349,452)**	**89,718,770**
Capital increase	30,306,400		(144,800)					**30,161,600**
Other movements				608,421				**608,421**
Bond Conversion costs			7,746,992					**7,746,992**
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**
Capital increase								-
Other movements				(13,490)	39,016			**25,526**
Bond Conversion costs								-
coverage	(78,441,947)	(90,734)	(5,027,458)	(2,010,217)			85,570,356	-
Net result					-		139,623	**139,623**
Balance as of 31 dec 2018	**43,065,376**	**-**	**-**	**(13,490)**	**-**	**-**	**139,623**	**43,191,509**

8.5 Cash Flow Statement

(Thousands of Euro)	2018	2017
Result from Operating Activities	**139,623**	**(85,166,851)**
Adjustments for:		
Amortization of tangible assets	-	0
Amortization of intangible assets	-	0
Provision for write-downs accounts receivables from customers	109,734	172,365
Release of provisions for risks	(82,344)	(2,058,796)
Stock Option figurative cost	(13,490)	608,421
Bond Conversions costs	0	6,654,972
Release Reserve for employee benefits	39,016	
Devaluation of Investments in Group companies	0	79,000,000
Other changes	(42,334)	(822,137)
Cash flows from operating activities before changes in working capital	**150,206**	**(1,612,026)**
Changes in receivables	99,401	(54,600)
Changes in payables to suppliers	868,693	1,119,949
Net change in provisions for risks and charges	(159,000)	(222,000)
Net change in provisions for TFR	0	(99,583)
Changes in other liabilities	9,071,827	(8,561,131)
Changes in other assets	1,546,949	(1,529,894)
Changes in working capital	***11,427,871***	***(9,347,259)***
AVAILABILITY CASH FLOWS GENERATED BY OPERATING ACTIVITIES	**11,578,076**	**(10,959,285)**
INVESTMENT ACTIVITY		
Change in other financial assets	-	-
Acquisitions of Fixed Tangible Assets	-	-
Acquisitions of Intangible assets	(0)	1
Variation in Investments in Group companies	1	0
AVAILABILITY OF CASH AND CASH EQUIVALENTS FOR INVESTMENT ACTIVITIES	**1**	**1**
Changes in intercompany financial liabilities	(11,665,912)	(600,193)
Changes in other liabilities	(2,050)	(3,309)
Changes in bond	-	(1,513,055)
Changes in Net Equity	0	30,306,400
o/w due to the bond conversion (no cash effect)		(17,000,000)
Exchange rate effect	41	(1,298)
AVAILABILITY CASH ARISING FROM/ (USED IN) FINANCIAL ACTIVITIES	**(11,667,921)**	**11,188,545**
AVAILABILITY CASH ARISING FROM ASSETS SOLD/ HELD FOR SALE	0	(3,954)
INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS IN THE PERIOD	**(89,843)**	**225,308**
AVAILABILITY CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**247,393**	**22,088**
CASH AND CASH EQUIVALENTS AT YEAR-END	**157,549**	**247,395**

8.6 Explanatory Notes

Tiscali S.p.A. (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 Internet 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).

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

Assets-Financial and Economic Performance of the period

Tiscali SpA closed the FY 2018 with a net equity of EUR 43.2 million (EUR 43 million as at 31 December 2017) and with a profit of EUR 140 thousand (as compared to a loss of EUR 85.2 million in the previous FY). As at 31 December 2018, the net financial position is negative and amounts to EUR 64.9 million and is mainly composed of non-current financial payables to Group companies for EUR 65 million (as compared to a net financial position as at 31 December 2017 negative for EUR 72.6 million, of which EUR 71.8 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 occur in the medium term through the use of the dividend flows from the subsidiaries. The company's assets are mainly composed of investments in subsidiaries and intercompany financial assets. On the basis of these considerations, therefore, and considering the prevailing nature of holding companies, the Directors believe that the considerations on the business continuity of the Company are closely related and cannot be separated from the considerations made on the business continuity of the Tiscali Group.

The Tiscali Group also closed the financial year 2018 with a negative consolidated shareholders' equity of EUR 44.7 million, an improvement as compared to EUR 128 million as at 31 December 2017.

The change in equity is mainly attributable to the result for the period. During the FY, the Tiscali Group in fact presented a profit of EUR 83.2 million, an improvement compared to the profit of EUR 0.8 million recorded in 2017. The 2018 profit is mainly attributable to the net capital gain the transfer of the 40 Mhz license in the 3.5 Ghz band and the Fixed Wireless Access (FWA) business branch to Fastweb, equal to EUR 128.5 million (see the following paragraph "Effects of the 2018-2021 Business Plan and Strategic Agreement with Fastweb" or more details); in 2017, the profit also benefited from the effect of a capital gain of EUR 43.8 million related with a transaction entered into with Fastweb.

As at 31 December 2018, the Group also reported gross financial debt of EUR 171.6 million, an improvement as compared the gross financial debt recognized as at 31 December 2017, equal to EUR 180.8 million, and current liabilities higher than current (non-financial) assets for EUR 38.8 million, an improvement as compared to EUR 150.9 million as at 31 December 2017. The positive change of the latter figure, equal to EUR 112.1 million, is mainly attributable to the short term portion of the receivables due from Fastweb for EUR 110.5 million relating to the Transfer to Fastweb, whose collection in expected in June 2019.

Current liabilities include overdue trade payables (net of payment plans agreed with suppliers, as well as receivables and disputed receivables from the same suppliers) for EUR 57.7 million, down from the corresponding amount of EUR 46, 2 million as at 31 December 2017, in addition to overdue financial debts (net of credit positions) of approximately EUR 36.9 million (EUR 20.9 million as at 31 December 2017), overdue tax payables of approximately EUR 18.2 million (EUR 11 million as at 31 December 2017), as well as overdue payables of a social security nature for employees of EUR 0.5 million (EUR 1.9 million as at 31 December 2017). During the year, agreements were signed for the settlement of payables to suppliers for EUR 4.6 million (EUR 4.8 million in 2017).

Effects of the 2018-2021Business Plan and Strategic Agreement with Fastweb

As previously described, the Tiscali Group had been engaged, during the first half of 2018 and until November 2018, in a series of activities (in particular the obtainment of the extension on the license for the 3.5GHz frequency spectrum it owned, which took place on 12 November, and the negotiation of the strategic agreement with Fastweb, finalized on 16 November 2018) which limited its operational action and created a discontinuity with respect to the development path established in the previous 2018-2021 Business Plan approved contextually with the results of the FY 2017, determining the realization of results which were worse than expected. Pending this process and in the broader context of uncertainty on the future evolution of the Group, it should be noted, among other things, that the financial resources established by the Shareholders in the previous 2018-2021 Business Plan have not been made available; this has exacerbated financial tensions and relations with some suppliers following the increase in the overdue recorded.

The New Business Plan 2018-2021 of the Tiscali group, certified for Tiscali Italia and Aria pursuant to Article N. 67 of the Royal Decree 267/1942, prepared considering the effects of the closing of the transaction with Fastweb on 16 November, and the signature of the Financial Debt Restructuring Agreements dated 28 March 2019, defines the new development path for the Group as a result of the sale, based on the following key elements:

- **Redefinition of the operating model:** following the Strategic Operation with Fastweb, the Tiscali Group is to progressively change its operating model, reducing the direct management of network infrastructures and at the same time increasingly concentrating on the ability to develop new services, on the activities Marketing and Sales and excellence in customer management.
- **Strong reduction in investment commitments**, consistent with the new operating model and with the changed portfolio of activities managed by the company as a result of the sale.
- **Confirmation of the focus on the "core business"**: the New 2018-2021 Business Plan provides for the full focus of the Tiscali Group on the "core business" of the sale of BroadBand and UltraBroadBand services (Fixed, Fixed Wireless and Mobile) to Consumer retail, SOHO and EMS customers.
- **Expansion of the addressable market**: this strategy will have the possibility to develop on a broader market than the one previously held by the Tiscali Group, thanks to the beneficial effects of the wholesale agreement signed with Fastweb, which allows:
    - on the one hand, **to continue to market LTE Fixed Wireless services** in the "Extended Digital Divide" areas thanks to the conditions of wholesale access to the assigned Wireless network provided for by the agreement and indeed on a wider market thanks to Fastweb's commitment to complete the migration of the same network from WiMAX technology to LTE technology at its own expense (from about 4 million to about 6.5 million households and businesses covered by the LTE service);
    - or on the other, to access the Fastweb Fiber network, allowing Tiscali – without further incremental investments – **to expand the addressable market of Fiber services** from about 8 million households and businesses to around 18 million
- **Full relaunch of the Tiscali brand to support the marketing of services**, by virtue of the investments in communication established in the New 2018-2021Business Plan, and possible thanks to the proceeds from the Strategic Agreement with Fastweb.
- **Future access to 5G services**, thanks to the possibility of using the Fastweb 5G network to commercialize the future 5G Mobile services to its customers, thus increasing the overall value proposition of its Mobile offer, also in light of the extension of the license term to 2029.

- **Strengthening of the Group's financial and equity structure thanks to**:
  - **the reduction the level of overall debt**, especially debt to suppliers, essential for normalizing the relationship with strategic suppliers and revitalizing the company's operating activities and payables to tax authorities and social security institutions;
  - **the rescheduling and restructuring of the current outstanding debt** (Senior Loan and Financial Leasing relating to Sa Illetta), pursuant to the Debt Restructuring Agreements signed with the Banks and the Leasing Companies;
  - **the financial strengthening** through the issue of the 2019-2020 Convertible Bond for EUR 10 million.

This plan therefore represents an opportunity for a relaunch of Tiscali, which can use the resources acquired from the sale to refocus its business in line with the size and investment capacity of the company and the changed technological and market environment (Fiber, 5G).

As already mentioned – with the signature of the Financial Debt Restructuring Agreements dated 28 March 2019 – the financial requirements of the New 2018-2021 Business Plan are consistent with the Group's resources deriving both from its operations and from the collection of fees provided for by the sale itself.

Despite the improved balance sheet and financial situation determined by the sale to Fastweb, the signing of the Debt Restructuring Agreements and the subscription of the 2019-2020 Convertible Bond by the reference Shareholders, the management reiterates that the achievement of the Group's short, medium and long-term capital, economic and financial equilibrium situation is always subordinated to the achievement of the results expected in the New 2018-2021 Business Plan – which provides for the achievement of the economic equilibrium in 2021 – and therefore the realization of 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 strong competitive pressure.

Final Assessment by the Board of Directors on the business as an ongoing concern

In this 2018 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:

- slowed its growth path for the reasons set out in the previous paragraphs and consequently recorded in 2018 a decline in its customer base on the core business in the year 2018 (the total customer portfolio of the Tiscali Group is equal to 640 thousand units in December 2018, down by around 108 thousand units as compared to December 2017);

- generated in FY 2018, before working capital changes (negative for EUR 25.3 million), cash and cash equivalents from operating activities amounting to approximately EUR 24.6 million;
- received, following the favorable opinion on the granting of the extension of the licenses for the 3.5GHz spectrum expressed by the AGCOM with Resolution No. 503/17/CONS;
- signed a Strategic Agreement with Fastweb, whose structure and nature have been extensively described in the previous paragraphs. This agreement was executed on November 16, 2018, and led to the entry of financial resources relating to the first part of the price for EUR 50 million in addition to the finalization of the payment of EUR 13 million in trade payables, with a forecast by 30 June 2019 to collect the additional EUR 80 million;
- issued a convertible bond with a nominal value of EUR 10.6 million, fully subscribed at 95% by the relevant shareholders ICT and Sova Disciplined Equity Fund on 31 January 2019;
- signed the Senior Debt Restructuring Agreement on 28 March 2019;
- signed the Agreement for the Restructuring of the Sa Illetta Leasing on 28 March 2019;
- drew up the New 2018-2021 Business Plan, which includes in particular the impact of the sale to Fastweb, the Financial Debt Restructuring Agreements with the Financial Institutions and the Pool Leasing, the effects of the disbursement of the bridge loans, and consequently redefines the new strategy for the development of Tiscali Group. This plan, approved on 12 November 2018 by the Board of Directors, was certified with the asseveration as per Article N. 67 of the Royal Decree 267/1942 issued on 27 March 2019 for Tiscali Italia and Aria by Giovanni Naccarato.

The Directors – pointing out that the going concern assumption is based on the achievement of the objectives contained in the New 2018-2021 Business Plan – acknowledge that at present the realization of the New 2018-2021 Business Plan is, in any case, subject to some residual material uncertainties, and in particular:

7. the payment of the residual portion of the price provided for by the Strategic Agreement with Fastweb, even in reference to the uncertainties connected with the Controversies against the Strategic Agreement with Fastweb arisen following the announcement of such operation;
8. the increase in the customer base in market trend characterized by strong competitive pressure;

9. the maintenance of support from suppliers that have overdue receivables from the Group until the completion of the plan aimed to reduce the overdue, concentrated in the first half of 2019 and realized using the new financial resources generated by the sale to Fastweb, by the restructuring of debts and from the subscription of the 2019-2020 Convertible Bond that will allow to realign the payment terms to the average terms of the reference sector, as reflected in the New 2018-2021 Business Plan.

This said, the Directors, (i) in light of the events occurred between 16 November 2018 and 28 March 2019, and (ii) the significant liquidity injection following the collection of the first tranche of the Strategic Agreement with Fastweb, think that the uncertainties previously pointed out will cease and that:

- the second payment tranche (equal to EUR 80 million) will also be collected within the contractually time frame established, and the financial savings deriving from the wholesale agreement with Fastweb will take place in accordance with the new 2018-2021 Business Plan;
- the management will be able to maintain the support from the suppliers, also thanks to the actions aimed at immediately reducing the expired payables using the extraordinary financial resources coming from the cash in of the first tranche of the sale price provided in the Strategic Agreement with Fastweb;
- the size of the benefit to the income statement, balance sheet and financial position, deriving from the Strategic Agreement with Fastweb and from the finalization of the restructuring of the financial debt are so significant as to suggest that – even in the presence of the aforementioned situation of uncertainty on the realization of the New 2018-2021 Business Plan in the next twelve months, deriving from the existence of uncontrollable exogenous variables that can make results worse than those expected in the forecast data – the assets and financial balances are not at risk.

It is on this basis therefore that the Directors have a reasonable expectation that the business can be considered as an ongoing concern over the next twelve months and that the Group can use the accounting principles of the assumption of going concern in the preparation of this consolidated annual financial report as at 31 December 2018.

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

In line with the above and in line with the objectives of the New 2018-2021 Business Plan, in the coming months the Group's commitment will be focused on fully implementing the plan with particular attention to:

- the full resumption of commercial activities, after the slowdown suffered during the entire year 2018, with particular focus on the acquisition of new Fiber and LTE customers for a full exploitation of the wholesale agreements signed with Fastweb;
- the re-launch of the Tiscali brand to support the process of acquiring new customers;
- the path of transformation of the company's operating model, in line with the renewed focus on all new service development activities, Marketing, Sales and customer management;
- the operating cost efficiency plan also due to the simplification of the infrastructures possible thanks to the positive effects of the Strategic Agreement with Fastweb;
- the definitive signing of repayment plans with the main strategic suppliers aimed at normalizing the level of overdue commercial debt and reconfirming the support of suppliers for the full realization of the objectives of the New 2018-2021 Business Plan.

Financial Statements Criteria

The 2018 Financial Statements constitute the separate financial statements of the Parent Company Tiscali S.p.A. and have been prepared according to the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and harmonized by the European Union, as well as to the provisions implementing Article No. 9 of the Legislative Decree No. 38/2005. The IFRS include also all the International Accounting Standards ("IAS") and all the interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") previously known as Standing Interpretations Committee ("SIC").

The preparation of the Financial Statements requires 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

General principles

The financial statements were prepared in compliance with the IAS/IFRS International Financial Reporting Standards (IFRS). The main accounting standards are detailed below. These standards were applied consistently to all periods presented.

The preparation of financial statements requires 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

Equity investments in subsidiaries and affiliated companies are recognized at cost, adjusted for any permanent impairment.

In application of IAS 36, the value of equity investments recognized 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 recognized initially.

Impairment of Assets (Impairment)

The book value of Equity Investments, Other Intangible Assets and Properties, Plant and Machinery is tested for impairment whenever there is an indication that the asset may have suffered impairment. The assets in question are tested annually or more frequently if there is any indication that those assets have suffered impairment. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the Cash Generating Unit (CGU) to which the asset belongs. The recoverable amount if the greater amount between fair value net of sales costs and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax rate that reflects current market assessments of money time value and the specific risks of the asset.

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

Other financial assets

Other financial assets are valued, consistently with IAS 39 provisions for financial assets 'available for sale', at fair value or alternatively at cost whenever fair value cannot be reliably calculated. Gains and losses from changes in fair value are directly booked to equity until the security is disposed of or is impaired, at which time the cumulative gain or loss previously booked to equity is included in the income statement for the period. The original value is reinstated in the following periods if the reasons for the write-down are considered to no longer apply.

Foreign exchange operations

Transactions in foreign currency are recorded at the exchange rate in force at the time of the transaction.

Monetary assets and liabilities stated in foreign currency are converted at the exchange rate in force at the financial statement reference date. Exchange rate differences generated by the discharge of currency items or by their conversion at rates other than those at their initial recording in the year or at the end of the previous financial year are booked to the income statement.

Loans and receivables

Tiscali S.p.A.'s loans are stated under the "Other 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 amortized 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 the Tiscali S.p.A. 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.

Liabilities due to pensions and employee severance indemnities

The Group has recognized additional benefits through share capital plans (stock option plans) to the director Renato Soru and to some executives with strategic responsibilities. These plans were resolved by the shareholders' meeting in February 2016 with simultaneous delegation 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 at the grant date will be recognized, for accounting purposes as defined by IFRS 2- Share-based payments in the income statement with a balancing entry directly 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.

Recognition of income

Revenues are recognized to the extent that it is probable that financial profits will flow to Tiscali S.p.A. and their amount can be reasonably estimated; they are represented net of discounts, allowances and returns.

Revenues from services rendered are recognized in the income statement using the percentage of completion of the service and only when the result of the service can be reliably estimated.

Financial income and expense

Receivable and payable interest is recognized 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 in the use of estimates

In the process of applying the accounting policies described in the previous section, Tiscali's directors made some significant decisions importance for the recognition of amounts in the financial statements. The Directors' decisions are based on historical experience as well as on expectations associated with the realization of future events, considered reasonable under the circumstances.

The recoverability of the main asset is based on estimates of income and cash flows that the Group believes it will be able to generate in the future. As more fully described in the note "Assessment of 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*".

Accounting estimates and relevant assumptions

Provisions for liabilities and charges

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

Equity investments

Impairment testing, with particular regard to equity investments, is performed annually as indicated previously under "Impairment of assets". The ability of each unit (investment) to produce cash flows sufficient to recover the value recorded in the financial statements is determined on the basis of forecast economic and financial data of the company concerned or any subsidiaries. The processing of such data, as well as the determination of an appropriate discount rate, requires a significant extent, to make estimates.

Determination of Fair Value

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

ACCOUNTING STANDARDS, AMENDMENTS AND IFRS INTERPRETATIONS EFFECTIVE FROM 1 JANUARY 2018

The following amendments have been applied for the first time by the Group starting from 1 January 2018:

- Principle IFRS 15 – Revenue from Contracts with Customers (published on 28 May 2014 and supplemented by further clarifications published on 12 April 2016) which is intended to replace IAS 18 – Revenue and IAS 11 – Construction Contracts, as well as 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 principle establishes a new revenue recognition model, which will apply to all contracts with customers except those that fall within the scope of application of other IAS/IFRS principles such as leases, insurance contracts and financial instruments. The fundamental steps for the accounting of revenues according to the new model follow:

    - The identification of the contract with the customer;
    - The identification of the performance obligations contained in the contract;
    - The determination of the price;
    - The allocation of the price to the performance obligations contained in the contract;
    - The revenue recognition criteria when the entity meets each performance obligation.

  No particular analyses were carried out in Tiscali S.p.A., as the revenues of the holding company mainly relate to the invoicing of services provided by the Company to the operating subsidiary Tiscali Italia S.p.A., including the charges for the license to use the Tiscali brand determined as a percentage of the turnover of the same user company.

- On 24 July 2014, the IASB published the final version of **IFRS 9 – *Financial Instruments: recognition and measurement***. 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 1 January 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 new principle has been applied since 1 January 2018.

Starting from 1 January 2018, the Group changed the credit impairment model from the model required under IAS 39 for incurred losses to the expected credit loss model introduced by the new accounting standard and recognized at the time initial registration of the credit based on historical data or prospective elements. The assessments were carried out on all the categories of receivables identified in the context of the management of trade receivables and did not determine impacts to be considered as adjustments to the valuations already carried out until the end of 31 December 2017.

With regard to the classification of financial assets, no impacts have been identified on the valuation of most financial assets that are managed exclusively through a "hold to collect" business model whose valuation takes place at amortized cost.

With regard to the change introduced by IFRS 9 regarding hedge accounting, the Group does not have explicit or implicit derivative instruments.

- On 20 June 2016, the IASB published the **Amendments to IFRS 2 – "Classification and measurement of share-based payment transactions"** (published on 20 June 2016), 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 have been applied since January 1, 2018. The adoption of this amendment had no effect on the Group's consolidated financial statements.

- On 8 December 2016, the IASB published the document ***"Annual Improvements to IFRSs: 2014-2016 Cycle"*** which partially incorporates the pre-existing principles, 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 has been applied since 1 January 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 has been applied since 1 January 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 has been applied since 1 January 2018.

  The adoption of these amendments had no effect on the Group's consolidated financial statements.

- On December 8, 2016, the IASB published the **IFRIC Interpretation 22 *"Foreign Currency Transactions and Advance Consideration"*.** 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:
    - the date on which the advance payment or down payment received is recorded in the entity's financial statements;
    - 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. The IFRIC 22 has been applied since 1 January 2018. The adoption of this interpretation had no effect on the Group's consolidated financial statements.

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 AT 31 DECEMBER 2018

- IFRS 16 – Leases (published on 13 January 2016), 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. The Directors expect that the application of IFRS 16 no to have a significant impact on on non-current assets, financial debt and net equity of the Company.

- On 12 October 2017, the IASB published the **Amendment to IFRS 9 *"Prepayment Features with Negative Compensation"***. 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, which the Directors do not intend to make. The Directors do not expect a significant effect on the consolidated financial statements of the Group from the adoption of these amendments from 1 January 2019.

- On 7 June 2017, the IASB published the interpretation ***"Uncertainty over Income Tax Treatments (IFRIC Interpretation 23)***. The document deals with the issue of uncertainties on the tax treatment to be adopted in the field of income taxes. In particular, the Interpretation requires an entity to analyze the uncertain tax treatments (individually or as a whole, depending on the characteristics), always assuming that the tax authority examines the tax position in question, having full knowledge of all information relevant. In the event that the entity considers it unlikely that the tax authority will accept the tax treatment followed, the entity shall reflect the effect of the uncertainty in the measurement of its current and deferred income taxes. 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, which the Group does not intend to make. The Directors do not expect a significant effect on the consolidated financial statements of the Group from the adoption of this interpretation.

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 12 October 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 12 December 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. The Directors do not expect a significant effect on the consolidated financial statements of the Group from the adoption of these amendments.

- On 7 February 2018, the IASB published the document **"Plant Amendment, Curtailment or Settlement (Amendments to IAS 19)**". The document clarifies how an entity must recognize a change (i.e. a curtailment or a settlement) of a defined benefit plan. The changes require the entity to update its assumptions and re-measure the liability or net asset arising from the plan. The amendments clarify that after the occurrence of this event, an entity uses updated hypotheses to measure the current service cost and the interests for the rest of the reference period following the event. The directors do not expect a significant effect on the Group's consolidated financial statements from the adoption of these amendments.

- On 22 October 2018, the IASB published the document **"Definition of a Business (Amendments to IFRS 3)"**. The document provides some clarifications regarding the definition of business for the purpose of a correct application of IFRS 3. In particular, the amendment clarifies that, while a business usually produces an output, the presence of an output is not strictly necessary to identify a business in the presence of an integrated set of

activities/processes and assets. However, to meet the definition of a business, an integrated set of activities/processes and assets must include, at a minimum, an input and a substantial process that together contribute significantly to the ability to create output. To this end, the IASB has replaced the term “ability to create an output” with “ability to contribute to the creation of an output” to clarify that a business can exist even without the presence of all the inputs and processes necessary to create an output.
The amendment also introduced a test (“Concentration Test”), optional for the entity, to determine whether a set of activities/processes and assets purchased is not a business. If the test gives a positive result, the set of activities/processes and assets purchased does not constitute a business and the principle does not require further verification. If the test gives a negative outcome, the entity will have to carry out further analyses on the activities/processes and assets purchased to identify the presence of a business. To this end, the amendment has added numerous illustrative examples to IFRS 3, in order to make the practical application of the new definition of business understandable in specific cases.
The amendments apply to all business combinations and acquisitions of assets subsequent to 1 January 2020, but early application is permitted.
Given that this amendment will be applied to the new acquisition transactions that will be concluded starting from 1 January 2020, any effects will be recognized in the consolidated financial statements closed after that date.

- On 31 October 2018, the IASB published the document **“Definition of Material (Amendments to IAS 1 and IAS 8)”**. The document introduced a change in the definition of “relevant” contained in IAS 1 – Presentation of Financial Statements and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors. The purpose of this amendment is to make the definition of “relevant” more specific and to introduce the concept of “obscured information” alongside the concepts of omitted or incorrect information already present in the two principles being amended. The amendment clarifies that an information is “obscured” if it has been described in such a way as to produce an effect similar to the one that would have been produced if this information had been omitted or incorrect for primary readers of a financial statement.
  The Directors do not expect a significant effect on the consolidated financial statements of the Group from the adoption of this amendment.

- On 11 September 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 or 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.

Explanatory Notes

Revenues and other income (Note 1)

Operating Revenues are represented by:

Revenues	2018	2017
(EUR 000)		
Revenues from services provided to Group companies	4,585	6,671
Revenues from services to third parties	67	97
Revenue	**4,652**	**6,768**
Other income	4	-
Other income	**4**	-
Total	**4,656**	**6,768**

Revenues from services provided to Group companies mainly refer to the invoicing of services provided by the Company in favor of the operating subsidiary Tiscali Italia S.p.A., including the charges for the license to use the Tiscali trademark calculated as a percentage of the sales revenue of the company using said trademark. Revenues from services to foreign third parties pertain to licenses for the use of domains.

Revenues by geographical area	2018	2017
(EUR 000)		
Revenues from services provided to Group companies	**4,585**	**6,671**
- *Italy*	4,585	6,671
Revenues from services to third parties	**67**	**97**
- *South Africa*	40	43
- *The Netherlands*	24	24
- *Czech Republic*	(2)	0
- *Italy*	6	29
Total	**4,652**	**6,768**

Purchase of materials and outsourced services (Note 2)

	2018	2017
EUR 000		
Purchase of materials and outsourced services	2,814	2,650
Total	**2,814**	**2,650**

Costs for the purchase of materials and outsourced services, net of the benefits of renegotiation of contracts with suppliers, include costs for external management consultancy services for EUR 0.8 million, retributions to the Board of Directors for EUR 1.4 million, other costs for external services for EUR 0.6 million. As compared to FY 2017, the less positive effect of renegotiation of contracts with suppliers was recorded (EUR 4.6 million in 2018, against EUR 4.8 million in 2017).

Payroll costs (Note 3)

Payroll and related costs are stated in detail as follows:

(EUR 000)	2018	2017
Wages and Salaries	757	1,061
Other Payroll costs	536	432
Total	**1,293**	**1,494**

The reduction of payroll costs as compared to the previous FY is equal to EUR 0.2 million, and is due to the reduction of the number of units of managerial staff.

As at 31 December 2018, the number of FTE units amounted to 4. The breakdown by category and the corresponding balance as at 31 December 2018 and 2017, follow:

	31 december 2018	31 december 2017
Managers	4	5
Middle Managers		
Employees		
Total	**4**	**5**

Other operating income/ (costs) (note 4)

The table below shows a breakdown of these costs:

(EUR 000)	2018	2017
Other operating income (costs)	37	(200)
Total	**37**	**(200)**

The item mainly includes excerpts of liabilities from previous years of about EUR 37 thousand.

Write-downs of receivables and other write-downs (Note 5)

(EUR 000)	2018	2017
Write-down of trade receivables	110	172
Restructuring costs and other write-downs	130	1,184
Devaluation of investments in Group companies	-	79,000
Totale	**240**	**80,357**

The item *Write-down of receivables* refers to the alignment of the allowance for doubtful accounts to the value of the total receivable due from the affiliates.

The item *Restructuring costs and other write-downs* covers for EUR 0.13 million the personnel restructuring costs.

The item Impairment of equity investments in Group companies as at 31 December 2017 included the write-down of the equity investment of Tiscali Italia Spa, which was necessary following the impairment test carried out as at 31 December 2017.

Financial income (charge) (Note 6)

	2018	2017
(EUR 000)		
Financial Charges		
Interests and other charges due to banks	(2)	(805)
Other financial charges	(3)	(6,861)
	(5)	**(7,666)**
Net financial income (charges)	**(5)**	**(7,666)**

Net financial charges for EUR 5 thousand refer to deferred liabilities. As at 31 December 2017, this item included the portion of interest accrued on the convertible bond loan subscribed on 7 September 2016 for Euro 0.8 million, the notional charges deriving from the conversion of the Rigensis-Otkritie bond loan which took place on 15 December 2017 for 6.7 million euros, in addition to default interest for late payment of tax payables and payables to suppliers for EUR 0.2 million.

Income Tax (Note 7)

	2018	2017
(EUR 000)		
Current tax	129	43
Tax (income from tax consolidation)	(1)	(74)
Net tax for the FY	**127**	**(31)**

The balance of current taxes includes the IRAP (Regional Tax on Production Activities) for the year amounting to EUR 38 thousand, tax deriving from pacification procedures pursuant to Law 1No. 19/2018 for EUR 82 thousand, in addition to other taxes related to the previous years for an amount of EUR 8 thousands.

Result of the assets transferred and/or held for sale (Note 8)

The net result of the assets sold is zero.

Equity Investment (Note 9)

As at 31 December 2018, this item included equity investments in subsidiaries totaling EUR 115.1 million.

SUBSIDIARIES	31 december 2018			31 december 2017		
(EUR 000)	*Cost*	*valuation / (Devaluatic*	*Boook value*	*Cost*	*aluation / (Devalua*	*Boook value*
Tiscali Italia S.p.A.	71,123	0	71,123	150,123	(79,000)	71,123
World Online International N.V.	1,811,994	(1,811,994)	-	1,811,994	(1,811,994)	-
Tiscali Uk Holdings Ltd	1	(1)	-	1	-	1
Aria Italia S.p.A.	43,961	0	43,961	26,370	17,591	43,961
	1,927,080	**(1,811,995)**	**115,085**	**1,988,489**	**(1,873,403)**	**115,086**

It should be noted that on 9 October 2018 the subsidiary Tiscali UK Holdings has been formally liquidated.

The table below summarizes changes occurred in the FY:

SUBSIDIARIES (EUR 000)	Balance 31 december 2017	Increases	(Disposals)	Revaluation / (Devaluation)	Other changes	Balance 31 december 2018
Tiscali Italia S.p.A.	71,123	-	0	-	-	71,123
World Online International N.V.	-	-	-	-	-	-
Tiscali Uk Holdings Ltd	1	-	-	(1)	-	-
Aria Italia S.p.A.	43,961	-	-	-	-	43,961
	115,086	**-**	**- -**	**1**	**-**	**115,085**

<u>Comparison between the carrying amount of the carrying amount and the related carrying amount of the investments</u>

Registered Offices	Share Capital	Shareholders' equity	Result	% Held	Book value	Difference between book value and net equity
Cagliari	18,794	(26,917)	(40,485)	100%	71,123	98,041
Maarsen (NL)	115,519	-	-	100%	-	-
Londra	-	(0)	10	100%	-	0
Roma	15,583	147,950	123,659	100%	43,961	- 103,988
		121,032			**115,085**	**(5,948)**

Impairment Test

As described in paragraph 5.5 of this Annual Financial Report 2018, on 16 November 2018 the Tiscali Group signed a Strategic Agreement with Fastweb for the sale by Aria S.p.A. (subsidiary holding the license) of the 42 MHz license in the 3.5 GHz frequency, together with the sale by Tiscali Italia S.p.A.

of the FWA (Fixed Wireless Access) company branch and a wholesale agreement that allowed the Tiscali group to gain full access to the Fastweb Fiber network infrastructure and to the FWA infrastructure sold to Fastweb.

As a result of the aforementioned agreement, Aria S.p.A. has devalued and sold to Tiscali Italia (for EUR 100 thousand) the FWA license infrastructure.

Once the aforementioned transactions have been completed, Aria S.p.A is essentially an inactive company, as it no longer has operating activities or a significant number of customers (the remaining customers as of 31 December 2018 will be transferred to Tiscali Italia SpA in the coming months).

Consequently, the 2018-2021 Business Plan and the related financial flows include the hypothesis that Aria SpA will be incorporated into Tiscali Italia SpA. The two companies have already started the preparatory activities for the merger in 2018 and the merger will be carried out from a point of legal view by 2019. The administrative bodies of the two companies, in fact, conferred the powers on dr. Alex Kossuta to complete the process by 2019.

Considering the above, and considering that Aria and Tiscali Italia are part of the same CGU, the impairment test of Tiscali S.p.A. was carried out jointly considering the flows of Tiscali Italia S.p.A and Aria S.p.A .

The Equity Value was calculated considering the two companies as a whole and was compared with the book value of the investments in both companies recorded in the books of Tiscali S.p.A. (which amounts to EUR 115.1 million).

The impairment test carried out on the investments in Tiscali Italia S.p.A. and Aria S.p.A pointed out that the equity value of Tiscali Italia S.p.A. and Aria S.p.A is higher than the book value of the investments.

The sensitivity analysis carried out on the WACC and the long-term growth rate (+/- 0.5% as compared to the reference parameters) does not reveal the need to make any write-down of investments in subsidiaries.

Other non-current financial assets (Note 10)

	31 december 2018	31 december 2017
(EUR 000)		
Receivables from other comp:	78,241	21,498
Other Receivables	-	-
Total	**78,241**	**21,498**

Other Non-Current Financial Assets include financial receivables from Group companies amounting to

EUR 78.2 million.

The financial receivables from Group companies are detailed as follows:

	31 december 2018	31 december 2017
(EUR 000)		
Tiscali Financial Services Sa	3,511	3,506
Tiscali International BV	516	516
Tiscali Italia S.p.A.	51,563	9,736
Aria S.p.A.	21,735	6,993
Veesible S.r.l.	916	746
Total	**78,241**	**21,498**

It should be noted that the increase towards the subsidiary Tiscali Italia S.p.A. amounts to EUR 41.8 million, of which EUR 38.3 million attributable to items of a financial nature due to cash requirements. The increase towards the subsidiary Aria S.p.A. amounts to EUR 14.7 million and concerns the transactions connected with the centralized treasury contract for EUR 0.8 million and the transfer of VAT positions for EUR 13.9 million.

It should be noted that the recoverability of these receivables is assessed taking into consideration the presence of higher amounts due to the same subjects.

Trade Receivables (Note 11)

	31 december 2018	31 december 2017
(EUR 000)		
Receivables from Customers	13,708	10,201
of which:		
towards Group companies	*13,202*	*9,571*
towards third parties	*506*	*630*
Allowance for doubtful accounts	(475)	(500)
Total	**13,233**	**9,701**

it should be noted that bad debt provision refers to receivables due from Best Engineering S.p.A, a company that was previously included in the scope of consolidation.

The breakdown of Trade Receivables by maturity follows:

	31 december 2018	31 december 2017
(EUR 000)		
Within 12 months	13,167	9,592
Between 1 – 5 years	66	109
Beyond 5 years	-	-
Total	**13,233**	**9,701**

The book value of trade receivables is approximate to their fair value

Receivables from customers of Tiscali S.p.A. related to intercompany positions are summarized in detail in the following table:

	31 december 2018	31 december 2017
(EUR 000)		
Tiscali Italia S.p.A.	11,174	9,536
Aria S.p.A.	1,995	-
Veesible S.r.l.	33	35
Total	**13,202**	**9,571**

Other Receivables and Other Current Assets (Note 12)

	31 december 2018	31 december 2017
(EUR 000)		
Other Receivables	463	2,014
Prepaid Expenses	191	187
Total	**654**	**2,201**

The item Other receivables mainly includes receivables from the tax authorities for IRES of EUR 0.2 million and other taxes of EUR 0.2 million.

The change as compared to the previous FY is mainly attributable to VAT receivables, which as at 31 December 2017 amounted to EUR 1.5 million.

Liquid Assets (Note 13)

At the end of FY 2018, 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 Management's' Report for a detailed analysis of the financial positionas, well as to what is reported in the financial statement.

Shareholders' Equity (Note 14)

	31 december 2018	31 december 2017
(EUR 000)		
Share capital	43,065	121,507
Legal reserve	-	91
Stock option reserve	(13)	2,010
Other reserves	0	4,988
Result from previous fiscal years	0	(349)
Result for the fiscal year	140	(85,221)
Total	**43,192**	**43,026**

Changes in the shareholders' equity items are detailed in the relevant table, to which reference should be made.

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 at 31 December last year. It should be noted that the Shareholders' Equity of the parent company Tiscali S.p.A. as at 31 December 2017 amounted to EUR 43 million. On that date, the Company therefore paid, as per Article No. 2446 of the Civil Code.

The Shareholders' Meeting called to approve the financial statements as at 31 December 2017 therefore resolved:

1) to cover the cumulative losses as at 31 December 2017, equal to EUR 85,570,355.94, limited to the amount of EUR 7,128,409.25 by means of full use of the Other Reserves, which have therefore been written off (with the sole exception of the IAS 19 reserve, equal to negative EUR 39,016.26);

2) to cover the residual part of the losses, equal to EUR 78,441,946.69, by reducing the share capital by EUR 78.441.946.69, with a consequent reduction of the share capital from EUR 121.507.322.89 to EUR 43.065.376,20;

The item *Other Reserves* includes the Stock Option Reserve, equal to a negative EUR 13.5 thousand. As mentioned in point 1), the Stock Options Reserve was zeroed following the reduction of the share capital approved by the Shareholders' Meeting.
However, since the stock option reserve is unavailable to the Company (since this is a reserve set up for the benefit of the Shareholders owning the rights in question), the Company has decided to restore the opening value as at 1 January 2018 of the reserve (equal to to EUR 2,010 thousand), with a corresponding reduction in the share capital by the same amount. The transaction was completed in 2019. Following this transaction, the share capital amounted to EUR 41,055,159.31, while the stock option reserve will amount to EUR 2 million.
At the end of the FY, Tiscali S.p.A. recorded a positive result of EUR 140 thousand. 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	
	Amount	Utilisation options	Available share	Distributable share with no tax effect	Distributable share with tax effect	Loss coverage	Other
Share Capital	43,065	B	-	-	-	148,649	7,669
Stock Option Reserve	(13)						
Fiscal Year's Losses	140		-	-	-	-	-
Total	**43,192**		**-**	**-**	**-**	**148,649**	**7,669**

Utilization options _Key:

A For share capital increases

B For loss coverage

C For distribution to shareholders

Other Non-Current Liabilities (Note 15)

	31 december 2018	31 december 2017
(EUR 000)		
Payables to Group companies	143,398	94,394
Other Payables	363	822
Total	**143,761**	**95,216**

The item *Other Debts* includes long-term fiscal liabilities.

The balance of Other Non-Current Liabilities primarily concerns financial payables to group companies totaling EUR 142.9 million, detailed in the following table:

	31 december 2018	31 december 2017
(EUR 000)		
Tiscali Financial Services SA	3,511	3,506
Tiscali Italia S.p.A.	87,547	78,300
Aria S.p.A.	46,022	4,653
Tiscali International BV	516	516
Tiscali International Network BV	25	26
Indoona Srl	-	4
Veesible S.r.l.	5,776	7,390
Total	**143,398**	**94,394**

The breakdown of Other non-current liabilities by maturity follows:

	31 december 2018	31 december 2017
(EUR 000)		
Within 12 months	-	-
Between 1 and 5 years	143,761	95,216
Beyond 5 years	-	-
Total	**143,761**	**95,216**

These financial payables are recorded under non-current financial liabilities and their repayment is expected to occur in the medium term through the use of dividend flows from the subsidiaries and through the compensation of the respective credit positions held against them.

Provisions for Liabilities and Charges (Note 16)

The table below shows the changes during the period:

	31 december 2017	Increases	Decreases	Other changes	31 december 2018
(EUR 000)					
Other Provisions for Risks and Charges	325	0	(241)	(70)	13
Total	**325**	**-**	**(241)**	**(70)**	**13**

Payables to suppliers (Note 17)

	31 december 2018	31 december 2017
(EUR 000)		
Trade Payables to Third Parties	5,241	4,473
Trade Payables to Group companies for materials and services	364	549
Total	**5,604**	**5,023**

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 follow:

	31 december 2018	31 december 2017
(EUR 000)		
Tiscali Italia S.p.A.	363	549
Total	**363**	**549**

Other Current Liabilities (Note 20)

(EUR 000)	31 december 2018	31 december 2017
Deferred Income	60	3
Other Payables	14,741	5,139
Total	**14,801**	**5,142**

Other Payables is essentially represented by VAT payables for EUR 12 million, tax, social security and welfare institutions payables, for EUR 1.8 million; by payables to executives amounting to EUR 0.6 million; by payables to employees amounting to EUR 0.1 million, other payables for EUR 0.3 million.

The increase compared to December 31, 2017 is primarily related to the VAT debt, which is zero at December 31, 2017.

Guarantees Pledged and Commitments (Note 21)

Guarantees pledged are detailed as follows:

(EUR 000)	31 december 2018	31 december 2017
Guarantees (Sureties) Pledged to Third Parties	157,904	161,592
Commitments	1,600	1,600
Total	**159,504**	**163,192**

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 S.p.A. to guarantee the amount of the loan associated with the Sale & Lease Back transaction on the Sa Illetta property, for an amount of EUR 532 million, carried out by the subsidiary Tiscali Italia S.p.A.

The remaining EUR 19.6 million are related to guarantees pledged by the Parent Company for credit and leasing lines to the subsidiaries Tiscali Italia S.p.A. 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 S.p.A.

Net Financial Position (Note 23)

In compliance with the provisions of the CONSOB Communication No. DEM/6064293 dated 28 July 2006, it is pointed out the net financial position as of 31 December 2017 and 2018 is summarized in the following table, drafted on the basis of the format described by the CESR Recommendation dated

10 February 2005, “Recommendations for the consistent implementation of the European Commission’s Regulation on Statements:

Financial Situation	31 december 2018	31 december 2017
(Thousands of Euro)		
A. Cash and Bank deposits	158	247
B. Other cash equivalents	-	-
C. Securities held for trading	-	-
D. Liquidity (A) + (B) + (C)	***158***	***247***
E. Current loan receivables	-	-
F. Non-current financial receivables	**78,241**	**21,498**
	-	-
G. Current bank payables	-	-
H. Current accounting of bonds issued	-	-
I. Current accounting of non-current debts	-	-
J. Other current financial debts	-	-
K. Current financial debt (G) + (H) + (I)+(J)	-	-
L. Net current financial debt (K)-(D)-(E)-(F)	**(78,398)**	***(21,745)***
M. Non-current bank Loans	-	-
N. Bonds issued	-	-
O. Other non-current intercompany debt	143,398	94,394
P. Other non-current intercompany debt	-	-
Q. Non-current financial debt (M)+(N)+(O)+ (P)	**143,398**	**94,394**
R. Net Financial Debt (L)+(Q)	**64,999**	**72,648**

Note: For comparative purposes with the net financial position as at December 31, 2018, the net financial position as at December 31, 2017 was restated not considering, in the item “E. Current financial receivables”, financial receivables from Group companies.

Financial Risk Management

<u>Financial risk management objectives</u>

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 analyze 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 FY 2018, Tiscali S.p.A. had a number of dealings with related parties which, mainly, refer to intergroup relationships and towards Directors.

These were transactions regulated by market conditions; the table below summarizes the balance sheet and income statement values recorded in the Parent Company's financial statements as of 31 December 2018, arising from transactions with related parties.

The effects on the income statement follow:

Consolidated income Statement	2018	of which related parties	%
(Eur)			
Revenue	4,652	4,585	99%
Other income	4		
Purchase of external materials and services	(2,814)	(1,789)	64%
Staffing costs	(1,293)	(751)	58%
Other operating income/ (costs)	(37)		
Write-down of receivables	(110)		
Restructuring costs and other write-downs	(130)		
Operating profit	**272**	**2,045**	
Financial Expenses	(5)		
Earning before tax	**267**	**2,045**	
Income taxes	- 127		
Result from operating activities (on-going)	**140**	**2,045**	
Income from discontinued operations and / or targeted foı	-	-	
Net profit	**140**	**2,045**	

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**	
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 foı	(54)		
Net profit	**(85,221)**	**3,050**	

The effects on the balance sheet follow:

Balance Sheet	31 december 2018	of which related parties	%
(million Euro)			
Non-current assets	193,326	78,241	40.47%
Current assets	14,045	13,202	94.00%
Total Assets	**207,370**	**91,443**	
Shareholders' equity	43,192	(13)	(0.00)
Total Net Equity	**43,192**	**(13)**	
Non-current liabilities	143,774	143,398	99.74%
Current liabilities	20,405	1,096	5.37%
Total Net equity and Liabilities	**207,370**	**144,480**	

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	95,541	94,394	98.80%
Current liabilities	10,165	-	0.00%
Total Net equity and Liabilities	**148,732**	**96,404**	

The most significant balances, as at 31 December 2018, summarized by service supplier, follow:

INCOME STATEMENT VALUES		31 december 2018			
migliaia €		Cost	Devaluation	Interest income (expense)	Revenues
Tiscali Italia S.p.A.	1	(170)	0	0	4,585
Veesible S.r.l.	1	(0)	0	0	0
Aria S.p.A.	1	0	-	-	1,995
		0	0	0	0
Total Group companies		**(170)**	**0**	**0**	**6,580**
Other Related Parties					
Board of Directors' Remuneration		(1,375)	0	0	0
Strategic Executives' Remuneration		(1,008)	-	0	0
Stock Option		13	-	0	0
Other Related Parties		**(2,370)**	**0**	**0**	**0**
Total Group Companies and other Related Parties		**(2,540)**	**0**	**0**	**6,580**

(1) Companies of the Group

BALANCE SHEET VALUES *EUR 000*	Note	31 dicember 2018							
		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 Financial Services Sa	1	-	3,511	-	-	3,511	-	-	-
Tiscali International BV	1	-	516	-	516	#RIF!	-	-	-
Tiscali International Network E	1	-	-	-	-	25	-	-	-
Tiscali Italia S.p.A.	1	11,174	51,563	363	-	87,547	-	-	-
Indoona S.r.l.	1	-	-	-	-	-	-	-	-
Veesible S.r.l.	1	33	916	0	-	5,776	-	-	-
Aria S.p.A.	1	1,995	21,735	-	-	46,022	-	-	-
Total Group Companies		**13,202**	**78,241**	**363**	-	**143,398**	-	-	-
Other Related Parties									
Receivables deriving from the Istella sale			72						
Board of Directors' Remuneration		-	-	-	-	-	-	628	-
Strategic Executives' Remuneration		-	-	53	-	-	51	-	-
Stock Option		-	-	-	-	-	-	-	- 13
Other Related Parties		-	**72**	**53**	-	-	**51**	**628**	- **13**
Total Group Companies and other Related Parties		**13,202**	**78,313**	**416**	-	**143,398**	**51**	**628**	- **13**

(1) Companies of the Group

Disputes, contingent liabilities and commitments

The following is a summary of the main proceedings in which Tiscali S.p.a. is involved.

Criminal proceedings

In September 2013, Tiscali Spa received from the Public Prosecutor's Office at the Court of Cagliari, pursuant to Legislative Decree 231/2001, a notice of conclusion of preliminary investigations for alleged conduct of false corporate communications relating to the financial statements from 2008 to 2012. The subsidiary Tiscali Italia received the same notice in January 2014. The alleged offense to the companies and some Directors, framed in art. 2622 cod. Civ., refers to alleged erroneous accounting entries for allocations to the provision for bad debts. In June 2016, at the outcome of the preliminary hearing, the two companies were indicted, as well as the defendants. The trial phase began in October 2016 and is still ongoing. At the date of this Report, the trial is in progress, with the examination of the various texts and based on the most recent opinion of the lawyers representing Tiscali Italia, the evolution of the dispute and the outcome of the same are not predictable.

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:

Board of directors in office from 1 January 2018 to 26 June 2018

Name and Surname	Position	Term of Office	Remuneration for the Position	Remuneration for the committees	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	72,329	0	0	0	72,329
Riccardo Ruggiero	CEO	In office from 16 Feb 2016 to the approval of the financial statements as of 31 Dec 2017	355,911	0	4,817	0	360,728
Franco Grimaldi	Director	In office from 16 Feb 2016 to the approval of the financial statements as of 31 Dec 2017	25,216	2,080	0	412	27,709
Paola De Martini	Director	In office from 16 Feb 2016 to the approval of the financial statements as of 31 Dec 2017	24,247	2,500	0	12,928	39,674
Anna Belova	Director	In office from 16 Feb 2016 to the approval of the financial statements as of 31 Dec 2017	24,247	2,500	0	344	27,091
Dmitry Gavrilin	Director	In office from 24 Feb 2017 to the approval of the financial statements as of 31 Dec 2017	24,247	1,000	0	0	25,247
Sergey Sukhanov	Director	In office from 24 Feb 2017 to the approval of the financial statements as of 31 Dec 2017	24,247	1,000	0	0	25,247
Renato Soru	Director	In office from 16 Feb 2016 to the approval of the financial statements as of 31 Dec 2017	24,444	0	0	146,955	171,399
Alice Soru	Director	In office from 16 Feb 2016 to the approval of the financial statements as of 31 Dec 2017	24,247	0	0	0	24,247
Totale							**773,670**

Board of Directors in office from 26 June 2018 to 31 December 2018

Name and Surname	Position	Term of Office	Remuneration for the Position	Remuneration for the committees	Non-monetary benefits	Other forms of Remuneration	Total EUR
Board of Directors							
Okun Alexander	Chairman	In office from 26 Jun 2018 to the approval of the financial statements as of 31 Dec 2020	51,781	0	0	3,121	54,902
Alex Kossuta	CEO	In office from 26 Jun 2018 to the approval of the financial statements as of 31 Dec 2020	286,000	0	0	101,597	387,597
Paola De Martini	Director	In office from 26 Jun 2018 to the approval of the financial statements as of 31 Dec 2020	25,753	2,000	0	12,877	40,630
Anna Belova	Director	In office from 26 Jun 2018 to the approval of the financial statements as of 31 Dec 2020	25,753	2,000	0	499	28,252
Alina Sychova	Director	In office from 26 Jun 2018 to the approval of the financial statements as of 31 Dec 2020	25,890	500	0	0	26,390
Oleg Anikin	Director	In office from 26 Jun 2018 to the approval of the financial statements as of 31 Dec 2020	25,890	1,000	0	0	26,890
Renato Soru	Director	In office from 26 Jun 2018 to the approval of the financial statements as of 31 Dec 2020	25,556	0	7,846	3,411	36,813
Totale							**601,475**

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.

Board of Auditors in office from 1 January 2018 to 26 June 2018

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	22,880	0	536	23,416
Emilio Abruzzese	Standing Statutory Auditor	In office from 16 Feb 2016 to the approval of the financial statements as of 31 Dec 2017	17,652	0	1,437	19,089
Valeria Calabi	Standing Statutory Auditor	In office from 16 Feb 2016 to the approval of the financial statements as of 31 Dec 2017	17,652	0	0	17,652
Totale						**60,156**

Board of Auditors in office from 26 June 2018 to 31 December 2018

Name and Surname	Position	Term of Office	Remuneration for the Position	Non-monetary benefits	Other forms of Remuneration	Total EUR
Statutory Auditors						
Barbara Tadolini	Chairman	In office from 26 Jun 2018 to the approval of the financial statements as of 31 Dec 2020	24,105	0	0	24,105
Emilio Abruzzese	Standing Statutory Auditor	In office from 26 Jun 2018 to the approval of the financial statements as of 31 Dec 2020	18,748	0	549	19,298
Valeria Calabi	Standing Statutory Auditor	In office from 26 Jun 2018 to the approval of the financial statements as of 31 Dec 2020	18,748	0	0	18,748
Totale						**62,151**

It should also be noted that the total cost incurred in FY 2018 for the retribution to executives with strategic responsibility amounts to about EUR 1.3 million. This charge includes, among others, the contribution by the Group to public and corporate pension funds for EUR 0.3 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 2018 for auditing services and those for other services provided by the independent auditing firm:

Type of Service	Party providing the Service	Beneficiary	Remuneration EUR
(EUR/1000)			
Financial Audit	Deloitte & Touche SPA	Parent Company – Tiscali S.p.A.	232
Other professional Services required by law	Deloitte&Touche SPA	Parent Company – Tiscali S.p.A.	120
Other Professional Services	Deloitte & Touche SPA	Parent Company – Tiscali S.p.A.	-
Total			352

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, Alex Kossuta in his capacity of Chief Executive Officer, and Daniele Renna, in his capacity of the Officer in charge of Preparing the Company's Accounting Documents of Tiscali S.p.A., 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 2018.

Tiscali S.p.A. 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 at 31 December 2018:

- 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, 29 March 2019

The Chief Executive Officer

Alex Kossuta

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

Daniele Renna

9 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 "interconnection 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 computerized 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.
Fiber Optic	Thin fibers of glass, silicon or plastic that form the basis of a data transmission infrastructure. A fiber optic cable contains various individual fibers, 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 fiber 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 fiber 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 organizations.

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 fiber 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 fiber-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 center.
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 centers 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 realized 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 unauthorized 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.

10 Reports