

**Tiscali S.p.A.**  
**Report on operating performance, 1<sup>st</sup> quarter 2000**

Rapid growth in the domestic market and expansion abroad continued in the first quarter of the current financial year. The development strategy of Tiscali activities in Europe, which began at the end of 1999 with the acquisition of Nets SA, took shape with the increases of share capital approved by the extraordinary shareholders' meetings of 15 March and 17 April 2000.

The **Internet service**, in the 1<sup>st</sup> quarter, reached 1,500,000 subscribers, with a 70% increase on the figure at 31 December 1999. In conjunction, traffic generated by connections to the Tiscali POP also showed a sharp upward trend, totalling 1,168 million minutes, with a 74% increase over the previous quarter. Revenues from this service as at 31 March 2000 were ITL 22,125 million against ITL 116 million which accrued in the first quarter of 1999 (at which time the *Tiscali FreeNet* service was not yet in place) and against ITL 12,142 million of the last quarter of 1999. The incidence of Internet service revenues on overall revenues maintained its upward trend, going from 38.7% as at 31 December 1999 (2.5% as at 31 March 1999), to 50.5% in the first quarter of the year 2000.

**Voice services**, during the 1<sup>st</sup> quarter 2000, also confirmed the growing trend recorded in 1999; this is linked to the expansion of the service to cover the whole of Italy; revenues, equal to ITL 21,641 million, are currently 49.4 % of overall revenues.

<b>Profit and Loss Statement (ITL million)</b>	<b>31/03/00</b>	<b>31/12/99</b>	<b>31/03/99</b>
	<b>( 3 months)</b>	<b>(12 months)</b>	<b>( 3 months)</b>
Revenues from sales and services rendered	43,816	63,368	4,687
Other revenues and income	107	143	74
<b>Value of production</b>	<b>43,923</b>	<b>63,511</b>	<b>4,761</b>
Purchase of raw materials, supplies, consumables and goods	(628)	(5,051)	(140)
Changes in inventories	(754)	1,652	(72)
Costs for services and other running expenses	(41,474)	(66,216)	(4,791)
Personnel costs	(3,376)	(6,429)	(696)
Other operating expenses	(390)	(891)	(73)
<b>Gross operating margin</b>	<b>(2,699)</b>	<b>(13,424)</b>	<b>(1,011)</b>
Depreciation, amortization and writedowns	(2,772)	(5,092)	(430)
Provisions (Credit devaluation and exchange risk fund)	(1,122)	(572)	(28)
<b>Operating margin</b>	<b>(6,593)</b>	<b>(19,088)</b>	<b>(1,469)</b>
Extraordinary income and charges	(3,439)	(101)	(4)
Financial income and charges	481	710	(4)
<b>Gross result before taxes</b>	<b>(9,551)</b>	<b>(18,479)</b>	<b>(1,477)</b>

The overall amount of **expenses for the purchase of services and other operating expenses**, of ITL 41,474 million, corresponds to 94.4% of total revenues, with a percent value that is clearly lower than the values recorded at 31 December 1999 (104.3%) and 31 March 1999 (100.6%).

The main components of this account are expenses for Line rentals, amounting to 32.4% of the total and expenses for Purchase of traffic, which are 35% of total expenses.

Expenses borne for Lease payments, which grew by 14%, total ITL 2,944 million and are 7.1% of total expenses, while they were 3.9% as at 31 December 99 (0.9% as at 31 March 1999). This increase is to be attributed mainly to the execution of contracts which were drawn up at the closure of the previous financial year.

Personnel costs went from 6,429 million as at 31 December 1999 to 3,376 million as at 31 March 2000. While recording a considerable increase, this cost item has decreased in percentage terms with respect to the volume of revenues, passing from 10.1 % as at 31 December '99 to 7.7% as at 31 March 2000. The number of employees grew from 243 units as at 31 December 1999 to 376 units as at 31 March 2000.

**Gross operating margin**, which amounts to -2,699 million ITL, has improved considerably in terms of its percent incidence on the total volume of revenues; indeed, it went from 21.2% as at 31 March 1999 and 21.1 % as at 31 December 1999 to 6.1% at 31 March 2000. This improvement is mainly due to the start-up of the optimization process in network use.

**Revenues for the first quarter of 2000 compared with revenues as at 31.12.1999:**

Million ITL	31/03/00 ( 3 months )	31/12/99 ( 12 months )	31/03/99 ( 3 months )
<b>Internet service</b>			
TiscaliFreeNet	20,373	23,714	-
TiscaliNet	-	-	94
Other Internet revenues	1,752	823	22
	<b>22,125</b>	<b>24,537</b>	<b>116</b>
<b>Voice services</b>			
Prepaid products:			
Tiscali 10030, Ricaricasa, telephone cards	10,607	15,006	3,577
Postpaid products:			
Tiscali business	11,034	23,674	994
	<b>21,641</b>	<b>38,680</b>	<b>4,571</b>
<b>Other revenues</b>	50	151	-
<b>Total revenues from sales</b>	<b>43,816</b>	<b>63,368</b>	<b>4,687</b>

### **Net financial result as at 31 March 2000**

<b>Million ITL</b>	<b>31/03/00</b>	<b>31/12/99</b>	<b>31/03/99</b>
	<b>( 3 months )</b>	<b>( 12 months )</b>	<b>( 3 months )</b>
Short-term payables to banks	(1,697)	-	(2)
Cash and cash equivalents	53,524	193,763	508
	<b>51,827</b>	<b>193,763</b>	<b>506</b>

The net financial situation as at 31 March 2000 showed a positive balance of ITL 51,827 million. This increase, which was already evident at 31 December 1999, is to be attributed to the remittances resulting from subscriptions to the increase in capital, which took place in October 1999, following the placement of Company shares on "Nuovo Mercato". On the other hand, the decrease with respect to the values recorded at 31 December 1999 is mainly due to the expansion policy in other countries carried out in the first quarter 2000.

Results are summarised below in Million Euro.

### **Tiscali S.p.A. - Data for the 1<sup>st</sup> quarter 2000 in million Euro**

<b>Profit and Loss statement (million Euro)</b>	<b>31/03/00 ( 3 months )</b>	<b>31/12/99 (12 months)</b>	<b>31/03/99 (3 months)</b>
Revenues from sales and services rendered	22.63	32.73	2.42
Other revenues and income	0.06	0.07	0.04
<b>Value of production</b>	<b>22.68</b>	<b>32.80</b>	<b>2.46</b>
Purchase of raw materials, supplies and consumables	-0.32	-2.61	-0.07
Changes in inventories	-0.39	0.85	-0.04
Expenses for services and other running expenses	-21.42	-34.20	-2.47
Expenses for personnel	-1.74	-3.32	-0.36
Other operating expenses	-0.20	-0.46	-0.04
<b>Gross operating margin</b>	<b>-1.39</b>	<b>-6.93</b>	<b>-0.52</b>
Depreciation, amortization and writedowns	-1.43	-2.63	-0.22
Provisions (Credit devaluation and exchange risk fund)	-0.58	-0.30	-0.01
<b>Operating margin</b>	<b>-3.41</b>	<b>-9.86</b>	<b>-0.76</b>
Extraordinary income and charges	-1.78	-0.05	-0.00
Financial income and charges	0.25	0.37	-0.00
<b>Gross result before taxes</b>	<b>-4.93</b>	<b>-9.54</b>	<b>-0.76</b>

**Revenues of 1<sup>st</sup> quarter 2000 and as at 31 Dec 1999:**

Million Euro	31/03/00 ( 3 months )	31/12/99 ( 12 months )	31/03/99 ( 3 months )
<b>Internet Service</b>			
TiscaliFreeNet	10.52	12.25	0.00
TiscaliNet	0.00	0.00	0.05
Other Internet Revenues	0.91	0.43	0.01
	<b>11.43</b>	<b>12.67</b>	<b>0.06</b>
<b>Voice services</b>			
Prepaid products:			
Tiscali 10030, Ricaricasa, telephone cards	5.48	7.75	1.85
Postpaid products:			
Tiscali Business	5.70	12.23	0.51
	<b>11.18</b>	<b>19.98</b>	<b>2.36</b>
<b>Other revenues</b>	0.03	0.08	-
<b>Total revenues from sales</b>	<b>22.63</b>	<b>32.73</b>	<b>2.42</b>

**Net financial result as at 31 March 2000**

Million Euro	31/03/00 ( 3 months )	31/12/99 ( 12 months )	31/03/99 ( 3 months )
Short-term payables to banks	-0.88	-	-
Cash and cash equivalents	27.64	100.07	0.26
	<b>26.77</b>	<b>100.07</b>	<b>0.26</b>