Tiscali

(Incorporated with limited liability in the Republic of Italy)

Combined Offering of 3,040,000 Shares

(Lit. 100 nominal value per Share)

3,040,000 ordinary shares of Lit. 100 nominal value each (each ordinary share, a ''Share'' which expression shall, where the context permits, include the additional Shares to cover over-allotments, if any) of Tiscali S.p.A. (''Tiscali'' or the ''Company'') are being offered for sale by Tiscali and Renato Soru (the ''Selling Shareholder'') by way of a combined offering (the ''Combined Offering'') consisting of (i) an institutional offering (the ''Institutional Offering'') to Professional Investors (as defined herein) in Italy and to non-U.S. persons outside of Italy and the United States in reliance upon Regulation S (''Regulation S'') under the U.S. Securities Act of 1933, as amended (the ''Securities Act''), and within the United States to qualified institutional buyers in reliance upon Rule 144A under the Securities Act (''Rule 144A''); and (ii) a public offering in Italy of 760,000 Shares including Shares offered to the Company's current employees, business partners, Tiscali outlets and TiscaliFreeNet subscribers (the ''Italian Public Offering'').

Of the Shares offered in the Combined Offering, 2,600,000 will be offered by Tiscali pursuant to an increase in share capital approved by the Company's shareholders on June 30, 1999 and 440,000 Shares will be offered by the Selling Shareholder. In addition, the Company has granted to the Institutional Managers (as defined in ''*Offering Circular Summary*'') an option to purchase additional Shares, in an amount not to exceed 456,000 Shares, solely to cover over-allotments, if any. See ''*Purchase and Sale*.'' The Company will not receive any proceeds from the sale of the Shares by the Selling Shareholder. See ''*Use of Proceeds.*''

The initial public offering price (the ''Offering Price'') is €46 per Share. The Offering Price and underwriting discounts and commissions will be the same in the Institutional Offering and the Italian Public Offering.

THE SHARES OFFERED PURSUANT TO THE COMBINED OFFERING WILL RANK *PARI PASSU* IN ALL RESPECTS WITH ALL OTHER ISSUED AND OUTSTANDING SHARES AND WILL RANK IN FULL FOR DIVIDENDS, IF ANY, DECLARED BY THE COMPANY IN RESPECT OF THE FINANCIAL YEAR ENDING DECEMBER 31, 1999 AND THEREAFTER. FOR INFORMATION CONCERNING ITALIAN WITHHOLDING AND OTHER TAXES ON DIVIDENDS, SEE "*TAXATION*."

Offering Price: Euro 46 per Share

SEE "*INVESTMENT CONSIDERATIONS*" FOR A DISCUSSION OF CERTAIN FACTORS WHICH SHOULD BE CONSIDERED IN CONNECTION WITH AN INVESTMENT IN THE SHARES.

It is expected that interests in the Shares will be credited to accounts of intermediaries at Monte Titoli S.p.A. (''Monte Titoli''), including accounts for nominees of Cedelbank, *société anonyme* (''Cedelbank'') and Morgan Guaranty Trust Company of New York, Brussels Office, as operator of the Euroclear System (''Euroclear'') on or about October 27, 1999 against payment therefor in immediately available funds. No share certificates will be issued in connection with any Shares sold in the Combined Offering. See ''*Description of Share Capital — Form and Transfer of Shares*.''

Prior to the Combined Offering there has been no public market for the Shares. *Borsa Italiana S.p.A.* (''*Borsa Italiana*''), the Italian Stock Exchange, has approved admission of the Shares to listing on the *Nuovo Mercato*. Trading of the Shares on the *Nuovo Mercato* is expected to commence on or about October 27, 1999.

Global Co-ordinators and Joint Lead Managers

ABN AMRO Rothschild | **Banca d'Intermediazione Mobiliare IMI**

The date of this Offering Circular is October 22, 1999.

Tiscali confirms that the information contained in this Offering Circular relating to Tiscali is true and correct in all material respects and that there are no other facts the omission of which would, in the context of the Institutional Offering, make any statement in this Offering Circular misleading in any material respect.

No person has been authorized by Tiscali to give any information or make any representation not contained in this Offering Circular in connection with the offering or sale of the Shares offered in the Institutional Offering and, if given or made, such information or representation must not be relied upon as having been authorized by Tiscali, the Selling Syndicate Members (as defined in ''*Purchase and Sale*'') or any other person. Neither the delivery of this Offering Circular nor any sale made in connection with the Institutional Offering shall, under any circumstances, create any implication that the information contained in this Offering Circular is correct as at any time subsequent to the date of this Offering Circular or that there has been no change in the affairs of Tiscali since the date of this Offering Circular.

Prospective investors are not to construe the contents of this Offering Circular as investment, legal or tax advice. Each investor should consult its own counsel, accountant and other advisors as to legal, tax, business, financial and related aspects of a purchase of the Shares. Neither Tiscali nor any of the Institutional Managers makes any representation to any offeree or purchaser of the Shares regarding the legality of an investment therein by such offeree or purchaser.

This Offering Circular has not been and will not be submitted to the clearance procedures of the *Commissione Nazionale per le Società e la Borsa* (''CONSOB'') and accordingly may not be used in connection with any offer or sale of the Shares in Italy. For the purposes of the Italian Public Offering in Italy, Tiscali has prepared a *Prospetto Informativo* in the Italian language.

This Offering Circular does not constitute or contain an offer, or invitation to any person, to subscribe or purchase Shares in any jurisdiction in which such offer or solicitation would be unlawful. No action has been or will be taken by Tiscali, the Selling Syndicate Members or any other person that would permit a public offering of the Shares (except in Italy), or the circulation or the distribution of this Offering Circular or any other offering material in relation to Tiscali or the Shares, in any country or jurisdiction where regulatory action for that purpose is required.

The distribution of this Offering Circular and the offering of the Shares in other jurisdictions may be restricted by law and therefore persons into whose possession this Offering Circular comes are required by Tiscali and the Selling Syndicate Members to inform themselves about and to observe any such restrictions. For a further description of certain restrictions on offers and sales of the Shares and on the distribution of this Offering Circular, in particular in relation to Italy, the United States and the United Kingdom, see ''*Purchase and Sale*'' and ''*Transfer Restrictions*.''

Any sale of Shares in Italy in the Institutional Offering is being made only to professional investors (''Professional Investors'') as defined in Section 31, paragraph 2, of CONSOB Regulation No. 11522 of July 1, 1998 pursuant to Section 100, paragraph 1, lett. b) and Section 30, paragraph 2, of Legislative Decree No. 58 of February 24, 1998 (the *Unified Financial Act*) except for asset management companies authorized to manage investment portfolios in accordance with mandates given by investors on a discretionary client-by-client basis and fiduciary companies (''*società fiduciarie*'') managing portfolio investments regulated by Section 60, para. 4 of Legislative Decree No. 415 of July 23, 1996 and in accordance with applicable Italian laws and regulations. Any such offer or sale or any distribution of this Offering Circular or any rendering of advice in respect of investment in the Shares within Italy and in connection with the offering to which this Offering Circular relates must be conducted by banks, investment firms as described by the Unified Financial Act and financial companies enrolled in the special register provided for by Section 107 of the Legislative Decree No. 385 of September 1, 1993 (the *Consolidated Banking Law*), to the extent duly authorized to engage in the placement and/or underwriting of financial instruments in Italy in accordance with the relevant provisions of the Unified Financial Act. After completion of distribution, CONSOB shall be given written notice of the names of each of the Italian Professional Investors which has requested and/or purchased Shares and of the total number of Shares each of such Professional Investors has requested and/or purchased.

This Offering Circular is confidential and is being furnished by Tiscali in the United States in connection with an offering exempt from registration under the Securities Act, solely for the purpose of enabling a prospective investor to consider the purchase of the Shares. The information contained in this Offering Circular has been provided by Tiscali and other sources identified herein. No representation or warranty, express or implied, is made by the Selling Syndicate Members as to the accuracy or completeness of such information, and nothing contained in this Offering Circular is, or shall be relied upon as, a promise or representation by the Selling Syndicate Members. Receipt of this Offering Circular constitutes the agreement on the part of the recipient that any reproduction or distribution of this Offering Circular, in whole or in part, and any disclosure of its contents or use of any information herein for any purpose other than considering an investment in the Shares offered hereby is prohibited, except to the extent such information is otherwise publicly available. Each offeree of the Shares by accepting delivery of this Offering Circular agrees to the foregoing.

The Shares offered hereby have not been and will not be registered under the Securities Act and may not be offered or sold in the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S), except in a transaction exempt from, or not subject to, the registration requirements of the Securities Act. Accordingly, the Shares are being offered and sold only (i) to qualified institutional buyers (as defined in Rule 144A) in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A and (ii) to certain persons outside the United States in offshore transactions in reliance on Regulation S. Prospective purchasers in the United States are hereby notified that the seller of the Shares may be relying on Rule 144A. For a further description of certain restrictions on the offering, sale and transfer of the Shares and on the distribution of the Offering Circular, see ''*Purchase and Sale*'' and ''*Transfer Restrictions*.''

The Shares have not been registered with, recommended by or approved by the U.S. Securities and Exchange Commission (''SEC'') or any other federal or state securities commission or regulatory authority nor has the SEC or any such commission or regulatory authority passed upon the accuracy or the adequacy of this document. Any representation to the contrary is a criminal offense in the United States.

In connection with the Institutional Offering, the Global Co-ordinators may effect transactions, including over-allotments and bidding for purchasing Shares in the open market, which stabilize or maintain the market price of the Shares at a level which might not otherwise prevail. Such stabilization, if commenced, may be discontinued at any time. For a description of such activities, see ''*Purchase and Sale*.''

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER RSA 421-B WITH THE STATE OR NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

AVAILABLE INFORMATION

The Company is not required to file periodic reports under Sections 13 or 15 or the United States Securities Exchange Act of 1934, as amended (the ''Exchange Act''). For so long as any of the Shares are ''restricted securities'' within the meaning of Rule 144(a)(3) under the Securities Act and the Company is neither subject to the reporting requirements of Section 13 or 15 of the Exchange Act nor exempt from Section 12(g) of the Exchange Act by furnishing to the SEC the information required by Rule 12g3-2(b) thereunder, the Company will provide upon request by holders of Shares or prospective purchasers designated by such holders information required by Rule 144A(d)(4) to facilitate resale pursuant to Rule 144A. The Company will also furnish certain information to *Borsa Italiana.*

SERVICE OF PROCESS AND ENFORCEMENT OF JUDGMENTS

The Company is a joint stock company (''*società per azioni*'' or ''*S.p.A.*'') organized under the laws of Italy. All of its directors (except for Mr. Hauser) and officers and certain other persons named in this Offering Circular reside in Italy. All or a substantial portion of the assets of such persons and of the Company are located outside the United States. In addition, all or substantially all of the assets of the Selling Shareholder are located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon the Company, the Selling Shareholder or such other persons or to enforce against such persons in U.S. courts judgments obtained in such courts whether or not predicated upon the civil liability provisions of the federal or state securities laws of the United States.

In general, subject to the qualifications described below, recognition in Italy of final judgments of U.S. courts would be automatic and would not require a retrial in Italy. If a party does not agree to implement final judgments of U.S. courts in Italy on a voluntary basis, enforceability in Italian courts of such final judgments, including judgments obtained in actions predicated upon the civil liability provisions of the U.S. federal securities laws, is subject, among other things, to: (i) the U.S. courts having jurisdiction in accordance with Italian law; (ii) process being appropriately served on the defendant in accordance with applicable U.S. law and with no fundamental right of the defense having been violated; (iii) the parties participating in a trial in accordance with applicable U.S. law or, if the judgment has been obtained by default, such default having been declared in accordance with applicable U.S. law; (iv) the absence of a conflicting final judgment by an Italian court or of an action pending in Italy that commenced prior to the commencement of the proceeding before the U.S. court among the same parties and arising from the same facts and circumstances, which led to the final judgment to be enforced in Italy; and (v) the content of the U.S. judgment not violating Italian public policy. The Company has been advised by Ughi & Nunziante, its Italian counsel, that in original actions brought before Italian courts there is doubt as to the enforceability of liabilities based solely on the U.S. federal securities laws and that in original actions Italian courts not only apply Italian rules of civil procedure but also apply substantive provisions of Italian law that are regarded as mandatory.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

This Offering Circular contains (i) audited financial information of Tiscali as at and for the year ended December 31, 1998 and the six months ended June 30, 1999, which has been audited by Tiscali's statutory auditors, Deloitte & Touche S.p.A., and (ii) unaudited financial information of Tiscali as at and for the three months ended March 31, 1999 and June 30, 1999. The foregoing were prepared in accordance with the requirements of the Italian Accounting Principles (Italian GAAP). For a discussion of certain material differences between the Italian GAAP and U.S. GAAP relevant to the financial statements of the Company, see ''*Summary of Certain Differences between Italian and U.S. Accounting Principles.*''

In this Offering Circular, references to ''Lit.'' or ''lire'' are to Italian lire, references to ''U.S. $'' or ''U.S. dollars'' are to United States dollars, and references to ''Euro'' or ''€'' are to the single currency introduced in the participating member states of the European Union (''EU''). Unless stated otherwise, Italian lire amounts in this Offering Circular have been translated into Euro at the fixed conversion rate established in connection with the implementation of the third stage of European Monetary Union of Lit. 1,936.27 per Euro.

Various figures and percentages set out herein have been rounded and, accordingly, may not total.

FORWARD-LOOKING STATEMENTS

This Offering Circular contains forward-looking statements which reflect Tiscali's views with respect to future events and financial performance. The words ''believes,'' ''intends,'' ''aims,'' ''projects,'' ''anticipates,'' and similar expressions commonly identify such forward-looking statements. Prospective investors are cautioned not to place undue reliance on these statements and cautioned that actual results could differ materially from those projected in the forward-looking statements as a result of the investment considerations described in this Offering Circular as well as the factors referred to below. Such forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the actual results, performance or achievement of Tiscali, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include competition from other companies, Tiscali's continuing need for capital, financing costs, changing operating expenses, the continued employment of current management and the Company's ability to hire other qualified employees when needed, and other factors which are set forth in this Offering Circular. See "*Investment Considerations*." These forward-looking statements speak only as of the date of this Offering Circular. Tiscali expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in Tiscali's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

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OFFERING CIRCULAR SUMMARY

The following summary is qualified in its entirety by, and is subject to, the detailed information and Financial Statements of Tiscali included elsewhere in this Offering Circular. For a description of certain considerations relating to an investment in the Shares, see ''Investment Considerations.'' *Certain terms used herein are defined in the Glossary.*

Tiscali

Tiscali is a Net-centric telecommunications operator which provides a wide range of communications services through an IP platform-based proprietary network. The Company believes that communications is a single product, travelling over a single network, regardless of access device (whether fixed or mobile phone line or computer). Founded by Renato Soru — an Italian entrepreneur who had successfully established Czech On Line, the leading ISP in the Czech Republic — Tiscali has established itself in less than one year as a leading Italian telecommunications company.

The Company believes that growth in mass-market demand for telecommunications services in Europe, and particularly in Italy, is hindered by high prices. The still largely untapped mass market comprises individuals as well as small and medium-sized businesses which require competitive, easily accessible, fully integrated telecommunications services. Tiscali provides fixed telephony at competitive prices, the first free-subscription Internet access service in Italy and value-added services. To further broaden its customer base, the Company intends to maintain price leadership and its first-mover advantage. See ''— *Strategy.*''

In April 1998 Tiscali was awarded an individual license to offer voice telephony in Sardinia and Italy's two most populated metropolitan areas, Rome and Milan. At the same time, Tiscali began to offer prepaid calling cards and Internet services in Sardinia. In August 1998, as soon as Telecom Italia published the terms and conditions for interconnection, Tiscali became the third new operator to sign an interconnection agreement with Telecom Italia. This allowed the Company to extend its services to all of the areas of its license, using its four public switches interconnected to Telecom Italia.

Accordingly, in November 1998 the Company launched carrier selection voice services, whereby a registered customer can select Tiscali as its carrier by entering the Tiscali easy access code 10030. Tiscali targeted consumers and small businesses with prepaid rechargeable accounts for fixed telephony, using the marketing model which fueled the great success of mobile telephony in Italy. The Company also offered traditional postpaid contracts to medium-sized and large businesses.

In March 1999, Tiscali's license as a telecommunications provider was extended to all of Italy. The Company immediately negotiated with Telecom Italia the extension of its interconnection agreement to the entire national territory. See ''*Regulatory Matters*.''

On March 24, 1999, the Company launched TiscaliFreeNet, the first free-subscription Internet service in Italy, based on the model of Dixon's Freeserve, which had been launched only six months earlier in the United Kingdom. A reverse interconnection agreement signed in December 1998 allows Tiscali to receive from Telecom Italia a share of the revenues (calculated on the basis of termination fees) from calls originated on the Telecom Italia network and terminated on TiscaliFreeNet telephone numbers. Tiscali retains the entire termination fee received from Telecom Italia, whereas Freeserve must pay to its ISP (Planet Online) and its telecommunications service provider (Energis) the bulk of the termination fee it receives from British Telecom or any other operator originating a call.

In the first three months of operation, with coverage limited to Sardinia, Rome and Milan, TiscaliFreeNet attracted about 216,000 subscribers.

In light of the immediate success of TiscaliFreeNet, the Company decided to extend its network to the entire national territory by installing 24 Integrated Points of Presence (IPOPs) which cover all 33 Telecom Italia area gateways. As of October 7, 1999, Tiscali offered service in the following regions: Basilicata, Campania (partial), Friuli Venezia-Giulia, Emilia Romagna (partial), Lazio, Lombardy, Piedmont (partial), Sardinia, Sicily and Valle d'Aosta, or approximately 56 percent of the Italian population (and the switches of Bari, Pavia and Alessandria are currently in the completion phase). As of September 30, 1999, TiscaliFreeNet had reached 415,370 subscribers, with an average of 4,447 subscribers added per day in the period September 15-30.

In July 1999, Tiscali signed a five-year contract for the lease of color on the fiber optic network of Autostrade Telecomunicazioni S.p.A. This will allow the Company to meet the demand for TiscaliFreeNet and Internet broadband services, and to reduce its dependency on Telecom Italia.

The acquisition of Informedia in July 1999 gave Tiscali access to proprietary software for E-commerce and E-payment services. See "*Business — Competitive Strengths — E-Commerce and E-Payment*."

Strategy

The radical changes brought about by the Internet are creating a new economy (the so-called "network economy"), in which entrepreneurial companies, even with limited resources, can develop new services by exploiting both technological innovation and the interactive relationship with their customer base. Tiscali wants to be among the leaders in providing the mass market with Net-centric services in Italy. In order to take advantage of this large potential market, Tiscali intends to maintain its first-mover position, providing through its unified IP-based network innovative, competitively priced and easy-to-use services, in addition to traditional telecommunications services.

Broadband Services for Businesses. The expansion of its IP-based unified network is a cornerstone of Tiscali's strategy. To be a leader in the market for broadband Internet access, Tiscali plans to have a proprietary IP network in Italy and to expand this network to reach the major international Internet hubs and to directly connect end users. A proprietary network greatly reduces the costs of entering the broadband access market, as well as dependence on third parties. Tiscali's goal is to have optical fiber throughout its national network, either by directly installing new cable or by participating in consortia laying new cable. In order to expand its network abroad, Tiscali has entered into an agreement with Global TeleSystem (GTS) for the long-term lease of high-capacity bandwidth on the New York-London-Paris-Milan route. These connections are expected to bring Tiscali's costs for international Internet access into line with international standards. Tiscali intends to be able to reach end users using wireless point-to-multipoint communications technology, and to take advantage of the anticipated deregulation in this area. At the same time, Tiscali plans to acquire dark fiber in metropolitan areas from owners of alternative infrastructures.

Net-Centric Services for the Mass Market. Tiscali believes that in the near future the greatest revenue potential for telecommunications companies will come from Internet, rather than traditional voice services. The Company intends to focus its attention on the following Net-centric services:

- *Internet Access.* The foundation for Tiscali's Internet strategy is to increase rapidly the number of TiscaliFreeNet subscribers, while keeping customer acquisition costs low. The Company intends to differentiate its services not only by offering the highest quality services possible — competing in quality terms with other ISPs' premium subscription services — but also by offering exclusively to its subscribers new free services, such as voice chat, IP fax, E-commerce (ClubTiscali) and multicasting. Tiscali believes that, in the network economy, traditional marketing models based on massive, expensive advertising campaigns using physical distribution channels will become less useful, with the most effective marketing being done on-line. Accordingly, Tiscali intends to focus its marketing of TiscaliFreeNet on-line, using a "virus marketing" strategy — which relies on the natural and rapid propagation over the Internet of information about new products and services — as well as through "member-get-member" and loyalty reward programs, and long-term distribution agreements with leading Web sites. To distribute TiscaliFreeNet through physical channels, the Company plans to approach communities such as professional associations and municipalities which, in light of the nature of their business, have a particular interest in making use of the Internet. Tiscali offers these customers an institutional Web site with an Intranet configuration and Extranet access, and distributes TiscaliFreeNet subscriptions to all members. Finally, in retail distribution Tiscali seeks to utilize innovative channels such as the post office and major banks, and to couple marketing of TiscaliFreeNet with PCs, modems, software, magazines and music CDs.

- *E-Commerce and E-Payment.* In the Company's view, the largest revenue potential in the Internet lies in E-commerce. Tiscali intends to take advantage of this potential using its ClubTiscali direct sales channel: ClubTiscali members can receive a daily e-mail message in which the Company makes a special product offer, valid for one day only, at a deeply discounted price that has been directly negotiated with the manufacturer. Tiscali also plans to promote its own E-commerce platform and offer financial services on-line in collaboration with financial institutions. In the E-payment market, Tiscali plans to take advantage of the first-mover position it established when one of the leading Italian banks began using the Company's proprietary payment platform. Tiscali aims to increase the number of banks using this payment system, and to achieve a significant market share in E-payment services on the Internet and SMS.
- *Value-Added Internet Services.* Tiscali intends to offer a full range of value-added services such as unified messaging and NetPhone while maintaining a strategy of keeping its prices competitive. Unified messaging will allow users to integrate Internet messages with telephone and fax messages. The service will allow TiscaliFreeNet users to receive not only E-mail, but also voice mail and faxes, in a single mailbox. TiscaliFreeNet subscribers will also be able to receive E-mail by fax, E-mail notices on a cellular phone (using SMS) and voice translations of E-mails by telephone. Finally, subscribers will be able to send documents over the Internet to a fax machine, or voice messages over the Internet to a telephone. NetPhone is a new Internet telephony service that will make it possible to place phone calls from a PC to any telephone, fixed or mobile, in Italy or abroad. Tiscali will assign users of the service a new telephone number on which they can receive calls directly from their PC while they are connected to the Internet, even though their regular telephone line is in use. Reception and transmission costs for the service will be substantially lower than for traditional voice services, allowing the Company to offer particularly competitive prices.

Internet Portal. Tiscali believes that the content of the access portal to its Internet service is an essential element in acquiring and retaining customers and increasing the average time spent on line by each customer. The Company does not plan to create its own content and services for its access portal, but rather to obtain them through agreements with leading companies in each specialty area, as well as joint ventures and commercial partnerships for the creation of co-branded sites.

Voice Services. Tiscali intends to continue to expand its market share in traditional voice services by offering easy-to-use services for the mass market with clear and competitive tariff schemes. Tiscali plans to be among the first to offer new services such as integrated voice and Internet services for businesses and Internet Phone for consumers.

Mobile Services. Tiscali was the first in Italy to apply for a license as a Virtual Network Operator. If granted, such license would allow Tiscali to offer its customers mobile phone services through roaming over other mobile operators' networks. In addition, the Company expects mobile to become a key Internet access device. Tiscali plans to enter the competition in Italy for a UMTS license, expected to take place in early 2000, in order to be able to offer broadband wireless access to its network for integrated voice and Internet services.

Entering New Markets. Tiscali intends to replicate its business model of being an independent, innovative Net-Centric operator as it expands into new geographic markets. The Company's focus will be on markets where the liberalization process in communications is less developed than in the rest of Europe. The Company is exploring opportunities in central European countries, Greece, Romania and north African countries, in expectation of their rapid integration into the network economy.

Network Expansion. Tiscali intends to expand its network infrastructure by investing in dark fiber transmission capacity in Italy (backbone) and in metropolitan areas (including Cagliari), implementing a point-to-multipoint transmission system in the principal metropolitan areas in Italy and carrying out the Andala project (comprised of a fiber optic ring in Sardinia with a submarine cable to the Italian mainland).

THE COMBINED OFFERING

The Combined Offering:	The Combined Offering consists of the Institutional Offering and the Italian Public Offering for an aggregate of 3,040,000 Shares (before the exercise, if any, of the Over-allotment Option (as defined in ''*Purchase and Sale*''), of which 2,600,000 Shares are being issued by the Company pursuant to a capital increase approved on June 30, 1999 and 440,000 Shares are being sold by the Selling Shareholder. See ''*Selling Shareholder*.'' If the Over-allotment Option is exercised in full, the Combined Offering will be of 3,496,000 Shares.
The Italian Public Offering:	The Italian Public Offering consists of the offer of 760,000 Shares to investors (other than Professional Investors) in Italy, of which up to 38,000 Shares have been reserved for the Company's current employees, business partners and Tiscali outlets and up to 304,000 Shares for TiscaliFreeNet subscribers. Employees, business partners and Tiscali outlets will benefit from a 20 percent discount from the Offering Price. The Shares comprised in the Italian Public Offering are being underwritten by the Italian Managers.
The Institutional Offering:	The Institutional Offering comprises the offer of Shares in Italy to Professional Investors, outside Italy and the United States to non-U.S. persons in reliance on Regulation S under the Securities Act, and within the United States to qualified institutional buyers in reliance on Rule 144A. The Shares comprised in the Institutional Offering are being underwritten by the Institutional Managers.
Allocation:	Of the Shares offered in the Combined Offering, 760,000 Shares have been allocated to the Italian Public Offering and the balance to the Institutional Offering, as determined on October 22, 1999 (the ''Allocation Date'').
Over-allotment Option:	The Company has granted the Institutional Managers an option, exercisable within a period commencing on the Allocation Date and expiring 30 days after the listing date, to purchase up to an aggregate of 456,000 Shares, solely for the purposes of covering over-allotments, if any, at the Offering Price. Assuming that such option is exercised in full, the Combined Offering will amount to 3,496,000 Shares.
The Selling Shareholder:	The Selling Shareholder is Renato Soru. Upon completion of the Combined Offering, the Selling Shareholder's aggregate holding of Shares, directly and indirectly through Andalas Ltd., is expected to be reduced to approximately 69 percent (assuming that the Institutional Managers' over-allotment option is exercised in full). See ''*Selling Shareholder*.''
Shares:	The Shares have the rights described under ''*Description of Share Capital*.''
Listing of the Shares:	*Borsa Italiana* has approved admission of the Shares to listing on the *Nuovo Mercato*. Trading is expected to commence on or about , 1999.
Lock-Up Agreements:	Pursuant to Italian Stock Exchange regulations, each shareholder which acquired its shares during the 12 months preceding the date of the Company's application for listing on the *Nuovo Mercato*, as well as each founding shareholder, officer and executive, is required for a period of one year from the date of listing not to sell, offer, pledge or take any other

action involving 80 percent or more of its shareholdings on the date trading in the Shares began. See ''*Purchase and Sale*.''

Each of the Company, the Selling Shareholder, Andalas Ltd. and Kiwi I Ventura Serviços S.A. will agree, for a period commencing on the date of the Institutional Underwriting Agreement and ending 180 days after the date of the commencement of trading of the Shares on the *Nuovo Mercato* of the Italian Stock Exchange, *inter alia* and subject to certain exceptions, not to: (i) sell or dispose in any way of any Shares; and (ii) in the case of the Company, issue, and in the case of the shareholders, authorize any issuance by the Company of, new shares or other securities convertible into shares, unless with prior written consent of the Global Co-ordinators. See ''*Purchase and Sale*.''

The transfer, offer or any other action involving the shares placed before the Combined Offering with certain directors, certain officers, employees and certain advisers of the Company at a discounted price of Lit. 1,000 is restricted for a period of three years from the date of the listing. See ''*Directors' and Senior Officers' Ownership of Shares*.''

The transfer or sale of warrants issued to ABN AMRO Bank N.V. and the conversion thereof is subject to restrictions. See ''*Description of Share Capital*.''

Offering Price: The Offering Price is €46 per Share. The Offering Price will be the same in the Italian Public Offering and the Institutional Offering.

Payment, Delivery and Settlement of the Shares Offered in the Institutional Offering: Payment for and delivery of the Shares is expected to be made by October 27, 1999 (the ''Closing Date''). It is anticipated that the Shares will settle against payment in Italian lire, through the facilities of Monte Titoli, Euroclear and Cedelbank. Pursuant to recent Italian laws and regulations, all shares of Italian listed companies will no longer be represented by physical certificates and transfers and exchanges of the Shares will take place exclusively through book-entry systems. Accordingly, it will not be possible for a shareholder to obtain physical delivery of share certificates representing the Shares.

Dividends and Withholding Tax: Tiscali has not paid any dividends since its formation in 1997. See ''*Dividend Policy*.'' Dividends payable by the Company to non-residents of Italy are ordinarily subject to Italian withholding tax at the rate of 27 percent. Reduced rates for withholding tax apply to certain non-residents of Italy entitled to such benefit under applicable tax conventions. Italy has concluded income tax conventions with many countries, including all members of the European Union. See ''*Taxation*.''

Transfer Restrictions: The Shares have not been registered under the Securities Act and are subject to certain restrictions on transfer. See ''*Transfer Restrictions*.''

Use of Proceeds: The proceeds to the Company from the sale of the Shares offered hereby (assuming no exercise of the Over-allotment option), before deduction of selling, underwriting and management commissions, and before deducting expenses payable by the Company, will be approximately €119.6 million (approximately Lit. 232 billion). The Company intends to use most of the proceeds from the issue of the Shares to broaden the content and range of value-added services available on its Internet portal, increase marketing

	and distribution expenditures and continue the expansion of its network infrastructure. See ''*Use of Proceeds*.'' The Company will not receive any proceeds from the sale of the Shares by the Selling Shareholder in the Combined Offering.
Global Co-ordinators:	ABN AMRO Rothschild and Banca d'Intermediazione Mobiliare IMI (''Banca IMI'') are the Global Co-ordinators of the Combined Offering (the ''Global Co-ordinators''). ABN AMRO Rothschild will act as joint lead manager and bookrunner of the Institutional Offering. Banca IMI will act as lead manager and bookrunner of the Italian Public Offering and joint lead manager of the Institutional Offering.
Sponsor and Specialist:	The Company has appointed ABN AMRO Rothschild and Banca IMI as sponsor and specialist in accordance with the Italian Securities Market Regulations (*Regolamento del Nuovo Mercato organizzato e gestito dalla Borsa Italiana S.p.A.*) approved by the shareholders' meeting of *Borsa Italiana* on December 4, 1998 in connection with the application by the Company for admission to listing of its Shares on the *Nuovo Mercato* of the Italian Stock Exchange.
Investment Considerations:	Prior to making an investment decision, prospective investors should read this Offering Circular and consider carefully the matters discussed under ''*Investment Considerations*.''

SUMMARY FINANCIAL AND OPERATING INFORMATION

The following table presents summary audited financial information of Tiscali as at and for the year ended December 31, 1998 and the six months ended June 30, 1999 (together the "Audited Financial Statements"). The Audited Financial Statements have been audited by Tiscali's statutory auditors, Deloitte & Touche S.p.A., as indicated in their unqualified reports thereon included elsewhere in this Offering Circular. The table also includes summary unaudited financial information of Tiscali as at and for the three months ended March 31, 1999 and June 30, 1999 (together the "Unaudited Financial Statements"). The Audited Financial Statements and the Unaudited Financial Statements have been prepared in accordance with Italian GAAP (which differs in certain significant respects from U.S. GAAP). See "Summary Of Certain Differences Between Italian and U.S. Accounting Principles."

The information set forth below should be read in conjunction with, and is qualified in its entirety by reference to, the Financial Statements included elsewhere in this Offering Circular.

Selected Income Statement Information

	Year ended December 31, 1998		Three months ended March 31, 1999		Three months ended June 30, 1999		Six months ended June 30, 1999	
	Lit./mil	Euros	Lit./mil	Euros	Lit./mil	Euros	Lit./mil	Euros
Revenues from sales and services	2,513	1,297,856	4,761	2,458,851	11,103	5,734,221	15,864	8,193,072
Other operating income	15	7,747	0	0	1	516	1	516
Cost of sales	(3,268)	(1,687,781)	(5,003)	(2,583,834)	(10,147)	(5,240,488)	(15,150)	(7,824,322)
Payroll costs	(831)	(429,176)	(696)	(359,454)	(1,202)	(620,781)	(1,898)	(980,235)
Depreciation/ Amortization	(1,324)	(683,789)	(430)	(222,076)	(551)	(284,568)	(981)	(506,644)
Provisions and writedowns	(51)	(26,339)	(28)	(14,461)	(59)	(30,471)	(87)	(44,932)
Other operating charges	(230)	(118,785)	(73)	(37,701)	(97)	(50,096)	(170)	(87,798)
Income from fixed assets by internal production	443	228,790	0	0	0	0	0	0
Interest and similar expenses	(18)	(9,296)	(4)	(2,066)	(54)	(27,889)	(58)	(29,954)
Extraordinary expenses	(2)	(1,033)	(4)	(2,066)	(12)	(6,197)	(16)	(8,263)
Taxes on Income	0	0	0	0	0	0	0	0
Income (loss) for the period	(2,753)	(1,421,806)	(1,477)	(762,807)	(1,018)	(525,753)	(2,495)	(1,288,560)

Selected Balance Sheet Information

	As of					
	December 31, 1998		March 31, 1999		June 30, 1999	
	Lit./mil.	Euros	Lit./mil.	Euros	Lit./mil.	Euros
Cash and cash equivalent	4,236	2,187,711	508	262,360	979	505,611
Total current assets	8,013	4,138,369	7,635	3,943,148	15,439	7,973,578
Fixed assets	4,623	2,387,580	5,493	2,836,898	6,930	3,579,046
Other assets	1,739	898,119	1,584	818,068	2,215	1,143,952
Total assets	14,375	7,424,068	14,712	7,598,114	24,584	12,696,576
Shareholders' equity	6,214	3,209,263	4,737	2,446,456	3,719	1,920,703

Selected Operating Data[1]

	As of			
	December 31, 1998	**March 31, 1999**	**June 30, 1999**	**September 30, 1999**
TiscaliFreeNet				
Number of subscribers	—	19,210	215,973	415,370
Total minutes logged (in thousands)[2]	—	170	2,732	4,501,600
Number of Voice Service Customers				
Pre-Paid Products:				
RicariCasa[3] and Tiscali 10030	8,003	48,756	103,835	178,957
Post-Paid Products:				
Tiscali Affari	755	2,310	6,119	8,980
Network				
Number of IPOPs activated	4	4	4	11
Network coverage				
Voice service	15%	15%	15%	100%
Internet service	15%	15%	15%	52%
Employees	45	83	123	178

1 Derived from the Company's records.

2 Calculated from 12:00 a.m. to 11:59 p.m. of the day specified.

3 Includes customers who have ''recharged'' their accounts.

INVESTMENT CONSIDERATIONS

An investment in the Shares offered hereby involves a high degree of risk. In addition to the other information contained in this Offering Circular, potential investors should consider the following factors carefully in evaluating an investment.

Limited Operating History; History of Losses; Negative Cash Flow

Tiscali is a young company which was established in 1997 and started its business activity at the end of the first quarter of 1998. See ''*Business — The Company*.'' Accordingly, investors have only very limited historical financial information upon which to base an evaluation of the Company's prospects. The Company has yet to be profitable and has not generated positive cash flows. See ''*Management's Discussion and Analysis of Financial Condition and Results of Operations*.'' In fiscal year 1998 and the first half of 1999, Tiscali sustained losses amounting to Lit. 2.753 billion and Lit. 2.495 billion, respectively. There can be no assurance that the Company will achieve or sustain profitability or positive cash flows from its operations.

Significant Future Capital Requirements

The Company's continued development will require significant capital investment, as its major competitors are more facility-based. Tiscali's need for capital is related to a variety of factors, including expenditures for the build-out of its proprietary network, growth in the number of voice and Internet customers, development of the Tiscali brand name and possible acquisitions. The Company will use most of the proceeds of the Combined Offering to broaden the content and range of value-added services available on its Internet portal, increase marketing and distribution expenditures and continue the expansion of its network infrastructure, as well as to repay the bridge credit facility with ABN AMRO Bank N.V. See ''*Use of Proceeds*.'' There can be no assurance that Tiscali's resources will be sufficient to fund its plans and development and enable the Company to reach a sufficient level of competitiveness. The Company may need to seek additional financing through the sale of debt securities or by establishing new or increasing existing credit facilities, or by increasing its capital. There can be no assurance that such financing will be available to the Company on favorable terms, if at all. Failure to raise sufficient capital could cause the Company to delay or abandon some or all of its plans or expenditures, which failure could have a material adverse effect on the Company.

Control by Existing Shareholders

Upon completion of the Combined Offering, Renato Soru will continue to control the Company and will exercise a majority of the votes at shareholders' meetings. See ''*Selling Shareholder*.'' Mr. Soru's share ownership and control may have the effect, among other things, of delaying or preventing a change in control of the Company, impeding a merger, consolidation, takeover or other business combination involving the Company or discouraging a potential acquirer from making a tender offer or otherwise attempting to obtain control of the Company, which could have a material adverse effect on the market price of the Company's shares.

Competition

The market in which Tiscali operates is extremely competitive. Tiscali's major competitors at the national level in voice services are Telecom Italia, Infostrada, Albacom and Wind, which have significantly greater financial resources and are considerably better known than Tiscali. Tiscali's major competitors in Internet services are TIN and ClubNet (both Telecom Italia), IOL and Libero (Infostrada). In addition, major international Internet providers such as America Online and Freeserve may enter the Italian market. In E-commerce, Tiscali faces competition from major search engines such as Yahoo!, Lycos and Excite, virtual communities such as Geocities and Fortunecity, as well as sites specializing in E-commerce such as Amazon and equivalent Italian sites. Tiscali's success to date has derived in part from the high-price strategies of its competitors. Any move by these competitors to lower prices significantly could limit Tiscali's ability to compete. In particular, in July and September 1999, respectively, Infostrada and Telecom Italia began offering free-subscription Internet access services. Other competitors could adopt similar marketing strategies. Although Tiscali was the first provider to adopt such a strategy — which gives it a competitive advantage over other providers — and despite the

Company's significant marketing efforts, there can be no assurance that Tiscali will be able to maintain its current position in the Internet market. See ''*Business — Competition*.''

Dependence on Other Operators, Including for Interconnection Agreements and Leased Lines Capacity, and Third-Party Outlets

Tiscali's revenues in both Internet and voice services are closely tied to its interconnection agreements with Telecom Italia. There can be no assurance that the terms and conditions of these agreements will not be renegotiated to the Company's disadvantage, especially in light of Telecom Italia's strong bargaining position. The termination fees offered by Telecom Italia in the nationwide reciprocal interconnection agreement have been challenged by Tiscali before the competent authorities. See ''*Regulatory Matters*.'' In addition, the Company has signed important contracts with other third parties, including for the lease of color on the fiber optic network of Autostrade Telecomunicazioni S.p.A. There can be no assurance that the terms and conditions of these contracts will not be renegotiated. Any breakdown or disruption in the networks of Tiscali's counterparties, or poor performance or outright breach of interconnection or capacity leasing agreements by such counterparties, may have an adverse effect on Tiscali's operations and financial results. For the marketing of its services, the Company depends upon third-party outlets such as business partners, specialty stores, dedicated spaces in large chain stores, banks, newspaper stands, tobacco shops and post offices. There can be no assurance that these third-party outlets will maintain their relationships with the Company. See ''*Business — Sales and Marketing*.''

Dependence on Continued Growth in Use and Commercial Viability of the Internet and On-Line Services

The Company's future success is substantially dependent upon continued growth in the use of the Internet and on-line services, such as E-commerce, on-line advertising and other premium services. No assurance can be given that this growth will continue. The acceptance of, and demand for, recently introduced Internet-based services is highly uncertain. Growth of the Internet and related services in Italy may fall short of predictions for various reasons, including a lack of adequate technology to ensure the safety and security of Internet transactions, difficulty of access and use, traffic congestion, problems related to the quality of service, unavailability of cost-effective, high-speed service, inadequate development of the necessary infrastructure, more restrictive governmental regulation, uncertainty regarding intellectual property ownership and other legal issues relating to the Internet.

Risks of New Services and Markets

Tiscali expects that a growing part of its revenues will derive from services such as E-commerce, on-line advertising and value-added Internet services. See ''*Business — Strategy*.'' The profitability of these services depends in part on factors outside Tiscali's control. For example, the success of E-commerce depends on the level of acceptance and use of Internet, which remains limited in Italy. In addition, the Company has relatively little experience in some of its planned markets.

Risks Associated With Technological Change

Tiscali's continuing success depends on its ability to provide products and services that meet changing customer and technological requirements. The telecommunications industry is characterized by rapidly changing technology, intense competition and frequent introduction of new products and services. See ''*Business — Industry Overview*.'' There can be no assurance that the Company will successfully identify new product and service opportunities, bring new products and services to market in a timely manner or keep current in the face of technological and other innovations and improvements offered by its competitors. Tiscali and its competitors are also exposed to the risk that the industry may undergo fundamental changes, including with respect to the manner in which network integration services are marketed and delivered.

Risks Associated with Customer Volatility

The telecommunications industry is increasingly offering low-cost access services that are fully competitive. Consequently, the client base is constantly becoming more volatile. In general, there are no contractual ties binding customers to use the services of a single provider exclusively. As a result, Tiscali finds itself in constant price and performance competition with its competitors. If Tiscali's customers decide to switch providers for their voice or Internet services, the Company may not be able to replace its customer base. Loss of a significant number of customers could have a material adverse effect on the Company's results of operations and financial condition.

Dependence Upon Key Personnel; Management of Growth

To a large extent, the future success of the Company depends upon the continued availability of key personnel such as the founder and current Managing Director, Renato Soru, and other key people such as Luigi Filippini and Paolo Susnik. The loss of key employees or the inability to attract and retain suitably qualified personnel could have a material adverse effect on the Company's business operations, financial condition and operating results, especially in light of the rapid growth that the Company is currently experiencing. In addition, there can be no assurance that the Company will be able to adapt its organizational structure and procedures to the new operating and financial requirements arising from this rapid growth.

Year 2000

The start of the year 2000 entails generally applicable risks relating to the processing of electronic data. In Tiscali's case, these risks relate both to Tiscali's own electronic data processing and to that of third parties with whom Tiscali does business. Although Tiscali believes that its systems are well equipped to manage the problems relating to the change in date, and that it has taken the necessary measures to avoid disruption of its business at the start of the year 2000 as a result of malfunctions in its data processing systems, there can be no assurance that no disruption will occur at Tiscali or at any firms that supply services to Tiscali. These problems could cause delays or failure to provide adequate service, and could have a material adverse effect on the Company's financial condition and operating results.

Regulatory Framework

The communications industry, in which Tiscali operates, is subject to a significant degree of regulation. See "*Regulatory Matters.*" Changes in existing policies or regulations by the EU or Italian authorities could materially adversely affect the Company's operating results, particularly if those policies make it more difficult to obtain service from other operators at competitive rates, or otherwise increase the cost and regulatory burden of providing service. There can be no assurance that regulatory authorities will not take actions that may have an adverse effect on the business environment or on the financial condition or operating results of the Company.

Dependence on Rights-of-Way, Rights of Use and Government Authorizations for Expansion of the Network

In order to construct and maintain a telecommunications network, an operator must apply for and obtain rights-of-way over the property of third parties, rights of use and other administrative authorizations. The Company has not yet applied for any of the approvals required to implement its future expansion plans, including the Andala project, and there can be no assurance that the Company will be able to obtain and maintain these approvals on acceptable terms, or that other companies will not obtain similar local approvals that will allow them to compete against the Company or enter the market before the Company. See "*Business — Extending the Network*."

Shares Eligible for Future Sale; Lock-Up

Future sales of substantial amounts of the Company's shares could adversely affect the market price of the Shares. At the end of the Combined Offering, Renato Soru will continue to hold a majority of the Company's capital stock, and a decision by Mr. Soru to sell his shares could adversely affect the market price. Pursuant to Italian Stock Exchange regulations, each shareholder which acquired its shares during the 12 months preceding the date of the Company's application for listing on the *Nuovo Mercato*, as well as each founding shareholder, officer and executive, is required for a period of one year from the date of listing not to sell, offer, pledge or take any other action involving 80 percent or more of its shareholdings on the date trading in the Shares began. In addition, each of the Company, the Selling Shareholder, Andalas Ltd. and Kiwi I Ventura Serviços S.A. will agree, for a period commencing on the date of the Institutional Underwriting Agreement and ending 180 days after the date of commencement of trading of the Shares on the *Nuovo Mercato*, not to issue or sell new shares or other securities convertible into shares, except with the prior written consent of the Global Co-ordinators. See ''*Purchase and Sale*.'' For the lock-up arrangements relating to shares held by directors, officers and employees and the right to transfer or exercise the warrants issued to ABN AMRO Bank N.V., see also ''*Directors' and Senior Officers' Ownership of Shares*'' and ''*Description of Share Capital*.''

Absence of a Prior Public Market; Possible Volatility of Share Price; *Nuovo Mercato*

Prior to the Combined Offering there was no public market for the Shares. The Offering Price of the Shares will be determined by the Company in coordination with the Global Co-ordinators following conclusion of the bookbuilding process. There can be no assurance that the Offering Price will correspond to the price at which the Shares will be traded after the Combined Offering or that active trading in the Shares will develop and continue. The market for shares in communications companies or other high-growth companies has in the past experienced large fluctuations in price and trading volumes. Such fluctuations could have a negative effect on the price of the Shares. The Shares have been admitted to listing on the *Nuovo Mercato*, a market segment of the *Borsa Italiana* introduced this year for the shares of young, growth-oriented companies. Tiscali will be one of the first companies to trade on the *Nuovo Mercato*. Following the Combined Offering, there can be no assurance that an active market for the Shares will develop, or, if an active market does develop, that it will be sustained or that it will not be subject to significant fluctuations. For the obligations of Banca IMI to make a market in the Shares, see ''*Purchase and Sale*.''

Conflict of Interest of ABN AMRO Rothschild

ABN AMRO Bank N.V. has provided financing to the Company and, in connection with such financing, will receive at the time of the Combined Offering warrants convertible into ordinary shares of the Company. ABN AMRO Bank N.V. has subparticipated a portion of this financing to, and will transfer a corresponding portion of the warrants to, Rothschild Italia S.p.A., which is controlled by NM Rothschild & Sons Ltd., and Nazca Limited Partnership, which is an affiliate of NM Rothschild & Sons Ltd. See ''*Description of Share Capital — General*.'' ABN AMRO Rothschild, which is acting as Global Co-ordinator and sponsor and specialist in connection with the Company's application for listing the *Nuovo Mercato*, has a conflict of interest since it is a joint venture between ABN AMRO Bank N.V. and N M Rothschild & Sons Ltd.

DIVIDEND POLICY

The Company has not to date paid any dividends on its Shares. At present, the Company expects that it will retain all the available funds for use in the operation and expansion of its business, and does not anticipate paying cash dividends in the foreseeable future. The declaration and payment in the future of any cash dividends will be recommended by the Company's Board of Directors and approved by the Company's shareholders and will depend upon, among other things, the earnings, capital requirements and financial position of the Company, existing and/or future loan covenants and general economic conditions.

CAPITALIZATION

The following table sets forth the total cash and cash equivalents and capitalization of the Company as of August 31, 1999, and as adjusted to give effect to the sale of the Shares offered hereby, resulting in proceeds of approximately Lit. 232,000 million (before deduction of discounts and estimated offering expenses and before the application of such proceeds as described in ''*Use of Proceeds*''). This table should be read in conjunction with the financial statements and related notes included elsewhere in this Offering Circular.

	As of August 31, 1999 (unaudited)	
	Actual	**As Adjusted**[1]
	(in millions of Lire)	
Cash and cash equivalents	7,544	239,602
Long term liabilities	0	0
Redeemable stock, options and warrants	0	0
Minority interest	0	0
Stockholders' equity (deficit):		
Common Stock, par value Lit. 100 per share, 12,500,000 shares issued and outstanding at August 31, 1999.	1,250	1,516
Additional paid-in capital	4,964	236,756
Accumulated deficit	(2,495)	(2,495)
Total stockholders' equity	3,719	235,777
Total capitalization	3,719	235,777

[1] Adjusted to give effect to the receipt of proceeds from the October 4, 1999 private placement and the sale of Shares pursuant to the Combined Offering, before deduction of discounts and estimated offering expenses and before the application of such proceeds as described in ''*Use of Proceeds*.''

EXCHANGE RATES AND THE EUROPEAN MONETARY SYSTEM

January 1, 1999 marked the third phase of European monetary union, with the introduction of the European Currency Unit as a currency in its own right (the Euro). Italy was one of the eleven EU member states that adopted the Euro as their single currency as of this date. Irrevocable conversion rates were established for the national currencies of each of the participating EU member states (based on the ERM bilateral central rates). The conversion rate in respect of Italy was fixed at 1,936.27 Lire per Euro.

All transactions in securities listed on the *Borsa Italiana* are now conducted in Euros. Euro notes and coins are scheduled to be introduced only as of January 1, 2002, however, and to completely replace Lire notes and coins by July 1, 2002. Accordingly, Lire continue to be used for cash (and many non-cash) transactions. However, since the conversion rate for Lire has been irrevocably fixed against the Euro, the value of the Lira no longer fluctuates directly against the currencies of countries not participating in European monetary union (only indirectly, to the extent that the value of the Euro so fluctuates).

The table below sets forth, for the periods indicated, certain information regarding the Noon Buying Rate expressed in Lire per U.S. dollar, rounded to the nearest Lira.

	High	Low	Average[1]	At period end
1994	1,707	1,512	1,605	1,622
1995	1,736	1,569	1,629	1,584
1996	1,602	1,496	1,538	1,519
1997	1,841	1,516	1,712	1,769
1998	1,828	1,592	1,737	1,654

[1] Average of the Noon Buying Rates for Italian Lire for last business day of each full month in the period.

In addition, fluctuations in the exchange rate between the Euro and certain other currencies may affect the Company's financial condition and results of operations.

The following table sets forth, for the periods indicated, certain information regarding the Noon Buying Rate for Euro expressed in U.S. dollars per Euro.

	High	Low	Average[1]	At period end
January 1999	1.1812	1.1371	1.1591	1.1371
February 1999	1.1339	1.0972	1.1203	1.0995
March 1999	1.1015	1.0716	1.0886	1.0808
April 1999	1.0590	1.0564	1.0701	1.0564
May 1999	1.0787	1.0422	1.0630	1.0422
June 1999	1.0516	1.0296	1.0377	1.0310
July 1999	1.0719	1.0139	1.0355	1.0694
August 1999	1.0793	1.0441	1.0606	1.0581
September 1999	1.0689	1.0385	1.0497	1.0643
October 1999 (through October 22)	1.0859	1.0610	1.0741	1.0668

[1] Average of the Noon Buying Rates for Euro for each business day in the period.

Trading in the Shares on the *Nuovo Mercato* will be conducted in Euros. Fluctuations in the exchange rates between the Euro and the currencies of non-participating countries will affect the equivalent in such currencies of the Euro price of the Shares on the *Nuovo Mercato*, as well as any Lire or Euro cash dividends paid by the Company.

USE OF PROCEEDS

The proceeds to the Company from the sale of the Shares offered in the Combined Offering (assuming no exercise of the over-allotment option, before deduction of selling, underwriting and management commissions and before deducting expenses payable by the Company) will be approximately €119.6 million (approximately Lit. 232 billion). The Company will not receive any proceeds from the sale of the Shares by the Selling Shareholder in the Combined Offering.

The Company intends to use most of the proceeds of the Combined Offering to broaden the content and range of value-added services available on its Internet portal, increase marketing and distribution expenditures and continue the expansion of its network infrastructure. Network expansion will include developing point-to-multipoint transmission — as a means to access the local loop in large metropolitan areas in Italy in order to satisfy large customers' demand for broadband access — and adding up to 6 million Euros to the capital of Andala S.p.A., of which Tiscali owns 85 percent of the share capital, for the development of the Andala project. See ''*Business — Subsidiaries*.'' Tiscali also plans to participate as the leader of a consortium in the tender of a UMTS license in Italy, expected to take place early in the year 2000. Finally, the Company plans to use a portion of the proceeds to commence operations in other European countries, either exporting or adapting its business model or offering certain of its innovative Internet services, directly or through joint ventures.

The Company has not made a specific determination as to the allocation of the proceeds between these projects and may decide in the future to emphasize certain projects over others. Although the proceeds of the Combined Offering will permit the Company to finance a substantial part of its current plans for content development, marketing and distribution expenditures, and network expansion, full completion of the projects described above (in particular the purchase of a UMTS license and the commencement of operations outside Italy) is expected to require additional debt and/or equity financing.

The timing of such potential future financing requirements is impossible to predict, as it will depend on the speed of rollout of such projects, the type of opportunities that arise and the level of the Company's internally generated cash flow.

On August 9, 1999 the Company entered into a revolving bridge credit facility with ABN AMRO Bank N.V. for an amount up to Euro 10 million. ABN AMRO Bank N.V. subparticipated 40 percent and 10 percent, respectively, of this facility to Nazca Limited Partnership and Rothschild Italia S.p.A. This facility will be repaid and terminated upon completion of the Combined Offering. For a discussion of the compensation received by ABN AMRO Bank N.V. in connection with this facility, including warrants convertible into ordinary shares of the Company, see ''*Description of Share Capital — General*.''

As of September 30, 1999 approximately Euro 7 million of this facility had been drawn down. The proceeds have been used to make an initial payment on the lease of a router and modem for Internet services (approximately 20% of the amount drawn down from this facility), to finance advertising expenditures (approximately 5% of the amount drawn down from this facility) and to develop the Company's network (activation of connections to Tiscali switches) (approximately 7.5% of the amount drawn down from this facility). Part of the proceeds were also used for a security deposit with the Banca di Sassari (approximately 44% of the amount drawn down from this facility) in order to obtain a guarantee in favor of Telecom Italia, as required by the interconnection agreement.

SELECTED FINANCIAL INFORMATION

The following table presents summary audited financial information of Tiscali as at and for the year ended December 31, 1998 and the six months ended June 30, 1999 (together the "Audited Financial Statements"). The Audited Financial Statements have been audited by Tiscali's statutory auditors, Deloitte & Touche S.p.A., as indicated in their unqualified reports thereon included elsewhere in this Offering Circular. The table also includes summary unaudited financial information of Tiscali as at and for the three months ended March 31, 1999 and June 30, 1999 (together the "Unaudited Financial Statements"). The Audited Financial Statements and the Unaudited Financial Statements have been prepared in accordance with Italian GAAP (which differs in certain significant respects from U.S. GAAP). See "Summary Of Certain Differences Between Italian and U.S. Accounting Principles."

The information set forth below should be read in conjunction with, and is qualified in its entirety by reference to, the Financial Statements included elsewhere in this Offering Circular.

Selected Income Statement Information

	Year ended December 31, 1998		Three months ended March 31, 1999		Three months ended June 30, 1999		Six months ended June 30, 1999	
	Lit./mil	Euros	Lit./mil	Euros	Lit./mil	Euros	Lit./mil	Euros
Revenues from sales and services	2,513	1,297,856	4,761	2,458,851	11,103	5,734,221	15,864	8,193,072
Other operating income	15	7,747	0	0	1	516	1	516
Cost of sales	(3,268)	(1,687,781)	(5,003)	(2,583,834)	(10,147)	(5,240,488)	(15,150)	(7,824,322)
Payroll costs	(831)	(429,176)	(696)	(359,454)	(1,202)	(620,781)	(1,898)	(980,235)
Depreciation/Amortization	(1,324)	(683,789)	(430)	(222,076)	(551)	(284,568)	(981)	(506,644)
Provisions and writedowns	(51)	(26,339)	(28)	(14,461)	(59)	(30,471)	(87)	(44,932)
Other operating charges	(230)	(118,785)	(73)	(37,701)	(97)	(50,096)	(170)	(87,798)
Income from fixed assets by internal production	443	228,790	0	0	0	0	0	0
Interest and similar expenses	(18)	(9,296)	(4)	(2,066)	(54)	(27,889)	(58)	(29,954)
Extraordinary expenses	(2)	(1,033)	(4)	(2,066)	(12)	(6,197)	(16)	(8,263)
Taxes on Income	0	0	0	0	0	0	0	0
Income (loss) for the period	(2,753)	(1,421,806)	(1,477)	(762,807)	(1,018)	(525,753)	(2,495)	(1,288,560)

Selected Balance Sheet Information

	As of					
	December 31, 1998		March 31, 1999		June 30, 1999	
	Lit./mil.	Euros	Lit./mil.	Euros	Lit./mil.	Euros
Cash and cash equivalent	4,236	2,187,711	508	262,360	979	505,611
Total Current assets	8,013	4,138,369	7,635	3,943,148	15,439	7,973,578
Fixed assets	4,623	2,387,580	5,493	2,836,898	6,930	3,579,046
Other assets	1,739	898,119	1,584	818,068	2,215	1,143,952
Total assets	14,375	7,424,068	14,712	7,598,114	24,584	12,696,576
Shareholders' Equity	6,214	3,209,263	4,737	2,446,456	3,719	1,920,703

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of the financial condition and the results of operations of Tiscali is to be read in conjunction with the description of its business activities, as well as the Audited Financial Statements of the Company (for fiscal year 1998 and the first half of 1999) and Unaudited Financial Statements (for the first and second quarters of 1999) and the notes thereto.

Tiscali prepares its financial statements in accordance with Italian GAAP, which differ in certain significant respects from U.S. GAAP. For a description of the significant differences between Italian GAAP and U.S. GAAP, see ''Summary of Certain Differences between Italian and U.S. Accounting Principles.''

The following discussion and analysis relate to the financial condition and results of operations of the Company for fiscal year 1998 and the first two quarters of 1999. Although no data is available for the fourth quarter of 1998, the information provided for fiscal year 1998 relates primarily to the fourth quarter, during which the Company began to realize revenues from operations. As the Company was founded in June 1997 and realized no significant revenues in 1997, fiscal year 1997 is not a useful reference period.

Overview

Tiscali is a Net-centric telecommunications operator which provides a wide range of communications services through an IP platform-based proprietary network. In April 1998, the Company was awarded an individual license to offer voice telephony in Sardinia and Italy's two most populated metropolitan areas, Rome and Milan, and began to offer Internet services in Sardinia. In March 1999, Tiscali's license as a telecommunications provider was extended to all of Italy. On March 24, 1999, the Company launched TiscaliFreeNet, the first free-subscription Internet service in Italy. In light of the immediate success of TiscaliFreeNet, the Company decided to extend its network to the entire national territory by installing 24 IPOPs which cover all 33 Telecom Italia area gateways. As of October 7, 1999, Tiscali offered service in the following regions: Basilicata, Campania (partial), Friuli Venezia-Giulia, Emilia Romagna (partial), Lazio, Lombardy, Piedmont (partial), Sardinia, Sicily and Valle d'Aosta, or approximately 56 percent of the Italian population (and the switches of Bari, Pavia and Alessandria are currently in the completion phase). As of September 30, 1999, TiscaliFreeNet had reached 415,370 subscribers, with an average of 4,447 subscribers per day added in the period September 15-30.

Internet services represent the fastest-growing element of Tiscali's revenues. The main service is TiscaliFreeNet, the first free-subscription Internet access service in continental Europe. The Company intends to differentiate its services not only by offering the highest quality services possible — competing in quality terms with other ISPs' premium subscription services — but also by offering exclusively to its subscribers new free services, such as voice chat, IP fax, E-commerce (Willage and ClubTiscali) and multicasting. Tiscali intends to offer a full range of value-added services such as unified messaging, domain registration and premium gaming, while maintaining a strategy of keeping its prices competitive.

Tiscali offers prepaid voice services, mainly for residential use (RicariCasa and Tiscali 10030), and post-paid services for business use (Tiscali Affari). These services are accessible using the 10030 easy access code. Tiscali also offers prepaid telephone cards for use from public telephones. In order to expand its market share in traditional voice services, the Company plans to offer easy-to-use services for the mass market with clear and competitive tariff schemes. Tiscali plans to be among the first to offer new services such as integrated voice and Internet services for businesses and Internet Phone for consumers. The Company was the first in Italy to apply for a license as a Virtual Network Operator. If granted, such license would allow Tiscali to offer its customers mobile phone services through roaming over other mobile operators' networks. In addition, the Company expects mobile to become a key Internet access device. Accordingly, Tiscali plans to enter the competition in Italy for a UMTS license, expected to take place in early 2000, in order to be able to offer broadband wireless access to its network for integrated voice and Internet services.

Tiscali markets its services using traditional channels as well as through on-line and telephone marketing. Physical sales channels were used in publicizing the Company's services initially, and are still considered a useful method of marketing. However, Tiscali is focusing its marketing efforts on on-line and telephone marketing channels, which are developing rapidly on account of the TiscaliFreeNet user base, the growth of the Internet in the Italian market and the increasing propensity of consumers to transact business on-line or via call centers.

The Company has experienced net losses since it commenced operations and negative net cash flow. There can be no assurance that the Company will achieve or sustain profitability and positive cash flow. The Company expects that it will continue to incur net losses and that it will require additional capital as it invests further substantial resources in building its infrastructure and developing new services.

The Company has an extremely limited operating history upon which an evaluation of the Company and its prospects can be based.

Results of Operations

The following table shows Tiscali's revenues by type of service:

	1998	1999		
	Year ended December 31	Three months ended March 31	Three months ended June 30	Six months ended June 30
	(millions of lire)			
Internet service:				
TiscaliFreeNet	—	—	4,406	4,406
Tiscali Net	605	94	18	112
Other Internet revenues	40	22	178	199
Total Internet service	645	116	4,602	4,717
Voice service:				
Pre-paid products				
Tiscali 10030, RicariCasa	1,403	3,577	4,455	8,033
Post-paid products				
Tiscali Affari	443	994	1,941	2,935
Total Voice service	1,846	4,571	6,396	10,968
Other revenues	22	74	105	179
Total	2,513	4,761	11,103	15,864

Tiscali's revenues derive from the supply of Internet and voice services. Internet revenues consist primarily of a share of the revenues (calculated on the basis of termination fees) from calls originated on the Telecom Italia network and terminated on Tiscali telephone numbers, as well as the leasing of Tiscali interconnection kits. (For a discussion of Tiscali's challenge of certain termination fees, see "*Regulatory Matters.*") To a lesser extent, the Company derives revenues from the registration of domains. Voice revenues derive from both prepaid services (prepaid telephone cards, RicariCasa and Tiscali 10030) and post-paid services (Tiscali Affari).

The following table shows Tiscali's operating costs:

	1998	1999		
	Year ended December 31	Three months ended March 31	Three months ended June 30	Six months ended June 30
		(millions of lire)		
Raw, ancillary and consumable materials and goods	336	212	296	508
Services and other operating costs	2,932	4,791	9,851	14,642
Payroll costs	831	696	1,201	1,897
Amortization and depreciation	1,324	430	551	981
Writedowns	51	28	59	87
Other operating costs	230	73	98	171
Total	5,704	6,230	12,056	18,286

The majority of the Company's operating costs are comprised of services and other operating costs (80.1 percent of total operating costs in the six-month period ended June 30, 1999), including primarily interconnection fees and the lease of telephone lines. In addition, the Company's operating costs include payroll costs for technical, administrative and sales personnel (10.3 percent of total operating costs in the six-month period ended June 30, 1999); amortization and depreciation, relating primarily to intangible fixed assets (5.3 percent of total operating costs in the six-month period ended June 30, 1999); and the cost of raw materials and ancillary and consumable goods related to the supply of telephone cards, printed forms and brochures (2.8 percent of total operating costs in the six-month period ended June 30, 1999).

Tiscali's business is not exposed to substantial exchange-rate risk. The Company realizes all of its revenues in Italy. Its foreign exchange costs (in U.S. dollars), which represented approximately 5.6 percent of total operating costs as of June 30, 1999, are primarily attributable to the acquisition of domains and dedicated lines for connecting to the ''Big Internet'' (Milan-London-New York).

Second Quarter 1999 Compared to First Quarter 1999

Net revenues in the second quarter of 1999 were Lit. 6,343 million higher than in the first quarter, representing growth of 133.2 percent. This increase includes Lit. 4,486 million contributed by the Internet segment following the introduction of the new TiscaliFreeNet service. The rapid development of TiscaliFreeNet is also reflected in the strong growth of monthly revenues, which increased from Lit. 995 million in April 1999 to Lit. 1,882 million in June 1999 (during which month Internet revenues represented approximately 44 percent of all revenues). Sales of voice services increased by approximately 39.9 percent from the first to the second quarter of 1999, due to a significant increase in revenues from Tiscali 10030 and Tiscali Affari.

Operating costs increased from Lit. 6,230 million in the first quarter of 1999 to Lit. 12,056 in the second quarter. This increase relates primarily to services and other operating costs, which increased from Lit. 4,791 million to Lit. 9,851 million, or 105.6 percent. Services and other operating costs consist mainly of telephone line rentals (which increased from Lit. 1,585 million to Lit. 3,277 million, or 106.7 percent) and interconnection fees (which increased from Lit. 1,831 million to Lit. 4,468 million, or 144.0 percent), which are in turn linked to the volume of voice traffic, which increased 148 percent. Payroll costs increased from Lit. 696 million to Lit. 1,201 million (a 72.6 percent increase), due to an increase in the number of employees from 83 as of March 31, 1999 to 123 as of June 30, 1999. Amortization and depreciation increased from Lit. 430 million to Lit. 551 million (a 28.0 percent increase), as a result of the addition of fixed assets (by way of finance leases) and the deferral of advertising expenses incurred primarily in connection with the launch of TiscaliFreeNet.

First Quarter 1999 Compared to Fiscal Year 1998[1]

Net revenues for the first quarter of 1999 derived primarily from sales of telephone cards, Tiscali 10030 and RicariCasa. Internet revenues for the first quarter of 1999 were generated mainly by TiscaliNet and represented only 2 percent of net revenues, since TiscaliFreeNet was launched only a few days before the end of the quarter (on March 24, 1999). Revenues derived from TiscaliNet were lower in the first quarter of 1999 than in full-year 1998 because the 1998 figure reflects a longer period, and because by the first quarter of 1999 the Company was no longer promoting TiscaliNet but rather its expected successor, TiscaliFreeNet.

Revenues from voice services increased from Lit. 1,846 million to Lit. 4,571 million (a 148 percent increase). The number of subscribers for the Tiscali 10030, RicariCasa and Tiscali Affari services increased by 51 percent, 63 percent and 97 percent, respectively, with RicariCasa contributing approximately 53 percent to the revenue increase. Such services became available only during the last quarter of 1998 (whereas prepaid cards have been available since April 1998).

Operating costs increased from Lit. 5,704 million to Lit. 6,230 million during the first quarter of 1999. Service costs increased from Lit. 2,932 million to Lit. 4,791 million (a 63.4 percent increase), which is consistent with the growth in revenues. Payroll costs decreased from Lit. 831 million in 1998 to Lit. 696 million in the first quarter of 1999, or 16.2 percent, though a quarter-to-quarter comparison shows an increase in payroll costs due to growth in the number of employees from 45 at December 31, 1998 to 83 at March 31, 1999. Depreciation and amortization decreased from Lit. 1,324 million to Lit. 430 million, or 67.5 percent, reflecting the use in fiscal year 1998 of a full rate (reduced by 50 percent for tangible fixed assets which came into use during the year), whereas in the first quarter of 1999 the rate was pro rated for three months. A quarter-to-quarter comparison shows an increase in depreciation and amortization, due to an increase in fixed assets in the first quarter of 1999.

Cash Flow and Working Capital

The following table sets forth the Company's cash flows:

	1998	1999		
	Year ended December 31	Three months ended March 31	Three months ended June 30	Six months ended June 30
		(millions of lire)		
Cash flow from operations	1,127	(2,416)	2,461	45
Cash flow from investment activities	(5,759)	(1,300)	(1,988)	(3,288)
Cash flow from financing activities	8,800	—	—	—
Net cash flow for the period	4,168	(3,716)	473	(3,243)

Net cash flow was positive for the second quarter of 1999. Cash flow generated from operations was positive during the second quarter, due to a decrease in working capital from Lit. (1,172) to Lit. (4,023). Cash flow from investment activities was negative, reflecting investment in nearly equal parts in tangible fixed assets (financed primarily by leasing contracts) and intangible fixed assets. Cash flow relating to financial fixed assets is attributable to the capitalization of Andala S.p.A. and Almanacco S.p.A. Net cash flow in the first quarter of 1999 was negative. This was largely due to a strong increase in working capital.

[1] Although no data is available for the fourth quarter of 1998, the information provided for fiscal year 1998 relates primarily to the fourth quarter, during which the Company began to realize revenues from operations.

The following table sets forth the Company's working capital:

	1998	1999	
	December 31	March 31	June 30
		(millions of lire)	
Inventories	222	150	95
Trade receivables	2,647	5,548	13,080
Other receivables	908	1,429	1,285
Accrued income and prepayments	1,739	1,584	2,215
Current operating assets	5,516	8,711	16,675
Trade payables	(5,977)	(7,896)	(16,790)
Other payables	(581)	(795)	(1,277)
Accrued expenses and deferred income	(1,539)	(1,192)	(2,631)
Current operating liabilities	(8,097)	(9,883)	(20,698)
Working capital	(2,581)	(1,172)	(4,023)

The Company's net working capital was negative for the year ended December 31, 1998 and in the first and second quarters of 1999. Inventories decreased from Lit. 222 million as of December 31, 1998 to Lit. 150 million as of March 31, 1999 and to Lit. 95 million as of June 30, 1999, resulting from high purchasing volumes in 1998 as compared with 1999. Trade receivables increased from Lit. 2,647 million as of December 31, 1998 to Lit. 5,548 million as of March 31, 1999 (a 110 percent increase), and to Lit. 13,080 million as of June 30, 1999 (a 136 percent increase). This increase was due to the growth in revenues and an increase in the average time needed for collection of receivables (from 78 days as of December 31, 1998 to 89 days as of June 30, 1999). Trade payables increased from Lit. 5,977 million as of December 31, 1998 to Lit. 7,896 million as of March 31, 1999 (a 32 percent increase) and to Lit. 16,790 million as of June 30, 1999 (a 113 percent increase), mainly due to increases in interconnection charges and line leases.

Liquidity and Capital Resources

To date the Company has funded its activities primarily by raising equity capital. Prior to the Combined Offering, the Company obtained approximately Lit. 8,800 million in gross proceeds from equity capital financing (through capital increases in February and November 1998), all of which have been applied towards the development and initial construction of the Company's network and to support its general corporate development, network services and national sales functions. The Company has mainly resorted to leasing as a means of financing investment in tangible fixed assets. As of August 31, 1999 the Company had lines of credit totalling Lit. 5,200 million (not including the bridge facility with ABN AMRO Bank N.V.), of which Lit. 1,980 million was available.

Use of Proceeds

The Company intends to use most of the proceeds of the Combined Offering to broaden the content and range of value-added services available on its Internet portal, increase marketing and distribution expenditures and continue the expansion of its network infrastructure. Network expansion will include developing point-to-multipoint transmission — as a means to access the local loop in large metropolitan areas in Italy in order to satisfy large customers' demand for broadband access — and adding up to 6 million Euros to the capital of Andala S.p.A., of which Tiscali owns 85 percent of the share capital, for the development of the Andala project. See *"Business — Subsidiaries."* Tiscali also plans to participate as the leader of a consortium in the tender of a UMTS license in Italy, expected to take place early in the year 2000. Finally, the Company plans to use a portion of the proceeds to commence operations in other European countries, either exporting or adapting its business model or offering certain of its innovative Internet services, directly or through joint ventures.

The Company has not made a specific determination as to the allocation of the proceeds between these projects and may decide in the future to emphasize certain projects over others. Although the proceeds of the Combined Offering will permit the Company to finance a substantial part of its current plans for content development, marketing and distribution expenditures, and network expansion, full completion of the projects described above (in particular the purchase of a UMTS license and the commencement of operations outside Italy) is expected to require additional debt and/or equity financing.

The timing of such potential future financing requirements is impossible to predict, as it will depend on the speed of rollout of such projects, the type of opportunities that arise and the level of the Company's internally generated cash flow.

On August 9, 1999 the Company entered into a revolving bridge credit facility with ABN AMRO Bank N.V. for an amount up to Euro 10 million. ABN AMRO Bank N.V. subparticipated 40 percent and 10 percent, respectively, of this facility to Nazca Limited Partnership and Rothschild Italia S.p.A. This facility will be repaid and terminated upon completion of the Combined Offering. For a discussion of the compensation received by ABN AMRO Bank N.V. in connection with this facility, including warrants convertible into ordinary shares of the Company, see *''Description of Share Capital — General.''*

As of September 30, 1999 approximately Euro 7 million of this facility had been drawn down. The proceeds have been used to make an initial payment on the lease of a router and modem for Internet services (approximately 20% of the amount drawn down from this facility), to finance advertising expenditures (approximately 5% of the amount drawn down from this facility) and to develop the Company's network (activation of connections to Tiscali switches) (approximately 7.5% of the amount drawn down from this facility). Part of the proceeds were also used for a security deposit with the Banca di Sassari (approximately 44% of the amount drawn down from this facility) in order to obtain a guarantee in favor of Telecom Italia, as required by the interconnection agreement.

In the short term, the Company expects to put into service the following additional tangible fixed assets by December 31, 1999. These investments will be financed primarily by finance leases.

	Total	**Finance leases**
	(millions of lire)	
Internet installations	12,408	12,408
Telephone exchanges handling both voice and Internet services	20,000	20,000
Transmitting apparatus handling both voice and Internet services	3,500	3,500
Equipment for Company's internal network	500	—
Office furniture and equipment	100	—
Software	3,878	1,878
Hardware	1,000	1,000
Total	41,386	38,786

Recent Developments

On September 29, 1999 the Company fully repaid an interest-free loan of Lit. 301 million granted by former shareholder Monteverdi S.p.A.

BUSINESS

Certain terms used herein are defined in the Glossary

The Company

Tiscali is a Net-centric telecommunications operator which provides a wide range of communications services through an IP platform-based proprietary network. The Company believes that communications is a single product, travelling over a single network, regardless of access device (whether fixed or mobile phone or computer). Founded by Renato Soru — an Italian entrepreneur who had successfully established Czech On Line, the leading ISP in the Czech Republic — Tiscali has established itself in less than one year as a leading Italian telecommunications company.

The Company believes that growth in mass market demand for telecommunications services in Europe, and particularly in Italy, is hindered by high prices. The still largely untapped mass market comprises individuals as well as small and medium-sized businesses which require competitive, easily accessible, fully integrated telecommunications services. Tiscali provides fixed telephony at competitive prices, the first free-subscription Internet access service in Italy and value-added services. To further broaden its customer base, the Company intends to maintain price leadership and its first-mover advantage. See ''— *Strategy.*''

Tiscali was founded on June 9, 1997 (under the name ''Telefonica di Sardegna, S.p.A.,'' which was changed to Tiscali at the shareholders meeting of October 30, 1997) to exploit the expected liberalization of the Italian telecommunications market. It was not until January 1998 that new operators in Italy were allowed to apply for a license to provide telecommunications services. The Company promptly applied for an individual license — awarded in April 1998 — to offer voice telephony in Sardinia and Italy's two most populated metropolitan areas, Rome and Milan. At the same time, Tiscali began to offer prepaid calling cards and Internet services in Sardinia. In August 1998, as soon as Telecom Italia published the terms and conditions for interconnection, Tiscali became the third new operator to sign an interconnection agreement with Telecom Italia. This allowed the Company to extend its services to all of the areas of its license, using its four public switches interconnected to Telecom Italia.

Accordingly, in November 1998 the Company launched carrier selection voice services, whereby a registered customer can select Tiscali as its carrier by entering the Tiscali easy access code 10030. Tiscali targeted consumers and small businesses with prepaid rechargeable accounts for fixed telephony, using the marketing model which fueled the great success of mobile telephony in Italy. The Company also offered traditional postpaid contracts to medium-sized and large businesses. In addition, in November 1998, Kiwi I Ventura Serviços (''Kiwi'') underwrote a capital increase and became a 10 percent shareholder in the Company. The entry by Kiwi reinforced Tiscali's image as an innovative and promising company. Kiwi is an investment vehicle managed by Pino Ventures, a company headed by Oliver Novick and Elserino Piol (a Director of the Company). While a senior executive at Olivetti S.p.A., Mr. Piol founded Omnitel Pronto Italia and Infostrada.

In March 1999, Tiscali's license as a telecommunications provider was extended to all of Italy. The Company immediately negotiated with Telecom Italia the extension of its interconnection agreement to the entire national territory. See ''*Regulatory Matters*.''

On March 24, 1999, the Company launched TiscaliFreeNet, the first free-subscription Internet service in Italy, based on the model of Dixon's Freeserve, which had been launched only six months earlier in the United Kingdom. A reverse interconnection agreement signed in December 1998 allows Tiscali to receive from Telecom Italia a share of the revenues (calculated on the basis of termination fees) from calls originated on the Telecom Italia network and terminated on Tiscali telephone numbers. Tiscali retains the entire termination fee received from Telecom Italia, whereas Freeserve must pay to its ISP (Planet Online) and its telecommunications service provider (Energis) the bulk of the termination fee it receives from British Telecom or any other operator originating a call.

In the first three months of operation, with coverage limited to Sardinia, Rome and Milan, TiscaliFreeNet attracted about 216,000 subscribers.

In light of the immediate success of TiscaliFreeNet, the Company decided to extend its network to the entire national territory by installing 24 IPOPs in all 33 Telecom Italia area gateways. As of October 7, 1999, 11 of these IPOPs had been activated, and Tiscali offered service in the following regions: Basilicata, Campania (partial), Friuli Venezia-Giulia, Emilia Romagna (partial), Lazio, Lombardy, Piedmont (partial), Sardinia, Sicily and Valle d'Aosta, or approximately 56 percent of the Italian population (and the switches of Bari, Pavia and Alessandria are currently in the completion phase). As of September 30, 1999, TiscaliFreeNet had reached 415,370 subscribers, with an average of 4,447 subscribers per day added in the period September 15-30.

In July 1999, Tiscali signed a five-year contract for the lease of color on the fiber optic network of Autostrade Telecomunicazioni S.p.A. This will allow the Company to meet the demand for TiscaliFreeNet and Internet broadband services, and to reduce its dependency on Telecom Italia.

The acquisition of Informedia in July 1999 gave Tiscali access to proprietary software for E-commerce and E-payment services. See ''— *Competitive Strengths — E-Commerce and E-Payment*.''

Tiscali's Key Dates

June 1997	Tiscali is founded by Renato Soru
January 1998	New operators are allowed to apply for licenses
	Tiscali applies for a license and starts operations
April 1998	Tiscali is awarded a license to provide telephony in Sardinia and the Rome and Milan metropolitan areas
	Tiscali begins selling pre-paid calling cards and Internet access in Sardinia
August 1998	Tiscali becomes the third operator to sign an interconnection agreement with Telecom Italia
November 1998	Tiscali begins selling fixed telephony services using easy access code 10030
March 1999	Tiscali's license to provide telephony services is extended to the entire national territory
	TiscaliFreeNet, the first free-subscription Internet service in Italy, is launched in Sardinia and the Rome and Milan metropolitan areas
July 1999	Tiscali extends its telephony services to the entire national territory
	Tiscali acquires Informedia
By December 31, 1999	TiscaliFreeNet expected to be extended to the entire national territory

Industry Overview

The European communications market is currently undergoing profound changes and experiencing a high level of growth. These developments have been driven by three factors: ''disruptive'' technological innovation (a quantum leap forward which marks a break in the continuum of technological advancement), an increase in demand, and deregulation (accompanied by increased competition and lower prices).

Within the telecommunications market, data traffic is the area experiencing the highest rate of growth. Whereas at the end of 1998 the volume of data traffic was about equal to the volume of voice traffic, data is expected to overtake voice (fixed-line and mobile combined) in the near future, in terms of both volume and revenues.

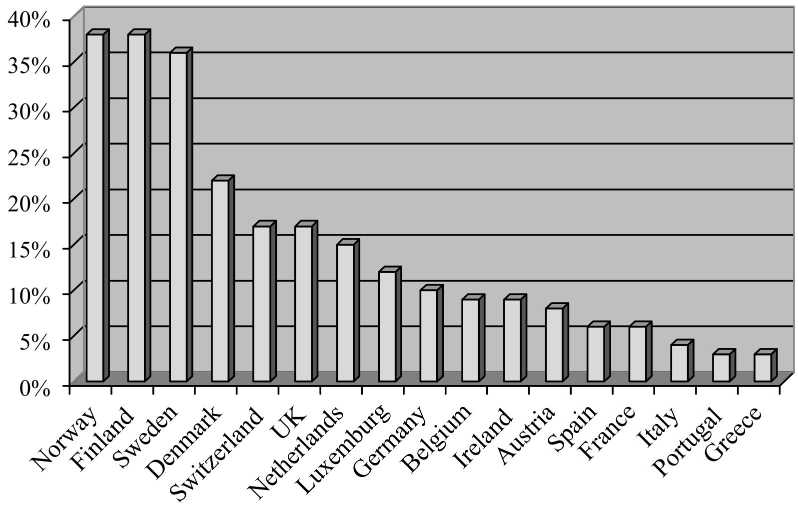
According to estimates from ASSINFORM, an association of major Italian information technology companies, the Italian market for telecommunications services was valued at $23.4 billion in 1998, compared to

$29.1 billion in France, $46.6 billion in Germany and $31 billion in the U.K. The Italian market grew 11 percent year-on-year in 1998, compared to average growth in the world market of 7.5 percent.

Internet

In the United States over the past two years, Internet has become a means of mass communication and a primary channel for commercial exchange. According to Fletcher,[1] a research company, more than 30 percent of adults in the United States are regular Internet users in Europe, such a level of participation is not expected until 2004. Moreover, levels of Internet use are relatively uneven within Europe itself, with the situations in individual countries varying markedly. The following chart shows the level of Internet use in Europe in the first quarter of 1999 by country.

Internet Penetration in Europe
(First Quarter 1999)



Source: Fletcher

According to Fletcher estimates, in the first quarter of 1999, Internet users in Italy accounted for only 4 percent of the population, compared to 17 percent of the population in the U.K., 10 percent in Germany and 6 percent in France.

One factor contributing to the limited Internet use in Italy is the low percentage of families owning a personal computer.

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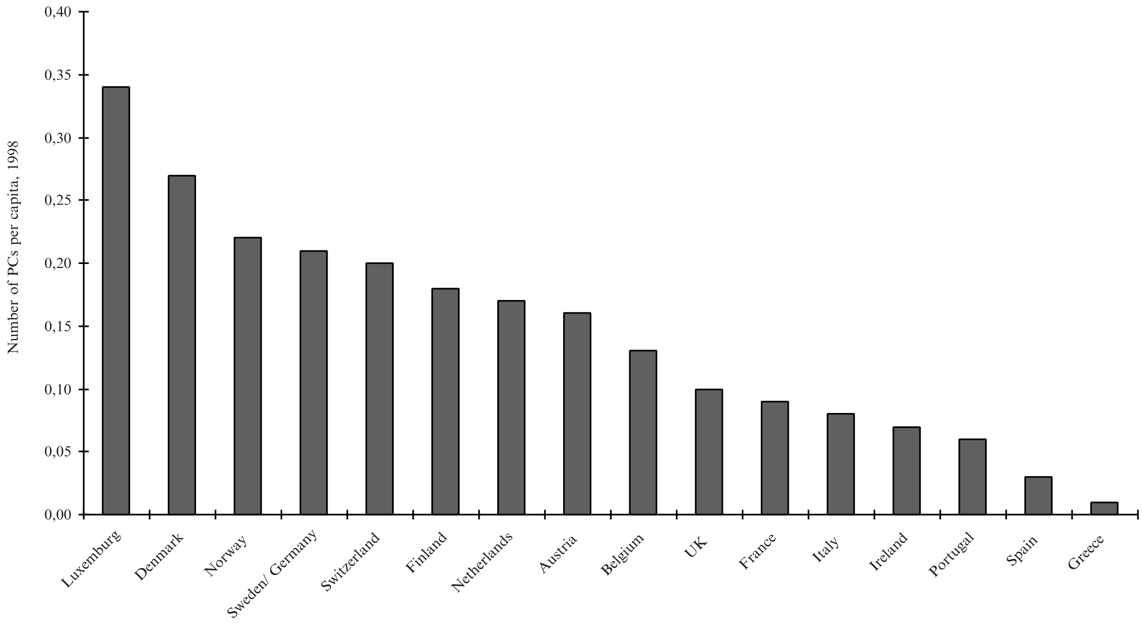
[1] Report of 1999: "*Internet Europe: Connecting the Consumer*."

Distribution of personal computers in western Europe
(Source: Fletcher: Internet Europe; Connecting the consumer)



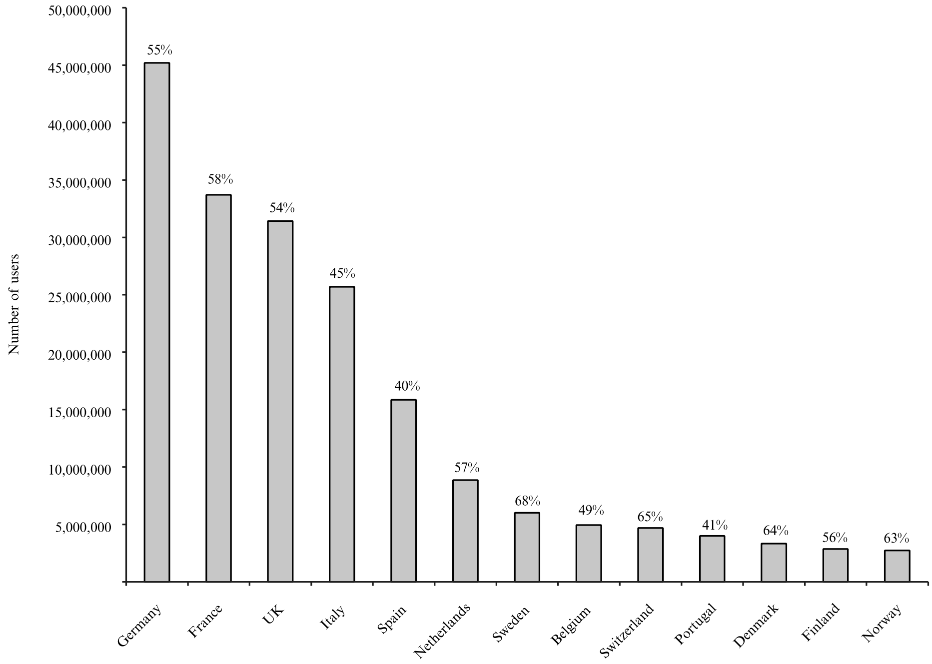
However, while Internet use in Italy is lower in absolute terms than in northern European countries, the level is progressively growing. This growth is fueled by the rise of ISPs with national coverage, the introduction of free Internet access services and increased use of ISDN lines, which guarantee higher quality and faster access to both the Internet and data services compared to traditional fixed lines.

Fixed and Mobile Telephony

The Italian market for fixed telephony is relatively stable. The market was only recently opened to competition: since January 1, 1998, new operators have been able to enter the market by installing infrastructure and signing interconnection agreements with Telecom Italia and, by offering easy access numbers, to provide alternative telephony services in Italy.

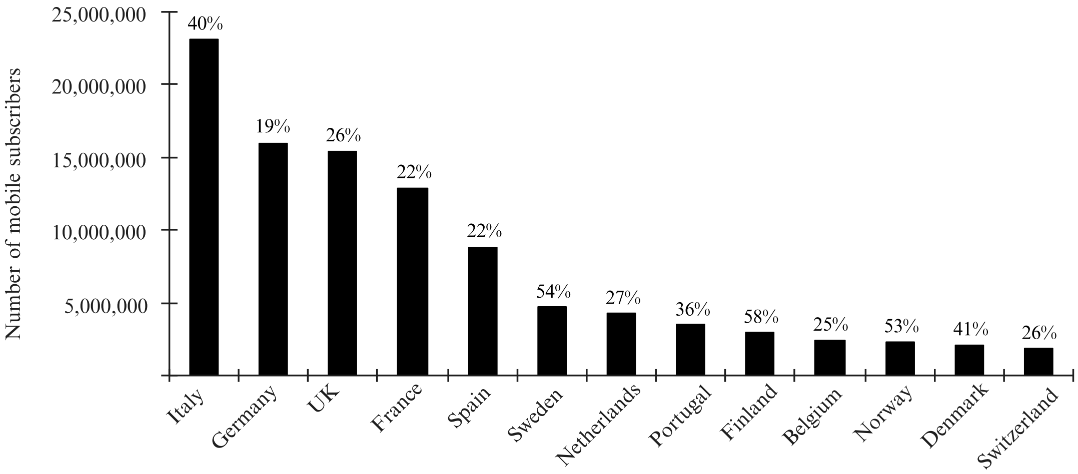
According to estimates by the research company ASSINFORM, the Italian market for fixed telephony services (voice and data) in 1996 and 1997 was Lit. 25.84 billion and Lit. 25.87 billion, respectively, representing growth of one percent. Diffusion of fixed telephony lines in Italy is among the lowest in western Europe.

Penetration of fixed lines in western Europe and number of users, 1997
(Source: OECD: Communications Outlook 1999)



According to estimates by FT Mobile Communications, the Italian market for mobile communications is first in Europe in terms of the number of subscribers. The number of mobile phone subscribers per 100 inhabitants is higher in Italy than in any other major European country, except for Scandinavia. In particular, the Italian market was spurred by the introduction of pre-paid subscriptions.

Penetration of mobile telephones in western Europe and number of users
(Source: FT Mobile Communications)



Currently, only operators with a license and their own networks can offer mobile services. However, it is expected that new operators will soon be able to offer roaming services over the networks of existing mobile providers, with prices expected to become more competitive as a result. Another important step expected to take place is the development of mobile phone access to data services.

E-Commerce; Advertising

The Italian market for commercial distribution is divided into large distributors (such as supermarkets and hypermarkets), specialized chains and traditional retail outlets. In recent years, large distributors and specialized stores have partially eroded the market share of traditional retailers. However, unlike in the majority of other industrialized countries, these retail outlets are still strongly present in Italy. This is due in part to the favorable regulatory environment. In addition, alongside these ''physical'' distribution channels are new distribution channels: sales on-line.

In Europe, sales on-line are still relatively undeveloped. According to data from the Osservatorio Anee, the total value of business-to-consumer E-commerce was Lit. 800 billion in 1998, of which only 40 percent was realized by Italian Web sites. This low level is attributable among other things to the low number of Italian Web sites equipped to handle E-commerce or offering secure payment systems. Even among Italian banks, only a very limited number are able to offer their business clients secure on-line payment systems. The goods most widely sold on-line are personal computers and accessories, which account for about 41 percent of the total value of goods sold on-line, and publishing-related products, which account for about 29 percent of the total value. According to Fletcher projections, the development of alternative means of access to the Internet, such as digital television and cellular telephones, as well as electronic payment systems will stimulate growth in E-commerce.

According to Fletcher, on-line advertising — currently centered on brand-name products, primarily for domestic use — will experience increasing growth, as regulatory barriers to international commerce diminish.

Competitive Strengths

The Company believes its competitive strengths are the following.

First-Mover Advantage. The Company's record of continuous innovation has given it first-mover advantages in various segments of the telecommunications market in Italy. Tiscali was the first in Italy to offer free-subscription Internet access, the first to offer prepaid calling cards in competition with Telecom Italia, the first to offer pre-paid phone cards for residential use and the first to offer the ability to purchase telephone traffic on-line. Tiscali was also the first in Italy to provide Web multicasting.

Unified Network. The Company controls a unified, fully integrated backbone-based network, which enables it to offer high quality services throughout Italy. Tiscali believes that controlling the network means owning the nodes and related equipment and securing ownership or long-term availability of the connecting lines. The Company has developed its infrastructure of SDH nodes to support a state-of-the-art, unified IP platform to convey Internet and voice services that end users can access regardless of access device — fixed line, mobile phone or personal computer. Accordingly, unlike the majority of its competitors, Tiscali does not face problems arising from the convergence of various networks and related services. Tiscali's integrated network allows the Company to provide, in addition to traditional telecommunications services, a vast array of innovative and value-added Net-centric services.

TiscaliFreeNet. TiscaliFreeNet was the first free-subscription Internet service to be established in Italy and continental Europe. The constant growth in its customer base and its significant market share, at low acquisition cost, represent a key advantage for developing the Company's position in the new network economy. Through TiscaliFreeNet, the Company is able not only to offer its clients traditional telecommunications services, but also to cross-sell E-commerce and value-added services.

E-Commerce and E-Payment. Tiscali believes that, in light of its acquisition in July 1999 of Informedia, it is well positioned to compete in the Italian E-commerce and E-payment markets. Informedia has developed software that has allowed it to create several successful E-commerce sites, including a site for the Italian airline AirOne. With this software, Tiscali is the first in Italy to offer customers a free E-commerce solution, called ''Willage,'' which allows companies to create their own personalized Internet shops. Tiscali also owns one of Italy's few E-payment platforms, which has recently been used as the E-payment gateway by one of Italy's largest banks. The Company earns commissions on E-commerce and E-payment transactions carried out using these systems.

Cost Structure. Tiscali believes that it has a lean organization and low overhead structure. In particular, Tiscali's unified network, unlike the more traditional networks of some other operators, allows the Company to make efficient use of its resources and realize significant cost savings on band-width, maintenance and operation of the network. Furthermore, the Company's objective of maintaining price leadership has led it to develop products such as TiscaliFreeNet and rechargeable prepaid accounts which require minimal expenditure in the areas of marketing, distribution and administration.

People. Tiscali believes that one of its key strengths is the quality and commitment of its people. Certain key managers gained pioneering Internet experience at the research institute CRS4 and subsequently at Video On Line (one of the first ISPs in Europe, founded in 1994), where they participated in the development of the first Internet browser, Web-based E-mail, the first on-line radio in Europe and other innovative services. Some of these managers furthered their Internet experience when Mr. Soru founded Czech On Line, the leading Internet service provider in the Czech Republic. Tiscali believes that its employees' experience gives the Company an advantage as the network economy develops in Italy.

Strategy

The radical changes brought about by the Internet are creating a new economy (the so-called ''network economy''), in which entrepreneurial companies, even with limited resources, can develop new services by exploiting both technological innovation and the interactive relationship with their customer base. Tiscali wants to be among the leaders in providing the mass market with Net-centric services in Italy. In order to take advantage of this large potential market, Tiscali intends to maintain its first-mover position, providing through its unified IP-based network innovative, competitively priced and easy-to-use services, in addition to traditional telecommunications services.

Broadband Services for Businesses. The expansion of its IP-based unified network is a cornerstone of Tiscali's strategy. To be a leader in the market for broadband Internet access, Tiscali plans to have a proprietary IP network in Italy and to expand this network to reach the major international Internet hubs and to directly connect end users. A proprietary network greatly reduces the costs of entering the broadband access market, as well as dependence on third parties. Tiscali's goal is to have optical fiber throughout its national network, either by directly installing new cable or by participating in consortia laying new cable. In order to expand its network abroad, Tiscali has entered into an agreement with GTS for the long-term lease of high-capacity bandwidth on the New York-London-Paris-Milan route. These connections are expected to bring Tiscali's costs for international Internet access into line with international standards. Tiscali intends to be able to reach end users using wireless point-to-multipoint communications technology, and to take advantage of the anticipated deregulation in this area. At the same time, Tiscali plans to acquire dark fiber in metropolitan areas from owners of alternative infrastructures.

Net-Centric Services for the Mass Market. Tiscali believes that in the near future the greatest revenue potential for telecommunications companies will come from Internet, rather than traditional voice services. The Company intends to focus its attention on the following Net-centric services:

- *Internet Access.* The foundation for Tiscali's Internet strategy is to increase rapidly the number of TiscaliFreeNet subscribers, while keeping customer acquisition costs low. The Company intends to differentiate its services not only by offering the highest quality services possible — competing in quality terms with other ISPs' premium subscription services — but also by offering exclusively to its subscribers new free services, such as voice chat, IP fax, E-commerce (ClubTiscali) and multicasting. Tiscali believes that, in the network economy, traditional marketing models based on massive, expensive advertising campaigns using physical distribution channels will become less useful, with the most effective marketing being done on-line. Accordingly, Tiscali intends to focus its marketing of TiscaliFreeNet on-line, using a ''virus marketing'' strategy — which relies on the natural and rapid propagation over the Internet of information about new products and services — as well as through ''member-get-member'' and loyalty reward programs, and long-term distribution agreements with leading Web sites. To distribute TiscaliFreeNet through physical channels, the Company plans to approach communities such as professional associations and municipalities which, in light of the nature of their business, have a particular interest in making use of the Internet. Tiscali offers these customers an institutional Web site with an Intranet configuration and Extranet access, and distributes TiscaliFreeNet subscriptions to all members. Finally, in retail distribution Tiscali seeks to utilize innovative channels such as the post office and major banks, and to couple marketing of TiscaliFreeNet with PCs, modems, software, magazines and music CDs.

- *E-Commerce and E-Payment.* In the Company's view, the largest revenue potential in the Internet lies in E-commerce. Tiscali intends to take advantage of this potential using its ClubTiscali direct sales channel: ClubTiscali members can receive a daily e-mail message in which the Company makes a special product offer, valid for one day only, at a deeply discounted price that has been directly negotiated with the manufacturer. Tiscali also plans to promote its own E-commerce platform and offer financial services on-line in collaboration with financial institutions. In the E-payment market, Tiscali plans to take advantage of the first-mover position it established when one of the leading Italian banks began using the Company's proprietary payment platform. Tiscali aims to increase the number of banks using this payment system, and to achieve a significant market share in E-payment services on the Internet and SMS.

- *Value-Added Internet Services.* Tiscali intends to offer a full range of value-added services such as unified messaging and NetPhone while maintaining a strategy of keeping its prices competitive. Unified messaging will allow users to integrate Internet messages with telephone and fax messages. The service will allow TiscaliFreeNet users to receive not only E-mail, but also voice mail and faxes, in a single mailbox. TiscaliFreeNet subscribers will also be able to receive E-mail by fax, E-mail notices on a cellular phone (using SMS) and voice translations of E-mails by telephone. Finally, subscribers will be able to send documents over the Internet to a fax machine, or voice messages over the Internet to a telephone. NetPhone is a new Internet telephony service that will make it possible to place phone calls from a PC to any telephone, fixed or mobile, in Italy or abroad. Tiscali will assign users of the service a new telephone number on which they can receive calls directly from their PC while they are connected to the Internet, even though their regular telephone line is in use. Reception and transmission costs for the service will be substantially lower than for traditional voice services, allowing the Company to offer particularly competitive prices.

Internet Portal. Tiscali believes that the content of the access portal to its Internet service is an essential element in acquiring and retaining customers and increasing the average time spent on line by each customer. The Company does not plan to create its own content and services for its access portal, but rather to obtain them through agreements with leading companies in each specialty area, as well as joint ventures and commercial partnerships for the creation of co-branded sites.

Voice Services. Tiscali intends to continue to expand its market share in traditional voice services by offering easy-to-use services for the mass market with clear and competitive tariff schemes. Tiscali plans to be among the first to offer new services such as integrated voice and Internet services for businesses and Internet Phone for consumers.

Mobile Services. Tiscali was the first in Italy to apply for a license as a Virtual Network Operator. If granted, such license would allow Tiscali to offer its customers mobile phone services through roaming over other mobile operators' networks. In addition, the Company expects mobile to become a key Internet access device. Tiscali plans to enter the competition in Italy for a UMTS license, expected to take place in early 2000, in order to be able to offer broadband wireless access to its network for integrated voice and Internet services.

Entering New Markets. Tiscali intends to replicate its business model of being an independent, innovative Net-Centric operator as it expands into new geographic markets. The Company's focus will be on markets where the liberalization process in communications is less developed than in the rest of Europe. The Company is exploring opportunities in central European countries, Greece, Romania and north African countries, in expectation of their rapid integration into the network economy.

Network Expansion. Tiscali intends to expand its network infrastructure by investing in dark fiber transmission capacity in Italy (backbone) and in metropolitan areas (including Cagliari), implementing a point-to-multipoint transmission system in the principal metropolitan areas in Italy and carrying out the Andala project (comprised of a fiber optic ring in Sardinia with a submarine cable to the Italian mainland).

Services

Internet

Internet services represent the fastest-growing element of Tiscali's revenues. The main service is TiscaliFreeNet, the first free-subscription Internet access service in continental Europe. The Company has only recently launched, or is in the process of launching, value-added services, on-line advertising and E-commerce, which the Company is particularly emphasizing as part of its development. Accordingly, these areas have not yet generated significant revenues. In addition, services such as unified messaging, NetPhone and ClubTiscali are in the process of being launched.

Internet Service Revenues

	1998	1999		
	Year ended December 31	Three months ended March 31	Three months ended June 30	Six months ended June 30
	(millions of Lire)			
TiscaliFreeNet	—	—	4,406	4,406
TiscaliNet	609	94	18	112
Other Internet revenues	40	22	178	199
Total Internet service	645	116	4,601	4,717

The following is a description of the Internet services Tiscali currently offers.

TiscaliFreeNet. TiscaliFreeNet is an Internet access service without any subscription or other fees, other than the cost of a normal local phone call. The service was launched at the end of March 1999, taking the place of the Company's pay service, TiscaliNet, which was launched in April 1998.

TiscaliFreeNet gives users access to standard Internet services, such as newsgroups and chatlines, an electronic mailbox and 20Mb of Web space, along with special offers exclusively for subscribers, such as multicasting and the automatic notification of new E-mail messages.

Users register for TiscaliFreeNet directly on-line, with immediate activation of the service. Tiscali receives a fee from Telecom Italia for terminating on Tiscali telephone numbers calls that originated on the Telecom Italia network.

Growth of TiscaliFreeNet in 1999

	March 31	June 30	September 30
Total Subscribers	19,210	215,973	415,370
Total Minutes Logged (in thousands)[1]	170	2,732	4,501,600

[1] Calculated from 12:00 a.m. to 11:59 p.m. of the day specified.

In March 1999, before the launch of TiscaliFreeNet, the Company had about 6,000 subscribers to TiscaliNet, the pay-service previously offered by Tiscali. Within a week of the launch of TiscaliFreeNet at the end of March 1999, Tiscali's Internet customer base more than tripled to over 18,000. Subsequently, TiscaliFreeNet's customer base has continued to grow rapidly to reach 215,973 subscribers as of June 30, 1999 and 415,370 as of September 30, 1999. During the month of September, the subscriber base grew by an average of 3,626 subscribers per day, with an average of 4,447 subscribers per day added in the period September 15-30.

Tiscali's free-subscription Internet access service has given the Company a broad customer base, which represents a competitive advantage in developing its Internet portal. This portal currently includes content and services such as Web mail, domain registration, on-line auctions, news from the ADN Kronos news service, search engines (Lycos for World Wide Web searches and MF Find for financial sector research) and theme channels (including business, cinema, computers, games, work, music, sports, travel, etc.) through a co-branding agreement with Virgilio, Italy's most widely visited Web site, and the site Free FTP (specializing in the collection of freeware and shareware programs).

Tiscali also recently introduced FreeLAN, a service aimed primarily at businesses which allows an entire company's LAN to be connected to the Internet using a single telephone line, at the cost of only one phone call.

E-Commerce and E-Payment. Tiscali offers a wide array of E-commerce solutions on its Web site. With the acquisition of Informedia in July 1999, Tiscali now has proprietary software that allows it to develop innovative E-commerce and E-payment services. In particular, Tiscali offers a free E-commerce solution called ''Willage,'' linked to an E-payment gateway, which was developed independently and is currently used by a leading Italian bank. With no upfront investment, anyone can connect to the site ''Willage.Tiscali.it'' and its page developer to build a customized E-commerce site easily and begin exploring the possibilities of E-commerce. The Company's E-commerce revenues are derived from commissions on transactions carried out using its payment gateway. Tiscali has also signed an agreement with QXL, a leader in Europe, for the creation of a co-branded on-line auction site (''tiscali.qxl.it''). The site, which has been operational since July 1999, allows any type of good to be bought and sold to both TiscaliFreeNet subscribers and other network users, after free registration for the service. QXL pays Tiscali a fixed amount on a quarterly basis, as well as a fee for each user registered and each sale concluded. In addition, the Company recently signed an agreement with Marton Corporation in order to set up a joint venture to create a ''virtual bank'', an Internet site which will allow the user to accumulate ''virtual money'' — for example by visiting sponsors' sites — that can be used to acquire goods.

Advertising. Tiscali sells ''banner'' advertising space on its site, using various specialized advertising agencies.

Audio and Video Multicasting. Multicasting is a type of real-time audio/video traffic transmission over the Web that offers higher quality than methods used in the past. This is made possible by using a system that automatically duplicates a single flow of data transmitted by the sender to the POP, making it available to each user connected to the Internet by TiscaliFreeNet. This reduces the amount of bandwidth required for each transmission and increases the quality of reception, irrespective of the number of users accessing the transmission at the same time. With multicasting, Tiscali offers traditional media companies new possibilities to increase the services they offer and enlarge the field of potential customers. Offering subscribers exclusive access to the service and to multicasting programs is another means by which TiscaliFreeNet differentiates itself from its competitors.

Domain Registration. Tiscali offers domain registration services, which allow businesses and individuals to have a personalized Web site and personalized E-mail address. Tiscali's service offers competitive prices and extremely simple registration procedures.

Voice Services

Through its unified network, Tiscali offers carrier selection voice services that are immediately and easily accessible and have simple, competitive tariff schedules. Tiscali's rates, unlike those of its major competitors, are based on only two tariff periods — peak and off-peak — which are the same for all types of users, with no charge for receiving calls. For example, Tiscali's rates (excluding VAT) for domestic long-distance calls in peak and off-peak hours are Lit. 180 and Lit. 90 per minute, respectively; the rates for calls to cellular phones are Lit. 500 and Lit. 250 per minute, respectively; calls to other EU countries carry a single flat rate of Lit. 350 per minute, without distinction between peak and off-peak calls; and the rates for calls to non-EU countries vary according to the ease of reaching the destination country, within a range from Lit. 350 to Lit. 2,174 per minute. From January through September 30, 1999, Tiscali's rates for domestic long-distance calls have been reduced by about 10 percent. In the same period, rates for calls to other EU countries (except the U.K.) have been reduced by about 30 percent.

Tiscali offers prepaid voice services, mainly for residential use (RicariCasa and Tiscali 10030), and post-paid services for business use (Tiscali Affari). These services are accessible using the 10030 easy access code. To facilitate use, Tiscali distributes to individual customers a special handset with a button that automatically dials the access code. The Company also offers a commuting device that attaches to a regular phone and automatically directs long-distance calls through the Tiscali network. In addition, beginning in January 2000 Italian regulation will allow users to elect to have Tiscali or other alternative carriers as their priority long-distance carrier (reflecting the principle of ''equal access''), eliminating the need to dial an access code before each call. Tiscali also offers prepaid telephone cards for use from public telephones.

Voice Services by Number of Customers

	1998	1999		
Product	**December 31**	**March 31**	**June 30**	**September 30**
Pre-Paid Products				
RicariCasa[1] and Tiscali 10030	8,003	48,756	103,835	178,957
Post-Paid Products				
Tiscali Affari	755	2,310	6,119	8,980

[1] Includes customers who have ''recharged'' their accounts.

Voice Service Revenues

	1998	1999		
Product	**Year ended December 31**	**Three months ended March 31**	**Six months ended June 30**	**Nine months ended September 30**
		(millions of Lire)		
Pre-Paid Products				
RicariCasa and Tiscali 10030	1,403	3,577	8,033	13,042
Post-Paid Products				
Tiscali Affari	443	994	2,935	7,218

Tiscali's telephone services include:

Prepaid Calling Cards. The Company offers standard prepaid phone cards used mainly from public touch-tone phones. Tiscali's cards were initially the only alternative to those offered by Telecom Italia. The cards are sold by newsstands, tobacco shops, post offices and other outlets. Tiscali also offers prepaid card services using its network to other local operators and companies with distribution networks, who then market the service under their own brand names.

RicariCasa. Tiscali is the only operator to offer prepaid phone cards for carrier selection services from a home phone. As with prepaid mobile phone services, a RicariCasa customer can activate the service, without having to sign a contract, simply by calling a toll-free number to set up an account linked to his or her home phone number. The Company credits the account in the amount of the RicariCasa card purchased. To use the account, the customer dials Tiscali's easy access number before making a call, and the cost of the call is debited from the customer's account. The user can increase the balance on the account at any time by buying another RicariCasa card.

Tiscali 10030. Tiscali 10030 is a contract-based, prepaid carrier selection service aimed at families and small businesses, with a pre-set charge debited directly to a customer's credit card or bank account. Once the credit falls below a specified level, the Company automatically charges a further predetermined amount to the credit card or bank account. The Company also regularly provides the user with a detailed summary showing account activity and a description of all calls. Tiscali 10030 is intended to develop ongoing customer relationships, while limiting credit risk and administrative costs.

Tiscali Affari. Tiscali Affari is a voice service designed for businesses that generate high-volume phone traffic and require more flexibility than a prepaid account allows. In order to simplify use and avoid the need to dial the easy access code, Tiscali Affari offers the option of installing a routing device that automatically sends calls to the Tiscali network. Each month customers receive an itemized bill.

Sales and Marketing

Tiscali markets its services using traditional channels as well as on-line and telephone marketing. Physical sales channels were used in publicizing the Company's services initially, and are still considered a necessary marketing method. However, Tiscali is focusing its marketing efforts on on-line and telephone marketing channels, which are developing rapidly on account of the TiscaliFreeNet user base, the growth of the Internet in the Italian market and the increasing propensity of consumers to transact business on-line or via call centers.

At present the majority of Tiscali's customers are concentrated in Sardinia and the Rome and Milan metropolitan areas. No single customer represents a significant percentage of the Company's revenues.

Physical Sales Channels. In the area of traditional sales channels, Tiscali uses its own limited internal sales force, as well as a network of outside agents (called ''Business Partners,'' of which there were about 230 as of September 15, 1999) and a network of personal computer and telephone product retailers (so-called ''Tiscali Outlets,'' of which there were about 350 as of September 15, 1999). The Company also uses regional and national distributors (including newsstands, tobacco shops, cafés and the like) to market its plastic-card-based services, such as prepaid telephone cards and RicariCasa cards. Tiscali also intends to develop a network of franchise stores, of which it already has two. Tiscali is expanding its sales network throughout Italy following the extension of its license and the broadening of its coverage area, and for this purpose it has signed agreements with the Italian postal service and several leading national banks and large commercial distribution companies. Free TiscaliFreeNet subscriptions are also marketed by bundling subscription forms or easy-installation CD-Roms with hardware products (PCs and modems) and magazines, and by distributing these materials to potential user communities such as schools and associations. The Company recently began, in cooperation with the Italian Education Ministry, to distribute 4 million free-Internet access CD-ROMs to students and teachers at junior high and high schools.

On-line and Telephone Marketing. TiscaliFreeNet was the first Internet service marketed primarily on-line through exchange agreements with operators of other sites, whereby each site displays a link to the other, including agreements with some of the more important Italian Web sites (such as Virgilio, the most popular Italian language site, Milano Finanza, ADN Kronos and others). The Company is currently increasing its on-line marketing of voice services (RicariCasa on-line and Tiscali 10030), as well as new value-added Internet services, including domain registration. Customers can now purchase prepaid telephone traffic on-line or through a call center, paying with a credit card.

Network Infrastructure

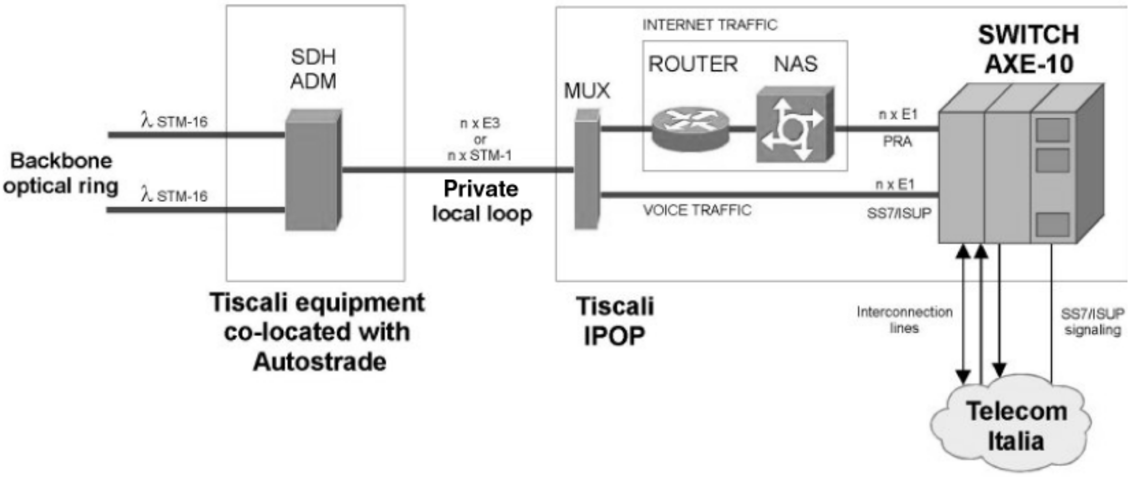
Tiscali offers a wide range of Internet and voice services over an integrated infrastructure based on an IP platform accessible by fixed or cellular telephone or by computer.

It is planned that the Tiscali network will cover all of Italy using 24 IPOPs, connected through Telecom Italia leased lines and fiber optic cable. Tiscali has entered into a five-year lease of color with Autostrade Telecomunicazioni S.p.A., which, thanks to the DWDM technology currently being used, carries 2.5 Gbps. As of October 7, 1999 Tiscali offered service in the following regions: Basilicata, Campania (partial), Friuli Venezia-Giulia, Emilia Romagna (partial), Lazio, Lombardy, Piedmont (partial), Sardinia, Sicily and Valle d'Aosta, or approximately 56 percent of the Italian population.

Tiscali's infrastructure is based on SDH transmission technology with centralized monitoring and maintenance. The Company's advanced network, combined with its superior customer service, allows it to provide customers with uniform and reliable services.

In Tiscali's IPOPs, an Ericsson AXE-10 public switch exchange is connected to Telecom Italia through direct interconnection lines and to other IPOPs through the SDH node. The same SDH node handles all voice and Internet traffic related to the IPOP. Where possible, the SDH node is located in the Tiscali IPOP; otherwise, it is located with Autostrade's equipment. The Company recently finalized a contract with GTS for the lease of transmission capacity on an underwater transatlantic fiber optic cable, which will allow transmission of voice, data and video traffic at the speed of 1.2 Gbps on the New York-London-Paris-Milan route.

The following graphic shows the typical IPOP structure:



The Tiscali Unified Network has the following features:

Scalable. Tiscali's flexible network architecture utilizes SDH technology that allows the Tiscali network to scale the number of IPOPs and the number of users accessing an IPOP in an efficient manner. In addition, SDH technology allows Tiscali to provide highly reliable service.

High-Speed, Low-Latency. The Company believes that its network architecture, which consists of a TCP/IP-based routed infrastructure built upon a redundant switching fabric, enables Tiscali to provide reliable, high-speed connections, in order to offer its business customers the ability to dedicate bandwidth by type of application.

Fault Tolerant. The Company's network utilizes multiple, redundant circuits to reduce the impact of single points of failure within the network, thereby enabling automatic rerouting of traffic and enhancing connection integrity. The Company employs SDH and IP equipment which allows routing even when there are interruptions in the network. In addition, the Company has an uninterruptible power supply at each IPOP, limiting the impact of local power outages on the Tiscali network.

Open Systems Based. The Tiscali network is based on open systems and the standard TCP/IP working protocol. As new IPOPs are installed, the Company is able to employ a variety of equipment and technologies without affecting network interoperability. As a result, the Tiscali network is designed to accommodate the rapid adoption of advanced, cost-effective equipment. The open systems architecture of the Tiscali network is designed to allow customers to use any TCP/IP-based interface.

Automated and Remote Capabilities. The Company is able to remotely monitor the network, perform network diagnostics and equipment surveillance and connect customers from its network operations center. With Tiscali's network architecture, these tasks can be performed quickly regardless of IPOP location or degree of traffic congestion. This allows the Company to respond quickly to network problems without dispatching personnel.

Quality Control. The Company is able to monitor network bandwidth capacity and transmission speeds and to establish permanent virtual circuits when necessary or, in extreme cases, control bandwidth allocation to users. Through its remote monitoring ability, the Company is able to track each POP's physical dial-up capacity utilization and thereby anticipate needed additions to the network before capacity constraints arise.

Extending the Network

Since there is currently no fiber optic available in Sardinia, the Company is planning to carry out the Andala project, which comprises a fiber optic loop connecting the main cities in Sardinia and a fiber optic submarine cable between Golfo Aranci in the northeast of Sardinia and Pomezia, located in the center of mainland Italy. The Company believes that Andala will enable it to accomplish two major goals. First, it will allow the Company to cement its position as a leading supplier of communications services in Sardinia. Second, it will give the Company leverage in its negotiations with other communications providers with whom it may want to exchange excess capacity on its network (''peering'').

In order to complete its network and reach end users in the major Italian metropolitan areas, the Company is planning to implement a point-to-multipoint transmission system using Nortel technology. The Company applied for wireless licenses in December 1998 so that it can provide last-mile service directly to the customer's door. The Company intends to acquire dark fiber transmission capacity in metropolitan areas from owners of alternative infrastructure and to create a metropolitan fiber optic network in Cagliari, sharing the costs with other companies currently working on developing urban infrastructure (for example, gas networks).

Competition

Tiscali's competitors can be classified by type of service:

Internet Access Services. Tiscali's direct competitors in the free-subscription Internet access market and related services are Libero, launched by Infostrada on July 14, 1999, and ClubNet, launched by Telecom Italia on September 3, 1999. Other major competitors are TIN (Telecom Italia) and IOL (Infostrada), which offer fee-based Internet access, as well as other smaller, local ISPs.

Based on data released by these ISPs and Company estimates, as of June 30, 1999, TIN and Infostrada were the leading Italian Internet access providers in terms of number of users. As of such date, TIN and Infostrada claimed to have subscriber bases of 630,000 and 260,000, respectively. On June 30, 1999, Tiscali had 215,974 subscribers, or an estimated 15 percent share of the Italian market. Based on these figures, Tiscali believes that on such date it was the leading ISP in terms of number of subscribers in the areas in which it was available at the time — Sardinia and the Rome and Milan metropolitan areas, which together account for approximately 15 percent of the Italian population.

E-commerce. In E-commerce, Tiscali's direct competitors are the major U.S. and European specialized sites, such as Amazon.com, E-bay and Buecher.de, as well as the best-known search engines like Yahoo!, Excite, Lycos and Infoseek, virtual communities such as Geocities and Fortunecity, and Italian Web sites offering E-commerce services. In the market for business E-commerce services, competitors include large ISPs such as TIN and Infostrada, as well as certain specialized consulting companies. Market share data for the E-commerce market is not currently available.

Fixed-Line Telephone. Telecom Italia is the leading fixed-line telephone operator due to the capacity and diffusion of its network, and most importantly due to the advantages gained from its position as the incumbent monopoly operator until the recent liberalization of the telecommunications market. Other significant competitors are Infostrada, Albacom, Wind and Tele2.

Market data on these competitors relate to different periods. Infostrada (fixed lines) announced on July 8, 1999 that it had a total of 2.04 million voice subscribers as of June 30, 1999, with an average of 4,900 new subscribers per day during the month of June. Wind (fixed and mobile telephones) announced that it had 500,000 subscribers at the end of June 1999, with an average of 4,167 new subscribers a day in the period from March 1 to June 30. Albacom, which markets its services mainly to large businesses, estimated on March 26, 1999 that it would have 8,000 subscribers as of March 31, 1999, with an average of 40 new subscribers per day in the first quarter of the year. Tiscali, operating in an area limited geographically to about 15 percent of the Italian population, had a total of 109,954 registered subscribers (including RicariCasa customers who have ''recharged'' their accounts) as of June 30, 1999, with a significant market share in Sardinia and the Rome and Milan areas compared to its competitors.

Seasonal Factors

In light of Tiscali's short operating history, it is impossible to estimate with any degree of accuracy whether the Company's business is affected by seasonal factors. However, according to surveys conducted by the Company while it was offering TiscaliNet (the fee-based Internet access service), the summer season can see a decline in the number of new subscribers and the volume of traffic generated by the Internet. In 1998, the number of new subscribers in August was about 45 percent lower than in the preceding month. In August 1999, there was a decline in the average number of minutes of connection time: 2,442,868 minutes compared to 2,782,870 in July and 4,501,600 in September, even though the average number of new TiscaliFreeNet subscribers added per day increased steadily over this period (1,407 per day in July, 1,454 in August and 3,626 in September, with an average of 4,447 subscribers per day added in the period September 15-30).

Facilities

The Company's headquarters are located in Cagliari, Sardinia. This facility is leased. In addition, the Company leases offices for sales, marketing and customer service activities in Milan and Rome.

Subsidiaries

The Company owns an 85 percent interest in Andala S.p.A., a 50 percent interest in Almanacco S.p.A. and a 100 percent interest in Informedia S.r.l. Neither Andala S.p.A. nor Almanacco S.p.A. has commenced operations, and neither has any employees. It is contemplated that Andala S.p.A. will be used to carry out the Andala project. See "*Business — Extending the Network*." The acquisition of Informedia, which has three employees, gave Tiscali access to proprietary software for E-commerce and E-payment services.

Employees

As of September 15, 1999, the Company had 178 full-time employees. The Company's future success will depend in part on its ability to continue to attract, retain and motivate highly qualified technical and management personnel, for whom competition is intense. From time to time, the Company also employs independent contractors to support its research and development, marketing, sales and support and administrative organizations. The Company has never experienced a work stoppage and believes its relations with its employees are good. See "*Investment Considerations — Dependence on Key Personnel; Management of Growth*."

Legal Proceedings

The Company is involved in certain legal actions and claims arising in the ordinary course of business. Management does not believe that any of the litigation in which the Company is currently engaged, either individually or in the aggregate, will have a material adverse effect on the Company's consolidated financial position or future results of operations.

REGULATORY MATTERS

The regulatory framework for telecommunications in Italy was established by Law 249/1997 and by Presidential Decree 1997/318 (''DPR 318''). DPR 318 substantially amended and revised the basic law on telecommunications services, in light of the liberalization process taking place in the European Union. DPR 318 ended all exclusive and special rights for the installation of infrastructure and the provision of telecommunications services, paving the way for full competition, and established guidelines for interconnection, licensing, universal service, numbering and rights of way.

The regulatory agency primarily responsible for enforcement of national telecommunications laws and regulations is the *Autorità per le Garanzie nelle Comunicazioni* (the National Regulatory Authority for Telecommunications, or ''NRA''). The NRA was established by Law 249/1997 and became operational in June 1998. Among the NRA's main responsibilities are the issuance of licenses to telecommunications providers and the adjudication of interconnection disputes. The *Autorità Garante della Concorrenza e del Mercato* (the ''Antitrust Authority''), established by Law 287/1990, retains overall jurisdiction in the field, mainly to prevent incumbent operators from abusing the advantages acquired under earlier regulatory regimes.

The main provisions of the current regulatory regime include the following:

Interconnection. According to the Decree of the Ministry of Communications of April 23, 1998 (the ''April Decree''), all telecommunications operators have the right to receive, and, if requested, are required to allow, interconnection. Operators designated as having significant market power must provide interconnection in a non-discriminatory manner at a reasonable price and cannot refuse interconnection without the NRA's prior approval. The NRA may on a case-by-case basis set time frames for the execution and performance of interconnection agreements. If such time frames are not respected, the NRA has the power to establish mandatory time frames. The NRA also has the power to issue binding decisions to operators which fail to comply with the conditions of interconnection agreements and, in the event of disputes, to mandate interconnection and its terms.

After receiving a license for the national territory on March 1, 1999, Tiscali entered into an interconnection agreement with Telecom Italia in April 1999 for a five-year term (which replaced the interconnection agreement entered into in August 1998 relating to traffic originated in the Milan and Rome metropolitan areas and Sardinia). Under this agreement, Telecom Italia is required to carry traffic to and from Tiscali's 24 IPOPs. In exchange, Tiscali pays a fee comprising a fixed base amount per minute of traffic, which varies depending on the time of day the call is made, plus a supplementary sum that varies with the number of access ports and circuits utilized. Interconnection fees are set on the basis of Telecom Italia's published rates, as approved by the NRA. Any variations the NRA subsequently makes to Telecom Italia's published rates are automatically incorporated into the agreement. The agreement between Tiscali and Telecom Italia is subject to annual review to ensure that the traffic Tiscali generates meets the volume provided for in the agreement. If traffic falls below the agreed-upon level, Tiscali must pay Telecom Italia certain penalties as set forth in the standard Telecom Italia agreement. Each party may also request the re-negotiation of the agreement in the event that technological innovations change market conditions.

The agreement gives Tiscali interconnection of up to 2 Mbps and allows it to co-locate its equipment in Telecom Italia facilities. The agreement also sets quality standards in accordance with the terms of the April Decree, and provides for quick maintenance and repair of faulty or disrupted service. Telecom Italia must compensate Tiscali for any damages the Company incurs due to such faulty or disrupted service.

In December 1998, Telecom Italia entered into a reverse interconnection agreement with Tiscali (superseded by a new agreement on May 19, 1999 for a five-year term) whereby Tiscali receives a fee (the ''termination fee'') from Telecom Italia for terminating incoming calls from Telecom Italia on Tiscali numbers. The termination fees payable to Tiscali vary depending on the tariff period (peak or off-peak) in which the call is made.

Pursuant to the May 19, 1999 agreement, the compensation related to local traffic (and thus, for TiscaliFreeNet, a substantial part of the interconnection traffic) on the Tiscali network is lower than the compensation provided for in the December 1998 agreement (long-distance calls terminating in districts in which Tiscali is not present with a point of interconnection have been increased by approximately 20%). Such reduction is approximately 20% on average, and 70% for compensation related to calls which originate and terminate in the same district in which Tiscali is not present with a point of interconnection.

Tiscali has contested both the need to enter into a new agreement, arguing that the prior agreement was appropriate for governing reverse interconnection service nationwide, and the reduction of the interconnection compensation. Based on these arguments, among others, Tiscali has filed a complaint with the NRA and Antitrust Authority, seeking reestablishment of tariffs that are consistent with applicable regulations and competition rules. postponement. On September 17, 1999, the Antitrust Authority formally commenced an investigation of Telecom Italia, indicating that — in light of Telecom Italia's dominant position in the telecommunication services market and its particularly large market share in Internet access — Telecom Italia's early termination of the reverse interconnection agreement signed with Tiscali in late 1998 and its imposition, in the context of negotiations concerning the reciprocal interconnection agreement with Tiscali and Albacom, of technical and financial conditions more favorable to it with respect to the termination of calls on its competitors' numbers (to such an extent that its competitors are not adequately compensated and are limited in their ability to launch new telecommunications services), may constitute abuse of dominant position by Telecom Italia.

Licensing. The procedures and criteria for licensing are set forth in the Decree of the Ministry of Communications of November 25, 1997. An individual license is required to provide voice telephony and to establish and operate a telecommunications network. This license automatically provides rights of ways and the right of interconnection. The grant of a license to install public telecommunications networks constitutes, within the meaning of DPR 318, paragraph 25, article 6, a declaration that the network is for public use, and accordingly Tiscali has a right of way to build its network. The NRA may restrict the number of individual licenses for a particular category of telecommunications services only if there are insufficient radio frequencies or numbers available. In addition, the NRA can revoke a license if the holder fails to comply with its terms and conditions. All individual licenses must be granted pursuant to open, non-discriminatory and transparent procedures.

Tiscali has been awarded a license ''to establish a telecommunications network in order to provide voice telephony services.'' The license, originally limited to the Rome and Milan metropolitan areas and Sardinia, was extended to the entire national territory on March 1, 1999. Under the terms of its license, the Company undertakes to have a network covering the entire territory by the year 2003, and to invest in research and development. The license allows the Company to obtain the rights of way necessary to lay down its infrastructure, using either copper or fiber optic cables. Service quality standards are set by DPR 318. The Company must submit to the NRA a semi-annual status report on its operational progress and an annual report on its financial results. The license also requires Tiscali to set the terms and conditions for provision of services to customers, including the conditions under which Tiscali can discontinue service, and establish its customers' rights and obligations. In addition, the license assigns to Tiscali frequencies over which it can provide microwave connections point-to-point or point-to-multipoint.

Tiscali has also been granted a range of telephone numbers pursuant to the Decree of the Ministry of Communications of February 27, 1998 (the ''February Decree,'' see below).

The license is granted for 15 years and is renewable. It is subject to revocation by the NRA if Tiscali fails to perform certain obligations, including paying license fees (Lit. 120 million for monitoring and control of voice service management and Lit. 200 million for the 10030 access code), installing its network within the time frame set by the license and meeting other conditions attached to the license. The license may also be revoked if Tiscali fails to meet mandatory service quality standards. To guarantee performance of these obligations, Tiscali posted a bond in the amount of Lit. 2 billion.

Numbering. The NRA assigns ranges of numbers to operators which request them pursuant to the February Decree (as updated by the NRA's numbering plan dated July 29, 1999). In addition, the NRA must promote equitable, non-discriminatory, transparent and objective conditions to ensure availability of carrier selection facilities (''equal access'') by January 1, 2000. The NRA also has the power to allocate easy access codes that allow users to select a carrier for their long-distance and international calls by dialing a four- or five-digit code. A company that is allocated a range of numbers is also entitled to receive a termination fee whenever a call is terminated on one of its numbers.

Pricing. With the liberalization of telecommunications services, operators may in principle set prices autonomously and need only inform the NRA of changes to such prices. Operators designated as having significant market power (including Telecom Italia) are subject to the NRA's authority to modify tariffs and interconnection fees. In July 1998, the NRA ruled that Telecom Italia's published interconnection fees did not meet guidelines set by law, in that prices were too high and tariffs were still being set in a discriminatory manner, and accordingly ordered Telecom Italia to re-set its rates. In March 1999, the NRA ordered Telecom Italia Mobile and Omnitel, the leading mobile phone providers in Italy (which were designated in September 1999 as having significant market power), to lower fixed-to-mobile telephone interconnection charges and simplify their tariff schemes (including by reducing to two the number of tariff periods applicable to fixed-to-mobile calls). On June 25, 1999, the NRA announced measures aimed at rebalancing tariffs, reducing long distance rates and increasing residential rates.

Tiscali sets its own tariffs, which currently provide for two tariff periods (peak and off-peak).

Internet. An Internet services provider must obtain a general authorization from the NRA and be able to guarantee interconnection of traffic with its POPs, leased lines from an incumbent operator (or alternatively, availability of a proprietary network) and a connection with international Internet (the so called ''Big Internet'') via Telecom Italia or other international operators. EC Directive 94/42, which was transposed into Italian law by DPR 318, mandates cost-based pricing for leased lines. The NRA is presently evaluating whether current prices are based on costs, with the aim of establishing accounting principles that can serve as guidelines to bring prices in line with EU ''best practice'' levels.

As of June 25, 1999, Internet calls are available at reduced rates compared to regular telephone calls. Special discount price packages, once only available to customers of TIN, have been extended to all users; previously, Internet calls were charged at the same rates as regular local phone calls.

Tiscali was authorized to offer Internet services beginning in March 1998. The authorization, which covers the entire national territory, is granted for a renewable nine-year period, and requires no payments or fees, except to cover NRA's administrative costs. Access to TiscaliFreeNet is governed by an agreement between Tiscali and the individual user, entered into for an indefinite term. The user agrees to log on to TiscaliFreeNet at least once every three months. Failure to use TiscaliFreeNet for three months gives Tiscali the right to disconnect the user.

Currently, there are no Internet-specific regulations governing content, on-line transactions, freedom of expression, intellectual property rights or Voice-over-IP. However, privacy laws have been enacted that may affect E-commerce and on-line transactions. The processing of personal data and the protection of privacy in the communications sector is regulated by Law 171 of May 13, 1998 (''Law 171/98''), which was enacted pursuant to EC law. Law 171/98 requires providers of publicly available telecommunications services to take appropriate technical and organizational measures to safeguard security of their services and of subscribers' personal data. Personal data may be used for the purposes of subscriber billing and interconnection payments. Such use is permissible only through the end of the period during which the bill may lawfully be challenged or payment may be pursued. Personal data can be used for marketing only with the individual subscriber's prior consent.

On-line transactions entered into by registered TiscaliFreeNet users are subject to Legislative Decree 185 of May 22, 1999 (''Decree 185/99''), implementing the EC Directive of May 7, 1997 governing ''distance contracts'' (contracts for goods or services concluded between a supplier and a consumer under organized distance sales or service-provision schemes operated by the supplier without the supplier and consumer being physically present at the same time). Decree 185/99 gives the consumer the right to withdraw from the contract within a certain time period without penalty and without giving any reason. This right cannot legally be waived by the consumer. Decree 185/99 also provides that the supplier must obtain the consumer's prior consent before using long-distance means of communication.

Universal Service. The Ministry of Communications Decree of March 10, 1998 mandates provision of ''universal service,'' a minimum set of services of a given quality, available to end users regardless of their geographical location and at an affordable price. The decree established a special fund to which providers contribute to cover the cost of universal service. To date, only Telecom Italia has been required to provide universal service in Italy and to contribute to the fund. In principle, new communications operators could be required by the NRA to provide universal service; however, the NRA has the power to exempt new market entrants from contributing to the fund.

Competition Law. Tiscali is subject to Law 287 of October 10, 1990 (''Law 287''), the Italian competition law of general application, and to EU competition laws. Law 287 forbids (i) agreements (including resolutions and concerted practices) aimed at fixing prices, limiting production or access to markets and technological developments, sharing of markets, applying different conditions for the same services to the detriment of competitors, and subjecting contracts to the acceptance of conditions that, according to their nature and common practice, are not linked to the object of the contract; (ii) abuses of dominant position (including practices aimed at fixing prices, limiting production or access to markets or technological developments, applying different contractual conditions for the same services to the detriment of competitors, and subjecting contracts to the acceptance of conditions that, according to their nature and common practice, are not linked to the object of the contract); and (iii) combination transactions (i.e., mergers, acquisitions of controlling interests and joint ventures) which would result in the creation or strengthening of a dominant position.

All combinations in relation to which (i) the combined overall turnover in Italy of the companies involved exceeds Lit. 710 billion or (ii) the turnover of the company being acquired exceeds, in Italy, Lit. 71 billion, must be approved by the Antitrust Authority. These thresholds are adjusted each year for inflation. In November 1997, the Antitrust Authority rejected a proposed merger by incorporation between Telecom Italia and Intesa (a joint venture between AT&T and IBM) on grounds that it would create a dominant player in the market for data transmission.

Decisions of the Antitrust Authority are considered administrative acts and may be appealed in court. The Antitrust Authority is authorized to impose fines ranging from 1 percent to 10 percent of annual turnover for violations of antitrust laws.

MANAGEMENT

Board of Directors

Pursuant to the Company's *Statuto* (''By-laws''), the Company is managed by a board of directors (the ''Board of Directors'', each a ''Director'') which must consist of three to eleven individuals or by a sole director, (the ''Sole Director''). The Board of Directors is elected by the shareholders meeting for a term of three fiscal years or for the shorter term determined by the shareholders. The Directors may be re-appointed for successive terms.

The By-laws established a list-based voting system (*''voto di lista''*) for the election of Directors which is designed to permit minority representation on the Board of Directors. The lists for the election of directors can be submitted by shareholders representing, alone or jointly with other shareholders, at least 2% of the Company's voting capital stock. Each shareholder may present, or participate in the presentation of, only one candidate list.

The *''voto di lista''* provides that five sevenths of the members of the Board of Directors is appointed from the list which obtains the highest number of votes and that the remaining two sevenths of the members are appointed from among the other lists presented.

In accordance with the By-laws, the Board of Directors or other Sole Director has complete power of ordinary and extraordinary administration of the Company and in particular may perform all acts it deems advisable for carrying out the Company's corporate purposes, except for the actions reserved by applicable law or the By-laws to a vote of the shareholders at an ordinary or extraordinary shareholders' meeting.

The Board of Directors must appoint a chairman (*presidente*) and may appoint a vice-chairman of the Board of Directors to replace the chairman when he is absent or unavailable. The chairman of the Board of Directors and, in his absence, the vice-chairman and the managing Directors, if any, are severally the legal representatives of the Company. The Board of Directors may delegate powers to one or more managing Directors (*amministratori delegati*) and confer powers for single acts or categories of acts to employees of the Company or persons unaffiliated with the Company, and/or determine the nature and scope of the delegated powers of each Director. However, in accordance with Italian law and the By-laws, the Board of Directors may not delegate certain of its responsibilities, including the approval of the financial statements, increases in the amount of the Company's share capital or the issuance of debentures (if any such power has been delegated to the Board of Directors by vote of the extraordinary shareholders' meeting) and the calling of ordinary or extraordinary shareholders' meetings.

Meetings of the Board of Directors are called by written notice by the chairman on his own initiative and must be called upon the request of at least two other Directors or upon the request of at least two members of the Company's board of statutory auditors (the ''Board of Statutory Auditors'', each a ''Statutory Auditor''). Meetings may be held in person, or by video-conference or tele-conference, in Italy. The quorum for meetings of the Board of Directors is a majority of the Directors in office. Resolutions are adopted by the vote of a majority of the Directors present at the meeting.

Under Italian law, Directors may be removed from office at any time by the vote of shareholders at an ordinary shareholders' meeting although, if removed in circumstances where there was no just cause, such directors may have a claim for indemnification against the Company. Directors may resign at any time by written notice to the Board of Directors and to the chairman of the Board of Statutory Auditors. The Board of Directors must appoint substitute Directors to fill vacancies arising from removals or resignations, subject to the approval of the Board of Statutory Auditors, to serve until the next ordinary shareholders' meeting. If at any time a majority of the then current members of the Board of Directors resign or otherwise cease to be Directors, the entire Board of Directors will be considered to have lapsed and the remaining members of the Board of Directors (or the Board of Statutory Auditors if all the members of the Board of Directors have resigned or ceased to be Directors) must promptly call an ordinary shareholders' meeting to appoint a new Board of Directors.

The following table sets forth the names of the members of the current Board of Directors of the Company, their positions, the year when each was initially appointed a Director and their ages. The current Board of Directors was elected for a three-year term on June 30, 1999.

Name	Position	Year First Appointed to Board of Directors	Age
Renato Soru	Chairman and Managing Director (*amministratore delegato*)	1999	42
Elserino Piol	Director	1999	67
Maurizio Decina	Director	1999	56
Bruno Soggiu	Director	1999	61
Hermann Hauser	Director	1999	50

Renato Soru was the sole Director of the Company from 1997 until June 30, 1999 when he was appointed Chairman of the Board of Directors and Managing Director. Prior to founding the Company, Mr. Soru in 1995 received a license to use the trademark Video On Line, an Italian ISP, to found a Prague-based ISP, Czech On Line, which became the leading ISP in the Czech Republic. From 1990 to 1993, Mr. Soru worked for a Milan-based merchant bank.

Elserino Piol has been a Director of the Company since June 30, 1999. Mr. Piol worked for Olivetti from 1953 to 1996, including as Vice Chairman beginning in 1988. He is currently chairman of Picienne Italia S.p.A. and Veron S.p.A. and serves on the board of directors of a number of information technology companies. He is active in venture capital as managing general partner of 4C Ventures and chairman and partner of Pino Venture Partners.

Maurizio Decina has been a Director of the Company since June 30, 1999. Mr. Decina is a professor at Politecnico di Milano and directs the Center of Research and Education in Information Technology, a university-industry consortium. He has worked for Telecom Italia, Italtel and AT&T in addition to his academic career at the University of Rome and Politecnico di Milano.

Bruno Soggiu has been a Director of the Company since June 30, 1999. Mr. Soggiu is chairman of the board of statutory auditors of Interoute. He is a former executive of Olivetti, where he was responsible for audit, administrative functions and personnel.

Hermann Hauser has been a Director of the Company since June 30, 1999. Mr. Hauser co-founded Acorn Computers in 1978 and served as its chairman. He worked for Olivetti from 1986 to 1991, including as vice president for research. In 1997 he co-founded Amadeus Capital Partners Ltd. He has also founded a number of IT companies.

Executive Officers

Executive officers are appointed by the Board of Directors. The following table sets forth the names of the Company's executive officers, their respective positions within the Company, the year they were appointed to such positions and their ages.

Name	Position	Year First Appointed to Position	Age
Luigi Filippini	Chief Operating Officer	1999	37
Mario Mariani	Marketing Manager	1999	32
Paolo Susnik	Manager for Technical and Internet Services	1999	35
Roberto Lai	Administrative Manager	1999	35
Jonathan Brownstein	Sales Manager	1999	33
Pasquale Lionetti	Commercial Manager for Northern Italy	1999	42
Marco Germani	Manager for Technical Services	1999	41
Giovanni Falcone	Manager for Technical Services	1999	42

Luigi Filippini has been Chief Operating Officer of the Company since 1999. Prior to joining the Company, Mr. Filippini worked for the Internet division of Telecom Italia, developing and managing interactive services based on the Internet from mid-1996 to 1998 and overseeing the integration of Video On Line into Telecom Italia's operations. From 1992 to mid-1996, Mr. Filippini was responsible for the start-up of, and then became an executive at, Video On Line.

Mario Mariani has been Marketing Manager of the Company since 1999. Prior to joining the Company, Mr. Mariani worked as Product Manager for Web Services for Telecom Italia from June 1996 to September 1997. From September 1995 to May 1996, Mr. Mariani was responsible for developing a sales strategy and customer service for Web services at Video On Line. From 1993 to 1995, Mr. Mariani worked on a project for the Consorzio Ventuno, a public entity in Sardinia, to bring new technology to small and medium-sized businesses.

Paolo Susnik has been Manager for Technical and Internet Services since 1999. Prior to joining the Company, Mr. Susnik was responsible for managing accounts and for Web hosting services at Video On Line in Prague from January to September 1996. From May 1995 to January 1996, Mr. Susnik represented IBM at the Digital Audio Video Council, an international committee on standardization for interactive television. From 1992 to 1996, Mr. Susnik was a systems analyst for IBM Semea at the Network Applications Center of Cagliari.

Roberto Lai has been Administrative Manager of the Company since 1999. Prior to joining the Company, Mr. Lai was internal audit manager at Logistica Mediterranea S.p.A., a transportation company in Sardinia, from 1993 to 1998. From 1990 to 1993, he was an accountant at Price Waterhouse.

Jonathan Brownstein has been Sales Manager of the Company since June 1999. Prior to joining the Company, Mr. Brownstein was sales manager for ''soccerage.com'', a joint venture between CBS Sportsline and rete! from 1997 to 1999. He also founded a company which represents various software companies in southern Europe. From 1995 to 1996 he was international sales manager for Video On Line.

Pasquale Lionetti has been Commercial Manager for Northern Italy since mid-1999. Prior to joining the Company, he worked for Montedison, Mondadori and RDS Finanziaria.

Marco Germani has been Manager for Technical Services since August 1999. Prior to joining the Company, Mr. Germani founded Digitron and co-founded CD Inform and, in 1995, Informedia, which Tiscali acquired in July 1999.

Giovanni Falcone has been Manager for Technical Services August 1999. Prior to joining the Company, Mr. Falcone worked for Genel (a company of the 3I group) and co-founded CD Inform and Informedia.

Auditors

Statutory Auditors

Under Italian law, in addition to electing the Board of Directors, the Company's ordinary shareholders meetings elects a Board of Statutory Auditors (*Collegio Sindacale*). At ordinary Shareholders' meeting of the company, the Statutory Auditors are elected for a term of three years, may be re-elected for successive terms and may be removed only for cause and with the approval of a competent court. Each member of the Board of Statutory Auditors must provide certain evidence that he is in good standing and meets certain professional standards.

Pursuant to certain provisions of Legislative Decree No. 58 of February 24, 1998 (''Decree No. 58''), applicable from July 1, 1998 to Italian companies whose shares are listed on an Italian regulated market, the by-laws of listed companies must (i) specify the number of Statutory Auditors (not fewer than three) and alternate members (not fewer than two), (ii) regulate the appointment of the chairman of the Board of Statutory Auditors, (iii) limit the number of mandates that the Statutory Auditors may have in other companies and (iv) include clauses ensuring that minority shareholders may elect one Statutory Auditor (or two if the Board is composed of more than three members). The Company's By-laws currently provide that the Board of Statutory Auditors shall consist of three Statutory Auditors and two alternate Statutory Auditors (who are automatically substituted for a Statutory Auditor who resigns or is otherwise unable to serve as such) and that such Statutory Auditors may not hold the position of statutory auditor in more than five other listed companies (not counting subsidiaries of the

Company). According to the Company's By-laws, the Statutory Auditors are elected according to a cumulative voting system, whereby each shareholder or group of shareholders holding at least 2 percent of the Shares may present a slate listing in progressive order three candidates to the position of Statutory Auditor and two candidates to the position of alternate, each shareholder (or shareholders under common control) may present and vote for a single slate and each candidate may appear on a single slate. If more than one slate is presented, two Statutory Auditors and one alternate are elected from the slate which obtains the largest number of votes in the shareholders meeting (the candidate listed first on such slate shall become the chairman of the Board of Statutory Auditors) and one Statutory Auditor and one alternate are elected from the slate that obtains the second largest number of votes.

Decree No. 58 provides further that the Board of Statutory Auditors will be required to verify that the Company (i) complies with applicable law and its By-laws, (ii) respects the principles of correct administration, (iii) maintains adequate organizational structure, internal controls and administrative and accounting systems and (iv) adequately instructs its subsidiaries to transmit to the Company information relevant to the disclosure obligations of the Company.

A company's Board of Statutory Auditors is required to meet at least once each quarter. In addition, the Statutory Auditors of the Company may be present at meetings of the Company's Board of Directors and shareholders meetings and at meetings of the Company's Executive Committee. The Statutory Auditors may decide to call a meeting of the shareholders, the Board of Directors or the Executive Committee, ask information on the management of the company to the Directors, carry out inspections and verifications at the Company and exchange information with the Company's external auditors. The Board of Directors must report to the Statutory Auditors at least quarterly on its activities and on the main transaction carried out by the Company. Any shareholder may submit a complaint to the Board of Statutory Auditors regarding facts that such shareholder believes should be subject to scrutiny by the Board of Statutory Auditors, which must take any such complaint into account in its report to the shareholders' meeting. If shareholders collectively representing 2 percent of the company's share capital submit such a complaint, the Board of Statutory Auditors must promptly undertake an investigation and present its findings and any recommendations to a shareholders' meeting (which must be convened immediately if the complaint appears to have a reasonable basis and there is an urgent need to take action). The Board of Statutory Auditors may report to the competent court serious breaches of the duties of the Directors. The Company's Board of Statutory Auditors is also required to notify CONSOB without delay of any irregularities found during its review activities. CONSOB may report to the competent court serious breaches of the duties of the Statutory Auditors of a listed company.

The following table sets forth the names of the three members of the current Board of Statutory Auditors of the Company and the two alternate Statutory Auditors, their respective positions, the year they were appointed to such positions and their ages. The current Board of Statutory Auditors was elected for a three-year term on June 30, 1999.

Name	Position	Year appointed	Age
Rita Casu	Chairman	1999	35
Giuseppe Biondo	Member	1999	34
Piero Maccioni	Member	1999	37
Piero Serra	Alternate	1999	44
Maria Grazia Vacca	Alternate	1999	39

External Auditors

Decree No. 58 requires companies whose shares are listed on an Italian regulated market to appoint a firm of external auditors that shall verify (i) during the fiscal year, that the company's accounting records are correctly kept and accurately reflect the company's activities, and (ii) that the financial statements correspond to the accounting records and the verifications conducted by the external auditors and comply with applicable rules. The external auditors express their opinion on the financial statements in a report that may be consulted by the shareholders prior to the annual shareholders meeting.

The external auditors are appointed by the ordinary shareholders meeting for a three-year term (which may not be renewed more than twice).

On June 30, 1999, Deloitte & Touche S.p.A. was appointed as the Company's external auditors for a three-year period. Such appointment must be notified to CONSOB.

Compensation of Directors and Statutory Auditors

Directors of the Company are not presently entitled to any compensation in return for their services as Directors. For the year ended December 31, 1998 the aggregate compensation paid to the Statutory Auditors was approximately Lit. 14 million.

Directors' and Senior Officers' Ownership of Shares

On October 4, 1999, the Board of Directors decided to implement part of the capital increase approved by the Company's shareholders on June 30, 1999 through a private placement of 58,000 newly issued shares to certain directors, certain officers, employees and certain advisers of the Company. On the same date, the Board of Directors decided that the offering price for such private placement would be Lit. 1,000 per share, of which Lit. 900 would be the share premium.

On June 30, 1999, the general shareholders' meeting of the Company authorized the Board of Directors to establish a stock option plan for directors and senior officers relating to up to 250,000 shares over a period of five years.

Prior to the Combined Offering, Renato Soru, Chairman of the Board and Managing Director, owned 10,000,000 of the Company's shares, representing 80 percent of Tiscali's share capital and voting rights. Following the completion of the Combined Offering, he will own 9,560,000 shares directly and 1,250,000 shares indirectly through Andalas Ltd., representing in total approximately 69 percent of the share capital and voting rights (assuming exercise in full of the Over-allotment Option).

Interest of Members of the Board of Directors, Board of Statutory Auditors and Senior Officers in Certain Transactions

No member of the Board of Directors or Board of Statutory Auditors, and no senior officer, has had any interest in any transactions that are or were unusual in their nature or conditions and are or were significant in the business of the Company.

SELLING SHAREHOLDER

The Shares in the Combined Offering are being offered by the Selling Shareholder and by Tiscali in a primary offering. Prior to the completion of the Combined Offering, Renato Soru, the Company's Managing Director, owned 10,000,000 of the Company's shares, representing 80 percent of Tiscali's share capital and voting rights. Following the completion of the Combined Offering, he will own 9,560,000 shares directly and 1,250,000 shares indirectly through Andalas Ltd., representing in total approximately 69 percent of the share capital and voting rights (assuming exercise in full of the Over-allotment Option).

Of the 3,040,000 Shares offered in the Combined Offering, 440,000 Shares, or approximately 14 percent, are being offered by the Selling Shareholder.

DESCRIPTION OF SHARE CAPITAL

*Set forth below is a summary of certain information concerning the Company's Shares and certain provisions of the Company's By-laws (*Statuto*) and of Italian law applicable to companies whose shares are listed in a regulated market in the European Union, as in effect at the date hereof. This summary contains all the information that the Company considers to be material regarding the Shares but does not purport to be complete and is qualified in its entirety by reference to the By-laws or Italian law, as the case may be.*

General

The issued and outstanding share capital of the Company consists of 12,500,000 shares, nominal value Lit. 100 per share. All of the issued and outstanding Shares are fully paid and non-assessable. Following the Combined Offering, the Company's issued and outstanding share capital will consist of 15,614,000 Shares (assuming exercise in full of the Over-allotment Option). The Shares will be listed on the *Nuovo Mercato*. See ''*Market Information*.''

An extraordinary shareholders' meeting of the Company has been called for October 25, 1999 in order to consider the issuance of warrants to ABN AMRO Bank N.V. and the related capital increase. Mr. Soru, the Company's majority shareholder, has undertaken to vote in favor of these actions. The warrants will be issued to ABN AMRO Bank N.V. as supplemental compensation — in addition to interest and a quarterly fee — for the revolving bridge credit facility that it granted to the Company on August 9, 1999. See ''*Use of Proceeds.*'' Upon receipt of the warrants, ABN AMRO Bank N.V. will transfer 40 percent and 10 percent of the warrants, respectively, to Nazca Limited Partnership and Rothschild Italia S.p.A. The total number of warrants issued will be a number such that the sum of the exercise price of all such warrants is equal to half (Euro 5 million) of the maximum amount of the credit facility. The duration of the warrants is 360 days. The exercise of the warrants is restricted for 180 days following receipt from ABN AMRO Bank N.V. The warrants will be exercisable for a price equal to 90 percent of the Offering Price. In addition, ABN AMRO Bank N.V., Rothschild Italia S.p.A. and Nazca Limited Partnership have undertaken not to sell, offer or take any other action involving the warrants before the end of 30 days following the commencement of the trading of the Shares or the exercise of the Over-allotment option by the Global Co-ordinators, whichever date comes earlier. See ''*Investment Considerations — Conflict of Interest of ABN AMRO Rothschild*.''

Authorization of Shares

Additional shares may be authorized in connection with capital increases approved by the Company's shareholders in an extraordinary meeting; such an authorization would generally be given only after recommendation by the Company's Board of Directors. The Shares offered by the Company in the Combined Offering were authorized by an extraordinary general meeting of shareholders held on June 30, 1999. At that meeting, the shareholders also authorized the issuance of up to 250,000 additional shares pursuant to a stock option plan which they authorized the Board of Directors to establish. See ''*Management*.''

Dividend Rights

The payment by the Company of any annual dividend is proposed by the Board of Directors and is subject to the approval of the shareholders at the annual Shareholders' Meeting (as defined herein). Before dividends may be paid out of the Company's unconsolidated net income in any year, an amount equal to 5 percent of such net income must be allocated to the Company's legal reserve until such reserve is at least equal to one-fifth of the par value of the Company's issued share capital. The Board of Directors may authorize the distribution of interim dividends, subject to certain statutory limitations.

Dividends are payable to those persons who hold the Shares through an Intermediary (as defined below) on the dividend payment date declared by the Shareholders' Meeting. Payments in respect of dividends are distributed through Monte Titoli on behalf of each Shareholder by the Intermediary with which the Shareholder has deposited its Shares. See ''*Dividend Policy*.''

Voting Rights

Renato Soru will own, directly or indirectly, approximately 71 percent of the shares issued and outstanding after the Combined Offering (approximately 69 percent if the over-allotment option is exercised in full) and is expected to continue to control the Company. Shareholders are entitled to one vote per Share, although a slate voting system applies in case of appointment of members of the Board of Statutory Auditors. See ''*Management — Auditors — Statutory Auditors*.''

Proxy solicitation is possible. Solicitation can be engaged in by certain professional investment and financial intermediaries, as well as certain companies whose sole purpose is to carry out proxy solicitation, on behalf of a qualified soliciting shareholder (generally, one or more shareholders who own and have owned at least 1 percent of the Company for more than six months and who have been registered with the Company as having been shareholders of at least 1 percent, for the same period of time).

Proxies may be collected by a shareholders' association provided that such association has been formed by notarized private agreement, does not carry out business activities and is made up of at least 50 individuals, each of whom owns not more than 0.1 percent of the Company's voting capital. Members of the shareholders' association may, but are not obliged to, grant proxies to the legal representative of the association, and proxies may also be granted in respect of only certain of the matters to be discussed at the relevant shareholders' meeting. The association may vote in different manners in compliance with the instructions expressed by each member who has granted a proxy to the association.

Meetings of Shareholders

Shareholders are entitled to attend and vote at ordinary and extraordinary shareholders' meetings (''Shareholders' Meetings''). Votes may be cast personally or by proxy. Shareholders' Meetings may be called by the Company's Board of Directors (or the Board of Auditors) and must be called if requested by holders of at least 20 percent of the outstanding shares. Shareholders' Meetings may also be called if requested by holders of at least 10 percent of the outstanding Shares. In this latter case, however, the Board of Directors may refuse to call the meeting if calling it conflicts with the Company's interest; any dispute arising from such a refusal must be resolved by the competent court. Shareholders are informed of all Shareholders' Meetings to be held by publication of a notice in the Italian Official Gazette (*Gazzetta Ufficiale*) at least 15 days before the date fixed for the meeting. The notice is also published in at least two national daily newspapers, as recommended by CONSOB.

Shareholders' Meetings must be convened at least once a year. The annual unconsolidated financial statements of the Company are submitted for approval to the ordinary Shareholders' Meeting which must be convened within four months or, in the event of exceptional circumstances, within six months after the end of the financial year to which such financial statements relate. At ordinary Shareholders' Meetings, shareholders also approve the distribution of dividends, appoint the Board of Directors and Statutory Auditors, determine their remuneration and vote on any business matter submitted by the Directors.

Extraordinary Shareholders' Meetings may be called to pass upon proposed amendments to the By-laws, capital increases, mergers, split-ups, dissolutions, issuance of debentures, appointment of receivers and similar extraordinary actions. The notice of a Shareholders' Meeting may specify up to two or three meeting dates, respectively, for an ordinary or extraordinary Shareholders' Meeting; such meeting dates are generally referred to as ''calls.''

The quorum required for shareholder action at an ordinary Shareholders' Meeting on first call is 50 percent of the total number of issued and outstanding shares, while on second call there is no quorum requirement. In either case, resolutions may be approved by holders of the majority of the Shares present or represented at the meeting. The quorum required at an extraordinary Shareholders' Meeting on first, second and third call is 50 percent, one-third and one-fifth, respectively, of the issued share capital of the Company. Resolutions of any extraordinary Shareholders' Meeting require the approval of at least two-thirds of the holders of Shares present or represented at such meeting.

To attend any Shareholders' Meeting, holders of shares must, at least five days prior to the date fixed for the meeting, instruct the relevant intermediaries associated with Monte Titoli (or another centralized clearing institution authorized pursuant to Decree No. 58) with which their accounts are held to prepare the admission tickets.

Shareholders may attend the Shareholders' Meeting by proxy. Any one proxy cannot represent more than 200 Shareholders. A proxy may be appointed only for a single Shareholders' Meeting (including, however, the first, second and third calls of such meeting) and may be exercised only by the person expressly named in the applicable form. The person exercising the proxy cannot be a subsidiary of the Company, a Director, Statutory Auditor or employee of the Company or of one of its subsidiaries.

Proxies may be solicited by an Intermediary (banks or investment companies, asset management companies and companies having proxy solicitation as their sole purpose) on behalf of a qualified soliciting shareholder (a shareholder who owns and has owned at least 1 percent — or such lesser percentage determined by CONSOB — of the Company's voting capital for at least six months and who has been registered with the Company as holder of such shares for the same period of time). Proxies may also be collected by a shareholders' association from among its members provided that such association has been formed by notarized private agreement, does not carry out business activities other than those relevant to the purpose of the association and is made up of at least 50 individuals each of whom owns not more than 0.1 percent of the Company's voting capital. Members of the shareholders' association may, but are not obliged to, grant proxies to the legal representative of the association and proxies may also be granted in respect of only certain of the matters to be discussed at the relevant shareholders' meeting. The association may vote in different manners in compliance with the instructions given by each member who has granted a proxy to the association. CONSOB has established provisions which govern the transparency and proper performance of the solicitation and collection of proxies.

Pursuant to Decree No. 58, a shareholder who has held at least 1 percent (or less as established by CONSOB) of a listed company's voting rights for at least six months, is entitled to solicit other shareholders, through certain financial intermediaries, including investment services firms and banks, with *ad hoc* proxy statements and proxy cards (in forms previously approved by CONSOB). Associations of shareholders also have the right to conduct proxy solicitations under certain terms and conditions.

Form and Transfer of Shares

Pursuant to Decree No. 58, Decree No. 213 and CONSOB implementing Regulation No. 11768 of December 23, 1998 (''Regulation No. 11768''), since January 1, 1999, it is no longer possible for a shareholder to obtain the physical delivery of share certificates representing shares of Italian listed companies. Upon full implementation, shares of Italian listed companies will no longer be represented by paper certificates and the transfer and exchange of shares will take place exclusively through an electronic book-entry system. All shares must, accordingly, be deposited by their owners with an intermediary (each an ''Intermediary''), which is defined by Regulation No. 11768 as: (i) an Italian or EU bank; (ii) a non-EU bank authorized by the Bank of Italy to operate in the Italian market; (iii) a SIM (as defined herein); (iv) an EU investment company; (v) a non-EU investment company authorized by CONSOB to provide investment services in Italy; (vi) an Italian asset management company; (vii) a stock broker; (viii) the company which has issued the shares; (ix) the controlling shareholder of the company which has issued the shares; (x) the Bank of Italy; (xi) an EU or non-EU entity operating a centralized clearing system; (xii) a financial intermediary operating a clearing system governed by art. 69 (2) and 79 of Decree No. 58; (xiii) a financial intermediary registered on the list kept by the Bank of Italy under art. 107 of Legislative Decree No. 385 of September 1, 1993; (xiv) the Italian Post Office (*Poste Italiane S.p.A.)*; or (xv) *Cassa Depositi e Prestiti* (a state-owned entity mainly responsible for extending loans to public administration bodies). The Intermediary will in turn deposit the shares with Monte Titoli or with another company authorized by CONSOB to operate a centralized clearing system.

To transfer shares under the system introduced by Decree No. 213, the owners of shares will be required to give instructions to their Intermediaries. If the transferee is a client of the transferor's Intermediary, the Intermediary will simply transfer the Shares from the transferor's account to the account of the transferee. If, however, the transferee is a client of another Intermediary, the transferor's Intermediary will instruct the company operating a centralized clearing system to transfer the Shares to the account of the transferee's Intermediary, which will then register the Shares on the transferee's account.

Each Intermediary maintains a custody account for each of its clients setting out the financial instruments of such client and keeps a record of all transfers, payment of dividends, exercise of rights attributable to such instruments, charges or other encumbrances on the instruments. The account holder or any other eligible party (for example, in the case of a charge over the financial instrument, the chargee) may submit a request to the Intermediary for the issue of a certified statement of account. The request shall indicate, *inter alia*, the quantity of the financial instruments in respect of which the statement is requested, the rights which the applicant intends to exercise (in the case of rights exercisable at shareholders' meetings, the date and nature of the meeting) and the duration in respect of which the certificate's validity is required. Within five days from the receipt of such request, the Intermediary shall issue a certified statement of account which constitutes evidence of the account holder's ownership of the financial instruments indicated. Once a certificate has been issued, the Intermediary may not effect any transfer of the corresponding securities until the certificate loses its validity or is returned.

The new book-entry system commenced operations on October 5, 1998, when Monte Titoli cancelled all certificates representing listed financial instruments in its possession and returned them to the issuing companies. At the same time, Monte Titoli registered the shares in accounts held under the name of the depositing Intermediaries and gave them and the issuing companies notice of the registration. The Intermediaries, in turn, registered the shares in the shareholders' accounts. Since January 1, 1999, shareholders have been allowed to exercise their rights only after they have deposited their share certificates with an Intermediary and authorized it to deposit the shares with a company operating a centralized clearing system.

All of the Shares will be deposited with Monte Titoli on or prior to the Closing Date of the Combined Offering. Accordingly, it will not be possible for a shareholder to obtain physical delivery of share certificates representing Shares. Instead, transfers of Shares will be possible using the procedures described above.

The Shares have been accepted for clearance through Euroclear and Cedelbank. Purchasers of Shares may elect to hold such Shares through Euroclear or Cedelbank. Persons owning a beneficial interest in Shares held through Monte Titoli, Euroclear or Cedelbank must rely on the procedures of Monte Titoli, Euroclear or Cedelbank, respectively, and of the Intermediaries that have accounts with Monte Titoli, Euroclear or Cedelbank, to exercise their rights as holders of Shares.

Preemptive Rights

Pursuant to Italian law, holders of shares are entitled to subscribe for new issuances of shares, debentures convertible into Shares and any other warrants, rights or options entitling the holders to subscribe for shares in proportion to their holdings, unless such issues are for non-cash consideration or preemptive rights are waived or limited by a resolution adopted at an extraordinary Shareholders' Meeting.

The extraordinary Shareholders' Meeting held on June 30, 1999 that authorized the additional Shares offered by the Company in the Combined Offering and the Shares to be issued in connection with the Company's share option program also determined that it was in the interest of the Company to waive preemptive rights in connection with the offering and issuance of such Shares.

Reports to Shareholders

The Company is required to publish, in the Italian language, audited consolidated financial statements prepared in conformity with Italian GAAP. The Company also produces an annual report in both Italian and English which includes consolidated accounts of the Company. The annual report contains audited financial statements reported in accordance with Italian GAAP. The Company also produces an English version of its unaudited semi-annual summary accounts and a Director's report thereon in English. See ''*Available Information*.''

Preference Shares

The Company is permitted in accordance with Italian law and its By-laws to issue preference shares. Preference shares would typically not be entitled to vote in ordinary Shareholders' Meetings, but would be entitled to vote together with the Shares in extraordinary Shareholders' Meetings and could be entitled to vote in ordinary Shareholders' Meetings as well if their terms so provided. However, Italian law provides for special meetings of holders of each class of shares, *inter alia*, for the approval of resolutions adopted by the shareholders which affect their rights vis-à-vis the other classes of shares. Preference shares would have preferential rights to the payment of dividends and to the repayment of capital in the event of liquidation.

The Company has no present intention of issuing preference shares and none are currently authorized or outstanding. The authorization of preference shares requires an amendment to the By-laws, thus being subject to the approval by the Extraordinary Shareholders' Meeting. See ''— *Meetings of Shareholders*.''

Liquidation Rights

Pursuant to Italian law and subject to the satisfaction of the claims of all other creditors, shareholders are entitled to a distribution in liquidation that is equal to the nominal value of their shares (to the extent available of the net assets of the Company). Holders of preferred shares, if any such shares are issued in the future by the Company, would be entitled to a priority right to any such distribution from liquidation up to their par value. Thereafter, all shareholders would rank equally in their claims to the distribution or surplus assets, if any. Shares rank *pari passu* among themselves in liquidation.

Purchase by the Company of its Own Shares

The Company is permitted to purchase shares, subject to certain conditions and limitations provided by Italian law. Shares may only be purchased out of profits available for dividends or out of distributable reserves, in each case as appearing on the latest shareholder-approved unconsolidated financial statements. Further, the Company may only repurchase fully paid-in shares. Such purchases must be authorized by a Shareholders' Meeting. The number of Shares to be acquired, together with any shares previously acquired by the Company or any of its subsidiaries may not (except in limited circumstances) exceed in aggregate 10 percent of the total number of shares then issued and outstanding and the aggregate purchase price of such shares may not exceed the earnings reserve specifically approved by shareholders. Shares held in excess of such 10 percent limit must be sold within one year of the date of purchase. Similar limitations apply with respect to purchases of the shares of the Company by its subsidiaries.

A corresponding reserve equal to the purchase price of such shares must be created in the balance sheet and such reserve is not available for distribution, unless such shares are sold or cancelled. Shares purchased and held by the Company may be resold only pursuant to a resolution of the shareholders adopted at an ordinary Shareholders' Meeting. The voting rights attaching to the shares held by the Company or its subsidiaries cannot be exercised but the shares can be counted for quorum purposes in shareholder meetings. Dividends and other rights, including pre-emption rights, attaching to such shares will accrue to the benefit of other shareholders.

Decree No. 58 provides that the purchase by a listed company of its own shares and the purchase of shares of a listed company by its subsidiaries must take place by way of a public offer or on the market, in a manner agreed with *Borsa Italiana* S.p.A. ensuring the equality of treatment among shareholders. Subject to certain limitations, the foregoing does not apply to shares being purchased by a company from its employees or from the employees of its controlling company or subsidiaries.

At the date hereof, the Company does not own, directly or indirectly, any shares.

Notification of the Acquisition of Shares and Voting Rights

Pursuant to Italian securities laws, including Decree No. 58 and CONSOB Regulation no. 11971 of May 12, 1999 (Regulation No. 11971), any acquisition of any interest in excess of 2 percent in the voting shares of a listed company must be notified to CONSOB and the company whose shares are acquired within five business days following the acquisition. The voting rights attributable to the shares in respect of which such notification has been made may not be exercised. Any resolution taken in violation of the foregoing may be annulled if the resolution would not have been adopted in the absence such votes.

In addition, any person whose aggregate interest in the voting shares of a listed company exceeds or falls below 2 percent, 5 percent, 7.5 percent, 10 percent and successive percentages being multiples of 5, respectively, of the listed company's voting share capital, is obliged to notify CONSOB and the issuer. For the purpose of calculating these ownership thresholds, shares owned by any person, irrespective of whether the voting rights attributable thereto are exercisable by such person or by a third party, are taken into consideration and, except in certain circumstances, account should also be taken of shares held through, or shares the voting rights of which are exercisable by, subsidiaries, fiduciaries or intermediaries. For the purpose of calculating the ownership thresholds of 5 percent, 10 percent, 25 percent, 50 percent and 75 percent, shares which: (i) a person has an option to, directly or indirectly, acquire or sell; and (ii) a person may acquire further to the exercise of a warrant or conversion right which is exercisable within 60 days, should also be taken into account. The notification must be repeated when such person, upon the exercise of the right referred to in (i) or (ii) above, acquires shares which cause its aggregate ownership in the listed company to exceed in the relevant thresholds. Notification should be made (except in certain circumstances) within five trading days of the event which gives rise to the notification obligation.

Cross ownership of listed companies may not exceed 2 percent of their respective voting shares and cross ownership between a listed company and an unlisted company may not exceed 2 percent of the voting shares of the listed company and 10 percent of the voting shares of the unlisted company. If the relative threshold is exceeded, the company which is the latter to exceed such threshold may not exercise the voting rights attributable to the shares in excess of the threshold and must sell the excess shares within a period of 12 months. If the company does not sell the excess shares, it may not exercise the voting rights in respect of its entire shareholding. If it is not possible to ascertain which is the latter company to exceed the threshold, subject to a different agreement between the two companies, the limitation on voting rights and the obligation to sell the excess shares will apply to both of the companies concerned. The 2 percent limit for cross ownership is increased to 5 percent on the condition that such limit is only exceeded by the two companies concerned following an agreement authorized in advance by an ordinary shareholders' meeting of each of the two companies. Furthermore, if a party holds an interest in excess of 2 percent of a listed company's share capital, such listed company or the party which controls the listed company may not purchase an interest above 2 percent in a listed company controlled by the first party. In case of non-compliance, voting rights attributable to the shares held in excess may not be exercised. If it is not possible to ascertain which is the latter party to exceed the limit, the limitation on voting rights will, subject to a different agreement between the two parties, apply to both. Any shareholders' resolution taken in violation of the limitation on voting rights may be annulled if the resolution would not have been adopted in the absence of such votes. The foregoing provisions in relation to cross ownership do not apply when the thresholds are exceeded following a public tender offer aimed at acquiring at least 60 percent of a company's ordinary shares or when a controlled company purchases shares of a controlling company within the limit set forth in Article 235 *bis* of the Italian Civil Code and following the procedures described under ''— *Purchase by the Company of its own Shares*''; however certain restrictions on the manner of purchase will apply.

Pursuant to Decree No. 58, agreements among shareholders of a listed company or of its parent company, must be notified to CONSOB (within five days), published in summary form in the press (within 10 days) and filed with the Chamber of Commerce within 15 days. Failure to comply with the above rules will render the agreements null and void and the shares cannot be voted. The shareholder's agreements subject to the above are those which:

(i) require prior consultation for the exercise of voting rights in a listed company or its controlling company;

(ii) contain limitations on the transfer of shares or securities which grant the right to purchase or subscribe shares;

(iii) provide for the purchase of shares or securities mentioned in (ii) above; or

(iv) have as their object or effect the exercise (including joint exercise) of a dominant influence over the company.

Any shareholders' agreement of the nature described above may have a maximum term of three years or, if executed for an unlimited term, can be terminated by a party upon six months' prior notice. In case of a public tender offer, a party to these agreements is free to withdraw from them without notice, such withdrawal being effective only in the event that the relevant shares are actually sold.

Regulation 11971 contains provisions which govern the method and content of the notification and publication of the agreements as well as of subsequent amendments thereto. The regulation also provides that any party to an agreement referred to in (i) and (iv) above concerning more than 5 percent of the listed company's share capital is obliged to notify CONSOB and the listed company in question of its overall shareholding in the listed company, unless such information has already been notified in compliance with other provisions of Decree No. 58.

In accordance with Italian anti-trust laws, the Italian anti-trust authority is required to prohibit the acquisition of control in a company which would thereby create or strengthen a dominant position in the domestic market or a significant part thereof and which would result in the elimination or substantial reduction, on a lasting basis, of competition, provided that certain turnover thresholds are exceeded. However, if the turnover of the acquiring party and the company to be acquired exceed certain other monetary thresholds, the anti-trust review of the acquisition falls within the exclusive jurisdiction of the European Commission.

Minority Shareholders' Rights

Any shareholder may, within three months, challenge any resolution on which he did not vote or in respect of which he dissented on the basis that it was not adopted in conformity with applicable law or the By-laws of the Company. Directors and Statutory Auditors may also challenge shareholders' resolutions on this basis. Pursuant to Decree No. 58, in case of resolutions approving mergers or split-ups involving the distribution of unlisted shares, dissenting shareholders may require that the Company buy back their shares on the basis of the average price of the previous six months.

Each shareholder may bring to the attention of the Board of Statutory Auditors facts or acts which are deemed wrongful. If such shareholders represent more than 2 percent of the share capital of the Company, the Board of Statutory Auditors must investigate without delay and report its findings and recommendations to the Shareholders' Meeting. Shareholders representing more than 5 percent of the Company's share capital have the right to report major irregularities to the relevant court. In addition, pursuant to Decree No. 58, shareholders representing at least 5 percent of the Company's share capital and who have been registered for at least six months as shareholders of this amount may commence derivative suits before the competent court against Directors, Statutory Auditors and general managers of the Company. The Company may waive or settle the suit unless shareholders holding more than 5 percent of the Shares vote against such waiver or settlement. The Company will reimburse the legal costs of such action in the event that the claim of such shareholders is successful and the court does not award such costs against the relevant Directors, Statutory Auditors or general managers.

Minority shareholders may appoint a member of the Board of Statutory Auditors, pursuant to the slate voting system introduced in the By-laws according to Decree No. 58. See ''*Management — Auditors — Statutory Auditors*.''

Tender Offer Rules

Pursuant to Decree No. 58, a public tender offer must be made by any person that, by reason of purchases of shares, holds more than 30 percent of the common stock of a company listed on Telematico. The tender offer must cover all the shares of common stock of the company. Similarly, a tender offer for the entire common stock of a listed company must be made by any person who, having more than 30 percent of the common stock without exercising majority voting rights at ordinary shareholders' meetings, acquires by way of acquisition or exercise of subscription or conversion rights during a 12-month period more than 3 percent of the common stock. The offer must be launched within 30 days from the date on which the 30 percent threshold was exceeded, at a price not lower than the average of the weighted average of the market price for the shares in the previous 12 months, and the highest price paid for the shares by the offeror in the same period. A CONSOB regulation implementing Decree No. 58 establishes, in particular, a number of exemptions from the duty to launch a tender offer, in specific instances, such as (i) when another person holds the control of the company, (ii) in respect of transfers of shares among related persons, and (iii) in cases of mergers and split-ups. Decree No. 58 provides further that the acquisition of an interest above 30 percent of the common stock of a company does not trigger the obligation to launch a 100 percent tender offer if the person concerned has exceeded the threshold as a result of a public tender offer launched on 60 percent or more of the common stock of the company. This provision, however, is available only (i) if the tender offer has been approved by shareholders of the company holding a majority of the shares (excluding the current majority shareholder), and (ii) if the offeror (its subsidiaries, controlling person, related companies and other person connected to it by virtue, inter alia, of shareholders' agreements) has not acquired more than 1 percent of the common stock of the company in the preceding 12 months; CONSOB shall ensure compliance with these conditions before allowing the offer to be launched. After such offer has been completed, the offeror nevertheless becomes subject to the duty to launch an offer for 100 percent of the common stock if, in the course of the subsequent 12 months, (i) it (or its affiliates) purchases more than 1 percent of the common stock of the company, or (ii) the company approves a merger or split-up. Finally, Decree No. 58 provides that anyone holding 90 percent or more of the common stock of a company must launch an offer on the remaining shares unless an adequate distribution is restored so as to ensure proper trading within a period of four months.

Any shareholder holding more than 98 percent of the common stock of a listed company pursuant to a tender offer concerning all the voting shares issued by the company has the right to obtain title to the remaining voting shares within four months after the end of the tender offer if it has stated in the offer document its intention to make such a acquisition at a price set by a court-appointed expert.

MARKET INFORMATION

The *Nuovo Mercato* is organized and managed by *Borsa Italiana*, subject to the supervision and control of CONSOB, the public authority responsible for, *inter alia*, regulating investment companies, securities markets and public offerings of securities in Italy to ensure the transparency and regularity of dealings and to protect investors. *Borsa Italiana* is a joint stock company (*Società per azioni*) that was established to manage the Italian regulated financial markets (including the *Nuovo Mercato*) as part of the implementation in Italy of the EU Investment Services Directive pursuant to Legislative Decree No. 415 of July 23, 1996 (the ''Eurosim Decree''). *Borsa Italiana* became operational in January 1998, replacing the administrative body *Consiglio di Borsa*, and has issued rules governing the organization and the administration of the Italian Stock Exchange, over-the-counter, futures and options markets as well as the admission to listing on and trading in these markets. The shareholders of *Borsa Italiana* are primarily financial intermediaries.

Market Regulations

Since February 16, 1996, a five-day rolling cash settlement period applies to all trades of equity securities in Italy. Any person, through any authorized intermediary, may purchase or sell listed securities following (i) in the case of sales, deposit of the securities and (ii) in the case of purchases, deposit of 100 percent of their value in cash. No ''closing price'' is reported for the electronic trading system, but an official price for each security, calculated as a weighted average of all trades effected during the trading day, net of trades executed on a ''cross-order'' basis, and a reference price for each security calculated as a weighted average of the last 10 percent of the trades effected during such day, net of trades executed on a ''cross-order'' basis, are published daily.

If the opening price of a security (established each trading day prior to the commencement of trading based on bids received) differs by more than 10 percent (or such other amount established by *Borsa Italiana*) from the previous day's reference price, trading in that security will not be permitted until *Borsa Italiana* authorizes the re-commencement of trading. If in the course of a trading day the price of a security fluctuates by more than 5 percent from the last reported sale price (or 10 percent from the previous day's reference price), a five-minute automatic suspension in the trading of that security will be declared. In the event of such a suspension, orders already placed may not be modified or cancelled, and new orders may not be processed. *Borsa Italiana* has the authority to suspend trading in any security in response to extreme price fluctuations or for other reasons. In urgent circumstances, CONSOB may, where necessary, adopt measures required to ensure the transparency of the market, orderly trading and protection of investors.

Securities Trading

Effective September 1, 1996, the Eurosim Decree among other things, implemented in Italy two EU directives relating to financial markets and established a new regulatory framework for the Italian financial markets, in large part replacing Law No. 1 of January 2, 1991.

The Unified Financial Act provides that trading of equity securities, as well as any other investment services, may be carried out on behalf of the public only by *società di intermediazione mobiliare* (investment services firms or ''SIMs'') and banks (with minor exceptions). Banks and investment services firms organized in a member nation of the EU are permitted to operate in Italy provided that the intent of the bank or investment services firm to operate in Italy is communicated to CONSOB and the Bank of Italy by the competent authority of the member state. Non-EU banks and non-EU investment services firms may operate in Italy subject to the specific authorization of the Bank of Italy and CONSOB, respectively. The settlement of stock exchange transactions is facilitated by Monte Titoli. Most Italian banks and investment companies have securities accounts with Monte Titoli.

Beneficial owners of the Shares may hold their interests through custody accounts with Intermediaries.

For a description of stock transfer rules in Italy, see ''*Description of Share Capital — Form and Transfer of Shares*.''

Clearance and Settlement

The settlement of stock exchange transactions is facilitated by Monte Titoli, a centralized securities clearing system owned by the Bank of Italy and certain of the major Italian banks and financial institutions. Most Italian banks and certain Italian securities dealers have securities accounts with Monte Titoli, and beneficial owners of shares may hold their interests through custody accounts with any such institution. The beneficial owners of shares held with Monte Titoli may transfer their shares, collect dividends and exercise other rights with respect to the shares through such accounts. Participants in Euroclear and Cedelbank may hold their interests in shares and transfer their shares, collect dividends, create liens and exercise other rights with respect to such shares, through Euroclear or Cedelbank.

Pursuant to Legislative Decree No. 213 and to Regulation No. 11791, shareholders will no longer be able to obtain the physical delivery of share certificates in respect of their shares.

Trading by the Company in the Shares

Under Italian law, the Company may purchase the Shares in certain limited circumstances. See "*Description of Share Capital — Purchase by the Company of its Own Shares*."

EXCHANGE CONTROL REGULATIONS

The following discussion of exchange controls in Italy summarizes relevant Italian laws in force at the date hereof, but does not purport to be a comprehensive description of all exchange control considerations that may be relevant to a decision to purchase the Shares offered hereby.

There are no exchange controls in Italy. Residents and non-residents of Italy may effect any investments, divestitures and other transactions that entail transfer of assets to or from Italy, subject only to the reporting, record-keeping and disclosure requirements described below. Residents of Italy may hold foreign currency and foreign securities of any kind, within and outside Italy, non-residents may invest in Italian securities without restriction and may export from Italy cash, instruments of credit and securities, in both foreign currency and lire, representing interest, dividends, other asset distributions and the proceeds of dispositions.

Updated reporting and record-keeping requirements are contained in Italian legislation, which implements an EC directive regarding the free movement of capital. Such legislation requires that transfers into or out of Italy of cash or securities in excess of Lit. 20 million be reported in writing to the *Ufficio Italiano Cambi* by residents or non-residents that effect such transfers directly, or by credit institutions and other intermediaries that effect such transactions on their behalf. In addition, credit institutions and other intermediaries effecting such transactions on behalf of residents or non-residents of Italy are required to maintain records of such transactions for five years, which may be inspected at any time by Italian tax and judicial authorities. Non-compliance with these reporting and record-keeping requirements may result in administrative fines or, in the case of false reporting and in certain cases of incomplete reporting, criminal penalties. The Italian Exchange Office will maintain reports for a period of ten years and may use them, directly or through other government offices, to police money laundering, tax evasion and any other crime or violation.

Individuals, non-profit entities and partnerships that are residents of Italy must disclose on their annual tax declarations all investment and financial assets held outside Italy, as well as the total amount of transfers to, from, within and between countries other than Italy relating to such foreign investments or financial assets, even if at the end of the taxable period such persons no longer owned such foreign investments or financial assets. No such disclosure is required in respect of foreign investments or financial assets that are exempt from income tax or if withholding tax in Italy has already been paid. Such disclosure requirement does not apply if the total value of the investments and assets at the end of the taxable period or the total amount of the transfers effected during the year is not greater than Lit. 20 million. Corporate residents of Italy are exempt from such disclosure requirements with respect to their annual tax declarations because this information is required to be disclosed in their financial statements.

There can be no assurance that the present regulatory environment within or outside Italy will endure or that particular policies now in effect will be maintained, although Italy is required to maintain certain regulations and policies by virtue of its membership in the EU and other international organizations and its adherence to various bilateral and multinational international agreements.

TAXATION

The following is a summary of the principal Italian and U.S. federal tax considerations that are likely to be material to the purchase, ownership and disposition of the Shares. The summary does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase, own or dispose of the Shares. The following summary does not discuss the treatment of securities that are held in connection with a permanent establishment or fixed base through which a non-Italian investor carries on business or performs personal services in Italy.

The summary is based upon tax laws and the practice of Italy and the United States as well as on the income tax convention between the United States and Italy (the ''Treaty'') as in effect on the date of this Offering Circular, which are subject to change, potentially retroactively. The United States and Italy signed on August 25, 1999 a new comprehensive income tax treaty (the ''Proposed Treaty'') that would supersede the current treaty. The Proposed Treaty will enter into force upon the exchange of instruments of ratification between the two countries. Prospective investors in the Shares should consult their own advisors as to the Italian, United States or other tax consequences of the purchase, beneficial ownership and disposition of the Shares including, in particular, the effect of any state or local tax laws and the eligibility for benefits under the Treaty and Proposed Treaty.

Italian Taxation

Taxation of Dividends

1. Italian law provides for a final withholding of income tax at a 12.5 percent rate on dividends paid to pension funds, to real property investment funds and to individual shareholders, not engaged in an entrepreneurial activity, who are residents of Italy for tax purposes and own a ''non-qualified shareholding'' in a corporation. A shareholding is defined as a ''qualified shareholding'' if it amounts to more than 5 percent of the share capital or 2 percent of the voting rights in the ordinary shareholders' meeting of a corporation whose stock is listed on a regulated market, in Italy or abroad, or to more than 25 percent of the share capital or 20 percent of the voting rights in the ordinary shareholders' meeting of any corporation whose securities are not listed on a regulated market. A shareholding is defined as a ''non-qualified shareholding'' if it amounts to, or is less than, the applicable threshold set forth in the preceding sentence. In case the withholding tax regime does not apply because, at the date of payment of dividends, individual resident shareholders holding the Shares either declare not to meet the prescribed requirements or elect to be exempted from such regime, such shareholders will receive the gross amount of the dividends and include it in their income tax return. In the latter case, such shareholders will benefit from the tax credit regime, as described in Point 2, below. The final withholding tax regime described herein does not apply in case the Shares are held in a discretionary investment portfolio managed by an authorized intermediary and the investor elects to be taxed at a flat rate of 12.5 percent on the year-end appreciation of the investment portfolio pursuant to the so-called discretionary investment portfolio regime (''*regime del risparmio gestito*,'' as described below in paragraph 1(c) under ''— *Taxation of Capital Gains*''). Furthermore, shareholders that are exempt from Italian corporation tax (''IRPEG'') will be subject to a final 27% withholding tax on dividends paid with respect to the Shares.

2. Dividends received by any Italian resident taxpayer other than the ones mentioned under point 1 above, are included in his taxable base and ordinarily subject to income tax. In such a case, dividends received will have attached a tax credit equal to 58.73 percent of their gross amount, to the extent that such tax credit is covered by the taxes as provided for in Article 105, paragraph 1, clauses (a) and (b) of Presidential Decree No. 917 of 22 December 1986. If such 58.73 percent tax credit exceeds the amount of tax payable by the shareholder at year-end and the income from which the dividends are distributed has been fully subject to corporate income tax, such excess tax credit can be either carried forward or elected for a refund. No carry forward or refund, however, is granted with regard to excess tax credits attached to dividends paid out of profits that have not been fully subject to corporate income tax.

3. Dividends paid to non-resident shareholders with respect to a shareholding not related to a permanent establishment in Italy, are subject to a 27 percent final withholding tax. Non-resident shareholders who own

Shares may recover up to four-ninths of the tax withheld from the Italian tax authorities upon provision of evidence of full payment of income tax on such dividends in their country of residence. This benefit may not be combined with any special benefit provided for under any applicable tax treaty. Expenses and extensive delays have been encountered by non-residents seeking refunds from the Italian tax authorities.

The 27 percent withholding tax may be reduced pursuant to an income tax treaty between Italy and the non-resident shareholder's country of residence. Italy has concluded income tax treaties with over 60 foreign countries, including all member states of the European Union, Argentina, Australia, Brazil, Canada, Japan, New Zealand, Norway, Switzerland, the United States and some countries in Africa, the Middle East and Asia. Generally, the treaties are not applicable if the non-resident shareholder is a tax-exempt entity, or with a few exceptions, a partnership.

Under the Treaty and the Proposed Treaty, a beneficial owner of the Shares that is a U.S. resident is generally entitled to the application of a 15 percent rate withholding tax. In order to obtain such reduced withholding tax rate, such beneficial owner will generally have to file an application with the Company requesting the reduced rate of withholding together with a certification by the U.S. Internal Revenue Service (the ''IRS'') that such holder is a U.S. resident for tax purposes and does not have a permanent establishment or fixed base in Italy (Letter 2298). If such holder fails to obtain the reduced rate from the Company, the refund of the difference between the 27 percent rate and the 15 percent rate must be claimed directly from the Italian tax authorities. U.S. residents seeking refunds from the Italian tax authorities pursuant to the Treaty have encountered expenses and extensive delays.

4. Pursuant to Legislative Decree No. 213, all shares of Italian listed companies have been registered in a centralized clearing system by January 1, 1999. If the Shares are registered in the centralized clearing system managed by Monte Titoli, no withholding tax on dividends has to be applied by the Company. Instead of the withholding tax, a substitute tax is applied on dividends paid on such shares, at the same rate as the withholding tax in the event such tax is due. The resident or non-resident Intermediary that participates in the Monte Titoli system and with which the Shares are deposited applies such substitute tax. In order to enable a non-resident holder to obtain the reduced rate of substitute tax pursuant to an applicable tax treaty, the following procedure must be followed. The Intermediary must receive (i) a declaration from the beneficial owner that contains all the data that identifies such person as being the beneficial owner of such shares and indicates the existence of the conditions necessary for the application of the treaty, as well as the elements that are necessary in order to determine the applicable treaty rate, and (ii) a certification by the tax authorities of such beneficial owner's country of residence that the beneficial owner is a resident of that country for purposes of the tax treaty and, as far as it is known to such tax authorities, the beneficial owner has no permanent establishment in Italy (which certificate will be effective until 31 March of the following year). The foregoing documentation must be kept by the Intermediary for the entire period in which the Italian tax authorities are entitled to issue an assessment with respect to the tax year in which the dividends are paid (generally five years) or, if an assessment is issued, until the assessment is settled. If the Intermediary is not a resident of Italy, the foregoing duties and obligations must be carried out by a bank or a SIM that is a resident of Italy and has been appointed by the Intermediary as its fiscal representative in Italy.

   In case the Shares are not registered in a centralized clearing system managed by Monte Titoli, in order to obtain a reduced rate of withholding under an applicable tax treaty, the beneficial owner of the dividend should file in a timely manner (i) an application with the Company requesting the reduced rate of withholding under the specified tax treaty, together with a certification by the tax authorities of the beneficial owner's country of residence that such beneficial owner is a resident of that country, is taxed in that country and that, as far as it is known to such tax authority, the beneficial owner has no permanent establishment in Italy, and (ii) if required by the Italian tax authorities, an affidavit of a bank in the beneficial owner's application and the certification of the tax authorities are true and correct in all material respects. The certification by the tax authorities of the beneficial owner's country of residence is effective until 31 March of the following year. Under the Treaty, the dividends paid by the Company on the Shares, including the Shares, are subject to the reduced withholding tax treaty rates provided that the dividends are not effectively connected with (i) a permanent establishment in Italy through which a U.S. resident holder carries on a business or (ii) a fixed base in Italy through which such U.S. resident performs independent personal services.

Taxation of Capital Gains

As a general rule, capital gains tax (''CGT'') is levied at a rate of 12.5 percent or 27 percent according to whether the securities or rights disposed of constitute a ''non-qualified shareholding'' or a ''qualified shareholding'' (as defined above, in paragraph 1 under ''Italian Taxation-Taxation of Dividends'').

1. CGT is applicable to capital gains realized by Italian resident individuals other than in connection with a business activity. Such taxpayers can opt for one of the three following regimes in order to pay the 12.5 percent CGT due with respect to ''non-qualified shareholdings.''

   (a) Pursuant to the analytical regime (''*regime della dichiarazione*''), the taxpayer will have to report the overall capital gains realized in a certain fiscal year, net of any incurred capital loss, in his annual income tax return and pay the CGT due on such gains together with the income tax due for the same period. Losses in excess of gains may be carried forward against capital gains realized in each of the following years up to and including the fourth. As such regime constitutes the default regime, the taxpayer must apply it whenever he does not opt for any of the two other regimes;

   (b) pursuant to the non-discretionary investment portfolio regime (''*regime del risparmio amministrato*''), the CGT due on each capital gain realized in any fiscal year, net of any incurred capital loss, is paid, on behalf of the taxpayer, by the intermediary holding the securities; and

   (c) pursuant to the discretionary investment portfolio regime (''*regime del risparmio gestito*''), CGT is levied at a flat rate of 12.5 percent on the appreciation of the investment portfolio, even if not realized, as accrued at year-end and is applied on behalf of the taxpayer by the managing intermediary.

2. The 27 percent CGT due on the capital gains realized upon the disposal of ''qualified shareholdings'' must be determined pursuant to the analytical regime and paid together with the overall income tax due by the taxpayer for that same fiscal year. The disposal of a ''qualified shareholding'' occurs if a holder (i) owns securities or rights in an amount that constitutes a ''qualified shareholding'' and (ii) in the 12-month period immediately following the date on which the ownership test under (i) is met, the holder engages in dispositions of such securities or rights that individually or in the aggregate constitute a ''qualified shareholding.''

3. As a general rule, non-resident individuals and foreign corporations, without a permanent establishment in Italy, are subject to CGT upon the disposal of participations, rights or securities in Italian resident corporations, even in case such participations, rights or securities are held outside Italy. In particular, non-resident shareholders disposing of any ''qualified shareholding'' are subject to the 27 percent CGT on the realized gains. An exemption from CGT is provided, however, for gains realized by non-resident shareholders on the disposal of ''non-qualified shareholdings'' in Italian resident corporations, the stock of which is listed on a regulated market, such as the Company in respect of its Shares, even when such participations are held in Italy.

   Nonetheless, more favorable double tax treaty provisions may apply. The majority of tax treaties entered into by Italy, in accordance with the OECD Model Tax Convention, provide that capital gains realized from the disposal of Italian securities are subject to CGT only in the country of residence of the seller. In such cases, the capital gains realized from the disposal of Italian securities will not be subject to Italian CGT, regardless of whether the shareholding disposed of is qualified or non-qualified.

   Pursuant to the Treaty and the Proposed Treaty, a person who qualifies as a U.S. resident for treaty purposes will not incur Italian capital gains tax upon the disposal of a ''qualified shareholding,'' unless the Shares form part of a business property of a permanent establishment of the holder in Italy or pertain to a fixed base available to a holder in Italy for the purpose of performing independent personal services. U.S. residents who sell Shares may be required to produce appropriate documentation establishing that the above mentioned conditions of non-taxability pursuant to the treaty have been satisfied.

Transfer Tax

Legislative Decree No. 3278 of December 30, 1923, as amended by Legislative Decree No. 435 of November 21, *1997* (''Decree No. 435'') regulates the application of transfer tax on securities. Pursuant to Decree No. 435, transfer tax is currently payable in the following cases at the following rates:

- Lit. 140 per Lit. 100,000 (or fraction thereof) of the price at which the shares are transferred, when the transfer is made between private persons or through the intervention of intermediaries other than banks or other investment services companies regulated by Legislative Decree No. 415 of July 23, 1996, as superseded by Legislative Decree No. 58, or stock brokers or SIMs;
- Lit. 50 per Lit. 100,000 (or fraction thereof) of the price at which the shares are transferred, when the transfer is made either (i) between private persons and banks or other investment companies regulated by Legislative Decree No. 58, or stock brokers or SIMs or (ii) between private persons through the intervention of such professional intermediaries; and
- Lit. 12 per Lit. 100,000 (or fraction thereof) of the price at which the shares are transferred, when the transfer is made between banks or other investment companies regulated by Legislative Decree No. 58, or stock brokers or SIMs.

As of January 1, 1998, *an* exemption to the transfer tax on securities was introduced by Legislative Decree No. 435, which applies *inter alia*, to the following:

- Contracts concluded in regulated markets regarding the transfer of securities, shares, quotas and participations in corporations of any kind, including contracts between a qualified intermediary and his principal and between qualified intermediaries;
- Off-market transactions regarding securities listed on a stock exchange, provided that such transactions occurred:
  - (a) between banks or other investment companies regulated by Legislative Decree No. 58, or stock brokers or SIMs;
  - (b) between the subjects mentioned in (a) above, on the one hand, and non-resident persons or entities, on the other hand; and
  - (c) between the subjects mentioned in (a) above, even if non-resident, on the one hand, and undertakings for collective investment in transferable securities, on the other hand;
- contracts related to sales of securities occurring to the context of a public offer (''offerta pubblica di vendita'') aimed at listing the securities on a stock exchange, or involving financial instruments already listed on a stock exchange; and
- contracts regarding unlisted securities concluded between non-residents and banks or other authorized investment services companies regulated by Legislative Decree No. 58 or stock brokers or SIMs.

The change of a depositary (such as Euroclear, Cedelbank, Monte Titoli and the Intermediaries) not involving a transfer of the ownership of the transferred securities will not trigger the Italian transfer tax.

Inheritance and Gift Tax

Italian inheritance and gift tax is payable on transfer of the securities by reason of death or donation, regardless of the residence of the deceased or donor, and even if the securities are held outside Italy. Italian inheritance and gift tax is applicable at progressive rates ranging from 3 percent to 33 percent depending on the value of the inheritance or gift and the relationship between the donee or beneficiary and donor or decedent, respectively. The tax is payable by heirs, legatees and donees. Inheritance or gift taxes paid in a State outside Italy in respect of the same estate on assets existing in the State are deductible in whole or in part from Italian inheritance and gift tax due in respect of such estate. Double taxation treaties may apply.

Under the estate tax treaty concluded between Italy and the United States, subject to certain limitations, a credit for the amount of any estate tax imposed by Italy and attributable to the securities will be allowed against the tax imposed in respect of the securities by the United States on the estate of a deceased person who, at the time of death, was a national of or domiciled in the United States. There is currently no gift tax convention between Italy and the United States.

United States Taxation

The following is a summary of the principal U.S. federal income tax considerations that may be relevant to the beneficial owner of the Shares that is (i) an individual U.S. resident, a U.S. corporation, or a partnership, estate, or trust to the extent its income is subject to taxation in the United States in its hands or the hands of its partners or beneficiaries; (ii) is not also a resident of Italy for Italian tax purposes; (iii) does not conduct a business or perform personal services through a permanent establishment or fixed base in Italy; and (iv) is not subject to the anti-treaty shopping rule or otherwise disqualified from benefits under the Treaty or Proposed Treaty (a ''U.S. Holder''). The summary is based on laws, regulations, rulings and decisions now in effect, all of which are subject to change. The summary does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a particular investor's decision to purchase Shares. In particular, the summary deals only with U.S. Holders that will hold Shares as capital assets, and does not address the tax treatment of holders that are subject to special rules, such as banks, insurance companies, dealers in securities or currencies, traders in securities electing to mark to market, persons holding Shares as part of an integrated investment (including a ''straddle'') comprised of a Share and one or more other positions, persons that own, directly or indirectly, 10 percent or more of the voting stock of the Company and holders whose ''functional currency'' is not the U.S. dollar. The summary is based on laws, treaties and regulatory interpretations in effect on the date hereof, all of which are subject to change.

Prospective investors should consult their own advisors regarding the tax consequences of an investment in Shares, including the application of the U.S. federal income tax considerations discussed herein in light of their particular circumstances, as well as the application of state, local, foreign or other tax laws.

Taxation of Dividends

The gross amount of any dividends (that is, the amount before reduction for Italian withholding tax) paid to a U.S. Holder generally will be subject to U.S. federal income taxation as foreign source dividend income and will not be eligible for the dividends-received deduction allowed to U.S. corporations. Dividends paid in lire or euro will be includible in the income of such a U.S. Holder in a dollar amount calculated by reference to the exchange rate in effect on the date of receipt by the holder. If the lire or euro are converted into dollars on the date of receipt, U.S. Holders generally should not be required to recognize foreign currency gain or loss in respect of the dividend income. U.S. Holders who receive a Treaty refund may be required to recognize foreign currency gain or loss to the extent the amount of the Treaty refund (in dollars) received by the U.S. Holder differs from the U.S. dollar equivalent of the refund amount on the date the dividends were received.

Italian withholding tax at the 15% Treaty and Proposed Treaty rate will be treated as a foreign income tax that U.S. Holders may elect to deduct in computing their taxable income or, subject to the limitations on foreign tax credits generally, credit against their U.S. federal income tax liability. Dividends will generally constitute foreign source ''passive-income'' or ''financial services income'' for U.S. tax purposes. Foreign tax credits will not be allowed for withholding taxes imposed in respect of certain short-term or hedged positions in securities or in respect of arrangements in which a U.S. Holder's expected economic profit, after non-U.S. taxes, is insubstantial. Holders should consult their own advisors concerning the implications of these rules in light of their particular circumstances.

Taxation of Capital Gains

Gain or loss realized by a U.S. Holder on the sale or other disposition of Shares will be subject to U.S. federal income taxation as capital gain or loss in an amount equal to the difference between the U.S. Holder's basis in Shares and the amount realized on the disposition (or its dollar equivalent, determined at the spot rate on the date of disposition, if the amount realized is denominated in a foreign currency). The gain or loss will be long-term capital gain or loss if the Shares were held for more than one year. A U.S. Holder's ability to offset capital losses against ordinary income is limited. Long-term capital gain recognized by an individual holder generally is subject to taxation at a maximum rate of 20 percent.

Information Reporting and Backup Withholding

Dividends and payments of the proceeds of a sale of Shares paid within the United States or through certain U.S.-related financial intermediaries are subject to information reporting and may be subject to backup withholding at a 31% rate unless the holder (1) is a corporation or other exempt recipient or (2) provides a correct taxpayer identification number and certifies that no loss of exemption from backup withholding has occurred. Holders that are not U.S. persons generally are not subject to information reporting or backup withholding. However, such a holder may be required to provide a certification to establish its non-U.S. status in connection with payments received within the United States or through certain U.S.-related financial intermediaries.

PURCHASE AND SALE

General

This offering is part of the Combined Offering of 3,040,000 Shares (before the exercise, if any, of the Over-allotment Option) consisting of:

(i) a public offering in Italy (the ''Italian Public Offering'') of 760,000 Shares that will be underwritten on a stand-by basis by the Italian Managers; and

(ii) an Institutional Offering (the ''Institutional Offering''), including an offering to institutional investors in the United States, that will be underwritten by the Institutional Managers.

There is currently no market for the Shares. The Offering Price is €46 per Share. The Institutional Managers have advised Tiscali and the Selling Shareholder that they presently intend to make a market in the Shares as permitted by applicable law. The Institutional Managers are not obligated, however, to make a market in the Shares and any such market-making may be discontinued at any time at the sole discretion of the Institutional Managers. Accordingly, no assurance can be given as to the development or liquidity of any market for the Shares.

Borsa Italiana has approved admission of the Shares to the *Nuovo Mercato*. Trading of the Shares on the *Nuovo Mercato* is expected to commence on or about October 27, 1999. The Company has appointed the Global Co-ordinators as sponsors and specialists in accordance with the Italian Securities Market Regulations (*Regolamento del Nuovo Mercato organizzato e gestito dalla Borsa Italiana S.p.A.*) approved by the shareholders' meeting of *Borsa Italiana* on December 4, 1998 in connection with the application by the Company for admission to listing its Shares on the *Nuovo Mercato* of the Italian Stock Exchange. In its capacity as specialist, Banca IMI is required to make a market in the Shares.

The Italian Public Offering

The Shares being offered in the Italian Public Offering are being offered for sale, in Italy, to Italian investors other than Professional Investors. The sale of Shares in the Italian Public Offering will be made only through financial institutions located in Italy. The Shares in the Italian Public Offering will be underwritten severally, and not jointly, in Italy on a stand-by basis by a group of underwriters (the ''Italian Managers'') pursuant to an underwriting agreement (the ''Italian Underwriting Agreement'') to be entered into prior to the commencement of the Italian Public Offering. Banca IMI is acting as the book runner and lead manager of the Italian Public Offering (the ''Italian Lead Manager'').

The offering period for the Italian Public Offering commenced on October 20, 1999 and ended two Italian Stock Exchange Days later. ''Italian Stock Exchange Day'' means a day on which the Italian Stock Exchange is open for business.

In the event that the demand for Shares in the Italian Public Offering exceeds the number of Shares being offered in the Italian Public Offering, a portion of the Shares initially offered in the Institutional Offering may be reallocated to the Italian Public Offering if so directed by the Global Co-ordinators, after consultation with the Company.

Of the Shares being offered in the Italian Public Offering, up to 38,000 Shares have been reserved for the Company's current employees, business partners and Tiscali outlets and up to 304,000 Shares for TiscaliFreeNet subscribers. Employees, business partners and Tiscali outlets will benefit from a 20 percent discount from the Offering Price.

The Italian Public Offering is not being made pursuant to this Offering Circular.

The Institutional Offering

The Shares in the Institutional Offering will be underwritten severally by a group of underwriters (the ''Institutional Managers''). The Institutional Managers and their qualified affiliates are designated as members of a global selling syndicate (the ''Selling Syndicate Members''). All Selling Syndicate Members are required to comply with applicable laws and regulatory requirements.

The Institutional Offering includes:

(i) a placement of Shares in Italy to Professional Investors who are not U.S. persons in reliance on Regulation S of the Securities Act,

(ii) a private placement of Shares elsewhere outside Italy and the United States to non-U.S. persons in reliance on Regulation S of the Securities Act, and

(iii) a private placement of Shares in the United States to qualified institutional buyers pursuant to Rule 144A under the Securities Act.

Each of the Institutional Managers named below has, pursuant to an institutional underwriting agreement dated October 22, 1999 (the ''Institutional Underwriting Agreement'') with the Company and the Selling Shareholder, agreed that it will, severally and not jointly, procure subscribers or purchasers for or failing which, subscribe for or purchase itself, the following respective numbers of Shares in connection with the Institutional Offering at the Offering Price.

Institutional Manager	No. of Shares
ABN AMRO Rothschild	943,500
Banca IMI	943,500
Paribas	393,000
Total	2,280,000

ABN AMRO Rothschild is acting as the book runner of the Institutional Offering. ABN AMRO Rothschild and Banca IMI are acting as the joint lead managers of the Institutional Offering (the ''Institutional Lead Managers'').

The Institutional Underwriting Agreement provides that the obligations of the Institutional Managers are subject to certain conditions precedent, and the Institutional Underwriting Agreement may be terminated by the Institutional Managers in certain circumstances prior to payment being made to the Company and the Selling Shareholder. The closing of the Institutional Offering is conditional upon the closing of the Italian Public Offering having taken place. The Company and the Selling Shareholder have given certain representations and warranties to the Institutional Managers and have agreed to indemnify the Institutional Managers against certain liabilities in connection with the offer and sale of the Shares.

The Company will grant to the Institutional Managers an option (the ''Over-allotment Option'') to purchase at the Offering Price additional Shares up to a maximum of 15 percent of the number of Shares initially offered in the Combined Offering, solely to cover over-allotments, if any.

In addition, if demand from the Italian Public Offering exceeds the number of Shares being offered in the Italian Public Offering, a portion of the Shares initially offered in the Institutional Offering may be reallocated to the Italian Public Offering, as described above.

Commissions and Expenses

The Company and the Selling Shareholder will pay to the Institutional Managers and the Italian Managers total commissions between 4 percent and 4.5 percent of the aggregate Offering Price in respect of the Shares offered in the Combined Offering. In addition, the Company and the Selling Shareholder have agreed to reimburse the Institutional Managers in respect of certain expenses incurred in connection with the Combined Offering. ABN AMRO Bank N.V. will also receive warrants convertible into ordinary shares of the Company. See ''*Description of Share Capital — General*'' and ''*Investment Considerations — Conflict of Interest of ABN AMRO Rothschild.*''

Inter-Syndicate Agreement

To provide for the co-ordination of their activities, the Italian Managers, represented by the Italian Lead Manager, the Institutional Managers, represented by the Institutional Lead Managers, and ABN AMRO Rothschild and Banca IMI in their capacity as Global Co-ordinators expect to enter into an Inter-Syndicate Agreement which provides, among other things, that from time to time the Italian Managers and the Institutional Managers will, at the direction of, or may with the consent of the Global Co-ordinators, purchase and sell between each other such number of Shares subscribed or purchased by them pursuant to the Institutional Underwriting Agreement or the Italian Underwriting Agreement. The number of Shares initially available to the Italian Managers and the Institutional Managers in respect of which they may procure subscribers or purchasers for or subscribe or purchase may therefore be more or less than their underwriting commitments.

Selling Restrictions

Each Institutional Manager will represent and agree that the Shares offered in the Institutional Offering may not be offered or sold, directly or indirectly, in Italy or to a resident in Italy, other than to a Professional Investor.

Each of the Institutional Managers has confirmed that: (i) it has not offered or sold any Shares and, during the period ending six months after the payment and Closing Date, it will not offer or sell any Shares to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their business or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 (as amended); (ii) it has complied and will comply with all applicable provisions of the Financial Services Act 1986 of the United Kingdom with respect to anything done by it in relation to the Shares in, from or otherwise involving the United Kingdom; and (iii) it has only issued or passed on and will only issue or pass on in the United Kingdom, this Offering Circular and any document received by it in connection with the offer, subscription or sale of the Shares to a person who is of a kind described in Article 11(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1996 (as amended), or is a person to whom the document may otherwise lawfully be issued or passed on.

The Shares have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of U.S. persons (as defined in Regulation S under the Securities Act) except pursuant to an exemption from or in a transaction not subject to the registration requirements of the Securities Act. In addition, until 40 days after the commencement of the Institutional Offering, an offer or sale of Shares within the United States by any dealer (whether or not participating in the Combined Offering) may violate the registration requirements of the Securities Act.

This Offering Circular has not been and will not be submitted to the clearance procedures of the CONSOB and accordingly may not be used in connection with any offer or sale of the Shares in Italy. For the purposes of the Italian Public Offering in Italy, Tiscali has prepared a *Prospetto Informativo* in the Italian language.

Further, except as required in order to permit the Italian Public Offering to take place in Italy, no action has been taken or will be taken in any jurisdiction by the Institutional Managers, the Company or the Selling Shareholder that would permit a public offering of the Shares or possession or distribution of any offering documents or any amendment or supplement thereto or any other offering or publicity material relating to the Shares in any country or jurisdiction where action for that purpose is required.

Pursuant to Italian Stock Exchange regulations, each shareholder which acquired its shares during the 12 months preceding the date of the Company's application for listing on the *Nuovo Mercato*, as well as each founding shareholder, officer and executive, is required for a period of one year from the date of listing not to sell, offer, pledge or take any other action involving 80 percent or more of its shareholdings on the date trading in the Shares began. In addition, each of the Company, the Selling Shareholder, Andalas Ltd. and Kiwi I Ventura Serviços S.A. will agree, during a period of 180 days after the date of the Institutional Underwriting Agreement, *inter alia*, and subject to certain exceptions, not to, in each case without the prior written consent of the Global Co-ordinators, such consent not to be unreasonably withheld: (i) sell, or dispose in any way of, any Shares, held by such parties as at the date of commencement of the Italian Public Offering; and (ii) in the case of the

Company, issue, and in the case of the shareholders mentioned above, authorize any issuance by the Company of, new shares or other securities convertible into shares.

The transfer, offer or any other action involving the shares placed before the Combined Offering with certain directors, certain officers, employees and certain advisers of the Company at a discounted price of Lit. 1,000 is restricted for a period of three years from the date of the listing. See ''*Management — Directors' and Senior Officers' Ownership of Shares.*''

The transfer or sale of warrants issued to ABN AMRO Bank N.V. and the conversion thereof is subject to restrictions. See ''*Description of Share Capital — General.*''

Closing Arrangements

On the Closing Date, against receipt of payment, the Shares will be credited to the accounts of purchasers with authorized depositories for Monte Titoli, Euroclear or Cedelbank.

Stabilization

In order to facilitate the offering of the Shares, the Global Co-ordinators may engage in transactions that stabilize or maintain the price of the Shares. Specifically, the Global Co-ordinators may over-allot in connection with the Combined Offering, creating a short position in the Shares for its own account. In addition, to cover over-allotments or to stabilize the price of the Shares, the Global Co-ordinators may bid for and purchase Shares in the open market. Any of these activities may stabilize or maintain the market price of the Shares above independent market levels. The Global Co-ordinators are not required to engage in these activities and may end any of these activities at any time.

Related Transactions

Certain of the Selling Syndicate Members or their affiliates have from time to time performed services for the Company and the Selling Shareholder, and the Company and the Selling Shareholder maintain banking relationships with certain of the Selling Syndicate Members or their affiliates in the ordinary course of their business.

TRANSFER RESTRICTIONS

Purchasers of Shares in the United States are advised to consult legal counsel prior to making any offer for, resale, pledge or other transfer of Shares on account of the following restrictions.

Each purchaser of Shares pursuant to Rule 144A will, by accepting delivery of this Offering Circular, be deemed to have represented, agreed and acknowledged with Tiscali and the Institutional Managers that:

1. It is (a) a qualified institutional buyer within the meaning of Rule 144A (''QIB''), (b) acquiring such Shares for its own account or for the account of a QIB and (c) aware, and each beneficial owner of such Shares has been advised, that the sale of such Shares to it is being made in reliance on Rule 144A.

2. It understands that such Shares have not been and will not be registered under the Securities Act and may not be offered, sold, pledged or otherwise transferred except (a) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believe is a QIB purchasing for its own account or for the account of a QIB, (b) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S or (c) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available), in each case in accordance with any applicable securities laws of any State of the United States. The purchaser will, and will inform each subsequent holder that such subsequent holder is required to, notify any subsequent purchaser from it of the resale restrictions set forth in the preceding sentence. Such purchaser acknowledges that the Shares offered and sold in accordance with Rule 144A are ''restricted securities'' within the meaning of Rule 144(a)(3) under the Securities Act and that no representation is made as to the availability of the exemption provided by Rule 144 for resales of Shares.

3. Tiscali, the Selling Syndicate Members and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements. If it is acquiring any Shares for the account of one or more QIBs, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

Each purchaser of Shares in accordance with Regulation S will, by its purchase of such Shares, be deemed to have represented and agreed as follows:

1. It acknowledges (or if it is a broker-dealer, its customer has confirmed to it that such person acknowledges) that the Shares have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S) except pursuant to an exemption from or in a transaction not subject to the registration requirements of the Securities Act; and

2. It certifies either: (a) upon delivery of the Shares, it will be the beneficial owner of such Shares and (i) it is not a U.S. person (as defined in Regulation S) and it is located outside of the United States (within the meaning of Regulation S) and has acquired, or has agreed to acquire and will have acquired, such Shares outside the United States (within the meaning of Regulation S), (ii) it is not an affiliate of the Company or a person acting on behalf of such an affiliate, and (iii) it is not in the business of buying and selling securities, or (b) it is a broker-dealer acting on behalf of its customer, its customer has confirmed to it that, (i) upon delivery of the Shares, such customer will be the beneficial owner of such Shares, (ii) such customer is not a U.S. person (as defined in Regulation S) and is located outside the United States (within the meaning of Regulation S), (iii) such customer is not an affiliate of the Company or a person acting on behalf of such an affiliate, and (iv) such customer is not in the business of buying and selling securities.

In addition, until 40 days after the commencement of the Combined Offering, an offer or sale of Shares within the United States by any dealer (whether or not participating in the Combined Offering) may violate the registration requirements of the Securities Act.

Prospective purchasers are hereby notified that sellers of the Shares may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

LEGAL MATTERS

Ughi & Nunziante, legal counsel to the Company and the Selling Shareholder, will opine upon the validity of the Shares and upon certain other Italian legal matters. Cleary, Gottlieb, Steen & Hamilton, legal counsel to the Institutional Managers, will opine upon certain U.S. legal matters.

AUDITORS

The Audited Financial Statements as at and for the year ended December 31, 1998 and as at and for the six months ended June 30, 1999 have been audited by Deloitte & Touche S.p.A. The aforementioned Audited Financial Statements have been included in this Offering Circular in reliance on such reports, which appear elsewhere in this Offering Circular.

INDEX TO FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Tiscali S.p.A.

We have audited the financial statements of Tiscali S.p.A. for the year ended December 31, 1998.

Our examination was conducted in accordance with generally accepted auditing standards and, in accordance with those standards, we made reference to the legal requirements which regulate the preparation of financial statements, as interpreted and integrated by the accounting principles issued by the Italian National Council of Accountants.

The balance sheet and statement of income show for comparative purposes the prior year amounts that were examined by us solely for the purpose of expressing an opinion on the 1998 year financial statements. Therefore, we do not express an opinion on the comparative amounts.

In our opinion, the financial statements referred to above, taken as a whole, have been clearly prepared and present fairly the financial position and results of operations of Tiscali S.p.A. for the year ended December 31, 1998 in conformity with the principles which regulate the preparation of financial statements, referred to in the second paragraph.

This auditors' report and financial statements are English language translations of the Italian language auditors' report and financial statements prepared for and used in Italy. The accompanying financial statements were prepared using accounting principles, procedures and reporting practices generally accepted in Italy and are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than those in Italy. The standards, procedures and practices utilized to audit such financial statements are those generally accepted and applied in Italy.

DELOITTE & TOUCHE S.p.A.

Original signed by: Giuseppe Rovelli
Partner

Antonio Cocco
Principal

Cagliari, April 24, 1999

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Tiscali S.p.A.

We have audited the financial statements of Tiscali S.p.A. for the six months ended June 30, 1999.

Our examination was conducted in accordance with generally accepted auditing standards and, in accordance with those standards, we made reference to the legal requirements which regulate the preparation of financial statements, as interpreted and integrated by the accounting principles issued by the Italian National Council of Accountants.

The six-month financial statements show for comparative purposes the prior year amounts at December 31, 1998. For the opinion on the financial statements of the prior year, reference should be made to the auditors' report issued by us on April 24, 1999.

In our opinion, the six-month financial statements referred to above, taken as a whole, have been clearly prepared and present fairly the financial position and results of operations of Tiscali S.p.A. for the six months ended June 30, 1999 in conformity with the principles which regulate the preparation of financial statements, referred to in the second paragraph.

This auditors' report and financial statements are English language translations of the Italian language auditors' report and financial statements prepared for and used in Italy. The accompanying financial statements were prepared using accounting principles, procedures and reporting practices generally accepted in Italy and are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than those in Italy. The standards, procedures and practices utilized to audit such financial statements are those generally accepted and applied in Italy.

DELOITTE & TOUCHE S.p.A.

Original signed by: Giuseppe Rovelli
Partner

Antonio Cocco
Principal

Cagliari, July 23, 1999

INDEPENDENT AUDITORS' REVIEW LETTER

Messrs.

ABN AMRO Rothschild
Via Meravigli, 7
20123 Milano MI

Banca d'Intermediazione Mobiliare IMI
Corso Matteotti, 6
20121 Milano MI

1. We have carried out the limited review of the attached statement showing the financial position and economic situation of Tiscali S.p.A. at March 31, 1999. Such statement contains financial and economic data of Tiscali S.p.A. relating only to those items constituting the financial position and economic situation thereof.

2. Our work was carried out according to the criteria for a limited audit review laid down by international auditing principles. A limited audit review is mainly made up of the gathering of information regarding items in the accounting statement and on the homogeneity of valuation criteria ascertained through discussions with Company management and in carrying out a balance sheet analysis on data contained in that accounting statement. A limited review excludes such audit procedures as testing of conformity and validity procedures and requires a significantly lesser scope of work than that required by a full audit carried out according to established audit principles. Consequently, contrary to our approach to the annual financial statements, we do not express our professional audit opinion on the financial position and economic situation at March 31, 1999.

3. Based on our work, we are not aware of any significant variations or integrations which should be made to the financial and economic situation at March 31, 1999 of Tiscali S.p.A. in order that the latter be considered as drawn up in conformity with the accounting principles adopted for the preparation of the financial statements at December 31, 1998.

4. This report has been prepared solely for the purposes of the requirements related to admission to official listing on the Stock Exchange and cannot be mentioned in your documents nor divulged to third parties, either partly or wholly, without our prior written consent.

This auditors' report and financial statements are English language translations of the Italian language auditors' report and financial statements prepared for and used in Italy. The accompanying financial statements were prepared using accounting principles, procedures and reporting practices generally accepted in Italy and are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than those in Italy. The standards, procedures and practices utilized to audit such financial statements are those generally accepted and applied in Italy.

DELOITTE & TOUCHE S.p.A.

Original signed by: Giuseppe Rovelli
Partner

Antonio Cocco
Director

Cagliari, July 23, 1999

TISCALI S.p.A.

Balance Sheets

	As of		
	December 31, 1998 (audited)	March 31, 1999 (unaudited)	June 30, 1999 (audited)
	(millions of lire)		
Intangible fixed assets	3,159	3,565	3,877
Tangible fixed assets	1,064	1,528	2,383
Investments and other fixed assets	400	400	670
Fixed assets (A)	4,623	5,493	6,930
Inventories	222	150	95
Trade receivables	2,647	5,548	13,080
Other receivables	908	1,429	1,285
Accrued income and prepayments	1,739	1,584	2,215
Operating assets (B)	5,516	8,711	16,675
Trade payables	(5,977)	(7,896)	(16,790)
Other payables	(581)	(795)	(1,277)
Accrued expenses and deferred income	(1,539)	(1,192)	(2,631)
Operating liabilities (C)	(8,097)	(9,883)	(20,698)
Working capital (D) = (B+C)	(2,581)	(1,172)	(4,023)
Reserve for severance indemnities (E)	(50)	(90)	(167)
Net capital employed (A+D+E)	1,992	4,231	2,740
Shareholders' equity (F)	6,214	4,737	3,719
Net financing position (G)	(4,222)	(506)	(979)
Shareholders' equity and net financing position (H) = (F+G)	1,992	4,231	2,740
Notes and bank receipts in circulation	13	—	89
Rental commitments	—	—	15,154
Third-party guarantees to third parties	1,331	1,331	1,331
Leasing commitments	7,218	7,218	10,154
Total memorandum accounts	8,562	8,549	26,728

TISCALI S.p.A.

Statements of Operations

	Year ended December 31, 1998 (audited)	Three months ended March 31, 1999 (unaudited)	Three months ended June 30, 1999 (unaudited)	Six months ended June 30, 1999 (audited)
	(millions of lire)			
1. Revenues from sales and services	2,513	4,761	11,103	15,864
2. Other operating income	15	—	1	1
3. Cost of sales	(3,268)	(5,003)	(10,147)	(15,150)
4. Payroll costs	(831)	(696)	(1,202)	(1,898)
5. Depreciation/amortization	(1,324)	(430)	(551)	(981)
6. Provisions and writedowns	(51)	(28)	(59)	(87)
7. Other operating charges	(230)	(73)	(97)	(170)
8. Income from fixed assets by internal production	443	—	—	—
9. Interest and similar expenses	(18)	(4)	(54)	(58)
10. Extraordinary expenses	(2)	(4)	(12)	(16)
Taxes on income	0	0	0	0
Net loss	(2,753)	(1,477)	(1,018)	(2,495)

TISCALI S.p.A.

Statements of Cash Flows

	Year ended December 31, 1998 (audited)	Three months ended March 31, 1999 (unaudited)	Three months ended June 30, 1999 (unaudited)	Six months ended June 30, 1999 (audited)
	(millions of lire)			
Net profit (loss) for the period	(2,753)	(1,477)	(1,018)	(2,495)
Depreciation and amortization	1,324	430	551	981
Change in the reserve for severance indemnities	50	40	77	117
Cash flow from operating activities	(1,379)	(1,007)	(390)	(1,397)
Changes in current assets and liabilities:				
Inventories	(222)	72	55	127
Trade receivables and other receivables	(3,521)	(3,422)	(7,388)	(10,810)
Accrued income and prepayments	(1,733)	155	(631)	(476)
Trade payables	5,876	1,919	8,894	10,813
Other payables	467	214	482	696
Accrued expenses and deferred income	1,639	(347)	1,439	1,092
Cash flow from operations (A)	1,127	(2,416)	2,461	45
Purchase of tangible fixed assets, net	(1,018)	(533)	(973)	(1,506)
Purchase of intangible fixed assets, net	(4,343)	(767)	(745)	(1,512)
Purchase of financial fixed assets	(398)	—	(270)	(270)
Cash flow from investment activities (B)	(5,759)	(1,300)	(1,988)	(3,288)
Increases in shareholders' equity	8,800	—	—	—
Cash flow from financing activities (C)	8,800	—	—	—
Net cash flow for the period (A+B+C)	4,168	(3,716)	473	(3,243)
Liquid funds at the start of the period	54	4,222	506	4,222
Net cash flow for the period	4,168	(3,716)	473	(3,243)
Liquid funds at the end of the period	4,222	506	979	979

TISCALI S.p.A.

Statement of Changes in Shareholders' Equity

	Share capital	Legal reserve	Share premium reserve	Net profit (loss) for the period	Total
			(millions of lire)		
Balances as of December 31, 1997	200	—	—	(33)	167
Cash increase in capital with premium	1,050		7,750		8,800
Net loss for the period ended December 31, 1998				(2,753)	(2,753)
Balances as of December 31, 1998	1,250	—	7,750	(2,786)	6,214
Coverage of losses in 1998 and in prior periods: share premium reserve			(2,786)	2,786	—
Net loss for the period ended March 31, 1999				(1,477)	(1,477)
Balances as of March 31, 1999	1,250	—	4,964	(1,477)	4,736
Net loss for the period ended June 30, 1999				(1,018)	(1,018)
Balances as of June 30, 1999	1,250	—	4,964	(2,495)	3,719

TISCALI S.p.A.

NOTES TO THE FINANCIAL STATEMENTS

A Basis of presentation

The financial statements of Tiscali S.p.A. are prepared in the complete format required by article 2423 of the Italian Civil Code.

The accounting policies adopted in preparing the financial statements and for valuing the individual captions take account of the provisions of Decree 127/1991, as well as the accounting principles approved by the Italian Accounting Profession. No exceptions have been made. The policies adopted are as follows:

B Accounting and valuation principles

Intangible fixed assets

Intangible fixed assets are costs that benefit the Company for more than one year. They are recorded at purchase cost, including any related charges, and amortized directly on a straight-line basis over the period that each type of asset is expected to benefit. If this cannot be estimated, they are amortized over a period not exceeding five years.

Where capitalized, research, development and advertising expenses incurred by the Company are amortized on a straight-line basis over a three-year period.

Tangible fixed assets

Tangible fixed assets are recorded at purchase or construction cost, including related charges.

These assets are depreciated on a straight-line basis using rates that reflect their technical and economic residual lives. Depreciation is halved in the year an asset is acquired, since this is thought to be a reasonable reflection of the timing of asset purchases during the year.

If the value of tangible fixed assets at the end of the year is considered to be permanently lower than their net book value, they are written down to such lower value.

Normal rates of depreciation are as follows:

Category	Rate
Specific plant and machinery	20%
Internet installations	20%
Network equipment	20%
Office furniture and machines	12%
Electronic office machines	20%
Other assets	20%
Motor vehicles	25%
Other equipment	20%

Ordinary maintenance costs are written off during the year. Those that add value to an asset or extend its useful life are capitalized to the asset concerned and depreciated over its residual useful life.

Assets with a unit cost of less than one million lire are depreciated entirely in the year of purchase.

Financial fixed assets

Investments are recorded at purchase cost and written down to reflect any permanent impairment of value.

Long-term receivables are valued at their estimated realizable value.

Inventories

Inventories are stated at the lower of purchase or production cost, including overheads, or their market value.

Receivables

Receivables are stated at their estimated realizable value, taking into account the solvency of the debtor, the ageing of the debt, any outstanding disputes and any guarantees that can be enforced. The face value of receivables is written down to estimated realizable value by means of a reserve for bad and doubtful accounts, which is classified as a deduction from gross receivables.

Liquid funds

Liquid funds are stated at their face value.

Accruals and deferrals

Accrued income, prepayments, accrued expenses and deferred income are recorded to match costs and revenues in the accounting periods to which they relate.

Income taxes

The provision for income taxes, determined with reference to current tax rates and regulations, is based on a realistic forecast of taxable income. Tax liabilities are classified as Taxes payable and stated net of advance payments and withholding taxes incurred.

Translation of amounts denominated in foreign currencies

Receivables and payables not denominated in euro-zone currencies are translated to lire using the Milan exchange rates applying at the time of the related transactions. Exchange differences realised upon the collection of receivables or the settlement of payables are reflected in the income statement as financial income or expense.

Any net loss arising on the adjustment of foreign currency receivables and payables using the year-end exchange rates is charged to the income statement. Any net gains emerging are prudently not recorded.

Reserve for severance indemnities

The reserve for severance indemnities reflects the liability to all employees at year-end, net of advances, accrued in compliance with Italian law, current employment contracts and any in-house agreements.

Payables

Payables are stated at their face value.

Contingencies, commitments and guarantees

Commitments and guarantees are stated in the memorandum accounts at their contractual value.

Contingencies that will probably give rise to a liability are explained in the notes and covered by an appropriate provision. Those which only might give rise to a liability are explained in the notes, without making any provision.

Remote contingencies are ignored.

Revenue and cost recognition

Revenues and costs are recognized and recorded on an accruals basis, excluding unrealized profits and taking account of any liabilities and losses relating to the year, even if such costs are not identified until after year-end.

Revenues and costs are stated net of returns, discounts, rebates and bonuses, as well as any taxes directly related to the sale of goods or services.

The cost of purchasing goods is recognized for accounting purposes at the time ownership passes. The cost of services is recorded on completion of the service.

Finance leasing

Lease charges are recorded on an accruals basis, considering the accounting periods to which individual payments relate. Any balloon payments required under the lease contract are spread over the entire duration of the lease by deferring the related charge as a prepayment.

The residual lease commitment is reported in the memorandum accounts and reduced annually to take account of the instalments paid.

C Notes to the Individual Items of the Balance Sheet

1. Intangible fixed assets

	Assets in process of formation and advances	Start-up and expansion costs	Research, development and advertising costs	Intellectual property rights	Concessions, licences and trademarks	Total
			(millions of lire)			
Balance as of January 1, 1998	2	9	5	—	—	16
Increases		1,577	2,622	25	119	4,343
Amortization		(318)	(866)	(5)	(9)	(1,198)
Other movements	(2)					(2)
Balance as of December 31, 1998	—	1,268	1,761	20	110	3,159
Increases		251	359	1	156	767
Amortization		(92)	(265)	(1)	(3)	(361)
Balance as of March 31, 1999	—	1,427	1,855	20	263	3,565
Increases		332	409	—	4	745
Amortization		(142)	(273)	(1)	(17)	(433)
Balance as of June 30, 1999	—	1,617	1,991	19	250	3,877

Start-up and expansion costs consist of notarial expenses incurred for the formation of the Company in 1997 and for statutory changes in 1998 and in the second quarter of 1999, as well as costs relating to the design and development of the network, including internal production and freelance personnel costs.

Research, development and advertising costs include set-up expenses for the interconnection with Telecom Italia, as well as costs incurred to publicize the Tiscali name and its services.

Intellectual property rights include costs incurred in 1997 for the photographs used to communicate with the public.

Concessions, licences and trademarks include expenses incurred to acquire management and administrative software licences. The increase in the first quarter of 1999 relates to the purchase of software for the TiscaliFreeNet service.

2. Tangible fixed assets

Tangible fixed assets (net) are analysed as follows:

	June 30, 1999 (3 months)	March 31, 1999 (3 months)	December 31, 1998 (12 months)
		(millions of lire)	
Specific plant and machinery	238	140	125
Internet installations	668	396	419
Network equipment	853	537	167
Office furniture and machines	173	104	101
Electronic office machines	335	258	175
Motor vehicles	17	18	—
Other equipment	85	66	68
Other assets	14	9	9
Total tangible fixed assets, net	2,383	1,528	1,064

Changes in tangible fixed assets and accumulated depreciation during the period are as follows:

Tangible fixed assets

	Balance at January 1, 1998	Increases	Decreases	Balance at December 31, 1998
		(millions of lire)		
Specific plant and machinery	17	126		143
Internet installations	—	466		466
Network equipment	8	177		185
Office furniture and machines	62	51		113
Electronic office machines	54	151		205
Other equipment	—	73		73
Other assets	—	11		11
Advance payments	35	—	(35)	—
Total	176	1,055	(35)	1,196

Accumulated depreciation

	Balance at January 1, 1998	Increases	Decreases	Balance at December 31, 1998	Net tangible fixed assets December 31, 1998
			(millions of lire)		
Specific plant and machinery	(1)	(17)	—	(18)	125
Internet installations	—	(47)	—	(47)	419
Network equipment	—	(18)	—	(18)	167
Office furniture and machines	(2)	(10)	—	(12)	101
Electronic office machines	(3)	(27)	—	(30)	175
Other equipment	—	(5)	—	(5)	68
Other assets	—	(2)	—	(2)	9
Total	(6)	(126)	—	(132)	1,064

Tangible fixed assets

	Balance at January 1, 1999	Increases	Decreases	Balance at March 31, 1999
		(millions of lire)		
Specific plant and machinery	143	22	—	165
Internet installations	466	—	—	466
Network equipment	185	389	—	574
Office furniture and machines	113	6	—	119
Electronic office machines	205	96	—	301
Motor vehicles	—	19	—	19
Other equipment	73	—	—	73
Other assets	11	1	—	12
Total	1,196	533	—	1,729

Accumulated depreciation

	Balance at January 1, 1998	Increases	Decreases	Balance at March 31, 1999	Net tangible fixed assets March 31, 1999
			(millions of lire)		
Specific plant and machinery	(18)	(7)	—	(25)	140
Internet installations	(47)	(23)	—	(70)	396
Network equipment	(18)	(19)	—	(37)	537
Office furniture and machines	(12)	(3)	—	(15)	104
Electronic office machines	(30)	(13)	—	(43)	258
Motor vehicles	—	(1)	—	(1)	18
Other equipment	(5)	(2)	—	(7)	66
Other assets	(2)	(1)	—	(3)	9
Total	(132)	(69)	—	(201)	1,528

Tangible fixed assets

	Balance at April 1, 1999	Increases	Decreases	Balance at June 30, 1999
	(millions of lire)			
Specific plant and machinery	165	112	—	277
Internet installations	466	311	—	777
Network equipment	574	353	—	927
Office furniture and machines	119	75	—	194
Electronic office machines	301	94	—	395
Motor vehicles	19	—	—	19
Other equipment	73	22	—	95
Other assets	12	6	—	18
Total	1,729	973	—	2,702

Accumulated depreciation

	Balance at April 1, 1999	Increases	Decreases	Balance at June 30, 1999	Tangible fixed assets, net June 30, 1999
	(millions of lire)				
Specific plant and machinery	(25)	(14)	—	(39)	238
Internet installations	(70)	(39)	—	(109)	668
Network equipment	(37)	(37)	—	(74)	853
Office furniture and machines	(15)	(6)	—	(21)	173
Electronic office machines	(43)	(17)	—	(60)	335
Motor vehicles	(1)	(1)	—	(2)	17
Other equipment	(7)	(3)	—	(10)	85
Other assets	(3)	(1)	—	(4)	14
Total	(201)	(118)	—	(319)	2,383

Tangible fixed assets did not change significantly during the first six months of 1999. Most of the investment in tangible fixed assets during that period was financed by lease contracts, as reported in the memorandum accounts.

The Company has never revalued any of its tangible fixed assets nor has it recorded any accelerated depreciation.

3. Financial fixed assets

This caption comprises:

	June 30, 1999 (3 months)	March 31, 1999 (3 months)	December 31, 1998 (12 months)
		(millions of lire)	
Guarantee deposits	400	400	400
Investments in group companies	270	—	—
Total investments and other financial fixed assets	670	400	400

The guarantee deposit was lodged with Banca Cis during 1998 to obtain a guarantee (stated in the memorandum accounts) expiring on April 30, 2004 for Lire 1,331 million in favor of the Ministry of Telecommunications, pursuant to the Decree dated November 25, 1997, in order to obtain an individual licence for the installation of a telecommunications network.

The equity investments acquired in June 1999 relate to Andala S.p.A. and Almanacco S.p.A., of which Tiscali has, respectively, an 85% and a 50% shareholding.

Both companies only have three-tenths of their share capital paid in. The liability to group companies as of June 30 1999 includes the residual capital to be paid.

4. Inventories of raw, ancillary and consumable materials and goods

These are analysed as follows:

	June 30, 1999 (3 months)	March 31, 1999 (3 months)	December 31, 1998 (12 months)
		(millions of lire)	
Telephone cards	—	150	174
Sundry consumable materials	95	—	48
Total inventory	95	150	222

Sundry consumable materials include contracts and commercial printed forms.

5. Trade receivables

These are analysed as follows:

	June 30, 1999 (3 months)	March 31, 1999 (3 months)	December 31, 1998 (12 months)
		(millions of lire)	
Due from customers	13,080	5,548	2,647
Total	13,080	5,548	2,647

Amounts due from customers are analysed as follows:

	June 30, 1999 (3 months)	March 31, 1999 (3 months)	December 31, 1998 (12 months)
		(millions of lire)	
Due from customers	13,218	5,627	2,698
Reserve for bad and doubtful accounts	(138)	(79)	(51)
Due from customers	13,080	5,548	2,647

The amount due from customers is essentially receivable from Italian customers of telephony and Internet services (the amount due from the principal customer, Telecom Italia, as of June 30, 1999 was Lire 1,943 million).

The change in the average time for collection from 78 days in 1998 to 87 days in the first quarter of 1999, and 89 days in the second quarter, was influenced by the increase in post-paid services.

The change in the reserve for bad and doubtful accounts during the period under review was as follows:

	Tax-deductible	Non-deductible	Total
		(millions of lire)	
Reserve as of 31 December 1997			
Provisions in the year to 31.12.1998	51	—	51
Released in the year to 31.12.1998	—	—	—
Reserve as of 31 December 1998	51	—	51
Provisions in the period to 31.03.1999	28	—	28
Released in the period to 31.03.1999	—	—	—
Reserve as of 31 March 1999	79	—	79
Provisions in the period to 30.06.1999	59	—	59
Released in the period to 30.06.1999	—	—	—
Reserve as of 30 June 1999	138	—	138

This reserve is considered sufficient to cover any insolvencies by customers.

6. Other receivables

This caption is analysed as follows:

	June 30, 1999 (3 months)	March 31, 1999 (3 months)	December 31, 1998 (12 months)
		(millions of lire)	
Tax withholdings	1	1	1
VAT recoverable	1,183	1,408	888
Other receivables	101	20	19
Total	1,285	1,429	908

These receivables are all collectible and therefore no provisions have been made against them. Other receivables include amounts due from directors, employees and suppliers for advances paid.

7. Accrued income and prepayments

This caption is analysed as follows:

	June 30, 1999 (3 months)	March 31, 1999 (3 months)	December 31, 1998 (12 months)
		(millions of lire)	
Prepaid leasing charges	2,081	1,578	1,578
Sundry prepayments	134	6	161
Total	2,215	1,584	1,739

Prepaid leasing charges relate mainly to balloon payments on contracts for the lease of telephone exchanges arranged with Locat S.p.A. in 1998. Installation and testing of these exchanges was only completed on June 16, 1999 and regular lease payments began in July 1999. The balloon payment made has been deferred as a prepayment.

The remainder of this caption relates to balloon payments on new contracts for the lease of Internet apparatus.

8. Trade payables

This caption is analysed as follows:

	June 30, 1999 (3 months)	March 31, 1999 (3 months)	December 31, 1998 (12 months)
		(millions of lire)	
Due to suppliers	16,790	7,896	5,977
Total	16,790	7,896	5,977

Amounts due to suppliers represent trade payables for supplies and services received.

The average number of days credit was 126 as of December 31, 1998, 120 as of March 31, 1999 and 124 as of June 30, 1999. This is because payables include capital expenditure for which ample extended credit terms have been obtained.

Amounts due to suppliers include the following foreign currency payables relating to the registration of Internet domains in the United States.

Currency	June 30, 1999 (3 months)	March 31, 1999 (3 months)	December 31, 1998 (12 months)
US dollars	853,460	119,549	120,400

9. Other payables

This caption is analysed as follows:

	June 30, 1999 (3 months)	March 31, 1999 (3 months)	December 31, 1998 (12 months)
		(millions of lire)	
Taxes payable within 12 months	100	129	103
Due to social security agencies	34	32	14
Other payables due within 12 months	954	634	464
Due to group companies	189	—	—
Total	1,277	795	581

Taxes payable within 12 months consist of the following:

	June 30, 1999 (3 months)	March 31, 1999 (3 months)	December 31, 1998 (12 months)
		(millions of lire)	
Tax withholdings	21	50	24
Registration taxes	79	79	79
Total	100	129	103

Other payables due within 12 months are as follows:

	June 30, 1999 (3 months)	March 31, 1999 (3 months)	December 31, 1998 (12 months)
		(millions of lire)	
Due to employees for payroll and untaken holidays	641	316	110
Sundry creditors	12	17	50
Due to other providers of finance	301	301	304
Total	954	634	464

The amounts due to employees include payroll amounts not yet paid at year end, in particular the 14-month salary accrual and their accrued holiday entitlement.

Amounts due to other providers of finance represent an interest-free loan from a former shareholder, Monteverdi S.p.A., maturing within 12 months.

Sundry creditors include the liability to Andala S.p.A. and Almanacco S.p.A. for seven-tenths of their capital to be paid.

10. Accrued expenses and deferred income

These are analysed as follows:

	June 30, 1999 (3 months)	March 31, 1999 (3 months)	December 31, 1998 (12 months)
		(millions of lire)	
Deferred income: prepaid Voice Traffic	(2,631)	(1,189)	(1,440)
Total deferred income	(2,631)	(1,189)	(1,440)
Accrued expenses	—	(3)	(99)
Total accrued expenses	—	(3)	(99)
Total accrued expenses and deferred income	(2,631)	(1,192)	(1,539)

Deferred income relates to revenues from the sale of prepaid voice services, collected in advance but not yet utilized. This balance has been determined on the basis of the effective use of the service.

11. Reserve for severance indemnities

The changes in the reserve for severance indemnities were as follows:

	Total
	(millions of lire)
Balance as of 31.12.1997	—
Provision for the year	50
Released	—
Balance as of 31.12.1998	50
Provision for the period	40
Released	—
Balance as of 31.03.1999	90
Provision for the period	77
Released	—
Balance as of 30.06.1999	167

12. Shareholders' equity

Shareholders' equity is analysed as follows:

	June 30, 1999 (3 months)	March 31, 1999 (3 months)	December 31, 1998 (12 months)
		(millions of lire)	
Share capital	1,250	1,250	1,250
Share premium	4,964	4,964	7,750
Losses carried forward	(1,477)	—	(33)
Loss for the period	(1,018)	(1,477)	(2,753)
Total shareholders' equity	3,719	4,737	6,214

The share capital of Tiscali S.p.A. as of June 30, 1999 is represented by 125,000 issued and fully-paid ordinary shares, par value Lire 10,000 each.

The shareholders' meeting held on June 30, 1999 authorized a share split such that share capital is now represented by 12,50,000 shares, par value Lire 100 each.

13. Memorandum accounts

These are analysed as follows:

	June 30, 1999 (3 months)	March 31, 1999 (3 months)	December 31, 1998 (12 months)
		(millions of lire)	
Guarantees given by third parties	1,331	1,331	1,331
Lease commitments	10,154	7,218	7,218
Rental commitments	15,154	—	—
Miscellaneous	89	—	13
Total	26,728	8,549	8,562

Guarantees given by third parties on behalf of the Company were granted by Banca Cis in favor of the Ministry of Telecommunications, pursuant to the Decree dated November 25, 1997, and expire on April 30, 2004.

Lease commitments comprise the residual liability to Locat S.p.A. on a finance lease contract for telephone exchanges arranged during 1998 and activated on July 1,1999, following testing and acceptance of the equipment, as well as the commitments to Sardaleasing and Newcourt relate to equipment for the Internet service.

Rental commitments relate to a contract with ECS Italia S.p.A. for the rental of Ericsson switchgear as part of the expansion of the network.

14. Contingent liabilities

There were no contingent liabilities at the date of this report. All known or likely liabilities are recorded in the financial statements.

D Notes to the statement of operations

1. Sales Revenues

Revenues from sales and services

The following table analyses revenues by type of service:

	June 30, 1999 (6 months)	June 30, 1999 (3 months)	March 31, 1999 (3 months)	December 31, 1998 (12 months)
	(millions of lire)			
Internet service:				
TiscaliFreeNet	4,406	4,406	—	—
Tiscali Net	112	18	94	605
Other Internet revenues	199	178	22	40
Total Internet service	4,717	4,602	116	645
Voice service:				
Pre-paid products				
Tiscali 10030, RicariCasa, cards	8,033	4,455	3,577	1,403
Post-paid products				
Tiscali affari	2,935	1,941	994	443
Total voice service	10,968	6,396	4,571	1,846
Other revenues	179	105	74	22
Total	15,864	11,103	4,761	2,513

Revenues from sales and services are generated by the Internet and voice services provided in Italy.

TiscaliFreeNet services principally include revenues from traffic and, to a lesser extent, rentals for interconnection kits.

Revenues from the TiscaliNet service, progressively replaced by TiscaliFreeNet service March 24, 1999, derive from the sale of subscriptions and related services.

Other Internet revenues comprise income from the sale of Internet domains and advertising space. Additions to fixed assets by internal production reflect the cost of designing the network and installing the lines rented from Telecom, which were capitalized during 1998.

Internet revenues principally derive from payments by Telecom Italia (calculated on the basis of the termination fee) for calls coming from Telecom Italia network and terminated on Tiscali numbers. To a lesser extent, revenue is also earned from the registration of domains. In the second quarter of 1999, Internet revenues represented about 42% of net revenues.

Voice revenues derive from both pre-paid services (prepaid telephone cards, RicariCasa, Tiscali 10030) and post-paid services (Tiscali Affari).

2. Other operating income

This caption is analysed as follows:

	June 30, 1999 (6 months)	June 30, 1999 (3 months)	March 31, 1999 (3 months)	December 31, 1998 (12 months)
	(millions of lire)			
Reimbursement of selling expenses	—	—	—	7
Income from customer migration	—	—	—	7
Sundry revenues	1	1	—	1
Total other income	1	1	—	15

3. Purchases of raw, ancillary and consumable materials and goods

This caption is analysed as follows:

	June 30, 1999 (6 months)	June 30, 1999 (3 months)	March 31, 1999 (3 months)	December 31, 1998 (12 months)
	(millions of lire)			
Purchases of raw, ancillary and consumable materials and goods	381	241	140	558
Total	381	241	140	558

Purchases in 1998 principally related to the cost of telephone cards, credit cards, and blank forms for sales contracts.

4. Change in inventories of raw, ancillary and consumable materials and goods

This caption is analysed as follows:

	June 30, 1999 (6 months)	June 30, 1999 (3 months)	March 31, 1999 (3 months)	December 31, 1998 (12 months)
	(millions of lire)			
Change in inventories of raw, ancillary and consumable materials and goods	(127)	(55)	(72)	222
Total	(127)	(55)	(72)	222

These changes merely reflect different timing in the use of materials.

5. Services and other operating costs

This caption is analysed as follows:

	June 30, 1999 (6 months)	June 30, 1999 (3 months)	March 31, 1999 (3 months)	December 31, 1998 (12 months)
	(millions of lire)			
Telephone line rentals	4,862	3,277	1,585	1,135
Interconnection costs	6,299	4,468	1,831	738
Commission	881	350	531	245
Advertising	999	649	350	12
Freelance personnel	122	66	56	249
Consulting services	130	102	28	43
Maintenance	29	28	1	71
Transport costs	119	92	27	119
Leasing charges	345	302	43	—
Rentals and related expenses	230	165	65	120
Administrative services	161	85	76	104
Hotel and travel expenses	68	52	16	42
Other services	397	215	182	54
Total	14,642	9,851	4,791	2,932

Interconnection costs and commissions derive solely from the provision of voice services and comprise the majority of operating costs (80.1% of total operating costs in the six-month period ended June 30, 1999) and principally include interconnection fees and the rental of telephone lines.

Interconnection fees related to voice services are determined by reference to interconnection fees published by Telecom Italia and approved by AGC.

Advertising expenses comprise sponsorships, as well as publications in newspapers and magazines. Commission and contributions on sales refer to the payments to the selling organization that markets voice services.

Consulting costs derive from the technical, administrative and commercial services supplied by third parties to support the Company in performing tasks requiring professional skills.

The cost of freelance personnel reflects the provision of occasional services relating to the development of the call center and promotional activities.

Administrative services include the fees of the Statutory Auditors, stamp duty and the cost of updating administrative software.

Other services include telephone and cleaning expenses.

Services and other operating costs

6. Payroll cost

This caption is analysed as follows:

	June 30, 1999 (6 months)	June 30, 1999 (3 months)	March 31, 1999 (3 months)	December 31, 1998 (12 months)
	(millions of lire)			
Wages and salaries	1,667	1,045	622	769
Social security contributions	106	76	30	10
Severance indemnities	117	77	40	50
Other costs	8	4	4	2
Total	1,898	1,202	696	831

This caption comprises all employment costs, including merit increases, promotions, holidays still to be taken and the provisions required by law and collective labour contracts.

7. Depreciation and amortization

This caption is analysed as follows:

	June 30, 1999 (6 months)	June 30, 1999 (3 months)	March 31, 1999 (3 months)	December 31, 1998 (12 months)
	(millions of lire)			
Amortization of intangible fixed assets	794	433	361	1,198
Depreciation of tangible fixed assets	187	118	69	126
Total	981	551	430	1,324

8. Other provisions

This caption is analysed as follows:

	June 30, 1999 (6 months)	June 30, 1999 (3 months)	March 31, 1999 (3 months)	December 31, 1998 (12 months)
	(millions of lire)			
Provision for bad and doubtful accounts	87	59	28	51
Total	87	59	28	51

9. Other operating expenses

This caption is analysed as follows:

	June 30, 1999 (6 months)	June 30, 1999 (3 months)	March 31, 1999 (3 months)	December 31, 1998 (12 months)
	(millions of lire)			
Annual payment to Ministry — Tiscali 10030	51	25	25	—
Annual payment to Ministry — individual operating licence	66	36	31	50
Licences, permits and authorizations	—	—	—	110
Other sundry expenses	53	36	17	70
Total	170	97	73	230

10. Interest and similar expenses

	June 30, 1999 (6 months)	June 30, 1999 (3 months)	March 31, 1999 (3 months)	December 31, 1998 (12 months)
	(millions of lire)			
Financial income	7	2	5	7
Financial charges	(65)	(56)	(9)	(25)
Total	(58)	(54)	(4)	(18)

Financial charges relate mainly to expenses for routine banking transactions.

11. Extraordinary expenses

This caption is analysed as follows:

	June 30, 1999 (6 months)	June 30, 1999 (3 months)	March 31, 1999 (3 months)	December 31, 1998 (12 months)
	(millions of lire)			
Out-of-period expense	(16)	(12)	(4)	(2)
Total extraordinary expenses	(16)	(12)	(4)	(2)

Out-of-period expense reflects the accounting recognition of purchase invoices received in 1999 that relate to the year ended December 31, 1998.

E Supplementary data

Net financing position

The net financing position is analysed as follows:

	June 30, 1999 (3 months)	March 31, 1999 (3 months)	December 31, 1998 (12 months)
		(millions of lire)	
Liquid funds	979	508	4,236
Due to banks — short-term	—	(2)	(14)
Total	979	506	4,222

	June 30, 1999 (3 months)	March 31, 1999 (3 months)	December 31, 1998 (12 months)
		(millions of lire)	
Cash on hand	12	7	130
Cash at banks	967	501	4,106
Total liquid funds	979	508	4,236

The average interest rate earned on demand deposits between the start and the end of the period was 2% in 1998 and 1.5% as of June 30, 1999.

Number of employees

The average number of people employed by Tiscali S.p.A. during the period December 31, 1998 – June 30, 1999 was as follows:

	June 30, 1999 (3 months)	March 31, 1999 (3 months)	December 31, 1998 (12 months)
Average number of employees			
Managers	1	—	—
Supervisors	6	5	5
Clerical staff	116	78	40
Total	123	83	45

Employees as of December 31, 1998 were mostly hired in June 1998.

ANNEX A — SUMMARY OF CERTAIN DIFFERENCES BETWEEN ITALIAN AND U.S. ACCOUNTING PRINCIPLES

Under Italian GAAP, assets bought with financial leasing are recorded on an accruals basis, considering the accounting periods to which individual payments relate. Any balloon payments required under the lease contract are spread over the entire duration of the lease by deferring the related charge as a prepayment.

The residual lease commitment is reported in the memorandum accounts and reduced annually to take account of the instalments paid.

The lessee becomes the owner of the asset upon paying an additional amount at the end of the lease term. Only at this point is the additional amount recognized as an asset and then depreciated on a systematic basis related to the useful life of the leased asset.

Under U.S. GAAP (IAS 17), a finance lease should be recognized as an asset and liability in the balance sheet of the lessee at amounts equal at the inception of the lease to the fair value of the lease property. While the legal form of a lease agreement is that the lessee may acquire no legal title to the leased asset, in the case of finance leases the substance and financial reality are that the lessee acquires the economic benefits of the use of the leased asset for the major part of its useful an amount approximating to the fair value of the asset and the related finance charge.

Rentals should be apportioned between the finance charge and the reduction of the outstanding liability. The finance charge should be allocated to the periods during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

A finance lease gives rise to depreciation expense for the asset as well as a finance expense for each accounting period. The depreciation policy for leased assets should be consistent with that for depreciable assets which are owned, and the depreciation recognized should be calculated on a systematic basis during the shorter time of the lease term or its useful life.

ANNEX B — GLOSSARY

Backbone	Primary connectivity mechanism of a hierarchical distributed system. All systems that have connectivity to an intermediate system on the backbone are assured of connectivity to each other. This does not prevent systems from setting up private arrangements with each other to bypass the backbone for reasons of cost, performance, or security.
Bandwidth	Frequency spectrum used to communicate data (video, sound, text, etc.). Increased bandwidth (or a larger ‘‘pipe’’) translates to allowing more data to flow through a cable or channel at a given moment in time.
Broadband Internet	High-speed transmission at 1.544 Mbps and above.
Browser	The client program for the World Wide Web. Allows users to view HTML documents. Popular browsers include Microsoft’s Internet Explorer and Netscape’s Navigator.
Co-location	Physical location of a customer’s Web server or other telecommunications equipment at the POP of another service provider.
Color	Availability of a designated wave length in the spectrum afforded by a fiber optic cable, physically realized by lease of a pair of mono-directional lambda.
Dark fiber	Optical fiber that spans some geographic area. It is sold to carriers and businesses without any additional optics or electronics for providing the signaling paths. The customer is responsible for adding the transmission system at both ends.
Dense Wavelength Division Multiplexing	A technology that uses multiple lasers and transmits multiple light signals simultaneously over a single optical fiber.
Domain	An organization’s unique name combined with a top level domain name such as .com, .org or .net.
E-mail	Electronic Mail.
Extranet	A Web site for existing customers rather than the general public. It uses the public Internet as its transmission system, but requires passwords to gain access.
Gbps	Giga Bits Per Second. Billion bits per second.
HTML	Hypertext Markup Language. The language used to create World Wide Web pages with links to other documents, graphics, enhanced texts, and other multimedia effects. The source file for what you see on a Web page is written in HTML.
Intelligent network	A network that contains built-in diagnostics, management, fault tolerance and other capabilities that keep it running smoothly.
Internet	Global ‘‘network of networks.’’
Intranet	An internal network that uses TCP/IP as its transmission protocol.

IPOP . . . . Allows dial-up Internet access to be treated as data traffic earlier in the network, and closer to the subscriber. Instead of being carried as modulated voice over a circuit-switched telecom network, it is handled over a packet switched data network. Enables a network operator using an AXE-based network to capture Internet traffic, separate it from conventional telephony traffic and send it onwards through networks designed to handle data communications rather than voice communications. Thus, both Internet traffic and voice traffic are handled more efficiently.

ISDN . . . . Integrated Services Digital Network. Relatively high-speed (128 Kbps), switched-digital access for the local loop.

ISP . . . . Internet Service Provider. A company that provides Internet Access to individual subscribers or organizations.

Kbps . . . . Kilobits per second. Data transmission speed measure of 1,000 bits per second. The fastest analog modems transmit at roughly 57 Kbps.

LAN . . . . Local Area Network. A communications network that serves users in a confined geographical area. It comprises servers, workstations, a network operating system and a communications link.

Mbps . . . . Megabits per second. Data transmission speed measure of 1 million bits per second. Cable modems transmit data at between 10 and 30 Mbps (at least 150-200x faster than the fastest analog modems available).

Multicasting . . . . Simultaneous transmission of a message to more than one recipient.

Net-Centric . . . . Newly formed, highly innovation-oriented companies are considered ''net-centric'' when their strategy is focused on Internet services and data transmission in order to take advantage of the massive shift from traditional marketing channels toward virtual models.

Peering . . . . The act of one national Internet backbone provider accepting and passing traffic from another national provider.

Point-to-multipoint . . . . A communications network that provides a path from one location to multiple locations.

POP . . . . Point of Presence.

Protocol . . . . A formal description of message formats and the rules two or more machines must follow in order to exchange such messages.

Registered Users . . . . Users who provide companies with personal information (individual profiles) in exchange for value-added services such as a customized portal, Web-based e-mail, and instant messaging.

Router . . . . A system responsible for making decisions about which of several paths network traffic will follow.

SDH . . . . Synchronous Digital Hierarchy. A fiber-optic transmission system for high-speed digital traffic.

Server . . . . A computer that manages and delivers information to a number of other computer systems (terminals or clients).

Short Message System (SMS) . . . . A service offered by mobile phone operators allowing transmission of short text messages between GSM telephones.

TCP/IP . . . . Transmission Control Protocol/Internet Protocol. The data transmission standard on the Internet.

UMTS . . . . Universal Mobile Telecommunications System.

Web Page . . . . An HTML document (on the World Wide Web) that can be viewed using a Web browser.

World Wide Web . . . . World Wide Web of simply ‘‘Web.’’ An easy but powerful global information systems based on a combination of information retrieval and hypertext techniques.

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LEGAL ADVISORS
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