



 TISCALI

ANNUAL REPORT 2000

ANNUAL REPORT 2000

TISCALI S.p.A.

Viale Trento, 39 - 09123 Cagliari

VAT 02375280928

Share capital subscribed and fully paid-up ITL 3.347.384.430

REA 191784

Registered n. CA150434/97

CONTENTS

Report on operating performance	pag.	3
Consolidated Fincial Statements		
Balance sheet and Memorandum accounts	pag.	20
Profit and loss statements	pag.	22
Notes	pag.	27
Fincial Statements		
Balance sheet and Memorandum accounts	pag.	56
Profit and loss statements	pag.	59
Notes	pag.	63
Report of the Board of Auditors	pag.	99
Report of the External Auditors on the Consolidated Financial Statements	pag.	100
Report of the External Auditors on the Financial Statements	pag.	101

REPORT ON OPERATING PERFORMANCE

Market Overview

Internet access

The Internet is emerging as the fastest growing media in the history of communications, enabling consumers and businesses to communicate, purchase and sell goods and services and exchange knowledge and ideas in an innovative way.

In 1999, Internet users world-wide totalled over 240 million, of which 81 million were from Europe. IDC, a U.S. based research firm, estimates that European Internet users will increase to over 215 million by 2003.

The European Internet sector has been characterised by impressive growth during the last 18 months, fuelled by increasing use of home computers and the emergence of the free ISP business model providing free Internet access.

European Internet user levels vary widely: Scandinavian countries show high numbers of Internet users, while Mediterranean countries such as Italy, France and Spain appear relatively underdeveloped in terms of Internet use. A recent study by Censis, an Italian research firm, showed current figures of 9.4 million Internet users and 4.0 million households accessing the Internet in Italy.

Tiscali believes that Internet use among European consumers will be increased by the rapid introduction of broadband access technologies, such as xDSL, cable modems and UMTS, which should progressively replace dial up connections. The advent of mobile broadband in 2002, via the UMTS technology, in the main European countries, will further fuel Internet usage. xDSL and the cable modem broadband access technologies should permit consumers to continuously connect to the Internet, with much higher quality and speed. These technological enhancements will accelerate the forthcoming convergence between the Internet and other media, making the Internet accessible by devices other than personal computers and allowing audio and video streaming applications and the downloading of files to run more easily and faster. IDC predicts that in 2003 over 5.9 million users in Europe will be connected to the Internet through an xDSL connection, while in 2005 over 7.6 million mobile phone users in Europe will be UMTS enabled.

On-line advertising. The Internet is becoming an increasingly important advertising vehicle world-wide and in Europe. Forrester Research estimates that in 1999 the European Internet advertising market generated approximately 286 million, and it is expected to grow to over US\$ 2 billion by the end of 2003.

The rapid development of e-advertising is mainly due to the rapid expansion of Internet usage and to the growing effectiveness of the Internet as an advertising vehicle. Due to its interactive capabilities, the Internet allows advertisers to track consumption patterns and preferences more effectively than any other media.

Consequently, it can be used to better target advertising campaigns. The emergence of broadband access technologies should further boost advertising opportunities on the Internet, shifting a significant portion of advertising expenditures from traditional media to the Internet. Recent studies in the United States show how Internet usage is increasingly capturing time and attention from traditional media, such as television, radio, magazines and newspapers. Forrester Research estimates that world-wide Internet advertising turnover will reach US\$ 33.1 billion by 2003.

E-commerce. The growth of the Internet is fundamentally changing consumer habits and is shifting an increasing portion of consumption to the Internet. In the near future e-commerce penetration will be further boosted by the introduction of mobile broadband services. This will allow consumers to purchase goods and services by using both fixed and mobile Internet access and will foster the introduction of new value-added services such as e-ticketing, e-booking, e-banking and music downloads on mobile telephones. Tiscali believes that it is uniquely well-positioned to benefit from the projected growth in wireline and wireless broadband services, thanks to its paneuropean customer base of 4,9 m active customers as of December 31st 2000. Forrester Research estimates that worldwide e-commerce is set to increase from 1,000 US\$ bn in 2000 to approximately 4000 US\$ bn in 2003.

Telecommunications Market

The global telecommunications market accounted for over US\$ 620 billion in 1998, with Europe representing the fastest growing market among industrialised regions at that time. The number of fixed lines in the European Union in 1998 was equal to 198 million telephone lines with a penetration rate (number of telephone lines per 100 persons) of 54% (Source: ITU World Development Report 2000). The expected growth rate in 2000 for the European telecom market is 5.6% with Italy, France and Spain being amongst the fastest growing markets. The main reasons behind the growth of the European telecoms market include the liberalisation and harmonisation of telecom regulations in EU member states, the growth in bandwidth capacity and the development of new value added services and the Internet in general.

Strategy

Tiscali believes that Internet technologies create a unique opportunity to build a successful business model based on a new concept of a proprietary, IP based, interconnected network. The pan-European interconnected nature of this network will enable the Company to provide customers throughout Europe with a full range of services: voice, Internet and audio/video streaming, to compete effectively with traditional telecommunication and cable players.

In order to implement this strategic vision, Tiscali recognises the importance of focusing the development of its activities along the following three main strands:

- **New Telco.** Tiscali believes that within the present European regulatory framework access and telecommunication services revenues are an important component of its business mix, which it intends to optimise. Tiscali also believes that its success will depend on its ability to create a networked community which is able to interact effectively and at low cost using Tiscali's communication tools. For this purpose Tiscali, following the success achieved by some innovative communication tools in Italy, such as VoIP and Netfax, intends to shortly extend them throughout Europe.
- **New Media.** The offer of a wide and deep range of content is extremely important to satisfy and retain customers and requires a very wide customer base in order to best exploit economies of scale and generate a higher economic return. Moreover, a very large community becomes more attractive as a distribution vehicle for content providers, as well as a preferential partner for advertisers.
- **B2B.** The development of B2B services represents an additional source of revenues using assets and skills that are already available in-house. In addition, this activity optimises utilisation of the network, compensating consumers' mostly off-peak use.

Tiscali believes that only the development of an extensive interconnected IP-based network can generate those economies of scale which characterise the Internet business, allowing at the same time to offer the best quality services to customers.

Tiscali intends to develop its business on a pan-European scale, to achieve critical mass with a market position among the top 3 players in each major European country, so as to establish itself as the leading ISP and portal in Europe.

Tiscali expects to leverage all the innovative communication services in order to allow Internet users to access a highly successful portal able to retain an ever growing web audience and to enhance customer loyalty.

As experience in the US has shown, these objectives can only be achieved by an independent player rather than by the subsidiary of an incumbent operator, which would have a vested interest in delaying the development of innovative and potentially revolutionary new technologies and communication tools such as VoIP, instant messaging and others.

Group Performance

The table below summarises the most significant financial information on the Group's operating performance for the year ending on 31 December 2000.

Group Economic Results (thousand euro)	2000	% on revenues	1999	% on revenues	Change
Revenues	173.170	100%	32.800	100%	140.370
Operating costs	(243.931)	(140,8%)	(38.775)	(118,5%)	(205.156)
Depreciation/Amortization	(102.619)	(59,3%)	(3.414)	(10,4%)	(99.205)
Gross profit	(173.380)	(100,1%)	(9.389)	(28,6%)	(163.991)
Net financial income and charges	(8.201)	(4,7%)	(69)	(0,2%)	(8.132)
Extraordinary financial income and charges	(4.375)	(2,5%)	(52)	(0,2%)	(4.323)
Profit before taxes	(185.956)	(107,4%)	(9.510)	(29,0%)	(176.446)
Taxes	(217)	(0,1%)	4.007	12,2%	(4.224)
Net profit (loss) for the period	(186.173)	(107,5%)	(5.503)	(16,8%)	(180.552)
Third parties profits (losses)	4.787	2,8%	–	–	4.787
FY Result	(181.386)	(104,7%)	(5.503)	(16,8%)	(175.883)

In the year 2000, the Tiscali Group proceeded in its European expansion strategy, launched at the close of FY 1999. The expansion process throughout Europe took mainly the form of take-overs of ISP companies, of content producing companies and of companies offering specific services for Internet use. Takeovers were mainly carried out by means of share capital increase operations.

Revenue rose by EURO 140.4 million compared to the previous FY, and were boosted by the expansion of the consolidation base and the increase of the parent company's revenues.

The Group's gross profit, in percent terms, was lower than in the previous FY, and went from minus 29.1% for 1999 to minus 100.1% for 2000. The result was influenced by the performance of the subsidiary companies, which displayed worse operating results than the parent company. Moreover, the result was affected by the large costs borne for advertising and promotional campaigns which totalled EURO 32.1 million, with a 656.2% increase on 1999.

Labour costs, equal to EURO 28.3 million or 16.3% of full year revenues, increased by about EURO 25 million, as a result of the expansion of the consolidation area and of the increase in the parent company's workforce which grew from 243 units as at 31 December 1999 to 625 units as at 31 December 2000. As at 31 December 2000 group employees totalled 1740 units.

Depreciations and amortizations increased sharply, from EURO 3.4 million in 1999 to 102.6 million in 2000. The increase was due to the sharp growth in investments.

Net financial charges, which went from EURO 69 thousand to EURO 8.2 million, have been influenced by the European expansion strategy, partly financed with bonded loans issued by Tiscali Finance S.A.

Net exceptional items recorded a negative balance equal to EURO 4.3 million as a result of EURO 3.2 million income and EURO 7.6 million charges, about 4 of which pertained to the posting of a credit of the parent Company towards the Treasury for deferred taxes as described below.

Parent Company's performance

The table below summarises the most significant financial information on the parent Company's operating performance for the year ending on 31 December 2000.

Parent Company's economic results (thousand euro)	2000	% on revenues	1999	% on revenues	Change	%
Revenues	120.981	100%	32.800	100%	88.181	269%
Operating costs	(164.058)	(135,6%)	(40.030)	(122,0%)	(124.028)	310%
Depreciation/Amortization	(6.857)	(5,7%)	(2.629)	(8,0%)	(4.228)	161%
Gross profit	(49.934)	(41,3%)	(9.859)	(30,1%)	(40.075)	406%
Net financial income and charges	(1.110)	(0,9%)	366	1,1%	(1.476)	(403%)
Extraordinary financial income and charges	(49.958)	(41,3%)	(52)	(0,2%)	(49.906)	
Profit before taxes	(101.002)	(83,5%)	(9.543)	(29,1%)	(91.459)	958%
Taxes	–	–	4.007	12,2%	(4.007)	(100%)
FY Profit/Loss	(101.002)	(83,5%)	(5.536)	(16,9%)	(95.466)	1.724%

F.Y. 2000 has seen Tiscali's operations grow significantly, with particular regard to Internet activities. The market has grown at a brisk pace. Tiscali's strategy has been focused on the increase of its subscriber base, through both actions aimed at enhancing brand awareness and the launching of new services, leading the Company to an impressive 269% increase in revenues compared to 1999. In the year 2000, Tiscali has enhanced its portal offer, through new contents and a number of new services such as *Netfax* and *Voispring*.

Internet revenues rose by 280% boosted, in particular, by the growth of on-line advertising and a strong increase in total traffic volumes.

Gross profit is lower, in percent terms, than that recorded in FY 1999. The result was boosted by the increase in production volumes that allow the company to increasingly cover the fixed and semi-fixed network management costs. On the other hand, it was negatively affected by the considerable outlay for promotional initiatives, totalling EURO 34.5 million, with a 1227% increase on 1999.

Labour costs, totalling EURO 11.6 million, with a 9.6% incidence on revenues, increased by EURO 8.2 million due to the increase in total workforce from 243 units as at 31 December 1999 to 625 units as at 31 December 2000.

Depreciations and amortizations increased by 161%, going from EURO 2,6 million in 1999 to EURO 6.8 million in 2000. The increase is due to strong growth in capital expenditure.

Net financial charges have been influenced by foreign exchange losses for about EURO 500 thousand.

Net exceptional items have been equal to EURO 3.8 million resulting from EURO 2.2 million of capital gains from the sale of the stake in Andala S.p.A., as detailed below, and EURO 6 million

of exceptional costs of which 4 million pertain to the posting of a credit towards the Treasury for deferred taxes posted in the balance sheet of FY 1999. In FY 2000, the company decided to change the posting method of this item in accordance with the commitments made in the framework of the launch of the Public Exchange Offer for the takeover of World Online N.V., which does not take over credits for deferred taxes.

Overview of Group's assets & financial position and trends

Group

(thousand euro)	12.31.2000	12.31.1999
Total fixed assets	3.028.379	195.368
Non-current assets	1.357.273	55.990
Net financial position	1.032.176	100.449
Shareholder's equity	2.224.382	138.036

Total fixed assets grew by EURO 2,833 million compared to 1999. This increase is mainly due to the creation of a posting entitled "consolidation difference" under intangible assets and to the enlargement of the consolidation area which has led in turn to an increase in all assets postings.

The Group's net financial position recorded a clear improvement compared to FY 1999, thanks to the takeover of the World Online Group which as at 31 December 2000 held liquid assets amounting to EURO 1,274 million.

Overview of the Parent Company's assets & financial position and trends

Parent Company

(thousand euro)	12.31.2000	12.31.1999
Total fixed assets	2.444.077	182.354
Non-current assets	2.293.499	40.493
Net financial position	(469)	100.070
Shareholder's equity	2.287.375	137.929

Total fixed assets grew by EURO 2,253 million, mainly thanks to the acquisition of participations during the FY, and, to a lesser extent, to the increase in tangible and intangible assets.

Tiscali's net financial position as compared to FY 1999 shows a negative balance of EURO 100.539 million. The use of liquid funds is mainly due to the expansion strategy under way and to the support given to the activities of foreign subsidiaries. The financial trends are detailed in the financial report of the Parent Company in the Consolidated financial statements.

Group investments

During FY 2000, the Group carried out intangible investments, net of the consolidation difference, totalling EURO 106 million, and tangible investments totalling EURO 185 million. The increase in intangible assets is mainly linked to the purchase and implementation of software. The increase in tangible assets is mainly referred to the acquisition of technical equipment and devices for activity development.

Parent Company's investments

During FY 2000, investments were mainly made through leasing and operating lease operations. In particular, output capacity was expanded by acquiring new routers and servers and by upgrading switchboards. Moreover, major investments in software were made for the administration and control departments and for the development of new services. Further investments were made for setting up the technical-operational premises and the call-centre in Cagliari as well as for the new office in Milan.

Overall, investments in tangible assets and software during FY 2000 totalled EURO 29.9 million.

Changes in shareholders' equity in FY 2000

Please refer to the Notes to the Financial Statements for an overview of the changes in shareholder's equity during FY 2000.

Shares held by directors and internal auditors

In compliance with applicable legislation, in particular with Article No. 79 of the rules implementing Leg. Decree 58/1998, issued by Consob with deliberation No. 11971/99, the table below discloses the number of shares held by directors and internal auditors

Last name, first name	Position	No. of shares held as at 12.31.1999	No. of shares purchased	No. of shares sold	No. of shares held as at 12.31.2000
Board of Directors					
Soru Renato	President and C.E.O.	108,100,000	–	–	108,100,000
Bernabè Franco	Director	–	–	–	–
Decina Maurizio	Director	40,000	293 ⁽¹⁾	(2,000)	38,293
Hauser Hermann	Director	–	–	–	–
Piol Elserino	Director	–	–	–	–

(1) These are 600 World Online shares converted into Tiscali shares.

Last name, first name	Position	No. of shares held as at 12.31.1999	No. of shares purchased	No. of shares sold	No. of shares held as at 12.31.2000
Board of auditors					
Zini Andrea	President	–	2,684	(630)	2,054
Casu Rita	Auditor	–	50	–	50
Maccioni Piero	Auditor	–	–	–	–
Biondo Giuseppe	Subst. auditor	–	60	–	60
Bianchi Livio	Subst. auditor	–	1,030	(150)	880

Main Subsidiary Companies

World Online

In November 2000 Tiscali launched a public exchange offer on the whole share capital of World Online. As of December 6th 2000, Tiscali owned 99.5% of World Online's Share capital.

World Online is one of the leading companies in its sector in Europe.

World Online started activities as Internet Service Provider in the Netherlands in 1996 offering a full range of Internet and network services for business and consumer customers. These include a large, complete communications platform providing access, portal services, e-commerce and advertising and business-to-business services.

World Online is one of the major Internet companies in Europe, especially thanks to its dynamic approach. Currently, the company manages over 300 POP in all the countries in which it operates, offering reliable, effective connection.

World Online was officially listed in the Amsterdam Stock Exchange (Euronext) on 17 April 2000. Following successful completion of the Offer by Tiscali, World Online has been delisted on 12 January 2001. The integration with World Online activities has allowed Tiscali to become one of the leading Internet players in Europe.

Tiscali France (formerly A Telecom S.A.)

In March 2000, Tiscali acquired all of the outstanding share capital of A Telecom S.A., a French company, in exchange for 419,534 shares in Tiscali (4,195,340 Tiscali Shares after the 1:10 split in April 2000). A Telecom, based in Marseilles, has been active in the telecom sector since 1997. The company holds French government licences to provide all fixed-line telecommunication services (Internet, voice and networking) and in December 1999 signed a reverse interconnection agreement with France Télécom. This agreement formed the basis of the FreeNet (free Internet access) development in France and further strengthens the value of A Telecom's network. This network includes 18 POPs, enabling the company to cover the whole of France. A Telecom, which records approximately 1 million minutes traffic (voice and Internet wholesale) per day, has until now concentrated its activity on business customers. Tiscali is expanding the activities of its subsidiary by entering the home consumer market, as regards both voice services and Internet access. In July 2000, A Telecom launched TiscaliNet in France, an Internet access service without any subscription or other fees, similar to that already provided in Italy by Tiscali. In the last months of 2000, A Telecom S.A. changed its name to Tiscali France S.A.

Tiscali Germany GmbH (formerly Nikoma)

In April 2000, Tiscali acquired 92% of the outstanding share capital of Nikoma Beteiligungsgesellschaft GmbH, a German company, in exchange for 364,853 shares in Tiscali (3,648,530 Tiscali Shares after the 1:10 split in April 2000). Certain former shareholders of Nikoma subsequently exercised a put option to sell to Tiscali their remaining 8% of the share capital of Nikoma in exchange for 32,459 shares in Tiscali (324,590 Tiscali Shares after the 1:10 split in April 2000). Nikoma, based in Hamburg, is a German ISP and telecommunications service provider. In addition to dial-up access, web hosting and unified messaging, Nikoma offers voice services and value-added multimedia services. It has built a reputation for high speed Internet access, leveraging its extensive network infrastructure and content-based services such as Gamesurf, a leading German on-line gaming platform. In 1999, the company had gross revenues of EUR 15 million. In the framework of its international strategy, Tiscali will link Nikoma with other European countries by means of its fiberoptic circuit, (northern loop). Nikoma currently has approximately 256,000 registered subscribers as at December 2000. In July 2000, Nikoma launched TiscaliNet in Germany. TiscaliNet is an Internet access service without any subscription or other fees, similar to the service offered by Tiscali in Italy. In July 2000, Nikoma changed its name to Tiscali Germany GmbH.

Tiscali DataComm S.A. (formerly DataComm)

In January 2000, Tiscali acquired 80% of the outstanding share capital of DataComm S.A., a Swiss company, in exchange for 113,897 shares in Tiscali (1,138,970 Tiscali Shares after the 1:10 split in April 2000) and 5 million Swiss Francs in cash. Established in 1995, DataComm is a leading independent ISP in Switzerland, offering dial-up access to over 98,000 registered subscribers, leased-line access, and hosting. At present approximately 9000 web sites are hosted. It also manages two Internet cafes in Zurich and Bern. DataComm will be linked to the Tiscali European network through the southern loop, a fiberoptic circuit linking France, Switzerland, Italy and Spain, which should be completed by the end of June 2001. In July 2000, DataComm launched TiscaliNet in Switzerland. In the same month, DataComm changed its name to Tiscali DataComm AG.

NETs S.A.

In December 1999, Tiscali acquired the entire outstanding share capital of NETs S.A., a French company, in exchange for 3,306 shares in Tiscali (33,060 Tiscali Shares after the 1:10 split in April, 2000) and EUR 4 million in cash. Established in 1998, NETs is a pan-European broadband telecommunications operator and owns a fibre optic network, managed with DWDM technology, comprising a link between Paris and London. By using the latest DWDM equipment on its network, NETs is able to increase the normal capacity of one optic fibre by a factor of 80; such an enhanced fibre can convey about 6.25 million simultaneous phone calls. The company intends making the most of the opportunities offered by deregulation and technological advances in the telecommunications sector. With its operations situated on one of Europe's major routes, it is currently deploying major extensions of its network throughout Europe. A Northern loop is already complete at the moment and loops in Southern Europe are under construction and are expected to be operational in 2001 linking the main cities in France, Switzerland and Italy. Tiscali will employ NETs' network and know-how in order to link the current and future national projects through which Tiscali is going to replicate its business model in various other European countries.

Tiscali Belgium Holding S.A.

This company was set up in December 2000, by the parent company with the aim of reorganising its Belgian subsidiaries. In the same month, Tiscali S.p.A. sold Tiscali Belgium to Tiscali Belgium Holding. Subsequently, a merger was carried out between Tiscali Belgium (ex Link Line) and Interweb. Full details of the acquisition of these operating companies during FY 2000 are provided below.

Tiscali Belgium S.A. (formerly Link Line)

In February 2000, Tiscali acquired the entire outstanding share capital of Link Line S.A., a Belgian company, in exchange for 46,280 shares in Tiscali (462,800 Tiscali Shares after the 1:10 split in April 2000) and warrants to acquire an additional 10,518 shares in Tiscali (105,180 Tiscali Shares after the 1:10 split in April 2000). Warrants for a further 105,180 Tiscali Shares have also been issued to Link Line employees. Link Line offers free Internet access and a wide range of services, from web mail to community services to over 110,000 registered subscribers in Belgium. Until recently, Link Line worked primarily as an ISP under the Freegates.be trademark.

Since July 2000, Link Line has been offering free Internet access in Belgium in collaboration with Interweb (Tiscali's other Belgian subsidiary) under the trademark TiscaliNet. This acquisition is especially important for Tiscali's plans of rapidly expanding the fiberoptic network in Europe (northern loop), the laying of which has been entrusted to NETs, Tiscali's French associated company. The network already links Brussels and all the main German cities. The rapid development of this Paneuropean network should enable Tiscali to offer broadband Internet services in all Europe under a single trademark.

Interweb S.A.

In April 2000, Tiscali, through its subsidiary Link Line, acquired the entire outstanding share capital of Interweb S.A., a Belgian company, in exchange for 19,467 shares in Tiscali (194,670 Tiscali Shares after the 1:10 split in April 2000). Interweb is one of Belgium's leading ISPs and the owner of FreeBel, the first web portal to offer free access to the Internet in Belgium, starting in August 1999. Interweb, only months after launching the FreeBel free access service to Internet, already has more than 85,000 registered subscribers.

These subscribers also use various other services such as web mail, FTP (a software protocol used to transfer files between computers), community services and information. In December 2000, Interweb was incorporated by Tiscali Belgium S.A. thus creating one of the strongest Belgian providers of free Internet access in terms of customer numbers and structural capacity. As of July 2000, Tiscali Belgium and Interweb started providing free access to the Internet in Belgium together under the TiscaliNet trademark. The overall number of Internet subscribers of the Tiscali Group in Belgium is about 195,000.

CD Telekomunikace sro

In July 2000, Tiscali acquired 80% of the outstanding share capital of CD-Telekomunikace sro, a Czech company, in exchange for 29,118 ordinary shares in Tiscali (291,180 Tiscali Shares after the 1:10 split in April 2000). CD-Telekomunikace, which already holds a Czech government licence to offer telecommunications services, represents a strategic purchase in Tiscali's expansion into Eastern and Central European countries. The company is the exclusive holder of rights granted by the Czech Railways for the laying and operation of an optical fibre network along the Czech Republic's entire railway network, which covers some 9,600 kilometres. By the end of June 2001, CD-Telekomunikace is expected to cover with its network a total of 2,300 kilometres, which should reach 4,000 by the end of 2001.

Andala 3G S.p.A.

Andala S.p.A. (formerly named Andala UMTS S.p.A.) was founded in November 1999. Andala is the holding company of Andala 3G S.p.A. (formerly Andala OPCO, formerly NETOBE S.p.A. and formerly Almanacco S.p.A.) which was founded in April 1999 and, following the auction of Italian UMTS licences in October 2000, has been awarded one of the five UMTS licences. Various other Italian and foreign companies have acquired rights to the UMTS licence. UMTS represents the third generation in mobile telecommunications systems. In Italy, which is a leader in the use of mobile phones, this means providing access to the Internet through one of the most widespread communications instruments. UMTS technology will give access to the Internet via mobile phones at a far greater speed than any personal computer can offer today, allowing for on-line information, from real time stock quotes to general e-commerce services, to be available in any location.

The major shareholder in Andala 3G S.p.A. is Andala S.p.A., while a minority stake is held by a company of the Hutchinson Whampoa group. The Hutchinson Whampoa group also holds the majority stake of Andala S.p.A., which is the holding of Andala 3G S.p.A. A shareholders' agreement was signed on August 12th, to govern relations between Andala S.p.A. shareholders as regards the running of the company and the initiatives taken by the company itself for the auction of UMTS licenses. Under this shareholders' agreement, both Andala S.p.A. and Andala 3G S.p.A. have board of directors comprising eleven members, six of whom are appointed by the shareholder Hutchinson while the remaining five are appointed by the other shareholders, in proportion to their respective stakes. For decisions on especially sensitive matters, qualified majority voting is required. Under the shareholders' agreement, Tiscali can elect to either finance its share of the cost of acquiring the UMTS licence and rolling out the UMTS network itself or require the Hutchinson Whampoa Group to bear Tiscali's proportion thereof. Tiscali has elected for the Hutchinson Whampoa Group to meet its share of the financial obligations. This will have the

effect of diluting Tiscali's interest in the consortium since the group will have to recover financing with the issue of share capital, although Tiscali will retain the right to rebuild its shareholding at a later stage through repaying its share of the cost met by the Hutchinson Whampoa Group, plus interest and certain other costs. Any such repayments would take place over the 24 months following award of a licence and the large majority of any such repayment would not fall due until the end of this period.

The auction of the Italian UMTS licenses involved a pre-qualification stage and an offer stage. The pre-qualification phase started in July 2000, while the auction proper was held in October 2000. Initially, eight applications for participation in the bidding process had been submitted, seven of which were admitted, in early September 2000, to the subsequent preliminary round. At this stage, bidding Consortia had to submit the last data together with their technical and commercial plans. These were forwarded on 11 September 2000. The auction was for the assignation of 5 paired spectre licenses of 2 x 10 megahertz. In addition to Andala 3G S.p.A., the other successful bidders were: (i) Telecom Italia Mobile, which currently accounts for 56% of the mobile telephone market in Italy (ii) Omnitel, a subsidiary of Vodafone, which currently accounts for 34% of the same market, (iii) Wind, owned by Enel (56.5%) and France Télécom (43.5%), and currently the third largest Italian operator in the mobile telephone sector, and (iv) IPSE 2000, a new entry, whose owners include Telefonica (39.25%), Sonera (19%) and Altanet (12%). The minimum bid for participating in the auction was ITL 4,000 billion (about EUR 2,066 billion). Andala 3G S.p.A. acquired its UMTS license by placing an offer of ITL 4,700 billion (about EUR 2,427 billion). In addition to its successful offer for a 2 x 10 megahertz paired spectre license, as a new entry, Andala 3G S.p.A. also obtained a 2 x 5 megahertz unpaired spectre band for ITL 1,600 billion (about EUR 826 million). The Italian antitrust authority has started an enquiry concerning possible pre-agreements among participants in the auction. Moreover, a complaint was lodged requesting the annulment of the UMTS auction results and the admission of TU Mobile - a participant in the pre-qualification stage - to a new auction. Moreover, although the government has declared the results of the auction to be valid, an Italian public prosecutor's office has opened an inquest on another on the UMTS auction.

In August 2000, Hutchinson S.a.r.l., a subsidiary of the Hong Kong group Hutchinson Whampoa Ltd, acquired 51% of Andala S.p.A., previously controlled by Tiscali, whose stake in Andala thus went from 58% to 25.5%. This share was then transferred to the subsidiary company Tiscali Finance S.A. by means of an agreement dated August 2000. The purchase was finalised in November; the stake was therefore reduced to 0.3%.

Andaledda S.p.A.

Andaledda S.p.A. (formerly Andala S.p.A.) will run the "Andaledda" project for the cabling of Sardinia. The Andaledda project envisages the laying of a fiberoptic loop to link the main cities in Sardinia and marine fiberoptic sea cable between Golfo Aranci (North-eastern Sardinia) and Pomezia (Latium). In order to complete its network and reach final users in the main urban areas in Italy, the Tiscali group has plans to implement a point-to-multipoint transmission system that uses Nortel technology. The Tiscali group plans to acquire dark fiber transmission capacity in the urban areas from previous owners of network infrastructure and to create a fiberoptic city network in Cagliari, splitting the costs with other companies currently engaged in the development of urban infrastructure. Tiscali owns 85% of the company, while the remaining 15% is held by KIWI I Ventura-Serviços SA, a risk capital closed investment fund which controls more than 5% of Tiscali shares.

Ideare S.p.A.

In February 2000 Tiscali acquired 60% of Ideare S.r.l., which was converted into Ideare S.p.A. in August 2000, an Italian share company, in exchange for 3,877 shares in Tiscali (38,770 Tiscali Shares after the 1:10 split in April 2000). Ideare is the owner of SearchTone technology, a search engine providing advanced solutions for Internet searching. The suite of SearchTone products includes an advanced spidering system, a web search engine providing multimedia files such as MP3. It also includes functions

of automatic web-page classification. Owing to its thoroughness, high reliability and precision, the SearchTone search engine is already being used by several important companies operating on the Internet both in Italy and abroad.

Founded in 1999 as a spin-off of the EUROSEARCH European research project, Ideare is managed by its three founding partners, Antonio Gullé and Domenico Dato, managing director and technical manager, respectively, and Giuseppe Attardi, a professor at the Department of Computer Science of Pisa. Ideare plans to develop its business outside Italy by supplying its search services on the international portal market as an application service provider (ASP), similar to Google and Inktomi.

Tiscali-SANPAOLO IMI

The SANPAOLO IMI banking group entered into an agreement with Tiscali in May 2000 for the construction of an open Internet finance portal. This will be effected through Tiscali becoming a shareholder of @IMIWEB SIM, the specialised on-line financial services company controlled by Banca d'Intermediazione Mobiliare IMI, the SANPAOLO IMI group's investment bank. The agreement envisions, in the first phase, strengthening the IMIWebTrader trading on-line service through an open finance portal. In particular operations will be focused on those services in which the SANPAOLO IMI group enjoys a strong market position, such as private placements and initial public offerings (IPO) for European clients. @IMIWEB SIM intends to add straight banking services to its own range of activities and will apply for a banking licence in the future. In case of a change of control in Tiscali, SANPAOLO IMI has a call option to acquire Tiscali's interest in @IMIWEB.SIM.

Energy Byte S.p.A.

Energy Byte S.p.A., a joint venture between Tiscali (55%) and Marton S.r.l. (45%), was established in October 1999 as a web contents provider in the e-commerce sector. In particular, it has produced Energy Bank, a system that rewards customer fidelity that uses a universal currency and is based on incentives, targeting on-line sellers. The business concept of Energy Bank consists in offering an acceptable global alternative to money aimed at influencing and rewarding the consumer's behaviour.

STS S.r.l.

In February 2000, Tiscali acquired 50% of STS S.r.l., an Italian limited liability company, for EUR 3.2 million. STS is a leading operator in the planning and design of networks for fixed and wireless telecommunications, and offers other services such as consulting, quality management and auditing linked to the information technology area. STS has been operating in this sector since 1989 and has important clients such as Autostrade, Wind, Omnitel and Enel. STS, will also provide Andala with support for the technical planning needed for implementing the UMTS license and will provide Tiscali with support in the design and implementation of its local wireless loop.

FreeTravel S.p.A.

In March 2000, FreeTravel S.p.A. was created as a 50/50 joint venture between Tiscali and UVET S.p.A., an important operator active in all aspects of the travel sector. The purpose of the venture is to create a vertical European portal dedicated to travel and tourism. This forms part of Tiscali's strategy for the development of e-commerce in goods and services. UVET is a founding partner in First Travel Management, an international network located in over forty countries. In Italy, the network has more than one hundred sales outlets throughout the country. The entire tourist sector is rapidly adapting to the use of the Internet as a new distribution channel and requests by users for complete and reliable services are constantly increasing.

For this reason Tiscali has chosen to operate in this market together with UVET.

GILLA S.p.A.

In December 1999, Tiscali and the Sonera Corporation, Finland's leading telecommunications company, created a 50/50 joint venture, GILLA S.p.A. The company, based in Cagliari, is developing a call centre for telephone directory services for the public which should commence operations by the end of June 2001. Among the first services to be offered by GILLA will be directory information for Italian subscribers and subscribers from the most called countries. In addition, the company will provide a "Call Completion" service, which besides providing users with the telephone number requested, will also allow the instantaneous dialling of the number, putting the user in immediate contact with the subscriber being sought. GILLA will be staffed by multilingual operators, able to respond to users in many languages. The call centre service will be established on the basis of Tiscali's interconnection agreement with Telecom Italia, and its development will be the product of the combination of the advanced telecommunications know-how of the two companies.

Informedia S.r.l.

In June 1999, Tiscali acquired 100% of Informedia S.r.l., an Italian limited liability company, for EUR 400,000. Informedia was acquired to support the plans for developing the e-commerce services sector and specialises in on-line payment systems. Informedia runs the "Willage" portal, a virtual shopping mall open to all small and medium sized commercial businesses. Thanks to a banking, logistic and insurance platform, enterprises will be able to carry out business transactions on the Internet at very low costs.

Motorcity S.p.A.

Motorcity was established in March 2000 and is owned by Tiscali (60%), Distribution Service S.r.l. (28%) and Mr. Samuele Ferrario (12%). It was set up for the purpose of creating, developing and managing an Internet portal related to automotive information and sports events and the commercialisation of various products and services connected to the automotive and motorcycling world.

Best Engineering S.p.A.

In July 2000, Tiscali acquired 60% of the outstanding share capital of Best Engineering S.r.l., an Italian limited liability company, for EUR 5.6 million, paid in exchange for 82,000 Tiscali Shares. Best Engineering developed the first on-line road mapping service in Italy and currently supplies services to several public transportation agencies throughout Italy. With this acquisition Tiscali plans to develop a multi-access portal in which all sorts of territory-specific information, such as the location of shops and tourist sites, can be organised and offered through the web and, in the future, UMTS mobile phones.

Quinary S.p.A.

In July 2000, Tiscali acquired 70% of the outstanding share capital of Quinary S.p.A., an Italian company, for EUR 23.5 million, paid in exchange for 516,866 Tiscali Shares. Quinary specialises in the integration of software and hardware technologies and offers custom designed solutions for its clients. Quinary is a "systems integrator" entirely focused on fixed link and mobile Internet services, i.e. a company that invests in research and the acquisition of the most advanced technology available world-wide, developed by the major international players - in order to design integrated innovative ad-hoc solutions for its customers. Quinary has three business independent but connected divisions: e-commerce, wireless applications and knowledge management and language technologies. Quinary also operates with leading partners such as Phone.com Inc., Open Market Inc. and Open Text Corp. It is a member of WAP and has among its clients some of the main European mobile operators.

Tiscali Finance S.A.

Another company that has been included in the consolidation area is Tiscali Finance S.A., incorporated in Luxembourg, which during FY 2000 issued a bonded loan of EUR 250 million entirely guaranteed by the parent company.

Nets Broadband S.p.A.

In late December 2000, Nets Broadband S.p.A. was established: the company is owned by Tiscali S.p.A. and Nets S.A. which hold respectively 10% and 90% of shares.

Legal proceedings pending

The main legal proceedings under way are detailed below.

Netfraternity

Tiscali has been sued by Netfraternity Network S.p.A. which disputes Tiscali's right to offer the Flatzero service. Netfraternity alleges that Tiscali counterfeited a patent registered by Netfraternity regarding the creation of a system enabling the offer of a service similar to that offered by Tiscali. Tiscali's defence strategy couples defence in the proceedings started by Netfraternity with a complaint lodged against the latter in order to obtain the annulment of its patent. Tiscali expects ruling in its favour, also on the basis of the outcome of similar legal proceedings.

Disputes pertaining to the subsidiary World Online

Listing on the Stock exchange

On 8 September 2000, a Dutch Foundation, Stichting lipstick Effect, and several other shareholders have filed a complaint with the District Court of Amsterdam against ABN AMRO BANK NV, one of the sponsors of the stock exchange placement of March 2000. The purpose of the action is to obtain the annulment of the purchase contract of the placed shares or, alternatively, payment of damages as assessed by the Court. Should the ruling be against the bank, World Online might be requested to stand surety for it.

On 20 October 2000 a complaint was lodged, on behalf of two individual investors, in order to obtain a preliminary hearing against World Online, ABN AMRO and three members of the supervisory board of World Online at the time of the listing on the stock exchange. The action, which was authorised by the Rotterdam District Court on February 2001, is based on the suspicion that (i) some participants in the programme "friends and family" would seem to have benefited from more favourable terms than those given to the other shareholders for the purchase of World Online shares, and (ii) some shareholders or board members of World Online violated lock-up obligations at the time of the stock market listing. Moreover, the complainants state that they received inadequate information both in the listing prospectus and in the subsequent extraordinary meetings of the company. Preliminary hearings will be held from March to May 2001. No procedure on the merits has been started as yet.

A group of shareholders from the placement, represented by VEB Foundation, started legal proceedings against the sponsors of the placement, ABN AMRO Bank NV and Goldman Sachs

International, as well as several shareholders, complaining of the inaccuracy of the information provided by World Online at the time of the placement, in particular the information pertaining to the sale of World Online shares by its president, immediately before the placement. The shareholders, who owned in excess of four million shares, request payment of damages amounting to about EUR 25 per share.

Upon petition of some shareholders, the Public prosecutor of the Amsterdam District Court started a preliminary investigation on World Online for suspected violation of some legal provisions on *insider trading*. As at the end of March 2001 no official notice as to the result of this investigation had been provided.

Other proceedings concerning World Online

With a summons dated 15 December 2000, J.P. Illiesco de Grimaldi and Illiesco de Grimaldi & Co started legal proceedings against World Online, alleging that the latter prevented them from exercising a call option for the purchase of World Online Ltd. capital shares, with consequent estimated presumed loss of profit of about EUR 175 million plus interest.

With a summons dated 22 December 2000, Globetrans Ltd and Interglobetrans Ltd, both subsidiaries of J.P. Illiesco de Grimaldi, started legal proceedings against World Online, demanding a 1% commission on the total paid by Tiscali for the acquisition of World Online. The total amount subject of the proceedings is about EUR 69 million.

With reference to all the pending legal proceedings listed above, World Online has denied that the complaints and demands have any grounds, and has highlighted the lack of any civil or criminal violation with regards to the public placement offer. In the light of the situation described above, it was not felt that these events could have negative consequences on the Group's financial statements.

Subsequent events

The main relevant events which took place after the close of the FY are described hereunder.

On January 8th Tiscali entered into an agreement with Europ@web and Kingfisher for the acquisition of their shareholdings in Liberty Surf, of 36.47% each. Liberty Surf S.A. is one of the main French ISP, with over 700,000 active subscribers in France and about 20,000 abroad. Tiscali believes that the benefits from the integration of the two businesses are compelling. As a result of the transaction, Tiscali has become a leading ISP and portal in the French market, second only to the incumbent operator's subsidiary. The transaction also affirms Tiscali's position as the leading independent ISP in Europe and the only truly pan-European company in its sector. Following the transaction Tiscali has achieved a combined base of approximately 10,7 million registered and 4,9 million active subscribers as of 31 December 2000, and holds second or third positions in Italy, France, the Netherlands, Belgium, Switzerland, Czech Republic, and South Africa, as well as other substantial activities in the United Kingdom, Scandinavia, Denmark, Germany and Spain.

In the same month of January 2001, the first version of VoceViva, the Tiscali voice portal, was launched. With VoceViva, from any TELEPHONE whatsoever and using only your VOICE, you can access a world of useful information and thanks to the 'Messages' option, even check your e-mail and send vocal messages. VoceViva is an open infrastructure based on the VoiceXML standard, the first step towards the creation of the VoiceWeb.

In February 2001, 70% of Excite Italia B.V. was acquired from Excite@Home – world leader in broad band telecommunications – with a total investment of EUR 27 million, of which 23.4 million will be invested in the form of a capital increase into Excite Italia.

Since its creation in 1999, Excite Italia has become one of Italy's leading Internet portals, with more than 1 million registered users and nearly 1.5 million monthly unique users (as of December 2000). Combining Excite Italia with Tiscali's Italian Internet operations, total advertising revenues exceeded EUR 15 million in 2000, with nearly 300 million monthly page views in January 2001. As part of the agreement between Excite@Home and Tiscali, Excite Italia will continue to have exclusive rights to Excite@Home's brand and technology in the Italian market.

In February 2001, Tiscali S.p.A. also announced its takeover of 40% of Ariete Telemedia S.r.l., a company based in Milan, that produces Internet contents for the medical field. The remaining 60% of Ariete Telemedia is controlled by the publishing group EDM.

The takeover of 40% of Ariete Telemedia, for a total sum of approximately ITL 1.4 billion, will enable Tiscali to acquire the necessary know-how to develop added value products and services in the health sector. In fact, for many years the EDM group has played a leading role in the field of medical information through a spectrum of widely consulted magazines aimed at doctors and the general public.

Through this partnership, besides strengthening its presence in the world of Internet contents, Tiscali will also be able to take advantage of its technological resources and Web market penetration to offer the public an integrated system of highly advanced contents and services.

On March 12th 2001, both an ordinary and extraordinary general meeting of Tiscali shareholders were held in Cagliari.

The ordinary general meeting voted to increase the number of board members from five to eight. The extraordinary general meeting approved the capital increases agreed for Tiscali's three recent acquisitions – announced previously – as follows:

- AddCom: the issue of 1,532,887 Tiscali ordinary shares of nominal value ITL 10 to be exchanged for AddCom AG shares;
- Connect Software Inc: the issue of 37,157 Tiscali ordinary shares of nominal value ITL 10 to be exchanged for Connect Software shares; plus a capital increase via the issue of 223,048 shares with nominal value ITL 10 alongside 223,048 warrants to be allocated to certain employees in accordance with the acquisition agreement;
- Liberty Surf Group: the meeting approved a capital increase for a maximum of 35,916,361 shares of nominal value ITL 10 lire to be exchanged for Liberty Surf Group SA shares.

Tiscali's shareholders also approved two capital increases for a maximum of 5,000,000 Tiscali ordinary shares of nominal value ITL 10 and a maximum of 10,000,000 Tiscali ordinary shares of nominal value ITL 10 in relation to a share option scheme for Tiscali directors and employees, as well as all Tiscali's subsidiaries and/or associate companies.

Relations with Subsidiary Companies

Relations with subsidiary companies during FY 2000 mainly regarded financial aspects.

In particular, financing was received from subsidiary Tiscali Finance S.A. amounting to EUR 50.9 million as at 31 December 2000; on said financing, passive interest for EUR 2.6 million has accrued.

For further details on relations with group companies, please refer to the notes to the financial statements.

Outlook for the Year 2001

The Tiscali Group and its parent company Tiscali S.p.A. are expected to record a significant increase in turnover together with a significant decrease in the incidence of fixed costs, thanks to economies of scale made possible by the greater size of the group. The directors aim at speeding up the restructuring of the complex corporate structure arising from the acquisition process, which has led to the presence of more than one company in the same country.

For the Board of Directors
The President
Renato Soru



Consolidated Financial Statements

CONSOLIDATED BALANCE SHEET SCHEDULES

ASSETS (Amounts in Euro)	12.31.2000	12.31.1999
A) DUE FROM SHAREHOLDERS FOR CAPITAL CONTRIBUTIONS TO BE PAID		
– Portion not called	27.996	
Total due from shareholders for capital contributions to be paid	27.996	–
B) NON-CURRENT ASSETS		
I. Intangible assets:		
1) Start-up and expansion costs	12.782.527	15.167.823
2) Costs for research, development and advertising	11.600.826	637.824
3) Industrial patent rights and rights to intellectual property	2.969.107	152.355
4) Concessions, licenses, trademarks and similar rights	52.516.240	1.750.789
5) Goodwill	320.268	
6) Payments on account and intangible assets in course of acquisition	3.119.040	
7) Other	5.860.014	498.381
8) Difference due to consolidation	1.022.929.737	8.571.635
Total	1.112.097.759	26.778.807
II. Fixed assets:		
1) Land and buildings	8.342.269	
2) Plant and machinery	30.392.680	15.268.532
3) Industrial and commercial equipment	134.372.234	1.877.837
4) Other fixed assets	7.451.651	68.172
5) Payments on account and fixed assets in course of acquisition	2.756.569	
Total	183.315.403	17.214.541
III. Long-term investments:		
1) Participations:		
a) group companies		1.909.341
b) non consolidated group companies	27.177.690	
d) other companies	14.857.620	71.271
	<i>Receivable within the following financial year</i>	
	12.31.2000	12.31.1999
2) Receivables:		
b) from non consolidated group companies	5	5
d) from others	9.222.727	10.000.155
3) Other securities		104.141
Total	9.222.732	10.000.155
Total non-current assets	1.357.272.752	55.990.125
C) CURRENT ASSETS		
I. Inventories:		
1) Raw materials, supplies and consumables	1.109.453	967.840
2) Work in progress and semi-finished products	40.000	
3) Work in progress to order	697.217	
4) Finished products and merchandise	2.603.374	
5) Advance payments	1.572.201	
Total	6.022.245	967.840
	<i>Receivable beyond the following financial year</i>	
	12.31.2000	12.31.1999
II. Receivables:		
1) From customers	1.509.443	119.381.548
3) From non consolidated group companies		19.419.173
5) From others	1.588.205	4.147.665
		46.690.342
Total	3.097.648	4.147.665
III. Investments other than non-current assets:		
4) Other investments		
6) Other securities		50.256.345
Total		50.256.345
IV. Cash and cash equivalents:		
1) Bank and post-office deposits	1.130.699.998	100.338.279
3) Cash and other negotiable instruments	248.531.719	7.230
Total	1.379.231.717	100.345.509
Total current assets	1.621.001.370	134.994.085
D) PREPAYMENTS AND ACCRUED INCOME		
– Accrued income and deferred charges	49.948.848	4.383.686
– Disagio on loans	128.314	
Total prepayments and accrued income	50.077.162	4.383.686
TOTAL ASSETS	3.028.379.280	195.367.896

LIABILITIES (Amounts in Euro)	12.31.2000	12.31.1999
A) SHAREHOLDERS' EQUITY		
Group:		
I. Share capital	1.573.262	806.396
II. Share premium reserve	2.392.340.340	142.659.076
VII. Other reserves:		
– Extraordinary reserve		
– Reserve for valuation of net equity participations		
– Translation adjustment reserve	7.038.943	
– Subsidiaries' undistributed profits and other reserves	1.042.670	73.853
– Consolidation reserve		
– Other		
VIII. Retained earnings (losses carried forward)	(5.536.691)	
IX. Profit (loss) for the period	(181.386.631)	(5.502.850)
Total shareholders' equity (Group)	2.215.071.893	138.036.475
Of third parties:		
X. Third parties' equity and reserve	14.096.894	
XI. Third parties' profits/losses	(4.789.785)	
Total third parties' equity	9.310.109	
Total shareholders' equity	2.224.382.002	138.036.475
B) RESERVES FOR RISKS AND FUTURE LIABILITIES		
1) Reserve for retirement payments and similar obligations		
2) Taxation reserve	82.708	
3) Other	10.268.812	9.813
4) Consolidated provision for future risks and liabilities	416.810	
Total reserves for risks and future liabilities	10.768.330	9.813
C) STAFF SEVERANCE INDEMNITY RESERVE	1.164.168	202.968
D) PAYABLES		
	<i>Receivable beyond the following financial year</i>	
	12.31.2000	12.31.1999
1) Bonds	250.000.000	380.931.556
2) Convertible bonds		
3) Due to banks	2.738.631	16.379.418
4) Other short-term financing	28.038.680	11.016.542
5) Down payments		44.042.176
6) Trade accounts payable		114.389
7) Credit instruments payable		213.277.870
8) Due to group companies		
9) Due to non-consolidated group companies		1.181.971
10) Due to parent companies		1.112.448
11) Taxes payable		53.456.407
12) Due to social security institutions		163.200
13) Other payables	9.509.027	1.277.554
Total payables	290.289.338	14.998.941
E) ACCRUED LIABILITIES AND DEFERRED INCOME		
– Accrued liabilities and deferred income	58.829.611	4.921.318
– Premiums on loans	200.235	
Total accrued liabilities and deferred income	59.029.846	4.921.318
TOTAL LIABILITIES	3.028.379.280	195.367.896
MEMORANDUM ACCOUNTS (Amounts in Euro)	12.31.2000	12.31.1999
A) GUARANTEES GIVEN		
1) To third parties:		
a) sureties	6.020.331	9.346.837
b) other	29.226.998	3.098.741
c) other personal guarantees	185.920	
d) real guarantees	241.141.978	
Total guarantees given	276.575.227	12.445.578
B) OTHER MEMORANDUM ACCOUNTS		
– Leasing payments coming due	108.844.982	28.370.527
– Raw material and finished products held by third parties		4.999.819
– Other memorandum accounts	70.074.838	
Total other memorandum accounts	178.919.820	33.370.346
C) GUARANTEES RECEIVED		
1) Sureties	826.331	826.331
Total guarantees received	826.331	826.331
GRAND TOTAL	456.321.378	46.642.255

PROFIT AND LOSS STATEMENT (Amounts in Euro)		12.31.2000	12.31.1999
A) (+) VALUE OF PRODUCTION			
1)	Revenues from sales and services	169.730.058	32.726.324
2)	Changes in inventories of work in progress, semi-finished and finished products		
3)	Changes in work in progress to order	980.768	
4)	Increase in assets for work in progress/internal	476.445	
5)	Other revenues and income		
	– other revenues and income	1.982.704	73.853
Total		173.169.975	32.800.177
B) (–) PRODUCTION COSTS			
6)	For raw materials, supplies, consumables and goods	(8.698.341)	(2.608.624)
7)	For services	(170.227.612)	(32.505.281)
8)	For use of third parties' assets	(5.451.161)	(437.955)
9)	For personnel:		
a)	salaries and wages	(22.177.024)	(2.904.037)
b)	social security charges	(4.104.056)	(215.363)
c)	provision for staff severance indemnities	(787.201)	(180.760)
d)	retirement payments and similar obligations	(31.482)	
e)	other expenses	(1.207.825)	(20.142)
10)	Depreciation, amortization and writedowns:		
a)	amortization of intangible assets	(90.559.554)	2.246.071)
b)	depreciation of fixed assets	(12.059,221)	(1.167.709)
c)	other depreciations/amortizations of non-current assets		
d)	depreciation of receivables included in current assets and cash & cash equivalents	(6.896.657)	(285.601)
11)	Changes in inventories of raw materials, supplies & consumables	(187.538)	852.670
12)	Risk provisions	(13.655.635)	(9.813)
13)	Other provisions	(7.131.722)	
14)	Other operating expenses	(3.375.377)	(460.163)
Total		(346.550.406)	(42.188.849)
(A – B) DIFFERENCE BETWEEN VALUE AND COSTS OF PRODUCTION		(173.380.431)	(9.388.672)
C) FINANCIAL INCOME AND CHARGES			
15)	(+) Income from investments:		
a)	in non-consolidated group companies		
b)	in affiliated companies		
c)	in other companies	790.686	
16)	(+) Income other than the above:		
a)	from receivables registered under non-current assets		
	– from third parties	1.681.044	
	– from affiliated companies		
	– from parent companies		
b)	from securities registered under non-current assets other than participations		
c)	from securities registered in the working capital other than participations		
d)	earnings other than the above		
	– from third parties	9.853.397	661.581
	– from affiliated companies		2.066
	– from parent companies		
17)	(–) Interest and other financial charges:		
a)	due to third parties	(19.485.991)	(585.662)
b)	due to affiliated companies		
c)	due to parent companies		
Total		(7.160.864)	77.985

PROFIT AND LOSS STATEMENT (Amounts in Euro)	12.31.2000	12.31.1999
D) VALUATION ADJUSTMENT TO FINANCIAL ASSETS		
18) (+) Revaluations		
a) of participations		
b) of long term investments other than participations		
c) of securities in the working capital which do not constitute participations		
19) (-) Writedowns		
a) of participations	(1.039.841)	(147.190)
b) of long-term investments other than participations		
c) of securities registered in the working capital other than participations		
Total adjustments	(1.039.841)	(147.190)
E) EXTRAORDINARY INCOME (CHARGES)		
20) (+) Rextraordinary income:		
a) income	2.460.560	
b) capital gains from disposals of non-current assets	785.798	
21) (-) Extraordinary charges:		
a) charges	(3.168.439)	(52.162)
b) capital losses from disposals of non-current assets	(338.387)	
c) taxes pertaining to previous years	(4.114.692)	
Total extraordinary items	(4.375.160)	(52.162)
Profit before taxes	(185.956.296)	(9.510.039)
22) (-) Income taxes for the financial year:		
a) current	(438.990)	
b) paid in advance	221.870	4.007.189
23) PROFIT (LOSS) FOR THE PERIOD	(186.173.416)	(5.502.850)
(Profit) loss for the period pertaining to third parties	4.786.785	
PROFIT (LOSS) FOR THE PERIOD	(181.386.631)	(5.502.850)

For the Board of Directors
The President
Renato Soru



Notes to the Consolidated Financial Statements

FORM AND CONTENT OF THE CONSOLIDATED FINANCIAL STATEMENTS

1) CRITERIA USED IN THE PREPARATION OF STATEMENTS

The consolidated financial statements have been prepared in accordance with Articles 25 and thereafter of Legislative Decree 127/91, and consist of the balance sheet, the profit and loss statement and the notes in relation thereto, drafted pursuant to and for the effects of Article 38 of said Leg. Decree, which constitutes an integral part of these consolidated financial statements. The consolidated financial statements are therefore presented drawing a comparison with the previous FY, whose data are coherent and homogeneous with those of the FY in question.

The following documents are attached to this note, to allow better understanding of the financial statements:

- Reclassified consolidated Balance Sheet;
- Reclassified consolidated Profit and Loss Account;
- Consolidated Financial Report.

2) AREA OF CONSOLIDATION

The consolidated financial statements of the Tiscali Group include the financial statements of the parent company and those of the Italian and foreign companies of which Tiscali has direct or indirect control of the majority of votes exercisable during ordinary meetings, or companies in which Tiscali controls sufficient votes to exercise a dominant influence in ordinary meetings, and companies on which Tiscali has a dominant influence by virtue of an agreement or statutory clause, in compliance with applicable legislation, and the companies over which it exercises autonomous control of a majority of votes thanks to agreements with other partners.

As compared to 31 December 1999 the consolidation area was modified by the entry of Tiscali Finance, Tiscali Germany, Tiscali Datacomm, Tiscali France, Tiscali Belgium Holding, Best Engineering, Ideare, STS, Quinary, Informedia, Motorcity, to which integral method consolidation was applied. With regards to the World Online Group, following takeover of a controlling stake in December 2000, the Balance Sheet has been consolidated with the integral method. Based on the agreements made for the acquisition of the WOL Group, the Balance sheet and Profit & Loss Account attached to these notes have been prepared on the basis of the International Accounting System (IAS) with integral consolidation of World Online's P & L Account.

The following have been excluded from the integral consolidation: subsidiaries whose financial statement values are of slight relevance; subsidiaries in which the exercise of voting rights is subject to serious and lasting restrictions; subsidiaries held exclusively in view of future disposal and non-operating subsidiaries. Participations that constitute non current assets in subsidiaries excluded from the consolidation and participations in affiliated companies of a certain importance are valued by means of the net equity method. Affiliated companies are those in which Tiscali S.p.A. controls, either directly or indirectly, one fifth of ordinary meeting votes, or one tenth of said votes if the company is listed on the stock exchange.

The list of participations valued with the shareholders' equity method is enclosed. Participations which constitute non-current assets in non-consolidated subsidiary companies and in affiliated companies of irrelevant entity are entered at their cost value. The listing of participations valued with the cost method is enclosed.

Moreover, for foreign subholdings the sub-consolidated financial statements drafted for the purpose by the subsidiaries themselves were used for consolidation purposes.

3) REFERENCE DATE

The consolidated financial statements are prepared on the basis of the financial statement plans approved by the Boards of Directors as of 31 Dec 2000 or, where these were not available, on the basis of

financial statement data forwarded by the companies on the basis of consolidation procedures.

4) CONSOLIDATION PRINCIPLES

The financial statements used for consolidation are, as explained above, the financial statements of each company for the period in question. Said statements have been accordingly reclassified and rectified with the aim of adapting them to the accounting principles and valuation criteria of the parent company, which are in compliance with the rules set out in articles 2423 and thereafter of the Civil Code and with the accounting principles recommended by CONSOB.

In preparing the consolidated financial statements, the assets and liabilities as well as profits and losses of the companies included in the consolidation were listed in their entirety. On the other hand, the receivables and payables, income and charges and the profits and losses originating from operations between companies included in the consolidation have been eliminated. The accounting value of shareholding in companies included in the consolidation is offset against their corresponding shareholders' equity quotas in the subsidiary/affiliated companies. The book value of owned shares or quotas has been deducted from the book value of participations and from the shareholders' equity of the companies included in the consolidation. Said amounts are posted in the Consolidated Balance Sheet under the headings: "owned shares" e "reserve for owned shares".

The difference between the accounting value of the participations, which is offset, and the corresponding shareholders' equity quota is shown as an adjusting entry to the consolidated shareholders' equity. In the event of acquisitions, the above mentioned difference is listed among the assets and liabilities of companies included in the consolidation. The residual value (if any), if negative is entered in an account called "consolidation reserve", or, if it can be referred to expected unfavourable economic results, it is shown in a designated account called "consolidation fund for future risks and liabilities". If the residual value (if any), is positive, it is shown among the assets in an account called "consolidation difference".

The amount of equity and reserves of subsidiary companies which corresponds to third parties' participations is shown in an account of the shareholders' equity called "third parties' equity and reserves"; the portion of the consolidated profit and loss statement which corresponds to third parties' participations is shown in an account called "profit (loss) of the financial period pertaining to third parties".

5) CONVERSION OF FINANCIAL STATEMENTS INTO FOREIGN CURRENCY

The items of the balance sheet listed in extra EU currency are converted into EURO using the conversion rate valid at the end of the financial year, while those of the Profit and Loss Statement are converted into EURO using the average exchange rates over the financial year. The difference between the financial year results calculated using conversion with the mean exchange rates and the results obtained with the year-end exchange rates and the effects on assets and liabilities of the fluctuations in exchange rates between the beginning and end of the financial year are shown in the shareholders' equity in the account "Reserve from difference in currency conversion in the financial statements".

The only extra EU currency present in the consolidated financial statements is the Swiss Franc, whose conversion rate is EUR 1.5214.

6) VALUATION CRITERIA

a) General Criteria

Accounting principles and valuation criteria have been applied in a uniform manner to all the consolidated companies. The valuation criteria adopted in the consolidated financial statements are the same as those used by the Parent Company Tiscali S.p.A.; they conform to the above mentioned applicable legislation. Such criteria have been integrated and interpreted by the accounting principles issued by the Italian accounting profession (Consiglio Nazionale dei Dottori Commercialisti e dei Ragionieri). The criteria used during the financial year referenced herein do not vary from those applied for the preparation of the financial statements for the preceding year, in particular with regard to valuation principles and the continuity of the same. Balance sheet items have been valued based on general criteria of prudence and competency, in the perspective of future continuation of activity. For the purposes of the accounting entries, prevalence is given to the economic substance of the transactions rather than their legal form. Long-term investments are entered in the accounts at the time of their payment. Profits are included only if realised by the closing date of the financial year, whereas risks and losses are taken into account even if they became known at a later date. Heterogeneous items grouped under single accounts of the financial statements have also been valued separately. Durable assets have been classified as non-current assets.

b) Valuation adjustments and recoveries of value

The values of fixed and intangible assets whose useful life is limited over time are written down respectively through depreciation and amortization charges. The same fixed and intangible assets and the other assets are written down each time a durable loss of value has been noted; the original value is re-established insofar as the reasons for the previous loss of value are considered no longer current. The analytical methods for the charging of depreciation and amortization are explained separately hereunder in these notes.

c) Revaluations

To date, no revaluations have been performed.

d) Exceptions

No exceptions to the valuation criteria provided by legislation regarding financial statements have been made either in these financial statements or in the financial statements of the previous period.

e) Accounting entries made exclusively in application of tax laws

No accounting entries have been made in application of tax laws.

The more significant principles and criteria may be summarized as follows:

f) Intangible assets

Start-up and expansion costs are entered in the designated line item among assets and are amortized for a period not exceeding 5 years starting from the financial year in which said costs were incurred.

Research, development and advertising costs are shown in the designated line item on the assets side and are amortized for a period of five years starting from the financial year in which they were incurred, since said costs produce profits over a number of years.

Licenses, trademarks, patent rights and similar are recorded at their acquisition cost and amortized in accordance with the period of use as established by the contract. At all events, the amortization period will not exceed 5 years from the financial year in which they were incurred. Intangible assets are posted at their purchase or internal production value including accessory charges and systematically amortized by fixed amounts.

Goodwill is posted among the assets only if acquired for a valuable consideration, within the limit of the cost incurred. It is amortized for a period not exceeding the duration of its use, or for a period not exceeding five years

The difference due to consolidation appears in the consolidated financial statements when accounting values of participations are offset against the corresponding quotas of shareholders' equity of the subsidiary/affiliated companies. Amounts in excess, if any, not attributable to single entries in the assets of companies included in the consolidation appear as adjusting entries in the consolidated shareholders' equity, or, if the necessary prerequisites are present, are shown in the assets in line item "consolidation difference"; this account is amortized for the period during which it is expected to produce economic benefits, for a maximum of five years.

Non-current assets whose market value at the end of the financial year is durably lower than their cost depreciated by means of the above mentioned criteria, are written down until the value shown corresponds to their market value. If the reasons which determined said loss in value stop applying, the cost is then written back.

g) fixed assets and depreciation

Fixed assets are recorded at purchase or production cost, including any ancillary charges.

Depreciation is calculated with reference to cost, in a manner which is consistent with the possibility of residual use.

The posting of financial leasing operations for technical fixed assets is based on the interpretation of applicable legislation, i.e. leasing payments are posted according to the reference period.

Ordinary maintenance expenses are wholly debited to the profit and loss statement. Maintenance expenses of an incremental nature are attributed to the asset to which they refer and are depreciated based on the possibility of residual use of the selfsame asset.

Following is a summary of depreciation rates, which remain unchanged with respect to 1999 and are in line with those of the parent company:

Plant and machinery	
– plant and machinery in general	20%
– specific plant and machinery	20%
– other plant and machinery	20%
Industrial and commercial equipment	
– network equipment and other specific equipment	20%
– other machines	12%
Other assets	
– office automation and furnishings	20%
– other assets	20%

When an asset is purchased in the course of the financial year, depreciation of said asset for that year is reduced by 50 percent. This accounting method is estimated to provide a reasonable approximation of the time distribution of asset purchases during the year.

Fixed assets object of financial leasing operations are shown among technical fixed assets in the relevant classes and are systematically depreciated, like owned fixed assets, based on their possibility of residual use. As contra-entries to the showing of said fixed assets are entered the short and medium term debts payable to the leasing organisation; leasing payments are written off from the expenses for rentals of assets owned by third parties and the interest charges for the financial year are shown among financial charges. This method allows representation of financial leasing operations according to the so-called "financial method, as established in I.A.S. International Accounting Principle No 17.

h) Long-term investments

- *Participations in non-consolidated subsidiary companies and affiliated companies*

Non-current financial assets consisting of investments in non-consolidated subsidiary companies and affiliated companies are valued according to the equity method, i.e. for an amount equal to the corresponding fraction of the equity resulting from the last financial statement of the companies themselves, after subtraction of dividends and the application of the adjustments required by the principles ruling consolidated financial statements. Exception is made for CD Telekomunikace, which was valued according to the cost method.

Long-term investments consisting of receivables are calculated at their presumed realisable value.

Capital gains or losses deriving from the application of the equity method are shown in the profit and loss account respectively in line items "participation revaluations" and "participation write-downs".

- *Other participations and securities*

The other participations and securities are shown at their cost value. In the event of durable losses in value, deriving also from the market quotation of listed securities, the participations and securities are written down accordingly. In the year in which the conditions leading to loss in value cease, the value before writedown is shown once again in the financial statements for the year.

i) Inventories

- *Raw materials, work in progress and finished products*

Inventories were valued at the lower price resulting from the comparison of their purchase or production cost, including accessory charges, and their estimated market value. Inventories of obsolete or slow turnover goods are written down taking into account their use and sale potential.

- *Work in progress based on customer order*

Work in progress based on customer orders is valued on the basis of the agreed price in proportion to the progress of works, taking into account all foreseeable purchase contract risks.

k) Receivables

Receivables are stated at their estimated realizable value. This value is obtained by direct devaluation of the receivables carried out analytically for the most prominent items and on a lump-sum basis for the others.

l) Financial assets other than non-current assets

Participations in subsidiary and affiliated companies for disposal are valued at the lesser value between historical cost and market value. Other participations and securities are valued at their purchase cost, or - if sensibly lower - at their market value, which may be assessed on the basis of stock exchange quotations where applicable.

m) Accruals and deferrals

Accruals and deferrals include exclusively earnings and charges of the financial year which will have numerical value in subsequent financial years, and revenues and expenses accruing or incurred within the closure of the financial year but due in subsequent financial years. At all events, this account only includes quotas of revenues and expenses distributed over two or more financial years, whose amount varies over time.

n) Reserves for risks and future liabilities

Reserves for risks and future liabilities are created and posted in the Balance sheet, with the aim of covering potential liabilities of the companies which are forecast as likely to take place.

o) Income taxes

Income taxes are calculated on the basis of the taxable income of each consolidated company under the current tax laws of its country. If the net balance of deferred taxes is positive, as a matter of prudence, the deferred charge is not posted. Fiscal benefits deriving from tax losses are credited to the Profit and Loss Statement only in the FY in which said losses were used to offset profits.

p) Staff severance indemnity reserve

The staff severance indemnity reserve covers the amounts payable and the reserves pertaining to commitments, matured as of the closure of the financial years, due to employees under current laws, employment contracts and any company agreement in force in each country in which the consolidated companies operate.

q) Liabilities

Liabilities are reported at the actual amounts payable to extinguish the debt.

r) Risks, commitments, guarantees

Commitments and guarantees are shown in the memorandum accounts at their contractual value. The risks that are more likely to generate a liability are described in the notes and allocated to the risk funds according to criteria of congruence. On the other hand, those risks entailing only the possibility of a liability are described in the notes, without allocating a specific risk fund, according to the reference accounting criteria. Risks of a remote nature are not taken into consideration

s) Revenues and earnings, expenses and charges

Revenues and earnings, expenses and charges are recorded net of returns, discounts, rebates and prizes, and net of the taxes directly linked to the sale of services.

t) Recording of amounts in foreign currencies

Receivables and payables in foreign currencies are adjusted to the exchange rates valid at the end of the financial year, taking into account the existence of coverage agreements. Profits and losses deriving from exchange rate fluctuations are listed as receivables or payables in the profit and loss account

ANALYSIS OF FINANCIAL STATEMENT ACCOUNTS – ASSETS

A) DUE FROM SHAREHOLDERS FOR CAPITAL CONTRIBUTIONS TO BE PAID

	12.31.2000	12.31.1999	Change
Portion not called up:	27.996	–	27.996
Total	27.996	–	27.996

The balance represents residual receivables from third party shareholders pertaining to the increase in capital still to be paid in, and is referred to Motorcity S.p.A..

B) NON-CURRENT ASSETS

I. Intangible assets

The balance of Intangible assets at year end is broken down as follows:

Categories	Balance 12.31.1999	Increases (writedowns)	Revaluations changes	Other (Amortization)	Balance 12.31.2000
Start-up and expansion costs	15.167.823	1.312.638		70.645 (3.768.579)	12.782.527
R&D and advertising costs	637.824	13.933.094		(2.941.381) (28.711)	11.600.826
Industrial patent rights and rights to intellectual property	152.355	3.193.753		72.570 (449.571)	2.969.107
Concessions, lic., trademarks, other	1.750.789	78.157.872		(25.002.907) (2.389.514)	52.516.240
Goodwill		400.334		184.000 (264.066)	320.268
Payments on account and intangible assets in course of acquisition		3.119.040			3.119.040
Other	498.381	6.271.637		56.537 (966.541)	5.860.014
Consolidation difference	8.571.635	1.050.413.453		46.637.221 (82.692.572)	1.022.929.737
Total	26.778.807	1.156.801.821		19.076.685 (90.559.554)	1.112.097.759

The increase of the item “R&D and advertising costs” during FY 2000 is to be attributed, for an amount of EUR 13.8 million to the subsidiary World Online and is mainly due to portal implementation costs.

The item “concessions, licenses, trademarks and others” mainly refers to investments in software with the attendant implementation costs. It increased by approx EUR 78 million with respect to the previous FY. This increase, to be attributed to the parent company (EUR 8.7 million) and World Online (EUR 51 million) pertains to the purchase of user licenses for software used in administration and in network access and management. A further EUR 17 million come from Nets SA, mainly for the purchase of fiberoptic cabling licenses.

The item “other” mainly refers to the parent company, in particular to investments made for upgrading the technical sites and for the new Call Centre in Cagliari and the Milan office.

The column “other changes” displays changes in the items due to changes in the consolidation area.

The difference due to consolidation deriving from the consolidation of subsidiary companies according to the integral method is amortized in five years starting from the date of acquisition of the subsidiaries. The increase with respect to 1999 is due to the acquisitions carried out in Europe.

Start-up and expansion costs	12.31.2000	12.31.1999	Change
Incorporation expenses	364.356	2.582	361.774
Expenses relative to capital increase	5.605.529	6.909.677	(1.304.148)
Start-up costs	6.812.642	7.525.810	(713.168)
Other		729.754	(729.754)
Total	12.782.527	15.167.823	(2.385.296)

The account “start-up and expansion costs” pertains, for a total of EUR 12.2 million, to the parent Company Tiscali S.p.A. It includes long-term use costs pertaining to capital increase expenses (EUR 5.6 million) and start-up costs (EUR 6.6 million). The latter costs, which mainly accrued in 1999, include the costs for starting network implementation activities (installation and switchboard activation) as well as the “TiscaliFreenet” launching campaign.

Research, development and advertising costs	12.31.2000	31/12/1999	Change
Total	11.600.826	637.824	10.963.002

These cost mainly pertain (EUR 11.5 million), to portal development costs for the companies of the World Online Group.

II. Fixed assets

Following is a summary of the changes in the accounts over the period:

Cost	Balance 12.31.1999	Increases	Revaluations	Other changes	(Disposals)	Balance 12.31.2000
Land and buildings		4.883.000		3.459.269		8.342.269
Plant and equipment	16.250.016	50.872.468	(5.000)	1.789.869	(11.611.623)	57.295.730
Industrial and commercial equipment	2.134.388	121.130.896	965.193	7.606.901	(9.149.019)	122.688.359
Other fixed assets	87.566	5.734.970	5.000	2.889.846	(12.916)	8.704.466
payments on account and fixed assets in course of acquisition		2.358.569		398.000		2.756.569
Total	18.471.970	184.979.903	965.193	16.143.885	(20.773.558)	199.787.393

Depreciation funds	Balance 12.31.1999	Depreciation quotas	Write-downs	Other changes	(Disposals)	Balance 12.31.2000
Plant and equipment	981.360	6.013.934		439.574	(218.642)	7.216.226
Industrial and commercial equipment	256.759	5.280.655		2.523.925	(58.390)	8.002.949
Other fixed assets	19.310	764.632		474.188	(5.315)	1.252.815
payments on account and fixed assets in course of acquisition						
Total	1.257.429	12.059.221		3.437.687	(282.347)	16.471.990

Net value	Balance 12.31.1999	Increases	Depreciation and write-downs)	Other changes	(Disposals)	Balance 12.31.2000
Land and buildings		4.883.000		3.459.269		8.342.269
Plant and equipment	15.268.656	50.867.468	(6.013.934)	1.350.295	(11.392.981)	50.079.504
Industrial and commercial equipment	1.877.629	122.096.089	(5.280.655)	5.082.976	(9.090.629)	114.685.410
Other fixed assets	68.256	5.739.970	(764.632)	2.415.658	(7.601)	7.451.651
payments on account and fixed assets in course of acquisition		2.358.569		398.000		2.756.569
Total	17.214.541	185.945.096	(12.059.221)	12.706.198	(20.491.211)	183.315.403

Net fixed assets as at 31 December 2000 amount to about EUR 183 million and increased with respect to the previous FY. Total value, before depreciation, is about EUR 186 million. The increase is mainly linked to direct acquisitions made by the group companies and to purchases made by the parent company. The column “Other changes” displays changes in the consolidation area.

Line item “land and building” includes in the main real estate owned by World Online Danimarca, which is controlled indirectly, reaching total net value of EUR 8 million.

Line item “plant and machinery” mainly includes specific and network equipment, such as routers, servers and telephone exchanges.

III. Long-term investments

Long-term investments are detailed as follows:

	12.31.2000	12.31.1999	Change
Participations in:			
Group companies		1.909.341	(1.909.341)
Non consolidated group companies	27.177.690		27.177.690
Other companies	14.857.620	71.271	14.786.349
Receivables:			
From non consolidated group companies:	5		5
From others	19.720.134	10.016.165	9.703.969
Other long term investments	104.141		104.141
Total	61.859.590	11.996.777	49.862.813

Participations in non-consolidated subsidiary and affiliated companies as at 31 December 2000 amounted to EUR 27 million. This value includes EUR 2.5 million from the participation in Andala S.p.A., which during FY 2000 was transferred from Tiscali S.p.A. to Tiscali Finance S.A. (the capital gain deriving from the disposal, of EUR 1.2 million was annuled for the purposes of the consolidated financial statements) and EUR 25 million from the stake held by Tiscali S.p.A. in non-consolidated subsidiary companies. This value also includes the stake held by Tiscali S.p.A. in CD Telekomunikace s.r.o. In partial derogation to the shareholders’ equity valuation method, for this subsidiary the purchase cost was posted, since delays in the stipulation of the transfer contract did not allow delivery of the shares and thus the actual acquisition of control. The ensuing dispute was resolved on 27 March 2001 with the decision to acquire a further 20% of the share capital. The agreement, which as of that date allows full control of the company, involved a charge of EUR 1.5 million pertaining to the transaction.

Participations in other companies mainly consist of non-consolidated participations from WOI for about 12 million EUR.

Receivables from others, (EUR 19.7 million) mainly refer to the payment into the future capital increase account made by Tiscali Finance S.A to Andala S.p.A..

C) WORKING CAPITAL

I. Inventories

Following is a schedule of changes in the inventory:

	12.31.2000	12.31.1999	Change
Inventories:			
Raw materials, supplies and consumables	1.109.453	967.840	141.613
Work in progress and semi-finished products	40.000		40.000
Work in progress to order	697.217		697.217
Finished products and merchandise	2.603.374		2.603.374
Advance payments	1.572.201		1.572.201
Total	6.022.245	967.840	5.054.405

As of 31 December 2000 the value of inventories was about EUR 6 million consisting mainly of consumables, telephone cards, goods for resale for merchandising activities and modem.

II. Receivables

Receivables are broken down as follows:

	12.31.2000	12.31.1999	Change
Receivables			
from customers	119.381.548	23.921.251	95.460.297
from non consolidated group companies	19.419.173	190.056	19.229.117
from others	46.690.342	9.456.325	37.234.017
Total	185.491.063	33.567.632	151.923.431

Receivables from customers totalled EUR 119 million. They accrued from the sale of Internet services, mainly consisting of the invoicing of network access services, reverse interconnection traffic, advertising revenues and business to business and telephone services provided by the group. The sharp growth recorded in receivables from customers is linked to the great development of the activities of the parent company and its direct and indirect subsidiaries.

Receivables are posted at their presumed realisable value by means of an ad hoc devaluation fund of EUR 16 million.

Receivables from non consolidated group companies, (EUR 19 million) include EUR 8 million of financial receivables and EUR 11 million of commercial receivables, both mainly referred to CD Telekomunikace s.r.o.

Receivables from clients are broken down as follows:

	12.31.2000	12.31.1999	Change
EU clients	129.386.940	24.052.948	105.333.992
customers abroad	6.022.126	180.243	5.841.883
less: reserve for bad debts	(16.027.518)	(311.940)	(15.715.578)
Total	119.381.548	23.921.251	95.460.297

The account “other receivables” comprises the following line items:

	12.31.2000	12.31.1999	Change
Receivable within the following financial year			
Receivables from the Treasury for advance taxes	427.439	178.694	248.745
Receivables from employees	1.491.294	5.165	1.486.129
Receivables from other subjects	7.177.104	23.757	7.153.347
Receivables for tax refund	169.872		169.872
VAT credits	36.539.511	4.725.581	31.813.930
Other credits	8.519.644	375.464	8.144.180
	54.324.864	5.308.661	49.016.203
Receivable beyond the following financial year			
Receivables from the Treasury for advance taxes		4.007.189	(4.007.189)
Receivables for tax refund	1.042.000		1.042.000
Guarantee Deposits	784.840	140.476	644.364
Other credits	10.258.772	10.016.164	242.608
	12.085.612	14.163.829	(2.078.217)
Total	66.410.476	19.472.490	46.937.986

Receivables “from other subjects” comprise EUR 4.8 million receivable by World Online, bonded down payments and EUR 2.3 million receivable by Tiscali Datacomm.

III. Investments other than non-current assets

The balance of investments which do not constitute non-current assets is broken down as follows:

	12.31.2000	12.31.1999	Change
Other securities:	50.256.345	113.104	50.143.241

“Other securities” include the investment of liquid assets in unfreezable bonds carried out as follows: EUR 9.3 by the parent company and EUR 39.9 million by Tiscali Finance S.A.

IV. Cash and cash equivalents

Cash and cash equivalents are broken down as follows:

	12.31.2000	12.31.1999	Change
Cash and cash equivalents:	1.379.231.717	100.345.509	1.278.886.208

As at 31 December 2000 cash and cash equivalents were EUR 1,375 million. They accrued from the listing on the stock exchange of World Online International N.V. in March 2000, and from the issue of a bonded loan by Tiscali Finance S.A. The notable decrease of cash and cash equivalents before the contribution by World Online International and Tiscali Finance’s bonded loan is due to the expansion strategy implemented by the parent company and all group companies.

D) ACCRUED INCOME AND DEFERRED CHARGES

Following is a summary of accrued income and deferred charges:

	12.31.2000	12.31.1999	Change
Accrued income			
Total accrued income	13.934.013	1.033	13.932.980
Deferred charges			
Insurance premiums	50.088		50.088
Leasing and licenses	2.429.036	186.441	2.242.595
Rentals	21.591		21.591
Prepaid expenses	3.351.461		3.351.461
Interests paid in advance	3.302.837		3.302.837
Other deferred charges	26.859.822	4.196.212	22.663.610
Total deferred charges	36.014.835	4.382.653	31.632.182
Total	49.948.848	4.383.686	45.565.162

Accrued income refers mainly to earnings accruing in mid period on reverse interconnection services towards telephone companies, and are to be ascribed to the subsidiary World Online for an amount of EUR 11.5 million. Lease rates and user's licenses refer to the parent company, as do prepaid expenses pertaining to advance payments to Telecom Italia S.p.A. for the rental of circuits. Interests paid in advance refer to the quota pertaining to future FY of the interest accruing on the bonded loan issued by Tiscali Finance.

The other deferred charges refer to prepaid expenses mainly linked to sponsorship contracts stipulated by World Online International N.V.

LIABILITIES

A) SHAREHOLDERS' EQUITY

This schedule highlights changes in the shareholders' equity accounts for the period.

Shareholders' equity	Balance 12.31.1999	Transfer result	Distributed dividends	Translation adjustment	Other changes	Balance 12.31.2000
Group						
Share capital	806.396				766.866	1.573.262
Share premium reserve	142.659.076				2.249.681.264	2.392.340.340
Translation adjustment reserve				7.038.943		7.038.943
Subsidiaries' undistributed profits and other reserves	73.853	33.841			934.976	1.042.670
Consolidation reserve						
Other reserves						
Retained earnings (Losses carried forward)		(5.536.691)				(5.536.691)
Profit (loss) for the period	(5.502.850)	5.502.850			(181.386.631)	(181.386.631)
Total group shareholders' equity	138.036.475			7.038.943	2.069.996.475	2.215.071.893
Of third parties						
Third parties' equity and reserves					14.096.894	14.096.894
Third parties' profits (losses)					(4.786.785)	(4.786.785)
Total third parties' shareholders' equity					9.310.109	9.310.109
Total shareholders' equity	138.036.475			7.038.943	2.079.306.584	2.224.382.002

The changes in shareholders' equity postings, in particular the amounts listed in the column "other movements", refer to the enlargement of the consolidated area, with special regard to the increases in share capital carried out by the Parent Company during FY 2000. The difference in the translation is mainly referred to the companies controlled indirectly through World Online International N.V. which were adversely affected by the strong fluctuation in exchange rates during FY 2000

The following schedule contains a synthesis of the difference between the Parent company's financial statements and the consolidated financial statements, with reference to the accounts which have a bearing on the results for the financial year and to the shareholders' equity.

Summary Comparative schedule of Parent Company and Consolidated Financial Statements

	Current financial year		Previous F.Y.	
	Net profit (loss)	Net equity	Net profit (loss)	Net equity
Balances posted in the parent company balance sheet	(101.001.800)	2.287.375.111	(5.536.418)	137.928.781
Elimination of effects of transactions between consolidated companies net of fiscal effects:				
- Internal profits on long-term investments	(1.183.034)			
- Writeoffs of devaluations pertaining to Participations in subsidiary companies	46.016.773			
Effect of the change and harmonisation of valuation criteria within the Group, net of fiscal effects:				
- Harmonisation accounting treatment of intangible assets				
- Currency exchange rate adjustments				
- Application of financial method to fixed assets leased from third parties	2.922.936	3.103.696	180.760	180.760
- Application of financial method to fixed assets leased to third parties				
- Net equity valuation of companies registered in the Balance sheet at their cost value	(938.794)	(943.376)	(147.192)	(73.340)
- Taxes on subsidiaries' undistributed profits				
Carrying value of consolidated participations		(2.232.591.573)		(7.432.848)
Net equity and financial year profit (loss) of consolidated companies	(55.878.249)	1.471.104.761		(1.138.787)
Attribution of differences to the assets of consolidated enterprises and related depreciations:				
- Consolidation goodwill	(71.189.056)	682.438.812		8.571.909
- Consolidation risk and charges fund				
Other adjustments:				
- Consolidation area adjustment				
- Parent company's shares owned by subsidiaries				
- Other adjustments	(135.407)	4.584.462		
Balance as per the consolidated financial statements – Group quota	(181.386.631)	2.215.071.893	(5.502.850)	138.036.475
Balance as per the consolidated financial statements – Third parties' quota	(4.786.785)	9.310.109		
Balance as per the consolidated financial statements	(186.173.416)	2.224.382.002	(5.502.850)	138.036.475

B) RESERVES FOR RISKS AND FUTURE LIABILITIES

	Balance 12.31.1999	Provisions	(Usage)	Other changes	Balance 12.31.2000
for taxes		82.708			82.708
fund for risks and future liabilities		416.810	(381.000)	381.000	416.810
other:					
Foreign exchange fluctuation fund	9.813		(9.737)	(18)	58
Risk fund for outstanding legal proceedings		234.000		23.000	257.000
Altri fondi		14.596.216	(4.597.462)	13.000	10.011.754
Total other funds	9.813	14.830.216	(4.607.199)	35.982	10.268.812
Total	9.813	15.329.734	(4.988.199)	416.982	10.768.330

The item other funds refers to the Parent Company: it consists of provisions for possible risks linked to premium transactions and general risk funds covering future liabilities of group companies. The column “other changes” shows variations due to changes in the consolidation area.

C) STAFF SEVERANCE INDEMNITY RESERVE

The table below displays the changes which occurred during the financial year:

	Balance 12.31.1999	Provisions	(Usage)	Other changes	Balance 12.31.2000
Workers	505			(243)	262
Intermediate workers		2.890			2.890
Clerical staff	186.060	784.311	(116.633)	289.875	1.143.613
Executives	16.403			1.000	17.403
Total	202.968	787.201	(116.633)	290.632	1.164.168

This item, mainly referred to the parent company, consists of the staff severance fund pursuant to Italian legislation.

D) LIABILITIES

Analysis of liabilities

	12.31.2000	12.31.1999	Change
Bonds	380.931.556		380.931.556
Due to banks	16.379.418	2.066	16.377.352
Due to other financial backers	44.042.176	11.763.855	32.278.321
Down payments	114.389		114.389
Trade accounts payable	213.277.870	35.009.637	178.268.233
Payable to non-consolidated group companies	1.181.971	1.112.448	69.523
Taxes payable	53.456.407	163.200	53.293.207
Due to social security institutions	1.277.554	163.717	1.113.837
Other payables	22.373.593	3.982.399	18.391.194
Total	733.034.934	52.197.322	680.837.612

The Item “bonds” (EUR 381 million) includes bonded loans contracted by Tiscali Finance in the last six months of 2000 and by Word Online International B.V. to fund the acquisition of Telinco U.K. The loan contracted by Tiscali Finance is of EUR 250 million, with lump-sum repayment after

five years. Interest accrue on the basis of euribor plus a 3.25% spread. Swap contracts have been stipulated to cover the rate fluctuation risk, as recorded in the memorandum accounts.

Payables to other backers are detailed as follows:

	12.31.2000	12.31.1999	Change
Payables to other backers	44.042.176	11.763.855	32.278.321

Payables to other financial backers are mainly referred to the capital quota of the debit for financial leasing contracts.

Taxes payable are detailed as follows:

	12.31.2000	12.31.1999	Change
Income taxes - Corporate income tax	286.508		286.508
Income taxes - ILOR	40.951		40.951
Capital tax	936.838		936.838
VAT payable	312.088	5.681	306.407
Advance withholding taxes payable	645.200	116.203	528.997
Other taxes payable	51.234.822	41.316	51.193.506
Total	53.456.407	163.200	53.293.207

“Other taxes payable” pertain to the subsidiary World Online and are mainly referred to the sums allocated for the payment of taxes on World Online stock options which were called in by the employees and directors during the offer of public exchange with Tiscali S.p.A. shares.

Other payables are detailed below:

	12.31.2000	12.31.1999	Change
Compensation payable to directors	4.001		4.001
Compensation payable to auditors	750.000		750.000
Personnel wages and salaries payable	2.950.909	302.644	2.648.265
Social security payables	265.980		265.980
Other	18.402.703	3.679.755	14.722.948
Total	22.373.593	3.982.399	18.391.194

Other payables mainly refer to the World Online Group, and consist of EUR 8.3 million payable to the shareholders of the affiliated company Localtel, EUR 2.9 million invoices to be received.

E) ACCRUED LIABILITIES AND DEFERRED INCOME

The composition of accrued liabilities and deferred income is as follows:

	12.31.2000	12.31.1999	Change
Accrued Liabilities			
Accrued liabilities for holiday bonus	4.342.320	135.829	4.206.491
Accrued liabilities for year-end bonus		119.301	(119.301)
Other	45.090.358		45.090.358
Total accrued liabilities	49.432.678	255.130	49.177.548
Deferred income			
Prepaid Internet services	4.739.909		4.739.909
Prepaid voice services	2.656.494		2.656.494
Other	2.000.530	4.666.188	(2.665.658)
Total deferred income	9.396.933	4.666.188	4.730.745
Total	58.829.611	4.921.318	53.908.293

Accrued liabilities are mainly ascribable to the subsidiary World Online, and pertain to charges for the Group's reorganisation following the change in shareholding composition.

Deferred income consists in the main of the deferral to following FYs of payments for prepaid services.

MEMORANDUM ACCOUNTS

A) VALUE OF PRODUCTION

Analysis of sales and services

Breakdown of revenues by type of activity

	12.31.2000	12.31.1999	Change
Access	65.608.555	11.396.000	54.212.555
Phone services	61.123.330	19.980.000	41.143.330
Business Services	25.852.201	700.000	25.152.201
Portal	7.277.507	500.000	6.777.507
Other revenues	13.308.382	150.000	13.158.382
	173.169.975	32.726.000	140.443.975

Group revenues, mainly generated in the EU area, are to be attributed especially to ISP activities. In particular, 38 % of revenues comes from access services, 4.2% from advertising revenues. Business services are mainly generated by the activities of the French NETS S.A and the Italian STS and Quinary. Other revenues mainly pertain to the invoicing to CD Telekomukace of the services and fiberoptic cabling purchased for the Czech republic cabling project.

Breakdown of revenues by geographic areas

	12.31.2000	12.31.1999	Change
EU sales	165.321.808	32.726.324	132.595.484
US sales	273.722		273.722
Sales in other countries	7.574.445		7.574.445
Total	173.169.975	32.726.324	140.443.651

B) PRODUCTION COSTS

Purchases of raw materials, supplies and consumables

Analysis of purchases:

	12.31.2000	12.31.1999	Change
Purchases of raw materials, supplies and consumables	8.698.341	2.608.624	6.089.717

This item is composed of EUR 5.3 million of costs borne by the parent company to implement the fiberoptic network in the Czech Republic (costs were in turn invoiced to the subsidiary CDT Telekomunikace), about EUR 2 million of goods for re-sale for merchandising activity and EUR 0.9 million of miscellaneous promotional materials.

Composition of expenses for services

Analysis and composition of expenses for services:

	12.31.2000	12.31.1999	Change
Rental of telephone lines	38.105.328	10.361.675	27.743.653
Procurement of traffic	52.957.995	15.255.620	37.702.375
Promotion	32.144.621	4.250.957	27.893.664
Maintenance	5.049.239	116.203	4.933.036
Advisory services	7.423.586	987.467	6.436.119
Cost of sales	7.984.093		7.984.093
Use licenses	1.328.237		1.328.237
Bank and postal charges	2.459.580		2.459.580
Transportation expenses	2.970.134		2.970.134
Other services	19.804.799	1.533.359	18.271.440
Total	170.227.612	32.505.281	137.722.331

This account includes the main industrial costs as detailed below:

Rental of telephone lines. This is a typical cost item, found in all subsidiaries and accounting for 22.4% of total costs for services and 22% of total revenues. The increase is linked to the development of activities and the expansion of the consolidation area in the year 2000. The reorganisation of the Group has already resulted, transmission capacity being equal, in significant savings. In future FYs, the Group's objective is to support activity expansion by decreasing the percent incidence of this type of costs. In FY 2000, 75% of this account was referred to the Parent Company.

Purchase of traffic. This item, totalling EUR 52.9 million is directly linked to the Phone business area, and is a pure variable cost. Interconnection services are purchased from fixed line opera-

tors and call routing is purchased from carriers mainly for international phone calls and mobile telephone calls. The parent company accounts for 96% of this item. This cost accounts for 31% of total costs for services and 30.5 % of total revenues.

Advertising and promotional costs. These costs account for approximately 19% of total costs and 18.6% of total revenues. In FY 2000, they were largely influenced by the need to spread Tiscali brand awareness in European countries. As from May 2000 a major European advertising campaign started, targeting the launch of new services, and marked by a strong presence at the main sector events. In FY 2001 this type of costs should decrease considerably both in total amount and in percentage terms with respect to revenues and cost composition.

Maintenance expenses. These costs totalled about EUR 5 million. They consist in the main of regular maintenance payments pertaining to purchased network equipment and software. The purchase contracts provide for these maintenance costs to be revalued in future FYs. Since these costs are practically fixed, it is expected that in future FY they will decrease both in absolute value and in terms of their percent incidence on cost composition.

Advisory and professional services purchased. The composition of this item is influenced by the considerable fees for legal advice during the Group's expansion phase and by the composition of costs of the subsidiary STS S.p.A. which appoints freelance professionals for project planning tasks.

Other services rendered. This item mainly includes costs for services rendered for the implementation of the cabling project in the Czech Republic, which are regularly invoiced to CD Telekomunikace s.r.o.

Composition of other operating expenses

Analysis and composition of other operating expenses:

	12.31.2000	12.31.1999	Change
Contribution for taxes on government concessions	1.298.895	138.927	1.159.968
Taxes other than income tax	730.292		730.292
Magazine and newspaper subscriptions	62.139		62.139
Forecasting differences in allocations of previous FY			
Other non-extraordinary contingent losses	544.226		544.226
Contingent losses on ordinary disposal of assets	86.486		86.486
Losses on receivables not covered by fund			
Miscellaneous losses	176.138		176.138
Other minor charges	477.201	321.236	155.965
Total	3.375.377	460.163	2.915.214

Government licenses are mainly telephone licenses in Italy and France.

C) FINANCIAL INCOME AND CHARGES

Analysis of financial income:

	12.31.2000	12.31.1999	Change
From securities listed in non-current assets other than participations			
From Other Securities			
Other	143.812		143.812
Total	143.812		143.812
Income other than the above: from third parties			
bank interest receivable	5.645.440		5.645.440
receivable interest on other short-term credit	54.516		54.516
Other financial income	4.009.629	661.581	3.348.048
Total	9.709.585	661.581	9.048.004
Total	9.853.397	661.581	9.191.816

Financial income includes active interests accruing on the parent company's and its subsidiary, Tiscali Finance, liquid assets. The other financial income is referred to income accrued on swap contracts issued by Tiscali Finance to cover the rate fluctuation risk.

Composition of interest payable and other financial charges:

	12.31.2000	12.31.1999	Change
Financial charges on			
Bonds	9.231.786		9.231.786
Amounts due to banks for overdrafts	964.098	98.127	865.971
Amounts due to banks for mortgages and other medium/long term loans	47.264	81.084	(33.820)
Payables due to other backers	865.086		865.086
Financial charges on trade accounts payables	209.596		209.596
Other payables	7.044.641		7.044.641
Commissions and banking expenses	491.481	117.236	374.245
Other	136.146	289.215	(153.069)
Total	19.485.991	585.662	18.900.329

Financial charges are EUR 19.5 million mainly referred to the subsidiary Tiscali Finance S.A., both as interest on bonded loan and as charges on swap transactions linked to the coverage of rate fluctuation risk. The remaining financial charges are referred to bank overdrafts and to the quota of interest pertaining to financial lease operations.

E) EXTRAORDINARY INCOME AND CHARGES

Composition of extraordinary income

The composition of extraordinary income is as follows:

	12.31.2000	12.31.1999	Change
Extraordinary incomes			
insurance reimbursements	121.000		121.000
Contingent assets and non-existing liabilities	299.780		299.780
Correction of wrong postings of previous Fys	120.000		120.000
Other extraordinary incomes	1.919.508		1.919.508
Total	2.460.288		2.460.288
Capital gains from the disposal of non-current assets			
Capital gains from the disposal of fixed assets	9.704		9.704
Capital gains from the disposal of financial assets	755.389		755.389
Other extraordinary capital gains	20.977		20.977
Total	786.070		786.070
Total	3.246.358		3.246.358

Composition of extraordinary charges:

	12.31.2000	12.31.1999	Change
Extraordinary charges			
Extraordinary charges and losses	12.395		12.395
Correction of wrong postings of previous Fys	120.000		120.000
Contingent liabilities and non-existent assets	2.248.654	51.129	2.197.525
Other extraordinary charges	787.390	1.033	786.357
Total	3.168.439	52.162	3.116.277
Capital losses from the disposal of non-current assets			
Capital losses from the disposal of tangible assets	304.770		304.770
Other extraordinary capital losses	33.617		33.617
Total	338.387		338.387
Taxes pertaining to previous FYs			
Charges for tax litigation	107.656		107.656
Other charges pertaining to previous Fys	4.007.036		4.007.036
Total	4.114.692		4.114.692
Total	7.621.518	52.162	7.569.356

Extraordinary charges are mainly referred to sums allocated following the launching of the re-organisation process and to the posting of receivables for active deferred charges transferred from the Parent Company's financial statements.

OTHER INFORMATION

As required by current regulations, the tables below disclose the composition of the work force by job category, and the amounts payable to Company Directors and Statutory Auditors, grouped by category.

Average number of employees grouped by category

	12.31.2000	12.31.1999	Change
Workers	33	1	32
Middle Managers	867	6	861
Clerical Staff	755	122	633
Executives	85	3	82
Total	1.740	132	1.608

Compensation to Directors and Statutory Auditors

Pursuant to art 78 of the regulations implementing Leg Decree 58/1998 issued by Consob with deliberation No. 11971/99, the tables hereunder show the compensation paid to directors and auditors and the number of shares held by each.

Last name name	Position	Duration of position	Remuneration	Non monetary benefits	Bonuses and other incentives	Other compensation
Board of Directors						
Soru Renato	Chairman and C.E.O. (1)	06.30.1999-12.31.2000 (1)	–	–	–	–
Bernabè Franco	Director	06.30.2000-12.31.2000	–	–	–	–
Decina Maurizio	Director	06.30.1999-12.31.2000	–	–	–	–
Hauser Hermann	Director	06.30.1999-12.31.2000	–	–	–	–
Piol Elserino	Director	06.30.1999-12.31.2000	–	–	–	–
Board of auditors						
Zini Andrea	Chairman (2)	04.17.2000-12.31.2000	–	–	–	–
Casu Rita	Statutory auditor (3)	11.30.1998-12.31.2000	38.877	–	–	–
Maccioni Piero	Statutory auditor	06.30.1999-12.31.2000	21.268	–	–	–
Biondo Giuseppe	Alternate auditor (4)	11.30.2000-06.30.2000	28.025	–	–	–
Bianchi Livio	Alternate auditor	04.17.2000-12.31.2000	–	–	–	–

(1) C.E.O. from 07.21.1999 until revoked.

(2) Chairman from 17 April 2000.

(3) Chairman until 17 April 2000.

(4) Alternate from 17 April 2000.

LISTS

List of companies included in the consolidation with the integral method

Company name	Head office	Share capital in euro	Quota held			Overall Stake
			Direct	Indirect	Total	
Parent Company						
Tiscali S.p.A.	Cagliari	1.573.262	–	–	–	–
Subsidiaries						
Best Engineering	Turin	775.000	60,00%		60,00%	60,00%
Ideare S.p.A.	Pisa	516.457	60,00%		60,00%	60,00%
Informedia srl	Rome	51.646	100,00%		100,00%	100,00%
Motorcity	Cagliari	100.000	60,00%		60,00%	60,00%
Nets SA	Paris	11.283.834	100,00%		100,00%	100,00%
Quinary spa	Milan	120.506	70,00%		70,00%	70,00%
STS srl	Rome	20.658	50,00%		50,00%	50,00%
Tscali Belgium Holding	Brussels	62.000	92,00%		92,00%	92,00%
Tiscali Datacomm	Basil	16.497.962	80,00%		80,00%	80,00%
Tiscali Finance	Brussels	125.000	100,00%		100,00%	99,99%
Tiscali france	Marseilles	923.000	100,00%		100,00%	100,00%
Tiscali Germany	Hamburg	554.750	100,00%		100,00%	100,00%
World Online International N.V.	Maarsen (Netherl)	115.519.093	97,00%		97,00%	97,00%

List of participations calculated by means of the net equity method

Company name	Head office	(Euro)	Quota held			Overall stake
			Direct	Indirect	Total	
Andaledda S.p.A.	Cagliari	103.291	100%		100,00%	100,00%
Energy Byte S.p.A.	Milan	950.000	100%		100,00%	100,00%
Tiscali Czech Republic sro	Prague	28.533	100%		100,00%	100,00%
Tiscali Telecomunicaciones SA	Madrid	2.100.000	100%		100,00%	100,00%

List of participations in non consolidated group companies calculated by means of the net equity method

Company name	Head office	(Euro)	Quota held			Overall stake
			Direct	Indirect	Total	
Connect Software Inc.	S.Francisco (California)	53.589	100%		100%	100%
C D Telekomunikace sro	Prague	16.946	100%		100%	100%

List of participations in other companies calculated by means of the net equity method

Company name	Head office	Share capital (euro)	Quota held			Overall stake
			Direct	Indirect	Total	
Gilla S.p.A.	Cagliari	2.500.000	100,00%		100,00%	100,00%
FreeTravel S.p.A.	Milan	500.000	100,00%		100,00%	100,00%

PROFIT AND LOSS STATEMENT

Financial Statement Analysis – Balance Sheet

Assets	12.31.2000	%	12.31.1999	%	Change	Change %
Current assets						
Cash and banks	1.379.231.717		100.345.509		1.278.886.208	1274,48%
Receivables from customers	182.393.415		29.419.967		152.973.448	519,96%
Inventories	6.022.245		967.840		5.054.405	522,24%
Accrued revenues & def. charges	50.077.162		4.383.686		45.693.476	1042,35%
Other current assets	59.507.073		10.113.259		49.393.814	488,41%
Total current assets	1.677.231.612	55,38%	145.230.261	74,34%	1.532.001.351	1054,88%
Non-current assets						
Fixed assets	183.315.403		17.214.541		166.100.862	964,89%
Intangible assets	1.112.097.759		26.778.807		1.085.318.952	4052,90%
Investments and securities	42.139.451		1.980.612		40.158.839	2027,60%
Other fixed assets	13.595.055		4.163.675		9.431.380	226,52%
Total non-current assets	1.351.147.668	44,62%	50.137.635	25,66%	1.301.010.033	2594,88%
TOTAL ASSETS	3.028.379.280	100,00%	195.367.896	100,00%	2.833.011.384	1450,09%

Liabilities and Shareholders' Equity

	12.31.2000	%	12.31.1999	%	Change	Change %
Current liabilities						
Due to banks	13.640.787		2.066		13.638.721	660151,06%
Trade accounts payable	213.277.870		35.009.637		178.268.233	509,20%
Other liabilities	162.373.532		2.023.478		160.350.054	7924,48%
Accrued liabilities & def. inc.	59.029.846		4.921.318		54.108.528	1099,47%
Taxes payable	53.456.407		163.200		53.293.207	32655,15%
Total current liabilities	501.778.442	16,57%	42.119.699	21,56%	459.658.743	1091,32%
Medium/long-term liabilities						
Medium/long-term loans	280.777.311		11.016.542		269.760.769	2448,69%
Staff severance indemnity reserve	1.164.168		202.968		961.200	473,57%
Reserve for deferred taxes	82.708				82.708	
Reserves for risks & future liabilities	20.194.649		3.992.212		16.202.437	405,85%
Total medium/long-term liabilities	302.218.836	9,98%	15.211.722	7,79%	287.007.114	1886,75%
Total liabilities	803.997.278	26,55%	57.331.421	29,35%	746.665.857	1302,37%
Shareholders' equity						
Share capital	1.573.262		806.396		766.866	95,10%
Reserves	2.394.885.262		142.806.782		2.252.078.480	1577,01%
Net profit	(181.386.631)		(5.576.703)		(175.809.928)	3152,58%
Total shareholders' equity	2.215.071.893	73,14%	138.036.475	70,65%	2.077.035.418	1504,70%
Third parties' capital and reserves	9.310.109	0,31%			9.310.109	
Total equity	2.224.382.002	73,45%	138.036.475	70,65%	2.086.345.527	1511,45%
TOTAL	3.028.379.280	100,00%	195.367.896	100,00%	2.833.011.384	1450,09%

Financial Statement Analysis - Profit and Loss Account

Profit and loss statement	12.31.2000	%	12.31.1999	%	Change	Change %
Net sales	169.730.058	100,00%	32.726.324	100,00%	137.003.734	418,63%
Operating expenses:						
Purchases	(8.698.341)	(5,12%)	(2.608.624)	(7,97%)	(6.089.717)	-233,45%
Services	(170.227.612)	(100,29%)	(32.505.281)	(99,32%)	(137.722.331)	423,69%
Depreciation/amortization	(102.618.775)	(60,46%)	(3.413.780)	(10,43%)	(99.204.995)	2906,02%
Cost of labour	(27.831.143)	(16,40%)	(3.320.302)	(10,15%)	(24.510.841)	738,21%
Increase (decrease) in inventories	793.230	0,47%	852.670	2,61%	(59.440)	-6,97%
Other operating expenses	(36.510.552)	(21,51%)	(1.193.532)	(3,65%)	(35.317.020)	2959,03%
Operating profit	(175.363.135)	(103,32%)	(9.462.525)	(28,91%)	(165.900.610)	1753,24%
Financial income	12.325.127	7,26%	663.647	2,03%	11.661.480	1757,18%
Financial charges	(19.485.991)	(11,48%)	(585.662)	(1,79%)	(18.900.329)	3227,17%
Other income	5.229.062	3,08%			5.229.062	
Other charges	(8.661.359)	(5,10%)	(199.352)	(0,61%)	(8.462.007)	4244,76%
Profit before taxes	(185.956.296)	(109,56%)	(9.583.892)	(29,28%)	(176.372.404)	1840,30%
Income taxes						
Current	(438.990)	(0,26%)			(438.990)	
Deferred	221.870	0,13%	4.007.189	12,24%	(3.785.319)	-94,46%
Result before third parties' share	(186.173.416)	(109,69%)	(5.576.703)	(17,04%)	(180.596.713)	3238,41%
Third parties' share	4.786.785	2,82%			4.786.785	
Profit (loss) for the period	(181.386.631)	(106,87%)	(5.576.703)	(17,04%)	(175.809.928)	3152,58%

Financial Statement (flows)

	12.31.2000	12.31.1999
Cash flows generated from operations		
<i>Profit (loss) for the period</i>	(181.386.631)	(5.502.848)
Adjustments for accounts not affecting cash flow:		
Depreciation and amortization	102.618.775	3.413.780
Provision to staff severance indemnity reserve	787.201	180.760
Staff severance indemnities paid during the period	173.999	(3.615)
Provision (use) of reserve for risks and future liabilities	(221.870)	(4.007.189)
Capital gains(losses) for disposal of assets	(447.411)	
Changes in current assets and liabilities	(78.475.937)	(5.919.112)
Amounts due from customers	(152.973.448)	(27.583.963)
Other receivables	(49.393.814)	77.469
Inventories	(5.054.405)	(853.187)
Accrued income and deferred charge	(45.693.476)	(3.485.568)
Trade accounts payable	178.268.233	31.923.234
Other liability	160.350.054	5.751.780
Accrued liabilities and deferred income	54.108.528	4.126.491
Reserve for taxes payable	53.293.207	295.815.573
	110.005	9.649.997
Cash flows generated from operations	114.428.942	4.147.149
Cash flows from investment activity:		
Net book value of assets sold	(2.261.594)	(14.847.103)
Purchase of fixed assets	(175.451.078)	(2.985.637)
Increases in intangible assets	(1.175.878.506)	(27.393.606)
(Increase) decrease in investments	(40.158.839)	(1.393.750.017)
	(1.980.612)	(47.206.958)
Cash flows from financing activity		
New loans	271.074.554	
Reimbursement of loans	(1.313.785)	11.016.542
Capital increases	2.251.383.106	140.336.317
Reduction (increase) in other non-current assets	(9.431.380)	(14.147.090)
Increase (decrease) in other M/L-term liabilities	25.817.124	2.537.529.619
	4.017.002	141.222.771
Differences due to the conversion of balance sheets in foreign currencies	7.038.943	
Increase (decrease) in cash & cash equivalents	1.265.247.487	98.162.962
Cash and cash equivalents – opening balance	100.343.443	2.180.481
Cash and cash equivalents – closing balance	1.365.590.930	100.343.443

★ ★ ★

These financial statements, which consist of the Balance Sheet, the Profit and Loss Statement and the Notes to the Financial Statements, provide a fair presentation of the financial position and earnings for the period referenced herein

The Board of Directors
The President
Renato Soru

Consolidated profit & loss account and balance sheet schedules prepared in compliance with the international accounting system

Assets	12.31.2000
Non-current assets	
Technical assets	183.315.403
goodwill	742.956.920
Intangible assets	79.115.109
Participations	27.177.690
Other investments	15.572.191
Total non-current assets	1.048.137.313
Current assets	
Inventories	6.022.245
Trade receivables and other receivables	259.372.841
accrued income and deferred charges	50.077.162
Cash and banks	1.374.743.989
Total current assets	1.690.216.237
Total assets	2.738.353.550
Liabilities and shareholders' equity	12.31.2000
Capital and reserves	
Share capital	1.573.262
Reserves	2.591.644.055
FY result	(704.807.871)
Group shareholders' equity	1.888.409.446
Third parties' equity	45.946.826
Total Shareholders' Equity	1.934.356.272
M/long term liabilities Loans	280.777.311
Staff severance indemnity reserve	1.164.168
Reserves for risks and future liabilities	10.768.330
Total M/Long-term liabilities	292.709.809
Short-term liabilities	
Banks	16.446.369
Trade accounts payable	214.459.841
Other payables	167.895.006
Accrued liabilities and deferred income	59.029.846
Taxes payable	53.456.407
Total Short-term liabilities	511.287.469
Total liabilities	803.997.278
Total shareholders' equity and liabilities	2.738.353.550

Profit and loss statement	12.31.2000	%
Net sales revenues	389.436.202	100,00%
Cost of goods sold	(452.579.037)	(116,21%)
Commercial costs	(341.023.454)	(87,57%)
Administrative costs	(301.018.852)	(77,30%)
Operating result	(705.185.141)	(181,08%)
Financial charges	(29.802.773)	(7,65%)
Income from group companies	(18.861.299)	(4,84%)
income from other investments	65.548.766	16,83%
Extraordinary management	(35.714.979)	(9,17%)
Profit (loss) before taxes	(724.015.426)	(185,91%)
Income taxes	(217.120)	(0,06%)
Profit (loss) after taxes	(724.232.546)	(185,97%)
FY Profit (Loss) pertaining to third parties	28.722.509	7,38%
Fy profit (loss)	(695.510.037)	(178,59%)

As stated above, on the basis of an agreement reached during the acquisition of the World Online Group, the above consolidated Balance sheet and Profit and Loss Account schedules were added to these notes in order to describe the equity, economic and financial status of the Tiscali Group including the WOL Group based on the IAS.

This accounting system shows the following main differences from the system used for the preparation of the consolidated financial statements pursuant to Leg. Decree 127:

- different posting of some intangible assets, which according to IAS may not be capitalized;
- posting of the acquisition of World Online according to the “uniting of interest” method, pursuant to IAS principle n. 22 which provides for the recording of equity and economic effects as if the transaction had been carried out at the beginning of the FY of acquisition. Thus, in our case, the profit and loss statement covers the whole period 1 Jan 2000/31 Dec 2000;
- posting as adjustment to net equity reserves of the differences pertaining to equity values of previous FYs, pertaining to the initial application of IAS (see SIC 8).

A schedule linking consolidated FY results and net equity according to the two accounting systems (Dlg 127 and IAS) is provided hereunder:

	Net result	Net equity
Equity and result according to consolidated financial statements (Dlg127) (*)	(186.173.416)	2.224.382.002
adjustments made to adapt to IAS:		
– intangible assets	5.257.333	(14.989.978)
– deferred active taxes	4.007.036	(4.007.036)
Result and shareholders' equity of the World Online Group	(547.323.499)	(477.486.688)
World Online consolidation by the “uniting of interest” method		206.457.972
Equity and result according to consolidated financial statements (IAS) (*)	(724.232.546)	1.934.356.272

(*) including third parties' receivables



Financial Statements

BALANCE SHEET SCHEDULES

ASSETS (Amounts in Euro)	12.31.2000	12.31.1999
A) DUE FROM SHAREHOLDERS FOR CAPITAL CONTRIBUTIONS TO BE PAID		
- Portion called		
- Portion not called		
Total due from shareholders for capital contributions to be paid	-	-
B) NON-CURRENT ASSETS		
I. Intangible assets:		
1) Set-up and expansion costs	12.232.915	15.164.369
2) Research, development and advertising costs	7.768	637.740
3) Patents and right to use intellectual property	991.189	74.841
4) Concessions, licenses, trademarks and similar rights	9.133.547	1.750.649
5) Goodwill	320.268	
6) Assets under construction and payments on account	2.177.643	
7) Other	4.666.131	498.552
Total	29.529.461	18.126.151
II. Fixed assets:		
2) Plant and machinery	2.182.269	1.051.930
3) Industrial and trade equipment	1.095.790	1.877.629
4) Other goods	2.323.151	21.365
Total	5.601.210	2.950.924
III. Financial assets:		
1) Investments in:		
a) group companies	2.256.712.638	8.159.394
b) associated companies	1.500.000	1.250.000
d) others	155.649	6.165
	<i>Receivable within the following financial year</i>	
	12.31.2000	12.31.1999
2) Loans receivable:		
d) others		10.000.000
Totale	2.258.368.287	19.415.559
Total non-current assets	2.293.498.958	40.492.634
C) CURRENT ASSETS		
I. Inventory:		
1) Raw, ancillary and consumables materials	768.787	967.815
5) Advances	1.572.201	
Total	2.340.988	967.815
	<i>Receivable beyond the following financial year</i>	
	12.31.2000	12.31.1999
II. Receivables:		
1) Trade accounts	59.350.473	23.740.876
2) Due from group companies	59.879.255	1.477.161
3) Due from associated companies	48.610	11.879
5) Due from others	219.708	4.147.534
	12.370.849	9.310.777
Total	219.708	4.147.534
	131.649.187	34.540.693
III. Current financial assets:		
6) Other securities	9.250.673	
Total	9.250.673	
IV. Liquid assets:		
1) Cash at banks and post offices	1.409.471	100.063.056
3) Cash and cash equivalents on hand	5.458	7.281
Total	1.414.929	100.070.337
Total current assets	144.655.777	135.578.845
D) PREPAYMENTS AND ACCRUED INCOME		
Prepayments and accrued income	5.922.628	6.282.310
Total prepayments and accrued income	5.922.628	6.282.310
TOTAL ASSETS	2.444.077.363	182.353.789

LIABILITIES (Amounts in Euro)	12.31.2000	12.31.1999
A) SHAREHOLDERS' EQUITY		
I Share capital	1.573.262	806.396
II Share premium reserve	2.392.340.340	142.659.076
III Revaluation reserve		
IV Legal reserve		
V Reserve for treasury stock held		
VI Statutory reserves		
VII Other reserves:		
– Other		
VIII Retained earnings (losses)	(5.536.691)	
IX Net profit (loss) for the year	(101.001.800)	(5.536.691)
Total shareholders' equity	2.287.375.111	137.928.781
B) RESERVES FOR RISKS AND CHARGES		
1) For pension and similar obligations		
2) For taxation		
3) Other	12.489.903	9.795
Total reserves for risks and charges	12.489.903	9.795
C) STAFF LEAVING INDEMNITY	742.577	202.725
D) PAYABLES		
	<i>Receivable beyond the following financial year</i>	
	12.31.2000	12.31.1999
1) Bonds		
2) Convertible bonds		
3) Due to banks:	11.129.226	124
4) Due to other financiers:	5.676	
5) Advances		
6) Trade accounts	68.925.230	34.133.150
7) Payables represented by negotiable instruments		
8) Due to group companies	57.927.257	237.336
9) Due to associated companies	1.050.000	875.000
10) Due to parent company		
11) Taxes payable	413.829	157.196
12) Due to social security authorities	336.197	104.212
13) Other payables	1.035.701	3.844.979
Total payables	140.823.116	39.351.997
E) ACCRUED LIABILITIES AND DEFERRED INCOME		
Accrued liabilities and deferred income	2.646.656	4.860.491
Premiums on loans		
Total accrued liabilities and deferred income	2.646.656	4.860.491
TOTAL LIABILITIES	2.444.077.363	182.353.789

MEMORANDUM ACCOUNTS (Amounts in Euro)	12.31.2000	12.31.1999
A) GUARANTEES GIVEN		
1) To third parties:		
a) sureties	250.715.803	9.346.845
b) endorsements		
c) other personal guarantees		3.098.742
d) real guarantees		
Total	250.715.803	12.445.587
2) To subsidiary companies:		
a) sureties		
b) endorsements		
c) other personal guarantees		
d) real guarantees		
Totale		
3) To associated companies:		
a) sureties		
b) endorsements		
c) other personal guarantees		
d) real guarantees		
Total		
4) To controlling and other group companies:		
a) sureties		
b) endorsements		
c) other personal guarantees		
d) real guarantees		
Total		
Total guarantees given	250.715.803	12.445.587
B) OTHER MEMORANDUM ACCOUNTS		
- Lease commitments	45.881.098	28.370.360
- Notes payables not yet expired		
- Raw materials and finished products by third parties		
- Securities by third parties		
- Warrants	10.576.796	5.000.000
- Impegni	55.243.383	
Total other memorandum accounts	111.701.277	33.370.360
C) GUARANTEES RECEIVED		
1) From group companies:		
a) sureties	6.130.859	826.331
b) endorsements		
c) other personal guarantees		
d) real guarantees		
Total guarantees received	6.130.859	826.331
GRAND TOTAL	368.547.939	46.642.278

PROFIT AND LOSS STATEMENT (Amounts in Euro)	12.31.2000	12.31.1999
A) (+) VALUE OF PRODUCTION		
1) Revenue from sales and services	120.088.881	32.726.625
5) Other income and revenues:		
– other income and revenues	891.629	73.772
Total	120.980.510	32.800.397
B) (–) PRODUCTION COSTS		
6) Raw, ancillary and consumable materials and goods	(6.757.841)	(2.608.711)
7) Services	(117.195.159)	(32.505.273)
8) Use of third party assets	(9.733.898)	(1.692.631)
9) Personnel:		
a) wages and salaries	(9.962.584)	(2.903.970)
b) social contributions	(965.095)	(215.552)
c) staff leaving indemnity	(607.868)	(180.571)
d) pensions and similar		
e) other costs	(26.751)	(20.122)
10) Depreciation, amortization and writedowns:		
a) amortization of intangible assets	(5.892.446)	(2.246.458)
b) depreciation of fixed assets	(965.678)	(383.073)
c) other writedowns of non-current assets		
d) writedowns of receivables included in working capital and liquid assets	(5.379.393)	(285.536)
11) Changes in inventory of raw, ancillary and consumable materials and goods	(199.028)	852.943
12) Provisions for risks	12.489.845	(9.798)
14) Other operating costs	(739.038)	(460.250)
Total	170.914.624	(42.659.002)
(A – B) Difference between value of production and production costs	49.934.114	(9.858.605)
C) FINANCIAL INCOME AND CHARGES		
15) (+) Income from investments:		
a) from group companies		1.723
16) (+) Other financial income:		
a) from receivables shown under non-current assets:		
– from third parties		
– from associated companies	1.106.805	
d) income other than those mentioned above:		
– from third parties	1.378.155	661.734
17) (–) Interest and other financial charges:		
a) from third parties	(981.832)	(296.475)
b) from associated companies	(2.612.947)	
Total	(1.109.819)	366.982
D) ADJUSTMENTS TO THE VALUE OF FINANCIAL ASSETS		
19) (–) Writedowns:		
a) of equity investments	(46.117.820)	
Total adjustments	(46.117.820)	
E) EXTRAORDINARY INCOME AND CHARGES		
20) (+) Extraordinary income:		
a) income	299.780	215
b) gains on disposal of fixed assets	1.938.423	
21) (–) Extraordinary charges:		
a) charges	(2.062.214)	(52.319)
b) losses on disposals of fixed assets	(9.000)	
c) taxes relating to previous periods	(4.007.036)	
Total extraordinary items	(3.840.047)	(52.104)
Profit (loss) before taxes	(101.001.800)	(9.543.727)
22) (–) Income taxes for the year		
b) deferred		4.007.036
Total income taxes		4.007.036
23) NET PROFIT (LOSS) FOR THE YEAR	(101.001.800)	(5.536.691)

For the Board of Directors
The President
Renato Soru



Notes to the Financial Statements

FORM AND CONTENT OF THE FINANCIAL STATEMENTS

1) CRITERIA USED IN THE PREPARATION OF THE STATEMENTS

The financial statements have been prepared in accordance with Article 2423 and the articles thereafter of the Italian Civil Code, and consist of the balance sheet, the profit and loss statement and the notes in relation thereto. The format of the statements conforms to the standard set forth in Article 2427 of the Italian Civil Code, which, pursuant to and for the effects of Article 2423, constitutes an integral part of these financial statements. The financial statements contain comparative data for the year ending 31 December 1999, given that such data are consistent with those of the period referenced herein. Moreover, pursuant to Legislative Decree No 127 of 1991, the consolidated balance sheet has been prepared and presented together with the balance sheet of Tiscali S.p.A for the financial year.

In order to provide a better overview of Company operations and financial position, the following documents are supplied as supplemental information to these statements:

- Reclassified balance sheet;
- Reclassified profit and loss statement;
- Statement of changes in financial position.

2) VALUATION

a) General Criteria

The criteria used in the preparation of the financial statements conform to those stipulated by aforementioned current regulations on the subject. Such criteria have been integrated and interpreted by the accounting principles issued by the Italian accounting profession (Consiglio Nazionale dei Dottori Commercialisti e dei Ragionieri). The criteria used during the financial year referenced herein do not vary from those applied for the preparation of the financial statements for the preceding year, in particular with regard to valuation principles and the continuity of the same, exception made for the criterion described hereunder, pertaining to taxes paid in advance. The effects of these changes are shown in the notes to the assets side of the balance sheet. Balance sheet items have been valued based on general criteria of prudence and competency, in the perspective of future continuation of activity. For the purposes of the accounting entries, prevalence is given to the economic substance of the transactions rather than their legal form.

Any assets which are expected to be durable are classified as non-current assets.

b) Valuation adjustments and recoveries of value

The values of fixed and intangible assets whose useful life is limited over time are written down respectively through depreciation and amortization charges. The same fixed and intangible assets and the other assets are written down each time a durable loss of value has been noted; the original value is re-established insofar as the reasons for the previous loss of value are considered no longer current. The analytical methods for the charging of depreciation and amortization are disclosed separately hereunder in these notes.

c) Revaluations

To date, no revaluations have been performed.

d) Exceptions

No exceptions to the valuation criteria provided by legislation regarding financial statements have been made either in these financial statements or in the financial statements of the previous period.

The most significant principles and criteria are summarized as follows:

e) Intangible assets

Start-up and expansion costs, which are fully discussed below in the analysis of balance sheet items, are disclosed separately. They are entered in the designated line item in the assets side and are amortized for a period not exceeding 5 years starting from the financial year in which said costs were incurred.

Research, development and advertising costs are shown in the designated line item on the assets side and are amortized for a period of three years starting from the financial year in which they were incurred, since said costs produce profits over a number of years.

Licenses, trademarks and patent rights are recorded at their acquisition cost in line items “industrial patent rights” and “rights to intellectual property”, and amortized in accordance with the period of use as established by the contract. At all events, the amortization period will not exceed 5 years from the financial year in which they were incurred.

The balance sheet contains no value relative to goodwill.

Maintenance and upgrading costs on fixed assets belonging to third parties are shown at line item “other” and are systematically amortized for a shorter period between the future profitability of expenses incurred and the residual contract period.

f) Fixed assets and depreciation

Fixed assets are recorded at purchase or production cost, including any ancillary charges.

Depreciation is calculated with reference to cost, in a manner which is consistent with the possibility of residual use.

The posting in the balance sheet of capital equipment leasing operations performed in the financial year reflects the interpretation of current legislation, i.e. the posting of leasing fees is made based on the reference period for each payment.

Ordinary maintenance expenses are wholly debited to the profit and loss statement. Maintenance expenses of an incremental nature are attributed to the asset to which they refer and are depreciated based on the possibility of residual use of the selfsame asset.

Following is a summary of depreciation rates, which remain unchanged with respect to 1999:

Plants and machinery	
– general plant and machinery	20%
– specific plant and machinery	20%
– other plant and machinery	20%
Industrial and trade equipment	
– network equipment and other specific equipment	20%
– other equipment	12%
Other goods	
– office furniture	20%
– other goods	20%

During the year in which an asset is purchased, the depreciation charges are reduced by 50 percent. This accounting treatment is estimated to provide a reasonable approximation of the time distribution of asset purchases during the year.

g) Non-current financial assets

– *Investments in subsidiary and affiliated companies*

Investments in subsidiary and affiliated companies, which are non-current financial assets, are valued according to the cost method, taking into account that they are recent purchases and set-ups. Cost is decreased when there is a durable loss of value.

Non-current financial assets consisting of receivables are valued at their presumed realisable value.

h) Inventories

– *Raw materials, work in progress and finished products*

Inventories, mainly consisting of goods for re-sale, are valued at the lower value between purchase cost, calculated by means of the weighted mean method, and their estimated market value.

i) Receivables

Receivables are stated at their estimated realizable value net of a specially established risk fund. Receivables also include amounts pertaining to invoices still to be issued for services rendered in financial year 1999.

l) Financial assets other than long-term investments

Securities are valued at their purchase cost, or, if lower, at their realisable value calculated on the basis of stock market trends in the case of listed securities.

m) Accruals and deferrals

Accruals and deferrals are calculated in accordance with the matching principle.

n) Reserves for risks and future liabilities

Risk funds are allocated and shown as liabilities in the balance sheet, with the aim of covering potential Company liabilities, which are forecast as likely to take place according to a realistic estimate of their definition.

o) Income taxes and advance taxes

In the financial year in question, the Company did not incur taxes payable, since it had no taxable income.

The losses incurred in the previous and the current financial periods may be carried forward for an unlimited period, since they were incurred in the first three years of company setup. The potential fiscal benefit linked to these losses, while it does not represent receivables from the Treasury, has been posted in the balance sheet under the heading “other receivables” of the working capital, since the following two conditions set out in accounting principle No. 25 of the Italian Accounting Profession are present.

In FY 2000, the company decided to change the posting method of this item in accordance with the commitments made in the framework of the launch of the Public Exchange Offer for the takeover of World Online N.V., which does not accept credits for deferred taxes.

Consequently, the company has written off the credits of this kind posted in the previous FY, and has posted an exceptional debit item in the Profit and Loss Statement for FY 2000.

p) Staff severance indemnity reserve

The provision corresponds to all amounts due to employees under current laws.

q) Liabilities

Liabilities are reported at the actual amounts payable to extinguish the debt.

r) Risks, commitments, guarantees

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

The guarantees issued are in the form of surety bonds issued in favor of third parties in execution of contract terms.

Commitments refer to obligations resulting from stipulated agreements which have not been as yet executed, and from leasing and operating lease charges to be posted in future financial years.

s) Revenue recognition

Revenues from the sale of services are entered on the basis of traffic actually recorded as of the closure of the financial year. Financial revenues are recorded on the basis of the matching principle.

t) Recording of amounts in foreign currencies

Receivables and payables in extra-CEE foreign currencies are adjusted to the exchange rates valid at the end of the financial year, by including a specifically designated exchange-rate Risk Fund in the balance sheet. Profits and losses deriving from exchange rate fluctuations are listed as receivables or payables in the profit and loss account.

ANALYSIS OF BALANCE SHEET ITEMS – ASSETS

B) NON-CURRENT ASSETS

I. Intangible assets

The historic cost of the intangible assets at the beginning and at the end of the period is detailed as follows:

	Cost	12.31.2000 (Amortization)	Net book value	Cost	12.31.1999 (Amortization)	Net book value
Set-up and expansion costs	18.663.782	(6.430.867)	12.232.915	17.222.910	(2.058.541)	15.164.369
Research, development, advert. costs	26.186	(18.418)	7.768	1.357.421	(719.681)	637.740
Patents and right to use intellectual property	1.159.580	(168.391)	991.189	96.802	(21.961)	74.841
Concessions, licenses, trademarks	10.475.161	(1.341.614)	9.133.547	1.796.772	(46.123)	1.750.649
Goodwill	400.334	(80.066)	320.268			
Assets under construction and payments on account	2.177.643		2.177.643			
Other	5.386.513	(720.382)	4.666.131	519.538	(20.986)	498.552
	38.289.199	(8.759.738)	29.529.461	20.993.443	(2.867.292)	18.126.151

Following is a summary of the changes occurred in the accounts over the period:

	Balance 12.31.1999	Additions	Revaluations (Devaluations)	Other changes	(Amortization)	Balance 12.31.2000
Start up and expansion costs	15.164.369	915.100		(180.728)	(3.665.826)	12.232.915
Research, development, advert. costs	637.740			(624.735)	(5.237)	7.768
Industrial patent rights and rights to intellectual property	74.841	1.062.777			(146.429)	991.189
Concessions, licenses, trademarks	1.750.649	8.678.389			(1.295.491)	9.133.547
Goodwill		400.334			(80.066)	320.268
Assets in progress and payments		2.177.643				2.177.643
Other	498.552	4.866.976			(699.397)	4.666.131
	18.126.151	18.101.219		(805.463)	(5.892.446)	29.529.461

Line item “industrial patent rights and rights to intellectual property” mainly includes application software acquired “sine die” and customized for exclusive use by Tiscali S.p.A. The increase recorded in FY 2000 is due to the purchase of software for the development of new Internet services (e.g. the software for the management and addition of advertising banners to the recently launched “Talk Talk” service).

The variation in the asset item “concessions, licences, trademarks, other” mainly consists of the purchase of software licences and related burdens.

In detail the investments are referred to access network, network and portal management software; and to the purchase of new utilities and management software pertaining the administration division (authentication system, e-mail and other services software).

Since most investment in user licenses were made in the second half of FY 2000, and in order to represent faithfully the actual useful life of these assets, the company decided to calculate the depreciation for the FY in question on the basis of the months of actual use. This approach results in depreciations for the FY being lower by about EUR 1.3 million.

Line item “Assets in progress” mainly includes, for an amount of EUR 1.5 million, portions of costs relating to licenses not utilized within 31st December 2000, purchased upon corporate agreements on a European basis, for the benefit of the whole group.

Line item “Other assets” is mainly referred to the investments made for the upgrading of technical sites, and the setting up of the technical-operational premises and the the Call Center in Cagliari, as well as for the Milan office.

The item also includes approx. EUR 1.3 million pertaining to the residual quota of the intangible assets (excluding the portion paid as goodwill, which is posted in the relevant line item) for the company’s branch “Voltrade”.

The column “**Other changes**” shows the transfer of EUR 625,000 from “costs for research, development and advertising” to “start-up and expansion costs”, moreover, line item “start-up and expansion costs” includes the algebraic sum of said transferred sum and a negative amount of EUR 825,000 pertaining to credit notes received.

Line items “Start-up and expansion costs” and “costs for research, development and advertising” are broken down as follows:

	12.31.2000	12.31.1999	Change
Set-up and expansion costs			
Set-up costs	826	1.653	(827)
Costs of increase of share capital	5.578.957	6.906.738	(1.327.781)
New plant start-up costs	6.653.132	7.526.056	(872.924)
others		729.922	(729.922)
Total	12.232.915	15.164.369	(2.931.454)
Research and development			
Research costs	7.768	637.740	(629.972)
Total	7.768	637.740	(629.972)

Line item “Start-up costs” – which was mainly formed in 1999 – includes costs for starting up the activity, pertaining to network development costs (installation and switchboard setup), as well as to the TiscaliFreenet launching campaign.

Advertising costs pertain to the capitalizations carried out in previous FYs.

II. Fixed assets

Following is a summary of the changes in the accounts over the period, with regard to the historic costs of fixed assets:

Cost	Balance 12.31.1999	Increases	Revaluations	Other changes	(Disposals)	Balance 12.31.2000
Plants and machinery						
Plants and machinery	1.241.452	1.231.247		294.832		2.767.531
Industrial and trade equipment						
Industrial and commercial equipment	2.134.388	329.594		(845.613)		1.618.369
Other goods						
Other	26.543	2.061.620		550.781	10.504	2.628.440
Total	3.402.383	3.622.461		–	10.504	7.014.340

Fixed assets mainly consist of technical equipment for the creation of internal networks and equipment for site setup, servers, personal computers, and call center equipment.

The limited purchase of technical equipment with respect to the corporate activities carried out is due to the fact that the main investments (telephone exchanges and routers) were procured by means of financial leasing and operating lease.

The column “other changes” shows the transfer of accounting entries carried out in 2000, with the aim of obtaining an improved, more appropriate classification of accounting entries compared to the statements as at 31 December 1999.

Changes during the financial year, as regards depreciation of fixed assets are as follows:

Depreciation	Balance 12.31.1999	Depreciation	Write downs	Other changes	(Disposals)	Balance 12.31.2000
Plants and machinery						
Plants and machinery	189.522	395.740				585.262
Industrial and trade equipment						
Industrial and commercial equipment	256.759	265.820				522.579
Other goods						
Other	5.178	304.118			(4.013)	305.283
Total	451.459	965.678			(4.013)	1.413.124

The changes which occurred during the financial year with reference to the net value of fixed assets are as follows:

Net book value	Balance 12.31.1999	Additions	Revaluations and other	(Depreciation write downs)	(Disposals)	Balance 12.31.2000
Plants and machinery						
Plants and machinery	1.051.930	1.231.247	294.832	(395.740)		2.182.269
Industrial and trade equipment						
Industrial and commercial equipment	1.877.629	329.594	(845.613)	(265.820)		1.095.790
Other goods						
Other	21.365	2.061.614	550.781	(304.118)	(6.491)	2.323.151
Total	2.950.924	3.622.455		(965.678)	(6.491)	5.601.210

III. Long-term investments

1) Participations

As of 31 December 2000, this account included participations in subsidiary companies amounting to approximately EUR 2.257 million, participations in affiliated companies equal to EUR 1,5 million and participations in other companies for a total of EUR 0.156 million.

The tables below display the detailed balance sheet entries and changes thereto with respect to the same period of the previous FY, as well as the listing of the company's participations in subsidiary and affiliated companies pursuant to art. 2427, point 5 of the Italian Civil Code.

Investments

Subsidiaries

	Cost	12.31.2000 Reval. (deval.)	B/S value	Cost	12.31.1999 Reval. (deval.)	B/S value
Best Engineering S.p.A.	5.642.683		5.642.683			
Ideare S.p.A.	6.745.478		6.745.478			
Informedia S.p.A.	557.773	(101.046)	456.727	387.343		387.343
Motorcity S.p.A.	500.285		500.285			
Nets SA	17.720.372		17.720.372	7.433.000		7.433.000
Quinary S.p.A.	23.559.126		23.559.126			
STS S.r.l.	3.227.856		3.227.856			
Tiscali Belgium Holding SA	57.000		57.000			
Tiscali Datacomm AG (formerly Datacomm AG)	63.682.015	(3.860.692)	59.821.323			
Tiscali Finance SA	125.061		125.061			
Tiscali France SA (formerly A Telecom SA)	121.365.462	(25.494.313)	95.871.149			
Tiscali Germany GmbH (formerly Nikoma GmbH)	283.475.330	(16.661.769)	266.813.561			
World Online	1.752.050.951		1.752.050.951			
Andaledda S.p.A.	87.798		87.798	87.798		87.798
Energy Byte S.p.A.	522.500		522.500	55.000		55.000
Tiscali Czech Republic sro	38.984		38.984			
Tiscali Telecomunicaciones SA	2.100.000		2.100.000			
Connect Software Inc.	1.000.008		1.000.008			
C D Telekomunikace sro	20.371.776		20.371.776			
Andala S.p.A. (formerly Andala UMTS)				92.962		92.962
Netobe S.p.A. (formerly Almanacco S.p.A.)				103.291		103.291
Totale	2.302.830.458	(46.117.820)	2.256.712.638	8.159.394		8.159.394

Affiliated companies

	Cost	12.31.2000 Reval. (deval.)	B/S value	Cost	12.31.1999 Reval. (deval.)	B/S value
Gilla S.p.A.	1.250.000		1.250.000	1.250.000		1.250.000
FreeTravel S.p.A.	250.000		250.000			
	1.500.000		1.500.000	1.250.000		1.250.000

Other companies

	Cost	12.31.2000 Reval. (deval.)	B/S value	Cost	31.12.1999 Reval. (deval.)	B/S value
Crs4	125.650		125.650			
Consorzio Green Management	5.165		5.165	5.165		5.165
Mix S.r.l.	1.000		1.000	1.000		1.000
Stud Soc. Consortile	15.000		15.000			
Nets Broadband S.p.A.	8.834		8.834			
	155.649		155.649	6.165		6.165

Non-current financial assets – changes

The changes in the composition of participations during FY 2000 are listed in the table below.

Subsidiaries

	Balance 12.31.2000	Increases	(Disposals)	Reval. (deval.)	Other changes	Balance 12.31.1999
Best Engineering S.p.A.		5.642.683				5.642.683
Ideare S.p.A.		6.745.478				6.745.478
Informedia S.p.A.	387.343	170.431		(101.046)		456.728
Motorcity S.p.A.		500.285				500.285
Nets SA	7.433.000	10.287.372				17.720.372
Quinary S.p.A.		23.559.126				23.559.126
STS S.r.l.		3.227.856				3.227.856
Tiscali Belgium Holding SA		57.000				57.000
Tiscali Datacomm AG (formerly Datacomm AG)		63.682.015		(3.860.692)		59.821.323
Tiscali Finance SA		125.061				125.061
Tiscali France SA (formerly A Telecom S.A.)		121.365.462		(25.494.313)		95.871.149
Tiscali Germany Gmbh (formerly Nikoma Gmbh)		283.475.330		(16.661.769)		266.813.561
World Online		1.752.050.951				1.752.050.951
Andaledda S.p.A.	87.798					87.798
Energy Byte S.p.A.	55.000	467.500				522.500
Tiscali Czech Republic sro		38.984				38.984
Tiscali Telecomunicaciones SA		2.100.000				2.100.000
Connect Software Inc.		1.000.007				1.000.007
C D Telekomunikace sro		20.371.776				20.371.776
Andala S.p.A. (formerly Andala UMTS)	92.962	2.902.488	(2.995.450)			
Netobe S.p.A. (formerly Almanacco S.p.A.)	103.291		(103.291)			
	8.159.394	2.297.769.805	(3.098.741)	(46.117.820)		2.256.712.638

The increases shown with respect to 31 December 1999, totalling approx. EUR 2,298 million, are due to the European expansion process started in the last months of 1999 and which continued in FY 2000. A summary description of the main features of each company and the manner of acquisition is provided in the following.

On the other hand, decreases are due to disposals carried out (EUR 3 million approx) and to write downs amounting to EUR 46 million. Disposals consisted in the main of the transfer of shares of the subsidiary company Andala S.p.A. to the Hutchison Whampoa Group (51%) and to the subsidiary Tiscali Finance S.A. (25.5%). Tiscali's interest in the Consortium was thus diluted to 0.3% following the increase in share capital carried out on 5 December 2000 and not per for the portion pertaining to it; indeed, under a shareholders' agreement signed with the Hutchinson Whampoa Group, Tiscali could elect to either finance its share of the cost of acquiring the UMTS licence and rolling out the UMTS network itself or require the Hutchison Whampoa Group to bear Tiscali's proportion thereof. Tiscali has elected for the Hutchison Whampoa Group to meet its share of the financial obligations. At all events, Tiscali will retain the right to rebuild its shareholding at a later stage through repaying its share of the cost met by the Hutchison Whampoa Group, plus interest and certain other costs. Any such repayments would take place over the 24 months following a ward of a licence and the large majority of any such repayment would not fall due until the end of this period.

Writedowns were posted against the share of losses incurred by the Subsidiaries Tiscali Datacomm AG, Tiscali France S.A. and Tiscali Germany Gmbh during FY 2000, applying the adjusted cost valuation criteria.

Moreover, during the FY, in the framework of the Belgian companies reorganization plan, the company Link Line S.A. was acquired (later renamed Tiscali Belgium S.A.) which was subsequently transferred, in December 2000, to the newly established Tiscali Belgium Holding N.V. The disposal was effected at book value, and is part of the Belgian operation reorganization plan aimed at optimizing synergies.

Details on the main participations held by the company as at 31 December 2000 are listed in the following.

Best Engineering S.p.A.

In July 2000, Tiscali acquired 60% of the outstanding capital stock of Best Engineering S.p.A. an Italian company, for EUR 5.2 million, paid in exchange for 82,000 ordinary shares of Tiscali stock. Best Engineering developed the first on-line mapping service in Italy and currently supplies services to several public transportation agencies throughout Italy. With this acquisition Tiscali plans to develop a multi-access portal in which all sorts of territory-specific information, such as the location of shops and tourist sites, can be organized and offered through the Web and, in the future, UMTS mobile phones.

Ideare S.p.A.

In February 2000 Tiscali acquired 60% of Ideare S.r.l., which was converted into Ideare S.p.A. in August 2000, an Italian share company, in exchange for 3,877 ordinary shares of Tiscali stock (38,770 shares after the 1:10 split of Tiscali's shares in April 2000). Ideare is the owner of SearchTone technology, a search engine providing advanced solutions for internet searching. The suite of SearchTone products includes an advanced spidering system, a Web search engine providing multimedia files such as MP3. It also includes functions of automatic web-page classification. Owing to its thoroughness, high reliability and precision, the SearchTone search engine is already being used by several important companies operating on the internet both in Italy and abroad. Founded in January 1999 as a spin-off of the EUROSEARCH European research project, Ideare is managed by its three founding partners, Antonio Gulli and Domenico Dato, Managing Director and Technical Manager, respectively, and Giuseppe Attardi, a professor at the Department of Computer Science of Pisa. Ideare plans to develop its business abroad by supplying its search services on the international portal market as an Application Service Provider (ASP), similarly to Google and Inktomi.

Informedia S.r.l.

In June 1999, Tiscali acquired 100% of Informedia S.r.l., an Italian limited liability company, for EUR 400,000 approximately. Informedia was acquired to support the plans for developing the e-commerce services sector and specialises in on-line payment systems. This year "Willage" will become a virtual shopping mall open to all small and medium sized commercial business. Thanks to a banking, logistic and insurance platform, enterprises will be able to carry out business transactions on the internet at very low costs. Tiscali's revenues from "Willage" will initially consist of sales commissions.

Motorcity S.p.A.

Motorcity was formed in March 2000 and is owned by Tiscali (60%), Distribution Service S.r.l. (28 %) and Mr. Samuele Ferrario (12 %). It was created for the purpose of creating, developing and managing an internet portal related to automotive information and sports events and the commercialisation of various products and services connected to the automotive and motorcycling world.

NETs S.A.

In December 1999, Tiscali acquired the entire outstanding share capital of NETs S.A., a French company, in exchange for 3,306 shares in Tiscali (33,060 Tiscali Shares after the 1:10 split in April, 2000) and EUR 4 million in cash. Established in 1998, NETs is a pan-European broadband telecommunications operator and owns a fibre optic network, managed with DWDM technology, comprising a link between Paris and London. By using the latest DWDM equipment on its network, NETs is able to increase the normal capacity of one optic fibre by a factor of 80; such an enhanced fibre can convey about 6.25 million simultaneous phone calls. The company intends making the most of the opportunities offered by deregulation and technological advances in the telecommunications sector. With its operations situated on one of Europe's major routes, it is currently deploying major extensions of its network throughout Europe. A Northern loop is already complete at the moment and loops in Southern Europe are under construction and are expected to be operational in 2001 linking the main cities in France, Switzerland and Italy. Tiscali will employ NETs' network and know-how in order to link the current and future national projects through which Tiscali is going to replicate its business model in various other European countries.

Quinary S.p.A.

In July 2000, Tiscali acquired 70% of the outstanding capital stock of Quinary S.p.A., an Italian company, for ITL 45.5 billion/EUR 23.5 million, paid in exchange for 516,866 ordinary shares of Tiscali stock. Quinary specializes in the integration of software and hardware technologies and offers custom designed solutions for its clients. Quinary has three business divisions: e-commerce, wireless applications and knowledge management and language technologies.

STS S.r.l.

In February 2000, Tiscali acquired 50% of STS S.r.l., an Italian limited liability company, for ITL 5 billion/EUR 3.2 million in cash. STS is a leading operator in the planning and design of networks for fixed and wireless telecommunications, and it offers other services such as consulting, quality management and auditing linked to the information technology area. STS has been operating in this sector since 1989 and has important clients such as Autostrade, Wind, Omnitel and Enel. STS will also support Andala in the technical planning for the UMTS license and Tiscali with respect to its wireless local loop design and deployment.

Tiscali Belgium Holding S.A.

This company was set up in December 2000, with a share capital of EUR 62,000 by the parent company for the purpose of reorganising its Belgian operations. As at 31 December 2000 Tiscali S.p.A. held 92% of the shares, while the remaining 8% is held by the subsidiary company Tiscali Finance S.A. Tiscali Holding Belgium S.A. is currently the parent company of Tiscali Belgium S.A. (formerly Link Line).

Tiscali Belgium S.A. (formerly Link Line)

In February 2000, Tiscali acquired the entire outstanding share capital of Link Line S.A., a Belgian company, in exchange for 46,280 shares in Tiscali (462,800 Tiscali Shares after the 1:10 split in April 2000) and warrants to acquire an additional 10,518 shares in Tiscali (105,180 Tiscali Shares after the 1:10 split in April 2000). Warrants for a further 105,180 Tiscali Shares have also been issued to Link

Line employees. Link Line offers free Internet access and a wide range of services, from web mail to community services to over 110,000 registered subscribers in Belgium. Until recently, Link Line worked primarily as an ISP under the Freegates.be trademark.

In April 2000, Tiscali, through its subsidiary Link Line, acquired the entire outstanding share capital of Interweb S.A., a Belgian company, in exchange for 19,467 shares in Tiscali (194,670 Tiscali Shares after the 1:10 split in April 2000). Interweb is one of Belgium's leading ISPs and the owner of FreeBel, the first web portal to offer free access to the internet in Belgium, starting in August 1999. Interweb, only months after launching the FreeBel free access service to internet, already has more than 85,000 registered subscribers.

These subscribers also use various other services such as web mail, FTP (a software protocol used to transfer files between computers), community services and information. As of July 2000, Tiscali Belgium and Interweb started providing free access to the internet in Belgium together under the TiscaliNet trademark.

As stated above, in December 2000 the company was transferred to Tiscali Belgium Holding.

Tiscali DataComm S.A. (formerly DataComm)

In January 2000, Tiscali acquired 80% of the outstanding capital stock of DataComm S.A., a Swiss company, in exchange for 113,897 ordinary shares of Tiscali stock (1,138,970 shares after the 1:10 split of Tiscali's shares in April 2000) and 5 million Swiss Francs in cash. Established in 1995, DataComm is a leading independent ISP in Switzerland, offering dial-up access to over 98,000 registered subscribers, leased-line access, web consulting and hosting. It also manages two internet cafés in Zurich and Bern. DataComm will be linked to the rest of the Tiscali European network through Tiscali's planned Southern Loop, a fiber optic ring connecting France, Switzerland, Italy and Spain which is scheduled to be completed in the last half of 2000 or, by the start of 2001 at the latest. In July 2000, DataComm launched TiscaliNet in Switzerland. In July 2000, Data Comm changed its name to Tiscali DataComm AG.

Tiscali Finance S.A.

Tiscali Finance S.A., established in May 2000, is based in Luxembourg and has a share capital of ERU 125,000. In the summer of 2000 it issued a bonded loan of EUR 250 million entirely guaranteed by Tiscali S.p.A., lasting five years and to be settled with a single repayment.

Tiscali France S.A.

In March 2000, Tiscali acquired all of the outstanding capital stock of A Telecom S.A., a French company, in exchange for 419,534 Tiscali Shares (4,195,340 shares after the 1:10 split of Tiscali's shares in April 2000). A Telecom, based in Marseille, has been active in the telecom sector since 1997. The company holds French government licenses to provide all fixed-line telecommunication services (internet, voice, networking) and in December 1999 signed a reverse interconnection agreement with France Télécom. This agreement, has formed the basis of the FreeNet (free internet access) development in France, further strengthens the value of A Telecom's network. This network includes 18 POPs, enabling the company to cover the whole of France. A Telecom, which has reached 1 million minutes voice traffic per day, has until now concentrated its activity on business customers. Tiscali is expanding A Telecom's internet related operations and is focusing its activities on the internet market. In July 2000, A Telecom launched TiscaliNet in France which will be an internet access service without any subscription or other fees, similar to that already provided in Italy by Tiscali. In the last months of 2000 A Telecom S.A. was renamed Tiscali France S.A.

Tiscali Germany GmbH (formerly Nikoma)

In April 2000, Tiscali acquired 92% of the outstanding capital stock of Nikoma Beteiligungsgesellschaft GmbH, a German company, in exchange for 364,853 Tiscali Shares (3,648,530 shares after the 1:10 split of Tiscali's shares in April 2000). Certain former shareholders of Nikoma subsequently exercised a put option to sell to Tiscali their remaining 8% of capital stock of Nikoma in exchange for 32,459 ordinary shares of Tiscali stock (324,590.48 shares after the 1:10 split of Tiscali Shares in April 2000). Nikoma, based in Hamburg, is a leading German ISP and telecommunications service provider. In addition to dial-up access, web hosting and unified messaging, Nikoma offers voice services and value-added multimedia services. It has built a reputation for high speed internet access, leveraging its extensive network infrastructure and content based services such as Gamesurf, a leading German online gaming platform. In 1999, the company had gross revenues of EUR 15 million. As part of its international strategy, Tiscali will link Nikoma with other European countries through its proprietary fiber ring (Northern Loop). Nikoma currently has approximately 256,000 registered subscribers. In July 2000, Nikoma launched TiscaliNet in Germany. TiscaliNet is an internet access service without any subscription or other fees, similar to that already provided in Italy by Tiscali. In July 2000, Nikoma also changed its name to Tiscali Germany GmbH.

World Online International N.V.

In November 2000 Tiscali launched a public exchange offer on the whole share capital of World Online International N.V. The offer was declared honoured on December 7th 2000. Upon completion of the Offer and its extensions, Tiscali owns 99,5% of world Online Share capital.

World Online is one of the largest and fastest growing internet network communications companies in Europe, with 4,2 million registered subscribers and 2.5 million active subscribers as of September 30, 2000. It operates in the following fifteen countries: the Netherlands, France, Denmark, South Africa, Belgium, Spain, Switzerland, the Czech Republic, Italy, Norway, Sweden, the United Kingdom, Germany, Austria and Luxembourg.

World Online launched its internet operations in the Netherlands in 1996 and offers a full range of internet and network services for business and consumer customers. These include a communications platform providing access, portal services, e-commerce and advertising and business-to-business services.

World Online has been officially listed on Euronext since its initial public offering on March 17, 2000. Following successful completion of the Offer by Tiscali, World Online has been delisted on January 2001. Tiscali is currently carrying out the integration with World Online activities. Upon completion of the integration process, Tiscali envisages to have a single operational entity in each country.

Energy Byte S.p.A.

Energy Byte S.p.A. was established in November 1999 as a web contents provider in the e-commerce sector. In particular, in the year 2000, it has produced the highly successful game Energy Bank, for which a designated web site was created. The remaining 45% stake is held by Marton S.r.l. The increase in value during FY 2000 was due to the inclusion in the share capital of payments made on the account: future shareholding increases.

Tiscali Telecomunicaciones S.A.

Tiscali Telecomunicacione S.A. was set up in February 2000 with a share capital of EUR 100,000 euro, which was increased by EUR 2 million in April 2000. The company operates in the communications and Internet services sectors.

Connect Software Inc.

In December 2000, Tiscali S.p.A. acquired 100% of Connect Software Inc., a joint-stock company based in San Francisco (California) which, using an especially innovative technology, has created a system for Voice surfing on the Internet, called Voce Viva. The price for the take over, amounting to about EUR 1 million will be paid by means of 37,175 newly issued Tiscali shares.

C.D. Telekomunikace sro

CD-Telekomunikace, which already holds a Czech government licence to offer telecommunications services, represents a strategic purchase in Tiscali's expansion into Eastern and Central European countries. The company is the exclusive holder of rights granted by the Czech Railways for the laying and operation of an optical fibre network along the Czech Republic's entire railway network, which covers some 9,600 kilometres. As a partial derogation of the adjusted cost valuation criterion, this company is listed at its purchase cost as delays in the stipulation of the share transfer agreement prevented the delivery of the shares and consequently official passage of ownership. The ensuing dispute was resolved in 27 March 2001 by the acquisition of a further 20% – thus allowing Tiscali to exercise its control over C.D. Telekomunikace as of that date, and involved an extra cost of approx. EUR 1.5 million.

Andala S.p.A. (formerly UMTS)

Established in November 1999 (in 2001 it was renamed Hutchinson 3G Italia), this is the holding company of Andala 3G S.p.A., the company which was awarded the UMTS license in October, 2000. The following changes occurred during FY 2000: the stake of Tiscali, which initially held 90% of outstanding share capital, for EUR 92,962, fell to 58%, following an increase in share capital which diluted the capital, with a book value of EUR 2,995,450. In July 2000, FB Net Holding BV exercised its pre-emption rights at par value for the purchase of 5% of the company, on the basis of agreements signed on incorporation between Tiscali S.p.A. and Franco Bernabè, the shareholder representing Fb Net Holding BV. The following transfers occurred subsequently:

a stake worth Euro 103,291, equal to the book value, and another worth EUR 1,313,205, equal to the book value, were transferred to the Hutchinson Wampoa Group, realizing gains of EUR 1,179,657. A further stake, with a par value of EUR 1,316,965, was transferred to subsidiary company, Tiscali Finance S.A., realizing gains of EUR 1,183,035. This inter-Group operation was carried out on the basis of appropriate appraisals

Associated companies

	Balance 12.31.1999	Increases	(Disposals)	Reval. (deval.)	Other movem.	Balance 12.31.2000
Gilla S.p.A.	1.250.000					1.250.000
FreeTravel S.p.A.		250.000				250.000
	1.250.000	250.000				1.500.000

Gilla S.p.A. was set up in the last days of 1999 and registered in 2000. This entity, set up as a joint venture with the Finnish company Sonera Corporation – has a share capital of EUR 2.5 million. It is developing a Call Center offering telephone directory services for the public. The call centre service will be established on the basis of Tiscali's interconnection agreement with Telecom Italia and its development will be the product of the combination of the advanced telecommunications know-how of the two companies.

'The increase recorded in FY 2000 is due to the establishment of the company Freetravel S.p.A., on 14 March 2000, as a 50/50 joint venture with UVET S.p.A.. The company, with a share capital of EUR 500,000 provides on-line ticket and tourist package services.

Other companies

	Balance 12.31.1999	Increases	(Disposals)	Reval. (deval.)	Other changes	Balance 12.31.2000
Crs4		125.650				125.650
Consorzio Green Management	5.165					5.165
Mix S.r.l.	1.000					1.000
Stud Soc. Consortile		15.000				15.000
Nets Broadband S.p.A.		8.834				8.834
	6.165	149.484				155.649

As regards Nets Broadband, it should be pointed out that Tiscali S.p.A. owns 10% of its shares, while the remaining 90% is held by Nets. S.A. a subsidiary of Tiscali S.p.A. which holds 100% of its shares. Therefore, Tiscali's indirectly owns 100% of Nets Broadband.

Additional information

Investments in group companies

Company name	Head office	Share capital	Shareholders' equity	Profit (Loss)	% held	Carrying value
Best Engineering S.p.A.	Turin	775.000	796.619	16.092	60%	5.642.683
Ideare S.p.A.	Pisa	516.457	2.816.135	177.471	60%	6.745.478
Informedia S.p.A.	Rome	51.646	77.025	(44.005)	100%	456.727
Motorcity S.p.A.	Cagliari	100.000	209.144	(330.856)	60%	500.285
Nets SA	Paris	11.283.834	7.926.912	(934.297)	100%	17.720.372
Quinary S.p.A.	Milan	120.506	375.980	78.097	70%	23.559.126
STS S.r.l.	Rome	20.658	705.064	124.004	50%	3.227.856
Tiscali Belgium Holding SA	Brussels	62.000	42.000	(20.000)	92%	57.000
Tiscali Datacomm AG (formerly Datacomm AG)	Basil	16.497.962	12.812.722	(3.790.970)	80%	59.821.324
Tiscali Finance SA	Brussels	125.000	(2.587.447)	(2.712.447)	100%	125.061
Tiscali France SA (formerly A Telecom SA)	Marseilles	923.000	(1.805.313)	(13.720.412)	100%	95.871.149
Tiscali Germany GmbH (formerly Nikoma GmbH)	Hamburg	554.750	2.531.590	(17.790.130)	100%	266.813.561
World Online	Maarsen (Neth)	115.519.093	1.487.679.921	(539.575.026)	97%	1.752.050.951
Andaledda S.p.A.	Cagliari	103.291	95.697	(7.273)	85%	87.798
Energy Byte S.p.A.	Milan	950.000	502.741	(439.218)	55%	522.500
Tiscali Czech Republic sro	Prague	28.533	(300.596)	(329.129)	100%	38.984
Tiscali Telecomunicaciones SA	Madrid	2.100.000	1.665.782	(434.218)	100%	2.100.000
Connect Software Inc.	S. Francisco (California)	53.589	53.589	-	100%	1.000.008
C D Telekomunikace sro	Prague	16.946	(580.720)	(173.236)	80%	20.371.775
						2.256.712.638

The differences between recorded book value and the subsidiaries' shareholder's equity is considered to be justified by the positive economic outlook for the sector and the potential benefits of the initiatives under way. Moreover, as concerns the company STS S.r.l. a situation of control is determined in practice, since the President and C.E.O., as well as majority shareholder of Tiscali S.p.A., holds a further 10% of the same company.

Affiliated companies

Company name	Head office	Share capital	Shareholders' equity	Profit (Loss)	% held	Carrying value
Gilla S.p.A.	Cagliari	2.500.000	1.787.848	(712.152)	50,00%	1.250.000
FreeTravel S.p.A.	Milan	500.000	365.151	(134.849)	50,00%	250.000
						1.500.000

C) CURRENT ASSETS

I. Inventories

Following is a schedule of changes in the inventory:

	12.31.2000	12.31.1999	Change
Raw, ancillary and consumable materials			
Telephone cards and various consumables	213.126	106.181	106.945
Goods for resale	555.661	861.634	(305.973)
	768.787	967.815	(199.028)

Goods for resale are mainly accessories for the Voicespring service.

II. Receivables

Receivables are broken down as follows:

	12.31.2000	12.31.1999	Change
EC customers	65.041.919	24.052.929	40.988.990
Non EC customers less: bad debt provision	(5.691.446)	(312.053)	(5.379.393)
Total	59.350.473	23.740.876	35.609.597

Receivables from customers arise from the sale of telephone and Internet services mainly consisting of the invoicing of inverse interconnection traffic and advertising revenues. Generally speaking, the sharp increase of receivables from customers is linked to the rapid expansion of activity. The item "UE customers" includes receivables accruing as at 31 December from Telecom S.p.A., totalling EUR 14 million.

In order to align the value of receivables with that of the presumed market value, the receivables depreciation fund has been set at approx. EUR 5.7 million.

Analysis of receivables based on maturity

The schedule hereunder displays, for each balance item pertaining to receivables, the amounts divided by the periods in which they fall due. When it can be reasonably expected that the date of actual receipt of sums will be considerably different from the contractual date the expected date is taken into account for classification purposes.

	12.31.2000			12.31.1999		
	Receivables coming due			Receivables coming due		
	within 1 year	1 to 5 years	beyond 5 years	within 1 year	1 to 5 years	beyond 5 years
Receivables						
Trade accounts	59.350.473			23.740.876		
Due from group companies	59.879.255			1.477.161		
Due from associated companies	48.610			11.879		
Due from others	12.151.141	219.708		5.163.243	4.147.534	
	131.429.479	219.708		30.393.159	4.147.534	

Receivables from group companies

Receivables from group companies are broken down as follows:

	Receivables from group companies		Total
	< 1 year	> 1 year	
Group companies			
Best Engineering S.p.A.			
Ideare S.p.A.			
Informedia S.r.l.	336.759	–	336.759
Motorcity S.p.A.	521.727	–	521.727
Nets SA	39.886	–	39.886
Quinary S.p.A.		–	
STS S.p.A.		–	
Tiscali Holding Belgium SA	34.320.796	–	34.320.796
Tiscali Datacomm AG (formerly Datacomm AG)	1.225.722	–	1.225.722
Tiscali Finance SA	27.062	–	27.062
Tiscali France SA (formerly A Telecom SA)	988.767	–	988.767
Tiscali Germany GmbH (formerly Nikoma GmbH)	3.047.973	–	3.047.973
World Online		–	
Andaledda S.p.A.	1.134	–	1.134
Tiscali Telecomunicaciones S.A.	717.404	–	717.404
Tiscali Czech republic s.r.o.	428.925	–	428.925
CD Telekomunikace s.r.o.	18.223.100	–	18.223.100
	59.879.255		59.879.255

Receivables from group companies are mainly referred to commercial operations pertaining to the re-debiting of costs for the acquisition of user licenses and for advertising. Receivables from Tiscali Holding Belgium S.A. are due to the sale of the subsidiary Tiscali Belgium S.A. in December 2000. The transaction was carried out in the framework of the plans for corporate reorganisation of Dutch operations, as explained above.

Analysis of other receivables

Other receivables are broken down as follows:

	Financial		Trade	
	Balance 12.31.2000	Balance 12.31.1999	Balance 12.31.2000	Balance 12.31.1999
Receivable within one year				
Withholding taxes			388.576	179.134
Receivables from employees			9.113	
Other receivables			24.887	23.684
VAT receivable			11.669.372	4.585.424
Other receivables			59.193	375.001
			12.151.141	5.163.243
Receivable after one year				
Receivables from the Treasury for advance taxes				4.007.036
Deposits			219.708	140.498
Other receivables		10.000.000		
		10.000.000	219.708	4.147.534
Total		10.000.000	12.370.849	9.310.777

The account "Other receivables" posted in the Balance sheet, amounting to EUR 12,370,849 is essentially referred, for the amount payable within the following financial year, to receivables from the Treasury for VAT and advance withholding taxes paid on active interests for current accounts. On the other hand, receivables beyond the following financial year include caution deposits, while in the previous FY, they included EUR 10 million assigned to Tiscali France (former A Telecom) to strengthen its assets and used by the same company during FY 2000.

III. Investments other than non-current assets

	12.31.2000
Other securities	9.250.673
	9.250.673

This account includes Italian securities issued by Cariplo and purchased for subsequent un-freezing. These bonds are posted at their purchase cost.

IV. Cash and cash equivalents

On 31 December 2000 cash and cash equivalents are broken down as follows:

	12.31.2000	12.31.1999
Bank and postal deposits	1.409.471	100.063.056
Cash and other negotiable instruments	5.458	7.281
	1.414.929	100.070.337

Cash and cash equivalents for a total of EUR 1.4 million consist in the main of year-end liquid assets on bank current accounts. The decrease from the previous FY is due to the investments made for the acquisition of foreign companies in the framework of the European expansion project, already described with respect to the posting of shareholdings, and is also due to the financial support given to those same companies.

D) ACCRUED INCOME AND DEFERRED CHARGES

Following is a summary of accrued income and deferred charges:

	12.31.2000	12.31.1999	Change
Accrued income			
Other accrued income		1.249	(1.249)
Total		1.249	(1.249)
Prepayments			
Insurance premiums	47.808		47.808
Financa lease rental payments	2.429.036	2.303.828	125.208
Rents	21.591	22.656	(1.065)
Prepaid expenses	3.052.461	3.954.577	(902.116)
Other prepayments	371.732		371.732
Total	5.922.628	6.281.061	(358.433)
Total	5.922.628	6.282.310	(359.682)

The account "Prepaid expenses" mainly pertains to costs incurred for advance payments made for the rental of direct numerical circuits (CDN) from Telecom Italia.

LIABILITIES

A) SHAREHOLDERS' EQUITY

Statement of changes in shareholders' equity

The schedule below provides a summary of changes in the shareholders' equity accounts for the period.

	Balance 12.31.1999	Allocation of earnings	Distributed dividends	Other changes	Balance sheet result	Balance 12.31.2000
Share capital	806.396			766.866		1.573.262
Share premium reserve	142.659.076			2.249.681.264		2.392.340.340
Revaluation reserve						
Retained earnings (losses)		(5.536.691)				(5.536.691)
Net profit (loss) for the year	(5.536.691)	5.536.691			(101.001.800)	(101.001.800)
Total	137.928.781			2.250.448.130	(101.001.800)	2.287.375.111

As of 31 December 2000 the company's share capital was ITL 3,046,260,820 (EUR 1,573,262) consisting of No 304,626,082 ordinary shares with nominal value of ITL 10 each.

The increases of the share acpital and of the share premium reserve pertain to the capital increases carried out during FY 2000 for the purposes of acquisitions of italian and foreign subsidiaries against the issue of shares. A total of No 148,486,082 new shares were issued in FY 2000, for a total nominal value of ITL 1,484,860,820 (EUR 766,866). At the same time, the share premium reserve increased by EUR 2,249,681,264.

Changes in share capital are listed below with specification of the transaction to which they are referred.

	Issue date	Nr. of shares issued	Increase of share capital
Acquisition NET'S S.A.	03.28.2000	33.060	171
Acquisition A TELECOM S.A. (renamed TISCALI FRANCE S.A.)	03.30.2000	4.195.340	21.667
Acquisition LINK LINE S.A. (renamed TISCALI BELGIUM S.A.)	04.13.2000	462.800	2.390
Acquisition IDEARE S.p.A.	04.14.2000	38.770	200
Acquisition DATACOMM AG (renamed TISCALI DATACOMM AG)	04.12.2000	1.138.970	5.882
Acquisition INTERWEB Sprl first part	04.28.2000	75.500	390
Acquisition INTERWEB Sprl second part	04.28.2000	119.170	615
Acquisition NIKOMA GMBH (renamed TISCALI GERMANY)	04.28.2000	3.648.510	18.843
Conversion nr. 115.773 Warrants (10 shares each W.)	12.05.2000	1.157.730	5.979
Acquisition CD TELEKOMUNIKACE sro	07.13.2000	291.180	1.504
Conversion nr. 5.000 Warrants (10 shares for each W.)	07.18.2000	50.000	258
Acquisition QUINARY S.p.A.	07.31.2000	516.866	2.671
Acquisition company branch ANNUNCI GRATUITI.it	07.31.2000	4.138	21
Acquisition BEST ENGINEERING S.p.A.	07.31.2000	82.000	423
NIKOMA – Put Option – (First part)	10.10.2000	294.208	1.519
WORLDONLINE– public exchange offer on wol.	12.15.2000	136.347.460	704.176
NIKOMA – Put Options – (Second part)	12.15.2000	30.380	157
		148.486.082	766.866

The increase in share capital of 12 May and 18 July for a total of 1,207,730 shares was deliberated by the extraordinary shareholders' meeting of 25 October 1999. This increase was carried out to allow the issue of subscriptiona warrants (up to a mawimum of 120,773) made out to ABN AMRO bank N.V. according to agreement signed by Tiscali S.p.A. with tis bank on 9 August 1999. Each warrant entitled the holder to underwrite one Tiscali S.p.A. share.

Share capital composition (No. shares-thousands)

Category	12.31.1999	Increase	(Decrease)	12.31.2000
Ordinary shares (No.)	156.140.000	148.486.082		304.626.082
Total	156.140.000	148.486.082		304.626.082

B) RESERVES FOR RISKS AND FUTURE LIABILITIES

Reserves for risks and future liabilities are detailed below:

	Balance 12.31.1999	Provisions	Writebacks	Other movements	Balance 12.31.2000
Provision for foreign exchange losses	9.795		(9.737)		58
Reserves for risks and future liabilities		12.489.845			12.489.845
Total	9.795	12.489.845	(9.737)		12.489.903

The account “reserves for risks and future liabilities” essentially includes the sum set aside in the FY against the risk entailed by the agreement stipulated with Procter & Gamble for the provision of telephone traffic (subordinated to the activation of the cards distributed by that company through its sales outlets. Other amounts included in this account are: the allocation linked to a prize-winning op-

eration, called “Microportal”, under way as at 31 December 2000; the reserve for agents’ allowances; a risk fund to balance possible losses on directly and indirectly controlled companies.

During FY 2000, the “Foreign Exchange Fluctuation Fund” was utilised in part. No provisions were necessary as at 31 December 2000 since the debit and credit entries did not produce a negative balance.

C) CHANGES IN STAFF SEVERANCE INDEMNITY RESERVE

The table below displays the changes which occurred during the financial year:

	Balance 12.31.1999	Provisions	(Writebacks)	Other changes	Balance 12.31.2000
Workers	262	4.781			5.043
Clerical staff	186.060	533.311	(68.016)		651.355
Executives	16.403	69.776			86.179
Total	202.725	607.868	(68.016)		742.577

This reserve consists of the actual amount payable by the company to its employees as at the dates shown net of advance payments made. The writebacks are indemnities paid to employees who resigned during the FY.

D) LIABILITIES

Analysis of payables by due date

	12.31.2000 Within 1 year	12.31.1999 Within 1 year
Due to banks	11.129.226	124
Due to other financiers	5.676	
Trade accounts	68.925.230	34.133.150
Due to group companies	57.927.257	237.336
Due to associated companies	1.050.000	875.000
Taxes payable	413.829	157.196
Due to social security authorities	336.197	104.212
Other payables	1.035.701	3.844.979
	140.823.116	39.351.997

The account due to bank refers to current account costs. Against the liabilities posted, outstanding bank credit lines amount to EUR 18 million.

Trade accounts payable show a strong increase with respect to the previous year, which is linked to the rapid growth of the activity, in line with the company’s expansion. Main suppliers are leasing companies, advertising firms, connectivity providers and telephone traffic providers.

Payables to group companies mainly include the financial debit towards Tiscali Finance S.A. posted against several financing operations received in the second half of FY 2000.

Payables to affiliated companies are mainly to be attributed to the residual arrears to be paid to Gilla S.p.A.

The item “other payables” mainly refers to the amount payable to the shareholders of Connect Software, which was acquired by means of an agreement dated 18 December 2000 for an amount of about EUR 1 million. With this agreement, Tiscali pledged to deliver newly issued shares. The increase in share capital required for the issue of new shares was deliberated by the extraordinary assembly of 12 March 2001.

Intercompany payables

Taxes payable due to group companies are detailed as follows:

	Financial payables		Commercial payables		Total
	< 1 year	> 1 year	< 1 year	> 1 year	
Subsidiary companies					
Best Engineering S.p.A.			29.890		29.890
Ideare S.p.A.			354.083		354.083
Informedia S.p.A.			217.854		217.854
Motorcity S.p.A.		42.000			42.000
Tiscali Belgium Holding SA		57.000			57.000
Tiscali Belgium S.A. (formerly Link Line S.A.)		6.148.952			6.148.952
Tiscali Datacomm AG (formerly Datacomm AG)			3.258		3.258
Tiscali Finance SA	50.942.249				50.942.249
Andaledda S.p.A.		56.294			56.294
Energy Byte S.p.A.			75.677		75.677
Total		57.246.495	680.762		57.927.257

Payables to subsidiary companies, with the exception of the amount payable to Tiscali Finance S.A. described above, refer to the residual arrears to be paid into the subscribed capital account. The other payables refer to trade relations, in particular to advertising services and miscellaneous portal services.

Analysis of taxes payable

	12.31.2000	12.31.1999	Change
Payables to the Treasury for advance withholding taxes	413.829	116.525	297.304
Other taxes		40.671	(40.671)
Total	413.829	157.196	256.633

Taxes and duties payable to the Treasury consist mainly of advance withholdings on personal income taxes (IRPEF).

Accrued liabilities and deferred income

Following is a summary of accrued income and deferred charges:

	12.31.2000	12.31.1999	Change
Accrued liabilities			
Employee holidays owed	1.036.162	255.443	780.719
Other		8.358	(8.358)
Total	1.036.162	263.801	772.361
Deferred income			
Prepaid voice services	1.610.494	4.596.690	(2.986.196)
Total	1.610.494	4.596.690	(2.986.196)
	2.646.656	4.860.491	(2.213.835)

This account includes, for about EUR 1 million the accrued liabilities for employee holidays owed, and, for about EUR 1.6 million, deferred income against prepaid services. The deferred charges on "prepaid voice services" posted as at 31 December 1999, for an amount of EUR 4.5 million was affected by the high volume of sales in the last months of 1999, following the expansion of the telephone service in the national territory.

MEMORANDUM ACCOUNT

Guarantees issued

This account consists in the main of the guarantee issued for the benefit of the underwriters of the bonded loan issued by the subsidiary Tiscali Finance S.A. for an amount of EUR 250 million.

Commitments

They refer to financial leasing and operating lease charges with a contractual duration of 30 to 60 months. As at 31 December, the total amount was EUR 45.9 million.

Moreover, as at 31 December there was the commitment to issue shares for the completion of the public exchange offer on World Online shares for a total of EUR 53 million.

Guarantees received

They include in the main a surety of EUR 5 million issued by Banca di Sassari in favour of Telecom Italia S.p.A. pursuant to the interconnection agreement, as well as lesser sureties totalling EUR 0.1 million approx.

PROFIT AND LOSS STATEMENT

A) VALUE OF PRODUCTION

Analysis of sales and services

This account increased by EUR 87 with respect to the previous FY, and includes the following line items:

Analysis by category of business

	12.31.2000	12.31.1999	Change
Access	48.150.881	12.672.280	35.478.601
Voice services	44.584.000	19.976.421	24.607.579
Business Services	3.480.000	58.100	3.421.900
Merchandising and E-Commerce	6.446.000		6.446.000
Advertising			
Other services	17.428.000	19.824	17.408.176
	120.088.881	32.726.625	87.362.256

The increase in sales and services revenues is a result of the sharp growth of net accesses, which have brought a longer interconnection time and an increment in telephone traffic, on line advertising and other mainly business services, such as housing, hosting and domain sales.

Moreover, all sales were made in the EU area, and EUR 17.2 million accrued from sales & services to group companies as detailed below:

Intercompany sales and services

Revenues accruing from sales and services to group companies are detailed hereunder:

Intercompany receipts

	12.31.2000
Company	
Informedia S.p.A.	658.483
Motorcity S.p.A.	5.270
Tiscali Belgium Holding SA	1.193.623
Tiscali Datacomm AG (formerly Datacomm AG)	1.225.722
Tiscali Finance SA	27.062
Tiscali France SA (formerly A Telecom SA)	988.767
Tiscali Germany GmbH (formerly Nikoma GmbH)	3.047.971
CD Telekomunikace s.r.o.	10.088.000
	17.234.898

These revenues derive mainly from the re-debiting of expenses incurred for the purchase of user's licenses, network equipment and advertising for the benefit of subsidiary companies, in the framework of group management and the attendant economies of scale.

Other income

	12.31.2000	12.31.1999
Other income	891.629	73.772

"Other Income" refers mainly, for Euro 843.495, to revenues from the provision of general and administrative services to Andala S.p.A. and, for EUR 48.134, profits accruing from differences in currency exchange rates.

B) PRODUCTION COSTS

Analysis of purchases of materials purchase of raw materials, supplies and consumables

Description	12.31.2000	12.31.1999	Change
Purchase of sales goods	260.301	183.572	76.729
Purchase of consumable materials	676.052	1.607.559	(931.507)
Purchase of publicity and promotion materials	495.502	556.014	(60.512)
Other purchases	5.325.986	261.566	5.064.420
	6.757.841	2.608.711	4.149.130

"Other Purchases" also covers the expenses for the Czech Republic cabling project launched out in April 2000; the subsidiary CD Telekomunikace s.r.o. is invoiced for its costs.

Analysis of expenses for the provision of services

Description	12.31.2000	31.12.1999
Rental of telephone lines	28.669.755	10.361.885
Procurement of traffic	30.916.827	15.867.361
Advertising and promotion expenses	34.544.995	2.603.380
Maintenance costs	3.927.893	116.397
Advisory services	2.086.242	805.253
Costs sales	2.912.276	1.647.596
Utilities	457.835	
Bank and postal charges	391.280	
Travel and transport fees	2.236.361	257.348
Other services	11.051.695	846.053
	117.195.159	32.505.273

Services expenses for the accounting period show a sharp growth, correlated to the increase in revenues. Overall, costs have been affected also by the launch of new services and the management and development of the existing ones.

The most relevant items of the balance sheet:

- *Advertising and Promotion Expenses*, amount to EUR 34.5 million. The sharp increase in costs of such an item is due to the Company strategy of brand diffusion and launching of new products. As a precaution, no advertising campaign expenses are stated among the long term expenditure.
- *Rental of Telephone Lines*. The charge of EUR 28.7 million refers to the rental of national and international circuits arranged for the running of the Data and Telephony Network. Its increase with respect to revenues has been less than proportional.
- *Procurement of Traffic*, the cost is based on the calls made by the client which determines the variable interconnection cost and not on the grouping or targeting of the call.
- *Maintenance expenses*, mainly from contracts for telephone exchange maintenance, routers, softwares and other network equipment.
- *Other Services expenses*, are mainly referred to the Czech Republic cabling project costs, which are re-invoiced to CD Telekomunikace.

Intercompany production costs

The following costs were incurred with respect to group companies:

Company	12.31.2000
Best Engineering S.p.A.	29.890
Ideare S.p.A.	88.658
Informedia S.p.A.	660.543
Motorcity S.p.A.	346.026
Total	1.125.117

This account mainly regards costs incurred for the services provided by subsidiaries linked to advertising, the production of content and other services for the portal.

	12.31.2000	12.31.1999
Costs for use of third party assets	9.733.898	1.692.631

The amount includes costs related to financial leasing for EUR 5.8 million, operating renting for EUR 2.4 million and rent for office and technical premises.

Personnel cost

Description	12.31.2000	12.31.1999
Wages and salaries	9.962.584	2.903.970
Social contribution	965.095	215.552
Staff leaving indemnity	607.868	180.571
Other costs	26.751	20.122
	11.562.298	3.320.215

Other operating costs

Description	12.31.2000	12.31.1999	Change
Excise licences and other concessions	236.161		236.161
Other taxes	94.995	183.430	(88.435)
Subscriptions	59.805		59.805
Other minor expenses	348.077	276.820	71.257
	739.038	460.250	278.788

C) FINANCIAL INCOME AND CHARGES

Analysis of intergroup financial income

The following financial income accrued from the group companies

Company	Dividends	Interest	Others	Total
Informedia S.p.A.		6.053		6.053
Nets SA		13.973		13.973
Tiscali France SA (formerly A Telecom SA)		749.800		749.800
Tiscali Germany GmbH (formerly Nikoma GmbH)		34.090		34.090
CD Telekomunikace s.r.o.		302.889		302.889
Tiscali Belgium S.A. (formerly Link Line)				
Total		1.106.805		1.106.805

Analysis of other financial income

Description	12.31.2000	12.31.1999	Changes
From securities listed under current assets which do not constitute participations	558.727		558.727
Income other than the above	819.428	661.734	157.694
	1.378.155	661.734	716.421

Financial income from “securities listed under current assets which do not constitute participations” refer, for EUR 212,197, to interest accruing on Cariplo EUR 346,530, to revenues accruing in FY 2000 on swaps.

Interest and financial charges

	12.31.2000	12.31.1999
From associated companies		
Interest	2.612.947	–
Total	2.612.947	–

Interest payable accrued on financing received from Tiscali Finance S.A.

Interest and other financial charges

Description	12.31.2000	12.31.1999	Changes
Financial charges			
Bank overdrafts	281.981	98.096	183.885
Other loans	67.762	81.145	(13.383)
Trade accounts	132.384		132.384
Realized exchange losses	457.227		457.227
Bank commissions and expenses		117.102	(117.102)
Other expenses	42.478	132	42.346
Total	981.832	296.475	685.357

This account mainly consists of losses on currency exchange and of the charges for current account overdrafts. Financial charges payable to other backers refer to interest payable matured on two credit lines acquired during FY 2000 but which had been cancelled as of 31 December 2000.

Moreover, it is stressed that bank commissions and charges have been more adequately reclassified under costs for services.

D) VALUATION ADJUSTMENT OF FINANCIAL ASSETS

The devaluations of participatinos and other financial assets are posted and commented above, in the section pertaining to non-current financial assets.

E) EXTRAORDINARY INCOME AND CHARGES

Composition of extraordinary income

Description	12.31.2000	12.31.1999	Change
Extraordinary gains			
Miscellaneous gains	299.780	215	299.565
Total	299.780	215	299.565
Gains on sales of fixed assets			
Gains on sales of investments	1.938.423		1.938.423
Total	1.938.423		1.938.423

Extraordinary gains for EUR 1.9 million pertain to the sale of shares of Andala 3G S.p.A. (formerly Andala UMTS S.p.A.) to the Hutchinson Wampooa group (51%) and to the subsidiary Tiscali Finance S.A. (25.5%).

Composition of extraordinary charges

Description	12.31.2000	12.31.1999	Change
Extraordinary losses			
Miscellaneous charges	2.040.813	51.138	1.989.675
other extraordinary charges	21.401	1.181	20.220
	2.062.214	52.319	2.009.895
Losses on sales of fixed assets			
Losses on sales of tangible assets	9.000		
Total	9.000		
Taxes relating to prior years			
Other taxes relative to prior years		4.007.036	
Total		4.007.036	

The account extraordinary charges refers in the main to the active deferred taxes calculated as at 31 December 1999. Indeed, as explained in the introduction to these statements, at Chapter 2) Valuation criteria, point o) Income taxes, during FY 2000 the company changed the accounting treatment of the credit posting for deferred taxes, in compliance with the commitment made at the time of launching the Public exchange offer for World Online N.V.

Indeed, this company, like the other group companies, does not take over in the financial statements receivables accruing for active deferred taxes.

The change in the posting method resulted in the posting of a contingent liability for FY 2000 of EUR 4,007,036 corresponding to the amount of credits for active deferred taxes that can be deferred indefinitely to subsequent years posted during FY 1999.

The following breaks down deferred taxes accrued in FY 2000:

	FY and deferred taxes as at 31 December 2000			Total
	From deferrable losses	From temporary differences in the FY	From temporary difference of previous FY	
FY taxes				
Advance corporate income tax	(12.332.759)	(23.551.468)	(4.006.411)	(39.890.638)
Advance IRAP		(3.336)	(161)	(3.497)
Deferred corporate income tax				
Deferred IRAP				
	(12.332.759)	(23.554.804)	(4.006.572)	(39.894.135)
<i>of which, from indefinitely recordable differences</i>				
From losses 1997/1999				3.936.605
From taxed credit risk fund				6.527.243
			Corp. income tax	10.463.848

For information purposes, we communicate that if the criterion had not been changed, the company would have had to record receivables for indefin active deferred taxes for a total of EUR 10,463,848, thus posting in FY 2000 receivables of EUR 6,456,812.

The total amount of deferred active taxes, including those that are not indefinitely deferrable, is EUR 39,894,135 mainly deriving from losses of FY 2000.

The effects of the change in the posting method on the company's equity, economic and financial position are the following:

- 1) less credit for taxes at item C-II 5) receivables from others (decreased by EUR 10,463,848);
- 2) greater FY loss (EUR 10,463,848);
- 3) No effect on the company's financial position.

OTHER INFORMATION

As required by current regulations, the tables below disclose the composition of the work force by job category, and the amounts paid to Company Directors and Statutory Auditors.

Average number of employees

Category	Average 12.31.2000	12.31.2000	Average 1999	12.31.1999
Factory workers	4	6	2	2
Intermediary workers	22	29	14	14
Office workers	395	572	218	218
Managers	14	18	9	9
	435	625	243	243

Pursuant to article 78 of the regulations implementing Leg Decree 58/1998 issued by Consob with deliberation no. 11971/99 the tables below show the remuneration paid to directors and auditors and the number of shares held by each.

Name	Position	Duration of appointm.	Remuneration	Non monetary benefits	Bonuses and other incentives	Other incentives
Board of directors						
President and Soru Renato	CEO ⁽¹⁾	06.30.1999-12.31.2000 ⁽¹⁾				
Bernabè Franco	Director	06.30.2000-12.31.2000				
Decina Maurizio	Director	06.30.1999-12.31.2000				
Hauser Hermann	Director	06.30.1999-12.31.2000				
Piol Elserino	Director	06.30.1999-12.31.2000				
Board of auditors						
Andrea Zini	Director ⁽²⁾	04.17.2000-12.31.2000				
Rita Casu	Statutory auditors Chairman ⁽³⁾	11.30.1998-12.31.2000	38.877			
Piero Maccioni	Statutory auditors	06.30.1999-12.31.2000	21.268			
Giuseppe Biondo	Alternate auditors ⁽⁴⁾	11.30.1998-06.30.2000	28.025			
Livio Bianchi	Alternate auditors	04.17.2000-12.31.2000				

(1) CEO from 21/07/99 until revoked.

(2) Director since April 17, 2000.

(3) Director until April 17, 2000.

(4) Alternate auditors since April 17, 2000.

Companies indirectly held

World Online Holdings (UK) Plc. (U.K.)	United Kingdom	80.000	World Online International N.V.	100%
World Online Ltd. (U.K.)	United Kingdom		World Online International N.V.	100%
World Online Uk Ltd. (UK)	United Kingdom	110.000	World Online International N.V.	100%
World Online Telecom Ltd. (U.K.)	United Kingdom	176.000	World Online International N.V.	100%
World Online Holding S.A. (CH)	Switzerland	3.283.000	World Online International N.V.	100%
CZ COM s.r.o. (Czech Republic)	Czech Republic	8.492.000	World Online International N.V.	100%
World Online sro (Czech Republic)	Czech Republic	18.000	World Online International N.V.	100%
World Online Denmark A/S (Denmark)	Denmark	67.000	World Online International N.V.	100%
World Online s.r.l. (Italy)	Italy	1.000.000	World Online International N.V.	80%
Vodacom World Online (Pty) Ltd. (RSA)	South Africa	37.705.000	World Online International N.V.	60%
World Online GmbH (Germany)	Germany	25.000	World Online International N.V.	100%
World Online GesmbH (Austria)	Austria	18.000	World Online International N.V.	100%
Ready Soft S.A. (Spain)	Spain	3.018.000	World Online International N.V.	100%
World Online France SA (France)	France	13.720.000	World Online International N.V.	100%
World Online SA (Luxembourg)	Luxembourg	18.000	World Online International N.V.	100%
World Internet Online SL (Spain)	Spain	18.000	World Online International N.V.	100%
World Online AS (Norway)	Norway	12.000	World Online International N.V.	100%
World Online AB (Sweden)	Sweden	11.000	World Online International N.V.	100%
World Online Oy (Finland)	Finland	18.000	World Online International N.V.	100%
World Online N.V. (Belgium)	Belgium	3.000.000	World Online International N.V.	100%
Nacamar Group plc. (U.K.)	United Kingdom	95.000	World Online International N.V.	100%
Freemail B.V. (NL)	Netherlands	18.000	World Online International N.V.	100%
The Internet Plaze B.V. (NL)	Netherlands	18.000	World Online International N.V.	100%
World Online B.V. (NL)	Netherlands	41.000	World Online International N.V.	100%
The Portal Company B.V. (NL)	Netherlands	55.000	World Online International N.V.	100%
World Online Partner B.V. (NL)	Netherlands	18.000	World Online International N.V.	100%
World Online Portal B.V. (NL)	Netherlands	18.000	World Online International N.V.	100%
World Online Merchandising B.V. (NL)	Netherlands	18.000	World Online International N.V.	100%
World Online Merchandising LLC	United States		World Online International N.V.	
WOLStar B.V. (NL)	Netherlands	20.000	World Online International N.V.	100%
E-Trade B.V.	Netherlands	18.000	World Online International N.V.	
12MOVE Vof	Netherlands		World Online International N.V.	60%
World Online Greece	Greece	18.000	World Online International N.V.	100%
World Online Hungary	Hungary	4.000	World Online International N.V.	100%
World Online Poland	Poland	1.000	World Online International N.V.	100%
Nets Ltd	Uk	71.163	Nets S.A.	100%
Nets Broadband	Spain	3.000.000	Nets S.A.	100%
Nets GmbH	Germany	25.000	Nets S.A.	100%
Nets Broadband S.p.A.	Italy	100.000	Nets S.A.	90%
A Telecom Enterprise S.A	France	79.000	Tiscali France S.A.	100%
Trastel S.A.	France	76.000	Tiscali France S.A.	100%
Taxiphone S.A.	France	8.000	Tiscali France S.A.	100%
M.C.I. S.A.	France	11.000	Tiscali France S.A.	100%
Tiscali GmbH	Germany	25.564	Tiscali Germany GmbH	100%
SDI Informationstechnik GmbH	Germany	25.564	Tiscali Germany GmbH	100%
Tiscali Games GmbH	Germany	25.000	Tiscali Germany GmbH	100%
Brand Gate	Germany	25.000	Tiscali Germany GmbH	65%
Time to Trade GmbH	Germany	25.000	Tiscali Germany GmbH	100%
Finanzdirekt 24	Germany		Tiscali Germany GmbH	60%
Tiscali Voice GmbH	Germany		Tiscali Germany GmbH	100%
Tiscali Technics GmbH	Germany		Tiscali Germany GmbH	100%
Tiscali Belgium S.A. (formerly Link Line)	Belgium	4.938.061	Tiscali Holding Belgium S.A.	99,98%
Asepi S.A.	Spain	3.005	Tiscali Telecomunicaciones S.A.	100%
Oem S.A.	Spain	15.025	Tiscali Telecomunicaciones S.A.	100%

Share composition	Number of shareholders
1 to 5,000 shares	19.067
5,001 to 10,000 shares	48
da 10,001 to 50,000 shares	91
more than 50,000	71
	19.277

FINANCIAL STATEMENT ANALYSIS

In order to provide a better understanding of the Company's operations and financial position, the financial statements have been supplemented with the reclassified balance sheet, the reclassified statement, and the statement of changes in financial position. The balance sheet has been reclassified in accordance with a criterion of increasing liquidity, and states total current assets and total as to allow for an accurate valuation of the overall financial position. The reclassified profit and loss statement has been drawn up in a scalar format, and with respect to the profit and loss state basis of regulatory criteria, it shows aggregates which make up the operating margin, with no changes being made in the disclosure of expenses. The statement of changes in financial position purpose of providing a structured disclosure of the most significant changes in the balance sheet accounts. The statement of changes in financial position is organized according to financial flows the accounting adopted by the Italian accounting profession (Consiglio Nazionale dei Dottori Commercialisti e dei Ragionieri).

Balance sheet analysis

In order to provide a better understanding of the Financial Statements, the following tables contain a short analysis of the Balance Sheet and the Profit and Loss Account.

ASSETS	12.31.2000	%	12.31.1999	%	Change	Change %
Current assets						
Cash and banks	1.414.929		100.070.337		(98.655.408)	-98,59%
Receivables	131.429.479		30.393.159		101.036.320	332,43%
Inventory	2.340.988		967.815		1.373.173	141,88%
Prepayments and accrued income	5.922.628		6.282.310		(359.682)	-5,73%
Other current assets	9.250.673				9.250.673	
Total current assets	150.358.697	6,15%	137.713.621	75,52%	12.645.076	9,18%
Non-current assets						
Fixed assets	5.601.210		2.950.924		2.650.286	89,81%
Intangible assets	29.529.461		18.126.151		11.403.310	62,91%
Investments and securities	2.258.368.287		9.415.559		2.248.952.728	23885,49%
Other non current assets	219.708		14.147.534		(13.927.826)	-98,45%
Total non-current assets	2.293.718.666	93,85%	44.640.168	24,48%	2.249.078.498	5038,24%
TOTAL ASSETS	2.444.077.363	100,00%	182.353.789	100,00%	2.261.723.574	1240,29%

LIABILITIES AND S. EQUITY	12.31.2000	%	12.31.1999	%	Change	Change %
Current liabilities						
Overdrafts	11.129.226		124		11.129.102	8.975.082,26%
Trade creditors	68.925.230		34.133.150		34.792.080	101,93%
Other creditors	60.354.831		5.061.527		55.293.304	1.092,42%
Accrued liab. and deferred income	2.646.656		4.860.491		(2.213.835)	-45,55%
Taxation creditors	413.829		157.196		256.633	163,26%
Total current liabilities	143.469.772	5,87%	44.212.488	24,25%	99.257.284	224,50%
Long term liabilities						
Loans						
Staff leaving indemnity	742.577		202.725		539.852	266,30%
Reserves for risks and charges	12.489.903		9.795		12.480.108	127.413,05%
Total long term liabilities	13.232.480	0,54%	212.520	0,12%	13.019.960	6.126,46%
Total liabilities	156.702.252	6,41%	44.425.008	24,36%	112.277.244	252,73%
Shareholders' equity:						
Share capital	1.573.262		806.396		766.866	95,10%
Reserves	2.386.803.649		142.659.076		2.244.144.573	1.573,08%
Net profit (loss) for the year	(101.001.800)		(5.536.691)		(95.465.109)	1.724,23%
Total shareholders' equity	2.287.375.111	93,59%	137.928.781	75,64%	2.149.446.330	1.558,37%
TOTAL	2.444.077.363	100,00%	182.353.789	100,00%	2.261.723.574	1.240,29%

ANALYSIS OF PROFIT AND LOSS ACCOUNT

Profit and loss account

	12.31.2000	%	12.31.1999	%	Change	Change %
Net sales	120.088.881	100,00%	32.726.625	100,00%	87.362.256	266,95%
Operating costs:						
Purchases	(6.757.841)	(5,63%)	(2.608.711)	(7,97%)	(4.149.130)	159,05%
Services rendered	(117.195.159)	(97,59%)	(32.505.273)	(99,32%)	(84.689.886)	260,54%
Amortization/depreciations	(6.858.124)	(5,71%)	(2.629.531)	(8,03%)	(4.228.593)	160,81%
Labour costs	(11.562.298)	(9,63%)	(3.320.215)	(10,15%)	(8.242.083)	248,24%
Increase (decrease) in inventories	(199.028)	(0,17%)	852.943	2,61%	(1.051.971)	-123,33%
Other running costs	(28.342.174)	(23,60%)	(2.448.215)	(7,48%)	(25.893.959)	1.057,67%
Operating result	(50.825.743)	(42,32%)	(9.932.377)	(30,35%)	(40.893.366)	411,72%
Financial income	2.484.960	2,07%	663.457	2,03%	1.821.503	274,55%
Financial charges	(3.594.779)	(2,99%)	(296.475)	(0,91%)	(3.298.304)	1.112,51%
Miscellaneous income	3.129.832	2,61%	73.987	0,23%	3.055.845	4.130,25%
Miscellaneous charges	(52.196.070)	(43,46%)	(52.319)	(0,16%)	(52.143.751)	99.665,04%
Result before taxes	(101.001.800)	(84,11%)	(9.543.727)	(29,16%)	(91.458.073)	958,31%
Income taxes						
- current						
- deferred			4.007.036	12,24%	(4.007.036)	-100,00%
PROFIT(LOSS) FOR THE F.Y.	(101.001.800)	(84,11%)	(5.536.691)	(16,92%)	(95.465.109)	1.724,23%

Cash flows generated from operations

	12.31.2000		12.31.1999	
Net loss for the financial year		(101.001.800)		(5.536.691)
<i>Adjustments for accounts not affecting cash flow</i>				
Depreciation and amortization	6.858.124		2.629.282	
Provision to staff severance indemnity reserve	607.868		180.760	
Staff severance indemnities paid during the period	(68.016)		(3.615)	
Provision (use) of reserve for risks and future liabilities	12.480.108	(81.123.716)	9.813	(2.720.451)
<i>Changes in current assets and liabilities</i>				
Amounts due from customers	(101.036.320)		(28.556.968)	
Other receivables	(9.250.673)		206.583	
Inventories	(1.373.173)		(853.187)	
Accrued income and deferred charges	359.682		(5.384.580)	
Trade accounts payable	34.792.080		31.046.290	
Other liabilities	55.293.304		4.814.411	
Accrued liabilities and deferred income	(2.213.835)		4.065.549	
Reserve for taxes payable	256.633	(3.294.218)	103.808	8.258.146
Cash flows generated from operations		(104.296.018)		2.721.455
<i>Cash flows from investment activity</i>				
Net book value of assets sold	6.491			
Purchase of fixed assets	(3.622.455)		(2.783.971)	
Increases in intangible assets	(18.101.219)		(18.741.188)	
increase decrease in investments	(2.248.952.728)	(2.270.669.911)	(9.415.526)	(30.940.685)
<i>Cash flows from financing activity</i>				
New loans				
Reimbursement of loans				
Capital increases	2.250.448.130		140.256.266	
Dividends paid				
Reduction (increase) in other non-current assets	13.927.826	2.264.375.956	(14.147.304)	126.108.962
Increase (decrease) in cash & cash equivalents		(110.589.973)		97.889.732
Cash and cash equivalents – opening balance		100.070.213		2.180.481
Cash and cash equivalents – closing balance		(9.714.297)		100.070.213

★ ★ ★

These financial statements, which consist of the Balance Sheet, the Profit and Loss Statement and the Notes to the Financial Statements, provide a fair presentation of the financial position and the period referenced herein.

For the Board of Directors
The President
Renato Soru



Reports

**“REPORT OF THE BOARD OF AUDITORS TO THE GENERAL MEETING
OF SHAREHOLDERS PURSUANT TO ARTICLE 153 OF LEG. DECREE 58/98
AND ARTICLE 2429, PARAGRAPH 3, OF THE CODE OF CIVIL PROCEDURE”**

To the Shareholders
of TISCALI S.p.A.

During the financial year ending at 31 December 2000, we performed monitoring and control actions as established by law, in accordance with the principles of board of auditors activity as recommended by the National Councils of Auditors and Accountants. In detail:

- We took part in meetings of the Board of Directors and obtained from them quarterly reports on activity performed and on the operations of major economic, financial and patrimonial importance carried out by the company and its subsidiaries;
- We acquired and checked, within the sphere of our mandate, details on the correctness of the organisational structure of the company and the due application of correct principles of administration, by means of direct observation, the collection of information from personnel responsible for organisational functions and meetings with the auditing company with the aim of ensuring a reciprocal exchange of pertinent data and information;
- We evaluated and monitored the suitability of the internal control system and the administrative and accounting principles adopted, as well as the guarantees offered by this system in the correct presentation of operating performance data, by means of information obtained from the company officers responsible for the respective branches of company activity, the perusal of company documents and the analysis of the results of the work performed by the auditing company;
- We checked the correct application and observance of the contents of laws pertaining to the composition and lay out of the financial statements, the consolidated financial statements and the reports on operating performance by means of direct checks and information obtained from the auditing company.

The information received in the course of the periodic meetings held with management and the auditing company served to confirm what had already been noted during our checks, that is the change in the complexity in quantitative terms of the information for presentation. The Company is aware of the requirement to upgrade further its organisational structure, its administrative and accounting system and its internal control system in general terms, a series of upgrades rendered necessary both by the extremely rapid growth of the Group due to the various acquisitions carried out during the year 2000 and to the increase in the volume of its activity. Therefore, it has placed this process of upgrading among its primary objectives. This process which is still under way, will require additional time and further effort also at group level. In fact, a specific structure has been identified within the group, tasked with the management of relations with the various subsidiary and/or associated companies present throughout Europe.

In closing, we wish to state that Deloitte & Touche, the auditing company, has informed us that their reports are nearing completion and that, at the present time, they see no impediment to their issue.

In the course of our monitoring activity, as described above, no significant facts worthy of reporting to control bodies or mention in this report emerged.

Cagliari, 11 April 2001

The Board of Auditors
(signed) Dr. Andrea Zini
Dr. Rita Casu
Dr. Piero Maccioni

**AUDITOR'S REPORT IN ACCORDANCE WITH
ARTICLE 156 OF LEGISLATIVE DECREE OF FEBRUARY 24, 1998, No. 58**

To the Shareholders
of Tiscali S.p.A.

We have audited the consolidated financial statements of Tiscali S.p.A. as of December 31, 2000. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the Auditing Standards recommended by CONSOB, the Italian Stock Exchange Commission. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

For the opinion on the consolidated financial statements of the prior year, presented for comparison in accordance with legal requirements, reference should be made to the auditor's report issued by us on March 31, 2000.

In our opinion, the consolidated financial statements present fairly the financial position of the Group as of December 31, 2000, and the results of its operations for the year then ended, and comply with the principles which regulate the preparation of consolidated financial statements in Italy.

This report has been translated into the English language solely for the convenience of international readers.

Cagliari, April 11, 2001

DELOITTE & TOUCHE S.p.A.
Antonio Cocco
Partner

**AUDITOR'S REPORT IN ACCORDANCE WITH
ARTICLE 156 OF LEGISLATIVE DECREE OF FEBRUARY 24, 1998, No. 58**

To the Shareholders
of Tiscali S.p.A.

We have audited the financial statements of Tiscali S.p.A. as of December 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the Auditing Standards recommended by CONSOB, the Italian Stock Exchange Commission. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

For the opinion on the financial statements of the prior year, presented for comparison in accordance with legal requirements, reference should be made to the auditor's report issued by us on March 31, 2000.

In our opinion, the financial statements present fairly the financial position of the Company as of December 31, 2000, and the results of its operations for the year then ended, and comply with the principles which regulate the preparation of financial statements in Italy.

This report has been translated into the English language solely for the convenience of international readers.

Cagliari, April 11, 2001

DELOITTE & TOUCHE S.p.A.

Antonio Cocco

Partner



TISCALI S.p.A.

Viale Trento, 39 - 09123 Cagliari

Tel. +39.070.46.0111 - Fax +39.070.46.01400

e-mail: info@tiscali.it

www.tiscali.it