

# Tiscali Group

## Financial Report as of 30th September 2001

## **Composition of the Board of Statutory Auditors**

### **Board of Directors**

#### **Chairman**

Renato Soru

#### **Directors**

Franco Bernabè  
Victor Bischoff  
Maurizio Decina  
Simon Duffy  
Hermann Hauser  
James Kinsella  
Elserino Piol

### **Board of Auditors**

#### **Chairman**

Andrea Zini

#### **Auditors**

Rita Casu  
Piero Maccioni

#### **Alternate Auditors**

Giuseppe Biondo  
Livio Bianchi

### **Auditing Company**

Deloitte & Touche S.p.A.

## **Financial Report as of 30th September 2001 Tiscali Group**

### **Consolidated Profit and Loss Statement**

<b>Consolidated Profit and Loss Statement</b> <i>(Million of Euro)</i>	<b>30/09/2001</b> (3 months)	<b>30/09/2001</b> (9 months)	<b>30/09/2000</b> (3 months)	<b>30/09/2000</b> (9 months)
<b>Revenues</b>				
Access	121.7	290.9	20	44.9
Voice	18.1	40.5	15.1	48.3
Portal	20.0	40.9	1.7	4.3
Business services	25.1	58.7	7.8	13.7
Other revenues	5.2	17.9	8.2	10
<b>Total Revenues</b>	<b>190.1</b>	<b>448.9</b>	<b>52.8</b>	<b>121.2</b>
Operating Costs for Good and Services	(191.0)	(493.6)	(57.7)	(133.1)
Personnel Costs	(43.9)	(119.0)	(8.9)	(17.5)
<b>EBITDA</b>	<b>(44.8)</b>	<b>(163.7)</b>	<b>(13.8)</b>	<b>(29.4)</b>
Amortization of intangible and tangible assets	(53.1)	(110.4)	(11.5)	(28.7)
Goodwill amortization	(54.2)	(220.9)	-	-
Other provisions	(2.3)	(5.6)	(1.5)	(2.7)
<b>Operating Margin</b>	<b>(154.4)</b>	<b>(500.6)</b>	<b>(26.8)</b>	<b>(60.8)</b>

In the third quarter of this financial year consolidated revenues amount to 190.1 million Euro, showing an increase of 260% compared to the same period of last year, when they amounted to 52.8 million Euro. This increase is mainly due to the enlargement in the area of consolidation in the fourth Quarter 2000 and in the current year. Revenues have also increased by 15% in relation to the second Quarter 2001. Compared to half-year 2001 closing the consolidated area now includes: Planet Interkom, SurfEu, Inicia and Yucom (this incorporated to Tiscali Belgium). On the whole the seasonal effect, typical of the summer months, did not affect the company activities.

The increases derived from the upward trend of the internet access services (+500%), which are represented by revenues from kick-back reverse, from direct invoicing to the final customer, from portal (+ 1.076%), from Business services (+222%) and from Voice (+20%). Access revenues recorded an increase of about 24% compared to the second Quarter 2001.

The operating margin (EBITDA) amounts to -44.8 million Euro (23.5% on the revenues) before the extraordinary and restructuring charges incurred in the different countries to rationalize the operating activities, against 13.8 million Euro of the third Quarter 2000. Compared to the second Quarter 2001 EBITDA shows a decrease of 29%. This improve will allow Tiscali to reach the gross operating profit in the fourth Quarter.

Personnel costs amount to 43.9 million Euro showing an increase of 393.3% compared to the third Quarter 2000 because of the variation in the area of consolidation. There are 3004 staff employed against 3.320 on 30th June 2001. Compared to the previous Quarter 2001 the personnel costs have recorded a reduction of 3.1%, in spite of the expansion in the perimeter of consolidation.

The costs for the backbone (134 million Euro with an incidence on revenues of about 30%), the purchase of interconnection and traffic procurement from national and international telco operators (117 million Euro with an incidence on total revenues of 26%) can be considered among the most relevant costs at 30th September 2001.

In the first nine months of 2001 revenues of the group amount to 448.8 million Euro, an increase of 270% compared to the same period of 2000. The loss for the EBITDA is 163.7 million Euro against 29.4 million Euro on September 2000. On 30 September 2000 the loss was 287.5 million Euro in relation to the pro-forma result Tiscali + Worldonline.

On 30<sup>th</sup> September 2001 the active subscribers were about 7.2 millions against 1.3 millions in September 2000, with an increase of 453%. The minutes on-line in the third Quarter 2001 were 10.2 billions with a daily average of 130 millions of minutes in the month of September.

## **Consolidated Revenues**

<b>Consolidated Revenues</b> <i>(millions of Euro)</i>	<b>30/09/2001</b> (3 months)	<b>30/09/2001</b> (9 months)	<b>30/09/2000</b> (3 months)	<b>30/09/2000</b> (9 months)
<b>Revenues</b>				
Access	121.7	290.9	20.0	44.9
Voice	18.1	40.5	15.1	48.3
Portal	20.0	40.9	1.7	4.3
Business services	25.1	58.7	7.8	13.7
Other revenues	5.3	17.9	8.2	10.0
<b>Total Revenues</b>	<b>190.1</b>	<b>448.9</b>	<b>52.8</b>	<b>121.2</b>

Access revenues, which amount to 121.7 million Euro, affect the total amount of revenues for about 64%, having a primary role on the definition of the revenues mix on the whole. Portal and business services revenues influence respectively for 10.5% and for 13.2% the total amount of revenues, showing a strong growth compared to the previous year.

## **Group Net Financial Situation**

<b>Group Net Financial Situation</b> <i>(million of Euro)</i>	<b>30/09/2000</b> (9 months)	<b>30/06/2001</b> (6 months)	<b>30/09/2001</b> (9 months)
Liquid assets	196.0	978.1	791.7
Short-term payables	(3.7)	(167.3)	(171.2)
<b>Short-term Net financial position</b>	<b>192.3</b>	<b>810.8</b>	<b>620.5</b>
Long-term payables to third parties	(250.0)	(252.4)	(252.4)
<b>Net financial situation</b>	<b>(57.7)</b>	<b>558.4</b>	<b>368.1</b>

The short-term net financial position shows a positive amount of 620.5 million Euro, against 192.3 million Euro at 30th September 2000. The position at 30th September 2001, including medium and long-term payables amount to 368.1 million Euro. The absorption of the liquid assets has been caused by the important financial needs required by the operating activities and by the acquisitions completed during the period and by the relevant restructuring costs.

### **Relevant subsequent events occurred after the closing of the Quarter**

On 17th October 2001 Tiscali acquired from Belgacom through its subsidiary LibertySurf all the Internet activities of Infosource in France.

The French assets of Infosource that include infonie.fr and Lokace.fr represents one of the leading French ISP and portal, with approximately 250,000 active users and traffic close to 150 million minutes per month in September, 2001. The portal generates 35.8 million pages views (MMXI Source, September 2001). The acquired activities generated revenue of 14.6 million Euro during the first semester of 2001.

The transaction value amount to 5 million Euro in cash. An earn out of a maximum of Euro 5 million could be paid in early 2002, depending on the evolution of the active subscriber base.

Skynet and Infosources' Belgian Internet Service Provider activities, are not part the transaction and remain the ownership of Infosources.

The acquisition will contribute to strengthen the leadership of Tiscali in France, allowing to improve the operating margins and to reach the positive EBITDA. The transaction is expected to close before the end of November, 2001.

On 23rd October 2001 Tiscali Spa acquired from KIWI II Servicos de Consultoria S.A. and from QSC AG quoted on the Neuer Markt the 20% of the capital shares of Netchemya. The transaction value is Euro 4.55 million in cash.

This acquisition is in line with Tiscali's strategy of developing its ADSL access services through its own investments and network sharing agreements. In this context, an industrial partnership has been created which will allow Tiscali to provide ADSL services in Italy with minimal technical investment on its part, while maximising the efficiency of its infrastructure and technical investment.

With share capital of 22.75 million Euro, Netchemya is an Italian national operator providing wholesale broadband access services using XDSL technology to telecoms companies, ISPs and ASPs. Based in Milan, the company was formed by KIWI II and QSC AG, Europe's leading alternative carrier specialising in SDSL Services with a network of over 750 sites in Germany. Netchemya will offer network services such as access and broadband services based on XDSL technology, as well as traditional voice services.

Since January 2001, Netchemya has acquired over 200 of Telecom Italia's co-location sites and now has access coverage of over 3,800,000 lines in 29 Italian cities

Netchemya's network will begin with 15 POPs (rising to 25 in 2002) covering metropolitan areas in Italy, and a national interconnection backbone. The company's services will be available from the end of 2001.

On 7th November 2001 Tiscali signed the acquisition of the 40% stake in 12Move VOF held by Shell Online B.V. (Shell), Tiscali already held a 60% stake in 12Move. The transaction value is EUR 16 million in cash. 12move, the joint venture established in January 2000 between World Online and

Shell, is an ISP and portal with 450,000 active dial-up users. 12move is currently operational in the Netherlands, Denmark and Germany.

This acquisition is part of Tiscali's restructuring and rationalisation process. Tiscali and Shell as part of the agreement intend to explore the possibility of a pan-European distribution deal.

### **Expected development**

The restructuring actions allowed the achievement of important economies, which helped the improvement of EBITDA. On this assumption we believe that our achievement will improve on this positive trend.

### **Profit and Loss of the Parent Company**

<b>Profit and Loss of the Parent Company</b> <i>(Millions of Euro)</i>	<b>30/09/2001</b> (3 months)	<b>30/09/2001</b> (9 months)	<b>30/09/2000</b> (3 months)	<b>30/09/2000</b> (9 months)
<b>Revenues</b>				
Access	13.1	44.7	11,5	32,9
Voice	3.0	14.8	11.1	37.5
Portal	2.6	10.2	1,7	4,3
Business services	0.7	2.1	0,2	0,9
Other revenues	5.3	13.3	7.6	9,2
<b>Total Revenues</b>	<b>24.7</b>	<b>85.1</b>	<b>32.1</b>	<b>84.8</b>
Operating costs for good and services	(31.3)	(88.4)	(37.6)	(96.3)
Personnel costs	(5.2)	(14.6)	(3.1)	(7.5)
<b>EBITDA</b>	<b>(11.8)</b>	<b>(17.9)</b>	<b>(8.6)</b>	<b>(19.0)</b>
Amortization of intangible and tangible assets	(3.0)	(7.8)	(1.8)	(4.8)
Goodwill amortization				
Other provisions	(1.6)	(227.0)	(0.7)	(1.8)
<b>Operating margin</b>	<b>(16.4)</b>	<b>(252.7)</b>	<b>(11.1)</b>	<b>(25.6)</b>

At the end of the quarter, the gross operating margin (EBITDA) was Euro 11,8 million, including holding costs.

Excluding the holding costs and the adjustments in relation to the IAS n. 17 the operating margin as of 30th September 2001 would be positive for about 6.8 million Euro and because of the seasonal effect for the summer months negative for 0.2 million Euro in this last Quarter

The main costs at 30th September 2001, are represented by backbone costs (21.5 million Euro, an incidence on revenues of 25% ), traffic acquisitions costs (9.6 million Euro, an incidence on revenues of 11.3%) and advertising and promotional costs ( 9.6 million Euro, an incidence on revenues of 11.2%).

The personnel costs recorded a relevant increase of 169%, from 3.1 million Euro at 30th September 2000 to 5.2 million Euro in the third Quarter 2001. On 30th June 2001 there were 692 staff employed in the Parent Company; at 30th September 2001 there were 720.

### **Net Financial Situation of the Parent Company**

<b>Net Financial Situation</b> <i>(Million of Euro)</i>	<b>30/09/2000</b> (9 months)	<b>30/06/2001</b> (6 months)	<b>30/09/2001</b> (9 months)
Liquid Assets	54.2	11.4	27.5
Short-term payables	(0.5)	(6.8)	(16.9)
<b>Short term net financial Situation</b>	<b>53.7</b>	<b>4.6</b>	<b>10.6</b>

### **Revenues of the Parent Company**

<b>Revenues</b> <i>(Millions of Euro)</i>	<b>30/09/2001</b> (3 months)	<b>30/09/2001</b> (9 months)	<b>30/09/2000</b> (3 months)	<b>30/09/2000</b> (9 months)
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Business services	0.7	2.1	0,2	0,9
Other Revenues	5.3	13.3	7,6	9,2
<b>Total Revenues</b>	<b>24.7</b>	<b>85.1</b>	<b>32.1</b>	<b>84.8</b>

The revenues of the parent Company amount to 24.7 million Euro. Compared to the same quarter 2000, there has been a decrease, which is mainly caused by the decrease in voice revenues. These amounted to 11.1 million Euro in the third Quarter 2000 and now in the third Quarter 2001 amount to 3 million Euro.

The most important improvement in revenues is in the Internet area as a consequence of the relevant increase of subscribers.

The access revenues recorded an increase of 14% and portal revenues showed a growth of 53%.

For the Board of Directors

The Chairman  
Renato Soru