

# Tiscali Group

## Quarterly report at 31 March 2001

## **Corporate officers**

### **Board of Directors**

#### **Chairman**

Renato Soru

#### **Directors**

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

### **Board of Auditors**

#### **Chairman**

Andrea Zini

#### **Statutory auditors**

Rita Casu  
Piero Maccioni

#### **Alternate auditors**

Giuseppe Biondo  
Livio Bianchi

### **Auditing firm**

Deloitte & Touche S.p.A.

## Quarterly report of the Tiscali Group at 31 March 2001

### Group financial data

*Amounts in thousands of Euro*

<b>Description</b>	<b>31/03/01</b>	<b>%</b>	<b>31/03/00</b>	<b>%</b>
Revenues from sales and services	109,711	99.79%	22,629	99.76%
Other revenues and income	226	0.21%	55	0.24%
<b>Total revenues</b>	<b>109,937</b>	<b>100.00%</b>	<b>22,684</b>	<b>100.00%</b>
Operating costs for goods and services	(138,293)	(125.79%)	(22,335)	(98.46%)
Personnel costs	(29,770)	(27.08%)	(1,744)	(7.69%)
<b>Gross operating margin</b>	<b>(58,127)</b>	<b>(52.87%)</b>	<b>(1,395)</b>	<b>(6.15%)</b>
Depreciation of tangible and intangible assets	(89,474)	(81.39%)	(1,432)	(6.31%)
Other provisions	(3,095)	(2.82%)	(579)	(2.55%)
<b>Operating margin</b>	<b>(150,696)</b>	<b>(137.1%)</b>	<b>(3,406)</b>	<b>(15.01%)</b>

Revenues for the first quarter of 2001 totalled Euro 110 million, against Euro 22.7 million for the same period the previous year, an increase of 384%. This increase is mainly attributable to the change in the area of consolidation during 2000 and the heavy growth in revenues for the parent company.

These increases derive from positive trends in Internet access services (577%), mainly represented by billing of inverse interconnection traffic, revenues on portal services (5,216 %), business services (2,303 %) and voice services (less 5.76%).

The consolidated gross operating margin before depreciation and other provisions (EBITDA) stood at a negative balance of Euro 58.1 million (-52.9%), including extraordinary charges for reorganisation sustained in the various countries as a result of implementation of the plan to rationalise operating activities.

Labour costs totalled Euro 29.8 million, with growth influenced principally by the change in the area of consolidation. The workforce was 3,748, against 3,488 at 31 December, 2000.

The principal cost items included backbone costs of Euro 40.5 million (with an incidence of approximately 36.8% on revenues) and costs of interconnection and acquisition of traffic from national and international carriers of Euro 39.4 million (with an incidence of approximately 35.8% on total revenues).

Promotional and advertising expenses totalled Euro 28.2 million (25.6% of total revenues), in line with the reductions contemplated in the budget.

### **Breakdown of Group revenues**

*Amounts in thousands of Euro*

<b>Revenues</b>	<b>31/03/2001</b>	<b>%</b>	<b>31/3/2000</b>	<b>%</b>
Access services	71,235	64.80%	10,522	46.30%
Portal services	8,264	7.50%	155	0.70%
Business services	18,015	16.40%	749	3.30%
Voice services	10,489	9.50%	11,131	49.10%
Other services	1,934	1.80%	127	0.60%
<b>Total</b>	<b>109,937</b>	<b>100.00%</b>	<b>22,684</b>	<b>100.00%</b>

Revenues from access of Euro 71 million account for approximately 64.8% of total revenues, maintaining their role of primary importance in definition of the overall revenue mix. Revenues from portal and business services constitute 7.5% and 16.4% respectively of total revenues, with heavy growth compared with the previous year. The change in the revenue mix reflects evolving company strategy, aimed increasingly at developing revenues from portal services (advertising and e-commerce) and business services, while still maintaining an important role for revenues from access.

## **Net financial position of the Group.**

Amounts in thousands of Euro

	31/03/2001	31/12/2000	31/3/2000
	3 months	12 months	3 months
Liquidity	1,003,628	1,429,488	27,640
Payables to banks	(15,304)	(16,379)	(876)
<b>Short-term net financial position</b>	<b>988,324</b>	<b>1,413,109</b>	<b>26,764</b>
Long-term loans	(384,549)	(380,932)	-
<b>Net financial position</b>	<b>603,775</b>	<b>1,032,177</b>	<b>26,764</b>

The short-term net financial position showed a positive balance of Euro 988.3 million, against Euro 26.7 million for the first quarter of 2000. The net financial position, including medium and long-term payables, totalled a balance of Euro 603.7 million. Absorption of liquidity is justified by the operations to purchase the stake in Liberty Surf and by the Excite portal, as well as by losses for the period.

### **Important events occurring after the end of the quarter**

On 12 April, 2001, the company reached an agreement with VIAG Interkom for purchase of `nique-interkom, one of the leading ISPs and portals on the German market. Following this operation, Tiscali is set to become the fourth largest ISP on the German market, with over 1.2 million active users at 31 March, 2001. The operation has also consolidated the company's position at European level, allowing it to increase its active user base to 6 million at 31 March, 2001, with monthly Internet traffic exceeding 2.8 billion minutes and over 13 million registered users. Tiscali plans to integrate `nique-interkom into its German-based activities shortly, offering users the chance to take advantage of the wide range of services offered, including entertainment, information and communication services.

At the time of the agreement, `nique-interkom counted around 685,000 active users, with around 300 million minutes of traffic per month. The company is well-known for the high quality of the services it offers and was recently judged one of the best Internet-by-call providers by the specialist German press (Chip, PC `nique, Tomorrow, PC Magazin). `nique-interkom is a subsidiary of VIAG Interkom GmbH & Co., which belongs to the British Telecom group.

The reasons for this purchase include the fact the German Internet market constitutes around 24% of the entire European market (source: IDC). `nique advertising business in

Germany is expected to increase from the Euro 85 million achieved in 1999 to Euro 1.2 billion in 2003 (source: Forrester). Total e-commerce turnover is expected to increase from Euro 2 billion in 1999 to around Euro 22.5 billion in 2003 (source: IDC).

The `nique-interkom combination is also in line with Tiscali's strategy of Europe-wide expansion and strengthens its position as one of Europe's leading Internet company. The amount paid for the transaction was agreed as a combination of Euro 15 million in cash and 4,141,758 newly issued Tiscali shares, to a value of approximately Euro 77.1 million. The parties also made an agreement to seek further opportunities for business collaboration. On completion of the operation, the stake held by VIAG Interkom in Tiscali will be around 1.2%.

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On 24 April, 2001, Tiscali reached an agreement for the purchase of surfEU, one of Germany's leading ISP and portals, which also has a significant presence in Austria, Switzerland and Finland. Overall, the company had over 1.1 million registered users at 31 March, 2001, of which more than 600,000 were active. Around 85% of active users are in Germany. SurfEU develops, supplies and manages Internet access and portal services. The potential benefits of integrating the two businesses are believed to be considerable, partly in light of acquisition of `nique-interkom. This would make the Tiscali Group Germany's third largest ISP.

In parallel with this acquisition, Tiscali reached a distribution agreement with the Media Saturn Group, the main European distributor of electronic goods and one of the major shareholders in surfEU. The Media Saturn Group, European market leader in distribution of electronic goods, with over 300 superstores, is currently working with SurfEU in Germany, Austria and Switzerland. This partnership has allowed surfEU to expand rapidly with very low costs for the acquisition of new customers. SurfEU also has a distribution agreement in Finland with the R-Kioski and `nique chains (for a total of 900 stores).

The reasons behind the acquisition include the importance of the distribution agreement between surfEU and the Media Saturn Group in Germany, Austria and Switzerland. The agreement will continue to operate between Tiscali and the Media Saturn Group and it is also planned to extend the agreement to other countries where both groups operate within three months of conclusion of the acquisition.

For the acquisition, the Tiscali Group agreed to pay a total amount of no less than Euro 69.6 million, of which Euro 18.7 million in cash and Euro 50.9 million in newly issued Tiscali shares. The precise amount will be defined when the operation is concluded, on the basis of the number of active users at that date. The entire transaction is also subject to approval by Tiscali shareholders of the increase in share capital needed to issue the new shares.

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On 25 April, 2001, the company finalised purchase of Springboard Internet Services Limited (known on the market under the tradename of "LineOne"), one of the UK's leading ISP and portals. The operation will take Tiscali to the fourth position in the UK. The Euro 100 million paid for the operation is formed of Euro 80 million in newly issued Tiscali shares which, on the basis of the average closing price of Tiscali shares in the fifteen working days prior to signing, corresponds with around 5.4 million shares, plus Euro 20 million in cash. Tiscali will gain ownership and a controlling stake with immediate effect.

LineOne, until now jointly controlled in equal measures by British Telecommunications plc and United Business Media plc, with registered office in London, had over 1.85 million registered users at 31 March, 2001, of which 430,000 were active dial-up users. In March, 2001, active users of LineOne generated Internet traffic of around 300 million minutes, giving average daily Internet traffic per user of 23 minutes. During its last financial year, which ended on 30 June, 2000, the company registered turnover of Euro 19.2 million. Turnover for the first nine months of 2000/2001 was Euro 25.1 million.

Acquisition of LineOne will also assist Tiscali in breaking-even on operations in the UK, generating net annual synergies currently estimable as over Euro 20 million.

Following these recent agreements, the Tiscali Group has 16 million registered users in Europe, over 9.5 million unique visitors and over 7 million active ISP users.

Given the number of subscribers reached, the traffic generated on the Internet, the number of pages visited in its portals and the broad-based geographical presence throughout Europe, Tiscali is Europe's leading Internet Communication Company.

### **Expected development**

The results for the quarter are basically in line with budget forecasts. Reorganisation has made it possible to achieve important savings right from the first quarter. Completion of the reorganisation process, combined with the search for efficiency in managing processes, is making it possible to achieve important synergies, a fundamental prerequisite for expansion of the group and the inspiration behind it.

On the basis of these achievements, it can reasonably be expected that the results at the end of the year will be in line with the budget.

### **Financial data of the Parent Company**

*Amounts in thousands of Euro*

<b>Description</b>	<b>31/03/01</b>	<b>%</b>	<b>31/03/00</b>	<b>%</b>
Revenues from sales and services	30,279	100%	22,629	99.76%
Other revenues and income			55	0.24%
<b>Total revenues</b>	<b>30,279</b>	<b>100.00%</b>	<b>22,684</b>	<b>100.00%</b>
Operating costs for goods and services	(25,388)	(83.52%)	(22,335)	(98.46%)
Personnel costs	(4,691)	(15.49%)	(1,744)	(7.69%)
<b>Gross operating margin</b>	<b>200</b>	<b>0.7%</b>	<b>(1,395)</b>	<b>(6.15%)</b>
Depreciation of tangible and intangible assets	(4,208)	(13.9%)	(1,432)	(6.31%)
Other provisions	(1,549)	(5.11%)	(579)	(2.55%)
<b>Operating margin</b>	<b>(5,557)</b>	<b>(18.35%)</b>	<b>(3,406)</b>	<b>(15.01%)</b>

The quarter ended with a gross operating margin (EBITDA) of Euro 0.2 million. This important result, in line with budget forecasts, was obtained principally due to the increase in the volume of traffic and the sale of advertising space. Considerable economies of scale were generated by the production volumes reached.

The principal cost items were backbone costs of Euro 7.1 million (with an incidence of 23.36%), costs of acquisition of traffic of Euro 4.7 million (with an incidence of 15.45%) and promotional and advertising costs of Euro 4 million (with an incidence of 13.1%).

Personnel costs increased by a considerable 169%, from Euro 1.74 million at 31 March, 2000, to Euro 4.69 million for the first quarter of 2001. The workforce increased from 510 equivalent employees at 31 December, 2000, to 563 at 31 March, 2001.



### **Net financial position of the parent company.**

*Amounts in thousands of Euro*

Description	31/03/2001	31/12/2000	31/3/2000
	3 months	12 months	3 months
Liquidity	9,838	10,666	27,640
Payables to banks	(13,725)	(11,129)	(876)
<b>Short-term net financial position</b>	<b>(3,887)</b>	<b>(463)</b>	<b>26,764</b>
Long-term loans	-	-	-
<b>Net financial position</b>	<b>(3,887)</b>	<b>(463)</b>	<b>26,764</b>

### **Breakdown of revenues of the parent company**

*Amounts in thousands of Euro*

Revenues	31/03/2001	%	31/03/2000	%
Access services	15,679	51.70%	10,522	46.40%
Portal service	4,263	14.10%	155	0.70%
Business services	728	2.40%	749	3.30%
Phone services	6,142	20.30%	11,131	49.10%
Other services	3,468	11.50%	127	0.60%
<b>Total</b>	<b>30,279</b>	<b>100.00%</b>	<b>22,684</b>	<b>100.00%</b>

Revenues of the parent company at the end of the quarter totalled Euro 30.27 million, registering growth compared with the same period in 2000. The most important growth was in revenues from the Internet area, as a result of the considerable growth in the number of subscribers to the Tiscali Freenet service. Revenues from interconnection traffic increased by 49.1% and revenues from portal services increased by 2,650%. Revenues from voice services fell from Euro 11.1 million at 31 March, 2001, to Euro 6.1 million at 31 March, 2001.