

Tiscali SpA

Head Office: Cagliari, Piazza del Carmine, 22

Share Capital

EURO 806,396

Fully Paid

Share Premium Reserves

EURO 142,659,076

**Financial Statements
As of December 31st, 1999**

REPORT ON OPERATING PERFORMANCE FOR THE YEAR ENDING 31 DECEMBER 1999

Company Activity and Trends in Markets Served

Economic Management results for Financial year 1999 recorded a volume of revenues of approximately EURO 32,73 million against a revenue of EURO 1,3 million in the previous Financial Year. The profit and loss statement closed with a net loss of approximately EURO 5,54 million.

During 1999, the Telecommunications market registered significantly high growth rates, especially with regards to the sector of data transmission by means of IP protocol, which, in line with the trends of other technologically advanced countries, has recorded an impressive growth in the number of users. In the telephone services sector, the former monopolist provider has continued to show a loss of market shares to its competitors, including the Company under consideration. The increasing competition has resulted in considerable pressure on prices and margins as well as an increase in advertising and promotional expenses. In this context, Tiscali has increased its revenues substantially, and is aiming at further growth in the year 2000.

The overall result does not differ substantially from the forecast. The loss was influenced by the expenses incurred for launching the activity, which were slightly higher than anticipated..

On the other hand, we should point out that sales results are very close to forecasts, which means that the Company's financial and development plans may be considered sound.

The financial year was marked, among other factors, by two important events:

- Starting from the month of July, telephone services were extended to cover the whole national territory
- In late March 1999, the offer of free Internet access, "Tiscali Freenet", was launched. Tiscali was the first operator in Italy and Continental Europe to make this offer.

These factors required an incredible organizational effort in terms of financial, fixed assets and human resource investments. In particular, advertising expenses, borne mainly during the end of the financial year will produce their full impact in future financial periods.

Strategy

The company's future development will proceed along the following lines:

Internationalization of the Company by means of the acquisition in European countries of telephone companies or Internet Service Providers with the objective of replicating the Tiscali development model in each local market.

Development of a proprietary network to make available in the short and medium period to all companies of the group high transmission capability at moderate costs. In addition to the agreement with "Gruppo Autostrade" other initiatives are under way for laying or long-term lease of cabling, such as Andala in Sardinia, Nets for the European backbone and CD – Telekomunikace in the Czech Republic.

Content development, i.e. the development of a series of general services, payable or free, to be offered to Tiscali Freenet subscribers, such as e-commerce, news and other specific services, for instance purchase of airplane tickets and travel packages or on-line negotiation of financial products. All these services will be offered not only to the Italian market but also at European level, to the extent made possible by the contact potential developed through the operating companies in each country.

UMTS. Currently, on-line services are available to users only through cable-linked workstations. Like many other operators, we believe that in the near future data transmission will expand in the mobile phone sector by means of the UMTS protocol. This is why Tiscali is participating, through a subsidiary company, Andala Umts, in the bid for frequency allocation.

Other revenues. In the course of the year 2000, we anticipate a strong growth in advertising revenues from the sale of banners in company sites. In the same year, it is also planned to increase current products, by adding other, more innovative services, the main ones being voice on IP (telephone calls on the Internet), multicasting (real-time audio/video transmission on the Web), unified messaging (sending and receiving e-mail, voice and fax messages from a single mailbox using the telephone).

Following is a summary table of the reclassified profit and loss statement

	(EURO/million)
Net sales	32,73
Operating expenses	(42,66)
<i>Operating results</i>	<i>(9,93)</i>
financial income	0,66
financial charges	(0,3)
extraordinary income	0,07
extraordinary charges	(0,05)
Profit before taxes	(9,55)
income taxes:	
- current	-
- pre - paid	4,01
Loss for the period (financial year)	(5,54)

Revenues

The progression of revenues from services is as follows (amounts in million EURO):

	1999	1998	Change
Internet services revenues	12,67	0,33	+12,34
Telephone services revenues	19,98	0,95	+19,03
Other revenues and services rendered	0,08	0,01	+0,07
Total revenues from sales and services rendered	32,73	1,29	31,44

Breakdown by six-month periods of revenues from sales and services rendered

	Last six months 1999	First six months 1999	Total 1999
Internet services revenues	10,24	2,44	12,68
Telephone services revenues	14,31	5,66	19,97

Internet Services Revenues

Tiscali was the first Company to launch a free Internet access service in continental Europe. With Tiscali Freenet, users can access the main Internet services, such as e-mail, the World Wide Web, news group and interactive chat groups. Thanks to ease of access and immediate setup of connection, the number of subscribers rose swiftly to reach approximately 875,000 at the time of closure of the financial statement, exceeding budgetary forecasts.

Telephone Services Revenues

In the second half of 1999, revenues from telephone services grew considerably, thanks to the progressive nation-wide extension of the service. Currently, the service covers 98% of the national territory; therefore a sharp increase in revenues is anticipated in all voice services, both fixed telephone service and public phone cards.

In the month of December, the daily volume of traffic reached about 931,000 minutes of conversation.

Financial position
(amounts in million EURO)

	31/12/99	31/12/98	Change
Current Assets	141,86	5,04	136,82
Non-current Assets	40,49	2,39	38,10
Total Assets	182,35	7,43	174,92

	31/12/99	31/12/98	Change
Current Liabilities	44,21	4,19	40,02
Medium/Long-term liabilities	0,21	0,03	0,18
Shareholders' Equity	137,93	3,21	134,72
Total	182,35	7,43	174,92

The financial position as of 31 December 1999 strengthened thanks to the quotation of Company shares on the "Nuovo Mercato", which allowed the shareholders' equity to increase by approximately EURO 138,82 million, of which EURO 0,16 million as share capital, and 138,66 million as share premium. Moreover, the extraordinary shareholders' meeting of 25 October 1999 approved the issue of 120,773 warrants, together with an increase in share capital to cover the same. Total validity of the warrants is 360 days from delivery; they may be exercised and converted into ordinary Tiscali shares after 180 days from delivery. Exercise price is 41.4 EUR, that is 90% of the placement price of Tiscali shares at the time of the public offer of October 1999.

Following are comments on key accounts :

Fixed assets:

The account balance rose from EURO 0,55 million as of 31 December 1998 to EURO 2,95 million as of 31 December 1999, with an increase of EURO 2,40 million during that period. The amounts basically reflect the purchase of equipment for the transmission network for the "TiscaliFreeNet" service, and of specific equipment located at the sites prepared for the installation of exchanges.

Intangible Assets

During the financial year, investments in intangible assets were made for a total amount of EURO 18,7 million. The main item in this regard are the costs incurred for quotation on "Nuovo Mercato" amounting to EURO 6,9 million, in October 1999. Other items are the expenses for start-up of new equipment, network design and organization costs and costs for the purchase of new user's licenses for software destined for the Call center and Freenet networks.

Investments

During Financial Year 1999, Financial Leasing and Operating Lease transactions were realized, in order to set up a network of exchanges. Total amount of investments financed with leasing contracts drawn up as of 31 December equals approximately EURO 15 million. Said investments are mainly to be referred to the acquisition of the first 4 telephone exchanges, servers, routers and modems and other equipment for the extension of the network. The acquisition of exchanges for the extension of the national network was carried out by means of operating lease. Outstanding lease payments are listed in the memorandum accounts.

Expenses

The main expenses incurred during Financial Year 1999 are broken down as follows (amounts in million EURO):

<u>Type of expenses</u>	<u>Amount</u>
Raw materials, supplies, consumables and goods	2,61
Changes in inventories	(0,85)
Costs:	
for services	32,51
for rentals	1,69
for personnel	3,32
depreciation, amortization and writedowns	2,92
Other operating expenses and risk provisions	0,47
Total costs of production	42,67
Financial charges	0,3
<i>Extraordinary charges</i>	0,05

Following are comments on the main expenses for services:

- Telephone line rentals amounted to approximately EURO 10,3 million. This increase is closely linked to the growth in the volume of voice and Internet traffic.
- Traffic purchases were roughly EURO 16 million. This amount was mainly determined by the purchase of the interconnecting service from Telecom Italia (termination and collection) and by the purchase of international wireline and wireless calls mainly from other carriers.

Advertising. Advertising expenditure consists mostly of sponsoring and advertising campaigns in newspapers, magazines and on television. The aggregate amount is roughly equal to EURO 2,6 million, of which approximately EURO 2,22 million have been entered, pro quota, among deferred charges, in view of the expected profits in the following financial year. We should point out that during the last six months of 1999, the Company made large advertising investments, about EURO 5,7 million, to launch the Internet service. The remarkable increase in *minutes/traffic* clearly shows that advertising investments, including those for launching the service, are linked to the Company's new market objectives. This confirms that the expenses in question are both exceptional and profit-generating over a number of years.

Completion of the network will enable the Company to reach a target level of subscribers (critical productive capacity) which forms the basis for obtaining revenues from the new initiatives currently being launched, such as voice services on Internet, e-commerce, on-line banking services, music, etc.

With regards to the launching campaign for "*TiscaliFreeNet*" we should point out that, being a free service, it is not linked to the direct production of profit, since its main function has been to promote knowledge of the Company and its services among consumers, at a time when its listing on the stock exchange has provided a foundation for all future profits. This campaign is allowing the Company to reach a number of

subscribers and a volume of traffic enabling it to subsequently launch innovative products, such as the already mentioned *internet voice*, *e-commerce*, *on line banking* and *music* services etc., and therefore belongs to the same category as the other *start-up* expenses described above.

- Taxes. It should be noted that receivables from the Treasury for taxes paid in advance have been recorded in the financial statement as of 31 December 1999, in accordance with accounting principle No 25 adopted by the Italian Board of Professional Accountants (Consiglio Nazionale dei Dottori Commercialisti e dei Ragionieri), with a positive effect on revenues for the financial year of roughly EURO 4,13 million.

Personnel

As of December 1998, total staffing was 45 employees, with a monthly average of 23 employees. As of 31 December 1999, employees were 243, with an average of approximately 132 employees. Over the first months of 2000, the staffing was further reinforced with new recruiting in all areas within the Company, in particular for content development and the upgrading of the Call Center.

Relations with Subsidiary Companies

As of 31 December 1999, subsidiary companies, some of which are not however consolidated, being non-operating, were the following:

Informedia Srl. Specializes in on-line payment systems. It was acquired in July 1999 to support the plans for developing the e-commerce services sector.

During the next financial year, "Willage", the Tiscali E-commerce service, will become a virtual shopping mall open to all small and medium-sized commercial businesses. Thanks to a complete banking, logistic and insurance platform, enterprises will be able to carry out business transactions on the net at very low costs. Tiscali earnings will take the form of sales commissions.

Andala S.p.A. This company was set up to lay a loop of fiberoptic cabling on the island of Sardinia, linked to mainland Italy by means of an underwater cable. As of 31 December 1999 the Company was non-operating. The remaining 15 percent of shares is held by Kiwi I Ventura - I Servicios S.A, a closed-end venture capital investment fund. During the financial year, business plans were drafted and suppliers' offers were analyzed in order to start up the venture with the support of a Project Financing operation. In the early months of 2000, Banca CIS passed a motion confirming its participation in the Project.

Andala Umts. This company was set up in November 1999. It will participate in the forthcoming bid for the assignment of UMTS licenses. As of 31 December 1999, 10% of shares was held by Franco Bernabè. In March 2000, the Company shareholders' base was enlarged with the addition of new partners and consequent increase of capital to EURO 5,16 million. Moreover, a working team has been set up for drafting the document for participation in the frequency assignment bid.

Energy Byte SpA. This company was set up in November 1999 for creating web contents. In particular, we draw your attention to the great success obtained in the first few months of 2000 by the game "Energy Bank", for which a special website has been created. The remaining forty-five percent (45%) of shares is held by Marton Srl. During 1999, the company remained basically inactive.

Nets S.A. This company was established in October 1998. On 23 December 1999, Tiscali stipulated the agreement for purchase of the entire share capital of Nets SA, which was consolidated with shareholders' equity. The transaction, as set out in the agreement, involved cash payment of EURO 4 million. The remaining amount will be settled by means of the issue of new shares, with increase of share capital and exclusion of option rights, to be approved by the extraordinary shareholders' meeting called for 15 March 2000. The company, which operates in the sector of wide-band telecommunications, utilizes a fiberoptic network including a Paris-London link. The company will create a Northern Europe fiberoptic loop (Northern loop) to link the main cities in Germany and the Benelux countries. It has also developed another project for setting up, by the end of 2000, a second loop (Southern loop) linking the main cities in France, Switzerland, Italy and Spain.

The upgrading of the Pan-European backbone will shortly allow Tiscali to provide high-speed Internet services throughout Europe under a single trademark.

Subsequent Events and Future Outlook for the Year 2000

The expansion strategy of Tiscali activities in Europe, which took off at the end of 1999 with the acquisition of Nets SA, has continued at a rapid pace in the early months of 2000. In the framework of its European expansion project, which aims at replicating the Tiscali business model as Global Portal for Internet access, Tiscali has stipulated contracts for the acquisition of the following companies:

A Telecom S.A. operates in France, with head office in Marseilles. It was established in 1997. This company operates in the telephone services sector and is licensed to provide all types of telecommunications services. In December 1999, it signed a reciprocal interconnection agreement with France Telecom, similar to the agreement which lay the foundations for the development of Tiscali Freenet in Italy. This important agreement further enhances the value of the company's articulated infrastructure network comprising 18 exchanges, covering the whole of France. Tiscali plans to promote the company's activities in the Internet segment at a rapid pace, focusing on the mass market.

Datacomm AG is a Swiss company established in 1998. On 14 January 2000, Tiscali stipulated an agreement for the acquisition of 80% of the company. The amount will be settled by means of the issue of new Tiscali equity shares through share capital increase to be approved by the shareholders' meeting on 15 March 2000. Datacomm AG is the leading company among independent Internet services providers in Switzerland. The company provides Internet access to some 50,000 users and network access on dedicated lines. Datacomm will be linked by means of a fiberoptic cable network to the associated companies in France, Switzerland, Italy and Spain.

CD-Telekomunikace S.r.o. On 24 January 2000, Tiscali SpA stipulated a contract for acquisition of 80% of this company, with registered office in Prague, in the Czech Republic. The agreement, similarly to the other acquisitions listed above, establishes that the amount will be settled by means of an increase in share capital, with the issue of equity shares, with exclusion of option rights, in favour of CD-Telekomunikace shareholders, to be approved by the extraordinary meeting called for 15 March 2000. The Czech company has obtained sole rights from the National Railway Company for laying and managing a network of fiberoptic cabling along the whole length of the railway network, which extends for a total of 9,600 km. This takeover is a strategic move of paramount importance for the further expansion of Tiscali presence in Eastern and Central Europe.

By the first six months of 2001 CD-Telekomunikace should cover the first 2,300 km with its cabling network; it is expected to reach 4,000 km by the second half of the same year.

Link line S.A. On 9 February 2000, Tiscali S.p.A. stipulated a contract for the purchase of 100 percent of shares of this Brussels-based company which is one of the main Internet Services Providers in Belgium. The agreement establishes that the amount will be settled by means of the issue of new Tiscali shares, to be approved by the extraordinary meeting called for 15 March 2000.

Link Line S.A. already has 60,000 subscribers to whom it offers free access and various services ranging from web mail to community services.

Nikoma Beteiligungs GmbH. On 25 February 2000, Tiscali S.p.A. signed an agreement with Nikoma shareholders for the purchase by Tiscali of the shares of this company, which is an ISP and telephone operator and is based in Hamburg.

The operation, for a value of roughly EURO 270 million, will be effected by means of the issue of Tiscali shares during the extraordinary meeting called for 17 April.

Nikoma offers telephone and free Internet access services to over 180,000 subscribers, in the consumer and business categories. As an ISP, in addition to dial-up access, web-hosting and unified messaging, it also provides added value multimedia services.

In the framework of its expansion plans, Tiscali will link Nikoma with the other European countries by means of its proprietary fiberoptic loop (Northern loop), which is being developed by the French company Nets S.A..

In addition to the above listed company acquisitions, which are to be considered as part of Tiscali's European expansion strategy, the following main events took place after the closure of the 1999 Financial Year:

Gilla SpA. In January 2000, an equal based joint-venture was set up between Tiscali S.p.A. and Sonera Corporation, a leading Finnish telecommunications company. The new company, with a registered share capital of EURO 2.5 million, has as its corporate aim the offer to the consumer market of Directory telephone services by means of a large Call Center based in Cagliari. According to the business plan, the company will be fully operating starting from the third quarter of 2000.

Ideare S.r.l. On 3 February 2000, Tiscali purchased 60% of this company, which is the owner of the SearchTone technology, a search engine with advanced solutions for Internet searching.

This operation, for a total value of EURO 6,71 million, will be financed by means of the issue of new Tiscali shares reserved to company shareholders for a value of EURO 4,13 million to be approved by the extraordinary meeting called for 15 March 2000 and by the increase of Ideare capital of EURO 2,6 million.

VOLTrade On 11 February 2000, Tiscali S.p.A. acquired 100% of the financial information site VOLTrade, which offers in real time exchange quotations MID30, MIDEX and "Nuovo Mercato", in parallel with the progression of all stock exchange indexes.

Tiscali carried out this operation in the framework of its project for the development of specialized content and services and of e-commerce of financial products.

Freetravel S.p.A. On 14 March 2000, an equal based joint-venture was set up with UVET S.p.A., with a registered share capital of EURO 500,000. The corporate aim of the new company is on-line sale of travel tickets and tourist packages.

Thanks to the acquisitions in European markets, the number of Tiscali subscribers shows a sharp upward trend, with an average of 3,000 new subscribers per day. Adding to this figure the growth in the Italian market, we find that Tiscali is acquiring on an average 10,000 new subscribers per day. At present, Tiscali has 1,600,000 subscribers to the Internet services, 1,200,000 of whom are in Italy.

Dear shareholders

We recommend that the loss for financial year ending 31 Dec 1999 be carried forward, and invite you to approve the financial statements we have submitted to your kind attention. We remain at your disposal to provide any additional information you might require.

For the Board of Directors
The Chairman

Renato Soru

<i>BALANCE SHEET (EURO) – ASSETS</i>		<i>31-Dec-99</i>	<i>31-Dec-98</i>
A)	DUE FROM SHAREHOLDERS FOR CAPITAL CONTRIBUTIONS TO BE PAID:	-	-
B)	NON-CURRENT ASSETS:		
<i>I</i>	<i>Intangible assets:</i>		
	1) start-up and expansion costs	15,164,369	654,983
	2) costs for research, development and advertising	637,740	909,225
	3) industrial patent rights and rights to intellectual property	74,841	10,405
	4) concessions, licenses, trademarks and similar rights	1,750,649	57,001
	7) other	498,552	-
	Total	18,126,151	1,631,614
<i>II</i>	<i>Fixed assets:</i>		
	2) plant and machinery	1,051,930	281,407
	3) industrial and commercial equipment	1,877,629	263,255
	4) other fixed assets	21,365	4,674
	Total	2,950,924	549,336
<i>III</i>	<i>Long-term investments:</i>		
	1) Investments in:		
	a) subsidiary companies	8,159,394	-
	b) affiliated companies	1,250,000	-
	d) other companies	6,165	-
	2) Receivables:		
		<i>Receivable within the following financial year</i>	
		<i>31-Dec-99</i>	<i>31-Dec-98</i>
	d) from others	-	206,583
		-	206,583
	Total	19,415,559	206,583
	Total non-current assets	40,492,634	2,387,533
C)	CURRENT ASSETS		
<i>I</i>	<i>Inventories:</i>		
	1) raw materials, supplies and consumables	967,815	114,872
	Total	967,815	114,872
<i>II</i>	<i>Receivables:</i>		
		<i>Receivable beyond the following financial year</i>	
		<i>31-Dec-99</i>	<i>31-Dec-98</i>
	1) from customers	-	-
	2) from subsidiary companies	-	-
	3) from affiliated companies	-	-
	5) from others	4,147,534	-
	Total	4,147,534	-
<i>IV</i>	<i>Cash and cash equivalents:</i>		
	1) bank and post-office deposits	100,063,056	2,120,668
	3) cash and other negotiable instruments	7,281	67,070
	Total	100,070,337	2,187,738
	Total current assets	135,578,845	4,138,829
D)	ACCRUED INCOME AND DEFERRED CHARGES:		
	accrued income and deferred charges	6,282,310	897,850
	Total accrued income and deferred charges	6,282,310	897,850
	TOTAL ASSETS (EURO)	182,353,789	7,424,212

<i>BALANCE SHEET – LIABILITIES & SHAREHOLDERS' EQUITY</i>		<i>31-Dec-99</i>	<i>31-Dec-98</i>
<i>(EURO)</i>			
A)	SHAREHOLDERS' EQUITY:		
<i>I</i>	<i>Share capital</i>	806,396	645,571
<i>II</i>	<i>Share premium reserve</i>	142,659,076	4,002,541
<i>VIII</i>	<i>Retained earnings (Losses carried forward)</i>	-	(17,019)
<i>IX</i>	<i>Profit (loss) for the period</i>	(5,536,691)	(1,421,978)
Total shareholders' equity		137,928,781	3,209,115
B)	RESERVES FOR RISKS AND FUTURE LIABILITIES:		
	3) other	9,795	-
Total reserves for risks and future liabilities		9,795	-
C)	STAFF SEVERANCE INDEMNITY RESERVE	202,725	25,782
D)	LIABILITIES:	<i>Due beyond the following financial year</i>	
		<i>31-Dec-99</i>	<i>31-Dec-98</i>
	3) due to banks	-	124
	4) other short-term financing	-	-
	6) trade accounts payable	-	34,133,150
	8) due to subsidiary companies	-	237,336
	9) due to affiliated companies	-	875,000
	11) taxes payable	-	157,196
	12) due to social security institutions	-	104,212
	13) other payables	-	3,844,979
Total payables		-	39,351,997
E)	ACCRUED LIABILITIES AND DEFERRED INCOME		
	accrued liabilities and deferred income	4,860,491	794,764
Total accrued liabilities and deferred income		4,860,491	794,764
TOTAL LIABILITIES & SHAREHOLDERS EQUITY (EURO)		182,353,789	7,424,212

MEMORANDUM ACCOUNTS (EURO)		31-Dec-99	31-Dec-98
A)	GUARANTEES GIVEN:		
	1) sureties	9,346,845	687,146
	a) real property guarantees	3,098,742	
	Total	12,445,586	687,146
	Total guarantees given	12,445,586	687,146
B)	OTHER MEMORANDUM ACCOUNTS		
	- Leasing payments coming due	28,370,360	3,727,601
	- Bank receipts and bills of exchange outstanding	-	6,714
	- Warrants	5,000,000	-
	Total other memorandum accounts	33,370,360	3,734,315
C)	GUARANTEES RECEIVED:		
	1) from third parties and group companies:		
	a) sureties	826,331	-
	Total guarantees received	826,331	-
	TOTAL MEMORANDUM ACCOUNTS (EURO)	46,642,279	4,421,461

PROFIT AND LOSS STATEMENT (Euro)

31-Dec-99

31-Dec-98

A)	(+) VALUE OF PRODUCTION:		
1)	revenues from sales and services	32,726,625	1,297,701
4)	increase in assets for work in progress	-	228,862
5)	other revenues and income		
-	<i>Other revenues and income</i>	73,772	7,738
	Total	32,800,397	1,534,301
B)	(-) COSTS OF PRODUCTION:		
6)	for raw materials, supplies, consumables and goods	(2,608,711)	(288,334)
7)	for services	(32,505,273)	(1,446,490)
8)	for rentals	(1,692,631)	(67,834)
9)	for personnel:		
a)	<i>salaries and wages</i>	(2,903,970)	(397,299)
b)	<i>social security charges</i>	(215,552)	(5,169)
c)	<i>provision for staff severance indemnities</i>	(180,571)	(25,782)
e)	<i>other expenses</i>	(20,122)	(797)
10)	depreciation, amortization and writedowns:		
a)	<i>amortization of intangible assets</i>	(2,246,458)	(618,922)
b)	<i>depreciation of fixed assets</i>	(383,073)	(64,894)
d)	<i>writedowns of current receivables</i>	(285,536)	(26,516)
11)	changes in inventories of raw materials, supplies, consumables and goods	852,943	114,872
12)	risk provisions	(9,798)	-
14)	other operating expenses	(460,250)	(118,711)
	Total	(42,659,002)	(2,945,876)
(A - B)	DIFFERENCE BETWEEN VALUE AND COSTS OF PRODUCTION	(9,858,605)	(1,411,575)
C)	FINANCIAL INCOME AND CHARGES:		
15)	<i>(+) income from investments:</i>		
a)	in subsidiary companies	1,723	-
d)	income other than the above:		
-	from third parties	661,734	3,372
17)	<i>(-) interest and other financial charges:</i>		
a)	due to third parties	(296,475)	(12,842)
	Total	366,982	(9,470)
D)	VALUATION ADJUSTMENT TO FINANCIAL ASSETS	-	-
	Total	-	-
E)	EXTRAORDINARY INCOME (CHARGES)		
20)	<i>(+) extraordinary income:</i>		
a)	income	215	2
21)	<i>(-) extraordinary charges:</i>		
a)	charges	(52,319)	(935)
	Total extraordinary items	(52,104)	(933)
	Profit before taxes	(9,543,727)	(1,421,978)
22)	<i>(-) income taxes for the financial year:</i>		
a)	current	-	-
b)	pre - paid	4,007,036	-
	Total income taxes	4,007,036	-
23)	PROFIT (LOSS) FOR THE PERIOD	(5,536,691)	(1,421,978)

Tiscali S.p.A.

Head Office: Piazza del Carmine, 22

Share capital

EURO 806,396

Fully paid

Share Premium Reserve

EURO 142,659,076

NOTES TO THE FINANCIAL STATEMENTS AS OF December 31st, 1999

FORM AND CONTENT OF FINANCIAL STATEMENTS

1) CRITERIA USED IN PREPARATION OF 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 1998, 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.

Year 2000

With regards to the information requested in the Consob notice No 98079574 of 9 October 1998 (and subsequent integration No 99066606 of 10 September 1999) it is specified that the software used during the financial year, being new and very recently acquired, was free from any risk of being affected by the millennium bug with the change of date to the year 2000.

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 more 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 1998:

Plant and machinery	
- specific plant and machinery	20%
- Internet plant and exchanges	20%
Industrial and commercial equipment	
- network equipment	20%
- office automation and furnishings	12%
- office computers	20%
- electronic data processors	20%
- other machines	25%
Other assets	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.

- COMPANY'S OWN SHARES

The Company does not possess any company's own shares.

h) INVENTORIES

- RAW MATERIALS, WORK IN PROGRESS AND FINISHED PRODUCTS

Inventories 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) ACCRUALS AND DEFERRALS

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

m) 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.

n) 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:

- there is a reasonable degree of certainty, deriving from the analysis of the Company budgets approved by the Board of Directors, that in the future, fiscal charges will be incurred to a level permitting the absorption of losses carried forward, within the period in which the same are deductible according to tax laws (in the case in question, said period is unlimited);
- the losses in question derive from well-identified causes (*startup*), and it is reasonably certain that said circumstances will not occur again.

o) STAFF SEVERANCE INDEMNITY RESERVE

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

p) LIABILITIES

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

q) 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.

r) 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.

s) 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 financial statement accounts

ASSETS

B) NON-CURRENT ASSETS

I - INTANGIBLE ASSETS

Following is a summary of the historical cost of the intangible assets and their accrued amortization and net value, as of 31 December 1999 and 31 December 1998 respectively:

CATEGORIES	31/12/99			31/12/98		
	Cost	(Amortization)	Net value	Cost	(Amortization)	Net value
(Euro)						
Start-up and expansion costs	17,222,910	(2,058,541)	15,164,369	820,235	(165,252)	654,983
R&D and advertising costs	1,357,421	(719,681)	637,740	1,357,421	(448,197)	909,225
Industrial patent rights and rights to intellectual property	96,803	(21,962)	74,841	13,006	(2,601)	10,405
Concessions, lic., trademarks, other	1,796,772	(46,122)	1,750,649	61,785	(4,784)	57,001
Other	519,538	(20,986)	498,552	-	-	-
TOTAL	20,993,442	(2,867,292)	18,126,151	2,252,447	(620,834)	1,631,614

Changes in the individual accounts during financial year 1999 are disclosed in the following table:

CATEGORIES	BALANCE	Increases	Revaluation (Write downs)	Other Changes	Amortization	BALANCE
	31/12/98					31/12/99
(Euro)						
Start-up and expansion costs	654,983	16,402,674	-	-	(1,893,289)	15,164,369
R&D and advertising costs	909,225	-	-	-	(271,485)	637,740
Industrial patent rights and rights to intellectual property	10,405	83,796	-	-	(19,360)	74,841
Concessions, lic., trademarks, other	57,001	1,734,987	-	-	(41,338)	1,750,650
Other	-	519,538	-	-	(20,986)	498,552
TOTAL	1,631,614	18,740,995	-	-	(2,246,458)	18,126,151

Start-up and expansion costs, and costs for research, development and advertising included the following:

	31/12/99	31/12/98	Change	Change %
Start-up and expansion costs (Euro)				
Incorporation expenses	1,653	2,479	(826)	(33.33%)
Expenses relative to capital increase	6,906,737	89,218	6,817,519	7641.42%
Start-up costs	7,526,056	452,437	7,073,619	1563.45%
Network planning and organization costs	729,923	110,849	619,074	558.48%
<i>Total</i>	15,164,369	654,983	14,509,386	2,215.23%
Research, development and advertising costs				
Advertising	637,740	909,225	(271,485)	(29.86%)
<i>Total</i>	637,740	909,225	(271,485)	(29.86%)

A) Start-up and expansion expenses

Increase in expenses during the financial year

Start-up and expansion expenses increased, with respect to the single line items falling under this heading, for the reasons detailed hereunder:

- *Expenses pertaining to share capital increase*
this line item mainly pertains to expenses incurred for quotation on the stock market;
- *start-up costs*
mainly inherent to the procurement of the interconnection with Telecom Italia and Telecom S.p.A. (exchanges) and advertising for the launch of the service "Tiscali Freenet".

Reason for posting this account:

In consideration of the impact of this account, we should like to point out the following facts:

Expenses for exchange start-up. When fully operational, the network will comprise a total of 24 functioning exchanges. To date, 8 exchanges are still to be activated: therefore, the start-up phase is still to be completed.

The remarkable increase in *minutes/traffic* clearly shows that the investments, including launching expenses, are linked to the Company's new market objectives. This confirms that the expenses in question are both exceptional and profit-generating over a number of years.

Completion of the network will enable the Company to reach a target level of subscribers (critical productive capacity) which forms the basis for obtaining revenues from the new initiatives currently being launched, such as voice services on Internet, e-commerce, on-line banking services, music, etc.

With regards to the launching campaign for "*TiscaliFreeNet*" we should point out that, being a free service, it is not linked to the direct production of profit, since its main function has been to promote knowledge of the Company and its services among consumers, right at a time when its listing on the stock exchange has provided a foundation for all future profits. This campaign is allowing the Company to reach a number of subscribers and a volume of traffic enabling it to subsequently launch innovative products, such as the already mentioned *internet voice, e-commerce, on line banking* and *music* services etc., and therefore belongs to the same category as the other *start-up* expenses described above.

Amortization Criteria

The expenses listed under this heading are amortized over a period of five years on the basis of their expected future profitability for the Company.

B) Advertising expenses

This account has shown no increase with respect to the previous financial year. It is posted in the balance sheet in view of the positive effect over a number of years of the advertising campaigns of 1998 and 1997. The expenses of this kind are amortized in three years, in consideration of the usefulness of advertising products for company revenues.

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:

<i>COST</i>	(Euro)	BALANCE		Revaluations	Other Changes	(Disposals) (Depreciation)	BALANCE
		31/12/98	Increases				
Plant and machinery							
- specific plant and machinery		73,956	725,057	-	-	-	799,013
- Internet plant and exchanges		240,897	201,542	-	-	-	442,439
		314,853	926,599	-	-	-	1,241,452
Industrial and commercial equipment							
- network equipment		95,576	1,075,571	-	-	-	1,171,147
- office automation and furnishing		58,504	114,673	-	-	-	173,176
- office computers		105,692	372,725	-	-	-	478,417
- other		37,632	274,010	-	-	-	311,642
		297,404	1,836,979	-	-	-	2,134,383
Other assets							
- other assets		5,467	21,082	-	-	-	26,549
		5,467	21,082	-	-	-	26,549
<i>Total</i>		617,724	2,784,660	-	-	-	3,402,384

Fixed assets mainly consist of: technical equipment for the creation of internal networks at the sites set up during the financial year; 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 telephone exchanges, routers and most equipment used were procured by means of financial leasing and operating lease.

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

<i>DEPRECIATION</i>	BALANCE 31/12/98	Depreciation Write downs	Other changes	(Disposals)	BALANCE 31/12/99
(Euro)					
Plant and machinery					
- specific plant and machinery	9,357	87,742	-	-	97,099
- Internet plant and exchanges	24,090	68,334	-	-	92,424
	33,447	156,076	-	-	189,523
Industrial and commercial equipment					
- network equipment	9,380	126,672	-	-	136,053
- office automation and furnishing	6,514	13,901	-	-	20,415
- office computers	15,721	58,389	-	-	74,110
- other	2,533	23,643	-	-	26,176
	34,149	222,605	-	-	256,754
Other assets					
- other assets	792	4,392	-	-	5,184
	792	4,392	-	-	5,184
<i>Total</i>	68,388	383,073	-	-	451,461

Depreciation reflects the normal depreciation of fixed assets. No write-downs of fixed assets were performed during the financial year.

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

<i>NET VALUE</i>	BALANCE 31/12/98	Increases	Revaluation and other	(Depreciation and Write downs)	(disposals)	BALANCE 31/12/99
(Euro)						
Plant and machinery						
- specific plant and machinery	64,600	725,057	-	(87,742)	-	701,914
- Internet plant and exchanges	216,807	201,542	-	(68,334)	-	350,016
	281,407	926,599	-	(156,076)	-	1,051,930
Industrial and commercial equipment						
- network equipment	86,196	1,075,571	-	(126,672)	-	1,035,095
- office automation and furnishing	51,989	114,673	-	(13,901)	-	152,761
- office computers	89,971	372,725	-	(58,389)	-	404,306
- other	35,099	274,010	-	(23,643)	-	285,466
- electronic data processors						
	263,255	1,836,979	-	(222,605)	-	1,877,629
Other assets						
- other assets	4,674	21,082	-	(4,392)	-	21,365
	4,674	21,082	-	(4,392)	-	21,365
<i>Total</i>	549,336	2,784,660	-	(383,073)	-	2,950,923

III - NON-CURRENT FINANCIAL ASSETS

1) INVESTMENTS

Listed below are the data pertaining to direct or indirect investments.

NON-CURRENT FINANCIAL ASSETS - BALANCE

INVESTMENTS (Euro)	31/12/99			31/12/98		
	COST	REVAL.(DEV)	BALANCE IT.	COST	REVAL.(DEV)	BALANCE IT.
SUBSIDIARY COMPANIES						
Nets SA	7,433,000	-	7,433,000	-	-	-
Informedia S.r.l.	387,343	-	387,343	-	-	-
Almanacco S.p.A.	103,291	-	103,291	-	-	-
Andala Umts S.p.A.	92,962	-	92,962	-	-	-
Andala S.p.A.	87,798	-	87,798	-	-	-
Energy Byte S.p.A.	55,000	-	55,000	-	-	-
TOTAL	8,159,394	-	8,159,394	-	-	-
AFFILIATED COMPANIES						
Gilla S.p.A.	1,250,000	-	1,250,000	-	-	-
TOTAL	1,250,000	-	1,250,000	-	-	-
Other companies						
Consorzio Green Management	5,165	-	5,165	-	-	-
Mix S.r.l.	1,000	-	1,000	-	-	-
TOTAL	6,165	-	6,165	-	-	-

NON-CURRENT FINANCIAL ASSETS - CHANGES

INVESTMENTS (Euro)	BALANCE 31/12/98	CHANGES IN THE FINANCIAL YEAR				BALANCE 31/12/99
		INCREASES	(DISPOSALS)	REVAL. (DEVAL.)	OTHER	
SUBSIDIARY COMPANIES						
Nets SA	-	7,433,000	-	-	-	7,433,000
Informedia S.r.l.	-	387,343	-	-	-	387,343
Almanacco S.p.A.	-	103,291	-	-	-	103,291
Andala Umts S.p.A.	-	92,962	-	-	-	92,962
Andala S.p.A.	-	87,798	-	-	-	87,798
Energy Byte S.p.A.	-	55,000	-	-	-	55,000
TOTAL	-	8,159,394	-	-	-	8,159,394
AFFILIATED COMPANIES						
Gilla S.p.A.	-	1,250,000	-	-	-	1,250,000
	-	1,250,000	-	-	-	1,250,000
OTHER COMPANIES						
Consorzio Green Management	-	5,165	-	-	-	5,165
Mix S.r.l.	-	1,000	-	-	-	1,000
TOTAL	-	6,165	-	-	-	6,165

NON-CURRENT FINANCIAL ASSETS– FURTHER INFORMATION

Investments in: subsidiary companies

Company name (Euro)	Head Office	Share Capital	Shareholders' Equity	Profit (Loss)	% Held	Carrying value
Nets SA	Paris	1,283,832	(1,138,788)	(3,672,235)	100%	7,433,000
Informedia S.r.l.	Rome	51,646	121,030	(85,405)	100%	387,343
Almanacco S.p.A.	Cagliari	103,291	102,954	(337)	100%	103,291
Andala Umts S.p.A.	Cagliari	103,291	102,954	(337)	90%	92,962
Andala S.p.A.	Cagliari	103,291	102,969	(322)	85%	87,798
Energy Byte S.p.A.	Milan	100,000	93,095	6,905	55%	55,000
						8,159,394

Nets S.A. was purchased on 23 December 1999. The transaction involved the whole share capital, with cash payment of EURO 4 million. The remaining amount will be settled with the issue of new Tiscali SpA shares, planned for the month of March 2000. This company, which operates in the sector of wide-band telecommunications, and utilizes a fiberoptic network including a Paris-London link, will create a Northern Europe fiberoptic loop (Northern loop) to link the main cities in Germany and the Benelux countries. Nets S.A. has also drafted a project for setting up, by the third quarter of 2000, a second loop (Southern loop) linking the main cities in France, Switzerland, Italy and Spain.

Tiscali plans to use Nets' network and "know how" as a Europe-wide infrastructure linking national initiatives.

Informedia S.r.l., a company specializing in on-line payment services, was purchased in July 1999 to support the plans for developing the e-commerce services sector.

In 1999 and the early months of 2000, the activity of this company focused on the creation of software and the designing of the contents for the e-commerce site called *Willage*.

The difference between the value entered in the balance sheet and the shareholders' equity of the subsidiary company Informedia S.r.l. is linked to the potential benefits of initiatives under way and to the positive development trend in the e-commerce sector.

Almanacco S.p.A. was set up in April 1999 with the aim of developing and marketing publishing products through Internet.

Andala Umts, established in November 1999, will participate in the forthcoming bid for the assignment of UMTS licenses. In February 2000, it started its activity, and set up a work team for participating in the bid. The remaining 10 percent of shares are held by Franco Bernabè. Enlargement of the shareholders' base is planned for March 2000.

Andala S.p.A. This company was set up to lay a loop of fiberoptic cabling in the island of Sardinia, linked to mainland Italy by means of an underwater cable. As of 31 December 1999 the Company was inactive.

The remaining 15% of shares is held by Kiwi I Ventura - I Servicios S.A. During the financial year, business plans were drafted and suppliers' offers were analyzed in order to start up the venture with the support of a Project Financing operation. In January 2000, Banca CIS deliberated to confirm its participation in the Project.

Energy Byte S.p.A. This company was set up in November 1999 for creating web entertainment products. In particular, we should point out the great success in the year 2000 of the game "Energy Bank", for which a special site has been created. The remaining forty-five percent (45%) of shares is held by Marton Srl. During 1999, the Company remained basically inactive.

Investments in: affiliated companies

Company name	(Euro)	Head office	Share Capital	Shareholders' Equity	Profit (Loss)	% held	Carrying value
Gilla S.p.A.		Cagliari	2,500,000	2,500,000	-	50%	1,250,000
			2,500,000	2,500,000	-		1,250,000

Gilla S.p.A. was established in late December 1999 and its registration was ratified in the year 2000. This company – set up as a joint venture with Sonera Corporation – has a share capital of EURO 2.5 million; its corporate aim is the development of a Call Center to offer Directory telephone services to the consumer market. The Call Center services will be implemented on the basis of the interconnection agreement stipulated by Tiscali with Telecom Italia. Its development will be based on synergy between the two companies in the telecommunications sector.

RECEIVABLES

ANALYSIS OF RECEIVABLES BASED ON MATURITY

The following schedule shows the amounts of each class of receivables included in non-current financial assets, subdivided by maturity. Whenever it is reasonable to expect that the collection of receivables will occur at a significantly later date than the contractual maturity, the amounts are classified according to the date of collection realistically contemplated.

Description (Euro)	31.12.99 Amounts receivable			31.12.98 Amounts receivable		
	within 1 year	1 - 5 years	after 5 years	within 1 year	1 - 5 years	after 5 years
<i>Non current financial assets:</i>						
<i>Receivables:</i>						
From subsidiary companies	-	-	-	-	-	-
From affiliated companies	-	-	-	-	-	-
From parent companies	-	-	-	-	-	-
From others	-	10,000,000	-	206,583	-	-
	-	10,000,000	-	206,583	-	-

The credit, which accrued at the closing of the financial year, is to be attributed to the transfer of EURO 10 million in favor of "A Telecom SA", a company whose acquisition contract was stipulated on 23 December 1999. This contract, as described in the report on operating performance, established that Tiscali S.p.A. would increase its share capital, with the exclusion of option rights and the assignment of A Telecom SA shares. The transfer of liquid funds established in the same contract will guarantee the financial backing required to support investments for the development of company activities.

C) WORKING CAPITAL

I - INVENTORIES

Following is a schedule of changes in the inventory:

<i>Raw materials, supplies and consumables</i>	31/12/99	31/12/98	Change	% Change
(Euro)				
Telephone cards	106,181	90,135	16,046	17.80%
Various consumables	861,634	24,737	836,897	3383.13%
	967,815	114,872	852,943	3400.93%

The balances at year-end refer principally to the inventory of telephone and routers. The increase recorded is to be interpreted in relation to the development of activities during the second half of the fiscal year.

II - RECEIVABLES

Following is a breakdown of amounts due from customers:

<i>Description</i>	(Euro)	31/12/99	31/12/98	Change	% Change
Customers in Italy		24,052,929	1,393,538	22,659,391	1626.03%
Customers abroad		-	-	-	-
less: reserve for bad debts		(312,053)	(26,516)	(285,537)	1076.83%
<i>Total</i>		23,740,876	1,367,022	22,373,854	2702.86%

The sharp growth in these receivables is closely linked to the progressive consolidation of fixed telephone services and the start of Internet access services; in particular roughly EURO 5,2 million of receivables are payable by Telecom Italia S.p.A. as a consequence of reciprocal interconnection agreements. Invoicing of this sum was deferred to year end, while awaiting the resolution of the pending appeal made to the Communications Guarantee Authority. As a matter of prudence, the rates agreed with the Authority have been entered while awaiting signature of the final agreement with Telecom Italia S.p.A. Should no agreement be reached and should the proceedings have a positive outcome for Tiscali S.p.A, Telecom will be required to pay Tiscali an additional amount for the inverse termination, with retroactive effect. The remaining receivables are mainly linked to the substantial growth of activity in the last quarter.

ANALYSIS OF RECEIVABLES BASED ON MATURITY

<i>Description</i>	(Euro)	31st Dec. 1999			31st Dec. 1998		
		Amounts receivable			Amounts receivable		
		Within 1 year	1- 5 years	After 5 years	Within 1 year	1- 5 years	After 5 years
<i>Receivables:</i>							
From customers		23,740,876	-	-	1,367,022	-	-
From subsidiary companies		1,477,161	-	-	-	-	-
From affiliated companies		11,879	-	-	-	-	-
From parent companies		-	-	-	-	-	-
From others		5,163,243	4,147,534	-	469,197	-	-
		30,393,159	4,147,534	-	1,836,219	-	-

ANALYSIS OF RECEIVABLES FROM SUBSIDIARY AND AFFILIATED COMPANIES

Receivables from subsidiary and affiliated companies are detailed as follows:

<i>Description</i>	(Euro)	FINANCIAL RECEIVABLES		TRADE RECEIVABLES		TOTAL
		< 1 YEAR	> 1 YEAR	< 1 YEAR	> 1 YEAR	
<u>SUBSIDIARY COMPANIES:</u>						
Nets SA		1,298,913	-	-	-	1,298,913
Informedia S.r.l.		172,154	-	-	-	172,154
Almanacco S.p.A.		620	-	-	-	620
Andala Umts S.p.A.		310	-	-	-	310
Andala S.p.A.		5,164	-	-	-	5,164
Energy Byte S.p.A.		-	-	-	-	-
		1,477,161	-	-	-	1,477,161
<u>AFFILIATED COMPANIES</u>						
Gilla S.p.A.		11,879	-	-	-	11,879
		11,879	-	-	-	11,879

The above listed receivables accrued as a consequence of the financial backing given to the subsidiary and affiliated companies in question. Receivables from Informedia S.r.l. will be converted into capital increase account.

ANALYSIS OF OTHER RECEIVABLES

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

<i>Description</i>	(Euro)	TRADE RECEIVABLES	
		As of 31.12.1999	As of 31.12.1998
<i>Receivable within the following financial year</i>			
Receivables from the Treasury for advance withholding taxes		179,134	-
Receivables from other subjects		23,684	-
VAT credits		4,585,425	-
Other credits		375,000	469,197
		5,163,243	469,197
<i>Receivable beyond the following financial year</i>			
Receivables from the Treasury for advance withholding taxes		4,007,036	-
Guarantee Deposits		140,498	-
		4,147,534	-
	Total	9,310,777	469,197

VAT credit will be recovered in the next financial year by means of offsetting to be carried out at the time of monthly payment of VAT.

The heading “Other Credits” also includes advance paid taxes, whose posting criterion has already been discussed in the first part of these notes to the financial statements.

VI - CASH AND CASH EQUIVALENTS

Available funds increased by ITL 189,527 million from the previous financial year, and comprise the following line items:

<i>Description</i>	(Euro)		Change	% Change
	As of 31.12.1999	As of 31.12.1998		
Bank deposits	100,063,056	2,120,668	97,942,388	4,618.46%
Cash and other negotiable instruments	7,281	67,070	(59,789)	(89.15%)
<i>Total</i>	100,070,337	2,187,738	97,882,599	4,474.14%

The increase of available funds originated from the increase in capital, which was effected in October 1999, following the placing of shares on Nuovo Mercato.

D) ACCRUED INCOME AND DEFERRED CHARGES

Following is a summary of accrued income and deferred charges:

(Euro)		31/12/99	31/12/98	Change	% change
<i>Accrued income</i>					
Accrued income		1,249	-	1,249	
	<i>Total accrued income</i>	1,249	-	1,249	
<i>Deferred charges:</i>					
Leasing and licenses		2,303,829	814,881	1,488,948	182.72%
Rentals		22,656	7,596	15,061	198.28%
Telecom leases		1,703,705	72,716	1,630,989	2242.97%
Outstanding expenses		2,250,871	2,658	2,248,214	84587.93%
	<i>Total deferred charges</i>	6,281,061	897,850	5,383,211	599.57%
	<i>Total accrued income and deferred charges</i>	6,282,310	897,850	5,384,460	599.71%

Deferred charges on lease fees are noticeably higher with respect to the previous financial year. They result from the signing of new contracts during 1999, and the ensuing deferral of lease payments for the "maxi-fee" according to the matching principle. The increase of deferred charges on Telecom lease payments is to be attributed to the substantial development of the network and refers to the lease of circuits with advance invoicing, as established in the interconnection contract.

Outstanding expenses refer to advertising campaigns carried out at the end of the financial year for services which will be activated in the year 2000.

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.

<i>Description</i>	BALANCE	Allocation of	Other	Balance sheet	BALANCE
(Euro)	31.12.98	earnings	Changes	results	31.12.99
Share capital	645,571	-	160,825	-	806,396
Share premium reserve	4,002,541	-	138,656,535	-	142,659,076
Other reserves	-	-	-	-	-
Profit (loss) carried forward	(17,019)	(1,421,978)	1,438,997	-	-
Profit (loss) for the period	(1,421,978)	1,421,978	-	(5,536,691)	(5,536,691)
<i>Total</i>	3,209,115	-	140,256,357	(5,536,691)	137,928,781

As of 31 December 1999, the share capital was EURO 806,396 consisting of No 15,614,000 shares with nominal value of EURO 0,051646 each (ITL 100). The main changes which took place during the financial year are shown hereunder.

As of 30 June 1999, the extraordinary shareholders' meeting approved:

- the split of each existing share into 100 new shares with the reduction of the nominal value from ITL 10,000 to ITL 100 each;
- a splittable increase of the share capital with exclusion of option rights pursuant to art. 2441 of the Civil Code.
- the request of quotation of ordinary shares on the "Nuovo Mercato", organized and managed by Borsa Italiana S.p.A., by means of the presentation of a "Global Offer of Ordinary Tiscali Shares".

On 27 October 1999 quotation of the Company's shares on Nuovo Mercato was launched. Stock on the market is approximately 24% of total shares.

SHARE CAPITAL COMPOSITION

<i>Nominal value of each share</i>	<i>ITL</i>	<i>100</i>
	<i>EURO</i>	<i>0,051646</i>

The following table displays the composition of the share capital and the changes which occurred during the financial year.

<i>CATEGORY</i>	(Euro)	31/12/98	INCREASE	(DECREASE.)	31/12/99
ORDINARY SHARES (N°)		12,500,000	3,114,000	-	15,614,000
<i>Total</i>		12,500,000	3,114,000	-	15,614,000

B) RESERVES FOR RISKS AND FUTURE LIABILITIES

The following table shows the changes in the reserves for risks and future liabilities which occurred during the financial year.

<i>Description</i>	(Euro)	Balance 31/12/98	Provisions	(Usage)	Other changes	Balance 31/12/99
<i>other:</i>						
Foreign Exchange Fluctuation Fund		-	9,795	-	-	9,795
<i>Total other funds</i>		-	9,795	-	-	9,795

C) STAFF SEVERANCE INDEMNITY RESERVE

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

<i>Description</i>	(Euro)	Balance 31/12/98	Provision	(Usage)	Other Changes	Balance 31/12/99
Executives		-	16,403	-	-	16,403
Middle Managers, Clerical Staff and equivalent		25,782	163,905	(3,627)	-	186,060
Workers		-	262	-	-	262
<i>Total</i>		25,782	180,570	(3,627)	-	202,725

This provision represents the actual sums due by the company to its employees as of the dates shown, net of advances paid.

D) LIABILITIES

ANALYSIS OF LIABILITIES BASED ON MATURITY

Description	(Euro)	31/12/99			31/12/98		
		Amounts due			Amounts due		
		Within 1 year	1-5 years	After 5 years	Within 1 year	1-5 years	After 5 years
Due to banks		124	-	-	7,251	-	-
Due to other financial backers		-	-	-	157,206	-	-
Trade accounts payable		34,133,150	-	-	3,086,899	-	-
Due to subsidiary companies		237,336	-	-	-	-	-
Due to affiliated companies		875,000	-	-	-	-	-
Taxes payable		157,196	-	-	53,119	-	-
Due to social security institutions		104,212	-	-	7,446	-	-
Other payables		3,844,979	-	-	82,630	-	-
		39,351,997	-	-	3,394,551	-	-

Trade accounts payable include: EURO 11,4 million payable to Telecom Italia S.p.A. for invoices pertaining to network circuit and access rental, as well as interconnection traffic; EURO 5,16 million for purchase of traffic from international operators; EURO 4 million due to advertising suppliers; EURO 4,6 million refer to invoices still to be received.

The increase with respect to the previous year, of EURO 31,04 million, is linked to the rapid growth of the activity in the last months of the financial year.

Description	(Euro)	FINANCIAL LIABILITIES		TRADE LIABILITIES		TOTAL
		< 1 year	> 1 year	< 1 year	> 1 year	
Due to banks		124	-	-	-	124
Trade accounts payable		-	-	34,133,150	-	34,133,150
Due to subsidiary companies		237,336	-	-	-	237,336
Due to affiliated companies		875,000	-	-	-	875,000
Taxes payable		157,196	-	-	-	157,196
Due to social security institutions		104,212	-	-	-	104,212
Other payables		3,844,979	-	-	-	3,844,979
<i>Total</i>		5,218,847	-	34,133,150	-	39,351,997

PAYABLES TO GROUP COMPANIES

The breakdown of amounts payable to other companies in the group is as follows:

Company	(Euro)	FINANCIAL LIABILITIES		TRADE LIABILITIES		TOTAL
		< 1 year	> 1 year	< 1 year	> 1 year	
<u>SUBSIDIARY COMPANIES:</u>						
Almanacco S.p.A.		72,304	-	-	-	72,304
Andala Umts S.p.A.		65,074	-	-	-	65,074
Andala S.p.A.		61,458	-	-	-	61,458
Energy Byte S.p.A.		38,500	-	-	-	38,500
<i>Total</i>		237,336	-	-	-	237,336
<u>AFFILIATED COMPANIES:</u>						
Gilla S.p.A.		875,000	-	-	-	875,000

The amounts listed above refer exclusively to the residual arrears to be paid into the subscribed capital account.

TAXES AND DUTIES PAYABLE

<i>Description</i>	(Euro)	31/12/99	31/12/98	Change	% change
Registration duty payable		40,671	40,671	-	-
Advance withholding taxes payable		116,525	12,488	104,077	836.10%
<i>Total</i>		157,196	53,119	104,077	195.93%

Taxes and duties payable to the Treasury consist mainly of advance withholdings made and remitted in January 2000.

ANALYSIS OF OTHER PAYABLES

<i>Description</i>	(Euro)	31/12/99	31/12/98	Change	% change
Personnel wages and salaries payable		284,879	-	284,879	-
Other		3,560,100	82,630	3,477,470	4208.46%
<i>Total</i>		3,844,979	82,630	3,762,349	4553.22%

The line item "Other Payables" includes EURO 3,4 million payable by Tiscali to the partners of the company Nets SA in accordance with the contract, stipulated on 29 December 1999, which established the acquisition of 100% of shareholding capital against payment of a total sum of EURO 7,4 million. Pursuant to contract terms, Tiscali paid EURO 4 million in cash at the time of signing the contract. For the remaining sum, EURO 3,4 million, Tiscali will issue and deliver new shares. Said shares will be issued in conjunction with the increase in the share capital with exclusion of option rights in accordance with article 2441 of the Italian Civil Code. Said operation is on the agenda of the extraordinary shareholders' meeting called for 15 March 2000.

E) ACCRUED LIABILITIES AND DEFERRED INCOME

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

	(Euro)	31/12/99	31/12/98	Change	% Change
<i>Accrued Liabilities</i>					
Accrued liabilities for holiday bonus		111,328	18,774	92,554	493.00%
Holidays and leave accrued but not taken		144,115	17,729	126,386	712.87%
Other		8,358	14,756	(6,397)	-43.36%
<i>Total accrued liabilities</i>		263,801	51,259	212,542	414.65%
<i>Deferred income:</i>					
Prepaid traffic		4,596,690	743,505	3,853,185	518.25%
		4,596,690	743,505	3,853,185	518.25%
<i>Total deferred income</i>		4,860,491	794,764	4,065,727	511.56%

Deferred income consists of the portion of telephone traffic which has been paid but not yet used.

MEMORANDUM ACCOUNTS

OTHER MEMORANDUM ACCOUNTS

Leasing Contracts and Operating Lease

The amounts refer to the commitments for leasing payments and operating lease on contracts with a maturity of 30 to 60 months. Other lease payments refer to the rental of Ericsson exchanges by ECS Italia SpA.

Warrants

The extraordinary shareholders' meeting of 25 October 1999 approved the issue of 120,773 warrants, together with an increase in share capital to cover the same. Total validity of the warrants is 360 days from delivery; they may be exercised, i.e. converted into ordinary Tiscali shares, after 180 days from delivery.

GUARANTEES

Surety Bonds

The guarantees received were issued by leading credit institutions in favor of the Ministry of Communications, the Ministry of Finance and Telecom Italia S.p.A. in the interest of the Company.

PROFIT AND LOSS STATEMENT

A) VALUE OF PRODUCTION

ANALYSIS OF SALES AND SERVICES

Breakdown of revenues by type of activity

<i>Analysis by type of activity:</i>	31/12/99	31/12/98	Change	% Change
(Euro)				
Revenues from telephone services	12,226,409	359,835	11,866,574	3297.78%
Revenues from Internet services	12,672,281	332,894	12,339,387	3706.70%
Revenues from phone card sales	7,750,012	593,760	7,156,252	1205.24%
Other revenues	19,823	11,211	8,611	76.81%
Services	58,100	-	58,100	-
	32,726,625	1,297,701	31,428,924	2421.89%

The increase of revenues from telephone services results from the expansion of the service to cover the whole Italian territory. This growth has further increased its pace in the fourth quarter. With regards to prepaid services, the matching principle was applied, by posting residual customer credit among the liabilities in the balance sheet. Internet revenues are mainly referred to termination services provided to Telecom Italia S.p.A., to the lease of interconnection accesses and to contributions for the installation and upgrading of interconnection kits. Revenues from domain sale and advertising have a minor impact. However, revenues from advertising are expected to show a sharp growth in 2000.

Breakdown of revenues by geographic areas

<i>Analysis by geographic area:</i>	31/12/99	31/12/98	Change	% Change
(Euro)				
Sales in Italy	32,726,625	1,297,701	31,428,924	2421.89%
Sales in other EU countries	-	-	-	-
	32,726,625	1,297,701	31,428,924	2421.89%

OTHER REVENUES AND INCOME

<i>Description</i>	31/12/99	31/12/98	Change	% Change
(Euro)				
Revenues from trade exchange	25,256	-	25,256	-
Other revenues and income	48,516	7,738	40,778	526.98%
	73,772	7,738	66,034	853.37%

B) PRODUCTION COSTS

PURCHASES OF RAW MATERIALS, SUPPLIES AND CONSUMABLES

Analysis of purchases:

<i>Description</i>	(Euro)	31/12/99	31/12/98	Change	% Change
Telephone cards		183,572	125,465	58,107	46.31%
Consumables		1,596,378	17,916	1,578,461	8810.21%
Packaging		11,191	5,323	5,867	110.22%
Promotional materials		556,014	138,776	417,239	300.66%
Other		261,556	854	260,703	30540.32%
		2,608,711	288,334	2,320,377	804.75%

The sharp growth recorded with respect to the previous financial year is linked to the increase in revenues and to the start-up phase of the free internet access service, which required a huge outlay in promotional and information materials, as well as the purchase of telephone and customized routers. This account is partially amended by the posting of inventories.

COMPOSITION OF EXPENSES FOR SERVICES

Analysis and composition of expenses for services:

<i>Description</i>	(Euro)	31/12/99	31/12/98	Change	% Change
Rental of telephone lines		10,361,885	531,304	9,830,581	1850.28%
Procurement of traffic		15,255,619	222,386	15,033,233	6759.98%
Other telecommunications services		611,742	250,716	361,026	144.00%
Maintenance		116,397	37,262	79,135	212.37%
Advisory services		630,535	34,291	596,243	1738.75%
Costs for administrative services		357,119	32,557	324,562	996.90%
Transportation expenses		257,348	23,145	234,204	1011.92%
Travel and transportation		168,619	21,760	146,858	674.89%
Commissions		1,647,596	126,298	1,521,298	1204.53%
Advertising		2,603,379	6,477	2,596,902	40085.89%
Expenses for external labour		174,718	128,628	46,090	35.83%
Other services		320,316	31,662	288,654	911.67%
		32,505,273	1,446,490	31,058,786	2147.18%

The increase of these expenses is directly linked to the development of Company activities and the expansion of the offer of telephone services to cover the whole Italian territory. With regards to Internet, the increase is linked to the gradual commissioning of the exchanges located at the 24 sites covering the whole national territory. The completion of the network, with the gradual linkup of the 24 exchanges, has involved a sharp increase in “backbone” expenses incurred for each exchange, in order to reach the optimum use, when fully operational, of installed connection capacity. The line item “Procurement of Traffic” includes mainly interconnection expenses for the collection, termination and procurement of traffic from international carriers.

COMPOSITION OF OTHER OPERATING EXPENSES

Analysis and composition of other operating expenses:

Description	(Euro)	31/12/99	31/12/98	Change	% Change
Taxes other than income taxes		44,593,	-	44,593	-
Fines and penalties		2,999	-	2,999	-
Contribution for taxes on government concessions		138,837	81,641	57,196	70.06%
Miscellaneous losses		-	5,114	(5,114)	(100.00%)
Other minor charges		273,821	31,954	241,867	756.89%
		460,250	118,710	341,541	287.71%

C) FINANCIAL INCOME AND CHARGES

Analysis of financial income:

Description	(Euro)	DIVIDENDS	REVENUES FROM NEGOTIATIONS	OTHER	TOTAL
Subsidiary companies		-	-	1,723	1,723
Affiliated companies		-	-	-	-
Other companies		-	-	-	-
<i>Total</i>		-	-	1,723	1,723

Description	(Euro)	31/12/99	31/12/98	Change	% Change
<i>Revenues other than the above</i>					
<i>From third parties</i>					
Bank interest receivable		661,734	3,372	658,362	19525.85%
<i>Total</i>		661,734	3,372	658,362	19525.85%
<i>Total</i>		661,734	3,372	658,362	19525.85%

This amount is referred to the active interest accrued on available liquid assets resulting from the increase in share capital following listing of Tiscali shares on the stock exchange in October 1999.

COMPOSITION OF OTHER FINANCIAL CHARGES

Description:	(Euro)	31/12/99	31/12/98	Change	% Change
<i>Financial charges on:</i>					
amounts due to banks for overdrafts		98,096	2,085	96,011	4604.53%
amounts due to others		81,145	5,860	75,285	1284.78%
<i>Other financial charges:</i>					
Other banking expenses		117,102	2,244	114,858	5117.14%
Other		132	2,653	(2,520)	(95.02%)
<i>Total</i>		296,475	12,842	283,634	2208.62%

E) EXTRAORDINARY FINANCIAL INCOME AND FINANCIAL CHARGES

COMPOSITION OF EXTRAORDINARY FINANCIAL INCOME

Description	(Euro)	31/12/99	31/12/98	Change	% Change
<i>Extraordinary financial income:</i>					
Contingent assets and non-existent liabilities		215	2	213	9804.75%
<i>Total</i>		215	2	213	9804.75%

Description	(Euro)	31/12/99	31/12/98	Change	% Change
<i>Extraordinary financial charges:</i>					
Contingent liabilities and non-existent assets		(51,138)	-	(51,138)	-
Other extraordinary charges		(1,181)	(935)	(246)	26.31%
		(52,319)	(935)	(51,384)	5496.86%

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 1999	31/12/99	AVERAGE 1998	31/12/98
Executives	3	9	-	-
Middle Managers	6	14	1	2
Clerical Staff	122	218	21	43
Workers	1	2	-	-
<i>Total</i>	132	243	22	45

COMPENSATION TO DIRECTORS AND STATUTORY AUDITORS

Position	<i>First and last name</i>	Duration of appointment	31/12/99 (Euro)	31/12/98 (Euro)
<i>Director</i>	<i>Desiderio Casu</i>	12/02/98 30/11/98	-	1,587
<i>Statutory auditor</i>	<i>Corrado Caddeo</i>	12/02/98 30/11/98	-	1,058
<i>Director</i>	<i>Rita Casu</i>	30/11/98 31/12/99	12,011	714
<i>Statutory auditor</i>	<i>Giuseppe Biondo</i>	30/11/98 31/12/99	8,323	582
<i>Statutory auditor</i>	<i>Giorgio Mucci</i>	30/06/97 30/06/99	4,836	3,477
<i>Statutory auditor</i>	<i>Piero Maccioni</i>	30/06/99 31/12/99	2,634	-
<i>Total</i>			27,804	7,418

During 1999, the directors received no compensation.

Company shares held by the Board of Directors:

<i>Position</i>	<i>First and last name</i>	<i>Shares held as of 31.12.1999</i>
<i>Director and Managing Director</i>	<i>Renato Soru</i>	10,810,000
<i>Statutory auditor</i>	<i>Elserino Piol</i>	-
<i>Statutory auditor</i>	<i>Maurizio Decina</i>	4,000
<i>Statutory auditor</i>	<i>Bruno Soggiu</i>	500
<i>Statutory auditor</i>	<i>Hermann Hauser</i>	-

Company shares held by the Board of Auditors:

<i>Appointment</i>	<i>First and last name</i>	<i>Shares held as of 31.12.1999</i>
<i>President</i>	<i>Rita Casu</i>	-
<i>Statutory auditor</i>	<i>Giuseppe Biondo</i>	-
<i>Statutory auditor</i>	<i>Piero Maccioni</i>	-
<i>Statutory auditor</i>	<i>Giorgio Mucci</i>	-

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 profit and loss 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 current liabilities so 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 statement prepared on the 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 is presented with the 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, as recommended by the accounting principles adopted by the Italian accounting profession (Consiglio Nazionale dei Dottori Commercialisti e dei Ragionieri).

FINANCIAL STATEMENT ANALYSIS – BALANCE SHEET
Million EURO

<i>ASSETS</i>	31/12/99	%	31/12/98	%	Change	% Change
<i>CURRENT ASSETS</i>						
Cash and banks	100,07		2,19		97,88	4474.20%
Receivables from customers	30,39		1,84		28,55	1555.39%
Inventories	0,97		0,11		0,86	744.14%
Accrued revenues & def. charges	6,28		0,91		5,37	599.88%
Other current assets			0,21		(0,21)	(100.00%)
Total current assets	137,71	75.52%	5,24	70.62%	132,44	2526.83%
<i>NON-CURRENT ASSETS:</i>						
Fixed assets	2,95		0,55		2,40	437.03%
Intangible assets	18,13		1,63		16,49	1011.02%
Investments and securities	9,42		-		9,42	
Other fixed assets	14,14		-		14,14	
Total non-current assets	44,64	24.48%	2,18	29.38%	42,45	1946.77%
TOTAL ASSETS	182,35	100.00%	7,42	100.00%	174,93	2356.41%

<i>LIABILITIES AND SHAREHOLDERS EQUITY</i>	31/12/99	%	31/12/98	%	Change.	% Change
<i>CURRENT LIABILITIES</i>						
Due to banks	-		0,01		(0,01)	(100.00%)
Trade accounts payable	34,13		3,09		31,05	1005.76%
Other liabilities	5,06		0,25		4,81	1950.21%
Accrued liabilities & def. inc.	4,86		0,79		4,07	511.50%
Taxes payable	0,16		0,05		0,10	195.15%
Total current liabilities	44,21	24.25%	4,19	56.43%	40,02	955.43%
<i>MEDIUM/LONG-TERM LIABILITIES</i>						
Medium/long-term loans						
Staff severance indemnity reserve	0,20		0,03		0,17	686.00%
Reserves for risks & future liabilities	0,01		-		0,01	
Total medium/long-term liabilities	0,21	0.12%	0,03	0.35%	0,18	724.00%
Total liabilities	44,42	24.36%	4,22	56.78%	40,20	954.01%
<i>SHAREHOLDERS' EQUITY</i>						
Share capital	0,81		0,65		0,16	24.88%
Reserves	142,66		3,99		138,67	3479.45%
Net profit	(5,54)		(1,42)		(4,11)	289.25%
Total shareholders' equity	137,93	75.64%	3,22	43.22%	134,71	4198.52%
TOTAL	182,35	100.00%	7,44	100.00%	174,92	2356.41%

Financial Statement Analysis – Profit and Loss Statement

<i>Profit and Loss Statement</i>	31/12/99	%	31/12/98	%	Change	% Change
<i>Net sales</i>	32,73	100.00%	1,30	100,00%	31,43	2421,61%
<i>Operating expenses:</i>						
Purchases	(2,61)	(7.97%)	(0,26)	(22.20%)	(2,32)	805.20%
Services	(32,51)	(99.32%)	(1,45)	(111.46%)	(31,06)	2147.05%
depreciation / amortization	(2,63)	(8.03%)	(0,68)	(52.69%)	(1,95)	284.52%
cost of labour	(3,32)	(10.15%)	(0,20)	(15.44%)	(3,12)	1557.22%
increase (decrease) in inventories	0,85	2.61%	0,11	8.83%	0,74	644.14%
other operating expenses	(2,45)	(7.48%)	(0,21)	(16.43%)	(2,24)	1047.70%
<i>operating profit</i>	(9,94)	(30.35%)	(1,42)	(109.39%)	(8,52)	599,60%
financial income	0,67	2,03%	-	0,28%	0,67	18257.14%
financial charges	(0,30)	(0.91%)	(0,02)	(0.99%)	(0,28)	2196.00%
other income	0,07	0.23%	0,01	0.60%	0,06	853.33%
other charges	(0,05)	(0.16%)	-	(0.08%)	(0,05)	4950.00%
<i>profit before taxes</i>	(9,55)	(29.16%)	(1,43)	(109.59%)	(8,11)	570.99%
<i>income taxes</i>						
Current						
Deferred	4,01	12.24%			4,01	
<i>PROFIT (LOSS) FOR THE PERIOD</i>	(5,54)	(16.92%)	(1,43)	(109.59%)	(4,10)	289.25%

FINANCIAL STATEMENT (FLOWS)			
<i>CASH FLOWS GENERATED FROM OPERATIONS::</i>		31/12/99	31/12/98
		Million EURO	Million EURO
<i>Net loss for the financial year</i>		(5,54)	(1,42)
<i>Adjustments for accounts not affecting cash flow:</i>			
Depreciation and amortization	2,63		0,68
Provision to staff severance indemnity reserve	0,18		0,03
Staff severance indemnities paid during the period	-		
Provision (use) of reserve for risks and future liabilities	0,01	(2,72)	(0,71)
<i>Changes in current assets and liabilities:</i>			
Amounts due from customers	(28,56)		(1,82)
Other receivables	0,21		
Inventories	(0,85)		(0,11)
Accrued income and deferred charges	(5,38)		(0,9)
Trade accounts payable	31,05		3,03
Other liabilities	4,81		0,24
Accrued liabilities and deferred income	4,07		0,79
Reserve for taxes payable	0,10	8,26	2,01
<i>Cash flows generated from operations</i>		2,72	0,58
<i>CASH FLOWS FROM INVESTMENT ACTIVITY:</i>			
Net book value of assets sold			
Purchase of fixed assets	(2,78)		(0,54)
Increases in intangible assets	(18,74)		(2,24)
(increase) decrease in investments	(9,42)	(30,94)	0,02
<i>CASH FLOWS FROM FINANCING ACTIVITY:</i>			
New loans			
Reimbursement of loans			
Capital increases	140,26		4,54
Dividends paid			
Reduction (increase) in other non-current assets	(14,15)	126,11	(0,21)
<i>INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS</i>		97,89	2,15
<i>CASH AND CASH EQUIVALENTS – OPENING BALANCE</i>		2,18	0,03
<i>CASH AND CASH EQUIVALENTS – CLOSING BALANCE</i>		100,07	2,18

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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.

*For the Board of Directors
The Chairman*

Renato Soru