



Società per azioni

Six-month Report
June 30, 2000

PIRELLI Società per azioni

Head office in Milan, Viale Sarca 222

Share capital – Euros 1,034,429,598.28

Milan Courts, Companies Register No. 15901

PIRELLI S.p.A. - MILAN
Six-Month Report at June 30, 2000

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PIRELLI S.p.A.**Board of Directors**

Chairman and CEO	Marco Tronchetti Provera
Deputy Chairman	Alberto Pirelli
Directors	Carlo Buora Eugenio Coppola di Canzano Carlo De Benedetti Alberto Falck Giovanni Ferrario Giuseppe Gazzoni-Frascara Georg F. Kraye Angelo Marchiò Giuseppe Morchio Luigi Orlando Riccardo Perissich Giampiero Pesenti Ennio Presutti Carlo Alessandro Puri Negri Vincenzo Sozzani Frank Vischer

Secretary to the Board	Sergio Lamacchia
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Board of Statutory Auditors

Chairman	Luigi Guatri
Standing members	Rosalba Casiraghi Giorgio Oggioni
Alternate members	Mario Brughera Alfredo Malguzzi

General Managers

Finance and Administration	Carlo Buora
Tyres Sector	Giovanni Ferrario
Cables and Systems Sector	Giuseppe Morchio

Independent auditors

PricewaterhouseCoopers S.p.A.

COMMENTS ON OPERATIONS

FINANCIAL REVIEW

The **consolidated statement of income for the six months ended June 30, 2000** shows a net income of Euros 961 million, compared to Euros 119 million for the first half of 1999. The net income for the entire year 1999 was Euros 305 million.

The **consolidated net income attributable to Pirelli S.p.A.** amounts to Euros 958 million, compared to Euros 102 million for the first six months of 1999.

The **consolidated net income of the Group** for the first six months was characterized by an improvement in the operating profit, which rose from Euros 177 million to Euros 213 million, the sale of Pirelli's Terrestrial Optical Systems business to Cisco Systems, which led to proceeds of Euros 1,575 million, and extraordinary productive restructuring and rationalization charges of Euros 254 million.

Sales revenues, totaling Euros 3,598 million, present a growth of 12.8 percent over the first half of the prior year, equal to Euros 3,190 million.

The **gross operating profit** is equal to Euros 402 million (11.2 percent of sales) compared to Euros 343 million in the first half of 1999 (10.8 percent of sales).

The **consolidated operating profit** is Euros 213 million (5.9 percent of sales) compared to Euros 177 million (5.5 percent of sales) in the first half of 1999, showing an increase of 20 percent. The improvement, found in both Sectors, is due to higher volumes and the continual actions taken to improve efficiency in the use of productive factors.

The **net financial position** shows a liquidity position of Euros 296 million compared to a net debt position of Euros 1,017 million at December 31, 1999. The change is mainly the result of the net effect of extraordinary transactions (sale of the Terrestrial Optical Systems business to Cisco Systems and the acquisition of the power cables businesses in Finland and Holland).

The **consolidated shareholders' equity** rose from Euros 2,454 million at December 31, 1999 to Euros 3,288 million as a result of the net income for the period and the payment of dividends.

The **net income of Pirelli S.p.A.**, the Group holding company, is Euro 226 million compared to Euro 220 million for the six months to June 30, 1999 and Euro 229 million for the entire year 1999.

THE GROUP

The first half of 2000 was marked by a competitive picture that was substantially unchanged from the prior year, with pressure over raw materials prices.

In this scenario, the Group raised volumes which, besides continuous actions to reduce costs and improve productive operations, made it possible to increase the results over the prior year.

In February 2000, was concluded the sale of the Terrestrial Optical Systems business to Cisco Systems, as described in the introduction to the financial review.

On January 14, 2000, the acquisition of the majority interest in Pirelli Telecom Cables Co. Ltd Wuxi (China) was concluded and the stake is now equal to 66.47 percent.

Also finalized in the first quarter was the acquisition by Pirelli Cavi e Sistemi of business activities in Finland and Holland from Draka.

In February 2000, Pirelli Group reached an agreement with BICCGeneral for the purchase of the power cables business which had belonged to the BICC plc British group and was bought last year by the American group General Cable.

Cables and Systems Sector

Over the last few years, the Cables and Systems sector has proceeded to separate the power and telecommunications operational activities.

Power

The power sector is going through an enormous phase of transformation in Europe that is connected with the deregulation and privatization process of the big European utility companies and the ever-greater integration of the markets.

The strategy adopted is that of contributing to the consolidation of the sector mainly by the acquisition of selected businesses: Siemens last year and NKF and BICC this year. This will lead to total investments in 2000 for Euros 355 million, of which Euros 141 million have already been invested in the first half.

This has enabled the sector to become a world leader in these business areas.

Telecommunications

Pirelli is already the third largest manufacturer worldwide of optic cables; investments are expected to be made during the three years 2000 - 2002 for more than Euros 670 million, of which Euros 194 million are earmarked to increase the productive capacity of optic fibers. In the year 2000 alone, investments will total Euros 240 million, of which Euros 69 million were invested in the first half.

In the optic components area, a development project was begun in the last few months which led to the addition of a significant number of new qualified professionals and the start of investments in Italy and the United States which are the reference market for the new products.

Tyres Sector

In the Tyres Sector, the most significant investments were concentrated in the high range of the three business lines (passenger car/light truck, truck and motorcycles), developing new products also using the new MIRS technology.

This technology, based on “mini-production facilities” with a high degree of flexibility strategically distributed over the territory, will become the most significant capital expenditure over the next few years, totaling over Euros 400 million, an amount which should be added to the Euros 610 million already scheduled for the three years 2000 - 2002. In 2000, total capital expenditures will amount to Euros 220 million, of which Euros 92 million were already invested in the first half.

The above attests to the efforts made by the Group in terms of capital expenditures, which, together with the investments for organizational and productive restructuring (Euros 254 million), amount to more than Euros 2.5 billion (over Euros 1 billion in 2000 alone).

The key figures of the consolidated financial statements for the six months ended June 30, 2000 can be summarized as follows:

	(in millions of euros)		
	6/30/2000	6/30/1999	12/31/1999
. Sales revenues	3,598	3,190	6,482
. Gross operating profit	402	343	678
% of sales	11.2%	10.8%	10.5%
. Operating profit	213	177	331
% of sales	5.9%	5.5%	5.1%
. Financial income and expenses, net	(32)	(3)	(24)
. Extraordinary items, net	1,166	6	89
. Income taxes	(386)	(61)	(91)
. Net income	961	119	305
% of sales	26.7%	3.7%	4.7%
.Net income attributable to Pirelli S.p.A.	958	102	293
.Earning per share (in euros)	0.48	0.05	0.15
. Shareholders' equity	3,288	2,366	2,454
. Shareholders' equity attributable to Pirelli S.p.A.	3,114	2,193	2,275
. Equity per shares (in euros)	1.57	1.11	1.15
. Net financial (liquidity) debt	(296)	683	1,017
. Capital expenditures	235	204	469
. R&D expenditures	105	95	200
. Personnel (number)	41,809	40,123	40,103
. Factories (number)	86	83	87
. Pirelli S.p.A. ordinary shares (No. in millions)	1,901	1,897	1,897
. Pirelli S.p.A. savings shares (No. in millions)	88	88	88
. Total Pirelli S.p.A. shares (No. in millions)	1,989	1,985	1,985

• **Sales revenues**

Sales revenues, equal to Euros 3,598 million, show an increase of 12.8 percent over the first half of 1999. This is due to both volume increases and the positive currency exchange effect that was partly offset by the deconsolidation of the Photonics business that was sold to Cisco.

The change in sales can be summarized as follows:

• Currency exchange effect	+ 6.4%
• Volumes	+ 5.3%
• Prices	+ 1.1%
• Mix and other	+ 0.1%
• Deconsolidation of Photonics business	- 3.7%
• Consolidation of entities acquired	+ 3.6%

	+ 12.8%
	=====

The breakdown by sector and geographic area of destination is as follows:

Sector	1st half 2000	1st half 1999	Geographic area	1st half 2000	1st half 1999
Cables and Systems	60%	59%	Europe	55%	57%
Tyres	40%	41%	North America	16%	16%
			Central and South America	16%	18%
			Australia, Africa and Asia	13%	9%

• **Operating profit**

Operating profit is Euros 36 million higher than the first half of the prior year, representing 5.9 percent (5.5 percent in 1999) as a percentage of sales; this change is mainly due to the following:

	<u>Millions of euros</u>
• Currency exchange	+ 12
• Deconsolidation of Photonics business	- 8
• Consolidation of entities acquired	+ 7
• Prices (excluding metals)	- 61
• Volumes and mix	+ 71
• Materials	- 26
• Efficiency	+ 29
• Change in unit costs and other	+ 12

	+ 36
	=====

• **Extraordinary items**

Extraordinary items show an extraordinary income balance of Euros 1,166 million compared to Euros 6 million in the first half of 1999. This is mainly due to the net gain, before taxes, on the previously mentioned sale of the Terrestrial Optical Systems business to Cisco Systems (Euros 1,411 million) and extraordinary restructuring and rationalization charges of Euros 254 million.

• **Net income**

Net income is equal to Euros 961 million compared to Euros 119 million in the first half of 1999.

Contributing to this result are the increase in operating profit (+ Euros 36 million) and the increase in the income balance of extraordinary items, net (+ Euros 1,160 million) despite a higher net expense balance of financial income and expenses (- Euros 29 million), notwithstanding a better average net financial position. This is due to a reduction in both the real rates in Turkey and Brazil and extraordinary exchange gains in the first half of 1999. Tax expense went from Euros 61 million to Euros 386 million mainly in relation to the Cisco deal.

• **Shareholders' equity**

Shareholders' equity rose from Euros 2,454 million at December 31, 1999 to Euros 3,288 million, with an increase of Euros 834 million.

This increase can be analyzed as follows:

	<u>Millions of euros</u>	
• Translation adjustment		39
• Net income for the period		961
• Dividends to third parties		
– Pirelli S.p.A.	(151)	
– Other Group companies	(12)	(163)
• Other changes		(3)

		834

· **Net financial position**

The net financial position shows a net liquidity position of Euros 296 million compared to the net debt position of Euros 1,017 million at December 31, 1999. The change of Euros 1,313 million can be explained by the following cash flow analysis:

• Translation adjustment		8
• Operating profit	213	
• Depreciation and amortization	189	
• Net investments balance	(181)	
• Change in working capital	(193)	
• Change in provisions and other	(24)	
· Free cash flow	4	
• Extraordinary items, net	1,166	
• Financial income and expenses, net	(37)	
• Tax income and expenses, net	(386)	
• Dividends paid	(163)	
• Other changes	719	
· Net cash flow		1,303
• Change in shareholders' equity		2
· Change in net financial position		1,313

The item "Other changes" includes the effect of the deconsolidation of the businesses sold (Euros 150 million), the change in the provisions of an extraordinary nature (Euros 254 million) and the change in tax receivables and payables (Euros 299 million).

• **Capital expenditures**

Capital expenditures amount to Euros 235 million compared to Euros 204 million in the first half of 1999, with an increase of Euros 31 million.

The capital expenditures to depreciation ratio is 1.41 (1.35 in 1999).

• **R&D expenditures**

R&D expenditures total Euros 105 million, compared to Euros 95 million in the first half of 1999, and were completely expensed during the period; they represent 2.9 percent of sales (3 percent in 1999).

• **Personnel**

Personnel numbered 41,809 units at June 30, 2000 compared to 40,103 units at December 31, 1999 and 40,123 at June 30, 1999.

In the first six months of the year, 3,305 units left and 5,011 units were added, with a net increase of 1,706 units (of which 815 refer to the former Draka businesses).

The personnel breakdown is as follows:

	June 30, 2000	December 31, 1999
<u>Total work force</u>	41,809	40,103
of which: temporary	3,966	2,192
temporary former Draka units	62	-
<u>Active work force</u>	37,781	37,911
of which: former Draka units	753	-
<u>Total work force excluding the acquisitions</u>	40,994	40,103
of which: Terrestrial Optical Systems business	-	709
<u>Total work force within the companies included in the prior year consolidation area</u>	40,994	39,394

Related party transactions

Required disclosures according to article 2359 of the Italian Civil Code referring to Consob Communication No. 97001574 of February 20, 1997 and No. 98015375 of February 27, 1998, which deal with related party transactions by Group companies, are listed below according to the effects of such transactions on the balance sheet and statement of income of the consolidated financial statements at June 30, 2000.

The effects deriving from the transactions between Pirelli S.p.A. and its subsidiaries are disclosed in the financial statements and notes of the same Group holding company and, as is the case for those relating to transactions among the subsidiaries, eliminated upon the preparation of the consolidated financial statements.

All the transactions, including those between the Group holding company and its subsidiaries as well as those among the same subsidiaries, fall under the ordinary operations of the Group, are governed by market terms, and there are no transactions of an unusual and exceptional nature, or potential conflicts of interest.

The following table presents the major transactions at June 30, 2000 that Pirelli S.p.A. Group has entered with the parent companies (Pirelli & C. A.p.A., Pirelli & C. Luxembourg S.A.) and their subsidiaries, which are included in the consolidation area of Pirelli & C. A.p.A..

(in millions of euros)			
Type of transaction	With parent companies	With subsidiaries of Pirelli & C. A.p.A.	Total
TRADE RECEIVABLES AND OTHER	0.2	17.4	17.6
TRADE PAYABLES AND OTHER	(0.5)	(15.8)	(16.3)
FINANCIAL RECEIVABLES	77.3	630.2	707.5
FINANCIAL DEBT	(156.2)	(540.8)	(697.0)
REVENUES FOR GOODS AND SERVICES	0.5	0.5	1.0
COSTS FOR GOODS AND SERVICES	(1.4)	(7.0)	(8.4)
FINANCIAL INCOME	17.4	4.2	21.6
FINANCIAL EXPENSES	(4.2)	(2.9)	(7.1)

Transactions of Pirelli S.p.A. and its subsidiaries with the **parent companies** mainly refer to the following:

- **financial receivables**, relating to loans receivable by Pirelli Finance Luxembourg S.A. (subsidiary of Pirelli S.p.A.) from Pirelli & C. Luxembourg S.A.;
- **financial debt**, relating to payables from transactions on the current account by Pirelli Servizi Finanziari S.p.A. with Pirelli & C. A.p.A.;
- **revenues for goods and services**, relating to the performance of various services rendered by Pirelli S.p.A. and Pirelli Informatica S.p.A. to Pirelli & C. A.p.A.;
- **costs for goods and services**, relating to costs for the corporate secretarial services rendered by Pirelli & C. A.p.A. on behalf of Pirelli S.p.A.;
- **financial income and expenses**, relating to interest income and expense on the aforementioned current account transactions and loans, as well as costs and revenues for hedging transactions carried out by Pirelli Finance Luxembourg S.A. (subsidiary of Pirelli S.p.A.) on behalf of Pirelli & C. A.p.A..

Transactions of Pirelli S.p.A. and its subsidiaries with the **subsidiaries of Pirelli & C. A.p.A.** mainly refer to the following:

- **trade receivables and other**, relating to the sale of property by Pirelli Cavi e Sistemi S.p.A. to Lambda S.r.l. (subsidiary of Milano Centrale S.p.A.);
- **trade payables and other**, relating to services rendered by companies in the Group of Milano Centrale S.p.A. (subsidiary of Pirelli & C. A.p.A.) to Pirelli S.p.A. and its subsidiaries and also the sale of the property of Lambda S.r.l. to Pirelli Cavi e Sistemi S.p.A.;
- **financial receivables**, relating to receivables from transactions on the current account by Pirelli Servizi Finanziari S.p.A. with companies of the Group of Milano Centrale S.p.A.

(subsidiary of Pirelli & C. A.p.A.) and loans receivable by Pirelli Finance Luxembourg S.A. from Turk Pirelli Enerji A.S. (indirect subsidiary of Pirelli & C. A.p.A.);

- **financial debt**, relating to payables from transactions on the current account by Pirelli Servizi Finanziari S.p.A. with companies of the Group of Milano Centrale S.p.A. (subsidiary of Pirelli & C. A.p.A.);
- **revenues from goods and services**, relating to cost recoveries for various services rendered by Pirelli S.p.A. and Pirelli Informatica S.p.A. (subsidiary of Pirelli S.p.A.) on behalf of Milano Centrale e Servizi S.p.A. and its subsidiaries;
- **costs for goods and services**, relating to costs for property management services incurred by Pirelli S.p.A. and its subsidiaries for the services rendered by companies of the Group of Milano Centrale S.p.A. (subsidiary of Pirelli & C. A.p.A.);
- **financial income and expenses**, relating to interest income and expense on the aforementioned current account and loan transactions.

Significant subsequent events after the end of the first half and the future outlook for the current year

In July, the European Commission granted authorization for the purchase of the power cables business which belonged to the British Group BICC and was bought the previous year by the American group General Cable.

At the end of July, Pirelli announced the decision to delist the shares on the San Paolo stock exchange of the two Brazilian affiliates Pirelli Cabos S.A. and Pirelli Pneus S.A. upon the launch of the takeover bid for all their outstanding shares. The total outlay, should the bid prove successful, will amount to US \$92.9 million.

In August, the acquisition of 10 percent of our companies operating in the optical components and submarine telecommunications systems was signed by Cisco for US \$100 million.

As regards the outlook for the second half, operating income is expected to show an improvement over the first half of the year, thus allowing the company to consolidate the gains achieved during the first six months.

CABLES AND SYSTEMS SECTOR

(in millions of euros)

	6/30/2000	6/30/1999	12/31/1999
. Sales revenues	2,171	1,893	3,921
. Gross operating profit	210	181	355
% of sales	9.7%	9.6%	9.1%
. Operating profit	124	99	183
% of sales	5.7%	5.2%	4.7%
. Extraordinary items, net	1,305	(3)	8
. Net income	1,080	63	136
% of sales	49.7%	3.3%	3.5%
. Net financial (liquidity)/debt	(843)	722	700
. Capital expenditures	141	135	210
. R&D expenditures	49	49	99
. Personnel (number at end of period)	20,240	19,498	19,046
. Factories (number)	64	62	65

Sales revenues amount to Euros 2,171 million (+ 14.7 percent over the first half of the prior year).

Specifically:

• Currency exchange	+ 6.1%
• Volumes	+ 3.7%
• Prices - Metals	+ 4.2%
- Non-metals	- 0.7%
• Mix and other	+ 3.4%
• Consolidation of entities acquired	+ 3.6%
• Deconsolidation of Photonics business	- 5.6%

	+ 14.7%
	=====

Operating profit went from Euros 99 million for the six months ended June 30, 1999 to Euros 124 million for the six months ended June 30, 2000.

The increase is due to:

	<u>Millions of euros</u>
• Currency exchange effect	+ 9
• Prices (excluding metals)	- 25

	- 16
• Volumes and mix	+ 28
• Effect of consolidation of acquisitions	+ 2
• Effect of deconsolidation of Photonics business	- 8
• Materials	+ 4
• Efficiency	+ 22
• Variation in unit costs and other	- 7

	+ 25
	=====

Net income is equal to Euros 1,080 million compared to Euros 63 million for the six months ended June 30, 1999.

Net income includes the gain on the sale of the Terrestrial Optical Systems business net of related costs, as well as the accruals for restructuring charges connected mainly with recent acquisitions.

The **net financial position** went from a debt position of Euros 700 million at December 31, 1999 to a liquidity position of Euros 843 million. The strong improvement should still be viewed in relation to the collection of the proceeds on the sale of the above-described business to Cisco.

In **power cables**, sales rose although prices were continually under pressure. Overall, there was an improvement in profitability due to volumes, efficiency and product mix which compensates the rise in raw materials costs.

The demand for **telecommunications cables** remained at buoyant levels during the period both for traditional cables in copper and for optical cables, contributing to the re-alignment of market prices.

The high volume and the attention continually paid to reducing costs led to a recovery in the profitability of this sector.

In **fiber optics**, higher demand led to the full utilization of productive capacity, which is being extended according to the approved plans. The technical evolution of the new telecommunications networks has fueled a significant demand for the most recent types of fiber optics enhanced for photonics systems, thus bringing a positive contribution to the results of the business.

In **submarine systems for telecommunications**, production has been completed in Arco Felice for the supply of 4,600 km of tight cables for the Japanese customer KDD (TAT14 contract) and other orders were acquired for about 13,000 km of tight cables (for the Japanese customers KDD – East Asian Crossing, NEC – APCN2 and AJC) for which production began in the first quarter and will continue throughout the year in order to be completed by the spring of 2001. Moreover, the Mazara - Tripoli and IC 1 contracts were formally closed and the terminals on the PA-Rome repeater system connection were upgraded.

Progress was made on the Italy - Greece project for power submarine systems with the completion of the production of the submarine cables at Arco Felice, the first installation of the cables by the cable-laying vessel Giulio Verne and also the land work on the Greek and Italian sides. Production of the cable for the Isle of Man project in Southampton was also concluded and the first stage of its installation was begun using the Giulio Verne ship; post lay burial will begin between July and September and is expected to be completed in the last quarter.

As for **exports**, the trend in the first six months of the year in telecommunications cables has been good, especially for OPGW; the high-voltage cables business, instead, has been moderate due to the scarcity of projects.

Joint ventures and new markets

In China and South Africa, the power cables market displayed a better economic picture during the first half of 2000 compared to 1999, but is nevertheless still weak; in the optic telecommunications area, instead, the market is in a strong phase of growth.

During the first half of 2000, action continued to strengthen and consolidate the internal organization and the growth of market shares.

In **South Africa**, the market is showing signs of a recovery. The Rosslyn Cables power cables business is in the process of being acquired. This is a local company from which positive results are expected in market share and internal production after its integration.

Actions are continuing to improve efficiency.

At June 30, 2000, **personnel** numbered 20,240 (of which 3,218 were employed under temporary work contracts) compared to 19,046 (of which 1,779 were under temporary work contracts) at December 31, 1999.

In the first six months of the year, 1,929 units left (of which 709 were due to the sale of the Terrestrial Optical Systems business) and 3,123 units were added (of which 815 units came from the former Draka businesses).

Capital expenditures total Euros 141 million. In the second part of the year, investments earmarked to increase productive capacity are expected to be stepped up in the geographic areas and the product segments that show a growing demand, especially the fiber optics segment.

At June 30, 2000 the number of **factories** is 64, two production facilities more than at June 30, 1999.

As for **materials**, the trend in non-ferrous metal quotations confirmed the levels seen during the last few months of the prior year. Copper and aluminum, in particular, displayed an increase of some 25 percent over the first half of 1999, due to the solid demand in North America and the recovery in the Far East and China.

With regard to other raw materials, compared to the values in the corresponding period of the previous year, the prices of the main commodities in the chemical area recorded a strong increase owing to the combined “oil price/US dollar” effect and the steady demand as a result of world economic recovery.

Market consensus, for the second part of the year, anticipates a phase of stability/slight drop in prices.

Research in the various areas can be described as follows:

- in the field of **power cables**, work has continued on the development of the undergrounding system for the transmissions and distribution network systems. This innovation will make it possible to extend the adoption of solutions using non-aerial cable systems, thus offering greater reliability and a reduction in environmental pollution.
After completing the feasibility study on the innovative process for the production of medium-voltage cables, development of production activities were positively begun;
- in the field of **fiber optics**, less than 12 months after the launch of the fiber FreeLight™ (long-distance), the new fiber Pirelli Widelight™ was introduced. This fiber was designed to optimize the medium-range optical network, especially for uses in metropolitan areas;

- in the field of **optic cables**, a new ribbon type loose tube cable was developed with a 1,152 fiber capacity, suitable for installation in congested urban areas inside 2 inch tubes. Work continued on the development of new optic cable types to be used in modern pan-European telecommunications networks;
- in the field of **optical components**, steps were taken to intensify R&D and expand production at Bicocca, by simultaneously identifying a new site to further augment productive activities. Mention should be made of the development and introduction of new components such as electro/optical modulators integrated with variable attenuators, WDM grating filters in athermic packages and optomechanical switch prototypes, as well as the start of optical modules development activities.

Performance by geographic area

In **Europe**, the market is affected by the stability of volume demand although there is some sign of prices being adjusted to reflect the rise in costs.

In a context characterized by excess productive capacity, improvements in overall market shares are being consolidated through business actions and the completion of the process of acquisitions.

In **North America**, the positive market trend is confirmed, especially in the Telecom Optics business of fiber optics for telecommunications, where the growth rate is higher than expectations.

This is reflected in a significant increase in volumes and a greater capacity to influence sales prices, increasing the competitive potential. Margins and operating results benefited from both the trend in sales and productive efficiency.

As for **South America**, in Brazil there are signs of a possible recovery, while in Argentina, in the midst of a recessive situation, competition is growing fiercer thus affecting prices.

Future outlook

The second half is expected to bring a consolidation of the improvements achieved in the first part of the year.

TYRES SECTOR

(in millions of euros)

	6/30/2000	6/30/1999	12/31/1999
. Sales revenues	1,425	1,296	2,559
. Gross operating profit	204	178	349
% of sales	14.3%	13.7%	13.6%
. Operating profit	107	99	185
% of sales	7.5%	7.6%	7.2%
. Extraordinary items, net	(168)	1	(11)
. Net income	(125)	61	112
% of sales	(8.8%)	4.7%	4.4%
. Net financial (liquidity) debt	722	492	535
. Capital expenditures	92	67	255
. R&D expenditures	56	46	101
. Personnel (number at end of period)	20,813	19,921	20,332
. Factories (number)	22	21	22

Sales revenues for the first half of 2000 total Euros 1,425 million, an increase of 10 percent compared to the same period of 1999: the good trend in volumes (+10.3 percent, to which the inclusion in the area of consolidation of Alexandria Tire Company S.A.E. in July 1999 contributed 2.5 percent), in addition to the favorable currency exchange effect (+4.9 percent), were partly eroded by the drop in the sale price index (-2.6 percent) and the negative trend in the channel mix, with a higher content of Original Equipment tyres.

Specifically, the increase can be analyzed as follows:

• Currency exchange	+ 4.9%
• Volumes	+ 7.8%
• Consolidation of entities acquired	+ 2.5%
• Prices	- 2.6%
• Mix and other	- 2.6%

	+ 10.0%
	=====

Operating profit, equal to Euros 107 million and representing 7.5 percent of sales, shows an increase of Euros 8 million over the corresponding period of the prior year, due to the following:

	<u>Millions of euros</u>
• Currency exchange	+ 5
• Volumes and mix	+ 43
• Efficiency	+ 7
• Consolidation of entities acquired	+ 5
• Change in unit costs and other	+ 14

	+ 74
• Materials	- 30
• Prices	- 36

	+ 8
	=====

The result for the period is a **net loss** of Euros 125 million, a reduction of Euros 186 million from the net income in the first half of 1999, due to extraordinary items net of Euros 168 million and higher financial expenses (due mainly to higher interest rates, a lower return on the liquidity in Brazil and Turkey and higher net debt). In particular, **extraordinary items, net** include industrial restructuring charges of Euros 148 million.

Net financial debt, equal to Euros 722 million, increased by Euros 230 million compared to June 1999 and Euros 187 million in December 1999; the increase is substantially due to the inclusion in the consolidation area of Alexandria Tire Company S.A.E. and the payment of dividends.

The number of **personnel** compared to December 31, 1999 rose by 481, representing an increase of 643 production workers (mainly in Brazil and including seasonal summer workers) and 28 staff for commercial expansion in South American and a decrease of 190 staff, as a result of efficiency programs.

Compared to the same period of the prior year, the increase in personnel is 892 units, of which 703 are due to the acquisition of Alexandria Tire Company S.A.E..

As regards Human Resources, some projects have been designed in order to improve the quality. These include the diagram of responsibilities in the R&D and Manufacturing areas and training related to the development of leadership qualities and managerial capacity.

International mobility has also been used to a significant degree as a tool for professional development and integration.

On the organizational front: there has been solid progress in the structure of the Business Units, the creation of a unit dedicated to the development of the productive plant based on MIRS technology, completed controlled on-line, and integration between marketing and product development.

Economic scenario

At the macroeconomic level, the first half of 2000 was characterized by good dynamics in the growth rate of the world economy which practically encompassed all the main geographic areas and by the overall increase in oil prices. The latter caused strong pressures in productive costs,

both for materials and power consumption, which have not yet been recovered in terms of sales prices owing to persisting fierce competition.

Sourcing

During the first half of 2000, raw material and utility costs increased significantly owing to the following main factors: weakness of the Euro against the US dollar; the increase in the price of oil; the recovery in the price of certain commodities which, during 1999, had reached historically low price levels and an overall increase in demand.

In order to confront the negative impact of the market, cost savings programs were begun for raw materials, the initial results of which were already seen during the course of the first half of 2000.

In the meantime, steps were implemented to purchase materials and services on-line, with significant impacts on the entire sourcing cycle in terms of prices and effectiveness.

Vehicle and tyre market

In the first half of 2000, the automobile market in Europe recorded an increase of more than 2 percent, sustained by a good trend in almost all European countries. The only exception to this growth was Germany, where, despite the drop in the first four months is now showing signs of a recovery since the month of May. In the United States, driven by greater household consumption, car registrations rose quite significantly, more than 7 percent. The situation also appears positive in Latin America where the Brazilian and Argentinean markets display high growth rates of 7 percent and 12 percent, respectively.

The **passenger car/light truck** tyre market for Original Equipment shows a growth in line with the trend in the vehicle market. A particularly strong increase was recorded in the South American market with a growth of 20 percent, while Europe and North America show growth of 5 percent in the former, with record highs in Turkey, and 2 percent in the latter. The Replacements channel, in the first half, posted a positive trend in Europe (+2 percent) and

North America (+4 percent); in Latin America, the end of the first half was in line with 1999, which was nevertheless high.

As regards **truck** tyres, Original Equipment reported gains in Europe/Turkey (+5 percent) but especially in South America where the increase reached 17 percent. In the Replacements channel, while Europe posted a good trend for an increase of 4 percent over the first half of last year, Latin America was stagnant.

In general, a good recovery in Asia and a better outlook for the “oil” dependent economies is confirmed.

Business Units

Passenger car/Light truck: the Business Unit ended the first half with a significant increase in volumes equal to 6 percent worldwide, with a gain of 18 percent for Original Equipment that affirms the correspondence of our products to the most sophisticated requirements. Replacement sales remained globally in line with those of the prior year with a positive improvement in the trademark mix, thanks especially to the important gains in the volumes of Pirelli trademark tyres taking place in North American through cooperation with the Cooper network.

The high tyre range is also very positive with growth (more than 20 percent) in premium passenger car tyres and the Scorpion line products for Sport Utility Vehicles.

Original Equipment in Europe, in particular, shows positive volumes, mix and supply levels in the first half of 2000, although the market situation is very competitive (sales prices are down and raw materials prices show an increase overall).

An important factor to mention is the growth recorded in the premium segments for passenger cars and light trucks, thanks to sales of new products as P6000 Powergy, P Zero Rosso and Scorpion.

The growth forecast for the end of 2000 is 5 percent in volumes, with a slight improvement in sales thanks to a favorable mix and notwithstanding price erosion.

In South America, volumes of Pirelli trademark tyres and supplying are higher with growth rates above market, thanks especially to the homologation of new products.

In Europe, for the Replacements channel, the positions have remained the same in a market that is substantially stable in volumes and one still characterized by strong pressures over prices for both Sell In and Sell Out, with a significant improvement in sales in terms of both product mix and high value added connected with the B2B development strategy (implementation of the Supply Chain and Automatic Reordering projects) from which consequential benefits are expected for us and for our customers and distributors. In this context, mention should be made of the first launch on Internet of the new Pirelli P2500 Euro tyre in March.

The strength of the trademark is confirmed by various ad hoc inquiries; our position in Europe is confirmed, our positions in South American have decidedly increased and business shows strong growth in all the main Asian markets, in Russia and in the Baltic markets, where the Pirelli Key Point network has added new sales points and in Africa (the new South African affiliate is being opened). In North America, cooperation with Cooper is bringing in results for the Pirelli trademark in that territory.

At the product level, the first half of the year was characterized by the launch, in Miami, Florida, of the P Zero Rosso, which is being added to the already existing P Zero System and Scorpion Zero tyres, thus forming the "P Zero Collection".

To date, the P Zero Rosso has received prestigious homologations on ultra high performance passenger cars, thus allowing Pirelli to reaffirm its technological and market leadership position in the ultra high performance segment.

In the average and big cylinder passenger car segment, the P6000 Powergy, one year after its launch, has already obtained considerable success in both the Replacements and Original Equipment channels, registering a considerable portfolio of homologations.

Since March 2000, the new P2500 Euro can also be purchased on Internet in the main European countries. In fact, the most recently introduced passenger car tyre by Pirelli can be ordered at a fixed price on the Net, which also gives information about the dealer most conveniently located to the customer for mounting the tyres.

As for the winter tyres, Snowsport, winner of tests conducted by all of the most important specialized German magazines, extends its range to add more 10 sizes marked with a V speed code (up to 240 km per hour).

Truck: in the first half of 2000 sales volumes in the Truck Business Unit benefited of the inclusion in the consolidation area, starting from July 1999, of the Egyptian affiliate Alexandria Tire Company S.A.E. (about 100,000 pieces) and of greater expansion on the African and Middle East markets, made it possible by integration of the Egyptian unit.

The market trend shows: in Europe, a positive trend with significant growth in Germany; in Turkey, a significant recovery after two critical years due to the economic crisis and then the earthquake; in Egypt, a growing market with volume increases in radial tyres; in South America, a Brazilian market in line with the prior year, but a weak market in Argentina and Venezuela.

During the first half of 2000, new products were introduced for the “R” segment, tyres intended for mounting on heavy road transport vehicles in Europe and Turkey and the “G” segment, tyres intended for heavy cross-country use or under particularly difficult road conditions.

Motorcycle: the first six months of 2000 show important volume growth in the sales of motorcycle tyres compared to the first half of the prior year. Among the markets contributing the most to such performance, mention should be made of the United States, Latin America and Greece. Germany, although volumes have grown significantly, reported a drop at the beginning of the year which is gradually being recovered.

At the European level, the positive trend in the Pirelli brand name is partly compensating the fall in the Metzeler trademark.

Performance is also positive for the Scooter segment, especially for the second part of the half.

As regards the Original Equipment channel, the good trend in Latin America and Germany more than compensated the slowdown recorded in Japan and Italy.

Finally, the first Web Motorcycle Tyres site was activated in June 2000 (www.Pirellimoto.it), which, besides the goal of providing services and information, will also make direct Pirelli product sales to the public.

Future outlook

The outlook for the end of the year is for an operating profit which confirms the gains already achieved during the course of the first half. This trend is tied to the strenght of the performance in South America, especially in Brazil, and the confirmation of the direction taken by Europe.

PIRELLI S.p.A.**Key data**

(in millions of euros)

BALANCE SHEET	6/30/2000	6/30/1999	12/31/1999
Intangible assets	12.6	13.0	12.3
Tangible assets	26.8	30.7	29.0
Financial assets	2,406.8	1,927.0	2,235.9
Net working capital	131.9	126.5	181.8
	2,578.1	2,097.2	2,459.0
Shareholders' equity	2,257.1	2,172.9	2,181.4
Provisions	64.4	42.1	65.8
Net financial position	256.6	(117.8)	211.8
	2,578.1	2,097.2	2,459.0
STATEMENT OF INCOME	1st half 2000	1st half 1999	1999
Financial income and expenses, net	287.3	281.5	310.4
Valuation adjustments to financial assets	0.0	0.0	(1.3)
Other operating income / (expenses)	(13.7)	(12.9)	(23.1)
Income before extraordinary items and incomes taxes	273.6	268.6	286.0
Extraordinary items, net	14.9	6.2	53.5
Income taxes	(62.5)	(54.4)	(110.6)
Net income for the period	226.0	220.4	228.9

Financial position

The financial position of the company shows the following changes between December 31, 1999 and June 30, 2000:

- **net invested capital** rose by Euros 119.1 million compared to December 31, 1999 due to the additional investment in Optical Technologies The Netherlands B.V. (Euros 183.4 million), partly offset by the reduction in working capital due mainly to the accrual for income taxes for the period and tax refunds.
- **shareholders' equity** increased by the net income for the period and takes into account the dividends paid out relating to the prior year.
- **net financial position**, after these movements, went from a debt position of Euros 211.8 million at December 31, 1999 to Euros 256.6 million at June 30, 2000.

Results of operations

The results for the first half of 2000, net of income taxes of Euros 62.5 million, show a net income of Euros 226 million compared to Euros 220.4 million for the corresponding period of 1999.

The improvement is mainly due to higher investment income and extraordinary income, which however generated an increase in the income tax expense.

Components of income before extraordinary items and income taxes

- **Financial income and expenses, net** of Euro 287.3 million (Euro 281.5 million in the first half of 1999) are made up of investment income of Euro 289.1 million and net interest expense of Euros 1.8 million.
- **Other operating income / (expenses)**, are in line with the same period of the prior year.
- **Extraordinary items, net** are composed of extraordinary gains of Euros 63.4 million and extraordinary expenses of Euros 48.5 million.

The Board of Directors

Milan, September 1, 2000

PIRELLI GROUP
CONSOLIDATED SIX-MONTH REPORT
JUNE 30, 2000

(in thousands of euros)

CONSOLIDATED BALANCE SHEETS	6.30.2000	12.31.1999	6.30.1999
ASSETS			
A) CAPITAL SUBSCRIPTION RIGHTS			
Portion uncalled	-	24	23
B) FIXED ASSETS			
I) INTANGIBLE ASSETS			
Formation costs	4,829	6,331	4,892
Patents and design patent rights	5,786	7,473	8,490
Concession, licenses, trademarks and similar rights	4,744	3,729	555
Goodwill	6,519	11,531	19,827
Consolidation difference	70,231	70,473	-
Intangible assets in progress and payments on account	6,069	3,367	6,046
Other intangible assets	61,996	68,777	51,857
TOTAL INTANGIBLE ASSETS	160,174	171,681	91,667
II) PROPERTY, PLANT AND EQUIPMENT			
Land and buildings	657,634	654,203	625,791
Plant and machinery	1,313,496	1,324,374	1,148,498
Industrial and commercial equipment	132,449	143,875	112,623
Other property, plant and equipment	153,817	156,044	90,307
Assets under construction and payments on account	191,061	146,275	179,017
TOTAL PROPERTY, PLANT AND EQUIPMENT	2,448,457	2,424,771	2,156,236
III) FINANCIAL ASSETS			
Investments in:			
a) Subsidiaries	19,409	8,863	60,368
b) Associated companies	24,530	29,269	30,799
c) Other companies	77,804	91,592	85,566
Financial receivables:			
a.2) Subsidiaries due beyond 1 year	14,662	14,662	-
b.2) Associated due beyond 1 year	13,760	14,041	28,635
d.2) Other companies due beyond 1 year	95,967	60,799	61,522
Other securities	21,294	21,295	22,607
Treasury shares	336,278	335,706	151,093
TOTAL FINANCIAL ASSETS	603,704	576,227	440,590
TOTAL FIXED ASSETS	3,212,335	3,172,679	2,688,493

(in thousands of euros)

CONSOLIDATED BALANCE SHEETS	6.30.2000	12.31.1999	6.30.1999
C) CURRENT ASSETS			
I) Inventories			
Raw materials, auxiliaries and consumables	223,933	220,366	187,061
Work in process and semifinished products	283,104	265,054	252,207
Work in progress against orders	127,388	112,808	197,225
Finished products and goods for resale	479,485	526,661	489,918
Advances	11,134	10,981	8,108
TOTAL INVENTORIES	1,125,044	1,135,870	1,134,519
II) Receivables			
Trade	1,767,435	1,509,676	1,609,937
Subsidiaries	797	563	109
Associated companies	93,476	27,626	19,026
Parent companies	77,502	33,196	265,502
Other receivables	1,509,933	1,104,133	798,734
TOTAL RECEIVABLES	3,449,143	2,675,194	2,693,308
III) Current financial assets			
Other securities	191,439	221,054	209,114
TOTAL CURRENT FINANCIAL ASSETS	191,439	221,054	209,114
IV) CASH AND BANKS			
Bank and postal deposits	1,698,401	493,641	599,665
Checks	3,035	5,104	7,992
Cash on hand	2,811	3,723	5,743
TOTAL CASH AND BANKS	1,704,247	502,468	613,400
TOTAL CURRENT ASSETS	6,469,873	4,534,586	4,650,341
D) ACCRUED INCOME AND PREPAID EXPENSES			
Accrued income	98,676	79,265	69,709
Prepaid expenses	32,996	34,781	33,318
TOTAL ACCRUED INCOME AND PREPAID EXPENSES	131,672	114,046	103,027
TOTAL ASSETS	9,813,880	7,821,335	7,441,884

(in thousands of euros)

CONSOLIDATED BALANCE SHEETS	6.30.2000	12.31.1999	6.30.1999
LIABILITIES AND SHAREHOLDERS' EQUITY			
A) SHAREHOLDERS' EQUITY			
- Group	3,114,044	2,274,907	2,193,012
I) Share capital	1,034,430	1,032,152	1,031,970
II) Share premium reserve	269,511	270,083	454,696
III) Revaluation reserve	2,855	2,855	2,855
IV) Legal reserve	206,430	204,840	204,840
V) Reserve for treasury shares in portfolio	336,278	335,706	151,093
VI) Statutory reserves	-	-	-
VII) Other reserves:			
a) consolidation reserve	124,715	29,271	138,176
b) sundry reserve	43,002	43,002	43,002
VIII) Retained earnings	138,587	63,871	64,053
IX) Net income for the period	958,236	293,127	102,327
- Minority interest	174,079	179,042	173,156
a) Capital and reserves	170,932	167,007	156,451
b) Net income for the period	3,147	12,035	16,705
TOTAL SHAREHOLDERS' EQUITY	3,288,123	2,453,949	2,366,168
B) PROVISIONS FOR LIABILITIES AND EXPENSES			
Pension and similar obligations	214,986	224,738	233,966
Income taxes	165,602	152,423	145,653
Other	502,510	246,362	185,536
TOTAL PROVISION FOR LIABILITIES AND EXPENSES	883,098	623,523	565,155
C) PROVISION FOR EMPLOYEES' LEAVING INDEMNITY	166,691	167,581	166,318
D) PAYABLES			
Bonds	500,004	500,004	500,014
Bank borrowings	1,126,267	1,288,076	1,195,104
Other financial companies	707,207	210,929	218,186
Advances from customers	271,415	323,900	361,381
Trade	1,174,188	1,164,801	996,251
Subsidiaries	776	44	-
Associated companies	19,975	23,108	20,651
Parent companies	156,738	102,488	108,033
Taxes	778,155	286,533	294,014
Social security	39,836	51,276	48,048
Other payables	389,909	337,117	303,390
TOTAL PAYABLES	5,164,470	4,288,276	4,045,072

(in thousands of euros)

CONSOLIDATED BALANCE SHEETS	6.30.2000	12.31.1999	6.30.1999
E) ACCRUED LIABILITIES AND DEFERRED INCOME			
Accrued liabilities	292,733	264,050	282,186
Deferred income	18,765	23,956	16,985
TOTAL ACCRUED LIABILITIES AND DEFERRED INCOME	311,498	288,006	299,171
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	9,813,880	7,821,335	7,441,884
MEMORANDUM ACCOUNTS			
PERSONAL GUARANTEES			
- Sureties on behalf of other companies	38,998	319	35,958
- Endorsements on behalf of other companies	15,521	12,883	-
	<u>54,519</u>	<u>13,202</u>	<u>35,958</u>
THIRD PARTY ASSETS HELD IN DEPOSIT			
- Securities held in deposit	143,005	78,237	447,481
- Goods in process	1,905	2,305	2,230
	<u>144,910</u>	<u>80,542</u>	<u>449,711</u>
ASSETS HELD BY THIRD PARTIES			
- Securities held as guarantees and sureties	23,434	23,433	23,394
- Shares held in deposit	920,716	1,089,224	893,454
- Goods in process	8,506	8,988	5,895
	<u>952,656</u>	<u>1,121,645</u>	<u>922,743</u>
COMMITMENTS			
- Capital expenditures	100,979	27,396	58,443
	<u>100,979</u>	<u>27,396</u>	<u>58,443</u>
OTHER MEMORANDUM ACCOUNTS			
- Potential losses for risk of default on discounted bills	240	240	469
	<u>240</u>	<u>240</u>	<u>469</u>
TOTAL	<u>1,253,304</u>	<u>1,243,025</u>	<u>1,467,324</u>

(in thousands of euros)

CONSOLIDATED STATEMENTS OF INCOME	1st half 2000	1st half 1999	1999
A) PRODUCTION VALUE			
Revenues from sales and services	3,597,869	3,189,955	6,482,335
Changes in inventories of work in process, semifinished and finished products	26,587	12,813	39,913
Changes in work in progress against orders	(11,134)	(1,368)	(74,882)
Increase in property, plant and equipment	4,494	8,315	19,331
Other revenues and income:			
a) Miscellaneous	84,179	36,124	98,399
b) Government grants	3,699	4,972	7,519
TOTAL PRODUCTION VALUE	3,705,694	3,250,811	6,572,615
B) PRODUCTION COSTS			
Raw materials, auxiliaries, consumables and goods for resale	(1,851,600)	(1,519,638)	(3,123,347)
Service expenses	(528,556)	(500,758)	(1,041,311)
Lease and rent expenses	(48,335)	(28,367)	(62,704)
Personnel	(765,655)	(726,525)	(1,418,672)
Amortization of intangible assets:			
a) Amortization of intangible assets	(21,832)	(15,161)	(35,591)
b) Depreciation of property, plant and equipment	(166,722)	(151,510)	(312,122)
c) Other write-downs of fixed assets	-	-	(998)
d) Write-downs of receivables included in current assets and cash and banks	(3,945)	(9,104)	(19,570)
Changes in inventories of raw materials, auxiliaries, consumables and goods for resale	13,298	8,006	34,512
Other accruals	(6,480)	(13,439)	(29,312)
Other operating expenses	(112,577)	(117,735)	(232,744)
TOTAL PRODUCTION COSTS	(3,492,404)	(3,074,231)	(6,241,859)
DIFFERENCE BETWEEN PRODUCTION VALUE AND PRODUCTION COSTS	213,290	176,580	330,756
C) FINANCIAL INCOME AND EXPENSES			
Investments income	4,962	8,815	31,305
Other financial income:			
a) from receivables included in fixed assets	40	38	839
b) from securities included in fixed assets	697	644	1,254
c) from securities included in current assets	6,197	5,180	11,171
d) income other than the above	120,823	239,913	334,803
Interest and other financial expenses	(165,214)	(257,317)	(402,600)
TOTAL FINANCIAL INCOME AND EXPENSES	(32,495)	(2,727)	(23,228)

(in thousands of euros)

CONSOLIDATED STATEMENTS OF INCOME	1st half 2000	1st half 1999	1999
D) VALUATION ADJUSTMENTS TO FINANCIAL ASSETS			
Revaluations	138	495	2,199
Write-downs	(116)	(343)	(2,342)
TOTAL VALUATION ADJUSTMENTS	22	152	(143)
E) EXTRAORDINARY ITEMS			
Extraordinary income	1,672,382	13,030	223,350
Extraordinary expenses	(506,255)	(6,897)	(134,502)
TOTAL EXTRAORDINARY ITEMS	1,166,127	6,133	88,848
INCOME BEFORE INCOME TAXES	1,346,944	180,138	396,233
Income taxes	(385,561)	(61,106)	(91,071)
NET INCOME FOR THE PERIOD	961,383	119,032	305,162
GROUP	958,236	102,327	293,127
MINORITY INTEREST	3,147	16,705	12,035

SELECTED NOTES TO CONSOLIDATED SIX MONTHS INTERIM FINANCIAL REPORT**JUNE 30, 2000**
-----**FORM AND CONTENT**

The consolidated six months interim financial report at June 30, 2000 has been prepared in the same format using the same accounting principles and principles of consolidation as those adopted in the financial statements at December 31, 1999 and described in the previous annual report.

The list of subsidiaries and associated companies included in consolidation is provided at the end of the report.

The reconciliation of the six months net result of the period and shareholders' equity reported by Pirelli S.p.A. at June 30, 2000 and the corresponding consolidated figures are presented in the supplementary information.

COMMENTS ON THE CONSOLIDATED BALANCE SHEETS

ASSETS

B) FIXED ASSETS

D) INTANGIBLE ASSETS

Intangible assets may be analyzed as follows:

	(in thousands of euros)						
	12/31/1999	Translation adjustment	Change in consolidation area	Increase	Decrease	Amortization	6/30/2000
. Formation costs	6,331	7	(120)	29	(1)	(1,417)	4,829
. Patents and design patent rights	7,473	0	0	824	(1,475)	(1,036)	5,786
. Concessions, licenses, trademarks and similar rights	3,729	17	0	1,872	0	(874)	4,744
. Goodwill	11,531	(4)	0	0	(2,659)	(2,349)	6,519
. Difference on consolidation	70,473	0	0	1,761	0	(2,003)	70,231
. Other	72,144	980	(5,601)	15,990	(1,295)	(14,153)	68,065
	171,681	1,000	(5,721)	20,476	(5,430)	(21,832)	160,174

II) PROPERTY, PLANT AND EQUIPMENT

The movements in property, plant and equipment during the period are as follows:

	(in thousands of euros)	
	6/30/2000	12/31/1999
Gross value		
Opening balances	5,825,769	5,220,159
Translation adjustment	121,255	48,165
Change in scope of consolidation	(69,393)	331,610
Additions	234,650	468,895
Disposals	(172,156)	(243,060)
	5,940,125	5,825,769
Accumulated depreciation		
Opening balances	3,400,998	3,158,571
Translation adjustment	58,297	7,124
Change in scope of consolidation	(25,057)	107,409
Depreciation charge for the year	166,722	312,122
Disposals	(109,292)	(184,228)
	3,491,668	3,400,998
Net values	2,448,457	2,424,771

The net increase in comparison with December 31, 1999 is due to the combination of the following:

- translation adjustments, in reference to property, plant and equipment included in the financial statements of foreign companies, and due to the weakness of the euro against the currencies in the countries in which the Group companies operate;

- the change in the consolidation area as a result of the deconsolidation of the terrestrial optical systems business;
- additions of the period, which are 1.41 times, higher than the depreciation amount;
- disposals, mainly in reference to plants as a consequence of production rationalization;

III) FINANCIAL ASSETS

Investments

Investments went from Euros 129.7 million to Euros 121.7 million and can be analyzed as follows:

	(in thousands of euros)						
	12/31/99	Translation adjustment	1/1/00	Change in scope of consolidation	Increase	Decrease	6/30/00
Subsidiaries	8,863	(70)	8,793	(60)	10,676	0	19,409
Associated companies	29,269	40	29,309	0	173	(4,952)	24,530
Other companies	91,592	44	91,636	0	1,660	(15,492)	77,804
	129,724	14	129,738	(60)	12,509	(20,444)	121,743

The increase in the investments in subsidiaries total Euros 10.7 million and refers to the acquisition of the majority interest in Pirelli Telecom Cables Co. Ltd Wuxi (China).

The decrease in investments in other companies for Euros 15.5 million is principally due to the sale of the investment in Cartiere Burgo S.p.A. (Euros 11.3 million) and the investment in CofiDe Compagnia Finanziaria De Benedetti S.p.A. (Euros 3.2 million).

C) CURRENT ASSETS

I) INVENTORIES

Inventories amount to Euros 1,125 million, compared to Euros 1,135.9 million at December 31, 1999, and can be analyzed as follows:

	(in thousands of euros)	
	6/30/2000	12/31/1999
. Cables and Systems Sector	685,255	689,144
. Tyres Sector	439,787	446,722
. Other	2	4
	1,125,044	1,135,870

II) RECEIVABLES

Receivables, which totaled Euros 2,675.2 million at December 31, 1999, now amount to Euros 3,449.1 million, and can be analyzed as follows:

	(in thousands of euros)			
	6/30/2000		12/31/1999	
	Financial	Trade and other	Financial	Trade and other
. Trade	0	1,767,435	0	1,509,676
. Subsidiaries	0	797	0	563
. Associated companies	1,437	92,039	4,650	22,976
. Parent companies	77,262	240	33,102	94
. Other receivables	675,422	834,511	224,763	879,370
	754,121	2,695,022	262,515	2,412,679

Trade receivables from customers :

These may be analyzed by due date as follows:

	(in thousands of euros)	
	6/30/2000	12/31/1999
. due within 12 months	1,848,778	1,592,065
. due beyond 12 months	1,788	1,053
. less: allowance for doubtful receivables	(83,131)	(83,442)
	1,767,435	1,509,676

No receivables are due beyond five years.

III) CURRENT FINANCIAL ASSETS

Current financial assets mainly consist of floating rate securities, issued and guaranteed by governments and banking institutions. The securities are held in safe-keeping at leading banking institutions.

LIABILITIES AND SHAREHOLDERS' EQUITY

A) SHAREHOLDERS' EQUITY

GROUP

“Share capital” totals Euros 1,034,430 thousand and consists of No. 1,901,281,673 ordinary shares and No. 88,006,016 savings shares, all with a par value of Euro 0.52 per share and normal dividend rights.

The changes in shareholders' equity are presented in the supplementary information.

MINORITY INTEREST

The minority interest in shareholders' equity decreased from Euros 179 million at December 31, 1999 to Euros 174.1 million at June 30, 2000. The change is partly due to the acquisition of a further holding in Alexandria Tire Co. S.A.E. and the net effect of the increase in net income in the first half of 2000, the payment of prior year dividends and the translation adjustment for the conversion of financial statements into Euros.

The percentage ownership of investments held by the minority interest is as follows:

	<u>06/30/2000</u>	<u>12/31/1999</u>
Celikord A.S. (Turkey)	49.00%	49.00%
Sicable S.A. (Ivory Coast)	49.00%	49.00%
Pirelli Cables Australia Ltd (Australia)	49.00%	49.00%
P & A K.K. (Japan)	49.00%	49.00%
Turk Pirelli Lastikleri A.S. (Turkey)	37.81%	37.81%
Alexandria Tire Co. S.A.E. (Egypt)	22.35%	35.43%
Turk Pirelli Kablo ve Sistemleri A.S. (Turkey)	16.25%	16.25%
Pirelli Cabos S.A. (Brazil)	14.86%	14.92%
Pirelli Pneus S.A. (Brazil)	13.03%	13.03%
Solac Soc. Laminadora Ltd (Brazil)	11.00%	11.00%
Pirelli de Venezuela C.A. (Venezuela)	3.78%	3.78%
Pirelli Tyre Holding N.V. (The Netherlands)	0.18%	0.18%

B) PROVISIONS FOR LIABILITIES AND EXPENSES

PROVISIONS FOR INCOME TAXES

The provisions for income taxes include accruals relating to income taxes likely to be incurred but uncertain as to the amount or as to the date on which they will arise, as well as deferred taxation, as follows:

	(in thousands of euros)	
	6/30/2000	12/31/1999
. Provision for current taxes	31,647	26,237
. Provision for deferred taxes	133,955	126,186
	165,602	152,423

The tax charge for the period is composed of the following:

	(in thousands of euros)	
	1st half 2000	1st half 1999
. Current taxes	391,539	59,649
. Deferred taxes	(5,978)	1,457
	385,561	61,106

The tax charge has been determined on the basis of the taxable income for the six months, taking into account the utilization of any tax loss carry-forwards and by applying the nominal tax rates in each individual country.

The higher tax charge compared to the first six months of 1999 is mainly due to the taxes on the gain realized on the sale of our terrestrial optical systems business.

The credit for deferred taxes was mainly determined by the accrual for extraordinary charges relating to productive restructuring and rationalization.

OTHER PROVISIONS

The movements during the period in other provisions are as follows:

	(in thousands of euros)		
	Restructuring	Other	Total
Balance at December 31, 1999	148,858	97,504	246,362
. Translation adjustment	267	806	1,073
. Utilization	(53,757)	(18,042)	(71,799)
. Increase	242,339	84,535	326,874
Balance at June 30, 2000	337,707	164,803	502,510

The **provision for restructuring costs** at June 30, 2000 amounts to Euros 337.7 million and consist of Euros 175 million for the Cables and Systems Sector and Euros 162.7 million for the Tyres Sector. The utilization during the period by the Cables and Systems Sector and Tyres Sector was Euros 32.8 million and Euros 21 million, respectively.

The total of **other provisions** consists of accruals for litigation, industrial risks and claims, product warranties, etc..

D) PAYABLES

Payables amount to Euros 5,164,5 million at June 30, 2000, compared to Euros 4,288.3 million at December 31, 1999, and can be analyzed as follows:

	(in thousands of euros)			
	6/30/2000		12/31/1999	
	Financial	Trade and other	Financial	Trade and other
. Bonds	500,004	-	500,004	-
. Bank borrowings	1,126,267	-	1,288,076	-
. Other financial companies	707,207	-	210,929	-
. Advances from customers	-	271,415	-	323,900
. Trade	-	1,174,188	-	1,164,801
. Subsidiaries	-	776	-	44
. Associated companies	3,000	16,975	4,114	18,994
. Parent companies	156,214	524	101,956	532
. Taxes	-	778,155	-	286,533
. Social security	-	39,836	-	51,276
. Other payables	-	389,909	-	337,117
	2,492,692	2,671,778	2,105,079	2,183,197

An analysis of payables by due date is as follows:

- Financial payables

	(in thousands of euros)			
	6/30/2000		12/31/1999	
	within 1 year	beyond 1 year	within 1 year	beyond 1 year
. Bonds	4	500,000	4	500,000
. Bank borrowings	323,078	803,189	357,186	930,890
. Other financial companies	658,079	49,128	162,232	48,697
. Associated companies	2,976	24	4,114	-
. Parent companies	156,214	-	101,956	-
	1,140,351	1,352,341	625,492	1,479,587

Financial payables are covered by liens and mortgages for Euros 150 million.

Financial payables due within the year amount to Euros 1,140.4 million and also include the current portion of long-term debt of Euros 37.8 million.

- **Bank borrowings**

Bank borrowings due beyond one year, amounting to Euros 803.2 million, include residual borrowing due beyond five years for Euros 110 million.

- **Payables to other financial companies**

The amount due beyond one year, amounting to Euros 49.1 million, includes Euros 38.5 million due beyond five years.

- **Trade and other payables**

	(in thousands of euros)			
	6/30/2000		12/31/1999	
	within 1 year	beyond 1 year	within 1 year	beyond 1 year
. Advances from customers	271,415	-	323,900	-
. Trade	1,174,188	-	1,164,801	-
. Subsidiaries	776	-	44	-
. Associated companies	16,975	-	18,994	-
. Parent companies	524	-	532	-
. Taxes	428,364	349,791	207,139	79,394
. Social security	39,836	-	47,343	3,933
. Other payables	360,445	29,464	306,557	30,560
	2,292,523	379,255	2,069,310	113,887

CONSOLIDATED STATEMENTS OF INCOME

A) PRODUCTION VALUE

- Revenues from sales and services

The distribution of sales by geographic area of destination and industry sector are reported in the following table:

	(in thousands of euros)			
	1st half 2000		1st half 1999	
Geographic area				
Europe:				
. Italy	410,837	11.42%	390,950	12.26%
. Other European countries	1,586,510	44.10%	1,428,887	44.79%
North America	564,212	15.68%	503,842	15.79%
Central and South America	576,417	16.02%	571,195	17.91%
Oceania, Africa and Asia	459,893	12.78%	295,081	9.25%
	3,597,869	100.00%	3,189,955	100.00%
Sector				
Cables and Systems	2,171,348	60.35%	1,892,586	59.33%
Tyres	1,424,956	39.61%	1,295,823	40.62%
Other sectors	41,847	1.16%	37,733	1.18%
Inter-eliminations	(40,282)	(1.12%)	(36,187)	(1.13%)
	3,597,869	100.00%	3,189,955	100.00%

B) PRODUCTION COSTS

- Personnel costs

Personnel costs consist of the following:

	(in thousands of euros)	
	1st half 2000	1st half 1999
Salaries and wages	600,299	564,825
Social security costs	125,556	119,095
Leaving indemnity	15,686	20,620
Pension and similar costs	10,782	9,920
Other costs	13,332	12,065
	765,655	726,525

- Amortization and depreciation

The depreciation charge for property, plant and equipment may be analyzed as follows:

	(in thousands of euros)	
	1st half 2000	1st half 1999
Buildings	19,202	14,883
Plant and machinery	109,126	103,476
Commercial and industrial equipment	21,929	18,335
Other assets	16,465	14,816
	166,722	151,510

C) FINANCIAL INCOME AND EXPENSES

- Investment income

Investment income amounts to Euros 5 million and refers to dividends received from equity investments in other companies.

- **Other financial income**

“Income other than the above” consists of the following:

	(in thousands of euros)	
	1st half 2000	1st half 1999
Interest from associated companies	716	522
Interest from parent companies	17,342	2,323
Bank interest and other interest	40,462	50,533
Other financial income from parent companies	26	439
Miscellaneous financial income	26,317	60,949
Gains on exchange	35,960	125,147
	120,823	239,913

- **Interest and other financial expense**

These expenses include:

	(in thousands of euros)	
	1st half 2000	1st half 1999
Interest to associated companies	18	24
Interest to parent companies	0	239
Bond interest	12,121	12,188
Bank interest and interest to other financial companies	52,086	79,564
Other financial interest to associated companies	251	0
Other financial interest to parent companies	4,170	4,915
Miscellaneous financial expenses	48,077	41,050
Losses on exchange	48,491	119,337
	165,214	257,317

E) EXTRAORDINARY ITEMS

- Extraordinary income

Extraordinary income went from Euros 13 million in the first six months of the prior year to Euros 1,672.4 million, and can be analyzed as follows:

(in thousands of euros)		
	1st half 2000	1st half 1999
Gains on disposal	39,481	8,503
Miscellaneous	1,632,901	4,527
	1,672,382	13,030

"Gains on disposal" mainly include Euros 8.8 million of gains on the sale of CofiDe Compagnia Finanziaria De Benedetti S.p.A. shares, Euros 13.7 million of gains on the sale of IMMSI shares and Euros 14.4 million on the sale of Cartiere Burgo S.p.A. shares.

"Miscellaneous" mainly includes nonrecurring income on the sale of our terrestrial optical systems business concluded on February 14 of this year with the American group Cisco for Euros 1,623,3 million.

- Extraordinary expenses

Extraordinary expenses total Euros 506.3 million, compared to Euros 6.9 million in the first half of 1999, and consist of the following:

(in thousands of euros)		
	1st half 2000	1st half 1999
Losses on disposals	9,885	26
Miscellaneous	496,370	6,871
	506,255	6,897

"Miscellaneous" basically includes industrial restructuring costs for Euros 253.4 million and costs related to the sale of our terrestrial optical systems business to Cisco Systems for Euros 212.3 million.

OTHER INFORMATION

- **Employees**

The average number of employees during the first half of 2000 in the companies included in the scope of consolidation, by category, is as follows:

. management	645
. staff	10,954
. operatives	26,132
. temporary employment	2,917
	<hr/>
	40,648
	<hr/> <hr/>

- **Exchange rates**

The main exchange rates used for consolidation are as follows:

	(local currency against Euro)					
	Period-end		Change in %	Average		Change in %
	6/30/00	12/31/99		1 st half 2000	1 st half 1999	
Europe						
Italian lire	1,936.27	1,936.27	0.00%	1,936.27	1,936.27	0.00%
German mark	1.95583	1.95583	0.00%	1.95583	1.95583	0.00%
Dutch guilder	2.20371	2.20371	0.00%	2.20371	2.20371	(0.00%)
French franc	6.55957	6.55957	0.00%	6.55957	6.55957	(0.00%)
Spanish peseta	166.386	166.386	0.00%	166.386	166.386	0.00%
Belgian franc	40.3399	40.3399	0.00%	40.3399	40.3399	0.00%
British pound	0.6323	0.62170	1.71%	0.61214	0.6723	(8.94%)
Swiss franc	1.5576	1.6051	(2.96%)	1.5853	1.5996	(0.89%)
Greek drachma	336.830	330.300	1.98%	334.4552	323.831	3.28%
North America						
American dollar	0.9556	1.0046	(4.88%)	0.9601	1.0891	(11.84%)
Canadian dollar	1.4157	1.4608	(3.09%)	1.4078	1.6262	(13.43%)
South America						
Brazilian real	1.7201	1.7972	(4.29%)	1.7163	1.8990	(9.62%)
Argentine peso	0.9556	1.0046	(4.88%)	0.9601	1.0891	(11.84%)
Oceania						
Australian dollar	1.5894	1.5422	3.06%	1.5740	1.6936	(7.06%)
Africa						
Ivory Coast franc	655.957	655.957	0.00%	655.9570	655.957	0.00%

- **Net financial position**

The composition of the net financial position presented below, which improved by Euros 1,313.2 million compared to December 31, 1999, was commented on in the introduction to the report:

	(in thousands of euros)	
	6/30/2000	12/31/1999
Short-term financial payables	1,140,351	625,492
Accrued interest expenses	29,639	18,011
Cash and banks	(1,704,247)	(502,468)
Other securities	(191,439)	(221,054)
Short-term financial receivables	(754,121)	(262,515)
Accrued interest income	(22,939)	(9,143)
Capital subscription rights - portion called up	0	(24)
Net short-term financial position	(1,502,756)	(351,701)
Medium/long-term financial payables	1,352,341	1,479,587
Medium/long-term financial receivables	(124,389)	(89,502)
Other securities	(21,294)	(21,295)
Net medium/long-term debt position	1,206,658	1,368,790
Net financial position	(296,098)	1,017,089

PIRELLI GROUP

SUPPLEMENTARY INFORMATION

CONSOLIDATED STATEMENTS OF CASH FLOWS		(in thousands of euros)
	1/1 - 6/30/2000	1/1 - 12/31/1999
NET (DEBT) AT BEGINNING OF YEAR	(1,017,089)	(265,096)
Translation adjustments	7,837	(22,420)
Operating profit	213,290	330,756
Depreciation and amortization	188,554	347,713
Increase in intangible assets	(25,519)	(125,127)
Increase in property, plant and equipment	(234,650)	(468,895)
Increase in financial assets	(17,559)	(100,333)
Disposal of intangible assets	718	42
Disposal of property, plant and equipment	25,217	44,872
Disposal of financial assets	70,796	2,528
Net investments	(180,997)	(646,913)
Changes in inventories	(33,463)	3,038
Changes in trade and other accounts receivable/payable	(159,191)	31,161
Changes in working capital	(192,654)	34,199
Changes in provisions for liabilities and expenses	(9,469)	33,985
Other changes	(14,551)	14,082
FREE CASH FLOW	4,173	113,822
Extraordinary items, net	1,166,127	88,848
Financial income (expenses), net	(37,457)	(54,445)
Income taxes, net	(385,561)	(91,071)
Purchase of treasury shares	(572)	(105,741)
Other	719,272	(295,892)
Cash flow before dividends	1,465,982	(344,479)
Dividends paid	(162,910)	(162,791)
Net cash flow	1,303,072	(507,270)
Effects of the merger by incorporation in Pirelli S.p.A. of S.I.P. S.p.A.	0	(229,338)
Share capital increase Pirelli S.p.A. for conversion of bonds	2,278	0
Share capital increase (minority interest)	0	7,035
Changes in share capital	2,278	7,035
Net change during year (*)	1,313,187	(751,993)
NET LIQUIDITY (DEBT) AT END OF PERIOD	296,098	(1,017,089)
(*) Financed by:		
Increase (decrease) in long-term loans	(162,132)	354,148
Increase (decrease) in short-term loans	21,109	307,730
Decrease (increase) in cash and banks and cash equivalents	(1,172,164)	90,115
	(1,313,187)	751,993

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(in thousands of euros)

	SHARE CAPITAL	SHARE PREMIUM RESERVE	CONSOLIDATION RESERVE	LEGAL RESERVE OTHER RESERVES RETAINED EARNINGS NET INCOME FOR THE PERIOD	TOTAL
Balance at December 31, 1998	1,024,198	461,727	142,325	654,847	2,283,097
Profit distribution, as per resolution of May 24, 1999					
* dividends to shareholders				(140,081)	(140,081)
* to directors				(1,396)	(1,396)
Translation adjustment for change from Lire to Euros	7,031	(7,031)			0
Assignment of bonus shares to employees	923			(923)	0
Effects of the merger by incorporation in Pirelli S.p.A. of S.I.P. S.p.A.			(156,200)		(156,200)
Withdrawal from share premium reserve to set up reserve for treasury shares in portfolio		(184,613)		184,613	0
Adjustment of net equities of subsidiaries companies			8,477	(46,786)	(38,309)
Translation adjustment			34,669		34,669
Net income for the year				293,127	293,127
Balance at December 31, 1999	1,032,152	270,083	29,271	943,401	2,274,907
Profit distribution, as per resolution of May 8, 2000					
* dividends to shareholders				(150,862)	(150,862)
* to directors				(1,747)	(1,747)
February 10, 2000 subscription of No. 3,343,000 ordinary shares	1,739				1,739
April 27, 2000 subscription of No. 450,000 ordinary shares	234				234
May 19, 2000 subscription of No. 545,200 ordinary shares	284				284
June 21, 2000 subscription of No. 41,000 ordinary shares	21				21
Withdrawal from share premium reserve to set up reserve for treasury shares in portfolio		(572)		572	
Adjustment of net equities of subsidiaries companies			59,676	(64,212)	(4,536)
Translation adjustment			35,768		35,768
Net income for the period				958,236	958,236
Balance at June 30, 2000	1,034,430	269,511	124,715	1,685,388	3,114,044

RECONCILIATION OF NET RESULT AND SHAREHOLDERS' EQUITY OF PIRELLI S.P.A. AND CORRESPONDING CONSOLIDATED FIGURES

(in thousands of euros)

	Share Capital	Reserves	Consolidation reserve	Net income	Total
Pirelli S.p.A.	1,034,430	996,663	0	226,038	2,257,131
Earnings for the year of consolidated companies (before consolidation adjustment)				968,221	968,221
Capital and reserves of consolidated companies (before consolidation adjustment)			2,058,417		2,058,417
Consolidation adjustments:					
- carrying value of investments in consolidated companies			(2,029,258)		(2,029,258)
- intragroup dividends			234,806	(234,806)	0
- other			(139,250)	(1,217)	(140,467)
Consolidated	1,034,430	996,663	124,715	958,236	3,114,044

COMPANIES CONSOLIDATED USING THE FULL CONSOLIDATION METHOD

Company	Activity	Headquarters	Share Capital	Percentage ownership	Percentage of vote	Held by
EUROPE						
AUSTRIA						
Pirelli Gesellschaft mbH	Tyres	Vienna	AS/000	10,000	100.00%	Lunares S.A.
Pirelli-Oekw GmbH	Cables and Systems	Vienna	Euro	2,071,176	100.00%	Pirelli Cable Holding N.V.
BELGIUM						
Pirelli Tyres Belux S.A.	Tyres	Brussels	Euro	694,102	100.00%	Lunares S.A.
FINLAND						
Pirelli Cables and Systems OY	Cables and Systems	Helsinki	Euro	10,000	100.00%	Pirelli Cable Holding N.V.
FRANCE						
Cables Pirelli S.A.	Cables and Systems	Saint Maurice	FF/000	900,000	100.00%	Pirelli Cable Holding N.V.
Eurelectric S.A.	Cables and Systems	La Bresse	FF/000	26,325	100.00%	Cables Pirelli S.A.
Pneus Pirelli S.A.	Tyres	Puteaux	Euro	3,062,400	100.00%	Lunares S.A.
GERMANY						
Bergmann Kabel und Leitungen GmbH	Cables and Systems	Schwerin	DM/000	2,000	100.00%	Pirelli Kabel und Systeme Holding GmbH
Deutsche Pirelli Reifen Holding GmbH	Financial	Breuberg/Odenwald	DM/000	15,050	100.00%	Pirelli Tyre Holding N.V.
ISO Industrie Spedition Odenwald GmbH	Tyres	Breuberg/Odenwald	Euro	25,565	100.00%	Pirelli Reifenwerke GmbH & Co. K.G.
Materialverwertungsgesellschaft Breuberg GmbH	Tyres	Breuberg/Odenwald	Euro	25,565	100.00%	Deutsche Pirelli Reifen Hold. GmbH
Metzeler Reifen GmbH	Tyres	Breuberg/Odenwald	Euro	16,361,340	100.00%	Pirelli Deutschland A.G.
Pirelli Deutschland A.G.	Tyres	Breuberg/Odenwald	Euro	26,075,886	98.94%	Deutsche Pirelli Reifen Hold. GmbH
Pirelli Kabel und Systeme Holding GmbH	Cables and Systems	Berlin	DM/000	50	99.00%	Pirelli Cable Holding N.V.
					1.00%	Pirelli Cavi e Sistemi S.p.A.
Pirelli Kabel Grundstücksverwaltungs GmbH	Cables and Systems	Berlin	DM/000	50	100.00%	Pirelli Kabel und Systeme Holding GmbH
Pirelli Kabel und Systeme Beteiligungs GmbH	Cables and Systems	Berlin	DM/000	50	100.00%	Pirelli Kabel und Systeme Holding GmbH
Pirelli Kabel und Systeme GmbH & Co. KG	Cables and Systems	Berlin	DM/000	10,000	100.00%	Pirelli Kabel und Systeme Beteiligungs GmbH
Pirelli Kabel und Systeme Verwaltungs GmbH	Cables and Systems	Berlin	DM/000	50	100.00%	Pirelli Kabel und Systeme Beteiligungs GmbH
Pirelli Reifenwerke GmbH & Co. K.G.	Tyres	Breuberg/Odenwald	Euro	35,790,943	100.00%	Pirelli Deutschland A.G.
Pirelli Reifenwerke Geschaefsfuehrungs GmbH	Services	Breuberg/Odenwald	Euro	25,565	100.00%	Deutsche Pirelli Reifen Hold. GmbH
Pneumobil GmbH	Tyres	Breuberg/Odenwald	Euro	259,225	99.62%	Pirelli Reifenwerke GmbH & Co. K.G.
Veith Wohnungsbau GmbH	Real estate	Breuberg/Odenwald	Euro	127,823	100.00%	Pirelli Deutschland A.G.
GREECE						
Antem Representations & Trading Co. Ltd. in liq.	Tyres	Athens	Drs./000	1,000	100.00%	Pirelli Hellas S.A.
Diafimisis Roda Ltd (in liquidation)	Advertising	Athens	Drs./000	3,000	99.33%	Elastika Pirelli S.A.
					0.33%	Antem Repr.& Trading Co Ltd
Elastika Pirelli S.A.	Tyres	Athens	Drs./000	557,000	99.90%	Lunares S.A.
					0.10%	Pirelli Pneumatici Holding S.p.A.
Pirelli Hellas S.A. (in liquidation)	Tyres	Athens	US.\$/000	22,050	79.86%	Pirelli Tyre Holding N.V.
HUNGARY						
MKM Magyar Kabel Muvek RT.	Cables and Systems	Budapest	HUF/000	6,981,070	100.00%	Pirelli Cable Holding N.V.
Pirelli Construction Hungary Limited	Cables and Systems	Budapest	HUF/000	1,000	100.00%	Pirelli Cable Holding N.V.
Pirelli Hungary Tyre Trading and Services Limited	Tyres	Budaors	HUF/000	3,000	100.00%	Lunares S.A.
ITALY						
Centro Servizi Amministrativi Pirelli S.r.l.	Services	Milan	Euro	51,000	100.00%	Pirelli S.p.A.
Fibre Ottiche Sud - F.O.S. S.p.A.	Optical fibers	Battipaglia (SA)	Lire/mil.	10,000	100.00%	Pirelli Cavi e Sistemi S.p.A.
Fintheta S.p.A.	Real estate	Milan	Euro	255,000	100.00%	Pirelli S.p.A.
Kallithea Immobiliare S.r.l.	Real estate	Milan	Euro	10,400	100.00%	Pirelli S.p.A.
Istituto Piero Pirelli S.p.A. (in liquidation)	Training	Milan	Euro	135,000	80.00%	Pirelli S.p.A.
					10.00%	Pirelli Pneumatici Holding S.p.A.
					10.00%	Pirelli Cavi e Sistemi S.p.A.

COMPANIES CONSOLIDATED USING THE FULL CONSOLIDATION METHOD

Company	Activity	Headquarters	Share Capital	Percentage ownership	Percentage of vote	Held by
Italgom S.r.l.	Tyres	Varese	Lire/mil.	100	98.00%	Agom S.A. Bioggio
Neri Gomme & C. S.r.l. (in liquidation)	Tyres	Milan	Lire/mil.	20	100.00%	Sistema Puntogomme S.p.A.
Optical Technologies Italia S.p.A. (formerly Pirelli Componenti Ottici S.p.A.)	Cables and Systems	Milan	Euro	183,125,000	100.00%	Optical Technologies USA Corp.
Pirelli Cavi e Sistemi S.p.A.	Cables and Syst. hold. c.	Milan	Euro	182,694,200	98.75% 1.25%	Pirelli S.p.A. Pirelli Société Générale S.A.
Pirelli Informatica S.p.A.	Information Systems	Milan	Euro	520,000	100.00%	Pirelli S.p.A.
Pirelli Metzeler Motovelo S.r.l.	Tyres	Milan	Euro	4,590,000	100.00%	Metzeler Reifen GmbH
Pirelli Nastri Tecnici S.p.A. (in liquidation)	Sundry	Milan	Euro	384,642	100.00%	Pirelli S.p.A.
Pirelli Pneumatici Holding S.p.A.	Financial	Milan	Euro	59,800,000	100.00%	Pirelli Tyre Holding N.V.
Pirelli Pneumatici S.p.A.	Tyres	Milan	Euro	190,320,000	100.00%	Pirelli Pneumatici Holding S.p.A.
Pirelli Servizi Finanziari S.p.A.	Financial	Milan	Euro	1,976,000	100.00%	Pirelli S.p.A.
Pirelli Submarine Telecom Systems Italia S.p.A. (formerly Operazione Zara S.r.l.)	Cables and Systems	Milan	Euro	114,300	100.00%	Pirelli Submarine Telecom Systems Holding B.V.
Polo Viaggi S.r.l.	Travel Agency	Milan	Euro	46,800	100.00%	Pirelli S.p.A.
Servizi Aziendali Pirelli S.C.p.A.	Services	Milan	Euro	104,000	93.00% 1.00% 1.00% 1.00%	Pirelli S.p.A. Pirelli Cavi e Sistemi S.p.A. Pirelli Pneumatici S.p.A. Polo Viaggi S.r.l. Pirelli Pneumatici Holding S.p.A.
Sistema Puntogomme S.p.A.	Tyres	Milan	Euro	3,060,000	100.00%	Pirelli Pneumatici Holding S.p.A.
Tortona Test Area S.p.A. (in liquidation)	Tyres	Milan	Lire/mil.	1,000	100.00%	Pirelli Pneumatici S.p.A.
Trefin S.r.l.	Financial	Milan	Euro	4,242,476	100.00%	Pirelli S.p.A.
LUXEMBOURG						
Gamirco S.A.	Financial	Luxembourg	SF/000	2,100	99.99%	Pirelli Société Générale S.A.
Pirelli Finance (Luxembourg) S.A.	Financial	Luxembourg	Euro	270,228,168	100.00%	Pirelli S.p.A.
POLAND						
Pirelli Polska Sp.zo.o.	Tyres	Warsaw	Zloty	6,257,708,500	100.00%	Lunares S.A.
PORTUGAL						
Descos Fabrica Portuguesa de Material Electrico e Electronico S.A.	Cables and Systems	Arcozelo Vnगाia	Escudos/000	309,000	70.91% 29.09%	Cables Pirelli S.A. Eurlectric S.A.
RUMANIA						
S.C. Pirelli Romania Cabluri si Sisteme S.A. (formerly S.C. Elcaro S.A.)	Cables and Systems	Slatina	RL/000	42,221,625	100.00%	Pirelli Cable Holding N.V.
SLOVAK REPUBLIC						
Kablo Bratislava Spol. S.R.O.	Cables and Systems	Bratislava	SK	300,000,000	100.00%	Pirelli Cable Holding N.V.
SPAIN						
Fercable S.A.	Cables and Systems	Barcelona	Ptas./000	600,000	100.00%	Pirelli Cables y Sistemas S.A.
Omnia Motor S.A.	Tyres	Barcelona	Ptas./000	250,000	100.00%	Pirelli Neumaticos S.A.
Pirelli Cables y Sistemas S.A.	Cables and Systems	Barcelona	Ptas./000	5,700,000	100.00%	Pirelli Cable Holding N.V.
Pirelli Neumaticos S.A.	Tyres	Barcelona	Ptas./000	7,500,000	100.00%	Pirelli Tyre Holding N.V.
Pirelli Esmar S.A.	Cables and Systems	Torredembarra	Ptas./000	1,450,000	100.00%	Pirelli Cables y Sistemas S.A.
SWEDEN						
Pirelli Tyre Nordic AB	Tyres	Stockholm	SK/000	950	100.00%	Lunares S.A.
SWITZERLAND						
Agom S.A.	Tyres	Conthey	SF/000	50	75.00%	Lunares S.A.
Agom S.A. Bioggio	Tyres	Bioggio	SF/000	250	75.00%	Lunares S.A.

COMPANIES CONSOLIDATED USING THE FULL CONSOLIDATION METHOD

Company	Activity	Headquarters	Share Capital	Percentage ownership	Percentage of vote	Held by
Agom S.A. Locarno	Tyres	Locarno	SF/000	50	75.00%	Lunares S.A.
Agom S.A. Lugano	Tyres	Lugano	SF/000	102	75.00%	Lunares S.A.
Biasi S.A.	Tyres	Lugano	SF/000	250	75.00%	Lunares S.A.
Lunares S.A.	Tyre holding comp.	Basel	SF/000	10,000	100.00%	Pirelli Tyre Holding N.V.
Pirelli Cables and Systems S.A.	Cables and Systems	Basel	SF/000	500	95.00%	Pirelli Cable Holding N.V.
					5.00%	Pirelli Société Générale S.A.
Pirelli Produkte Holding A.G.	Cables and Systems	Basel	SF/000	9,500	100.00%	Pirelli Cable Holding N.V.
Pirelli Société de Services S.a.r.l.	Financial	Basel	SF/000	50	100.00%	Pirelli Société Générale S.A.
Pirelli Société Générale S.A.	Financial	Basel	SF/000	140,000	100.00%	Pirelli S.p.A.
Pirelli Submarine Telecom Systems S.A.	Cables and Systems	Basel	SF/000	100	100.00%	Pirelli Submarine Telecom Systems Holding B.V.
Pirelli Tyre (Europe) S.A.	Tyres	Basel	SF/000	1,000	100.00%	Lunares S.A.
RTS Ring Tread System (Suisse) S.A.	Tyres	Bioggio	SF/000	50	75.00%	Lunares S.A.

THE NETHERLANDS

Optical Technologies The Netherlands B.V.	Cables and Systems	Delft	Euro	183,235,100	100.00%	Pirelli S.p.A.
Pirelli Cable Holding N.V.	Cables and Syst. hold. c.	Delft	Euro	272,515,065	100.00%	Pirelli Cavi e Sistemi S.p.A.
Pirelli Cables and Systems N.V.	Cables and Systems	Delft	Euro	5,000,000	100.00%	Pirelli Cable Holding N.V.
Pirelli Cable Overseas N.V.	Cables and Systems	Delft	Euro	10,000,000	100.00%	Pirelli Cavi e Sistemi S.p.A.
Pirelli Submarine Telecom Systems Holding B.V.	Cables and Systems	Delft	Euro	4,050,000	100.00%	Pirelli Cavi e Sistemi S.p.A.
Pirelli Tyre Holding N.V.	Tyre holding comp.	Amsterdam	Euro	558,396,000	99.82%	Pirelli S.p.A.
Pirelli Tyres Nederland B.V.	Tyres	Breukelen	Euro	18,152	100.00%	Lunares S.A.
Sipir Finance N.V.	Financial	Rotterdam	Euro	41,146,522	100.00%	Pirelli Tyre Holding N.V.

TURKEY

Celikord A.S.	Tyres	Istanbul	TL/mil.	5,260,000	44.05%	Pirelli Tyre Holding N.V.
					6.42%	Sipir Finance N.V.
					0.27%	Pirelli Pneumatici Holding S.p.A.
					0.27%	Pirelli Deutschland A.G.
Turk-Pirelli Lastikleri A.S.	Tyres	Istanbul	TL/mil.	29,400,000	60.01%	Pirelli Tyre Holding N.V.
					1.57%	Sipir Finance N.V.
					0.08%	Pirelli Deutschland A.G.
					0.08%	Pirelli UK Tyres Ltd
					0.08%	Pirelli Pneumatici S.p.A.
					0.08%	Lunares S.A.
					0.08%	Pirelli Pneumatici Holding S.p.A.
					0.08%	Metzeler Reifen GmbH
					0.08%	Pirelli Reifenwerke GmbH & Co. K.G.
					0.08%	Pirelli Neumaticos S.A.
Türk Pirelli Kablo ve Sistemleri A.S.	Cables and Systems	Mudania / Bursa	TL/mil.	1,260,000	83.75%	Pirelli Cable Holding N.V.
Zalsan Zirai Arac Lastikleri A.S.	Tyres	Istanbul	TL/mil.	5,000	70.00%	Turk-Pirelli Lastikleri A.S.

UNITED KINGDOM

Aberdare Cables Ltd	Cables and Systems	London	£/000	610	100.00%	Pirelli General plc
CTC 1994 Limited	Tyres	London	£	984	100.00%	Central Tyre Ltd
Central Tyre Ltd	Tyres	London	£/000	100	100.00%	Pirelli UK Tyres Ltd
Courier Tyre Company Ltd	Tyres	London	£/000	10	100.00%	Pirelli UK Tyres Ltd
CPK Auto Products Ltd	Tyres	London	£/000	10	100.00%	Pirelli UK Tyres Ltd
Pirelli Cables Ltd	Cables and Systems	London	£/000	100	100.00%	Pirelli General plc
Pirelli Construction Company Ltd	Cables and Systems	London	£/000	8,000	100.00%	Pirelli General plc
Pirelli Focom Limited	Cables and Systems	London	£/000	6,447	100.00%	Pirelli General plc
PFN Limited (formerly Pirelli Focom Networks Ltd)	Cables and Systems	London	£	2	100.00%	Pirelli General plc
Pirelli General plc	Cables and Systems	London	£/000	102,100	100.00%	Pirelli UK plc "B"
Pirelli Tyres Ltd	Tyres	London	£/000	16,000	100.00%	Pirelli UK Tyres Ltd
Pirelli UK Employee Share Trustee Limited	Financial	London	£	2	100.00%	Pirelli UK plc "C"
Pirelli UK Finance Ltd	Financial	London	£/000	6,969	100.00%	Pirelli UK plc "C"
Pirelli UK plc "A"	Tyre holding comp.	London	£/000	57,354	100.00%	Pirelli Tyre Holding N.V.
Pirelli UK plc "B"	Cables and Syst. hold. c.	London	£/000	54,299	100.00%	Pirelli Cable Holding N.V.
Pirelli UK plc "C"	Finance holding comp.	London	£/000	11,626	100.00%	Pirelli S.p.A.
Pirelli UK Tyres Ltd	Tyres	London	£/000	56,819	100.00%	Pirelli UK plc "A"

NORTH AMERICA

CANADA

Pirelli Cables and Systems Inc.	Cables and Systems	St Jean sur Richelieu	Can.\$/000	40,000	100.00%	Pirelli Cable Holding N.V.
Pirelli Tire Inc.	Tyres	Ottawa	Can.\$/000	6,000	100.00%	Lunares S.A.

COMPANIES CONSOLIDATED USING THE FULL CONSOLIDATION METHOD

Company	Activity	Headquarters	Share Capital	Percentage ownership	Percentage of vote	Held by
U.S.A.						
Metzeler Motorcycle Tire North America Corp.	Tyres	Seattle (Washington)	US.\$/000	150	100.00%	Metzeler Reifen GmbH
Optical Technologies USA Corp.	Cables and Systems	Dover (Delaware)	US.\$	45,000	78.89% 21.11%	Optical Technologies The Netherlands B.V. Pirelli Cavi e Sistemi S.p.A.
Pirelli Cables and Systems LLC	Cables and Systems	Wilmington (Delaware)	US.\$	1	100.00%	Pirelli North America Inc. "B"
Pirelli Construction Services Inc.	Cables and Systems	Dover (Delaware)	US.\$/000	1	100.00%	Pirelli Cables and Systems LLC
Pirelli Jacobson Inc.	Cables and Systems	Dover (Delaware)	US.\$/000	2	100.00%	Pirelli Cables and Systems LLC
Pirelli North America Inc. "A"	Tyres	Wilmington (Delaware)	US.\$	3	100.00%	Pirelli Tyre Holding N.V.
Pirelli North America Inc. "B"	Cables and Systems	Wilmington (Delaware)	US.\$	7	100.00%	Pirelli Cavi e Sistemi S.p.A.
Pirelli Tire LLC	Tyres	Wilmington (Delaware)	US.\$	1	100.00%	Pirelli North America Inc. "A"
CENTRAL/SOUTH AMERICA						
ARGENTINA						
Fipla S.A.	Cables and Systems	Buenos Aires	Peso	130	66.97%	Pirelli Cons. Cond.Inst. SAIC
Pirelli Consultora Conductores e Instalaciones S.A.I.C.	Cables and Systems	Buenos Aires	Peso	2,227	100.00%	Pirelli Cable Holding N.V.
Pirelli Argentina de Mandatos S.A.	Services	Buenos Aires	Peso/000	500	100.00%	Pirelli Soci�t� G�n�rale S.A.
Pirelli Cables S.A.I.C.	Cables and Systems	Buenos Aires	Peso/000	44,509	74.72% 24.69%	Pirelli Cons. Cond.Inst. SAIC Pirelli Cable Holding N.V.
Pirelli Neumaticos S.A.I.C.	Tyres	Buenos Aires	Peso/000	19,017	99.02% 0.98%	Pirelli Tyre Holding N.V. Pirelli Pneumatici.Holding S.p.A.
Tel 3 S.A.	Cables and Systems	Buenos Aires	Peso/000	11,075	51.00%	Pirelli Cables S.A.I.C.
BRAZIL						
Muria� Ltda	Financial	Santo Andr�	Real	80,000,000	100.00%	Pirelli Pneus S/A
Pirelli Pneus Nordeste Ltda	Tyres	Feira de Santana	Real	29,991,402	100.00%	Pirelli Pneus S/A
Pirelli Produtos Especiais Ltda	Cables and Systems	Cerquillo	Real	43,143,421	100.00%	Pirelli Cabos S/A
Pirelli S.A.	Financial	Santo Andr�	Real	29,545,309	100.00%	Pirelli S.p.A.
Pirelli Pneus S/A	Tyres	Santo Andr�	Real	264,618,982	42.45% 41.32% 3.20%	0.00% Pirelli Pneumatici S.p.A. 79.78% Pirelli Tyre Holding N.V. 0.27% Pirelli S.A.
Pirelli Cabos S/A	Cables and Systems	Santo Andr�	Real	162,806,011	73.81% 11.66%	68.40% Pirelli Cavi e Sistemi S.p.A. 9.87% Pirelli S.A.
Pneuc Comercial e Importadora Ltda	Tyres	San Paolo	Real	12,913,526	100.00%	Pirelli Pneus S/A
Same da Amazonia Ltda	Cables and Systems	Manaus	Real	48,291,480	99.99% 0.01%	Pirelli Cabos S/A Pneuc Com. e Import. Ltda
Solac Laminadora de Cobre Ltda	Cables and Systems	Jacarei	Real	8,485,100	89.00%	Pirelli Cabos S/A
CHILE						
Pirelli E y T S.A.	Cables and Systems	Santiago	Ch.Peso./000	600,000	60.00%	Pirelli Instalaciones Chile S.A.
Pirelli Instalaciones Chile S.A.	Cables and Systems	Santiago	Ch.Peso./000	918,707	90.00% 10.00%	Pirelli Cons. Cond. Inst. SAIC Cite S.A.
Pirelli Neumaticos Chile Limitada	Tyres	Santiago	US.\$/000	20	95.00% 5.00%	Pirelli Pneus S/A Pneuc Com. e Import. Ltda
COLUMBIA						
Pirelli de Colombia S.A.	Tyres	Santa Fe De Bogota	Ch.Peso./000	3,478,290	94.94% 4.98% 0.03% 0.03% 0.02%	Pirelli Pneus S/A Pirelli de Venezuela C.A. Muria� Ltda Pirelli Pneus Nordeste Ltda Pneuc Com. e Import. Ltda
DUTCH ANTILLES						
Pirelli Financial Services Company N.V.	Financial	Cura�o	US.\$/000	11,000	100.00%	Pirelli Soci�t� G�n�rale S.A.
Pirelli Insurance & Reinsurance Company N.V.	Insurance	Cura�o	US.\$/000	10,000	100.00%	Pirelli Financ. Services Co NV
MEXICO						
Pirelmex S.A. de C.V.	Tyres	Mexico City	Mex. Peso	1,832,600	99.54% 0.46%	Pirelli Pneus S.A. Pneuc Comercial e Importadora Ltda

COMPANIES CONSOLIDATED USING THE FULL CONSOLIDATION METHOD

Company	Activity	Headquarters	Share Capital	Percentage ownership	Percentage of vote	Held by
URUGUAY						
Cite S.A.	Cables and Systems	Montevideo	Ur.Peso /000	4,900	100.00%	Pirelli Cables S.A.I.C.
VENEZUELA						
Neumaticos de Venezuela C.A. (in liquidation)	Tyres	Caracas	Bol.	4,650,980	96.21%	Pirelli Tyre Holding N.V.
Pirelli de Venezuela C.A.	Tyres	Valencia	Bol./000	13,062,679	96.22%	Pirelli Tyre Holding N.V.
AFRICA						
EGYPT						
Alexandria Tire Company S.A.E.	Tyres	Alexandria	EGP	211,876,600	66.05% 11.60%	Pirelli Pneumatici Holding S.p.A. Pirelli Pneumatici S.p.A.
IVORY COAST						
SICABLE - Société Ivoirienne de Cables S.A.	Cables and Systems	Abidjan	CFA Fr./mil.	740	51.00%	Cables Pirelli S.A.
SOUTH AFRICA						
Italian Tyre (Proprietary) Limited (formerly Newshel 582 (Proprietary) Limited)	Tyres	Sandton	Rands	1	100.00%	Lunares S.A.
OCEANIA						
AUSTRALIA						
Pirelli Cables Australia Ltd	Cables and Systems	Liverpool - N.S.W.	Austr.\$/000	21,500	51.00%	Pirelli Cavi e Sistemi S.p.A.
Pirelli Tyres Australia Pty Ltd	Tyres	Pymble - N.S.W.	Austr.\$/000	150	100.00%	Lunares S.A.
NEW ZEALAND						
Pirelli Cables NZ Ltd	Cables and Systems	Auckland	nz\$/000	10	100.00%	Pirelli Cables Australia Ltd
Pirelli Tyres (NZ) Ltd	Tyres	Wellington	nz\$	100	100.00%	Pirelli Tyres Australia Pty Ltd
ASIA						
INDIA						
Pirelli Cables (India) Private Limited	Cables and Systems	New Delhi	Ind. Rupie	10,000,000	100.00%	Pirelli Cable Holding N.V.
INDONESIA						
PT Pirelli Cables Indonesia	Cables and Systems	Jakarta	US.\$/000	50,000	99.30% 0.70%	Pirelli Cable Holding N.V. Pirelli Cable Overseas N.V.
JAPAN						
P & A K.K.	Tyres	Tokyo	Yen/000	1,700,000	51.00%	Pirelli Tyre Holding N.V.
Pirelli K.K.	Tyres	Tokyo	Yen/000	40,000	100.00%	Lunares S.A.
MALAYSIA						
Submarine Cable Installation Sdn Bhd	Cables and Systems	Kuala Lumpur	Ringgit/000	10	99.00% 1.00%	Pirelli Cavi e Sistemi S.p.A. Pirelli Cable Systems Pte Ltd

COMPANIES CONSOLIDATED USING THE FULL CONSOLIDATION METHOD

Company	Activity	Headquarters	Share Capital		Percentage ownership	Percentage of vote	Held by
SINGAPORE							
Materials Purchasing Pte Ltd	Tyres	Singapore	Sing\$./000	250	100.00%		Pirelli Tyre Holding N.V.
Pirelli Asia Pte Ltd	Tyres	Singapore	Sing.\$	2	100.00%		Lunares S.A.
Pirelli Cable Systems Pte Ltd	Cables and Systems	Singapore	Sing\$./000	25	50.00%	50.00%	Pirelli General plc Pirelli Cable Holding N.V.

INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Company	Activity	Headquarters	Share Capital		Percentage ownership	Percentage of vote	Held by
ASSOCIATED COMPANY							
EUROPE							
GERMANY							
Drahtcord Saar Geschaefsfuehrungs GmbH	Tyres	Merzig	DM/000	60	50.00%		Pirelli Deutschland A.G.
Drahtcord Saar GmbH & Co. K.G.	Tyres	Merzig	DM/000	9,000	50.00%		Pirelli Deutschland A.G.
Kabeltrommel Gesellschaft mbH & Co K.G.	Cables and Systems	Colonia	DM/000	20,000	27.48%		Pirelli Kabel und Systeme GmbH & Co. K

ITALY

Axxium Italia S.r.l.	Tyres	Acqui Terme (AL)	Lire/mil.	90	49.00%		Sistema Puntogomme S.p.A.
Maristel S.p.A.	Cables and Systems	Milan	Lire/mil.	2,000	50.00%		Pirelli Cavi e Sistemi S.p.A.
Servizio Titoli S.r.l.	Services	Torino	Euro	52,000	25.00%		Pirelli S.p.A.
SMP Melfi S.r.l.	Tyres	Melito (NA)	Lire/mil.	6,800	50.00%		Pirelli Pneumatici Holding S.p.A.
Sicrem S.p.A.	Tyres	Pizzighettone (CR)	Lire/mil.	18,000	33.33%		Pirelli Pneumatici Holding S.p.A.

SPAIN

Optiwire S.L.	Cables and Systems	Barcelona	Ptas./mil.	1	50.00%		Pirelli Cables y Sistemas SA
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UNITED KINGDOM

Rodco Ltd	Cables and Systems	Gravesend	£./000	5,000	40.00%		Pirelli General plc
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CENTRAL/SOUTH AMERICA**ARGENTINA**

Lineas de Transmision de Buenos Aires S.A.	Cables and Systems	Buenos Aires	Peso/000	12	20.00%		Pirelli Argentina de Mandatos S.A.
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BRAZIL

K.M.P. Cabos Especiais e Sistemas Ltda	Cables and Systems	San Paolo	Real	6,600,916	40.00%		Pirelli Cabos S.A.
MCM Empreendimentos Imobiliarios - Empresa Pirelli & C. Ltda	Real estate	Santo André	Real	2,000,000	30.00%		Pirelli S.A.

ASIA**SAUDI ARABIA**

Sicew-Saudi Italian Co. for Electrical Works Ltd	Cables and Systems	Jeddah	Saudi Rials/000	1,000	34.00%		Pirelli Cable Holding N.V.
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OTHER INVESTMENTS IN SUBSIDIARIES AND ASSOCIATED COMPANIES

Company	Activity	Headquarters	Share Capital		Percentage ownership	Percentage of vote	Held by
EUROPE							
AUSTRIA							
Pirelli Kabelwerke und Systeme GmbH	Cables and Systems	Vienna	AS/000	500	100.00%		Pirelli Cavi e Sistemi S.p.A.
FRANCE							
LDS France - Soc.de Transport et Distribution S.A.	Distribution	La Courneuve	FF	657,500	100.00%		Pirelli S.p.A.
HUNGARY							
Ipoly Kabeldob KFT.	Cables and Systems	Szecsény	HUF/000	36,330	25.16%		MKM Magyar Kabel Muvek Rt.
Kabel Keszletertekesito BT.	Cables and Systems	Budapest	HUF/000	1,239,841	100.00%		MKM Magyar Kabel Muvek Rt.
"Kabel" Gepgyarto Epiteipari Es Szolgaltato KFT.	Cables and Systems	Budapest	HUF/000	328,330	100.00%		MKM Magyar Kabel Muvek Rt.
ITALY							
Trelleborg Wheel System S.p.A.	Tyres	Milan	Lire/mil.	2,000	40.00%		Pirelli Pneumatici S.p.A.
CENTRAL/SOUTH AMERICA							
VENEZUELA							
Comercializadora de Neumaticos 2050 C.A.	Tyres	Valencia	Bol.	100,000	100.00%		Pirelli de Venezuela C.A.
AFRICA							
SOUTH AFRICA							
AFCAB Holdings (Proprietary) Ltd	Cables and Systems	Sandton	Rands	4,000	50.00%		Pirelli Cable Holding N.V.
African Cables Ltd	Cables and Systems	Vereeniging	Rands	9,886,098	100.00%		AFCAB Holdings (Proprietary) Ltd
ATC (Proprietary) Ltd	Cables and Systems	Brits	Rands	632,912	21.00%		African Cables Ltd
ASIA							
CHINA							
Pirelli Telecom Cables Co. Ltd Wuxi (formerly Wuxi Tong Ling Cable Company Ltd)	Cables and Systems	Xuelang Town	US.\$/000	25,141	66.47%		Pirelli Cable Overseas N.V.
Tianjin Top Power Cables Co. Ltd	Cables and Systems	Tianjin Municipality	US.\$/001	13,100	51.15%		Pirelli Cable Holding N.V.
OCEANIA							
AUSTRALIA							
MM Cables Energy Products Superannuation Pty Ltd	Cables and Systems	Sydney	Austr.\$	2	100.00%		Pirelli Cables Australia Ltd

OTHER INVESTMENTS CONSIDERED SIGNIFICANT AS PER CONSOB RESOLUTION No. 11971 OF MAY 14, 1999

Company	Activity	Headquarters	Share Capital		Percentage ownership	Percentage of vote	Held by
AUSTRALIA							
Optix Australia Ltd	Cables and Systems	Tottenham(Victoria)	\$Austr.	4,000,000	15.00%		Pirelli Cables Australia Ltd
FRANCE							
Pneu Holding S.A.	Tyres Holding	Grenoble	F.F.	110,779,200	14.21%		Sipir Finance N.V.
GERMANY							
Pirelli Energie Deutschland GmbH	Cogeneration	Breuberg/Odenwald	DM	3,000,000	19.00%		Pirelli Deutschland AG
ITALY							
Eurofly Service S.p.A.	Services	Caselle Torinese	Lire/mil.	2,375	16.33%		Pirelli S.p.A.
F.C. Internazionale Milano S.p.A.	Sport	Milan	Lire/mil.	50,194	13.25%		Pirelli S.p.A.
Hermes S.p.A.	Financial	Treviso	Lire/mil.	900	14.17%		Pirelli S.p.A.
THE NETHERLANDS							
MB Venture Capital Fund I Participating Company G N.V.	Financial	Amsterdam	Euro	50,000	14.00%		Pirelli Finance (Luxembourg) SA
TUNISIA							
Société Tunisienne des Industries de Pneumatiques S.A.	Tyres	Tunis	TND	28,979,500	15.83%		Pirelli Pneumatici S.p.A.
TURKEY							
Türk-Pirelli Enerji A.S.	Cogeneration	Istanbul	LT	900,000,000,000	13.98%	4.99%	Türk-Pirelli Lastikleri A.S. Celikord A.S.

AUDITORS REPORT ON THE LIMITED REVIEW OF THE INTERIM FINANCIAL REPORTING FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2000

To the Shareholders
of Pirelli SpA

- 1 We have performed a limited review of the interim financial reporting of Pirelli SpA for the six months period ended 30 June 2000, consisting of balance sheet, income statement and related comments notes (both for the holding company and consolidated). We have also ensured that the management discussion and analysis is consistent with other information in the interim financial reporting.
- 2 Our work was carried out in accordance with the procedures for a limited review recommended by the National Commission for Companies and the Stock Exchange (Consob) with Deliberation n° 10867 of 31 July 1997. The limited review consisted principally of inquiries of company personnel about the information reported in the interim financial reporting and about the consistency of the accounting principles utilised therein with those applied at year end as well as the application of analytical review procedures on the data contained in the interim financial reporting. The limited review excluded certain auditing procedures such as compliance testing and verification or validation tests of the assets and liabilities and was therefore substantially less in scope than an audit performed in accordance with generally accepted auditing standards. Accordingly, unlike an audit on the annual statutory and consolidated financial statements, we do not express a professional audit opinion on the interim financial reporting.
- 3 Regarding the comparative data of the company financial statements and the consolidated financial statements of the prior year-end and prior interim financial reporting, reference should be made to our reports dated respectively 10 April 2000 and 20 September 1999.

- 4 Based on our review no significant changes or adjustments came to our attention that should be made to the interim financial reporting identified in the first paragraph of this report, in order to make them consistent with the criteria established by Consob with its Regulation n° 11971, article 81 "Relazione semestrale" of 14 May 1999 and subsequent modifications.

Milan, 4 September 2000

PricewaterhouseCoopers SpA

Fabio Facchini
(Partner)

This report has been translated from the original which was issued in accordance with Italian legislation.