



**Six Months Interim Report
at June 30, 2002**

PIRELLI Società per Azioni

Head office in Milan, Viale Sarca 222

Share capital – Euros 1,043,604,420.04

Milan Companies Register No. 00886890151

PIRELLI S.p.A. - MILAN
Six-Months Interim Report at June 30, 2002

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

Chairman and Chief Executive Officer	Marco Tronchetti Provera
Deputy Chairman	Alberto Pirelli
Managing Directors and General Managers	Carlo Buora Giovanni Ferrario
Directors	Gilberto Benetton Carlo Ciani Eugenio Coppola di Canzano Carlo De Benedetti Alberto Falck Giuseppe Gazzoni-Frascara Mario Greco Georg F. Kraye Massimo Moratti Luigi Orlando 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 Paolo Francesco Lazzati
Alternate members	Franco Ghiringhelli Sebastiano Guido

General Managers

Energy Cables and Systems Sector	Valerio Battista
Telecommunications Cables and Systems Sector	Kevin Riddett
Tyres Sector	Francesco Gori
Administration and Control	Claudio De Conto
Finance	Luciano Gobbi

Independent Auditors

PricewaterhouseCoopers S.p.A.

REPORT ON OPERATIONS

THE GROUP

Despite the extremely negative market conditions brought about by the world economic crisis and its particularly strong impact on the Telecommunications Cables and Systems Sector, although it has experienced a slowdown, the Group as a whole has in general outperformed its principal competitors.

The Telecommunications Cables and Systems Sector reference markets are undergoing an unprecedented worldwide crisis which is impacting industry-wide performance far more than could possibly have been predicted. The serious difficulties the sector has been encountering since mid-2001 have become increasingly marked and have caused a two-thirds fall in world demand to date. The collapse in volume has also been followed by a significant drop in prices. The comparison between the first half of 2001 and the first half of 2002 is a comparison between the best period in the history of Telecom Cables and Systems and what is proving to be the worst period ever recorded.

Consequently, despite the positive results recorded by the Energy Cables and Systems Sector and the Tyres Sector, the operating profit of the Group during the six-month period, equal to approximately Euros 93 million, compared to Euros 184 million in the first half of 2001 (Euros 243 million if we consider the supply agreement with Cisco Systems), posts a decrease of Euros 91 million.

Against this difficult backdrop, the Group has taken significant action to keep costs in check, which, in the first half of 2002, led to gross efficiency gains in terms of overheads and operating processes equal to approximately Euros 90 million. The Group is therefore demonstrating its capacity to react to the drastic changes taking place on the market.

The Energy Cables and Systems Sector, which, in turn, is feeling the effects of the decisively negative international economic situation, shows an improvement in profitability, whereas the Tyres Sector confirmed the positive trend already recorded in the first quarter, with further growth in the high-performance segments.

The improved performances by the Energy Cables and Systems and Tyres Sectors combined with the cost restraints were, however, insufficient to fully offset the negative performance recorded by the Telecommunications Cables and Systems Sector. The Group will accentuate the actions already implemented to improve profitability, even though, at present, the market offers little expectation of an upturn in the short term.

Major events during the six-month period

In February, Pirelli Finance (Luxembourg) S.A. signed a derivative equity swap agreement with J.P. Morgan on 100,000,000 Olivetti S.p.A. shares, expiring December 2006.

Settlement can either be made through the physical delivery of the shares or through the payment of the differentials compared to the market prices.

The initial price is equal to Euros 1.4213 per share plus quarterly interest at the 3-month Euribor plus a spread of 143 bps.

In March, the placement was completed for bonds of Euros 500,000,000 issued by Pirelli Finance (Luxembourg) S.A., maturing April 4, 2007, with a fixed interest rate of 6.5 percent.

The bond issue serves to satisfy the objective of refinancing short-term debt by optimizing the financial structure of the Group from the standpoint of both interest rates and maturity dates. The proceeds from the issue were received at the beginning of April.

On April 22, 2002, an agreement was signed for the sale of the 25.3 percent interest in the company Epiclink S.p.A., a company specialized in provided outsourcing services in the area of Information and Communication Technology, to Telecom Italia S.p.A..

The sale took place on August 1, 2002, once authorization was received from the antitrust authorities.

The highlights of the Group taken from the consolidated financial statements for the six months ended June 30, 2002 can be summarized as follows:

(in millions of euros)	6/30/2002 (excluding Olimpia)	6/30/2002	6/30/2001	12/31/2001
. Net sales	3,352	3,352	3,946	7,509
. Gross operating profit	278	278	432	666
% of net sales	8.3%	8.3%	10.9%	8.9%
. Operating profit	93	93	243	295
% of net sales	2.8%	2.8%	6.2%	3.9%
. Financial income (expenses)	(82) (*)	(82) (*)	33	(22)
. Share of earnings (losses) of equity investments	-	(54)	-	(33)
. Extraordinary items	24	24	52	(16)
. Income taxes	(33)	(33)	(128)	(138)
. Net income (loss)	2	(52)	200	86
% of net sales	0.1%	(1.6)%	5.1%	1.1%
. Net income (loss) attributable to Pirelli S.p.A.		(52)	197	82
. Earnings per share (in euros)		(0.03)	0.10	0.04
. Shareholders' equity		5,207	5,870	5,660
. Shareholders' equity attributable to Pirelli S.p.A.		5,023	5,672	5,462
. Equity per share (in euros)		2.50	2.83	2.72
. Net financial (liquidity)/debt position		1,618	(2,225)	1,089
. Capital expenditures		150	310	643
. R&D expenditures		115	109	237
. Employees (at period-end)		38,043	40,674	39,127
. Factories (number)		81	86	84
. Pirelli S.p.A. ordinary shares (no. in millions)		1,919	1,917	1,918
. Pirelli S.p.A. savings shares (no. in millions)		88	88	88
. Total Pirelli S.p.A. shares (no. in millions)		2,007	2,005	2,006

(*) includes adjustments to securities for Euro 21 million

• Net sales

Net sales amount to Euros 3,352 million and decreased by 15.1 percent (11.9 percent net of the exchange effect) compared to the first half of the prior year (Euros 3,946 million). The reduction is essentially due to a contraction in the net sales of the Telecom Cables and Systems Sector (about -65 percent), even though the market share in the sector recorded an increase.

This change can be summarized as follows:

• Currency exchange	-	3.2%
• Volumes	-	9.1%
• Prices/Mix	-	2.8%
	-	<u>15.1%</u>

The distribution of net sales by sector and geographical area is as follows:

Sector	1 st half 2002		1 st half 2001	
	1 st half 2002	1 st half 2001	1 st half 2002	1 st half 2001
Energy Cables and Systems	48%	43%	Italy	15%
			Other European countries	42%
Telecom Cables and Systems	8%	20%	North America	16%
Tyres	44%	37%	Central and South America	15%
			Australia, Africa and Asia	12%

• **Gross operating profit**

Gross operating profit is Euros 278 million (8.3 percent of net sales), compared to Euros 432 million in the first six months of 2001 (10.9 percent of net sales). The reduction of some 35 percent is principally in the Telecom Cables and Systems Sector, while the Tyres Sector remained stable and the Energy Cables and Systems Sector recorded an improvement.

It should be highlighted that the first half of 2001 benefited from Euros 59 million of profit on the supply contract with Cisco Systems.

• **Operating profit**

Operating profit is Euros 93 million, down from Euros 243 million in the first half of 2001 (Euros 184 million excluding the supply agreement with Cisco Systems). Operating profit as a percentage of net sales is 2.8 percent (6.2 percent in 2001).

The change can principally be ascribed to:

	<u>in millions of euros</u>	
• Currency exchange	-	8
• Prices (excluding metals)/mix	-	39
• Volumes	-	118
• Net efficiencies	+	66
• Materials	+	21
• Per unit costs	-	23
• Supply Agreement with Cisco Systems	-	59
• Other	+	10
	-	150
		150

Net efficiencies led to a gross reduction in overheads and process costs of Euros 87 million (including Euros 67 million of labor costs) which were countered by the negative effects on costs caused by volume reductions equal to Euros 21 million.

• **Financial income (expenses)**

The net financial expense balance is Euros 82 million compared to a net financial income balance of Euros 33 million in the same period of 2001. The balance includes Euros 21 million for the adjustment of securities in portfolio to market value and the remaining Euros 61 million refer to net financial expenses connected with net debt.

Share of earnings (losses) of equity investments

The share of the earnings (losses) of equity investments of Euros 54 million refers to the share of the result of Olimpia S.p.A., accounted for using the equity method.

- **Extraordinary items**

Extraordinary items show an income balance of Euros 24 million and principally include the gains realized by Pirelli S.p.A. (Euros 17 million) under the far-reaching real estate reallocation process. This includes the sale of the representative offices in Rome and the historical Bicocca degli Arcimboldi to Pirelli & C. A.p.A..

In the first half of 2001, extraordinary items chiefly included the pre-tax gain on the sale of Pirelli S.p.A. treasury shares on the open market (Euros 30 million) and Euros 36 million paid by Cisco Systems as part of the sale of the Terrestrial Optical Systems business in 2000.

- **Net income (loss)**

The net result is a loss of Euros 52 million (after financial expenses of Euros 136 million, extraordinary income of Euros 24 million and income tax expenses of Euros 33 million) compared to a net income of Euros 200 million in the first half of 2001 (after financial income of Euros 33 million, extraordinary income of Euros 52 million and income tax expenses of Euros 128 million).

Excluding the share of the net loss of Olimpia, the result would be a net income of Euros 2 million for the six months to June 30, 2002.

The net income (loss) attributable to Pirelli S.p.A. for the six months to June 30, 2002 is a loss of Euros 52 million (excluding the impact of the net loss of

Olimpia, the net result attributable is a net income of Euros 2 million) compared to a net income of Euros 197 million for the first six months of 2001.

• **Shareholders' equity**

Shareholders' equity went from Euros 5,660 million at December 31, 2001 to Euros 5,207 million at June 30, 2002 due to the loss for the six months (Euros 52 million), the payment of dividends (Euros 149 million) and most particularly to negative translation adjustments of Euros 236 million.

This reduction can be summarized as follows:

• Translation adjustments	(236)
• Net loss for the period	(52)
• Dividends to third parties paid by:	
- Pirelli S.p.A.	(148)
- Other Group companies	(1) (149)
• Directors' remuneration	(13)
• Other changes	(3)
	(453)

Shareholders' equity attributable to Pirelli S.p.A. at June 30, 2002 is Euros 5,023 million compared to Euros 5,462 million at December 31, 2001.

• **Net financial position**

The net financial position shows a debt position of Euros 1,618 million compared to Euros 1,089 million at December 31, 2001.

The variation of Euros 529 million can be explained by the analysis of the following cash flows:

	(in millions of euros)	
• Exchange differences		1
• Operating profit	93	
• Depreciation and amortization	184	
• Net investments:	(188)	
- intangible assets and property, plant and equipment	(158)	
- financial assets	(30)	
• Change in working capital	(21)	
• Change in provisions and other	(9)	
• Free cash flows		59
• Reclassification of derivatives referring to Olivetti securities (*)		(77)
• Extraordinary items		24
• Financial income (expenses)		(136)
• Income taxes		(33)
• Dividends paid		(149)
• Other changes		(219)
• Net cash flows		(531)
• Changes in shareholders' equity		1
• Change in net financial position		(529)

(*) This refers to the reclassification to financial assets of Convertible Bond Asset Swaps on Olivetti S.p.A. 2010 convertible bonds and Share Swap Transactions on Olivetti S.p.A. shares / Olivetti S.p.A. 2010 convertible bonds held by the subsidiary Pirelli Finance (Luxembourg) that were previously classified as current financial assets.

“Other changes” principally include the final payment of taxes of Euros 263 million inherent to the sale of Optical Technologies to Corning and the payment of Euros 72 million that had been set aside in prior years for the production optimization program, all of which was partly countered by the sale of tax receivables to Unicredit Factoring S.p.A. and Mediofactoring S.p.A. totaling Euros 113 million.

• Capital expenditures

Capital expenditures total Euros 150 million, compared to Euros 310 million for the first six months of 2001.

The ratio of capital expenditures to depreciation is 0.94 (1.88 in 2001).

R&D expenditures

The Group's priority commitment to research and technological innovation was again confirmed in the first half of 2002, with an increase in the costs incurred by the Group for this purpose. R&D costs are entirely charged to the statement of income and increased from Euros 109 million in the first half of 2001 (representing 2.8 percent of net sales) to Euros 115 million (representing 3.4 percent of net sales) in the first half of 2002.

During the first half of 2002, the operations of Pirelli Labs were marked by the opening, in February, of a new building housing the laboratories and the clean rooms. The new premises in Milan have been entirely built from the conversion of an old industrial building, which was completely renovated and equipped to meet the most advanced technological requirements.

Pirelli Labs Material Innovation

During the first six months of 2002, the advanced research activities of Material Innovation, which provide support for the other sectors, concentrated mainly on the following areas:

- for the tyres sector, development of the CCM (continuous compound mixing) process, the modeling of some aspects of the MIRS production process and the development of some devices in connection with the Cyber Tyre project;
- for the telecom sector, development of new proprietary house coatings;
- for the energy sector, continuation of research into new superconductive materials.

As far as more long-term projects are concerned, innovative components for Fuel Cells were developed and patented, of both the PEM (proton exchange membrane) and SOFC (solid oxide fuel cell) type.

Pirelli Labs Optical Innovation

The major projects on which the operations of Optical Innovation focused included:

- tunable lasers and optical add and drop multiplexers (needed to make telecom systems in metropolitan areas more flexible);
- systems to carry mobile signals on fiber optic cables (which will make it possible to achieve considerable savings in network infrastructures for mobile telephone services of the third generation);
- devices to manage fiber optic signals at users' homes which will make it possible to handle flows of data a thousand times greater than those currently available at costs comparable to those sustained today.

• **Employees**

Employees number 38,043 at June 30, 2002, compared to 39,127 at December 31, 2001. In the first six months of the year, there was a net reduction of 1,084 (excluding temporary employees, there was a reduction of 1,406).

The workforce can be analyzed as follows:

	6/30/2002	12/31/2001
<u>Total workforce</u>	38,043	39,127
of which, temporary employees	2,994	2,672
<u>Active work force</u>	35,049	36,455

• **Factories**

At June 30, 2002, the number of factories had fallen from 84 at December 31, 2001 to 81. The reduction can be analyzed as follows: 3 plant facilities in the Energy Cables and Systems Sector and 1 in the Telecom Cables and Systems Sector were closed while, in the Tyres Sector, a new factory was opened in the United States.

Related party disclosures

According to Consob Communications No. 97001574 of February 20, 1997 and No. 98015375 of February 27, 1998 which deal with related party transactions among Group companies, the effects of such transactions on the balance sheet and statement of income of the consolidated financial statements at June 30, 2002 are presented in the following table.

The effects deriving from the transactions between Pirelli S.p.A. and its subsidiaries are disclosed in the financial statements and in the notes of the parent company and, like those among subsidiaries, are eliminated upon the preparation of the consolidated financial statements.

All the transactions, including those between the parent company and its subsidiaries and among the subsidiaries, fall within the ordinary operations of the Group, governed by market terms, and there are no transactions of an unusual and exceptional nature, or constituting a potential conflict of interest.

The following table presents the major transactions at June 30, 2002 that the Pirelli S.p.A. Group has entered into with the parent companies (Pirelli & C. A.p.A. and Pirelli & C. Luxembourg S.A.) and the subsidiaries of the latter companies, which are included in the scope of consolidation 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	0.3	15.3	15.6
TRADE PAYABLES AND OTHER	(0.5)	(4.5)	(5.0)
FINANCIAL RECEIVABLES	111.2	342.1	453.3
FINANCIAL PAYABLES	(4.8)	(43.2)	(48.0)
REVENUES FOR GOODS AND SERVICES	0.6	2.0	2.6
COSTS FOR GOODS AND SERVICES	(2.1)	(5.3)	(7.4)
FINANCIAL INCOME	1.1	5.9	7.0
FINANCIAL EXPENSES	(11.4)	(0.5)	(11.9)
EXTRAORDINARY INCOME	16.5	0.0	16.5
EXTRAORDINARY EXPENSES	0.0	(0.3)	(0.3)

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 International Ltd – UK (subsidiary of Pirelli S.p.A.) from Pirelli & C. Luxembourg S.A.;
- **financial payables**, 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 corporate secretarial services and internal auditing rendered by Pirelli & C. A.p.A. on behalf of Pirelli S.p.A.;
- **financial income and expenses**, relating to interest income and expenses on the aforementioned current account transactions and loans, as well as costs and revenues for hedging transactions carried out by Pirelli International Ltd. – UK (subsidiary of Pirelli S.p.A.) on behalf of Pirelli & C. A.p.A.;
- **extraordinary income** relating to the gain realized by Pirelli S.p.A. on the sale of the representative offices in Rome and Bicocca degli Arcimboldi to Pirelli & C. A.p.A.. Such sale originated from the possibility of re-allocating the assets to Pirelli & C. A.p.A. since these properties are used by the entire Group.

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 real estate properties of Pirelli Cavi e Sistemi S.p.A. (subsidiary of Pirelli S.p.A.) to Lambda S.r.l. (indirectly held subsidiary of Pirelli & C. A.p.A.);
- **trade payables and other**, relating to services rendered by companies in the Pirelli & C. Real Estate S.p.A. Group (subsidiary of Pirelli & C. A.p.A.) to Pirelli S.p.A. and its subsidiaries;
- **financial receivables and payables**, relating to transactions on the current account by Pirelli Servizi Finanziari S.p.A. with companies in the Pirelli & C. Real Estate S.p.A. Group (subsidiary of Pirelli & C. A.p.A.);

- **revenues for 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 Pirelli & C. Real Estate 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 in the Pirelli & C. Real Estate S.p.A. Group (subsidiary of Pirelli & C. A.p.A.);
- **financial income and expenses**, relating to interest income and expenses on the aforementioned current account and loan transactions.

Furthermore, in order to provide more complete disclosure, the transactions in the first half of 2002 between the Pirelli S.p.A. Group and the Olivetti Telecom Group are described below. These transactions fall within the ordinary operations of the Group, are carried out at arm's length and there are no transactions of an unusual and exceptional nature or constituting a potential conflict of interests. Such transactions refer to:

- **revenues for goods and services**, relating mainly to the supply of telecommunications cables (Euros 30.2 million);
- **costs for goods and services**, relating mainly to telephone services received (Euros 4.3 million);
- **trade receivables**, relating to the supply of the goods and services described above (Euros 32.0 million);
- **trade payables**, relating to the telephone services described above (Euros 1.8 million).

Significant subsequent events and future outlook

As far as the prospects for the second half of 2002 are concerned, in terms of the operating profit, given the steady performance of the Energy Cables and Systems and Tyres Sectors, it is expected that the trend registered by the Group in the first half of the year will be essentially confirmed, thanks to the measures already implemented to improve efficiency, although it will still be affected by the evolution of the reference market of the Telecom Cables and Systems Sector.

Management of the Group will continue to carefully monitor the situation of strong instability prevailing in the macroeconomic scenario, with particular reference to the telecom and energy markets, ready to step up rationalizing measures if it should prove necessary.

CABLES AND SYSTEMS SECTOR

For a comparison with the prior year, the combined highlights of the Cables and Systems Sector for the six months ended June 30, 2002 are presented in the following table:

(in million of euros)	Energy Cables 6/30/2002	Telecom Cables 6/30/2002	Combined 6/30/2002	Total 6/30/2001	Total 12/31/2001
. Net sales	1,614	284	1,898	2,478	4,688
. Gross operating profit	77	11	88	251	357
% of net sales	4.8%	3.9%	4.6%	10.1%	7.6%
. Operating profit (loss)	26	(20)	6	161	179
% of net sales	1.6%	(7.1)%	0.3%	6.5%	3.8%
. Financial income (expenses)	(27)	(10)	(37)	9	(33)
. Extraordinary items	10	(1)	9	22	11
. Income taxes	(10)	(2)	(12)	(75)	(81)
. Net income (loss)	(1)	(33)	(34)	117	76
% of net sales	(0.1)%	(11.6)%	(1.8)%	4.7%	1.6%
. Net financial (liquidity)/debt position	521	409	930	729	890
. Capital expenditures	30	52	82	192	359
. R&D expenditures	23	26	49	48	112
. Employees (at period-end)	13,421	3,220	16,641	19,392	18,314
. Factories (number)	47	12	59	65	63

ENERGY CABLES AND SYSTEMS SECTOR

The highlights of consolidated financial statements for the six months ended June 30, 2002 of the Energy Cables and Systems Sector can be summarized as follows:

	(in millions of euros)		
	6/30/2002	6/30/2001	12/31/2001
. Net sales	1,614	1,691	3,532
. Gross operating profit	77	69	149
% of net sales	4.8%	4.1%	4.2%
. Operating profit	26	20	52
% of net sales	1.6%	1.2%	1.5%
. Financial income (expenses)	(27)	n.d	n.d
. Extraordinary items	10	n.d	n.d
. Income taxes	(10)	n.d	n.d
. Net income (loss)	(1)	n.d	n.d
% of net sales	(0.1)%	n.d	n.d
. Net financial (liquidity)/debt position	521	n.d	526
. Capital expenditures	30	n.d	129
. R&D expenditures	23	n.d	n.d
. Employees (at period-end)	13,421	n.d	14,135
. Factories (number)	47	n.d	50

Net sales for the six months ended June 30, 2002 amount to Euros 1,614 million, with a reduction of 4.6 percent from the same period of the prior year.

The change is due to:

• Currency exchange	-	2.3%
• Volumes	-	1.8%
• Prices - Metals	-	2.8%
• Prices/Mix	+	2.3%
	-	<u>4.6%</u>

Operating profit for the first six months of 2002 is Euros 26 million compared to Euros 20 million in the first half of 2001. The result includes the positive effect of the conclusion of a submarine contract equal to Euros 10 million.

As a percentage of net sales, the operating profit is 1.6 percent compared to 1.2 percent in the corresponding period of the prior year.

The change can be summarized as follows:

	<u>in millions of euros</u>	
• Currency exchange	-	3
• Prices (excluding metals)/mix	-	6
• Volumes	-	14
• Net efficiencies	+	24
• Materials	+	5
• Per unit costs	-	9
• Other	+	9
	+	<u>6</u>

The **net loss** for the first half of 2002 is Euros 1 million after financial expenses of Euros 27 million, extraordinary income of Euros 10 million and income tax expenses of Euros 10 million.

The **net financial position** is a debt position of Euros 521 million, which is in line with that of December 31, 2001 (Euros 526 million).

At June 30, 2002, **employees** numbered 13,421 with a net reduction of 714 compared to December 31, 2001 (excluding temporary employees, the reduction is 646).

A brief commentary is given as follows:

The decline in sales from the prior year (-4.6 percent) is basically due to lower prices and a drop in volumes.

In Europe, sales are down by 7 percent owing to a sharp contraction in orders from domestic and export markets, especially in the U.K. and France.

Sales are down (-1 percent) also in North America where the drop in prices was only partly compensated by higher volumes.

Sales in South America fell by 30 percent from the prior year, especially on account of the impact of the exchange rate (-22 percent), whereas the reduction in volumes is in line with the contraction of the domestic markets.

Conversely, the sales performance in the Pacific Asia region (Australia, Indonesia and China) was positive, registering an increase in sales of 35 percent during the six-month period.

An analysis of the performance of individual product lines shows that the trend of Installations was positive, whereas sales revenues decreased in the General Market, Special Cables and Accessories segments.

In **Submarine Power Systems**, work continued with the aim of generating new contracts in the Offshore Sector. At the same time, an important contract was acquired from the SEAS group, the leading private Danish operator in the sector of the transmission and distribution of electrical energy, to link the mainland to one of the largest offshore windmill parks in the world, situated 11.2 km off the island of Sjaelland in Denmark. The contract, which is worth more than Euros 16 million, will make a significant contribution to the spread of “clean” energy in Denmark.

Research & Development

In the field of **Power**, work was mainly concentrated in the following areas:

- **Extension of Air-BagTM technology** for submarine applications, industrial/special applications (Dry-lam Air-BagTM) and the General Market (light Air-BagTM). For the above-mentioned activities, Air-BagTM technology will become the common basis for a vast range of innovative Pirelli Group products, and not only in the Power sector.
- **Development of localized hi-tech network components** (RTTRTM, RTMS, WPMS, New DTS) for the management of electrical links through fundamental Network parameters (power, temperature, etc.).
- **Development of both distributed (cables) and localized (accessories) network components** for use in the creation of super-compact EHV systems, for the transmission of very high voltages (approximately 2,000 MVA). The supply of these systems is scheduled for the second half of 2002 (the Barajas Project). Work continues to develop innovative systems with the aim of catalyzing the penetration of underground electrical systems for the distribution/transmission of power, with particular focus on keeping costs competitive.
- **Development of innovative technologies (Fire FitTM)** for fire-resistant electrical systems.

Future outlook

Despite the difficulties which continue to affect the macroeconomic scenario of the sector, in the second half of 2002 there are expected to be improvements resulting from the efficiency and rationalization programs currently underway.

TELECOMMUNICATIONS CABLES AND SYSTEMS SECTOR

The highlights of consolidated financial statements for the six months ended June 30, 2002 of the Telecommunications Cables and Systems Sector can be summarized as follows:

	(in millions of euros)		
	6/30/2002	6/30/2001	12/31/2001
. Net sales	284	812	1,230
. Gross operating profit	11	112	134
% of net sales	3.9%	13.8%	10.9%
. Operating profit (loss)	(20)	82	76
% of net sales	(7.1)%	10.1%	6.2%
. Financial income (expenses)	(10)	n.d	n.d
. Extraordinary items	(1)	n.d	n.d
. Income taxes	(2)	n.d	n.d
. Net income (loss)	(33)	n.d	n.d
% of net sales	(11.6)%	n.d	n.d
. Net financial (liquidity)/debt position	409	n.d	367
. Capital expenditures	52	n.d	206
. R&D expenditures	26	n.d	n.d
. Employees (at period end)	3,220	n.d	4,077
. Factories (number)	12	n.d	13

Net sales for the six months to June 30, 2002 amount to Euros 284 million, recording a sharp reduction from the same period of the prior year.

The change is due to:

• Currency exchange	-	1.9%
• Volumes	-	49.4%
• Prices/Mix	-	13.7%
	-	65.0%

The **operating loss** for the first half of 2002 is Euros 20 million, compared to an operating profit of Euros 82 million for the first six months of the prior year. The operating result worsened on account of a reduction in volumes and a deterioration in the mix as a result of the market trend described earlier. The result includes insurance compensation of Euros 6 million received for the damages suffered in the fire at the Battipaglia factory of Fibre Ottiche Sud in 2001.

The change can be summarized as follows:

	<u>in millions of euros</u>	
• Currency exchange	+	2
• Prices (excluding metals)/mix	-	65
• Volumes	-	130
• Net efficiencies	+	25
• Materials	+	25
• Per unit costs	-	4
• Other (*)	+	45
		102
	-	102

(*) of which Euros 20 million for lower accruals, Euros 6 million for insurance compensation relating to Fibre Ottiche Sud, Euros 8 million for fixed overheads charged to/from stock and effect of hyperinflation and Euros 11 million for adjustments to provisions and other.

The **net loss** for the first half of 2002 is Euros 33 million after financial expenses of Euros 10 million, extraordinary expenses of Euros 1 million and income tax expenses of Euros 2 million.

The **net financial position** is a debt position of Euros 409 million compared to Euros 367 million at December 31, 2001. The change is due principally to requirements to fund operations during the period.

At June 30, 2002 **employees** number 3,220. Compared to December 31, 2001 (4,077) this constitutes a reduction of 857 (excluding temporary employees there was a reduction of 656).

A brief description of each business area is given as follows:

In all the geographical areas there was a significant fall in the volumes and prices of both optical and copper **Telecom cables** as a result of the continuous worsening of market conditions. The fall in volumes, which was accompanied by a deterioration in terms of product mix, had repercussions on profitability.

The demand for **fiber optics** was also affected by the trend in the demand for telecom cables, manifesting itself in the form of a reduction in volumes and prices. However, the impact of this trend was mitigated to a large extent by the pre-existing order portfolio and by the mix of fibers that was supplied, making it possible to maintain a percentage return on margins which was only slightly lower than that of the prior year.

The development of **new business areas** (Fiber to the home – Access Network) continues. Sales revenues were up compared to the same period of the prior year.

In a market scenario that continues to be extremely negative, the operations of the **Telecom submarine systems** business area in the first half of 2002 were marked by the completion of the Palma-Algiers link and by the start of surveying operations for the Sumatra BackBone. This project will involve production and installation operations in the second half of 2002, and is scheduled for completion in the first half of 2003.

Work also continued to develop products and rationalize operating structures with the aim of keeping costs in check.

Research & development

In the field of **Fiber Optics**, during the first six months of 2002, the development of updates for production processes made it possible to introduce improved versions of various types of fiber on the market.

In particular, standard monomodal fibers are now available with improved attenuation and geometry (Gold and Platinum versions) and with PMD (Polarization Mode Dispersion) guaranteed along the whole section and not just the individual reel. The premium fibers (MagniLight™, FreeLight™, FineLight™ and FineLight™ Giga) have also been improved, making it possible to employ them in new areas of the wavelength spectrum.

In the field of **Optical Cables** a new range of small-diameter optical cables has been developed with medium-high potential (72-288 fibers), which are designed to be installed pneumatically in existing underground wire ducts in the crowded subsoil of urban areas, thus significantly simplifying installation operations. In addition, two types of optical cable with a central tube, rodent-proof metallic covering with a 12-24 fiber count have been qualified and produced on an industrial scale. The new cables are destined to be installed in the terminal part of the access network.

The supply of a new dielectric cable has started, equipped with particularly robust protection against lateral stresses which, together with its reduced weight, make it particularly suitable for problematic laying conditions such as in railway applications. An optical ground wire (OPGW) has been developed with a central plastic tube and an aluminum outer sheath with a fiber count of 24 fibers. It has a small outer diameter with high short circuit current, a factor which makes it ideal for replacing conventional ground wires, even on old and weak overhead electrical lines, that are not able to withstand additional weight.

Future outlook

No significant signs of a recovery of the market are expected in the second half of the year.

The actions geared to improving efficiency which continued during the first half of the year, the effects of which are expected to be felt as early as the second half of 2002, are intended to mitigate the negative effects of the current market situation.

TYRES SECTOR

The highlights of consolidated financial statements for the six months ended June 30, 2002 of the Tyres Sector can be summarized as follows:

	(in millions of euros)		
	6/30/2002	6/30/2001	12/31/2001
. Net sales	1,488	1,477	2,831
. Gross operating profit	202	201	347
% of net sales	13.6%	13.6%	12.3%
. Operating profit	111	111	172
% of net sales	7.5%	7.5%	6.1%
. Financial income (expenses)	(32)	(33)	(75)
. Extraordinary items	(1)	(0)	(27)
. Income taxes	(23)	(27)	(36)
. Net income	55	51	34
% of net sales	3.7%	3.5%	1.2%
. Net financial (liquidity)/debt position	607	709	684
. Capital expenditures	81	106	262
. R&D expenditures	61	61	125
. Employees (at period-end)	20,533	20,475	19,994
. Factories (number)	22	21	21

Net sales in the first half of 2002 total Euros 1,488 million, with an increase of 0.7 percent compared to the corresponding period of the prior year.

The change can be summarized as follows:

• Currency exchange	-	5.4%
• Volumes	+	3.3%
• Prices/Mix	+	2.8%
	+	<u>0.7%</u>

Operating profit for the first half is in line with the previous year and amounts to Euros 111 million, or 7.5 percent of net sales.

The second quarter results were particularly positive with an operating profit of Euros 57 million compared to Euros 54 million in the second quarter of 2001.

A comparison of the first half of 2002 with the same period of the prior year shows the following changes:

	<u>in millions of euros</u>	
• Currency exchange	-	7
• Volumes	+	26
• Prices/Mix	+	32
• Net efficiencies	+	5
• Materials	-	9
• Per unit costs	-	11
• Other (*)	-	36
		0
		0

(*) of which Euros 7 million for amortization and depreciation, Euros 7 million for the start-up of Mirs/CCM, Euros 10 million for fixed overheads charged to/from stock and effect of hyperinflation and Euros 12 million for brand support and other.

Net income is Euros 55 million (after financial expenses of Euros 32 million and income tax expenses of Euros 23 million) compared to Euros 51 million in the first half of 2001 (after financial expenses of Euros 33 million and income tax expenses of Euros 27 million).

The **net financial position** shows a debt position of Euros 607 million compared to Euros 684 million at December 31, 2001.

The positive change is due to the share capital increase (with payment of a share premium effected by the parent company Pirelli S.p.A.) equal to Euros 80 million countered by the payment of dividends to the same parent company of Euros 30 million.

The rest of the change is due to action taken to improve working capital.

At June 30, 2002, **employees** numbered 20,533, including 1,867 temporary employees.

Compared to December 31, 2001, this constitutes a reduction of 123 in terms of management and staff, owing to the continuation of projects and activities to rationalize the workforce. There was no significant variation in the number of operatives, whereas the number of temporary employees increased by 579, with the specific aim of coping with seasonal peaks of activity and, consequently, augmenting flexibility.

As far as **organizational development** is concerned, the new Business Unit organizational structure begun the prior year has continued to be employed, thus ensuring a greater concentration of corporate resources and expertise.

In keeping with this guideline, Business Functions were created which are directly responsible for Business operations. Support Functions were also created to flank the Business Units and ensure that the Business Units have an optimal, efficient service through integrated structures.

The scenario

During the first half of 2002, the international economic scenario went through a delicate stage of transition between recession and recovery. After the sudden slowdown of production during the prior year, the American economy gradually rallied, driven by the build up of inventories and the contribution of consumption. In particular, a marked recovery was registered during the first quarter, whereas there was a lessening of this phenomenon during the second quarter. In Europe, too, the economic situation improved, although the signs of improvement were weaker and the margins for maneuvering more limited.

In Asia, the weakness of the Japanese economy continued, seriously affected by deflation and by the fragility of its banking system; the new industrialized economies of South-East Asia once again began to grow at a dynamic pace. Growth in China

remains strong, and the situation was also positive in India. In Latin America, there was limited growth in Brazil and a sharp fall in the GDP in Argentina.

In Latin America, especially during the latter part of the six-month period, there were marked fluctuations in exchange rates.

Sourcing

During the first two months of 2002, prices of raw materials remained at the same levels as at the end of 2001. However, significant increases were soon registered towards the end of the first quarter of 2002. These can be attributed almost exclusively to two factors: the rise in the price of natural rubber and the considerable increase in oil prices, especially in March and April, following the tensions in the Middle East.

Vehicle and tyre market

During the first half of 2002, the **European automotive market** saw vehicle registrations fall by 4.5 percent. The trend in Italy (-13.4 percent) and Spain (-9.2 percent) was particularly sluggish. During the first half of 2002, the European commercial vehicle market also suffered a lull, which was more marked in the truck segment, and less accentuated in the light commercial vehicles sector. Particularly in Italy, the latter continue to record a more than satisfactory trend (+9.6 percent), partly as a result of the positive effects of the Tremonti Law.

In Europe, sales of tyres for the Car Original Equipment segment fell by approximately 5.0 percent, following the trend of automotive production. However there were positive signs from the Light Truck segment.

As far as the Replacements Channel is concerned, in Europe, demand in the first six months of 2002 was down slightly, both in the Car segment (-1.0 percent) and the Truck segment (-2.2 percent). Conversely, the Light Truck segment reported an increase of 4.0 percent compared to the prior year.

As regards extra-European car markets, the **United States market** reported a particularly positive performance. During the first months of 2002, car production rose 6.0 percent compared to 2001. The increase in production during the first half of 2002 favored the growth of the Original Equipment Channel. Conversely, the tyre Replacements Channel reported a sharp decline during the first half of the year, of 1.5 percent.

As regards **Latin America**, during the first half of 2002 there was a generalized decline in both the Argentinean and Venezuelan markets. However, there were some encouraging signs from the Brazilian market. In fact, during the first months of 2002, the Replacements Channel reported significant growth, which was more accentuated in the Light Truck segment and less remarkable in the Car and Truck segments. As far as Original Equipment is concerned, the Truck segment remained fairly steady, compared to the decline of the Car and Light Truck segments.

Elsewhere, the Japanese market recovered slightly, despite the pressure from deflation and stagnant consumption. The Turkish market also reported a positive trend, with noticeable growth in all the sales channels.

Consumer Market

Car/Light Truck Business Unit

In a market scenario dominated by static or negative demand and increased competitiveness, the evolution of the business unit reported positive growth in terms of volumes and sales compared to the first half of 2001. The growth was mainly sustained by performance that was significantly above the market average in the areas of Europe, Exports and Turkey. There was also steady growth in Latin America (despite the negative macroeconomic situation), which more than compensated for the decline registered in North America. The decline there can be attributed to the temporary effects of the reorganization of activities, which is still in progress, resulting from the renegotiation of agreements with Cooper Tire.

There was also a positive evolution in the mix. The levels of growth were higher than last year and higher than the current growth rate in the individual markets in all the "Performance" segments. This generated an increase in market share for the entire Car and Light Truck business unit overall and within individual segments.

Furthermore, the first half of 2002 was marked by effective action geared to improving the product portfolio through the launch of new lines, with different types of products in different geographical areas.

The most important event was the launch of the P Zero Nero tyre, destined for the Ultra High Performance car segment. This tyre is directed particularly towards those clients who wish to customize their car by changing the original rims with bigger diameters and to tune their cars so that they have a more sporting set-up. In the latter case, the client may be the sports subsidiary of a leading car company or the so-called "tuners", who offer the final customer cars that have been completely overhauled in terms of engineering and performance. The P Zero will therefore generate a goal-oriented, high-prestige rapport of homologation with certain car companies with the aim of promoting the tyre as a key product for anyone seeking a high-performance sports tyre with a higher load capacity, that does not penalize comfort.

The international launch was organized in South Africa, whereas, in Italy, the Cinecittà film studios hosted the national event with a celebration through the streets of Rome. Both events were given considerable coverage by the specialist and non-specialist Press.

Furthermore, the P6 Four Seasons was presented specifically for the Original Equipment of cars destined for the United States while the P5000 Super Sport was presented for Latin America.

In addition, the drive continues to distinctly qualify our commercial approach towards the clients even further through the constant implementation of the new tools and methodologies of Customer Relationship Management (from the new Contact Center being launched on the major European markets to the consolidation of e-business and B2B projects that have been operating in all the areas for some time) in order to supply the markets with an ever-more efficient and effective response to the new needs of consumers.

As regards Original Equipment, in Europe, the first six months of 2002 were faced with a highly competitive market situation marked by pressure over selling prices caused by the fall in demand. It is important to emphasize the growth in volumes in the Car Ultra High Performance segment thanks, in particular, to the homologations obtained with the new P Zero Rosso and P6/P7 products. There was a positive trend in volumes in Turkey compared to demand in 2001. The trend of volumes in Latin America was in line with forecasts. The business was launched in North America.

Motorcycle Business Unit

The first six months of 2002 registered positive growth in sales compared to the same period of the prior year.

The markets which grew most compared to the prior year are Italy, France and the United States.

In terms of market share for the first half of 2002, in Europe there was a slightly positive trend.

The Scooter segment declined due to a fall in the market. In this segment, too, there was an improvement in the market share in Europe.

As regards the Motorcycle Original Equipment segment, compared to the first half of 2001, the fall in volumes in Japan was more than compensated by the positive trend in Latin America and in Europe, whereas in the Scooter segment, demand continued to decline.

Industrial Market

Truck Business Unit

In terms of volumes, the Truck Business Unit reported an increase of 4 percent compared to the same period of 2001, with the Replacements Channel making a positive contribution. If we consider individual markets, in Europe the trend was steady, and the growth of market share acquired in 2001 was maintained. There was a recovery in Turkey, which had been affected by the market crisis the prior year. In Egypt, there was an increase that was partly favored by the weakness of the Egyptian pound while, in Latin America, there was steady growth despite the fact that sales were penalized by the crisis in Argentina.

During the first half of 2002, new products were introduced for the “R” segment, for heavy road transport, destined for the markets of Latin America; for the “G” and “Q” segments, tyres for heavy off-road driving or in particularly difficult road conditions, for general applications on all the key markets and new measures for heavy transport and buses (the “H” and “R” segments) destined for Mexico.

Future outlook

Although there are different local variations, for the second half of 2002, the signs given by economic indicators point to an economic scenario that shows a slight improvement. The economic recovery that is progressing with a certain amount of difficulty in the United States should also have positive effects in Europe and the rest of the world, including Japan. However, it should be noted that in the area of the euro, the GDP growth rates should remain at much lower levels than those forecast for North America and Asia. The future outlook for the Brazilian economy is likely to be affected by the uncertainties surrounding the presidential elections in October, which are momentarily having an impact on the currency. In Argentina, the situation has again become extremely critical. To summarize, bearing in mind the difficulties prevailing in various countries and the unknown factors associated with the unresolved crisis in the Middle East and the high price of oil, it is likely that the growth forecast for the second half of the year will be just sufficient to maintain the vehicle market at the same levels as in 2001.

In this market context, the performance of the Tyres Sector in the second half of 2002 is expected to be slightly better than that registered in the prior year.

PROFORMA DATA

Proforma consolidated financial data assuming the line-by-line consolidation of Olimpia S.p.A. and the use of the equity method to value its investment in Olivetti S.p.A.

Proforma consolidated financial data at June 30, 2002 of Pirelli S.p.A. is presented below, assuming the consolidation line-by-line of Olimpia S.p.A. and the use of the equity method to value Olimpia's investment in Olivetti S.p.A..

	Consolidated financial statements at 6/30/2002 Pirelli S.p.A. (1)	Proforma adjustments			Total proforma adjustments	Proforma consolidated financial data at 6/30/2002 Pirelli S.p.A. (2)
		Elimination of Olimpia S.p.A. net result attributable to Pirelli S.p.A. (60%)	Olimpia S.p.A. line-by-line consolidation	Consolidation adjustments and valuation of investment in Olivetti S.p.A. using the equity method		
<i>(in millions of euros)</i>						
Condensed statement of income						
- Net sales	3,352	-	-	-	-	3,352
- Operating profit	93	-	-	-	-	93
- Financial income (expenses) / Valuation adj. to financial assets	(136)	53	(87)	(257)	(291)	(427)
- Extraordinary items	24	-	(1)	-	(1)	23
- Income taxes	(33)	-	-	-	-	(33)
- Net income (loss)	(52)	53	(88)	(257)	(292)	(344)
- Net income - Pirelli S.p.A.	(52)	53	(53)	(154)	(154)	(206)
- Goodwill amortization effect	1	-	-	295	295	296
- Net income (excluding goodwill amortization)	(51)	53	(88)	38	3	(48)
- Net income - Pirelli S.p.A. (excluding goodwill amortization)	(51)	53	(53)	23	23	(28)
Reclassified Balance sheet						
- Fixed assets	6,471	72	8,610	(3,449)	5,233	11,704
- Net working capital	1,122	-	66	-	66	1,188
- Total net invested capital	7,593	72	8,676	(3,449)	5,299	12,892
- Financed by:						
- Shareholders' equity	5,207	72	5,081	(3,449)	1,704	6,911
- of which shareholders' equity - Pirelli S.p.A.	5,023	72	3,049	(3,317)	(196)	4,827
- Provisions	768	-	-	-	-	768
- Net financial (liquidity)/debt position	1,618	-	3,595	-	3,595	5,213

(1) Pirelli S.p.A. consolidated financial statements (investment in Olimpia S.p.A. accounted for using the equity method)

(2) proforma data (line-by-line consolidation of Olimpia S.p.A. and equity method valuation of Olivetti S.p.A.)

The proforma consolidated financial data has been prepared using the financial statements of Olimpia S.p.A. for the six months ended June 30, 2002 and the consolidated financial statements of the Olivetti S.p.A. Group at the same date.

The principal proforma adjustments included in the above table are as follows:

- in the column “Elimination of Olimpia S.p.A. net result attributable to Pirelli S.p.A. (60 percent)”: elimination of the statement of income and balance sheet effects of valuing Olimpia S.p.A. with the equity method in the Pirelli S.p.A. consolidated financial statements for the six months ended June 30, 2002;
- in the column “Olimpia S.p.A. line-by-line consolidation”: inclusion of the assets, liabilities, revenues and costs resulting from the financial statements for the six months ended June 30, 2002 of Olimpia S.p.A., attributing the share of net equity and results of operations to the minority interest;
- in the column “Consolidation adjustments and valuation of investment in Olivetti S.p.A. using the equity method”: inclusion of the effect of accounting for Olivetti S.p.A. using the equity method, giving rise to a negative valuation adjustment of Euros 257 million, of which Euros 110 million relate to the amortization of implicit goodwill for six months out of a total twenty-year period, and Euros 147 million to Olimpia S.p.A.’s share of the first half 2002 earnings of the Olivetti Group;

The “goodwill amortization effect” on the net result is detailed as follows:

- in the column “Consolidated financial statements at June 30, 2002 Pirelli S.p.A.”, the amount of Euros 1 million refers to the amortization charge for six months on the goodwill booked by Pirelli S.p.A. in respect of Olimpia S.p.A.;
- in the column “Consolidation adjustments and valuation of investment in Olivetti S.p.A. using the equity method”, the amount of Euros 295 million includes Euros 110 million for the goodwill booked by Olimpia S.p.A. in respect of Olivetti S.p.A. and Euros 185 million for the goodwill booked by Olivetti S.p.A. in respect of Telecom Italia S.p.A..

A comparison of shareholders’ equity and net debt between the consolidated financial statements of Pirelli S.p.A. and the proforma consolidated financial data of Pirelli S.p.A. at June 30, 2002 and December 31, 2001 is presented below, assuming:

- the line-by-line consolidation of Olimpia S.p.A. and the valuation of the investment in Olivetti S.p.A. using the equity method;
- the line-by-line consolidation of both Olimpia S.p.A. and the Olivetti S.p.A. Group.

<i>(in millions of euros)</i>	Shareholders' equity		Net debt		Net debt/Shareholders' equity		Shareholders' equity Pirelli S.p.A.	
	6/30/2002	12/31/2001	6/30/2002	12/31/2001	6/30/2002	12/31/2001	6/30/2002	12/31/2001
Pirelli S.p.A. Group: consolidated financial statements	5,207	5,660	1,618	1,089	0.31	0.19	5,023	5,462
Pirelli S.p.A. Group: proforma consolidated data with Olimpia S.p.A. consolidated line-by-line and Olivetti S.p.A. valued using the equity method	6,911	7,739	5,213	4,598	0.75	0.59	4,827	5,469
Pirelli S.p.A. Group: proforma consolidated data with Olimpia S.p.A. and Olivetti Group consolidated line-by-line	26,784	30,435	42,307	42,960	1.58	1.41	4,827	5,469

PIRELLI S.p.A.**Summary data**

	(in millions of euros)		
BALANCE SHEET	6/30/2002	6/30/2001	12/31/2001
Intangible assets	13.6	21.6	15.8
Property, plant and equipment	15.9	27.8	27.5
Investments	5,829.6	2,693.3	5,707.3
Net working capital	33.9	135.0	(86.1)
	5,893.0	2,877.7	5,664.5
Shareholders' equity	5,079.0	3,506.8	4,984.9
Provisions	54.5	76.2	49.1
Net financial (liquidity)/debt position	759.5	(705.3)	630.5
	5,893.0	2,877.7	5,664.5
STATEMENT OF INCOME			
Financial income (expenses)	242.9	1.4	1,061.1
Value adjustments to financial assets	-	-	(38.2)
Other operating income (expenses)	(12.5)	(19.8)	(37.0)
Income before extraordinary items and income taxes	230.4	(18.4)	985.9
Extraordinary items	19.9	30.4	767.9
Income taxes	4.6	(0.2)	(264.5)
Net income	254.9	11.8	1489.3

Financial position

The balance sheet structure of the company changed between December 31, 2001 and June 30, 2002, as described below:

- **net invested capital** rose by Euros 228.5 million since December 31, 2001 as a result of the investments made in Pirelli Tyre Holding N.V. – Amsterdam – (Euros 80 million) and in F.C Internazionale – Milan – (Euros 40.9 million) as well as the increase in working capital due to the payment of IRPEG taxes for the year ended December 31, 2001 (Euros 222.2 million), which was partly compensated by the sale of IRPEG taxes receivable from the tax authorities (Euros 86.5 million) and the sale of real estate properties (Euros 14.4 million).
- **shareholders' equity** increased by the net income for the period and takes into account the distribution of dividends relating to the prior year.
- the **net financial position**, as a result of these movements, went from a debt position of Euros 630.5 million at December 31, 2001 to Euros 759.5 million at June 30, 2002.

Results of operations

The net income for the first half of 2002 is Euros 254.9 million, compared to Euros 11.8 million in the corresponding period of 2001.

The change is due to the dividends booked during the period.

Components of the results of operations

- **Financial income (expenses):** the amount of Euros 242.9 million (Euros 1.4 million in the first half of 2001) is composed of income from investments in subsidiaries of Euros 252.8 million and other companies of Euros 1.4 million and a net interest expense balance of Euros 11.3 million.
- **Other operating income (expenses):** the reduction in operating expenses compared to the corresponding period of the prior year is due to lower labor expenses (incentives and bonuses).
- **Extraordinary items:** this caption includes extraordinary income of Euros 24.8 million and extraordinary expenses of Euros 4.9 million.

The Board of Directors

Milan, September 9, 2002

PIRELLI GROUP

**SIX-MONTHS CONSOLIDATED
FINANCIAL STATEMENTS AND
COMMENTS**

(in thousands of euros)

CONSOLIDATED BALANCE SHEETS	6/30/2002	12/31/2001	6/30/2001
ASSETS			
A) CAPITAL SUBSCRIPTION RIGHTS			
B) FIXED ASSETS			
I) INTANGIBLE ASSETS			
Formation costs	5,287	3,557	4,223
Patents and design patent rights	3,754	4,048	4,601
Concession, licenses, trademarks and similar rights	8,268	8,076	8,590
Goodwill	9,564	11,840	11,426
Difference on consolidation	62,049	64,226	66,442
Intangible assets in progress and payments on account	14,089	7,358	8,302
Other intangible assets	65,502	78,924	74,449
TOTAL INTANGIBLE ASSETS	168,513	178,029	178,033
II) PROPERTY, PLANT AND EQUIPMENT			
Land and buildings	653,024	721,589	713,709
Plant and machinery	1,183,806	1,329,211	1,281,889
Industrial and commercial equipment	125,397	147,790	124,975
Other property, plant and equipment	167,208	187,736	182,928
Assets under construction and payments on account	437,281	434,922	426,536
TOTAL PROPERTY, PLANT AND EQUIPMENT	2,566,716	2,821,248	2,730,037
III) FINANCIAL ASSETS			
Investments in:			
a) Subsidiaries	197	197	5,476
b) Jointly controlled subsidiaries	3,096,598	3,150,840	-
c) Associated companies	42,081	43,595	33,760
d) Other companies	204,598	176,546	178,977
Financial receivables:			
a.2) Subsidiaries due beyond 1 year	14,662	14,662	14,662
b.2) Associated companies due beyond 1 year	890	22	-
c.1) Other companies due within 1 year	693	1,068	16,629
c.2) Other companies due beyond 1 year	53,212	65,509	73,162
Other securities	98,500	7,462	8,918
Treasury shares	315,334	315,334	315,334
TOTAL FINANCIAL ASSETS	3,826,765	3,775,235	646,918
TOTAL FIXED ASSETS	6,561,994	6,774,512	3,554,988

(in thousands of euros)

CONSOLIDATED BALANCE SHEETS	6/30/2002	12/31/2001	6/30/2001
C) CURRENT ASSETS			
I) Inventories			
Raw materials, auxiliaries and consumables	230,457	247,662	295,810
Work in process and semifinished products	147,080	160,488	194,607
Contract work in progress	51,792	83,792	235,356
Finished products and goods for resale	519,707	524,826	550,962
Advances	14,327	8,758	9,324
TOTAL INVENTORIES	963,363	1,025,526	1,286,059
II) Receivables			
Trade	1,556,131	1,653,795	1,963,200
Subsidiaries	145	287	2,142
Associated companies	17,557	1,628	69,392
Parent companies	111,534	97,094	162,995
Other receivables	949,585	1,107,826	971,509
TOTAL RECEIVABLES	2,634,952	2,860,630	3,169,238
III) Current financial assets			
Other securities	385,190	552,952	1,455,927
TOTAL CURRENT FINANCIAL ASSETS	385,190	552,952	1,455,927
IV) CASH AND BANKS			
Bank and postal deposits	457,669	427,309	2,378,630
Checks	2,345	7,267	3,015
Cash on hand	2,098	7,485	7,536
TOTAL CASH AND BANKS	462,112	442,061	2,389,181
TOTAL CURRENT ASSETS	4,445,617	4,881,169	8,300,405
D) ACCRUED INCOME AND PREPAID EXPENSES			
Accrued income	68,108	35,150	34,064
Prepaid expenses	43,848	36,041	35,761
TOTAL ACCRUED INCOME AND PREPAID EXPENSES	111,956	71,191	69,825
TOTAL ASSETS	11,119,567	11,726,872	11,925,218

(in thousand of euros)

CONSOLIDATED BALANCE SHEETS	6/30/2002	12/31/2001	6/30/2001
LIABILITIES AND SHAREHOLDERS' EQUITY			
A) SHAREHOLDERS' EQUITY			
- Parent company interest	5,022,657	5,461,812	5,672,164
I) Share capital	1,043,605	1,043,094	1,042,775
II) Share premium reserve	313,807	313,808	313,528
III) Revaluation reserve	2,855	2,855	2,855
IV) Legal reserve	208,619	207,052	207,052
V) Reserve for treasury shares in portfolio	315,334	315,334	315,334
VII) Other reserves:	293,771	1,926,993	2,023,413
VIII) Retained earnings	2,896,918	1,570,377	1,570,377
IX) Net income (loss)	(52,252)	82,299	196,830
- Minority interest	184,501	198,163	198,189
a) Capital and reserves	184,291	194,181	195,279
b) Net income	210	3,982	2,910
TOTAL SHAREHOLDERS' EQUITY	5,207,158	5,659,975	5,870,353
B) PROVISIONS FOR LIABILITIES AND EXPENSES			
Pension and similar obligations	225,464	237,806	269,313
Income taxes	191,728	197,264	196,180
Other	258,656	376,334	381,871
TOTAL PROVISION FOR LIABILITIES AND EXPENSES	675,848	811,404	847,364
C) PROVISION FOR EMPLOYEES' LEAVING INDEMNITY	92,041	96,616	154,421
D) PAYABLES			
Bonds	1,000,004	500,004	500,004
Bank borrowings	1,932,301	1,787,153	1,422,419
Other financial companies	114,674	114,210	144,826
Advances from customers	94,396	128,962	271,501
Trade	1,077,280	1,224,004	1,345,169
Subsidiaries	145	-	-
Associated companies	10,816	3,165	3,900
Parent companies	5,367	206,439	577
Taxes	188,648	495,492	622,134
Social security agencies	47,603	47,523	42,991
Other payables	394,457	395,557	454,623
TOTAL PAYABLES	4,865,691	4,902,509	4,808,144

(in thousand of euros)

CONSOLIDATED BALANCE SHEETS	6/30/2002	12/31/2001	6/30/2001
E) ACCRUED LIABILITIES AND DEFERRED INCOME			
Accrued liabilities	261,850	226,690	224,940
Deferred income	16,979	29,678	19,996
TOTAL ACCRUED LIABILITIES AND DEFERRED INCOME	278,829	256,368	244,936
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	11,119,567	11,726,872	11,925,218
MEMORANDUM ACCOUNTS			
PERSONAL GUARANTEES			
- Sureties on behalf of other companies	8,902	8,648	6,683
- Endorsements on behalf of other companies	17,396	34,969	20,586
	<u>26,298</u>	<u>43,617</u>	<u>27,269</u>
THIRD PARTY ASSETS HELD IN DEPOSIT			
- Securities held in deposit	162,683	167,072	142,697
- Goods in process	3,953	2,339	2,955
	<u>166,636</u>	<u>169,411</u>	<u>145,652</u>
ASSETS HELD BY THIRD PARTIES			
- Securities held as guarantees and sureties	17,958	40,867	41,050
- Shares held in deposit	2,352,169	2,353,169	1,277,216
- Goods in process	10,263	10,757	10,930
	<u>2,380,390</u>	<u>2,404,793</u>	<u>1,329,196</u>
COMMITMENTS AND CONTINGENCIES			
- Capital expenditures	20,595	57,635	128,731
- Nominal value of put options given to third parties	2,155,188	2,165,102	-
- Sale of tax receivables	86,522	-	-
	<u>2,262,305</u>	<u>2,222,737</u>	<u>128,731</u>
OTHER MEMORANDUM ACCOUNTS			
- Potential losses for risk of default on discounted bills	59,148	67,188	240
- Forward securities purchases	200,000	200,000	-
	<u>259,148</u>	<u>267,188</u>	<u>240</u>
TOTAL	5,094,777	5,107,746	1,631,088

(in thousand of euros)

CONSOLIDATED STATEMENTS OF INCOME	1st half 2002	1st half 2001	2001
A) PRODUCTION VALUE			
Revenues from sales and services	3,351,777	3,945,878	7,509,220
Changes in inventories of work in process, semifinished and finished products	(2,131)	(21,912)	(99,559)
Changes in contract work in progress	(25,012)	39,567	(37,988)
Increase in property, plant and equipment	4,685	6,444	16,313
Other revenues and income:			
a) Miscellaneous	66,714	112,086	193,770
b) Government grants	2,375	3,897	7,516
TOTAL PRODUCTION VALUE	3,398,408	4,085,960	7,589,272
B) PRODUCTION COSTS			
Raw materials, auxiliaries, consumables and goods for resale	(1,649,532)	(2,096,141)	(3,822,787)
Service expenses	(593,244)	(617,555)	(1,181,035)
Lease and rent expenses	(35,875)	(40,177)	(80,077)
Personnel costs	(716,360)	(782,729)	(1,501,738)
Amortization, depreciation and writedowns:			
a) Amortization of intangible assets	(25,187)	(24,651)	(46,571)
b) Depreciation of property, plant and equipment	(159,489)	(164,268)	(324,062)
d) Write-downs of receivables included in current assets and cash and banks	(16,375)	(29,289)	(77,174)
Changes in inventories of raw materials, auxiliaries, consumables and goods for resale	30,054	43,473	(6,511)
Other accruals	(8,925)	(9,971)	(30,521)
Other operating expenses	(130,176)	(121,759)	(223,881)
TOTAL PRODUCTION COSTS	(3,305,109)	(3,843,067)	(7,294,357)
DIFFERENCE BETWEEN PRODUCTION VALUE AND PRODUCTION COSTS	93,299	242,893	294,915
C) FINANCIAL INCOME AND EXPENSES			
Investment income	3,388	3,958	7,754
Other financial income:			
a) from receivables included in fixed assets	228	130	196
c) from securities included in current assets	2,102	5,074	3,073
d) income other than the above	790,503	377,270	445,852
Interest and other financial expenses	(878,019)	(339,255)	(478,195)
TOTAL FINANCIAL INCOME AND EXPENSES	(81,798)	47,177	(21,320)

(in thousand of euros)

CONSOLIDATED STATEMENTS OF INCOME	1st half 2002	1st half 2001	2001
D) VALUATION ADJUSTMENTS TO FINANCIAL ASSETS			
Revaluation	180	-	43
Writedowns	(54,777)	(14,498)	(33,396)
TOTAL ADJUSTMENTS	(54,597)	(14,498)	(33,353)
E) EXTRAORDINARY ITEMS			
Extraordinary income	33,758	69,873	230,025
Extraordinary expenses	(9,820)	(18,019)	(246,388)
TOTAL EXTRAORDINARY ITEMS	23,938	51,854	(16,363)
INCOME BEFORE INCOME TAXES	(19,158)	327,426	223,879
Income taxes	(32,884)	(127,686)	(137,598)
NET INCOME (LOSS)	(52,042)	199,740	86,281
PARENT COMPANY INTEREST	(52,252)	196,830	82,299
MINORITY INTEREST	210	2,910	3,982

COMMENTS ON SIX-MONTHS CONSOLIDATED FINANCIAL STATEMENTS**AT JUNE 30, 2002**
-----**FORM AND CONTENT**

The consolidated financial statements for the six months ended June 30, 2002 have 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, 2001 and described in the previous annual report.

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

The reconciliation of the net result for the period and the shareholders' equity reported by Pirelli S.p.A. at June 30, 2002 and the corresponding consolidated figures is presented in the supplementary information.

COMMENTS ON THE CONSOLIDATED BALANCE SHEETS

ASSETS

B) FIXED ASSETS

I) INTANGIBLE ASSETS

The composition and changes in intangible assets are presented below:

	12/31/2001	Translation adjustment	Increase	Decrease	Amortization	6/30/2002
. Formation costs	3,557	(1)	2,664	-	(933)	5,287
. Patents and design patent rights	4,048	5	902	-	(1,201)	3,754
. Concessions, licenses, trademarks and similar rights	8,076	(94)	1,897	-	(1,611)	8,268
. Goodwill	11,840	(602)	-	(737)	(937)	9,564
. Difference on consolidation	64,226	-	45	-	(2,222)	62,049
. Other	86,282	(3,872)	15,464	-	(18,283)	79,591
	178,029	(4,564)	20,972	(737)	(25,187)	168,513

II) PROPERTY, PLANT AND EQUIPMENT

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

	(in thousand of euros)	
	6/30/2002	12/31/2001
Gross value		
. Opening balances	6,394,890	6,238,375
. Translation adjustment	(579,889)	(269,905)
. Additions	150,710	642,651
. Disposals	(89,787)	(216,231)
	5,875,924	6,394,890
Accumulated depreciation		
. Opening balances	3,573,642	3,635,206
. Translation adjustment	(372,798)	(224,702)
. Depreciation charge	159,489	324,062
. Disposals	(51,125)	(160,924)
	3,309,208	3,573,642
Net book value	2,566,716	2,821,248

The ratio of additions during the period to depreciation is 0.94.

III) FINANCIAL ASSETS

“Investments in subsidiaries” amount to Euros 197 thousand and refer to the investment in African Cable Holdings (Proprietary) Ltd (50 percent).

“Investments in jointly controlled subsidiaries” total Euros 3,096,598 thousand. The amount refers to the investment in Olimpia S.p.A. (60 percent) which was accounted for using the equity method. The amount includes goodwill that will be amortized over 20 years (Euro 48,284 thousand).

“Investments in associated companies” total Euros 42,081 thousand compared to Euros 43,595 thousand at December 31, 2001.

“Investments in other companies” amount to Euros 204,598 thousand compared to Euros 176,546 thousand at December 31, 2001. The change principally refers to the F.C. Internazionale Milano S.p.A. capital increase (Euro 40,890 thousand).

“Other securities” total Euros 98,500 thousand compared to Euros 7,462 thousand at December 31, 2001. The change is mainly due to the reclassification from current financial assets of Convertible Bond Asset Swaps on Olivetti S.p.A. 2010 convertible bonds and Share Swap Transactions on Olivetti S.p.A. shares / Olivetti S.p.A. 2010 convertible bonds held by the subsidiary Pirelli Finance (Luxembourg).

The effect of adjusting these securities to market value, had they remained in current financial assets, would have been Euros 68 million.

C) **CURRENT ASSETS**

I) **INVENTORIES**

Inventories, which amount to Euros 963 million compared to Euros 1,026 million at December 31, 2001, can be analyzed as follows:

	(in thousands of euros)	
	6/30/2002	12/31/2001
. Energy Cables and Systems Sector	408,102	441,529
. Telecom Cables and Systems Sector	105,791	128,240
. Tyres Sector	434,195	455,756
. Other	15,275	1
Total	963,363	1,025,526

II) **RECEIVABLES**

Receivables, which amounted to Euros 2,860.6 million at December 31, 2001, now total Euros 2,635.0 million. Details are as follows:

	(in thousands of euros)			
	6/30/2002		12/31/2001	
	Financial	Trade and other	Financial	Trade and other
. Trade	-	1,556,131	-	1,653,795
. Subsidiaries	2	143	-	287
. Associated companies	-	17,557	1,298	330
. Parent companies	111,236	298	96,935	159
. Other receivables	405,738	543,847	340,563	767,263
	516,976	2,117,976	438,796	2,421,834

Trade receivables

Trade receivables by due date are detailed as follows:

	(in thousands of euros)	
	6/30/2002	12/31/2001
. Due within 1 year	1,690,860	1,807,271
. Due beyond 1 year	3,668	6,471
. Allowance for doubtful receivables	(138,397)	(159,947)
	1,556,131	1,653,795

There are no trade receivables due beyond five years.

III) CURRENT FINANCIAL ASSETS

These consist of securities, mainly bonds 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****PARENT COMPANY INTEREST**

"Share capital" is Euros 1,043,605 thousand, consisting of 1,918,925,561 ordinary shares and 88,006,016 savings shares, all with a par value of Euros 0.52 per share and normal dividend rights.

In the first half, 980,888 ordinary shares were issued and subscribed to at par which, as voted by the Boards of Directors' Meetings on March 20, 2000 and November 7, 2000, were assigned to the managers and cadres of the Company and the subsidiaries of the latter, as well as the parent companies and other subsidiaries of the latter, in Italy and abroad.

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

MINORITY INTEREST

The minority interest in shareholders' equity went from Euros 198.2 million at December 31, 2001 to Euros 184.5 million at June 30, 2002. The change arises from the net income for the first half of 2002, the payment of dividends referring to the prior year and the translation adjustment for the conversion of foreign currency financial statements in euros.

The main percentages of investments held by the minority interest are as follows:

	<u>6/30/2002</u>	<u>12/31/2001</u>
Celikord A.S. (Turkey)	49.00%	49.00%
Sicable S.A. (Ivory Coast)	49.00%	49.00%
P & A K.K. (Japan)	49.00%	49.00%
Tianjin Top Power Cables Co. Ltd	48.86%	48.86%
Turk Pirelli Lastikleri A.S. (Turkey)	36.94%	36.94%
BICCGeneral Baosheng Cable Co. Ltd (China)	33.00%	33.00%
Pirelli Telecom Cables Co. Ltd Wuxi (China)	29.44%	30.90%
Alexandria Tire Co. S.A.E. (Egypt)	13.19%	17.27%
Turk Pirelli Kablo ve Sistemleri A.S. (Turkey)	16.25%	16.25%
Solac Soc. Laminadora Ltd (Brazil)	11.00%	11.00%
Pirelli Submarine Telecom Systems Holding B.V. (The Netherlands)	10.00%	10.00%
Pirelli de Venezuela C.A. (Venezuela)	3.78%	3.78%
Pirelli Deutschland A.G. (Germany)	0.92%	1.06%
Pir. Telecomunicações Cabos e Sistemas S.A. (Brazil)	0.62%	0.67%
Pirelli Energia Cabos e Sistemas S.A.(Brazil)	0.62%	0.67%
Pirelli Pneus S.A. (Brazil)	0.39%	0.44%

B) PROVISIONS FOR LIABILITIES AND EXPENSES**PROVISIONS FOR INCOME TAXES**

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

	(in thousands of euros)	
	6/30/2002	12/31/2001
. Provision for current taxes	33,356	25,593
. Provision for deferred taxes	158,372	171,671
	191,728	197,264

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

	(in thousands of euros)	
	1st half 2002	1st half 2001
. Current taxes	39,754	121,290
. Deferred taxes	(6,868)	6,396
	32,884	127,686

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

OTHER PROVISIONS

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

	(in thousands of euros)		
	Restructuring costs	Other	Total
Balance at December 31, 2001	200,225	176,109	376,334
. Translation adjustment	(4,043)	(4,816)	(8,859)
. Utilization	(80,328)	(41,880)	(122,208)
. Increase	1,876	11,513	13,389
Balance at June 30, 2002	117,730	140,926	258,656

The **provision for restructuring costs** at June 30, 2002 amounts to Euros 117.7 million, consisting of Euros 74.2 million for the Energy Cables and Systems Sector, Euros 8.1 million for the Telecommunications Cables and Systems Sector and Euros 15.1 million for the Tyres Sector. Utilizations during the six-month period by the Energy Cables and Systems Sector, the Telecommunications Cables and Systems Sector and the Tyres Sector total, respectively, Euros 46.4 million, Euros 14.7 million and Euros 15.1 million.

Other provisions include accruals for litigation, industrial risks and claims, product warranties, and other contingencies.

D) PAYABLES

Payables amount to Euros 4,865.7 million at June 30, 2002 compared to Euros 4,902.5 million at December 31, 2001. Details are as follows:

	(in thousands of euros)			
	6/30/2002		12/31/2001	
	Financial	Trade and other	Financial	Trade and other
. Bonds	1,000,004	-	500,004	-
. Bank borrowings	1,932,301	-	1,787,153	-
. Other financial companies	114,674	-	114,210	-
. Advances from customers	-	94,396	-	128,962
. Trade	-	1,077,280	-	1,224,004
. Subsidiaries	-	145	-	-
. Associated companies	763	10,053	71	3,094
. Parent companies	4,835	532	205,966	473
. Taxes	-	188,648	-	495,492
. Social security agencies	-	47,603	-	47,523
. Other payables	-	394,457	-	395,557
	3,052,577	1,813,114	2,607,404	2,295,105

An analysis of payables by due date is as follows:

Financial payables

	(in thousands of euros)			
	6/30/2002		12/31/2001	
	within 1 year	beyond 1 year	within 1 year	beyond 1 year
. Bonds	4	1,000,000	4	500,000
. Bank borrowings	1,351,663	580,638	975,560	811,593
. Other financial companies	60,603	54,071	55,102	59,108
. Associated companies	763	-	71	-
. Parent companies	4,835	-	205,966	-
	1,417,868	1,634,709	1,236,703	1,370,701

Financial payables are secured by liens and mortgages of Euros 59.1 million. Financial payables due within one year total Euros 1,417.9 million and include the current portion of long-term debt of Euros 41.1 million.

- **Bonds**

The change in bonds refers to the 6.5 percent fixed rate bonds issued by the subsidiary Pirelli Finance (Luxembourg) amounting to Euros 500,000,000 and due on April 4, 2007.

- **Bank borrowings**

Bank borrowings due beyond one year, amounting to Euros 580.6 million, include borrowings due beyond five years of Euros 70.4 million.

- **Payables to other financial companies**

Payables to other financial companies due beyond one year, amounting to Euros 54.1 million, comprise payables due beyond five years of Euros 31.4 million.

Trade and other payables

	(in thousands of euros)			
	6/30/2002		12/31/2001	
	within 1 year	beyond 1 year	within 1 year	beyond 1 year
. Advances from customers	94,396	-	128,962	-
. Trade	1,077,280	-	1,224,004	-
. Subsidiaries	145	-	-	-
. Associated companies	10,053	-	3,094	-
. Parent companies	532	-	473	-
. Taxes	134,682	53,966	423,279	72,213
. Social security agencies	47,603	-	47,523	-
. Other payables	365,843	28,614	362,075	33,482
	1,730,534	82,580	2,189,410	105,695

MEMORANDUM ACCOUNTS

Memorandum accounts total Euros 5,094,777 thousand compared to Euros 5,107,746 thousand at December 31, 2001.

Personal guarantees

- Sureties on behalf of other companies

These are mainly given to guarantee loans received and job orders in the process of being delivered or tested.

Third party assets held in deposit

- Securities held in deposit

These include securities entrusted for administration.

Assets held by third parties

- Securities held as guarantees and sureties

These include securities owned by the Group and held by third parties in deposit as guarantees or entrusted for administration and also sureties given by Pirelli S.p.A. against commitments and contractual obligations.

Commitments and contingencies

- Nominal value of put options given to third parties

The amount represents the nominal value of the put options given to the banks IntesaBci S.p.A. (Euro 520,000 thousand) and Unicredito Italiano S.p.A. (Euro 520,000 thousand), and to Edizione Holding S.p.A. (Euro 1,040,000 thousand) in respect of their investments in Olimpia S.p.A., under the Olimpia S.p.A. shareholder agreements.

The put options granted to the banks can be exercised from September 2006 or, before that date, in the case of a deadlock among the shareholders, at a price equal to the value of the economic capital of Olimpia S.p.A., plus a premium. This price shall be determined by the parties and shall not be less than the outlays made by the banks (Floor) nor higher than such sum increased by an annual return of 15 percent (Cap).

The put options granted to Edizione Holding S.p.A. can be exercised in the case of (I) a deadlock situation among the shareholders, (II) withdrawal by Pirelli from the shareholder agreements and (III) if Mr Marco Tronchetti Provera ceases, not by his own volition, but by an act inter vivos, to assure the strategic-operational management of the Pirelli Group.

The exercise price of the put option granted to Edizione Holding S.p.A. is equal to, respectively, (I) the price indicated above, (II) the price increased by an additional 50 percent and (III) three times the price.

This item also includes the nominal value of the option given to Cisco Systems on the Pirelli Submarine Telecom Systems Holding B.V. shares which it holds. This amount is already shown in the financial statements under the minority interest in shareholders' equity.

Other memorandum accounts

- Forward securities purchases

This refers to the forward purchase (expiration date of November 23, 2006) of 200,000,000 Olivetti 2001-2010 convertible bonds effected with Credit Agricole Lazard Financial Products Bank.

COMMENTS ON THE CONSOLIDATED STATEMENTS OF INCOME

A) PRODUCTION VALUE

- Revenues from sales and services

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

(in thousands of euros)

	1 st half 2002		1 st half 2001	
Geographical area				
Europe:				
. Italy	592,539	17.68%	579,065	14.68%
. Other European countries	1,452,909	43.35%	1,660,295	42.07%
North America	402,639	12.01%	631,150	16.00%
Central and South America	445,679	13.30%	610,822	15.48%
Oceania, Africa and Asia	458,011	13.66%	464,546	11.77%
	3,351,777	100.00%	3,945,878	100.00%
Sector				
Energy Cables and Systems Sector	1,614,216	48.16%	1,691,676	42.87%
Telecom Cables and Systems Sector	283,515	8.46%	811,742	20.57%
Tyres Sector	1,488,374	44.41%	1,477,476	37.44%
Other	57,937	1.73%	55,575	1.41%
Inter-elimination	(92,265)	(2.76%)	(90,591)	(2.30%)
	3,351,777	100.00%	3,945,878	100.00%

B) PRODUCTION COSTS**- Personnel costs**

Details are as follows:

	(in thousands of euros)	
	1 st half 2002	1 st half 2001
. Salaries and wages	547,009	610,364
. Social security costs	120,443	127,560
. Leaving indemnity	24,735	22,149
. Pension and similar costs	13,612	10,591
. Other costs	10,561	12,065
	716,360	782,729

- Depreciation of property, plant and equipment

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

	(in thousands of euros)	
	1 st half 2002	1 st half 2001
. Buildings	15,961	15,796
. Plant and machinery	103,701	109,711
. Commercial and industrial equipment	22,510	20,565
. Other assets	17,317	18,196
	159,489	164,268

C) FINANCIAL INCOME AND EXPENSES**- Investment income**

Investment income totals Euros 3.4 million and comprises dividends received from equity interests in other companies.

- **Other financial income**

"Income other than the above" consists of the following:

	(in thousands of euros)	
	1 st half 2002	1 st half 2001
. Interest from associated companies	287	392
. Interest from parent companies	1,042	1,665
. Bank interest and other interest	28,398	129,982
. Other financial income from parent companies	11	155
. Miscellaneous financial income	32,195	16,246
. Gains on exchange	728,570	228,830
	790,503	377,270

- **Interest and other financial expenses**

Details are as follows:

	(in thousands of euros)	
	1 st half 2002	1 st half 2001
. Interest to associated companies	25	23
. Interest to parent companies	4,408	771
. Bond interest	19,941	12,087
. Bank interest and interest to other financial companies	60,566	64,389
. Other financial expenses to parent companies	7,016	5,770
. Miscellaneous financial expenses	52,241	28,688
. Losses on exchange	733,642	227,527
	878,019	339,255

D) VALUATION ADJUSTMENTS TO FINANCIAL ASSETS**- Writedowns**

Writedowns total Euros 54,777 thousand and principally include the share of the result of Olimpia S.p.A., accounted for using the equity method.

E) EXTRAORDINARY ITEMS**- Extraordinary income**

Extraordinary income went from Euros 69.9 million in the corresponding period of the prior year to Euros 33.8 million. Details are as follows:

	(in thousands of euros)	
	1 st half 2002	1 st half 2001
. Gains on disposals	21,049	31,262
. Miscellaneous	12,709	38,611
	33,758	69,873

"Gains on disposal" mainly include Euros 16.5 million on the sale of the Bicocca degli Arcimboldi and the representative offices in Rome to Pirelli & C. A.p.A..

Last year, the caption mainly included Euros 30.3 million on the sale of Pirelli S.p.A. treasury shares on the open market.

In the first half of 2002, "Miscellaneous" mainly comprises Euros 5.1 million for the adjustment of the higher tax credit on dividends relating to the year ended June 30, 1998 of the company Pirelli Partecipazioni S.p.A. which was merged in Pirelli S.p.A..

In the corresponding period of last year, this caption included Euros 36.3 million paid by Cisco Systems under the terms of the sale of the Terrestrial Optical Systems business which took place in 2000.

- **Extraordinary expenses**

Extraordinary expenses total Euros 9.8 million, compared to Euros 18 million in the first half of 2001, and consist of the following:

	(in thousands of euros)	
	1 st half 2002	1 st half 2001
. Losses on disposals	-	271
. Miscellaneous	9,820	17,748
	9,820	18,019

OTHER INFORMATION

- **Employees**

The average number of employees in companies included in consolidation in the first half of 2002, by category, is as follows:

Senior executives	594
Staff	9,836
Blue collars	25,230
Temporary employment	2,739
	38,399

- **Exchange rates**

The main exchange rates used in the consolidated financial statements are as follows:

	(local currency against euros)					
	Period-end		Change in	Average		Change in
	6/30/2002	12/31/2001	%	1 st half 2002	1 st half 2001	%
Europe						
British pound	0.6498	0.6085	6.79%	0.62165	0.62355	(0.30%)
Swiss franc	1.4721	1.4829	(0.73%)	1.4690	1.5308	(4.04%)
Hungarian forint	244.9300	245.1800	(0.10%)	243.4821	261.6231	(6.93%)
Slovakian koruna	43.9200	42.2610	3.93%	42.6163	43.4427	(1.90%)
North America						
U.S. dollar	0.9975	0.8813	13.19%	0.8979	0.8981	(0.02%)
Canadian dollar	1.5005	1.4077	6.59%	1.4128	1.3779	2.53%
South America						
Brazilian real	2.8373	2.0450	38.74%	2.1916	1.9331	13.37%
Venezuelan bolivar	1,349.3681	667.1441	102.26%	843.0204	636.2410	32.50%
Argentine peso	3.7905	1.4100	168.83%	2.3821	0.8981	165.24%
Oceania						
Australian dollar	1.7702	1.7280	2.44%	1.6791	1.7216	(2.47%)
Asia						
Chinese RMB	8.2564	7.2942	13.19%	7.4318	7.4338	(0.03%)
Singapore dollar	1.7586	1.6269	8.10%	1.6321	1.6011	1.94%
Indian rupiah	8,681.2425	9,121.0000	(4.82%)	8,643.5222	9,426.0000	(8.30%)
Africa						
Egyptian pound	4.598	4.019	14.43%	4.1406	3.4752	19.15%
Ivory Coast franc	655.957	655.957	0.00%	655.9570	655.9570	0.00%

Net financial position

The composition of the net financial position, which showed a change of Euros 528.8 million compared to December 31, 2001, is the following:

	(in thousands of euros)	
Net financial position	6/30/2002	12/31/2001
. Short-term financial payables	1,417,868	1,236,708
. Accrued and prepaid interest expenses	60,784	11,702
. Cash and banks	(462,112)	(442,061)
. Other securities	(385,190)	(552,952)
. Short-term financial receivables	(517,669)	(439,864)
. Accrued and deferred interest income	(40,084)	(7,294)
Net short-term liquidity	73,597	(193,761)
. Medium/long-term financial payables	1,634,709	1,370,701
. Medium/long-term financial receivables	(68,764)	(80,193)
. Other securities	(21,444)	(7,462)
Net medium/long-term debt	1,544,501	1,283,046
Net financial (liquidity)/debt position	1,618,098	1,089,285

PIRELLI GROUP

SUPPLEMENTARY INFORMATION

CONSOLIDATED STATEMENTS OF CASH FLOWS		(in thousands of euros)
	1 st half 2002	2001
NET LIQUIDITY (DEBT), AT BEGINNING OF YEAR	(1,089,285)	3,495,224
Translation adjustments	1,109	(2,795)
Operating profit	93,299	294,915
Depreciation and amortization	184,676	370,633
Increase in intangible assets	(19,408)	(90,125)
Increase in property, plant and equipment	(150,710)	(642,651)
Increase in financial assets	(41,501)	(3,269,807)
Disposal of intangible assets	1,587	1,909
Disposal of property, plant and equipment	10,862	31,601
Disposal of financial assets	11,443	4,086
Net investments	(187,727)	(3,964,987)
Changes in inventories	(17,456)	168,448
Changes in trade and other accounts receivable/payable	(3,759)	(252,649)
Changes in working capital	(21,215)	(84,200)
Changes in employee - related provisions and other provisions	(9,250)	(44,136)
Other changes	(826)	29,400
FREE CASH FLOWS	58,957	(3,398,375)
Extraordinary items, net	23,938	(16,364)
Financial expenses, net	(136,393)	(54,740)
Income taxes, net	(32,884)	(137,598)
Purchase/sale of treasury shares	-	94,183
Other changes	(294,788)	(816,889)
CASH FLOWS BEFORE DIVIDENDS	(381,172)	(4,329,782)
Dividends paid	(149,260)	(287,169)
NET CASH FLOWS	(530,432)	(4,616,951)
Share capital increase Pirelli S.p.A.	510	29,158
Share capital increase minority interest	(0)	6,080
Changes in share capital	510	35,238
CHANGES IN NET FINANCIAL POSITION (*)	(528,813)	(4,584,509)
NET LIQUIDITY (DEBT), AT END OF YEAR	(1,618,098)	(1,089,285)
(*) Financed by:		
Increase (decrease) in long-term loans	261,455	60,696
Increase (decrease) in short-term loans	119,647	580,376
Decrease (increase) in cash and banks and cash equivalents	147,711	3,943,437
	528,813	4,584,509

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(in thousands of euros)

	SHARE CAPITAL	SHARE PREMIUM RESERVE	LEGAL RESERVE	CUMULATIVE TRANSLATION ADJUSTMENTS	OTHER RESERVES (*) RETAINED EARNINGS NET INCOME (LOSS)	TOTAL
Balance at December 31, 2000	1,035,261	262,160	206,430	107,451	4,144,777	5,756,079
Profit distribution, as per resolution of May 8, 2001						
* to Legal Reserve			622		(622)	-
* dividends to shareholders					(286,217)	(286,217)
* to directors					(14,141)	(14,141)
January subscription of No. 355,200 ordinary shares	185	676				861
February subscription of No. 8,689,484 ordinary shares	4,518	13,966				18,484
March subscription of No. 4,701,006 ordinary shares	2,444	4,814				7,258
May subscription of No. 583,900 ordinary shares	304	1,316				1,620
June subscription of No. 121,000 ordinary shares	63	273				336
July subscription of No. 510,730 ordinary shares	266	279				545
August subscription of No. 102,780 ordinary shares	54					54
Withdrawal from share premium reserve to set up reserve for treasury shares in portfolio		30,324			(30,324)	-
Adjustment of net equities of subsidiaries companies				(105,365)		(105,365)
Net income					82,299	82,299
Balance at December 31, 2001	1,043,095	313,808	207,052	2,086	3,895,772	5,461,813
Profit distribution, as per resolution of May 9, 2002						
* to Legal Reserve			1,567		(1,567)	-
* dividends to shareholders					(148,408)	(148,408)
* to directors					(12,808)	(12,808)
January subscription of No. 209,310 ordinary shares	109					109
February subscription of No. 377,188 ordinary shares	196					196
March subscription of No. 394,390 ordinary shares	205					205
Adjustment of net equities of subsidiaries companies				(226,198)		(226,198)
Net income (loss)					(52,252)	(52,252)
Balance at June 30, 2002	1,043,605	313,808	208,619	(224,112)	3,680,737	5,022,657

(*) The item "Other reserves" includes the Revaluation reserve, the Reserve for treasury shares in portfolio, the Merger reserve and the Reserve from contributions.

**RECONCILIATION OF SIX-MONTHS NET RESULTS AND SHAREHOLDERS' EQUITY OF PIRELLI S.p.A. AND
CORRESPONDING CONSOLIDATED FIGURES OF THE GROUP AT JUNE 30, 2002**

(in thousands of euros)

	Share Capital	Reserves	Net income (loss)	Total
Pirelli S.p.A.	1,043,605	3,780,536	254,868	5,079,009
Earnings of consolidated companies (before consolidation adjustments)			248	248
Capital and reserves of consolidated companies (before consolidation adjustments)		3,435,833		3,435,833
Consolidation adjustments:				
- carrying value of investments in consolidated companies		(2,477,519)		(2,477,519)
- intragroup dividends		252,813	(252,813)	-
- other		(960,359)	(54,555)	(1,014,914)
Group	1,043,605	4,031,304	(52,252)	5,022,657

Companies consolidated using the full consolidation method

Company	Business	Headquarters	Share Capital	Percentage ownership	Percentage of vote	Held by
Europe						
Austria						
Pirelli Gesellschaft mbH	Tyre	Vienna	Euro	726,728	100.00%	Lunares S.A.
Pirelli-Oekw GmbH	Energy Cables and Systems	Vienna	Euro	2,071,176	100.00%	Pirelli Cable Holding N.V.
Belgium						
Pirelli Tyres Belux S.A.	Tyre	Brussels	Euro	700,000	100.00%	Lunares S.A.
Finland						
Pirelli Cables and Systems OY	Energy Cables and Systems	Helsinki	Euro	10,000,000	100.00%	Pirelli Cable Holding N.V.
France						
Eurelectric S.A.	Energy Cables and Systems	La Bresse	Euro	4,036,500	100.00%	Pirelli Energie Câbles et Systèmes France S.A.
Pirelli Energie Câbles et Systèmes France S.A.	Energy Cables and Systems	Paron de Sens	Euro	136,800,000	100.00%	Pirelli Cable Holding N.V.
Pirelli Moto France - PMF S.a.s.	Tyre	Gonesse	Euro	77,000	100.00%	Metzeler Reifen GMBH
Pirelli Telecom Câbles et Systèmes France S.A.	Telecom Cables and Systems	Bagnolet Cedex	Euro	16,295,000	100.00%	Pirelli Cavi e Sistemi Telecom S.p.A.
Pneus Pirelli S.A.	Tyre	Puteaux	Euro	3,062,400	100.00%	Lunares S.A.
Supereat Bis France S.A.	Energy Cables and Systems	Bagnolet Cedex	Euro	40,000	100.00%	Pirelli Energie Câbles et Systèmes France S.A.
Germany						
Bergmann Kabel und Leitungen GmbH	Energy Cables and Systems	Schwerin	Euro	1,022,600	100.00%	Pirelli Kabel und Systeme Holding GmbH
Deutsche Pirelli Reifen Holding GmbH	Financial	Breuberg/Odenwald	Euro	7,694,943	100.00%	Pirelli Tyre Holding N.V.
ISO Industrie Spedition Odenwald GmbH	Tyre	Breuberg/Odenwald	Euro	25,565	100.00%	Pirelli Reifenwerke GmbH & Co. K.G.
Materialverwertungsgesellschaft Breuberg GmbH	Tyre	Breuberg/Odenwald	Euro	25,565	100.00%	Deutsche Pirelli Reifen Hold. GmbH
Metzeler Reifen GmbH	Tyre	Breuberg/Odenwald	Euro	16,361,340	100.00%	Pirelli Deutschland A.G.
Pirelli Deutschland A.G.	Tyre	Breuberg/Odenwald	Euro	26,075,886	99.08%	Deutsche Pirelli Reifen Hold. GmbH
Pirelli Kabel Grundstücksverwaltungs GmbH	Energy Cables and Systems	Berlin	Euro	25,600	100.00%	Pirelli Kabel und Systeme Holding GmbH
Pirelli Kabel und Systeme Beteiligungs GmbH	Energy Cables and Systems	Berlin	Euro	25,600	100.00%	Pirelli Kabel und Systeme Holding GmbH
Pirelli Kabel und Systeme GmbH & Co. KG	Energy Cables and Systems	Berlin	Euro	5,113,000	100.00%	Pirelli Kabel und Systeme Beteiligungs GmbH
Pirelli Kabel und Systeme Holding GmbH	Energy Cables and Systems	Berlin	Euro	26,000	99.00%	Pirelli Cable Holding NV
					1.00%	Pirelli Cavi e Sistemi Energia S.p.A.
Pirelli Kabel und Systeme Verwaltungs GmbH	Energy Cables and Systems	Berlin	Euro	25,600	100.00%	Pirelli Kabel und Systeme Beteiligungs GmbH
Pirelli Reifenwerke Geschäftsuehrungs GmbH	Services	Breuberg/Odenwald	Euro	25,565	100.00%	Deutsche Pirelli Reifen Hold. GmbH
Pirelli Reifenwerke GmbH & Co. K.G.	Tyre	Breuberg/Odenwald	Euro	35,790,943	100.00%	Pirelli Deutschland A.G.
Pirelli Telekom Kabel und Systeme Deutschland GmbH	Telecom Cables and Systems	Berlin	Euro	25,000	100.00%	Pirelli Cavi e Sistemi Telecom S.p.A.
Pneumobil GmbH	Tyre	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 liquidation)	Tyre	Athens	Gr. Drachma	1,000,000	100.00%	Pirelli Hellas S.A.
Elastika Pirelli S.A.	Tyre	Athens	Euro	1,632,010	99.90%	Lunares S.A.
					0.10%	Pirelli Pneumatici Holding S.p.A.
Pirelli Hellas S.A. (in liquidation)	Tyre	Athens	Us \$	22,050,000	79.86%	Pirelli Tyre Holding N.V.
Hungary						
Kabel Keszletertesito BT.	Energy Cables and Systems	Budapest	Hun. Forint/000	1,239,841	100.00%	MKM Magyar Kabel Muvek Rt.
MKM Magyar Kabel Muvek RT.	Energy Cables and Systems	Budapest	Hun. Forint/000	6,981,070	100.00%	Pirelli Cable Holding N.V.
Pirelli Construction Hungary Limited	Energy Cables and Systems	Budapest	Hun. Forint/000	3,000	100.00%	Pirelli Cable Holding N.V.
Pirelli Hungary Tyre Trading and Services Limited	Tyre	Budapest	Hun. Forint/000	3,000	100.00%	Lunares S.A.

Company	Business	Headquarters	Share Capital	Percentage ownership	Percentage of vote	Held by
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)	Euro	5,200,000	100.00%	Pirelli Cavi e Sistemi Telecom S.p.A.
Istituto Piero Pirelli S.p.A. (in liquidation)	Training	Milan	Euro	135,000	100.00%	Pirelli S.p.A.
Maristel S.p.A.	Telecom Cables and Systems	Milan	Euro	1,020,000	100.00%	Pirelli Cavi e Sistemi Telecom S.p.A.
Neri Gomme & C. S.r.l. (in liquidation)	Tyre	Milan	Ital. Lira	20,000,000	100.00%	Sistema Puntogomme S.p.A.
Pirelli Cavi e Sistemi Energia S.p.A.	Power Cables and Systems holding company	Milan	Euro	100,000,000	98.75%	Pirelli S.p.A.
					1.25%	Pirelli Finance (Luxembourg) S.A.
Pirelli Cavi e Sistemi Energia Italia S.p.A.	Energy Cables and Systems	Milan	Euro	110,000,000	100.00%	Pirelli Cavi e Sistemi Energia S.p.A.
Pirelli Cavi e Sistemi S.p.A.	Holding	Milan	Euro	12,694,200	100.00%	Pirelli S.p.A.
Pirelli Cavi e Sistemi Telecom S.p.A.	Telecom Cables and Systems holding company	Milan	Euro	70,000,000	98.75%	Pirelli S.p.A.
					1.25%	Pirelli Finance (Luxembourg) S.A.
Pirelli Cavi e Sistemi Telecom Italia S.p.A.	Telecom Cables and Systems	Milan	Euro	41,000,000	100.00%	Pirelli Cavi e Sistemi Telecom S.p.A.
Pirelli Cultura S.p.A.	Sundry	Milan	Euro	1,000,000	99.00%	Pirelli S.p.A.
					1.00%	Trefin S.r.l.
Pirelli Informatica S.p.A.	Information Systems	Milan	Euro	520,000	100.00%	Pirelli S.p.A.
Pirelli Labs S.p.A.	Research and Development	Milan	Euro	10,000,000	100.00%	Pirelli Cavi e Sistemi S.p.A.
Pirelli Metzeler Motovelo S.r.l.	Tyre	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 Europa S.r.l.	Services	Milan	Euro	20,000,000	100.00%	Pirelli Pneumatici S.p.A.
Pirelli Pneumatici Holding S.p.A.	Financial	Milan	Euro	121,800,000	100.00%	Pirelli Tyre Holding N.V.
Pirelli Pneumatici S.p.A.	Tyre	Milan	Euro	252,320,000	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.	Telecom Cables and Systems	Milan	Euro	50,000,000	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%	Pirelli S.p.A.
					0.50%	Pirelli Cavi e Sistemi Energia S.p.A.
					0.50%	Pirelli Cavi e Sistemi Telecom S.p.A.
					1.00%	Pirelli Pneumatici S.p.A.
					1.00%	Polo Viaggi S.r.l.
					1.00%	Pirelli Pneumatici Holding S.p.A.
					1.00%	Pirelli Pneumatici Holding S.p.A.
Sistema Puntogomme S.p.A.	Tyre	Milan	Euro	3,060,000	100.00%	Pirelli Pneumatici Holding S.p.A.
Tiglio I S.r.l. (formerly Kallithea S.r.l.)	Real estate	Milan	Euro	10,400	100.00%	Pirelli S.p.A.
Tiglio II S.r.l. (formerly Fintheta S.p.A.)	Real estate	Milan	Euro	255,000	100.00%	Pirelli 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	Swiss Franc	2,100,000	100.00%	Pirelli Finance (Luxembourg) S.A.
Pirelli Finance (Luxembourg) S.A.	Financial	Luxembourg	Euro	270,228,168	100.00%	Pirelli S.p.A.
Norway						
Pirelli Kabler og Systemer AS	Energy Cables and Systems	Ski	Nor. Krone	100,000	100.00%	Pirelli Cables and Systems OY
Poland						
Pirelli Polska Sp.zo.o.	Tyre	Warsaw	Pol. Zloty	6,257,708,500	100.00%	Lunares S.A.
Portugal						
Descoberta Portuguesa de Material Electrico e Electronico S.A.	Energy Cables and Systems	Arcozelo Vangaia	Euro	1,545,000	70.93% 29.07%	Pirelli Energie Câbles et Systèmes France S.A. Eurelectric S.A.
Romania						
S.C. Pirelli Romania Cabluri si Sisteme S.A.	Energy Cables and Systems	Slatina	Rom. Leu/000	208,927,700	100.00%	Pirelli Cable Holding N.V.
Slovak Republic						
Kablo Bratislava Spol. S.R.O.	Energy Cables and Systems	Bratislava	Slov. Koruna	523,334,000	100.00%	Pirelli Cable Holding N.V.
Pirelli Slovakia S.R.O.	Tyre	Bratislava	Slov. Koruna	200,000	100.00%	Lunares S.A.

Company	Business	Headquarters	Share Capital	Percentage ownership	Percentage of vote	Held by
Spain						
Fercable S.A.	Energy Cables and Systems	Barcelona	Euro	3,606,073	100.00%	Pirelli Cables y Sistemas S.A.
Omnia Motor S.A.	Tyre	Barcelona	Euro	1,502,530	100.00%	Pirelli Neumaticos S.A.
Pirelli Cables y Sistemas S.A.	Energy Cables and Systems	Barcelona	Euro	24,000,000	100.00%	Pirelli Cable Holding N.V.
Pirelli Esmar S.A.	Energy Cables and Systems	Torredebarrá	Euro	8,714,675	100.00%	Pirelli Cables y Sistemas S.A.
Pirelli Neumaticos S.A.	Tyre	Barcelona	Euro	45,075,908	100.00%	Pirelli Tyre Holding N.V.
Pirelli Telecom Cables y Sistemas Espana S.L.	Telecom Cables and Systems	Barcelona	Euro	12,000,000	100.00%	Pirelli Cavi e Sistemi Telecom S.p.A.
Sweden						
Pirelli Kablar och System AB	Energy Cables and Systems	Hoganas	Swed. Krona	100,000	100.00%	Pirelli Cables and Systems OY
Pirelli Tyre Nordic AB	Tyre	Bromma	Swed. Krona	950,000	100.00%	Lunares S.A.
Switzerland						
Agom S.A.	Tyre	Conthey	Swiss Franc	50,000	75.00%	Lunares S.A.
Agom S.A. Bioggio	Tyre	Bioggio	Swiss Franc	590,000	75.00%	Lunares S.A.
Lunares S.A.	Tyre holding company	Basel	Swiss Franc	10,000,000	100.00%	Pirelli Tyre Holding N.V.
Pirelli Cables and Systems S.A.	Energy Cables and Systems	Basel	Swiss Franc	500,000	100.00%	Pirelli Cable Holding N.V.
Pirelli Produkte Holding A.G. (in liquidation)	Energy Cables and Systems	Basel	Swiss Franc	9,500,000	100.00%	Pirelli Cable Holding N.V.
Pirelli Société de Services S.a.r.l.	Financial	Basel	Swiss Franc	50,000	100.00%	Pirelli Société Générale S.A.
Pirelli Société Générale S.A.	Financial	Basel	Swiss Franc	28,000,000	100.00%	Pirelli S.p.A.
Pirelli Submarine Telecom Systems S.A. (in liquidation)	Telecom Cables and Systems	Basel	Swiss Franc	1,230,000	100.00%	Pirelli Submarine Telecom Systems Holding B.V.
Pirelli Tyre (Europe) S.A.	Tyre	Basel	Swiss Franc	1,000,000	100.00%	Lunares S.A.
The Netherlands						
Optical Technologies The Netherlands B.V.	Financial	Delft	Euro	183,235,100	67.88%	Pirelli S.p.A.
					32.12%	Optical Technologies The Netherlands B.V.
Pirelli Cable Holding N.V.	Power Cables and Systems holding company	Delft	Euro	272,515,065	100.00%	Pirelli Cavi e Sistemi Energia S.p.A.
Pirelli Cable Overseas N.V.	Telecom Cables and Systems holding company	Delft	Euro	10,000,000	100.00%	Pirelli Cavi e Sistemi Telecom S.p.A.
Pirelli Cables and Systems N.V.	Energy Cables and Systems	Delft	Euro	5,000,000	100.00%	Pirelli Cable Holding N.V.
Pirelli Submarine Telecom Systems Holding B.V.	Telecom Cables and Systems	Delft	Euro	4,500,000	90.00%	Pirelli Cavi e Sistemi Telecom S.p.A.
ICEW (Insulated Conductors and Enamelled Wires) N.V. (formerly Pirelli Telecom Cables and Systems The Netherlands N.V.)	Energy Cables and Systems	Delft	Euro	50,000	100.00%	Pirelli Cable Holding N.V.
Pirelli Tyre Holding N.V.	Tyre holding company	Breukelen	Euro	798,412,500	100.00%	Pirelli S.p.A.
Pirelli Tyres Nederland B.V.	Tyre	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.	Tyre	Istanbul	Turk. Lira/mil.	17,100,000	50.466%	Pirelli Tyre Holding N.V.
					0.27%	Pirelli Pneumatici Holding S.p.A.
					0.27%	Pirelli Deutschland A.G.
Turk-Pirelli Lastikleri A.S.	Tyre	Istanbul	Turk. Lira/mil.	88,000,000	62.45%	Pirelli Tyre Holding 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.	Energy Cables and Systems	Mudania / Bursa	Turk. Lira/mil.	3,780,000	83.75%	Pirelli Cable Holding N.V.
Zalsan Zirai Arac Lastikleri A.S.	Tyre	Istanbul	Turk. Lira/mil.	1,400,000	70.00%	Turk-Pirelli Lastikleri A.S.
United Kingdom						
Aberdare Cables Ltd	Energy Cables and Systems	London	British Pound	609,654	100.00%	Pirelli General plc
Pirelli Telecom Cables and Systems UK Limited	Telecom Cables and Systems	London	British Pound	100,000	100.00%	Pirelli General plc
Central Tyre Ltd	Tyre	London	British Pound	100,000	100.00%	Pirelli UK Tyres Ltd
Courier Tyre Company Ltd	Tyre	London	British Pound	10,000	100.00%	Pirelli UK Tyres Ltd
CPK Auto Products Ltd	Tyre	London	British Pound	10,000	100.00%	Pirelli UK Tyres Ltd
CTC 1994 Limited	Tyre	London	British Pound	984	100.00%	Central Tyre Ltd
Pirelli Cables (2000) Limited	Energy Cables and Systems	London	British Pound	118,653,473	100.00%	Pirelli General plc
Pirelli Cables (Industrial) Limited	Energy Cables and Systems	London	British Pound	9,010,935	100.00%	Pirelli General plc
Pirelli Cables (Supertention) Ltd	Energy Cables and Systems	London	British Pound	5,000,000	100.00%	Pirelli General plc
Pirelli Cables and Systems International Ltd	Energy Cables and Systems	London	Euro	100,000	100.00%	Pirelli Cable Holding N.V.

Company	Business	Headquarters	Share Capital	Percentage ownership	Percentage of vote	Held by
Pirelli Cables Ltd	Energy Cables and Systems	London	British Pound	100,000	100.00%	Pirelli General plc
Pirelli Construction Company Ltd	Energy Cables and Systems	London	British Pound	8,000,000	100.00%	Pirelli General plc
Pirelli Focom Limited	Energy Cables and Systems	London	British Pound	6,447,000	100.00%	Pirelli General plc
Pirelli General plc	Cables and Systems	London	British Pound	102,100,000	100.00%	Pirelli UK plc "B1"/"B2"
Pirelli International Limited	Financial	London	Euro	250,000,000	100.00%	Pirelli Finance (Luxembourg) S.A.
Pirelli Metals Ltd	Energy Cables and Systems	London	British Pound	100,000	100.00%	Pirelli General plc
Pirelli Tyres Ltd	Tyre	London	British Pound	16,000,000	100.00%	Pirelli UK Tyres Ltd
Pirelli UK Employee Share Trustee Limited	Financial	London	British Pound	2	100.00%	Pirelli UK plc "C"
Pirelli UK Finance Ltd	Financial	London	British Pound	6,969,280	100.00%	Pirelli UK plc "C"
Pirelli UK plc "A"	Tyre holding company	London	British Pound	57,354,300	100.00%	Pirelli Tyre Holding N.V.
Pirelli UK plc "B1"	Energy Cables and Systems holding company	London	British Pound	27,149,529	100.00%	Pirelli Cable Holding N.V.
Pirelli UK plc "B2"	Telecom Cables and Systems holding company	London	British Pound	27,149,529	100.00%	Pirelli Cavi e Sistemi Telecom S.p.A.
Pirelli UK plc "C"	Finance holding company	London	British Pound	11,625,978	100.00%	Pirelli S.p.A.
Pirelli UK Tyres Ltd	Tyre	London	British Pound	56,819,000	100.00%	Pirelli UK plc "A"

North America

Canada

Pirelli Power Cables and Systems Canada Ltd	Energy Cables and Systems	Brunswick	Can. \$	40,000,000	100.00%	Pirelli Cable Holding N.V.
Pirelli Tire Inc.	Tyre	Ottawa (Ontario)	Can. \$	6,000,000	100.00%	Lunares S.A.

U.S.A.

Metzeler Motorcycle Tire North America Corp.	Tyre	Seattle (Washington)	US \$	150,000	100.00%	Metzeler Reifen GmbH
Pirelli Communications Cables and Systems USA LLC	Telecom Cables and Systems	Wilmington (Delaware)	US \$	10	100.00%	Pirelli North America Inc. "B1"
Pirelli Communications Cables Corporation	Commercial	Wilmington (Delaware)	US \$	1	100.00%	Pirelli Communications Cables and Systems USA LLC
Pirelli Construction Services Inc.	Energy Cables and Systems	Dover (Delaware)	US \$	1,000	100.00%	Pirelli Power Cables and Systems USA LLC
Pirelli Jacobson Inc.	Energy Cables and Systems	Dover (Delaware)	US \$	2,000	100.00%	Pirelli Power Cables and Systems USA LLC
Pirelli North America Inc. "A"	Tyre	Wilmington (Delaware)	US \$	3.15	100.00%	Pirelli Tyre Holding N.V.
Pirelli North America Inc. "B1"	Telecom Cables and Systems	Wilmington (Delaware)	US \$	5.75	100.00%	Pirelli Cavi e Sistemi Telecom S.p.A.
Pirelli North America Inc. "B2"	Energy Cables and Systems	Wilmington (Delaware)	US \$	1.10	100.00%	Pirelli Cavi e Sistemi Energia S.p.A.
Pirelli Power Cables and Systems USA LLC	Energy Cables and Systems	Wilmington (Delaware)	US \$	10	100.00%	Pirelli North America Inc. "B2"
Pirelli RNC Inc.	Commercial	Wilmington (Delaware)	US \$	1	100.00%	Pirelli Tyre Holding N.V.
Pirelli Tire LLC	Tyre	Wilmington (Delaware)	US \$	1	100.00%	Pirelli North America Inc. "A"

Central/South America

Argentina

Fipla S.A.	Energy Cables and Systems	Buenos Aires	Arg. Peso	1	66.97%	Pirelli Consultora Conductores e Instalaciones S.A.I.C.
Pirelli Argentina de Mandatos S.A.	Services	Buenos Aires	Arg. Peso	500,000	100.00%	Pirelli Soci�t� G�n�rale S.A.
Pirelli Consultora Conductores e Instalaciones S.A.I.C.	Energy Cables and Systems	Buenos Aires	Arg. Peso	2,227	100.00%	Pirelli Cable Holding N.V.
Pirelli Consultora de Telecomunicaciones S.A.	Telecom Cables and Systems	Buenos Aires	Arg. Peso	12,000	100.00%	Pirelli Cable Holding N.V.
Pirelli Energia Cables y Sistemas de Argentina S.A.	Energy Cables and Systems	Buenos Aires	Arg. Peso	44,509,458	74.91%	Pirelli Consultora Conductores e Instalaciones S.A.I.C.
					24.69%	Pirelli Cable Holding N.V.
Pirelli Neumaticos S.A.I.C.	Tyre	Buenos Aires	Arg. Peso	19,016,500	99.02%	Pirelli Tyre Holding N.V.
					0.98%	Pirelli Pneumatici Holding S.p.A.
Pirelli Telecomunicaciones Cables y Sistemas de Argentina S.A.	Telecom Cables and Systems	Buenos Aires	Arg. Peso	12,000	100.00%	Pirelli Telecomunika�es Cabos e Sistemas do Brasil S.A.
Tel 3 S.A.	Energy Cables and Systems	Buenos Aires	Arg. Peso	11,075,000	51.00%	Pirelli Energia Cables y Sistemas de Argentina S.A.

Brazil

Cordas Metalicas do Brasil Ltda	Tyre	Sumar�	Bra. Real	1,000	99.90%	Pirelli Pneus SA
					0.10%	Muriae Ltda
Muriae Ltda	Financial	Santo Andr�	Bra. Real	80,000,000	100.00%	Pirelli Pneus S.A.
Novacorp Consultora e Servi�os Corporativos Ltda	Holding	Santo Andr�	Bra. Real	6,000	100.00%	Pirelli S.A.
Pirelli Energia Cabos e Sistemas do Brasil S.A.	Energy Cables and Systems	Santo Andr�	Bra. Real	106,824,993	87.202%	Pirelli Cavi e Sistemi Energia S.p.A.
					12.189%	Pirelli S.A.
Pirelli Pneus Nordeste Ltda	Tyre	Feira de Santana	Bra. Real	29,991,402	100.00%	Pirelli Pneus S.A.
Pirelli Pneus S/A	Tyre	Santo Andr�	Bra. Real	300,617,484	54.83%	Pirelli Pneumatici S.p.A.
					41.20%	Pirelli Tyre Holding N.V.
					3.65%	Pirelli S.A.
Pirelli Produtos Especiais Ltda	Energy Cables and Systems	Cerquillo	Bra. Real	43,143,421	100.00%	Pirelli Energia Cabos e Sistemas do Brasil S.A.
Pirelli S.A.	Financial	Santo Andr�	Bra. Real	45,848,684	100.00%	Pirelli S.p.A.
Pirelli Telecomunika�es Cabos e Sistemas do Brasil S.A.	Telecom Cables and Systems	Sorocaba	Bra. Real	65,236,771	87.20%	Pirelli Cavi e Sistemi Telecom S.p.A.
					12.19%	Pirelli S.A.
Pneuc Comercial e Importadora Ltda	Tyre	San Paolo	Bra. Real	12,913,526	100.00%	Pirelli Pneus S.A.
Solac-Laminadora de Cobre Ltda	Energy Cables and Systems	Jacarei	Bra. Real	8,971,950	89.00%	Pirelli Energia Cabos e Sistemas do Brasil S.A.

Company	Business	Headquarters	Share Capital	Percentage ownership	Percentage of vote	Held by
Chile						
Pirelli E y T S.A.	Energy Cables and Systems	Santiago	Chile Peso/000	3,072,471	99.82%	Pirelli Instalaciones Chile S.A.
Pirelli Instalaciones Chile S.A.	Energy Cables and Systems	Santiago	Chile Peso/000	918,707	90.00%	Pirelli Consultora Conductores e Instalaciones S.A.I.C.
					10.00%	Cite S.A.
Pirelli Neumaticos Chile Limitada	Tyre	Santiago	Us \$	1,918,451	99.98%	Pirelli Pneus S.A.
					0.02%	Pneuc Comercial e Importadora Ltda
Colombia						
Pirelli de Colombia S.A.	Tyre	Santa Fe De Bogota	Col. Peso/000	10,977,466	94.95%	Pirelli Pneus S.A.
					1.63%	Pirelli de Venezuela C.A.
					1.14%	Muriaé Ltda
					1.14%	Pirelli Pneus Nordeste Ltda
					1.14%	Pneuc Comercial e Importadora Ltda
Dutch Antilles						
Pirelli Financial Services Company N.V.	Financial	Curaçao	Us \$	11,000,000	100.00%	Pirelli Finance (Luxembourg) S.A.
Pirelli Insurance & Reinsurance Company N.V.	Insurance	Curaçao	Us \$	10,000,000	100.00%	Pirelli Finance (Luxembourg) S.A.
Mexico						
Pirelli Neumaticos de Mexico S.A. de C.V.	Tyre	Mexico City	Mex. Peso	35,098,600	99.98%	Pirelli Pneus S.A.
					0.02%	Pneuc Comercial e Importadora Ltda
Uruguay						
Cite S.A.	Energy Cables and Systems	Montevideo	Urug. Peso	4,900,000	100.00%	Pirelli Energia Cabos e Sistemas do Brasil S.A.
Venezuela						
Pirelli de Venezuela C.A.	Tyre	Valencia	Ven. Bolivar/000	13,062,679	96.22%	Pirelli Tyre Holding N.V.
Africa						
Egypt						
Alexandria Tire Company S.A.E.	Tyre	Alexandria	Egy. Pound	300,000,000	74.54%	Pirelli Pneumatici Holding S.p.A.
					8.19%	Pirelli Pneumatici S.p.A.
International Tire Company Ltd	Tyre	Alexandria	Egy. Pound	50,000	96.00%	Alexandria Tire Company S.A.E.
Ivory Coast						
SICABLE - Société Ivoirienne de Cables S.A.	Energy Cables and Systems	Abidjan	Cfa Franc	740,000,000	51.00%	Pirelli Energie Câbles et Systèmes France S.A.
South Africa						
Pirelli Cables & Systems (Proprietary) Limited	Commercial	Woodmead, S.A.	S.A. Rand	100	100.00%	Pirelli Cavi e Sistemi Energia S.p.A.
Pirelli Tyre (Pty) Ltd (già Italian Tyre Pty Ltd)	Tyre	Sandton	S.A. Rand	1	100.00%	Lunares S.A.
Oceania						
Australia						
Pirelli Power Cables & Systems Australia PTY Limited	Energy Cables and Systems	Liverpool - N.S.W.	Aus. \$	15,000,000	100.00%	Pirelli Cavi e Sistemi Energia S.p.A.
Pirelli Telecom Cables & Systems Australia PTY Limited	Telecom Cables and Systems	Liverpool - N.S.W.	Aus. \$	38,500,000	100.00%	Pirelli Cavi e Sistemi Telecom S.p.A.
Pirelli Tyres Australia Pty Ltd	Tyre	Pymble - N.S.W.	Aus. \$	150,000	100.00%	Lunares S.A.
New Zealand						
Pirelli Power Cables & Systems New Zealand Limited	Energy Cables and Systems	Auckland	N.Z. \$	10,000	100.00%	Pirelli Power Cables & Systems Australia PTY Limited
Pirelli Telecom Cables & Systems New Zealand Limited	Telecom Cables and Systems	Auckland	N.Z. \$	10,000	100.00%	Pirelli Telecom Cables & Systems Australia PTY Limited
Pirelli Tyres (NZ) Ltd	Tyre	Wellington	N.Z. \$	100	100.00%	Pirelli Tyres Australia Pty Ltd

Company	Business	Headquarters	Share Capital	Percentage ownership	Percentage of vote	Held by
Asia						
China						
BICCGeneral Baosheng Cable Co. Ltd	Energy Cables and Systems	Jiangsu	Us \$	19,500,000	67.00%	Pirelli Cables Asia-Pacific Pte Ltd
Invex Insulated Conductors (Baoying) Co. Ltd.	Energy Cables and Systems	Yangzhou	Euro	6,000,000	100.00%	Pirelli Cable Holding N.V.
Pirelli Cables (Shanghai) Trading Co. Ltd	Energy Cables and Systems	Shanghai	Us \$	200,000	100.00%	Pirelli Cables Asia-Pacific Pte Ltd
Pirelli Telecom Cables Co. Ltd Wuxi	Telecom Cables and Systems	Xuelang Town	Us \$	28,640,750	70.565%	Pirelli Cable Overseas N.V.
Tianjin Top Power Cables Co. Ltd	Energy Cables and Systems	Tianjin Municipality	Us \$	13,100,000	51.145%	Pirelli Cable Holding N.V.
India						
Pirelli Cables (India) Private Limited	Energy Cables and Systems	New Delhi	India Rupee	10,000,000	99.998% 0.002%	Pirelli Cable Holding N.V. Pirelli Cavi e Sistemi Energia S.p.A.
Indonesia						
P.T. Pirelli Cables Indonesia	Energy Cables and Systems	Jakarta	Us \$	67,300,000	99.48% 0.52%	Pirelli Cable Holding N.V. Pirelli Cable Overseas N.V.
Japan						
P & A K.K.	Tyre	Tokyo	Jap. Yen	1,700,000,000	51.00%	Pirelli Tyre Holding N.V.
Pirelli K.K.	Tyre	Tokyo	Jap. Yen	40,000,000	100.00%	Lunares S.A.
Malaysia						
BICCGeneral (Malaysia) Sdn Bhd	Energy Cables and Systems	Kuala Lumpur	Mal. Ringgit	100,000	100.00%	Pirelli Cables Asia-Pacific Pte Ltd
Submarine Cable Installation Sdn Bhd	Energy Cables and Systems	Kuala Lumpur	Mal. Ringgit	10,000	100.00%	Pirelli Cavi e Sistemi Energia S.p.A.
Mauritius						
BICCGeneral Asia Pacific Holdings	Energy Cables and Systems	Port Louis	Us \$	2	100.00%	Pirelli Cables Asia-Pacific Pte Ltd
Singapore						
Pirelli Asia Pte Ltd	Tyre	Singapore	Sing. \$	2	100.00%	Lunares S.A.
Pirelli Cable Systems Pte Ltd	Energy Cables and Systems	Singapore	Sing. \$	25,000	50.00%	Pirelli General plc
					50.00%	Pirelli Cable Holding N.V.
Pirelli Cables Asia-Pacific Pte Ltd	Energy Cables and Systems	Singapore	Sing. \$	213,324,290	100.00%	Pirelli Cable Holding N.V.

Investments accounted for using the equity method

Company	Business	Headquarters	Share Capital	Percentage ownership	Percentage of vote	Held by
Jointly Controlled Companies						
Europe						
Italy						
Olimpia S.p.A.	Industrial holding company	Milan	Euro 1,562,596,150	60.00%		Pirelli S.p.A.
Subsidiaries						
Europe						
Germany						
Drahtcord Saar Geschaeftsuehrungs GmbH	Tyre	Merzig	Deut. Mark 60,000	50.00%		Pirelli Deutschland A.G.
Drahtcord Saar GmbH & Co. K.G.	Tyre	Merzig	Deut. Mark 30,000,000	50.00%		Pirelli Deutschland A.G.
Kabeltrommel Gesellschaft mbH & Co K.G.	Energy Cables and Systems	Cologne	Deut. Mark 20,000,000	27.48%		Pirelli Kabel und Systeme GmbH & Co. KG
Italy						
Epiclink S.p.A.	Information Systems	Milan	Euro 12,500,000	30.30%		Pirelli S.p.A.
SMP Melfi S.r.l.	Tyre	Melito (NA)	Euro 3,511,906	50.00%		Pirelli Pneumatici Holding S.p.A.
Spain						
Optiwire S.L.	Energy Cables and Systems	Barcelona	Euro 6,010	50.00%		Pirelli Cables y Sistemas S.A.
United Kingdom						
Rodco Ltd	Energy Cables and Systems	Gravesend	British Pound 5,000,000	40.00%		Pirelli General plc
Central/South America						
Argentina						
Lineas de Transmision de Buenos Aires S.A. (in liquidation)	Energy Cables and Systems	Buenos Aires	Arg. Peso/000 12	20.00%		Pirelli Argentina de Mandatos S.A.
Brazil						
K.M.P. Cabos Especiais e Sistemas Ltda	Energy Cables and Systems	San Paolo	Bra. Real 6,600,916	40.00%		Pirelli Energia Cabos e Sistemas do Brasil S.A.
Pirelli & C. Real Estate Ltda	Information Systems	Santo Andrè	Bra. Real 2,000,000	30.00%		Pirelli S.A.
Asia						
Saudi Arabia						
Sicew-Saudi Italian Co. for Electrical Works Ltd	Energy Cables and Systems	Jeddah	S. Arab Riyal 1,000,000	34.00%		Pirelli Cable Holding N.V.

Other investments in subsidiaries and associated companies

Company	Business	Headquarters	Share Capital	Percentage ownership	Percentage of vote	Held by
Europe						
Austria						
Pirelli Kabelwerke und Systeme GmbH	Energy Cables and Systems	Vienna	Euro	36,336	100.00%	Pirelli Cavi e Sistemi Energia S.p.A.
Germany						
Industriekraftwerk Breuberg GmbH	Cogeneration	Breuberg/Odenwald	Euro	1,533,876	26.00%	Pirelli Deutschland AG
Spain						
Euro Driver Car S.L.	Tyre	Barcelona	Euro	300,000	25.00%	Pirelli Neumaticos S.A.
Hungary						
Ipoly Kábeldob KFT.	Energy Cables and Systems	Szécsény	Hun. Forint/000	36,350	25.17%	MKM Magyar Kábel Művek Rt.
Africa						
South Africa						
AFCAB Holdings (Proprietary) Ltd	Energy Cables and Systems	Sandton	S.A. Rand	4,000	50.00%	Pirelli Cable Holding N.V.
African Cables Ltd	Energy Cables and Systems	Vereeniging	S.A. Rand	9,886,098	100.00%	AFCAB Holdings (Proprietary) Limited
ATC (Proprietary) Ltd	Energy Cables and Systems	Brits	S.A. Rand	632,912	21.00%	African Cable Limited
Tunisia						
Auto Cables Tunisie S.A.	Energy Cables and Systems	Tunis	Tun. Dinar	4,450,000	51.00%	Pirelli Energie Câbles et Systèmes France S.A.
Zimbabwe						
BICC CAFCA Limited	Energy Cables and Systems	Harare	Zimbabwe \$	15,706,000	73.46%	African Cables Limited
BICC (CENTRAL AFRICA) (Private) Limited	Energy Cables and Systems	Harare	Zimbabwe \$	200,000	100.00%	BICC CAFCA Limited
Zimbabwe Cables (Pte) Limited	Energy Cables and Systems	Harare	Zimbabwe \$	2	100.00%	BICC CAFCA Limited
Asia						
Malaysia						
Power Cables Malaysia Sdn Bhd	Energy Cables and Systems	Selangor Darul Ehsan	Mal. Ringgit	8,000,000	40.00%	Pirelli Cables Asia - Pacific Pte Ltd

Other investments considered significant as per Consob resolution no. 11971 of May 14,1999

Company	Business	Headquarters	Share Capital	Percentage ownership	Percentage of vote	Held by
Australia						
Optix Australia Ltd	Telecom Cables and Systems	Tottenham (Victoria)	Aus. \$	4,000,000	15.00%	Pirelli Telecom Cables & Systems Australia PTY Ltd
France						
Aliapur S.A.	Tyre	Vitry sur Seine	Euro	262,500	14.29%	Pneus Pirelli S.A.
Italy						
Eurofly Service S.p.A.	Services	Caselle Torinese	Euro	1,235,000	16.33%	Pirelli S.p.A.
F.C. Internazionale Milano S.p.A.	Sport	Milan	Euro	53,465,000	19.49%	Pirelli S.p.A.
Servizio Titoli S.r.l.	Services	Turin	Euro	105,000	12.38%	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) S.A.
United Kingdom						
Cable Makers Properties and Services Ltd	Energy Cables and Systems	East Molesey	British Pound	337,700	18.30%	Pirelli General plc
Switzerland						
Voltimum S.A.	Energy Cables and Systems	Meyrin	Swiss Franc	2,850,120	14.29%	Pirelli Cavi e Sistemi Energia S.p.A.
Tunisia						
Société Tunisienne des Industries de Pneumatiques S.A.	Tyre	Tunis	Tun. Dinar	38,252,940	15.83%	Pirelli Pneumatici S.p.A.
Turkey						
Türk Sondel Enerji A.S. (*)	Cogeneration	Istanbul	Turk. Lira/mil.	900,000	13.98% 4.99%	Türk-Pirelli Lastikleri A.S. Celikord A.S.
U.S.A.						
Alloptic Inc.	Telecom Cables and Systems	Pleasanton (CA)	Us \$	120,675,987	15.44%	Pirelli Cavi e Sistemi Telecom S.p.A.

(*) The percentage of investment indicated does not take into account the resolution for the capital increase passed by the Türk Sondel Enerji A.S. shareholders' meeting on October 22, 2001, which is being contested and is contingent upon the decision of the local pertinent authorities.

The execution of this increase would bring the investment in Türk Sondel Enerji A.S., which is unchanged as regards the number of shares owned, to a total of 2.150% (0.566% held through Celikord A.S. and 1.84% held through Türk Pirelli Lastikleri A.S.)

**AUDITORS REPORT ON THE LIMITED REVIEW OF THE INTERIM
FINANCIAL REPORTING FOR THE SIX MONTHS PERIOD ENDED 30 JUNE
2002**

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 2002, 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 22 April 2002 and 11 September 2001.

- 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, 12 September 2002

PricewaterhouseCoopers SpA

Signed by

Fabio Facchini
(Partner)

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