

**Pirelli & C. S.p.A. - Milan**

**Six-Months Interim Report  
at June 30, 2003**

**PIRELLI & C. Società per Azioni**

**Registered office in Milan, Via G. Negri 10**

**Share Capital - Euros 1,799,399,399.20**

**Milan Companies Register No. 00860340157**

**Economic Administrative File (REA) No. 1055**

**PIRELLI & C. S.p.A. - MILAN**  
**Six-Months Interim Report at June 30, 2003**

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


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Honorary Chairman	Leopoldo Pirelli
Chairman	Marco Tronchetti Provera
Deputy Chairman	Alberto Pirelli
Deputy Chairman	Carlo Alessandro Puri Negri

Managing Directors and General Managers	Carlo Buora Giovanni Ferrario
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Directors	Carlo Acutis Gilberto Benetton Carlo De Benedetti Alberto Falck Gabriele Galateri di Genola Giuseppe Gazzoni-Frascara Mario Greco Georg F. Kraye Giulia Maria Ligresti Massimo Moratti Luigi Orlando Giovanni Perissinotto Giampiero Pesenti Ennio Presutti Maurizio Romiti Vincenzo Sozzani Frank Vischer
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Secretary to the Board	Carlo Montagna
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**Board of Statutory Auditors**


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Chairman	Luigi Guatri
Standing members	Roberto Bracchetti Paolo Francesco Lazzati
Alternate members	Franco Ghiringhelli Sebastiano Guido

**General Managers**


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

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<b>Independent auditors</b>	PricewaterhouseCoopers S.p.A.
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## **REPORT ON OPERATIONS**

### **INTRODUCTION**

On May 5, and May 7, 2003, the extraordinary shareholders' meeting of Pirelli S.p.A. and Pirelli & C. A.p.A. approved the plan for extraordinary transactions directed towards simplifying and strengthening the corporate structure.

The shareholders' meeting of Pirelli & C. A.p.A. specifically passed resolutions on:

- the transformation of the company from a limited partnership company (Società da Accomandita per Azioni) to a corporation (Società per Azioni), thus assuming a new corporate structure so that all the shareholders could take a more important part in the decision- making process;
- the change in the corporate business purpose of the Company so that more information could be provided about the role conducted by Pirelli & C., namely, that of an investment holding company with the function of directing and governing the companies of the Group.

As a result of modifying the Company type and the corporate business purpose, the shareholders of Pirelli & C. were able to exercise the right of withdrawal in the manner and within the time frame established by law.

Overall, the withdrawals affected 116,266,313 ordinary shares for a gross reimbursement of Euros 1.264 per share and 13,233,848 savings shares for a gross reimbursement of Euros 1.184 per share.

The total equivalent amount of the reimbursements, before income taxes, was equal to Euros 162.6 million;

- an increase in share capital through the issue of ordinary shares with the same number of free warrants attached, both of which can be traded separately, to be offered to the ordinary and savings shareholders (after exercise of withdrawal rights) in a ratio of 3 new ordinary shares cum warrants for every 1 share of any class of stock held at a price of Euros 0.52 per share, equal to par value.

The offer was executed between June 9, and June 27, 2003 inclusive, at the end of which 1,557,159,063 shares with the same number of warrants had been subscribed. The unexercised 1,565,421 rights corresponding to 4,696,263 shares were offered by the company on the stock market, pursuant to art. 2441, paragraph 3 of the Italian Civil Code, in the trading sessions between July 7, and July 11, 2003 inclusive, at the end of which 4,696,263 shares were subscribed.

The offer therefore ended with the full subscription of the 1,561,855,326 ordinary shares with the same number of warrants attached, at a price of Euros 0.52 each for a total equivalent amount of Euros 812.2 million, without the intervention of the underwriting syndicate;

- the merger by incorporation in Pirelli & C. S.p.A. of Pirelli & C. Luxembourg S.p.A. (a wholly-owned subsidiary) through the cancellation of shares and of Pirelli S.p.A. through the assignment of 4 new ordinary shares and 10 new savings shares of Pirelli & C. S.p.A., respectively, for every 3 ordinary shares and for every 7 savings shares of Pirelli S.p.A. held, with dividend rights from January 1, 2003.

On August 1, 2003, the deed of merger was recorded on the Companies Register thus rendering the merger effective with third parties beginning August 4, 2003.

The Board of Directors of Pirelli & C. S.p.A. has prepared the six-months report at June 30, 2003 with both consolidated and statutory financial statements and the related notes, giving effect to the merger for accounting and tax purposes as from January 1, 2003.

This approach provides better disclosure since it represents the operating performance to June 30, 2003 under the new situation including the economic and balance sheet effects of the merger, the share withdrawals and the capital increase.

### *Consolidated financial statements*

The merger led to the posting of a negative difference on consolidation or exchange surplus, equal to Euros 1,304.4 million, resulting from the comparison of the purchase cost of Euros 935.1 million and the accounting value of the minority interest in the shareholders' equity shown in the consolidated financial statements of Pirelli S.p.A. at December 31, 2002 of Euros 2,239.5 million.

The purchase cost of the minority interest in the shareholders' equity of Pirelli S.p.A., borne by Pirelli & C. S.p.A., is represented by the capital increase to service the exchange, equal to the number of new shares issued (1,261,712,172 ordinary shares and 113,580,020 savings shares) multiplied by the average prices of Pirelli & C. S.p.A. shares on the stock market in the quarter prior to the date the merger was announced considering the capital increase (Euros 0.68 per share), for a total of Euros 935.1 million.

The negative difference on consolidation, which can be considered similar to negative goodwill, was allocated to adjust the assets and liabilities of the minority interest coming from the financial statements of Pirelli S.p.A. at December 31, 2002, except for those of unequivocal value.

The adjustments can be summarized as follows:

	<u>in millions of euros</u>
Intangible assets	27.1
Property, plant and equipment	124.9
Investments in jointly controlled subsidiaries	700.0
Investments in other companies	32.5
Provisions	337.1
Others	82.8
<b>TOTAL</b>	<b>1,304.4</b>

The economic effects of such adjustments are represented by lower amortization of intangible assets and lower depreciation of property, plant and equipment for an amount of Euros 13 million in the first half.

#### *Statutory financial statement*

The merger gave rise to a cancellation surplus, equal to the difference between the carrying value of the investments held by Pirelli & C. Luxembourg S.p.A. and Pirelli S.p.A. and the underlying share of the net equity (net of the carrying value of treasury shares in the case of Pirelli S.p.A.), of Euros 363.7 million (Euros 31.6 million from the cancellation of Pirelli & C. Luxembourg S.p.A. shares and Euros 332.1 million from the cancellation of Pirelli S.p.A. shares).

There was also an exchange surplus equal to the difference between the capital increase in favor of the shareholders of Pirelli S.p.A., corresponding to the number of new shares issued (1,261,712,172 ordinary shares and 113,580,020 savings shares) multiplied by the average prices of the Pirelli & C. S.p.A. shares on the stock market in the quarter prior to the date the merger was announced considering the capital increase (Euros 0.68 per share), for a total of Euros 935.1 million and the underlying share of net equity (net of the carrying value of treasury shares again in the case of Pirelli S.p.A.).

This surplus, which can be considered similar to negative goodwill and equal to Euros 1,534.7 million, was allocated to adjust the assets and liabilities of the minority interest coming from the financial statements of Pirelli S.p.A. at December 31, 2002, except for those of unequivocal value.

The adjustments can be summarized as follows:

	<b><u>in millions of euros</u></b>
Intangible assets	8.1
Property, plant and equipment	7.1
Investments in subsidiaries	294.2
Investments in jointly controlled subsidiaries	869.3
Investments in other companies	20.1
Provisions	335.9
<b>TOTAL</b>	<b>1,534.7</b>

The economic effects of such adjustments are represented by lower amortization of intangible assets and lower depreciation of property, plant and equipment for an amount of Euros 2.3 million in the first half 2003.

## **THE GROUP**

The industrial operations of the Group registered an increase in gross operating profit in the first half ending June 30, 2003 despite the fact that the economic environment in which it was operating was still being negatively influenced by the demand for telecommunications infrastructures, where volumes remained at low levels, driving prices down even further. In the Energy Sector, investments in Utilities were still stagnant, especially in Europe in the low- and medium-voltage categories and pressure on prices continued in the General Market sector. The Tyres Sector again recorded results in continuous expansion.

The improvement in the operating profit confirms the continued growth in profitability now occurring within the Tyres Sector (+16.2 percent) and the positive effect of measures taken to improve efficiency that were put into place by the management of the Group in the Energy Cables and Systems Sector and the Telecom Cables and Systems Sector which continues to suffer from the negative market conditions. The value of the gross efficiencies achieved specifically during the first half of 2003 exceeds Euros 100 million. Such measures also made it possible to offset the negative foreign exchange effect of more than Euros 20 million.

The Real Estate Sector, represented by the Pirelli & C. Real Estate group, compared to the first half of 2002, reported a growth of more than 44 percent in the aggregate production value (the parameter of reference for the business model) and an increase of 27 percent in the operating profit including the share of earnings (losses) of equity investments. As far as the main areas of the Real Estate Sector are concerned, the Asset Management business posted an aggregate production value, net of acquisitions, of approx. Euros 549 million compared to Euros 385 million for the first half of 2002. New acquisitions totaled some Euros 183 million, of which Euros 69 million refer to the Group's share, in addition to Euros 33 million of non-performing loan purchases (Euros 15.5 million refer to the Group's share).

Service Provider operations, which are consolidated line-by-line, registered a production value of about Euros 144 million compared to Euros 87 million for the first six months of 2002. The operating profit from this business was Euros 20.7 million, compared to Euros 12.7 million for the first half of 2002 (+63 percent).

### **The parent company Pirelli & C. S.p.A.**

The net result of the parent company, Pirelli & C. S.p.A., for the six months ended June 30, 2003, including the economic effects of the mergers mentioned above, was a loss of Euros 44 million.

The loss was due mainly to the financial expenses and extraordinary expenses connected with merger that were not compensated by dividends from the subsidiaries which, since they are recorded on the accrual basis, will be posted in the financial statements for the year ended December 31, 2003.

Last year, the result benefited from Euros 131 million of extraordinary income from placing a part of Pirelli & C. Real Estate S.p.A.'s shares on the stock market.

### **Major events in the first half**

Besides the transactions of an extraordinary nature just described, on March 10, 2003, based upon agreements reached by the two groups in March 1998, BZ Group exercised the second sales option relating to a number of Pirelli S.p.A. ordinary shares equal to 2.5 percent of share capital with voting rights, at a price calculated – in compliance with the agreements – at the average market price of the stock in the 90 trading days prior to the

exercise date, for a total amount of some Euros 43 million (equal to a price per share Euros 0.90).

On May 5, 2003, the deed of merger was signed for the incorporation of Holy S.r.l. (a subsidiary of Hopa S.p.A.) in Olimpia S.p.A..

This merger became effective, with the merged company ceasing to exist, on May 9, 2003. Therefore 297,637,360 new Olimpia shares were issued in exchange for the entire share capital of Holy.

After these transactions, the share capital of Olimpia S.p.A., equal to 1,860,233,510 shares of par value Euros 1, was held as follows: Pirelli & C. S.p.A. 50.4 percent, Edizione Finance International S.A. 16.8 percent, Hopa S.p.A. 16 percent, Banca Intesa S.p.A. 8.4 percent and Unicredito S.p.A. 8.4 percent.

The consolidated figures of the Group for the first half ending June 30, 2003 are as follows:

	(in millions of euros)			
	1st half 6/30/2003 (excl. Olimpia)	1st half 6/30/2003	1st half 6/30/2002	Year 12/31/2002
. Net sales	3,298	3,298	3,494	6,718
. Gross operating profit	322	322	305	523
% of net sales	9.8%	9.8%	8.7%	7.8%
. Operating profit	142	142	101	118
% of net sales	4.3%	4.3%	2.9%	1.8%
. Share of earnings (losses) of equity investments	23	(22)	(43)	(175)
. Operating profit (loss) incl. share of earnings (losses) of equity invest.	165	120	58	(57)
. Financial income (expenses)	(74)	(74)	(87)	(178)
. Extraordinary items	(2)	(2)	199	(83)
. Income taxes	(65)	(65)	(77)	(87)
. Net income (loss)	24	(21)	93	(405)
% of net sales		n.s.	2.7%	n.s.
. Net income (loss) attributable to Pirelli & C. S.p.A.		(36)	130	(58)
. Earnings per share (in euros)		(0.01)	0.20	(0.09)
. Shareholders' equity		3,799	5,233	4,626
. Net equity attributable to Pirelli & C. S.p.A.		3,499	2,150	1,933
. Equity per share (in euros)		1.01	3.29	2.96
. Net financial (liquidity)/debt position		1,598	2,234	2,050
. Capital expenditures		119	153	337
. R&D expenditures		104	115	219
. Employees (at period-end)		36,412	39,105	37,350
. Factories (number)		77	81	79
. Pirelli & C. S.p.A. ordinary shares (No. in millions)		3,325.6	618.3	618.3
. Pirelli & C. S.p.A. savings shares (No. in millions)		134.8	34.4	34.4
. Total shares outstanding		3,460.4	652.7	652.7

For a more meaningful understanding of the performance of the Group in its various sectors of business, the following economic data and the net financial position is provided according to business sector.

By “industrial aggregate” is meant the sum of the data of the industrial sectors (energy cables, telecom cables and tyres).

(in millions of euros)

	Energy Cables & Systems		Telecom Cables & Systems		Tyres		INDUSTR. AGGREGATE	
	1st half 2003	1st half 2002	1st half 2003	1st half 2002	1st half 2003	1st half 2002	1st half 2003	1st half 2002
. Net sales	<b>1,312</b>	1,614	<b>228</b>	284	<b>1,509</b>	1,488	<b>3,049</b>	3,386
. Gross operating profit (loss)	<b>70</b>	77	<b>(2)</b>	11	<b>219</b>	202	<b>287</b>	290
% of net sales	<b>5.3%</b>	4.8%	<b>-0.9%</b>	3.9%	<b>14.5%</b>	13.6%	<b>9.4%</b>	8.6%
. Operating profit (loss)	<b>27</b>	26	<b>(21)</b>	<b>(20)</b>	<b>129</b>	111	<b>135</b>	117
% of net sales	<b>2.1%</b>	1.6%	<b>-9.2%</b>	-7.0%	<b>8.5%</b>	7.5%	<b>4.4%</b>	3.5%
. Share of earnings (losses) of equity investments	<b>(1)</b>	-	-	-	-	-	<b>(1)</b>	-
. Op. profit (loss) incl. share of earnings (losses) of eq. inv.	<b>26</b>	26	<b>(21)</b>	<b>(20)</b>	<b>129</b>	111	<b>134</b>	117
. Financial income (expenses)	<b>(15)</b>	<b>(27)</b>	<b>(9)</b>	<b>(10)</b>	<b>(25)</b>	<b>(32)</b>	<b>(49)</b>	<b>(69)</b>
. Extraordinary items	<b>7</b>	10	<b>1</b>	<b>(1)</b>	<b>10</b>	<b>(1)</b>	<b>18</b>	<b>8</b>
. Income taxes	<b>(9)</b>	<b>(10)</b>	<b>0</b>	<b>(2)</b>	<b>(39)</b>	<b>(23)</b>	<b>(48)</b>	<b>(35)</b>
. Net income (loss)	<b>9</b>	<b>(1)</b>	<b>(29)</b>	<b>(33)</b>	<b>75</b>	<b>55</b>	<b>55</b>	<b>21</b>
% of net sales	<b>0.7%</b>	-0.1%	<b>-12.7%</b>	-11.6%	<b>5.0%</b>	3.7%	<b>1.8%</b>	0.6%
. Net financial (liquidity)/debt position	<b>393</b>	521	<b>436</b>	409	<b>570</b>	607	<b>1,399</b>	1,537

(in millions of euros)

	Industrial Aggregate		Pirelli & C. Real Estate		Other		TOTAL	
	1st half 2003	1st half 2002	1st half 2003	1st half 2002	1st half 2003	1st half 2002	1st half 2003	1st half 2002
. Net sales	<b>3,049</b>	3,386	<b>281</b>	146	<b>(32)</b>	<b>(38)</b>	<b>3,298</b>	3,494
. Gross operating profit (loss)	<b>287</b>	290	<b>37</b>	33	<b>(2)</b>	<b>(18)</b>	<b>322</b>	305
% of net sales	<b>9.4%</b>	8.6%	<b>13.2%</b>	22.6%			<b>9.8%</b>	8.7%
. Operating profit (loss)	<b>135</b>	117	<b>29</b>	29	<b>(22) *</b>	<b>(45)</b>	<b>142</b>	101
% of net sales	<b>4.4%</b>	3.5%	<b>10.3%</b>	19.9%			<b>4.3%</b>	2.9%
. Share of earnings (losses) of equity invest.	<b>(1)</b>	-	<b>24</b>	13	<b>(45) **</b>	<b>(56)</b>	<b>(22)</b>	<b>(43)</b>
. Op. profit (loss) incl. share of earnings (losses) of eq. inv.	<b>134</b>	117	<b>53</b>	42	<b>(67)</b>	<b>(101)</b>	<b>120</b>	58
. Financial income (expenses)	<b>(49)</b>	<b>(69)</b>	<b>0</b>	<b>(2)</b>	<b>(25)</b>	<b>(16)</b>	<b>(74)</b>	<b>(87)</b>
. Extraordinary items	<b>18</b>	8	<b>0</b>	51	<b>(20)</b>	140	<b>(2)</b>	199
. Income taxes	<b>(48)</b>	<b>(35)</b>	<b>(13)</b>	<b>(20)</b>	<b>(4)</b>	<b>(22)</b>	<b>(65)</b>	<b>(77)</b>
. Net income (loss)	<b>55</b>	21	<b>40</b>	71	<b>(116)</b>	1	<b>(21)</b>	93
% of net sales	<b>1.8%</b>	0.6%	<b>14.2%</b>	48.6%			<b>n.s.</b>	2.7%
. Net financial (liquidity)/debt position	<b>1,399</b>	1,537	<b>71</b>	55	<b>128</b>	642	<b>1,598</b>	<b>2,234</b>

\* of which, goodwill amortization on purchases of Pirelli S.p.A. shares, €13 million (€14 million in the 1st half 2002)

\*\* accounting for Olimpia S.p.A. using the equity method, €45 million (€54 million in 1st half 2002)

## • Net sales

Net sales are equal to Euros 3,298 million and recorded a reduction of 5.6 percent compared to the first half of the prior year (Euros 3,494 million).

Excluding the foreign exchange effect (-9.0 percent), the variation in metal prices in the Energy business (-2.4 percent) and the change in the scope of consolidation due to the sale of the Enameled Wires business (-1.7 percent), the effective change is equal to +7.5 percent, with the increase in the Tyres and Real Estate sectors partly reduced by lower volumes in the Energy and Telecom Cables and Systems Sectors.

As far as the Real Estate Sector is concerned, it should be borne in mind that net sales are not a significant indicator of business volumes since Pirelli & C. Real Estate S.p.A. is a management company which invests in real estate portfolios primarily through the acquisition of qualified minority stakes in companies which own properties and by fully assuming their management.

A better indicator of the Real Estate Sector's business volume, therefore, is aggregate production value (the sum of revenues and the change in inventories, which also includes the component generated by the minority-owned investments). Such aggregate production value, net of acquisitions, for the first half of 2003, was Euros 693 million, an increase of 44 percent compared to Euros 481 million for the first half of 2002.

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

Sector	1 <sup>st</sup> half 2003	1 <sup>st</sup> half 2002	Geographical area	1 <sup>st</sup> half 2003	1 <sup>st</sup> half 2002
Energy Cables and Systems	40%	46%	Italy	26.4%	20.7%
			Other European countries	39.2%	41.6%
Telecom Cables and Systems	7%	8%	North America	9.4%	11.5%
Tyres	45%	42%	Central and South America	11.9%	12.8%
			Real Estate	8%	4%

- **Gross operating profit**

Gross operating profit is equal to Euros 322 million (9.8 percent of net sales), compared to Euros 305 million for the first half of 2002 (8.7 percent of net sales).

- **Operating profit**

Operating profit is equal to Euros 142 million compared to Euros 101 million in the first half of 2002. The percentage of operating profit to net sales is 4.3 percent (2.9 percent in 2002). The operating profit for this first half of 2003 includes the economic effect of the allocation of the merger surplus of Euros 13 million.

The aggregate of the industrial businesses recorded an operating profit of Euros 135 million (including Euros 10 million coming from the effects of the allocation of the merger surplus), equal to 4.4 percent of net sales, compared to Euros 117 million for the first half of 2002 (3.5 percent of net sales).

The Real Estate Sector shows an operating profit of Euros 29 million, in line with the first half of 2002.

Operating profit for the first half of 2003 also comprises the impact of the settlement with Ciena relating to the dispute over the use of patents by the latter (Euros 10 million) while the same period of the prior year included Euros 6 million of insurance compensation for damages to the Battipaglia factory of Fibre Ottiche Sud.

The change in operating profit can mainly be attributed to:

		<b><u>in millions of euros</u></b>
• Currency exchange effect	-	22
• Prices (excluding metals)/mix	+	37 (*)
• Volumes	+	10
• Per unit production costs	-	88 (**)
• Efficiencies	+	107
• Depreciation	+	4
• Merger effect	+	13
• Other	-	20
	+	<hr style="border-top: 1px solid black;"/>
		<hr style="border-top: 3px double black;"/>
	+	41

(\*) of which South America + 63

(\*\*) of which South America - 63 for raw materials

### **Share of earnings (losses) of equity investments**

The share of the earnings (losses) of equity investments is a negative balance of Euros 22 million compared to Euros 43 million for the first half of 2002 and includes the effect of the earnings (losses) of the companies accounted for using the equity method. It specifically includes the share of the loss of Olimpia S.p.A. of Euros 45 million (Euros 54 million for the first half of 2002) whereas the results of the companies in the Real Estate Sector (Pirelli & C. Real Estate group) show earnings of Euros 24 million (Euros 13 million for the first half of 2002).

As already stated, Olimpia S.p.A.'s result does not include dividends which will be posted to the income statement upon payment according to the cash basis.

- **Financial income (expenses)**

Financial income (expenses) shows an expense balance of Euros 74 million compared to Euros 87 million in the corresponding period of 2002. The improvement is mainly due to lower net indebtedness during the period.

- **Extraordinary items**

Extraordinary items show an expense balance of Euros 2 million whereas an income balance of Euros 199 million was recorded for the first half of 2002 basically as a result of the gain from placing Pirelli & C. Real Estate S.p.A. shares on the stock market (Euros 143 million) and the gain on the sale of the last portion of ex-Unim securities in portfolio realized by Pirelli & C. Real Estate S.p.A. (Euros 54 million).

- **Net income (loss)**

The net result is a loss of Euros 21 million (after income tax expenses of Euros 65 million) compared to a net income of Euros 93 million for the first half of 2002 (after income tax expenses of Euros 77 million).

Excluding the impact of Olimpia's loss for the first half to June 30, 2003, the result would have been a net income of Euros 24 million.

The net loss attributable to Pirelli & C. S.p.A. for the six months to June 30, 2003 is Euros 36 million (excluding Olimpia's loss, the result would have been a net income of Euros 9 million) compared to a net income of Euros 130 million for the first six months of 2002 (Euros 184 million excluding the effect of Olimpia's loss).

- **Shareholders' equity**

The shareholders' equity attributable to Pirelli & C. S.p.A. at June 30, 2003 is Euros 3,499 million, an increase compared to Euros 1,933 million at December 31, 2002 following the transactions connected with the merger (capital increase by cash and capital increase by exchange).

Total shareholders' equity went from Euros 4,626 million at December 31, 2002 to Euros 3,799 million at June 30, 2003.

Such decrease can be analyzed as follows:

	(in millions of euros)
. Translation adjustments	19
. Net loss for the period	(21)
. Dividends to third parties paid by:	(64)
- Pirelli & C.	(42)
- Pirelli S.p.A.	(3)
- Pirelli & C. Real Estate S.p.A.	(18)
- Other Group companies	(1)
. Purchases of Pirelli S.p.A. (Pirelli & C.) shares	(43)
. Purchases of Pirelli S.p.A. treasury shares	(7)
. Purchases/sales of Pirelli & C. Real Estate treasury shares	10
. Goodwill reversal on above purchases	(75)
. Capital increase Pirelli & C.	812
. Withdrawal by shareholders	(163)
. Allocation of merger surplus	(1,304)
. Other changes	9
	<u>(827)</u>

• **Net financial position**

The net financial position is a net debt position of Euros 1,598 million, with a reduction compared to Euros 2,050 million at December 31, 2002. The net debt position reflects the effects associated with the capital increase by Pirelli & C. S.p.A., quantifiable in Euros 812 million, and the withdrawal rights exercised by the shareholders of the company, quantifiable in Euros 163 million.

The change of Euros 452 million can be explained by the following analysis of cash flows:

	(in millions of euros)	
. Exchange differences		<b>28</b>
. Operating profit	142	
. Depreciation and amortization	180	
. Net investments:		
- intangible assets and property, plant and equipment	(129)	
- financial assets	<u>(27)</u>	
	(156)	
. Change in working capital	(69)	
. Change in provisions and other	<u>(20)</u>	
<b>. Free cash flow</b>		<b>77</b>
. Purchases of Pirelli S.p.A. shares		(43)
. Financial income (expenses)		(74)
. Extraordinary items		(2)
. Income taxes		(65)
. Dividends paid		(64)
. Other changes		<u>(54)</u>
<b>. Net cash flow</b>		<b>(225)</b>
. Capital increase		<b>812</b>
. Capital reimbursement		<b>(163)</b>
<b>Changes in net financial position</b>		<b>452</b>

“Other changes” principally include the payment of Euros 71 million for the industrial restructuring program, which was accrued in the prior year.

. **Capital expenditures**

Capital expenditures total Euros 119 million compared to Euros 153 million for the first half of 2002.

The ratio of capital expenditures to depreciation is 0.85 (0.95 in 2002).

- **R & D expenditures**

R&D expenditures borne by the Group and completely expensed in the income statement, went from Euros 115 million in the first half of 2002 to Euros 104 million in the first half of 2003. The percentage of the industrial aggregate to net sales is 3.4 percent, in line with the prior year.

- **Employees**

Employees number 36,412 at June 30, 2003, compared to 37,350 at December 31, 2002, with a net reduction of 938.

- **Factories**

The number of factories went from 79 at December 31, 2002 to 77 at June 30, 2003. The decrease is in the Energy Cables and Systems Sector as a result of the closing of two production plant (Erith-UK and Colusa-USA) following the announcement of restructuring plans.

### **Related party disclosure**

With reference to the disclosure required by Consob Communication No. 97001574 of February 20, 1997 and No. 98015375 of February 27, 1998 which refer to transactions by Group companies with related parties, a statement is made to the effect that all the transactions, including those between the parent company and its subsidiaries, and those among subsidiaries, fall under 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 interest.

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

Furthermore, in order to provide complete disclosure, the transactions between the Pirelli & C. S.p.A. Group and the Telecom Italia Group in the first six months of 2003 are described below. These transactions fall within ordinary operations, 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 and services rendered by Pirelli & C. S.p.A., Pirelli Informatica S.p.A. and Pirelli & C. Real Estate S.p.A. (Euros 38.6 million);
- **costs for goods and services**, mainly relating to telephone and computer services and the supply of electrical energy (Euros 19.7 million);
- **trade receivables**, relating to the supply of the goods and services described above (Euros 32.8 million);
- **trade payables**, relating to telephone and computer services and the supply of electrical energy (Euros 10.0 million).

### **Significant events after the end of the first half and outlook for the current year**

On July 21, 2003, Pirelli & C. Real Estate S.p.A., after receipt of approval from Banca d'Italia and the Antitrust Authority, finalized the purchase, from Lazard Investments for a sum of Euros 2.3 million, of 100 percent of the capital of a Sgr company, and then changed its name to Pirelli & C. Real Estate S.g.r. S.p.A..

The new company will be engaged in the promotion, institution and management of real estate mutual funds directed towards both retail and institutional investors.

Again in July, Pirelli and the FGSport Group, which organizes and operates the World Superbike Championships, signed a partnership agreement on the basis of which, beginning from the next 2004 season, Pirelli will be the exclusive supplier of the tyres for all the teams competing in the three Superbike, Supersport and Superstock categories.

As for industrial operations, with a prevailing market scenario still marked by elements of uncertainty, the results achieved in the first half make it possible to confirm, to date, the objective, for the current year, of an increase in the operating profit for the Tyres Sector and Energy Cables and Systems Sector and an improvement in the operating result of the Telecom Cables and Systems Sector where a breakeven is forecast for the last quarter.

With regard to the Real Estate Sector, compared to the prior year, a growth in the results of the real estate business can reasonably be expected for 2003.

On the whole, Pirelli & C. S.p.A. forecasts a significant improvement in the operating profit compared to 2002.

## **ENERGY CABLES AND SYSTEMS SECTOR**

The consolidated figures for the Energy Cables and Systems Sector for the first half ending June 30, 2003 can be summarized as follows:

	(in millions of euros)		
	1st half 6/30/2003	1st half 6/30/2002	Year 12/31/2002
. Net sales	<b>1,312</b>	1,614	3,021
. Gross operating profit	<b>70</b>	77	158
% of net sales	<b>5.3%</b>	4.8%	5.2%
. Operating profit	<b>27</b>	26	55
% of net sales	<b>2.1%</b>	1.6%	1.8%
. Financial income (expenses)	<b>(16)</b>	(27)	(44)
. Extraordinary items	<b>7</b>	10	(121)
. Income taxes	<b>(9)</b>	(10)	(10)
. Net income (loss)	<b>9</b>	(1)	(120)
% of net sales	<b>0.7%</b>	(0.1%)	n.s.
. Net financial (liquidity)/debt position	<b>393</b>	521	373
. Capital expenditures	<b>25</b>	30	75
. R&D expenditures	<b>16</b>	23	44
. Employees (at period-end)	<b>11,119</b>	13,763	12,479
. Factories (number)	<b>48 *</b>	51	50

\* four of these are shared with the Telecom Cables and Systems Sector

**Net sales for the first half ending June 30, 2003** amount to Euros 1,312 million, with a decrease of 18.7 percent compared to the same period of the prior year. On a comparable basis (excluding the effects of foreign exchange, metal prices and the change in the scope of consolidation) the effective change is a reduction of 4.3 percent.

The change in net sales is the result of the following:

• Currency exchange effect	-	6.3%
• Prices Metals	-	4.4%
• Change in scope of consolidation	-	3.7%
• Volumes	-	3.2%
• Prices/Mix	-	1.1%
	-	<u>18.7%</u>

**Operating profit for the first half ending June 30, 2003** is Euros 27 million, a slight improvement over the first half of 2002.

Operating profit is equal to 2.1 percent of net sales and compares to 1.6 percent for the same period of the prior year.

The change in operating profit is due to the following:

		<b><u>in millions of euros</u></b>
• Currency exchange effect	-	5
• Prices (excluding metals)/mix	-	15 (*)
• Volumes	-	24
• Per unit production costs	-	6 (**)
• Efficiencies	+	58
• Depreciation	+	5
• Merger effect	+	1
• Other	-	13
	+	<u>1</u>

(\*) of which South America +€3 million

(\*\*) of which South America -€1 million for raw materials

The **net income** for the first half of 2003 is Euros 9 million after financial expenses of Euros 16 million, extraordinary income of Euros 7 million and income tax expenses of Euros 9 million.

The **net financial position** is a net debt position of Euros 393 million compared to Euros 373 million at December 31, 2002.

At June 30, 2003, **employees** number 11,119 with a net reduction of 1,360 compared to December 31, 2002 (excluding employees with temporary contracts, the decrease is 1,297).

## **BUSINESS PERFORMANCE**

The reduction in net sales from the prior year, in comparative terms (-4.3 percent), is due mainly to the reduction in volumes.

In Europe, with the same scope of consolidation, sales fell by 15 percent as a result of the marked contraction in orders on the domestic and export markets, especially in the U.K., Italy, France and Germany.

Sales in North America declined (-8 percent) on account of lower volumes. They were also significantly penalized by the foreign exchange effect owing to the weak U.S. dollar. When sales were converted to euro they showed a reduction of 26 percent.

Net sales in South America decreased by 24 percent compared to the prior year: higher volumes, better prices and a good mix were not sufficient to compensate the weakness of local currencies which generated a negative foreign exchange impact of 38 percent.

The Asia Pacific area (Australia, Indonesia and China) confirmed a positive sales trend, with an increase of 20 percent compared to the prior year.

Analyzing sales by individual product lines, there was a generalized reduction of net sales in all sectors of business: the General Market, Utilities and Industrial and Special Cables.

During the first half of 2003, the activities of **Submarine Power Systems** concentrated on the production of the Basslink cable (a 400-kV interconnection system between Australia and Tasmania.). The project involves the manufacture of 295 km of paper-insulated cable and 195 km of extruded cable, as well as installation activities, which will be carried out during 2004 and 2005 by the cable-laying vessel “Giulio Verne” owned by Pirelli. Overall the contract is worth Euros 172.8 million.

In addition, repairs to the Enel cable linking Venice to Serenella and Saccafisole were concluded for a total value of Euros 2.3 million. Furthermore, the contract was won to repair the NYPA cable (the submarine link between New York and New Jersey) for a total value of U.S. \$8.9 million and, finally, installation operations began for the Exxon-Mobil Santa Ynez (California) contract.

The energy business is also conducting restructuring operations, concentrating its manufacture of submarine power cables at one production site in Arco Felice (Naples).

### **Research & Development**

In the field of power, the following achievements are worthy of note:

- **Extension of Air-Bag<sup>TM</sup> technology** for submarine applications, industrial/special applications (**Air-Bag<sup>TM</sup> mining**) and the General Market (**Air-Bag<sup>TM</sup> light, Skin Bag**). In parallel to the introduction of a vast range of innovative products to the market, full Air Bag solutions are being developed in which all the modules are created using Air Bag technology.

- **Research and development of distributed components of Hi-tech Networks (RTTR<sup>TM</sup>, RTMS, WPMS, New DTS)** for the management of electrical connections through the fundamental parameters of the Network (voltages, temperatures, mechanical deformations etc.). Development of systems for monitoring partial discharges.
- **Research and development of high-voltage DC systems**, using extruded technology. In parallel to internal qualification tests, development is continuing towards higher performance solutions, with a particular focus on optimizing the whole transmission system (synergy with converters).
- **Research and development of innovative in-line injection systems for distribution cables**
- **Development of innovative technologies** for fire-resistant electrical systems (**Fire Fit<sup>TM</sup>, new E90, FP++**). The development of materials and technology continues.
- **Extension of Afumex<sup>TM</sup> technology**, for cables with low emissions of toxic fumes and gases, focused on the introduction of innovative products to the market (**Afumex<sup>TM</sup> Flex, Afumex<sup>TM</sup> enhanced**).
- **Research and development of systems based on "variable geometry" (round and flat) cables** for applications in industry and/or Utilities.

### **Outlook for the current year**

During the second half of 2003, despite the fact that no signs of a market recovery are anticipated, further improvements in margins and results are expected, attributable to the restructuring programs and measures to improve industrial efficiency, which were put in place during the prior year.

## **TELECOM CABLES AND SYSTEMS SECTOR**

The consolidated figures for the Telecom Cables and Systems Sector for the first half ending June 30, 2003 can be summarized as follows:

	(in millions of euros)		
	<b>1st half 6/30/2003</b>	<b>1st half 6/30/2002</b>	<b>Year 12/31/2002</b>
. Net sales	<b>228</b>	284	468
. Gross operating profit (loss)	<b>(2)</b>	11	(22)
% of net sales	n.s.	3.9%	n.s.
. Operating loss	<b>(21)</b>	(20)	(84)
% of net sales	n.s.	n.s.	n.s.
. Financial income (expenses)	<b>(9)</b>	(10)	(54)
. Extraordinary items	<b>1</b>	(1)	(121)
. Income taxes		(2)	(4)
. Net loss	<b>(29)</b>	(33)	(263)
% of net sales	n.s.	n.s.	n.s.
. Net financial (liquidity)/debt position	<b>436</b>	409	431
. Capital expenditures	<b>11</b>	52	78
. R&D expenditures	<b>18</b>	26	45
. Employees (at period-end)	<b>2,308</b>	2,878	2,546
. Factories (number)	<b>11 *</b>	12	11

\* four of these are shared with the Energy Cables and Systems Sector

**Net sales for the first six months ending June 30, 2003** amount to Euros 228 million, with a reduction of 19.7 percent compared to the same period of the prior year.

The change in net sales is the result of the following:

• Currency exchange effect	-	6.6%
• Volumes	+	0.2% (*)
• Prices/Mix	-	13.3%
	-	<u>19.7%</u>

(\*) of which 7.8% sales of Submarine business

The **operating loss for the first six months ending June 30, 2003** is Euros 21 million compared to an operating loss of Euros 20 million for the first half of the prior year. The figure, which includes the accounting effect of the allocation of the merger surplus on fixed assets of Euros 7 million, was affected by the drop in the volumes of fiber optic and copper cables and the deterioration in the price and mix connected with the market trend. The operating loss for the prior year included Euros 6 million of insurance compensation for damages suffered by F.O.S. S.p.A..

The change in the operating loss is due to the following:

		<u>in millions of euros</u>
• Currency exchange effect	+	2
• Prices (excluding metals)/mix	-	38 (*)
• Volumes	-	15
• Per unit production costs	+	16 (**)
• Efficiencies	+	28
• Depreciation	+	3
• Merger effect	+	7
• Other	-	4
	-	<u>1</u>

(\*) of which South America +€1 million

(\*\*) of which South America -€1 million for raw materials

The **net result** for the first half of 2003 is a loss of Euros 29 million after financial expenses of Euros 9 million and extraordinary income of Euros 1 million.

The **net financial position** is a net debt position of Euros 436 million compared to Euros 431 million at December 31, 2002.

At June 30, 2003, **employees** number 2,308, with a reduction of 238 compared to 2,546 at December 31, 2002 (excluding employees with temporary contracts, the decrease is 246).

## **BUSINESS PERFORMANCE**

**Telecom Cables** – both optical and copper cables – recorded a reduction in volumes and prices in all geographical areas on account of the continued deterioration of market conditions. The fall in volumes, accompanied by a worsening of the product mix, has had repercussions on levels of profitability.

The decrease of sales volumes was more pronounced in Europe and North America, due to the persistent contraction of investments on the part of telephone operating companies. South America and Australia, instead, reported a lower reduction in sales than the two above-mentioned areas, which was particularly linked to an increase in investments in copper cables which partially offset the decrease in fiber optic cables.

The demand for **fiber optics** is also suffering from the trend in demand for telecommunications cables, which leads to a reduction in volumes and prices.

However, in this scenario, one positive result worthy of mention is that Pirelli won a contract to produce OPGW in Romania for Transelectrica.

The development of activities in **new business areas** (Broadband Access) continued. Sales in this segment tripled compared to the same period of the prior year, due partly to efforts to reposition the activities of the sector.

The deployment of Gateways, which marked the first half of 2003, reached significant volumes, especially in Telecom Italia (TI) and Fastweb (FW):

- ADSL router (SOHO) for TI and Fastweb (FW);
- gateways with ADSL and optical VOIP for residential users of FW.

Modular Access Gateways, the first prototypes of which were presented during the last quarter of 2002, is a system of products developed in-house which now consists of three modules: the base Module, the switch Module and the Wi-Fi Module.

The development of these three modules was completed during the six-month period both in terms of hardware and software and were presented to potential customers for formal qualification. Development of a fourth module has started to carry voice on IP.

An agreement was signed with a strategic partner for the joint development of a Video Gateway system, which will be able to implement the following functionalities: video-communication, IP Television and communication with Access Gateways.

During the first half of 2003, in a market context that was still extremely negative, the operating activity of the **Submarine Telecom Systems** business was focused on the completion of the Sumatra BackBone project and by progress on the production of cables for the Farice link, which cut the operating losses of the sector by approximately 50 percent compared to the same period of the prior year.

## **Research & Development**

### **Fiber optics**

- Multimodal fibers: experimental feasibility was obtained for a new multimodal product (OM3) which will make it possible to operate at higher levels of transmission than the Ethernet standard (1Gbps.300m and 10Gbps.300m).

- New FreeLight™: as forecast, the production began at FOS Fibre Ottiche Sud (Battipaglia) as did the sale of the new high-performance product, devoted to the most evolved telecommunications transmission systems. Its performance in terms of spliceability will make the product extremely competitive.

- SM Light: after having made significant improvements to the product and processes, the new SM Light fiber has been launched on the market. This is a single-mode fiber belonging to the ITU-T G.652 international standard. The fiber incorporates improvements to its main optical and geometric parameters, and is in line with its best competitors. However, apart from this, two other particularly important parameters have been improved: PMD (Polarization Mode Dispersion) and Resistance to Microbending now surpass the performance of even the most important rivals and occupies a leadership position. As far as the Resistance to Microbending is concerned, the results were achieved by using a new coating (NEON™ Plus) developed by Pirelli.

## **Cables**

- Micro-optic cables: completion of the production range of micro-optic cables with a potential of up to 72 fiber-counts for pneumatic installation in small tubes with an internal diameter of 8 mm. Two new micro-optic cables have been developed and produced on an industrial scale, with the following characteristics:

- external diameter of 6.5 mm with a high-density polythene sheath, like the cable for Attica TLC - Greece, manufactured using Pirelli MagniLight fibers;
- external diameter of 6.0 mm with a graphitized nylon sheath, as in the case of cables recently supplied to Eastern Europe.

Both types of cable were produced using fibers with a color secondary NEON™ coating and, furthermore, have also been qualified with the new NEON™ Plus fibers.

- Micromodules: development and supply of a micromodule cable with a 288 fiber-count for pan-European customers, using fibers with a color secondary NEON™ coating. Here again, the cable has also been qualified with the new NEON™ Plus fibers.
  
- Ribbon optical cables: industrial production and supply of an ribbon optical cable in stranded loose tubes with up to 432 fiber-counts for the Parisian access network, which is being built by COLT using the city sewer system.
  
- OPGW: industrial production and supply of micro-optical ground wires with a central plastic tube and a protective aluminum sheath with up to 48 fiber-counts, providing a suitable and competitive solution for a vast range of overhead lines in Europe and worldwide at a competitive price, using both normal standard single-mode fibers (G.652), and FreeLight and NZD Tplus (G.655) fibers.

### **Submarine Telecom Systems**

R&D focused mainly on completing and bolstering the product portfolio of the repeated systems which, today, can be regarded as being on a par with the top competitors, since Pirelli has the capacity to design and supply systems with 96 10Gb/s channels on 8 pairs of fibers.

In addition to the well-known NRZ format, research and development activities have been implemented on the transmission format Chirped Return-to-Zero – widely employed in the long-haul systems – using the submarine terminal (SLTE) and a “trial” line 2,000 km long. In this way, Pirelli Submarine Telecom Systems is able to optimize the design of system more competitively and according to the requirements of each individual system. The work is also of fundamental importance for the design and creation of the Farice system.

Other R&D activities led to the design and creation of a new field terminal, which are necessary during the assembly, installation and commissioning phases of repeated systems. This equipment is currently being used for the implementation phases of the Farice system.

### **Outlook for the current year**

Although the telecommunications sector shows no immediate sign of a recovery, there are some aspects of the market in which the Group is focusing on in order to survive this downturn in the economy. In particular, there is still ferocious competition in the fiber market in regards to prices. This is having a negative influence on the associated cable market, especially given the persisting lack of investments in telecommunications infrastructures. On the other hand, the Access Network market is showing interesting development prospects on which the Group is concentrating through the acquisition of orders in Italy and on foreign markets.

The pre-fixed target of countering the negative trend of this sector through measures designed to generate continuous improvement and efficiency, that were implemented at the end of 2002 and in the early months of 2003, and the development of new products should make it possible to reach breakeven during the last quarter of the year.

## **TYRES SECTOR**

The consolidated figures for the Tyres Sector for the first half ending June 30, 2003 can be summarized as follows:

	(in millions of euros)		
	<b>1st half 6/30/2003</b>	<b>1st half 6/30/2002</b>	<b>Year 12/31/2002</b>
. Net sales	<b>1,509</b>	1,488	2,857
. Gross operating profit	<b>219</b>	202	365
% of net sales	<b>14.5%</b>	13.6%	12.8%
. Operating profit	<b>129</b>	111	191
% of net sales	<b>8.5%</b>	7.5%	6.7%
. Financial income (expenses)	<b>(25)</b>	(32)	(55)
. Extraordinary items	<b>10</b>	(1)	(11)
. Income taxes	<b>(39)</b>	(23)	(47)
. Net income	<b>75</b>	55	78
% of net sales	<b>5.0%</b>	3.7%	2.7%
. Net financial (liquidity)/debt position	<b>570</b>	607	492
. Capital expenditures	<b>79</b>	81	182
. R&D expenditures	<b>61</b>	61	122
. Employees (at period-end)	<b>20,532</b>	20,533	20,222
. Factories (number)	<b>22</b>	22	22

**Net sales for the first six months of 2003** are Euros 1,509 million, with an increase of 1.4 percent compared to the corresponding period of the prior year. Net of the foreign exchange effect, the actual variation is an increase of 14.4 percent.

The change in net sales can be attributed to:

• Currency exchange effect	-	13.0%
• Volumes	+	8.0%
• Prices/Mix	+	6.4%
		<hr/>
	+	1.4%
		<hr/>

**Operating profit** for the first six months of 2003 is Euros 129 million, an improvement of more than 16 percent compared to the same period of the prior year, representing 8.5 percent of net sales, compared to Euros 111 million and 7.5 percent of net sales for the first half of 2002.

The change in operating profit can be summarized as follows:

		<b><u>in millions of euros</u></b>
• Currency exchange effect	-	20
• Prices/mix	+	90 (*)
• Volumes	+	49
• Per unit production costs	-	95 (**)
• Efficiencies	+	14
• Depreciation	-	5
• Merger effect	+	2
• Other	-	17
		<hr/>
	+	18
		<hr/> <hr/>

(\*) of which South America +€59 million

(\*\*) of which South America -€61 million for raw materials

**Net income** is Euros 75 million (after financial expenses of Euros 25 million, income tax expenses of Euros 39 million and extraordinary income of Euros 10 million) and compares to Euros 55 million (after financial expenses of Euros 32 million and income tax expenses of Euros 23 million) for the first half of 2002.

Extraordinary income for the first half of 2003 refers to the consideration paid to the company as part of the “Milan-Turin High-Speed Train Project” relative to the factory in Settimo Torinese.

The **net financial position** is a net debt position of Euros 570 million compared to Euros 492 million at December 31, 2002.

The negative change is mainly due to the payment of dividends to the parent company for Euros 70 million.

At June 30, 2003, **employees** number 20,532, including 1,846 employees with temporary contracts.

Compared to December 31, 2002, management and staff decreased by 79 persons consequent to the continuation of rationalization projects and activities involving the workforce and increased by 60 blue-collar workers to meet production requirements. The outsourcing of the business of the German affiliate ISO, beginning February 2003, led to a reduction of 102 employees.

The number of employees under temporary contracts shows an increase of 331, with the main purpose being to meet seasonal peaks in production operations, particularly with reference to Turkey and Brazil.

## **BUSINESS PERFORMANCE**

### **The scenario**

During the first six months of 2003, the tendency towards weak growth of both consumption and investments was confirmed in the leading industrialized countries. In the United States, the growth of production activities was still hampered by the stagnation of demand in various sectors, the imbalance of the financial markets, and the deficits in public finances and the current account. In Europe, fiscal hurdles continued to slow down internal demand and the rapid strengthening of the euro suffocated the timid signs of a recovery in exports which had emerged at the end of 2002. The Japanese economy was still stagnant despite a gain in the competitiveness of its exports towards the euro-zone. In emerging countries, too, where growth was generally more sustained, there were signs of a slowdown in the first half of the year. In Asia, the deceleration of growth there was due largely to the effects of the SARS epidemic. The only exception to the recession was South America, thanks to the macro-economic scenario and political stability, especially in Brazil and Argentina.

In this scenario, during the first half of 2003, the price of raw materials in U.S. dollars rose considerably compared to the same period of 2002. The economic result was also influenced by the unfavorable trend of the exchange rates in South American markets, a factor that was only partly offset by the gains made by the euro against the U.S. dollar.

Furthermore, the second quarter of 2003 was marked by an evident cut in oil prices after the conclusion of the war in Iraq. On the other hand, during the last few months, the price of natural rubber showed a tendency to slow down, having reached its peak in March.

## **Vehicle market and tyres**

During the first half of 2003, the **European passenger car market** continued to show signs of weakness. Despite the positive result reported in June, registrations of new cars decreased by a total of 2.6 percent compared to the first half of 2002. Consequently, the production of new vehicles in Western Europe declined by 1.3 percent compared to the first half of 2002, a factor not compensated by the positive trend of car production in Turkey.

Contrasting signs came from the commercial vehicles market: as expected, during the first months of the year, registrations in the Light Truck and derivative segment came to a sudden halt. In the medium-size and heavy trucks segment, on the other hand, figures for the first quarter show a slight increase compared to 2002.

The lower demand for Original Equipment resulting from the fall in passenger car production was more than compensated by the demand for Replacements. The first six months of 2003 were marked by a very positive trend, both in the Passenger Car/Light Truck segment, where there was an improvement of 5 percent compared to the prior year, and in the Truck segment, where there was a gain of +6 percent.

In the **United States**, there was a slight reduction in registrations of passenger cars (-2.1 percent during the first five months of the year) and a major slowdown in production. In the tyre market, the demand for Original Equipment for passenger cars followed the fall in production; in the Replacements channel, there was a reduction of 3.3 percent compared to the prior year.

In **Latin America**, on the one hand, there was a marked drop in registrations of new cars, while, on the other, there was an encouraging recovery in the production of cars slated for export. On the tyre market in Brazil, there were contrasting results: the demand for Replacements, which was lower than in the prior year in the Passenger Car segment, but higher in the Truck segment, was compensated by a positive trend in the Original Equipment channel. In Argentina, after the negative results reported in 2002, the tyre market showed considerable gains in all segments of demand.

## CONSUMER MARKET

### Passenger Car/Light Truck Business Unit

In a market context characterized by increasing competitiveness, the evolution of the business displayed a positive growth in volumes and net sales compared to the first half of 2002. This growth was particularly sustained by trends that were significantly higher than the market average for exports and in South America, and by business which remained steady in Europe and North America.

There was also a positive trend in the price mix with growth rates higher than both the prior year and the current growth rate of individual markets in all the "Performance" segments.

On the other hand, the U.S. dollar/euro exchange rate had a negative impact on volumes of exports towards North America, Africa, Asia and Oceania.

In the Passenger Car B.U., there was an increase in sales, with a growth rate of 6 percent in the first half of 2003, compared to the prior year. This was partly due to the supplies of Original Equipment in **North America**, which recorded a start of business in line with budget expectations.

The existing **homologation portfolio** continues to grow in terms of quality, as a result of the recent successes achieved in his sphere. In particular, recent products to receive homologation include the Lamborghini Gallardo, the BMW series 7, the Audi A3/A4/A6, the Mercedes E-Class and the X-Type Jaguar with **P Zero Rosso**, the new BMW series 5 and Audi A6 with **P7**, and the Porsche Cayenne, VW Touareg, and Range Rover with **Scorpion Zero**, as well as the immediate success of the new **P Zero Corsa** (on the Ferrari 360 Challenge Stradale, Porsche GT2 and GT3) and **Scorpion STR** (on the Ford Excursion and F-Series for the U.S., the new BMW X3).

During the first six months of 2003, intensive efforts were made to improve and innovate the product portfolio, through the major international launch of new lines, with different characteristics according to the performance application and the various geographical areas.

At the Detroit Motor Show, in the U.S.A., a record number of vehicles were using Pirelli products as Original Equipment. The brand new Scorpion STR, launched in Atlanta for the

SUV segment and the latest generation of 4x4s, presented the homologations on the prestigious Ford pick-ups, Maserati unveiled the design of the Kubang with Scorpion Zero tyres, while the ultra-low P Zero was present on the Saleem Mustang and S7 super-cars. In addition, in order to demonstrate the high level of performance of the HP P6 Four Seasons line presented last year and destined for North America, homologations were present on the high-performance Lincoln, Mercury and Ford sedans.

In Atlanta, besides the new Scorpion STR, P Zero Corsa also made its debut. The P Zero Corsa is the top-of-the-range of high-performance ultra-low street tyres, designed for people who also want to use their sports car on the race track. The P Zero Corsa is also available in the System option, with a directional tread pattern on the front and an asymmetrical tread pattern on the rear. The P Zero Corsa made its debut at the Geneva International Motor Show with the Ferrari Challenge Stradale, a car deriving directly from the experience of the Ferrari Challenge Championships – Pirelli Trophy and from the Ferrari 360 GT competing with the Pirelli tyres in the FIA-GT Championship.

It should also be mentioned that Pirelli Tire North America received the “Robots&Vision User Recognition Award” 2003 for the MIRS process, which, at the Rome factory in Georgia, manufactures the UHP PZero Nero M+S line, the North American version of the supersport tyre P Zero Nero, and the Scorpion Zero, destined for use on SUVs and the most powerful pick-ups available today in the United States.

In the SUV segment, in addition to the Scorpion STR, the new Scorpion Zero Asimmetrico was presented. This is the top product of the Scorpion range devoted to a market niche in rapid expansion and to high contribution margins with diameters measuring 22” - 23” - 24”.

In the UHP segment, the new P Zero Nero M+S was introduced. This tyre meets the North American demand for greater comfort and lower fuel consumption, without compromising handling performance, or braking on dry or wet road surfaces, typical of Pirelli UHP products.

In addition, efforts continued to improve the quality of the sales approach to our clientele through the constant implementation of the new tools and methodologies of Customer Relationship Management (from the new Contact Center being launched on the leading European markets to the consolidation of e-business and B2B projects which have been

operating already for some time in all areas), in order to supply markets with answers that are ever-more efficient and effective with regard to consumers' new needs.

### **Motorcycle Business Unit**

During the first half of 2003, Motorcycle sales increased in volume and in amount. Market growth was somewhat restrained compared to the same period of the prior year, although in the high-performance supersport segments, the trend continued in a very positive way.

The countries which contributed most to growth were Italy, France, Great Britain, Spain, the United States and South America.

In addition, Pirelli improved its market share both in Europe and the United States, particularly in the radial supersport segments.

As far as demand for Original Equipment for Motorcycles is concerned, the fall recorded in Japan was more than compensated by the excellent performance in Europe and the positive trend in South America.

With regard to scooters, there was significant growth in both channels, with an improvement in the market share in the Replacements Channel.

In the racing segment, by mid-season Pirelli was at the top of the tables in the Supersport 600 and Motocross GP World Championships, and had already won the Enduro World Championship in the 250 cc class.

With regard to process innovation, in Milan at the Bicocca factory, the first motorcycle-tyre production-plant based on the revolutionary MIRS (Modular Integrated Robotized System) process was presented to the international Press. The result of an investment of Euros 10 million and integrated with the innovative CCM compound production system, the MIRS Motorcycle tyres plant is at the start-up phase at the factory in Breuberg in Germany. The first product to be manufactured with this process, the new Diablo Corsa in the top-of-the-range segment, known as "Racing&Street", was presented to the Press at Monza, where its performance in extreme driving on track was demonstrated.

## **INDUSTRIAL MARKET**

### **Truck Business Unit**

During the first half of 2003, the Truck Business Unit showed an increase of 11 percent compared to the same period of 2002.

Trends in the various markets were as follows:

- a recovery in Europe with a steady share of the market;
- in Turkey, uncertainties associated with the war in Iraq affected the market, with a reduction of 10 percent; despite this, Pirelli succeeded in increasing its market share;
- sales in Egypt struggled to hold their ground, as a result of the uncertainty already mentioned during the early months of 2003 and the structural lack of sustainable currency;
- a significant increase in sales posted in delegated markets (+60 percent);
- substantial growth recorded in South America (+11 percent), with market recovery in Argentina and increased sales in the markets of Central America.

During the first half of 2003 new products were introduced for the “HR” segment: the ultra-low Supersingle – the standard tyre used for regional transportation – and a range of products for more problematic applications for South America in the On/Off segments.

### **Steelcord Business Unit**

In 2003, the world Steelcord market is reporting an increase of 2 percent compared to the prior year, led especially by emerging markets such as China, Eastern Europe and South America. Mature markets (such as Western Europe and Nafta) remain stable.

There was a positive trend in the demand for hosewire, which showed a slight increase compared to the prior year.

In this general scenario, Steelcord Business Unit closed the first half of 2003 with an increase in sales, as a result of the consolidation of our share in Continental and the volumes generated by Pirelli.

From the industrial standpoint, the two low-cost factories in Turkey and Brazil expanded their productive capacity and reported improved performance compared to the first half of 2002 as a result of increased production volumes and constant attention to variable and fixed costs.

### **Outlook for the current year**

The economic scenario in the second half of 2003 remains uncertain. In the United States, expansive monetary and fiscal policies and a more favorable exchange rate should result in a recovery of production activities. However, growth in 2003 will not exceed that of 2002. In Europe, too, a moderate growth is expected for the second consecutive year. In Japan, the phase of substantial stagnation is expected to continue. With regard to Brazil and Argentina, political stability may help to overcome the difficulties encountered recently.

Growth in the leading world economies should become higher in 2004, as the result of a resumption in investments and the gradual recovery in private consumption.

In this not particularly positive market context, the Tyres Sector expects to continue the positive growth trend of the first half of the year, albeit attenuated by the seasonal nature of the reference markets, with lower growth in the second half of the year.

## **REAL ESTATE SECTOR**

Pirelli & C. Real Estate is a management company which invests in real estate primarily by participating with minority stakes in qualified initiatives and taking over their management (Asset Management activities) and also providing them and third-party clients with a wide range of property services (Service Provider activities).

The consolidated financial statements for the six months ended June 30, 2003 show a consolidated net income from real estate operations of Euros 40.3 million, compared to Euros 32 million for the first half of 2002, with a growth of 25.9 percent. In the corresponding period of 2002, the consolidated net income including other components, largely connected with the sale of the last portion of ex-Unim securities in portfolio, was equal to Euros 71.4 million.

### **Major events in the first half**

A new series of important transactions was carried out by the Pirelli & C. Real Estate group which are listed below:

- The group continued to purchase mainly residential property portfolios, finalizing deeds of purchase for 13 buildings located in Milan, Naples, Varese and Lecco, and other portions of buildings located in various Italian provinces. The total purchase value of the buildings amounted to Euros 110.9 million, in addition to the Euros 41.7 million of properties located in Naples and purchased through the company Geolidro. During the first half, the group also won the bid under a judiciary auction for some residential properties located in the province of Pordenone, for a total value of Euros 4.5 million. Ownership of the buildings will be acquired when the relative decree is issued by the qualified judge.

- In February, the group filed an application, with other partners, in order to be admitted to the bidding arranged by the state properties agency for taking an administrative and technical consensus of state property.
- Again in February, Pirelli & C. Real Estate won, with other partners, the bid for the management and revision of computer services for Public Education. The contract will be valid for five years and renewable for another two and is worth about Euros 200 million. Facility management will be provided by Pirelli & C. Real Estate.
- On March 3, the group, jointly with the Goldman Sachs and Morgan Stanley Funds, presented a non-binding offer in the ENEL group's bid to sell Enel Real Estate S.p.A., which comprises a portfolio of over 1,300 buildings mainly for office and industrial use located throughout the national territory and the dedicated staff for the management of the same buildings. The group passed the first selection stage and has been admitted to the next stage which required the formulation of a second non-binding offer that was presented on April 14; the consortium was admitted to the due diligence which is still in progress.
- In March, the sale to the Deka real estate fund group was completed for four prestigious buildings located in the center of Milan, mainly destined for office use, with an overall space of more than 30,000 m<sup>2</sup>. The properties were part of the portfolio purchased from RAS in 2002. The deal is worth some Euros 130 million, with a gross capital gain of about Euros 20 million, of which Euros 6.6 million is attributable to Pirelli & C. Real Estate.
- At the end of March, MSMC Immobiliare Due, a company in which Pirelli & C. Real Estate indirectly has a 25 percent stake (the remaining 75 percent interest is owned by companies in the Morgan Stanley Real Estate Fund group), sold the 50 percent investment in the share capital of Prime Properties S.r.l. to Aedes S.p.A., which already owned the other 50 percent interest. Prime Properties S.r.l. is a company

which owns a portfolio of properties worth about Euros 150 million located in Milan and Rome. The sale was for an amount of Euros 25 million. This generated a gross statutory gain of some Euros 7.7 million, of which Euros 2 million is attributable to Pirelli & C. Real Estate.

- On March 31, Pirelli & C. Real Estate and The Peabody Fund (joint venture between O'Connor Capital Partners and JP Morgan-Chase) reached an agreement for the development of two new initiatives in the retail & entertainment segment. In keeping with the group's customary business model, Pirelli & C. Real Estate, which will hold a qualified minority stake in the investment (equal to 25 percent), will act as the manager through asset management activities and provide specialist services. The understanding between Pirelli & C. Real Estate and The Peabody Fund refers to initiatives for entertainment centers, on which Pirelli & C. Real Estate has already started construction, in Milan (Bicocca Area) and Turin (Moncalieri), for a total investment of approx. Euros 200 million.
- At the beginning of April, Pirelli & C. Real Estate and Olivetti defined – according to agreements regarding Progetto Tiglio – the terms for the integration of the facility management businesses owned by Olivetti Multiservices and Pirelli & C. R.E. Facility Management. The deal calls for Pirelli & C. Real Estate to assign treasury shares to Olivetti, which will contribute its facility business, valued at a total of Euros 22.5 million and concentrated in a specific company known as OMS Facility. As a result of this transaction, in addition to other transactions for purchases in 2002 of Altair Facilities Management, Cam Energia e Servizi and the RAS Service Division, Pirelli & C. Real Estate created a new entity that will be positioned among the leading facility management companies in Italy, thanks to sales volumes which, when fully functioning, will be approx. Euros 150 million.
- On April 28, upon the issue of securities for a total of Euros 79.4 million, which have already been fully placed, the securitization was concluded for a portfolio of non-

performing mortgage loans with a book value of Euros 200 million, held by CFT Finanziaria, a company owned by the Pirelli & C. Real Estate group and Cassa di Risparmio di Firenze (with mutual 47-percent stakes) and by Cassa di Risparmio di San Miniato (with a 6 percent stake). The Pirelli & C. Real Estate group acted as the portfolio servicer in the transaction through the subsidiary Pirelli R.E. Credit Servicing.

- At the end of June, the group sold a new retirement residence in Bollate worth Euros 10.4 million to Investietico, the first closed ethical real estate fund by Banca Popolare di Milano. The entire deal, the first by Pirelli & C. Real Estate in the social services sector, was conducted by the Health Asset Management division of Pirelli & C. Real Estate, which, by taking advantage of the contribution of the project management and agency companies of the group, in the space of 18 months was able to build the structure, identify a health manager and finally sell the building to a leading ethical mutual fund.
- Again at the end of June, Pirelli & C. Real Estate signed a contract with Morgan Stanley, directed not only to the expansion of the team but also to the extension of the range of action of the existing joint venture, which over the years has built up a portfolio of properties for office use worth over Euros 6 billion. In the next three years, besides participating in the bids currently in progress, the joint venture expects to commit approx. Euros 400 million in equity which will permit new investments both for the portfolios and for the development initiatives for office use amounting to an overall sum of more than Euros 1,500 million, using the customary combination of equity and non-recourse loans which distinguish the company's property investments. The joint venture will also be involved – for the office development part – in a pool headed by Pirelli & C. Real Estate which will participate in the international bid for the sale and requalification of the Fiera Milano urban hub.

## Economic review

in millions of euros

	1 <sup>st</sup> half 2003	1 <sup>st</sup> half 2002
<b>Aggregate production value, net of acquisitions</b>	<b>693.0</b>	<b>480.7</b>
<b>Consolidated production value</b>	<b>282.2</b>	<b>216.9</b>
<b>Operating profit including the share of earnings (losses) of equity investments</b>	<b>53.3</b>	<b>42.0</b>
<b>Income before extraordinary items</b>	<b>53.2</b>	<b>40.3</b>
<b>Net income from real estate operations -attributable</b>	<b>40.3</b>	<b>32.0</b>
Other components (*)	-	39.4
Net income attributable	40.3	71.4

(\*) Connected almost entirely with the sale of the last portion of the securities from the ex-Unim portfolio.

In the description of the economic and financial highlights that follows, it is important to remember that Pirelli & C. Real Estate is a management company which invests in real estate primarily by participating with minority stakes in qualified initiatives and completely taking over their management. Therefore, aggregate production value, net of acquisitions and the operating profit (loss) including the share of earnings (losses) of equity investments are the most significant indicators that express the business volumes managed and the trend in results at the operating level.

Aggregate production value, net of acquisitions, amounts to Euros 693 million, with a growth of 44.2 percent compared to Euros 480.7 million for the first half of 2002. Consolidated production value alone for the first half ending June 30, 2003 is Euros 282.2 million, compared to Euros 216.9 million in 2002 (+30.1 percent).

The operating profit (loss) including the share of earnings (losses) of equity investments is a profit of Euros 53.3 million, compared to Euros 42 million for the first half of 2002 (+26.9 percent). Contributing to this result is the share of earnings (losses) of equity investments, net of income taxes, of Euros 23.7 million, an increase of 83.7 percent compared to Euros 12.9 million in the prior year.

The attributable consolidated net income from real estate operations is Euros 40.3 million, compared to Euros 32 million for the first half of 2002, with a growth of 25.9 percent. In the corresponding period of 2002, the consolidated net income of Euros 71.4 million included Euros 39.4 million that was largely connected with the sale of the last portion of securities from the ex-Unim portfolio. ROE, on an annual basis to June 30, 2003, is equal to 22 percent.

### **Balance sheet review**

(in millions of euros)	<b><u>June 30, 2003</u></b>	<b><u>December 31, 2002</u></b>	<b><u>June 30, 2002</u></b>
<b>Fixed assets</b>	<b>252.9</b>	<b>218.8</b>	<b>182.2</b>
including investments accounted for using the equity method	118.2	109.1	101.0
<b>Net working capital</b>	<b>234.5</b>	<b>190.5</b>	<b>232.7</b>
including inventories	362.5	383.7	396.8
<b>Net invested capital</b>	<b>487.4</b>	<b>409.3</b>	<b>414.9</b>
<b>Shareholders' equity</b>	<b>360.2</b>	<b>368.8</b>	<b>315.3</b>
including minority interest	0.4	0.9	1.4
<b>Provisions</b>	<b>55.8</b>	<b>52.8</b>	<b>44.8</b>
<b>Net financial (liquidity)/debt position</b>	<b>71.4</b>	<b>(12.3)</b>	<b>54.8</b>
including cash/short-term financial assets	(112.1)	(74.2)	(71.3)
including financing from shareholders	(177.9)	(179.0)	(212.7)
including other medium/long-term assets	(0.2)	(0.2)	(0.2)
including short-term financial payables	161.2	31.2	322.4
including medium/long-term financial payables	200.4	209.9	16.6
<b>Total net invested capital financed</b>	<b>487.4</b>	<b>409.3</b>	<b>414.9</b>

Attributable shareholders' equity at June 30, 2003 is Euros 359.8 million compared to Euros 367.9 million at the end of 2002. The reduction of Euros 8.1 million is mainly due to the difference between dividends paid (Euros 48.7 million) and the net income for the period (Euros 40.3 million).

The net financial position shows a net debt position of Euros 71.4 million, compared to a net debt position of Euros 54.8 million at June 30, 2002 and a liquidity position of Euros 12.3 million at the end of 2002. The change from December 31, 2002 is primarily due to investing activities, the payment of dividends and the increase in net working capital where the increase is nevertheless lower than the increase in revenues.

The net financial position expressed before financing made to minority-owned companies is also a net debt position of Euros 249.3 million compared to a net debt position of Euros 267.5 million at June 30, 2002 and a net debt position of Euros 166.7 million at the end of 2002. The gearing ratio is about 0.7 compared to 0.5 at December 31, 2002.

Fixed assets total Euros 252.9 million, compared to Euros 218.8 million recorded at the end of 2002, with an increase of Euros 34.1 million.

The increase in both property, plant and equipment and intangible assets is largely due to additions to the scope of consolidation from the new acquisitions in the Facility Management area. The increase in equity investments, instead, can be traced to new initiatives by the Asset Management division (Residential, Services and Building Loans).

Net working capital is equal to Euros 234.5 million, compared to Euros 190.5 million at the end of 2002. The increase in working capital reflects, in relation to the Group's expansion, an increase in trade accounts receivable that is higher than the increase in trade accounts payable, partly due to the extinguishment of significant amounts of debt to suppliers of buildings.

### Net Asset Value

Taking into account the shareholders' equity of Euros 359.8 million, in addition to the share of the implicit gross gain of Euros 692.4 million on the carrying value of the assets, the Net Asset Value of the company at June 30, 2003 is equal to Euros 1,052.2 million. Such amount does not take into consideration the service business and the asset management fees, which in the first half of 2003 generated an operating profit of Euros 27.5 million.

### Subsequent events

- On July 21, 2003, Pirelli & C. Real Estate S.p.A., after receipt of approval from Banca d'Italia and the Antitrust Authority, finalized the purchase, from Lazard Investments for a sum of Euros 2.3 million, of 100 percent of the capital of an Sgr, and then changed its name to Pirelli & C. Real Estate S.g.r. S.p.A..

The new company will be engaged in the promotion, institution and management of real estate mutual funds directed towards both retail and institutional investors.

The deal falls under the strategic objective of the group that would place, alongside the traditional asset management business (co-investor with qualified minority stakes in short- and medium-term initiatives) and the service provider operations, a long-term investment and management activity. This activity will evolve from specialized real estate funds set up by type of product, also by contributions, characterized by the high stability of the investment, that will be developed over a period of 7 – 13 years. The first two funds that will be offered by the Sgr company will consist of office buildings and will be worth between Euros 600 million and Euros 850 million each.

- On July 15, 2003, the Genoese Local Health Agency (ASL) 3 approved the plan to build the new Vallata Hospital in the city of Genoa under a project financing

arrangement. The architectural and financial project, proposed by Pirelli & C. Real Estate and declared by the same ASL to be of public interest, will be put up for bid, using the most economically advantageous offer as the selection criteria, to identify the party best able to build the hospital. The initiative, which is part of the health reorganization plan for the metropolitan Genoa area, is the first in Italy to take advantage of the potential deriving from the recent changes to the so-called Merloni Quater law (Law 109/94), so that project financing can be used in the public service sectors. Pirelli & C. Real Estate – one of the few operators in Italy today able to combine project and facility management specialist expertise with the building finance know-how needed to develop complex financial transactions – presented a project last December to build and manage (non-health) the new hospital for a period of 30 years.

- On July 16, 2003, the Pirelli & C. Real Estate (25 percent) - Morgan Stanley Real Estate Funds (75 percent) joint venture won the bid for the purchase of a part of the non-essential real estate properties of the Fondiaria-SAI group for Euros 980 million. The portfolio in question consists of 87 buildings mainly used by services sector for an area of about 460,000 m<sup>2</sup> located mainly in Milan, Florence and Rome. The preliminary purchase contract was signed on July 30, 2003, while the closing is scheduled for the end of October. At the beginning of August, the Pirelli & C. Real Estate (25 percent) - Morgan Stanley Real Estate Funds (75 percent) joint venture signed an agreement with Alerion Industries for the sale of approx. 20 percent of the real estate portfolio acquired in the spin-off of the Fondiaria-SAI group. The portfolio covered by the agreement consists of 19 buildings located mainly in Milan and Rome and are worth some Euros 200 million.
- On July 21, 2003, in execution of the framework agreement signed on December 23, 2002, the areas zoned for building were concentrated in a single vehicle in which the areas divested by the Marzotto group had already been transferred. The total value of the assets is approx. Euros 200 million, and the building space is more than 3 million

m<sup>3</sup>. The concentration of the areas in a single dedicated company will, during the first stage, make it possible to streamline the urbanistic bureaucratic procedures and, in the second stage, to specifically and efficiently leverage the net asset value by the asset management units of the group specialized by product line.

- Pirelli & C. Real Estate has continued the work to strengthen and optimize the structures of specialist services offered by wholly-owned subsidiaries which, together with the asset management business, constitute the group's integrated and innovative business model.

At the end of July, in fact, a deed of merger was signed for the incorporation of Pirelli & C. Real Estate Agenzia Residenziale S.p.A. and Progetti Creativi S.r.l. (retail sector) in Pirelli & C. Real Estate Commercial Agency S.p.A. and the merger by incorporation was completed with regard to the activities of Olivetti Multiservices in Pirelli & C. Real Estate Facility Management S.p.A..

### **Outlook for the current year**

On the basis of available information, a growth in the results of the real estate operations compared to the prior year can reasonably be expected for 2003.

**PIRELLI & C. AMBIENTE S.P.A.**

Pirelli & C. Ambiente reported a loss of Euros 1 million for the first half ending June 30, 2003 compared to a loss of Euros 0.6 million for the first six months of 2002.

During the first half, the company continued its activities in the field of renewable energy sources through the production of a quality fuel derived from waste (CDR-P) for the start of renewable energy development through the replacement of primary fossil fuels. Through the 49 percent-owned company project “IDEA Granda S.Cons.R.L.”, headquartered in the province of Cuneo, during the first six months of 2003, production started on CDR-P for use as the quality fuel in a Buzzi-Unicem Group cement plant also located in the province of Cuneo.

## 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 the investment in Telecom Italia S.p.A.**

Proforma consolidated financial data at June 30, 2003 of Pirelli & C. 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 the investment in Telecom Italia S.p.A..

	Consolidated financial statements at 6/30/2003 Pirelli & C. S.p.A. (1)	Proforma adjustments			Total proforma adjustments	Proforma consolidated financial data at 6/30/2003 Pirelli & C S.p.A. proforma (2)
		Elimination of Olimpia S.p.A. net result attributable to Pirelli & C. S.p.A. (50.4%)	Olimpia S.p.A. line-by-line consolidation	Consolidation adjustments and valuation of investment in Telecom Italia S.p.A. using the equity method		
<i>(in millions of euros)</i>						
<b>Condensed Statement of Income</b>						
Net sales	3,298		0		-	3,298
Operating profit	142		0		-	142
Financial income (expenses)/ Valuation adi. to financial assets	(96)	43	(74)	(32)	(63)	(159)
Extraordinary items	(2)		(4)		(4)	(6)
Income taxes	(65)		0		-	(65)
Net income (loss)	(21)	43	(78)	(32)	(67)	(88)
Net income (loss) - Pirelli S.p.A.	(36)	43	(43)	(16)	(16)	(52)
Goodwill amortization effect	1			158	158	159
Net income (loss) (excluding goodwill amortization)	(20)	43	(78)	126	91	71
Net income (loss) - Pirelli S.p.A. (excluding goodwill amortization)	(35)	43	(43)	64	64	29
<b>Reclassified Balance Sheet</b>						
Fixed assets	5,563	210	8,930	(5,755)	3,385	8,948
Net working capital	1,022	-	51	-	51	1,073
Total net invested capital	6,585	210	8,981	(5,755)	3,436	10,021
Financed by:						
Shareholders' equity	3,799	210	5,806	(5,755)	261	4,060
- of which shareholders' equity - Pirelli S.p.A.	3,499	210	2,926	(4,448)	(1,312)	2,187
Provisions	1,188	-	0	-	-	1,188
Net financial (liquidity)/debt position	1,598	-	3,175	-	3,175	4,773

(1) Pirelli & C. 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 Telecom Italia S.p.A.)

The proforma consolidated financial data has been prepared using the statutory financial statements of Olimpia S.p.A. at June 30, 2003 and the consolidated financial statements of the Telecom Italia 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 & C. S.p.A. (50.4%)”: elimination of the statement of income and balance sheet effects of valuing Olimpia S.p.A. with the equity method in the Pirelli & C. S.p.A. consolidated financial statements at June 30, 2003;
- 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, 2003 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 Telecom Italia S.p.A. using the equity method”: inclusion of the effect of accounting for Telecom Italia S.p.A. using the equity method, giving rise to a negative valuation adjustment of Euros 32 million, of which Euros 110 million relates to the amortization of implicit goodwill for six months out of a total twenty-year period, and Euros 78 million to Olimpia S.p.A.’s share of the first-half 2003 results of the Telecom Italia Group.

In order to represent the diluting effect of Euros 2,250 million deriving from the reduction of Olimpia S.p.A.’s percentage holding in Telecom Italia S.p.A. following the merger of Olivetti and Telecom Italia, from 28.5 percent at December 31, 2002 to 7.4 percent (referring to the total of capital issued) at June 30, 2003, the amount was directly deducted from shareholders’ equity.

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

- in the column “Consolidated financial statements at June 30, 2003 Pirelli & C. S.p.A.”, the amount of Euros 1 million refers to the amortization charge for six months on the goodwill booked by Pirelli & C. S.p.A. in respect of Olimpia S.p.A.;
- in the column “Consolidation adjustments and valuation of investment in Telecom Italia S.p.A. using the equity method”, the amount of Euros 158 million includes Euros 110 million for the goodwill booked by Olimpia S.p.A. in respect of Telecom Italia S.p.A. and Euros 48 million for the original goodwill booked by Olivetti S.p.A. in 1999 in respect of Telecom Italia S.p.A..

A comparison of shareholders’ equity and net debt between the consolidated financial statements of Pirelli & C. S.p.A. and the proforma consolidated financial data of Pirelli & C. S.p.A. at June 30, 2003 and December 31, 2002 is presented below, assuming:

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

<i>(in millions of euros)</i>	Shareholders' equity		Net debt		Net debt/Shareholders' equity		Shareholders' equity - Pirelli & C. S.p.A.	
	6/30/2003	12/31/2002	6/30/2003	12/31/2002	6/30/2003	12/31/2002	6/30/2003	12/31/2002
Pirelli & C. S.p.A. Group: consolidated financial statements	3,799	4,626	1,598	2,050	0.42	0.44	3,499	1,933
Pirelli & C. S.p.A. Group: proforma consolidated data with Olimpia S.p.A. consolidated line-by-line and Telecom Italia S.p.A. valued using the equity method	4,060	6,121	4,773	5,726	1.18	0.94	2,187	1,817
Pirelli & C. S.p.A. Group: proforma consolidated data with Olimpia S.p.A. and Telecom Italia Group	22,991	23,428	42,217	39,125	1.84	1.67	2,187	1,817

**PIRELLI & C. S.p.A.**

As described in the introduction, in order to provide greater information on the new circumstances of the Parent Company, in the six-months report at June 30, 2003, the financial statements of Pirelli & C. S.p.A. include the economic and balance sheet effects deriving from the merger by incorporation of Pirelli S.p.A. and Pirelli & C. Luxembourg S.p.A., which gave rise to a merger surplus of Euros 2,164.1 million, of which Euros 1,800.5 million came from the exchange and Euros 363.6 million from the cancellation.

Pirelli & C. S.p.A. closed the first half of 2003 with a loss of Euros 43.9 million compared to a net income of Euros 126.4 million in the first half of 2002.

The income statement is summarized as follows:

(in millions of euros)			
INCOME STATEMENT	1st half 2003	1st half 2002	Year 2002
Financial income (expenses)	(27.2)	5.9	13.2
Dividends and tax credits	4.4	31.3	83.4
Valuation adjustments to financial assets	-	-	(134.4)
Other operating income (expenses)	(3.3)	(5.3)	(8.9)
<b>Income before extraordinary items and income taxes</b>	<b>(26.1)</b>	<b>31.9</b>	<b>(46.7)</b>
Extraordinary items	(18.3)	131.2	139.6
Income taxes	0.5	(36.7)	(32.7)
<b>Net income (loss)</b>	<b>(43.9)</b>	<b>126.4</b>	<b>60.2</b>

An analysis of the major items of the income statement shows a higher net expense balance of financial income (expenses) principally as a result of higher indebtedness acquired in the merger of Pirelli S.p.A. and Pirelli & C. Luxembourg S.p.A..

Dividends also decreased, mainly due to lower dividends received from subsidiaries (Euros 29.8 million) and other companies (Euros 1.4 million), partly compensated by the effect of dividends received during the first half of 2003 by the merged company Pirelli S.p.A. (Euros 4.3 million).

Net operating expenses show a reduction principally due to the economic effect deriving from the allocation of the exchange surplus on the merger to intangible assets and property, plant and equipment which led to lower amortization and depreciation charges of Euros 2.3 million, partly offset by the net operating expenses of the merged companies.

Extraordinary items show an expense balance of Euros 18.3 million, of which Euros 18 million refers to costs incurred for the merger by incorporation of Pirelli S.p.A. and Pirelli & C. Luxembourg S.p.A.. In the corresponding period of the prior year, extraordinary items showed an income balance (Euros 131.2 million) that referred mainly to the gain on the placement of a part of the investment in the company Pirelli & C. Real Estate S.p.A. on the stock market.

The changes in the balance sheet, taking into account the balance sheet effects of the merged companies at June 30, 2003, are summarized as follows:

(in millions of euros)					
BALANCE SHEET	6/30/2003			12/31/2002	6/30/2002
	Pirelli & C. S.p.A.	Pirelli S.p.A. and Pirelli & C. Luxembourg S.p.A. merger effect	Pirelli & C. S.p.A. post- merger		
Intangible assets	6.8	7.6	14.4	0.0	0.1
Property, plant and equipment	24.1	32.9	57.0	24.5	24.8
Financial assets	797.8	3,449.3	4,247.1	759.5	872.6
Net working capital	0.7	17.7	18.4	52.7	(13.1)
	<b>829.4</b>	<b>3,507.5</b>	<b>4,336.9</b>	<b>836.7</b>	<b>884.4</b>
Shareholders' equity	1,856.3	1,317.1	3,173.4	1,265.0	1,331.1
Provisions	17.0	402.7	419.7	17.4	16.4
Net financial (liquidity)/debt position	(1,043.9)	1,787.7	743.8	(445.7)	(463.1)
	<b>829.4</b>	<b>3,507.5</b>	<b>4,336.9</b>	<b>836.7</b>	<b>884.4</b>

Intangible assets show an increase due not only to the described effect deriving from the merger by incorporation of Pirelli S.p.A. (corresponding to the intangible assets of the aforementioned company net of the effect of the allocation of a part of the exchange surplus on the merger), but to the capitalization of the expenses referring to the Pirelli & C. S.p.A. capital increase.

As far as property, plant and equipment are concerned, excluding the effect deriving from the above-mentioned merger (corresponding to the assumption of the net value of the buildings of Pirelli S.p.A., less the effect of the allocation of a part of the exchange surplus on the merger), there were no other significant movements.

Long-term investments went from Euros 759.5 million at December 31, 2002 to Euros 4,247.1 million at June 30, 2003.

The effect of the merger (Euros 3,449.3 million) includes the equity investments and treasury shares of Pirelli S.p.A. (Euros 5,665.5 million) and the equity investments of Pirelli

& C. Luxembourg S.p.A. (Euros 1,202.1 million), net of the effect of eliminating the equity interest of the acquiring company in the merged companies and the equity interest of Pirelli & C. Luxembourg S.p.A. in Pirelli S.p.A. (Euros 1,799.1 million) and the treasury shares in portfolio of Pirelli S.p.A. (Euros 435.6 million) and the effect of the allocation of a part of the exchange surplus on the merger (Euros 1,183.6 million).

During the period, Pirelli & C. A.p.A. purchased Pirelli S.p.A. ordinary shares (Euros 43.3 million) from the BZ Group.

Net working capital, excluding the effect of the merger for Euros 17.7 million (corresponding to the receivables and payables of the merged companies and the elimination of receivable and payable balances between them), amounts to Euros 0.7 million compared to Euros 52.7 million at December 31, 2002. The reduction of Euros 52 million is mainly due to the receipt of dividends from Group companies recorded on the accrual principle at December 31, 2002 (Euros 31.4 million), higher payables deriving from expenses inherent to the merger and capital increase expenses (Euros 20.7 million).

The change in shareholders' equity can be summarized as follows:

	(in millions of euros)
<b>Shareholders' equity at December 31, 2002</b>	<b>1,265.0</b>
Dividend payments	(41.9)
Share capital increase	812.2
Exercise of withdrawal rights	(162.6)
Merger effect	
- Capital increase from exchange ratio	715.2
- Exchange surplus on the merger	1,800.5
- Allocation of the exchange surplus on the merger	(1,534.7)
- Cancellation surplus on the merger	363.6
- Pirelli S.p.A. net loss 1/1-6/30/03	(15.8)
- Pirelli & C. Luxembourg S.p.A. net loss 1/1-6/30/03	(14.0)
- Economic effect of the allocation of the exchange surplus on the merger	2.3
Total merger effect	1,317.1
Pirelli & C. S.p.A. net loss 1/1-6/30/03	(16.4)
Total change during period	1,908.4
<b>Shareholders' equity at June 30, 2003</b>	<b>3,173.4</b>

The provisions displayed no significant variations, excluding the effect of the merger, which principally refers to the assumption of the provisions of Pirelli S.p.A. (Euros 66.9 million) and the allocation of a part of the exchange surplus on the merger (Euros 335.8 million) to cover the risks on Pirelli Cavi e Sistemi Telecom S.p.A. (Euros 102.8 million) and on the put options granted to the shareholder banks of Olimpia S.p.A. under the Olimpia S.p.A. shareholder agreements (Euros 233 million).

Net cash went from Euros 445.7 million at December 31, 2002 to net borrowings of Euros 743.8 million at June 30, 2003, with a change of Euros 1,189.5 million which can be summarized as follows:

	(in millions of euros)
Funds provided by operations	36.9
Increase in share capital and reserves	812.2
Exercise of withdrawal rights	(162.6)
Sale of equity investments	4.9
Investments in intangible assets and property, plant and equipment	(7.7)
Investments in equity investments	(43.6)
Dividend payments	(41.9)
Merger:	
Net debt of Pirelli S.p.A.	(756.4)
Net debt of Pirelli & C. Luxembourg S.p.A.	(1,031.3)
<b>Total changes</b>	<b>(1,189.5)</b>

The Board of Directors

Milan, September 5, 2003

**PIRELLI GROUP**

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

(in thousands of euros)

<b>CONSOLIDATED BALANCE SHEETS</b>	June 30, 2003	December 31, 2002	June 30, 2002
<b>A) CAPITAL SUBSCRIPTION RIGHTS</b>			
Portion not called up	2,442	-	-
<b>B) FIXED ASSETS</b>			
<b>I) INTANGIBLE ASSETS</b>			
Formation costs	15,885	10,616	6,759
Patents and design patent rights	2,395	4,048	4,875
Concession, licenses, trademarks and similar rights	7,157	12,362	8,268
Goodwill	63,158	39,912	18,650
Difference on consolidation	417,820	508,269	521,039
Intangible assets in progress and payments on account	8,941	4,656	16,181
Other intangible assets	52,122	82,139	85,093
<b>TOTAL INTANGIBLE ASSETS</b>	<b>567,478</b>	<b>662,002</b>	<b>660,865</b>
<b>II) PROPERTY, PLANT AND EQUIPMENT</b>			
Land and buildings	698,507	667,363	660,863
Plant and machinery	1,063,414	1,229,889	1,184,271
Industrial and commercial equipment	130,335	134,647	125,397
Other property, plant and equipment	94,635	173,332	171,892
Assets under construction and advances to suppliers	218,465	201,175	438,574
<b>TOTAL PROPERTY, PLANT AND EQUIPMENT</b>	<b>2,205,356</b>	<b>2,406,406</b>	<b>2,580,997</b>
<b>III) FINANCIAL ASSETS</b>			
Investments in:			
a) Subsidiaries	7,023	646	507
b) Jointly controlled subsidiaries	2,256,221	3,000,888	3,096,598
c) Associated companies	156,104	157,868	158,497
d) Other companies	279,311	282,677	357,265
Financial receivables:			
a.1) Subsidiaries due within 1 year	-	9,092	52,917
a.2) Subsidiaries due beyond 1 year	14,662	14,662	-
b.1) Associated companies due within 1 year	69	165,911	171,381
b.2) Associated companies due beyond 1 year	174,077	5	-
c.1) Other companies due within 1 year	8,286	2,466	2,373
c.2) Other companies due beyond 1 year	65,461	69,901	66,882
Other securities	91,547	85,803	105,296
Treasury shares	4,678	4,678	4,678
<b>TOTAL FINANCIAL ASSETS</b>	<b>3,057,439</b>	<b>3,794,597</b>	<b>4,016,394</b>
<b>TOTAL FIXED ASSETS</b>	<b>5,830,273</b>	<b>6,863,005</b>	<b>7,258,256</b>

(in thousands of euros)

CONSOLIDATED BALANCE SHEETS	June 30, 2003	December 31, 2002	June 30, 2002
<b>C) CURRENT ASSETS</b>			
<b>I) INVENTORIES</b>			
Raw materials, auxiliaries and consumables	247,107	257,246	277,158
Work in process and semifinished products	330,828	302,979	355,949
Contract work in progress	185,867	161,465	137,882
Finished products and goods for resale	499,203	539,325	565,822
Advances	9,051	22,199	14,327
<b>TOTAL INVENTORIES</b>	<b>1,272,056</b>	<b>1,283,214</b>	<b>1,351,138</b>
<b>II) RECEIVABLES</b>			
Trade	1,454,420	1,355,815	1,718,671
Subsidiaries	40,221	3,930	1,037
Associated companies	181,186	100,192	97,894
Other receivables	574,231	622,467	772,949
<b>TOTAL RECEIVABLES</b>	<b>2,250,058</b>	<b>2,082,404</b>	<b>2,590,551</b>
<b>III) CURRENT FINANCIAL ASSETS</b>			
Other securities	235,912	198,652	394,068
<b>TOTAL CURRENT FINANCIAL ASSETS</b>	<b>235,912</b>	<b>198,652</b>	<b>394,068</b>
<b>IV) CASH AND BANKS</b>			
Bank and postal deposits	495,411	380,370	501,534
Checks	15,557	2,027	4,453
Cash on hand	1,454	2,722	2,377
<b>TOTAL CASH AND BANKS</b>	<b>512,422</b>	<b>385,119</b>	<b>508,364</b>
<b>TOTAL CURRENT ASSETS</b>	<b>4,270,448</b>	<b>3,949,389</b>	<b>4,844,121</b>
<b>D) ACCRUED INCOME AND PREPAID EXPENSES</b>			
Accrued income	65,580	42,337	69,149
Prepaid expenses	42,571	42,594	45,885
<b>TOTAL ACCRUED INCOME AND PREPAID EXPENSES</b>	<b>108,151</b>	<b>84,931</b>	<b>115,034</b>
<b>TOTAL ASSETS</b>	<b>10,211,314</b>	<b>10,897,325</b>	<b>12,217,411</b>

(in thousands of euros)

<b>CONSOLIDATED BALANCE SHEETS</b>	June 30, 2003	December 31, 2002	June 30, 2002
<b>A) SHAREHOLDERS' EQUITY</b>			
- Parent company interest	3,499,008	1,932,938	2,149,969
I) Share capital	1,799,399	339,423	339,400
II) Share premium reserve	500,291	549,673	549,593
III) Revaluation reserve	1,679	707	707
IV) Legal reserve	67,884	67,880	67,880
V) Reserve for treasury shares in portfolio	4,678	4,678	4,678
VII) Other reserves	945,925	786,538	815,007
VIII) Retained earnings	214,838	242,422	242,422
IX) Net income (loss)	(35,686)	(58,383)	130,282
- Minority interest	299,520	2,693,450	3,083,449
a) Capital and reserves	284,430	3,040,227	3,121,190
b) Net income (loss)	15,090	(346,777)	(37,741)
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>3,798,528</b>	<b>4,626,388</b>	<b>5,233,418</b>
<b>B) PROVISIONS FOR LIABILITIES AND EXPENSES</b>			
Pensions and similar obligations	204,863	205,232	225,464
Income taxes	210,951	214,464	224,789
Other	615,514	331,906	278,440
<b>TOTAL PROVISIONS FOR LIABILITIES AND EXPENSES</b>	<b>1,031,328</b>	<b>751,602</b>	<b>728,693</b>
<b>C) PROVISION FOR EMPLOYEES' LEAVING INDEMNITY</b>	<b>156,312</b>	<b>158,951</b>	<b>103,110</b>
<b>D) PAYABLES</b>			
Bonds	1,150,004	1,164,796	1,162,591
Convertible bonds	-	21,977	21,545
Bank borrowings	1,431,493	1,637,782	2,372,089
Other financial companies	102,821	99,726	71,363
Advances from customers	206,178	179,693	188,878
Trade	1,247,346	1,259,407	1,232,265
Subsidiaries	4,436	126	1,470
Associated companies	42,116	34,592	12,254
Taxes	197,757	193,214	243,312
Social security agencies	51,282	56,789	50,389
Other payables	472,288	433,825	491,262
<b>TOTAL PAYABLES</b>	<b>4,905,721</b>	<b>5,081,927</b>	<b>5,847,418</b>

(in thousands of euros)

<b>CONSOLIDATED BALANCE SHEETS</b>	June 30, 2003	December 31, 2002	June 30, 2002
<b>E) ACCRUED LIABILITIES AND DEFERRED INCOME</b>			
Accrued liabilities	278,562	242,535	266,561
Deferred income	40,863	35,922	38,211
<b>TOTAL ACCRUED LIABILITIES AND DEFERRED INCOME</b>	<b>319,425</b>	<b>278,457</b>	<b>304,772</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>10,211,314</b>	<b>10,897,325</b>	<b>12,217,411</b>

(in thousands of euros)

<b>MEMORANDUM ACCOUNTS</b>	June 30, 2003	December 31, 2002	June 30, 2002
<b>PERSONAL GUARANTEES</b>			
- Sureties on behalf of other companies	218,950	224,605	144,767
- Credit guarantees on behalf of other companies	15,590	10,656	17,396
	<b>234,540</b>	<b>235,261</b>	<b>162,163</b>
<b>THIRD-PARTY ASSETS HELD IN DEPOSIT</b>			
- Securities held in deposit	591,767	1,107,883	162,683
- Third-party goods held in deposit	10,059	7,625	4,413
	<b>601,826</b>	<b>1,115,508</b>	<b>167,096</b>
<b>ASSETS HELD BY THIRD PARTIES</b>			
- Securities held as guarantees and sureties	16,826	52,670	31,241
- Shares held in deposit	6,246	552,528	258,664
- Goods held by third parties	4,118	9,103	10,263
	<b>27,190</b>	<b>614,301</b>	<b>300,168</b>
<b>COMMITMENTS AND CONTINGENCIES</b>			
- Capital expenditures	558,769	600,914	20,595
- Nominal value of put options given to third parties	2,145,634	2,151,517	2,155,188
- Sale of tax receivables	102,052	102,052	86,522
	<b>2,806,455</b>	<b>2,854,483</b>	<b>2,262,305</b>
<b>OTHER MEMORANDUM ACCOUNTS</b>			
- Potential losses for risk of default on discounted bills	26,872	31,500	59,148
- Forward securities purchase	200,000	200,000	200,000
	<b>226,872</b>	<b>231,500</b>	<b>259,148</b>
<b>TOTAL MEMORANDUM ACCOUNTS</b>	<b>3,896,883</b>	<b>5,051,053</b>	<b>3,150,880</b>

(in thousands of euros)

<b>CONSOLIDATED STATEMENTS OF INCOME</b>	6 months ended June 30, 2003	Year ended December 31, 2002	6 months ended June 30, 2002
<b>A) PRODUCTION VALUE</b>			
Revenues from sales and services	3,297,577	3,493,901	6,717,915
Changes in inventories of work in process, semifinished and finished products	(35,619)	35,818	(14,840)
Changes in contract work in progress	(10,399)	(15,093)	15,312
Increase in property, plant and equipment	3,440	4,711	11,218
Other revenues and income:			
a) Miscellaneous	88,024	77,756	126,653
b) Government grants	954	2,375	5,188
<b>TOTAL PRODUCTION VALUE</b>	<b>3,343,977</b>	<b>3,599,468</b>	<b>6,861,446</b>
<b>B) PRODUCTION COSTS</b>			
Raw materials, auxiliaries, consumables and goods for resale	(1,512,505)	(1,681,431)	(3,223,030)
Service expenses	(662,812)	(693,602)	(1,289,691)
Lease and rent expenses	(37,719)	(38,827)	(76,777)
Personnel costs	(687,901)	(751,374)	(1,426,439)
Amortization, depreciation and writedowns:			
a) Amortization of intangible assets	(40,229)	(43,480)	(90,844)
b) Depreciation of property, plant and equipment	(139,338)	(160,605)	(314,738)
d) Writedowns of receivables included in current assets and cash and banks	(15,336)	(17,017)	(40,871)
Changes in inventories of raw materials, auxiliaries, consumables and goods for resale	39,583	30,695	(485)
Accruals for risks	(4,548)	(173)	(8,207)
Other accruals	(12,220)	(8,925)	(19,598)
Other operating expenses	(128,482)	(133,734)	(253,264)
<b>TOTAL PRODUCTION COSTS</b>	<b>(3,201,507)</b>	<b>(3,498,473)</b>	<b>(6,743,944)</b>
<b>DIFFERENCE BETWEEN PRODUCTION VALUE AND PRODUCTION COSTS</b>	<b>142,470</b>	<b>100,995</b>	<b>117,502</b>
<b>C) FINANCIAL INCOME AND EXPENSES</b>			
Investments income	3,696	4,926	20,121
Other financial income:			
a) from receivables included in fixed assets			
- from subsidiaries	60	-	163
- from associated companies	4,639	-	12,906
- other	119	228	250
b) from securities included in fixed assets	45	44	90
c) from securities included in current assets	3,559	2,378	13,237
d) income other than the above	135,232	793,561	498,910
Interest and other financial expenses	(221,810)	(888,369)	(723,099)
<b>TOTAL FINANCIAL INCOME AND EXPENSES</b>	<b>(74,460)</b>	<b>(87,232)</b>	<b>(177,422)</b>

(in thousands of euros)

<b>CONSOLIDATED STATEMENTS OF INCOME</b>	6 months ended June 30, 2003	Year ended December 31, 2002	6 months ended June 30, 2002
<b>D) VALUATION ADJUSTMENTS TO FINANCIAL ASSETS</b>			
Revaluations	25,400	16,383	67,440
Writedowns	(46,989)	(59,451)	(242,536)
<b>TOTAL VALUATION ADJUSTMENTS</b>	<b>(21,589)</b>	<b>(43,068)</b>	<b>(175,096)</b>
<b>E) EXTRAORDINARY ITEMS</b>			
Extraordinary income	44,161	241,745	259,108
Extraordinary expenses	(46,309)	(42,772)	(341,840)
<b>TOTAL EXTRAORDINARY ITEMS</b>	<b>(2,148)</b>	<b>198,973</b>	<b>(82,732)</b>
<b>INCOME (LOSS) BEFORE INCOME TAXES</b>	<b>44,273</b>	<b>169,668</b>	<b>(317,748)</b>
Income taxes	(64,869)	(77,127)	(87,412)
<b>NET INCOME (LOSS)</b>	<b>(20,596)</b>	<b>92,541</b>	<b>(405,160)</b>
<b>PARENT COMPANY INTEREST</b>	<b>(35,686)</b>	<b>130,282</b>	<b>(58,383)</b>
<b>MINORITY INTEREST</b>	<b>15,090</b>	<b>(37,741)</b>	<b>(346,777)</b>

**COMMENTS ON SIX-MONTHS CONSOLIDATED FINANCIAL STATEMENTS****AT JUNE 30, 2003**  
-----**FORM AND CONTENT**

The consolidated financial statements for the six months ended June 30, 2003 have been prepared with the same format and content using the same accounting principles and principles of consolidation as those adopted in the financial statements at December 31, 2002 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 & C. S.p.A. at June 30, 2003 and the corresponding consolidated figures is presented in the supplementary information.

## COMMENTS ON THE CONSOLIDATED BALANCE SHEETS

### ASSETS

#### **B) FIXED ASSETS**

#### **D) INTANGIBLE ASSETS**

The composition and changes in intangible assets are presented below:

	(in thousands of euros)						6/30/2003
	12/31/2002	Translation adjustment	Merger effect	Increase	Decrease	Amortization (*)	
. Formation costs	10,616	(5)	(164)	7,610	(7)	(2,165)	15,885
. Patents and design patent rights	4,048	(14)	(1,234)	174	-	(579)	2,395
. Concessions, licenses, trademarks and similar rights	12,362	(7)	(2,843)	135	(2)	(2,488)	7,157
. Goodwill	39,912	(511)	-	28,093	(715)	(3,621)	63,158
. Difference on consolidation	508,269	-	-	-	(75,771)	(14,678)	417,820
. Other	86,795	110	(22,915)	13,771	-	(16,698)	61,063
	<b>662,002</b>	<b>(427)</b>	<b>(27,156)</b>	<b>49,783</b>	<b>(76,495)</b>	<b>(40,229)</b>	<b>567,478</b>

(\*) net of the adjustment due to the merger effect € 3,405 thousand

## II) PROPERTY, PLANT AND EQUIPMENT

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

	(in thousands of euros)	
	<b>6/30/2003</b>	<b>12/31/2002</b>
<b>Gross value</b>		
. Opening balances	5,757,030	6,405,699
. Translation adjustment	(180,071)	(714,050)
. Merger effect	(124,909)	-
. Change in scope of consolidation	12,432	1,551
. Additions	118,853	328,964
. Disposals	(74,221)	(265,134)
	<b>5,509,114</b>	<b>5,757,030</b>
<b>Accumulated depreciation</b>		
. Opening balances	3,350,624	3,579,799
. Translation adjustment	(137,266)	(390,047)
. Change in scope of consolidation	203	714
. Depreciation charge (*)	139,338	314,738
. Disposals	(49,141)	(154,580)
	<b>3,303,758</b>	<b>3,350,624</b>
<b>Net book value</b>	<b>2,205,356</b>	<b>2,406,406</b>

(\*) net of the adjustment due to the merger effect € 7,028 thousand

The ratio of additions during the period to depreciation is 0.85.

### III) FINANCIAL ASSETS

	(in thousands of euros)					
	12/31/2002	Change in scope of consolidation	Merger effect	Increase	Decrease	6/30/2003
Investments in subsidiaries	646	2,744	-	4,029	(396)	7,023
Investments in jointly controlled subsidiaries	3,000,888	-	(700,000)	-	(44,667)	2,256,221
Investments in associated companies	157,868	-	-	29,269	(31,033)	156,104
Investments in other companies	282,677	31	(32,526)	29,129	-	279,311
	3,442,079	2,775	(732,526)	62,427	(76,096)	2,698,659

“**Investments in subsidiaries**” amount to Euros 7,023 thousand and consist of companies recently set up and/or not very significant to the consolidated financial statements in terms of the net equity or the results and/or in which the rights of the parent company are subject to restrictions.

Investments in subsidiaries can be analyzed as follows:

(in thousands of euros)			
Description	Country	% holding	Amount
<u>foreign</u>			
AFCAB Holdings (Proprietary) Ltd.	South Africa	50,00%	197
Pirelli & C. Real Estate Ltd.	Great Britain	100.00%	100
<u>Italian</u>			
Progetto Grande Bicocca Multisala S.r.l.(*)	Italy	33.00%	2,885
Alfa Due S.r.l.(*)	Italy	100.00%	2,584
Parcheggi Bicocca S.r.l.	Italy	75.00%	1,143
LSF Italian Finance Company S.p.A.	Italy	100.00%	103
Tintoretto S.r.l.(*)	Italy	100.00%	11
<b>Total</b>			<b>7,023</b>

(\*) accounted for using the equity method

**“Investments in jointly controlled subsidiaries”** amount to Euros 2,256,221 thousand and refer to the investment in Olimpia S.p.A. (50.4 percent) which has been accounted for using the equity method. The amount includes goodwill that is being amortized over 20 years (Euros 45,716 thousand).

**“Investments in associated companies”** amount to Euros 156,104 thousand compared to Euros 157,868 thousand at December 31, 2002. The increase of Euros 29,269 thousand is due to the earnings (losses) of the companies accounted for using the equity method for Euros 17,764 thousand and acquisitions of associated companies by Pirelli & C. Real Estate S.p.A. for Euros 11,505 thousand, including the companies Localto S.p.A., Geolidro S.r.l. and Popoy Holding B.V. (respectively, for Euros 5,082 thousand, Euros 2,099 thousand and Euros 2,305 thousand).

The decrease of Euros 31,033 thousand refers mainly to the payment of dividends for Euros 21,570 thousand and the sale of Localto S.p.A. for Euros 3,303 thousand.

**“Investments in other companies”** amount to Euros 279,311 thousand compared to Euros 282,677 thousand at December 31, 2002. The reduction is principally due to the effect of the merger (Euros 32,526 thousand) which is partly offset by the capital increases by F.C. Internazionale Milano S.p.A. (Euros 11,691 thousand) and by Istituto Europeo di Oncologia S.r.l. (Euros 521 thousand).

**“Other securities”** amount to Euros 91,547 thousand compared to Euros 85,803 thousand at December 31, 2002 and include Fenera Holding S.p.A. bonds and Convertible Bond Asset Swap securities on Olivetti S.p.A. convertible bonds 2010 and share swap transaction on Olivetti S.p.A. shares - Olivetti S.p.A. convertible bonds 2010 held by the subsidiary Pirelli Finance (Luxembourg) S.A..

The effect of adjusting the securities to market value, had they remained in current financial assets, would have been a writedown of about Euros 72 million.

No writedown was made since there was no permanent impairment in value.

**‘Treasury shares’** consist of 2,617,500 ordinary shares, equal to 0.08 percent of current share capital (0.08 percent of only ordinary shares).

Pursuant to art. 2357-ter of the Italian Civil Code, a “Reserve for Treasury Shares” was set up for the same amount.

A comparison of the price of the treasury shares with the average market price shows a lower value of Euros 3 million. The valuation at cost has been maintained in the financial statements as there is no permanent impairment in value.

C) **CURRENT ASSETS**

D) **INVENTORIES**

Inventories amount to Euros 1,272,056 thousand compared to Euros 1,283,214 thousand at December 31, 2002, and may be analyzed as follows:

	(in thousands of euros)	
	6/30/2003	12/31/2002
Industrial Group:	919,593	906,338
. Energy Cables and Systems	398,525	385,211
. Telecom Cables and Systems	71,387	91,144
. Tyres	449,681	429,983
Real Estate Group	359,289	383,702
Other and intereliminations	(6,826)	(6,826)
<b>TOTAL</b>	<b>1,272,056</b>	<b>1,283,214</b>

II) **RECEIVABLES**

Receivables, which amounted to Euros 2,082,404 thousand at December 31, 2002, rose to Euros 2,250,058 thousand, and can be analyzed as follows:

	(in thousands of euros)			
	6/30/2003		12/31/2002	
	Financial	Trade and other	Financial	Trade and other
. Trade	-	1,454,420	-	1,355,815
. Subsidiaries	38,500	1,721	190	3,740
. Associated companies	32,526	148,660	34,382	65,810
. Other receivables	35,423	538,808	25,382	597,085
	<b>106,449</b>	<b>2,143,609</b>	<b>59,954</b>	<b>2,022,450</b>

**Trade receivables**

Trade receivables by due date are detailed as follows:

	(in thousands of euros)	
	<b>6/30/2003</b>	<b>12/31/2002</b>
. Due within 1 year	1,600,130	1,507,816
. Due beyond 1 year	506	540
. Allowance for doubtful receivables	(146,216)	(152,541)
	<b>1,454,420</b>	<b>1,355,815</b>

No receivables are due beyond five years.

**III) CURRENT FINANCIAL ASSETS**

Current financial assets mainly include bonds, issued and guaranteed by governments and banking institutions. The positions are kept at leading banking institutions.

## **LIABILITIES AND SHAREHOLDERS' EQUITY**

### **A) SHAREHOLDERS' EQUITY**

#### **PARENT COMPANY INTEREST**

“Share capital” amounts to Euros 1,799,399 thousand, and consists of 3,325,619,031 ordinary shares and 134,764,429 savings shares, all with a par value of Euros 0.52 per share and normal dividends rights.

The most significant changes in shareholders' equity are due to the following transactions:

#### **Transformation of the company from a limited partnership company (Accomandita per Azioni) to a corporation (Società per Azioni) and the change in the corporate business purpose**

Following the resolution passed on the transformation of the company from a limited partnership company to a corporation and the change in the corporate business purpose, certain shareholders exercised the right to withdrawal pursuant to art. 2437 of the Italian Civil Code. The withdrawal price, calculated based upon the simple arithmetic average of the official market prices of the ordinary and savings shares of Pirelli & C. in the period November 7, 2002 – May 6, 2003, inclusive, was equal to Euros 1.264 per ordinary share and Euros 1.184 per savings share for a total of Euros 162,629 thousand. This transaction led to:

- a reduction in share capital of Euros 67,340 thousand, corresponding to 116,266,313 ordinary shares and 13,233,848 savings shares;
- a reduction in the share premium reserve of Euros 49,383 thousand;
- a reduction in retained earnings of Euros 45,906 thousand.

### **Share capital increase**

During the six months, 1,561,855,326 ordinary shares were issued with dividend rights as from January 1, 2003 and subscribed to under the rights offering to the shareholders at a unit price equal to par value, in a ratio of 3 ordinary shares for every 1 share of any class of stock held, for a total value of Euros 812,164 thousand.

### **Merger by incorporation**

Following the merger by incorporation with Pirelli S.p.A., the share capital was increased by Euros 715,152 thousand through the issue of 1,261,712,172 ordinary shares and 113,580,020 savings shares of par value Euros 0.52 each, with dividend rights from January 1, 2003, given to the shareholders of Pirelli S.p.A. (other than Pirelli & C. S.p.A. and Pirelli & C. Luxembourg S.p.A.) on the basis of the following exchange ratio:

- 4 Pirelli & C. S.p.A. ordinary shares for every 3 Pirelli S.p.A. ordinary shares;
- 10 Pirelli & C. S.p.A. savings shares for every 7 Pirelli S.p.A. savings shares.

The merger led to the posting of a negative difference on consolidation or exchange surplus, equal to Euros 1,304.4 million, resulting from the comparison of the purchase cost of Euros 935.1 million and the accounting value of the minority interest in the shareholders' equity shown in the consolidated financial statements of Pirelli S.p.A. at December 31, 2002 of Euros 2,239.5 million.

The purchase cost of the minority interest in the shareholders' equity of Pirelli S.p.A., borne by Pirelli & C. S.p.A., is represented by the capital increase to service the exchange, equal to the number of new shares issued (1,261,712,172 ordinary shares and 113,580,020 savings shares) multiplied by the average prices of Pirelli & C. S.p.A. shares on the stock market in the quarter prior to the date the merger was announced considering the capital increase (Euros 0.68 per share) for a total of Euros 935.1 million.

The negative difference on consolidation, which can be considered similar to negative goodwill, was allocated to adjust the assets and liabilities of the minority interest coming from the financial statements of Pirelli S.p.A. at December 31, 2002, except for those of unequivocal value.

The statement of changes in shareholders' equity is presented in the supplementary information.

## **MINORITY INTEREST**

The minority interest in shareholders' equity went from Euros 2,693,450 thousand at December 31, 2002 to Euros 299,520 thousand at June 30, 2003. The change is due mostly to the effect of the merger in addition to the balance of the results for the six months to June 30, 2003, the payment of last year's dividends and the foreign exchange effect due to the translation of the financial statements in euros.

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

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	<b><u>30/06/2003</u></b>	<b><u>31/12/2002</u></b>
Celikord A.S. (Turkey)	49.00%	49.00%
Sicable S.A. (Ivory Coast)	49.00%	49.00%
Turk Pirelli Lastikleri A.S. (Turkey)	36.94%	36.94%
Pirelli & C. Real Estate S.p.A.	36.12%	35.56%
Tianjin Top Power Cables Co. Ltd	33.00%	33.00%
BICCGeneral Baosheng Cable Co. Ltd (China)	33.00%	33.00%
P & A K.K. (Japan)	32.85%	32.85%
Pirelli Telecom Cables Co. Ltd Wuxi (China)	28.16%	28.16%
Alexandria Tire Co. S.A.E. (Egypt)	13.19%	13.19%
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%
Pirirelli. Telecomunicações Cabos e Sistemas S.A. (Brazil)	0.59%	0.59%
Pirelli Energia Cabos e Sistemas S.A.(Brazil)	0.59%	0.59%
Pirelli Pneus S.A. (Brazil)	0.31%	0.31%

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

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

	(in thousands of euros)	
	<b>6/30/2003</b>	<b>12/31/2002</b>
. Provision for current taxes	63,653	57,138
. Provision for deferred taxes	147,298	157,326
	<b>210,951</b>	<b>214,464</b>

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

	(in thousands of euros)	
	<b>1st half 2003</b>	<b>1st half 2002</b>
. Current taxes	68,119	96,729
. Deferred taxes	(3,250)	(19,602)
	<b>64,869</b>	<b>77,127</b>

The current income tax expense was calculated on the taxable amount based upon the result for the first half, taking into account the utilization of any tax loss carryforwards and by applying the nominal tax rates existing in each country.

**OTHER PROVISIONS**

The movements during the year in “Other provisions” are as follows:

	(in thousands of euros)		
	<b>Restructuring costs</b>	<b>Other</b>	<b>Total</b>
<b>Balance at December 31, 2002</b>	<b>176,151</b>	<b>155,755</b>	<b>331,906</b>
. Translation adjustment	(3,516)	(1,838)	(5,354)
. Merger effect	-	387,897	387,897
. Utilization	(90,546)	(25,483)	(116,029)
. Increase	2,148	14,946	17,094
<b>Balance at June 30, 2003</b>	<b>84,237</b>	<b>531,277</b>	<b>615,514</b>

The **provision for restructuring costs** amounts to Euros 84,237 thousand at June 30, 2003 and include Euros 35,560 thousand referring to the Energy Cables and Systems Sector, Euros 22,632 thousand referring to the Telecom Cables and Systems Sector and Euros 4,082 thousand referring to the Tyres Sector. Utilizations during the first half by the Energy Cables and Systems Sector, the Telecom Cables and Systems Sector and the Tyres Sector amount, respectively, to Euros 67,155 thousand, Euros 19,937 thousand and Euros 3,442 thousand.

**Other provisions** include accruals for litigation, industrial risks and claims, product warranties, and other contingencies. The effect of the merger refers to the put options granted to the shareholder banks of Olimpia S.p.A. under the shareholder agreements of Olimpia itself (Euros 233,000 thousand), pension funds (Euros 104,056 thousand) and other various provisions (Euros 50,841 thousand).

**D) PAYABLES**

Payables amount to Euros 4,905,721 thousand at June 30, 2003 and Euros 5,081,927 thousand at December 31, 2002, and may be analyzed as follows:

(in thousands of euros)

	6/30/2003		12/31/2002	
	Financial	Trade and other	Financial	Trade and other
. Bonds	1,150,004	-	1,164,796	-
. Convertible bonds	-	-	21,977	-
. Bank borrowings	1,431,493	-	1,637,782	-
. Other financial companies	102,821	-	99,726	-
. Advances from customers	-	206,178	-	179,693
. Trade	-	1,247,346	-	1,259,407
. Subsidiaries	4,047	389	1	125
. Associated companies	3,329	38,787	752	33,840
. Taxes	-	197,757	-	193,214
. Social security agencies	-	51,282	-	56,789
. Other payables	2,387	469,901	7,759	426,066
	<b>2,694,081</b>	<b>2,211,640</b>	<b>2,932,793</b>	<b>2,149,134</b>

The analysis of payables by due date and nature is as follows:

**Financial payables**

(in thousands of euros)

	6/30/2003		12/31/2002	
	within 1 year	beyond 1 year	within 1 year	beyond 1 year
. Bonds	4	1,150,000	4	1,164,792
. Convertible bonds	-	-	21,977	-
. Bank borrowings	863,292	568,201	970,317	667,465
. Other financial companies	48,835	53,986	41,071	58,655
. Subsidiaries	4,047	-	1	-
. Associated companies	3,329	-	752	-
. Other payables	2,387	-	7,759	-
	<b>921,894</b>	<b>1,772,187</b>	<b>1,041,881</b>	<b>1,890,912</b>

Financial payables are secured by liens and mortgages of Euros 57,265 thousand.

Financial payables due beyond five years amount to Euros 1,085,283 thousand.

Additional disclosure is provided as follows:

- **Bonds**

(in thousands of euros)				
	Non-convertible		Convertible	
	within 1 year	beyond 1 year	within 1 year	beyond 1 year
. Euros 500 million 1998-2008				
4.875% interest	-	500,000	-	-
. Unredeemed bonds	4	-	-	-
. Euros 150 million 1999-2009				
5.125% interest	-	150,000	-	-
Pirelli Finance Luxembourg S.A.				
. Euros 500 million 2002-2007				
6.5% interest	-	500,000	-	-
	<b>4</b>	<b>1,150,000</b>	-	-

The convertible bonds were repaid on January 2, 2003 and referred to the remaining portion of the 2.5% 1998-2003 bonds voted by the extraordinary shareholders' meeting of Pirelli & C. on May 22, 1998 (original amount of Lire 287.9 billion – Euros 148.7 million).

- **Bank borrowings**

Bank borrowings due beyond one year (Euros 568,201 thousand) include the portion due beyond five years of Euros 58,892 thousand.

- **Payables to other financial companies**

The amount due beyond one year includes Euros 26,391 thousand payable after five years.

**Trade and other payables**

	(in thousands of euros)			
	6/30/2003		12/31/2002	
	within 1 year	beyond 1 year	within 1 year	beyond 1 year
. Advances from customers	191,727	14,451	177,702	1,991
. Trade	1,247,346	-	1,259,390	17
. Subsidiaries	389	-	125	-
. Associated companies	38,787	-	33,840	-
. Taxes	146,954	50,803	151,825	41,389
. Social security agencies	51,282	-	56,789	-
. Other payables	435,145	34,756	383,524	42,542
	<b>2,111,630</b>	<b>100,010</b>	<b>2,063,195</b>	<b>85,939</b>

## **MEMORANDUM ACCOUNTS**

Memorandum accounts amount to Euros 3,896,883 thousand compared to Euros 5,051,053 thousand at December 31, 2002.

### **PERSONAL GUARANTEES**

- **Sureties on behalf of other companies**

The sureties 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 & C. S.p.A. against commitments and contractual obligations.

## COMMITMENTS AND CONTINGENCIES

### - **Commitments for acquisitions of fixed assets**

These include Euros 203,708 thousand for the commitment undertaken by Pirelli & C. Real Estate S.p.A. and Pirelli & C. Agenzia Residenziale S.p.A. to purchase the buildings that are not sold by certain associated companies starting December 31, 2004. The caption also includes Euros 320,000 thousand for the commitment to purchase a part of the buildings owned by Imser 60 S.r.l..

### - **Nominal value of put options given to third parties**

These represent the nominal value of the put options granted to the shareholder banks of Olimpia S.p.A., IntesaBci S.p.A. (Euros 520,000 thousand) and Unicredito Italiano S.p.A. (Euros 520,000 thousand) and to Edizione Holding S.p.A. (Euros 1,040,000 thousand), under the shareholder agreements of Olimpia S.p.A..

This item also includes the nominal value of the option granted to Cisco Systems on the Pirelli Submarine Telecom Systems Holding B.V. shares which it holds. This amount (U.S. \$75 million) is already shown in the financial statements under the minority interest in shareholders' equity.

## OTHER MEMORANDUM ACCOUNTS

### - **Forward securities purchases**

These refer 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 INCOME STATEMENT

### 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)				
	1st half 2003		1st half 2002	
<b>Geographical area</b>				
Europe:				
. Italy	871,291	26.42%	724,519	20.74%
. Other European countries	1,291,399	39.16%	1,452,910	41.58%
North America	310,467	9.42%	402,639	11.52%
Central and South America	393,786	11.94%	445,679	12.76%
Oceania, Africa and Asia	430,634	13.06%	468,154	13.40%
	<b>3,297,577</b>	<b>100.00%</b>	<b>3,493,901</b>	<b>100.00%</b>
<b>Business sector</b>				
Industrial group:	3,049,080	92.46%	3,386,105	96.91%
. Energy Cables and Systems	1,311,955	39.79%	1,614,216	46.20%
. Telecom Cables and Systems	228,348	6.92%	283,515	8.11%
. Tyres	1,508,777	45.75%	1,488,374	42.60%
Real Estate Group	280,534	8.51%	146,163	4.18%
Other and intereliminations	(32,037)	-0.98%	(38,367)	-1.09%
	<b>3,297,577</b>	<b>100.00%</b>	<b>3,493,901</b>	<b>100.00%</b>

## B) PRODUCTION COSTS

### - Personnel costs

Personnel costs consist of the following:

	(in thousands of euros)	
	1st half 2003	1st half 2002
. Salaries and wages	518,747	572,810
. Social security costs	121,870	127,327
. Leaving indemnity	29,238	26,721
. Pension and similar costs	9,311	13,612
. Other costs	8,735	10,904
	<b>687,901</b>	<b>751,374</b>

### - Depreciation of property, plant and equipment

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

	(in thousands of euros)	
	1st half 2003	1st half 2002
	(*)	
. Buildings	8,945	15,961
. Plant and machinery	91,995	103,747
. Commercial and industrial equipment	22,510	22,510
. Other assets	15,888	18,387
	<b>139,338</b>	<b>160,605</b>

(\*) the merger effect is equal to Euros 7,028 thousand

C) **FINANCIAL INCOME AND EXPENSES**

- **Investment income**

	(in thousands of euros)	
	<b>1st half 2003</b>	<b>1st half 2002</b>
Dividends from subsidiaries	1,063	-
Dividends from associated companies	106	942
Dividends from other companies	2,527	3,984
	<b>3,696</b>	<b>4,926</b>

Investment income mainly refers to dividends received in respect of equity investments in other companies.

- **Other financial income**

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

	(in thousands of euros)	
	<b>1st half 2003</b>	<b>1st half 2002</b>
. Interest from subsidiaries	416	-
. Interest from associated companies	1,169	6,613
. Bank interest	19,783	28,565
. Other interest	364	2,817
. Miscellaneous financial income	19,943	26,996
. Gains on exchange	93,557	728,570
	<b>135,232</b>	<b>793,561</b>

- **Interest and other financial expenses**

These expenses include:

	(in thousands of euros)	
	1st half 2003	1st half 2002
. Interest to associated companies	32	25
. Bond interest	31,506	24,110
. Bank interest	62,168	74,700
. Miscellaneous financial expenses	27,786	55,097
. Losses on exchange	100,318	734,437
	<b>221,810</b>	<b>888,369</b>

**D) VALUATION ADJUSTMENTS TO FINANCIAL ASSETS**

- **Revaluations**

Revaluations amount to Euros 25,400 thousand and refer to the share of earnings of the associated companies of Pirelli & C. Real Estate S.p.A. accounted for using the equity method.

- **Writedowns**

	(in thousands of euros)	
	1st half 2003	1st half 2002
Losses of companies accounted for using the equity method	1,670	3,025
Losses of jointly controlled subsidiaries	44,667	54,242
Writedowns of investments	652	2,184
	<b>46,989</b>	<b>59,451</b>

E) **EXTRAORDINARY ITEMS**

- **Extraordinary income**

Extraordinary income went from Euros 241,745 thousand in the first half of 2002 to Euros 44,161 thousand and can be analyzed as follows:

(in thousands of euros)		
	1st half 2003	1st half 2002
. Gains on disposals	16,401	225,595
. Miscellaneous	27,760	16,150
	<b>44,161</b>	<b>241,745</b>

“Gains on disposal” mainly include Euros 8,769 thousand from the sale to Kappa of a portion of land owned by the Energy Cables and Systems Sector in the Bicocca area. Last year this caption principally included Euros 167,711 thousand from the placement of 10,100,000 shares of the subsidiary Pirelli & C. Real Estate S.p.A. on the market and Euros 53,611 thousand from the gain on the sale of securities underlying the equity swaps in Pirelli & C. Real Estate S.p.A.’s portfolio.

“Miscellaneous” in the first half of 2003 mainly includes Euros 14,000 thousand for the consideration paid to the Tyres Sector under the “Milan-Turin High-Speed Train Project” with regard to the factory in Settimo Torinese.

Last year the caption included the adjustment for the higher tax credit of Euros 5,106 thousand on dividends relating to the year ended June 30, 1998 of the company Pirelli Partecipazioni S.p.A. incorporated in Pirelli S.p.A..

- **Extraordinary expenses**

Extraordinary expenses amount to Euros 46,309 thousand, compared to Euros 42,772 thousand for the first half of 2002, and may be analyzed as follows:

(in thousands of euros)		
	<b>1st half 2003</b>	<b>1st half 2002</b>
. Losses on disposals (*)	469	0
. Miscellaneous	45,840	42,772
	<b>46,309</b>	<b>42,772</b>

(\*) including Euros 385 thousand on the sale of Localto S.p.A.

“Miscellaneous” for the first half of 2003 mainly includes Euros 17,984 thousand deriving from the costs of the merger incurred by Pirelli & C. S.p.A., Euros 4,478 thousand for the tax amnesty and Euros 4,000 thousand for the costs connected with the “Milan-Turin High-Speed Train” project relative to the Settimo Torinese factory.

The corresponding period of the prior year included Euros 25,710 thousand for the cost of listing the subsidiary Pirelli & C. Real Estate S.p.A. on the stock exchange.

**OTHER INFORMATION****Employees**

The average number of employees in the companies included in consolidation in the first half of 2003, by category, is as follows:

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Senior executives	622
Staff	9,786
Blue-collar	23,707
Temporary employment	2,231
	<hr/>
	36,346

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## Exchange rates

The main exchange rates used for the translation of foreign currency financial statements in the consolidated financial statements are as follows:

	(local currency against Euros)					
	Period-end		Change in	Average		Change in
	6/30/2003	12/31/2002	%	1st half 2003	1st half 2002	%
<b>Europe</b>						
British pound	0.6932	0.6505	6.56%	0.68561	0.6217	10.29%
Swiss franc	1.5544	1.4524	7.02%	1.4921	1.4690	1.57%
Hungarian forint	266.6100	236.290	12.83%	247.2468	243.482	1.55%
Slovakian koruna	41.5500	41.503	0.11%	41.5037	42.6163	(2.61%)
<b>North America</b>						
American dollar	1.1427	1.049	8.96%	1.1050	0.898	23.06%
Canadian dollar	1.5506	1.655	(6.31%)	1.6047	1.413	13.58%
<b>Suth America</b>						
Brazilian real	3.2818	3.705	(11.43%)	3.5782	2.192	63.27%
Venezuela bolivar	1,828.3200	1,471.326	24.26%	1,791.5807	843.020	112.52%
Argentine peso	3.1996	3.534	(9.47%)	3.3261	2.382	39.63%
<b>Oceania</b>						
Australian dollar	1.7116	1.856	(7.76%)	1.7919	1.679	6.72%
<b>Asia</b>						
Yuan (Chinese) renminbi	9.4587	8.683	8.93%	9.1464	7.432	23.07%
Singapore dollar	2.0149	1.820	10.71%	1.9297	1.632	18.24%
Indonesian rupiah	9,444.4155	9,338.674	1.13%	9,598.5662	8,643.522	11.05%
<b>Africa</b>						
Egyptian pound	6.856	4.840	41.66%	6.1914	4.141	49.53%
Ivory Coast franc	655.957	655.957	0.00%	655.9570	655.957	0.00%

## Net financial position

The composition of the net financial position, which shows a decrease of Euros 452 million compared to December 31, 2002, is the following:

	(in thousands of euros)		
	<b>6/30/2003</b>	<b>12/31/2002</b>	<b>6/30/2002</b>
. Short-term financial payables	921,894	1,041,881	1,562,561
. Accrued interest expenses	45,287	50,320	60,784
. Cash and banks	(512,422)	(385,119)	(508,364)
. Other securities and short-term investments	(235,912)	(198,652)	(394,068)
. Short-term financial receivables	(114,111)	(228,331)	(115,211)
. Accrued interest income	(19,045)	(22,263)	(40,684)
<b>Net short-term (liquidity)/debt</b>	<b>85,691</b>	<b>257,836</b>	<b>565,018</b>
. Medium/long-term financial payables	1,772,187	1,890,912	1,985,922
. Medium/long-term financial receivables	(254,187)	(92,584)	(291,167)
. Other securities	(5,523)	(5,779)	(25,658)
<b>Net medium/long-term debt</b>	<b>1,512,477</b>	<b>1,792,549</b>	<b>1,669,097</b>
<b>Net financial debt position</b>	<b>1,598,168</b>	<b>2,050,385</b>	<b>2,234,115</b>

**PIRELLI GROUP**  
**SUPPLEMENTARY INFORMATION**

CONSOLIDATED STATEMENTS OF CASH FLOWS	(in thousands of euros)	
	1 <sup>st</sup> half 2003	Year 2002
Operating profit	142,470	117,502
Depreciation and amortization	179,567	405,582
Increase in intangible assets	(20,483)	(89,489)
Increase in property, plant and equipment	(118,853)	(328,964)
Increase in financial assets	(41,002)	(304,693)
Disposal of intangible assets	803	5,123
Disposal of property, plant and equipment	9,460	28,017
Disposal of financial assets	14,554	248,017
Change in inventories	953	80,239
Changes in trade and other accounts receivable/payable	(70,281)	366,024
Changes in provisions for liabilities and expenses and for personnel	(9,655)	(59,348)
Other changes	(10,384)	8,049
<b>Free cash flow</b>	<b>77,149</b>	<b>476,059</b>
Financial expenses, net	(74,460)	(177,422)
Income taxes, net	(64,869)	(87,412)
Extraordinary items, net	(2,148)	(82,732)
Other changes	(96,407)	(155,096)
<b>Cash flows before dividends</b>	<b>(160,735)</b>	<b>(26,603)</b>
Dividends paid	(64,476)	(141,218)
<b>Net cash flows</b>	<b>(225,211)</b>	<b>(167,821)</b>
Share capital increase Pirelli & C.	812,165	62,635
Reimbursement of capital and reserves as a result of withdrawals	(162,629)	-
Share capital increase Pirelli & C. Real Estate S.p.A.	-	105,299
Share capital increase - minority interest	103	-
<b>Change in share capital</b>	<b>649,639</b>	<b>167,934</b>
Translation adjustments	27,789	(20,937)
<b>Net change in debt</b>	<b>452,217</b>	<b>(20,824)</b>
<b>Net debt at the beginning of year</b>	<b>(2,050,385)</b>	<b>(2,029,561)</b>
<b>Net debt at the of end of the period</b>	<b>(1,598,168)</b>	<b>(2,050,385)</b>

(in thousands of euros)

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY						
	Share capital	Share premium reserve	Legal reserve	Cumulative translation adjustments	Other reserves, retained earnings net income (loss)	Total
<b>BALANCE AT DECEMBER 31, 2001</b>	<b>325,408</b>	<b>501,054</b>	<b>65,014</b>	<b>(55,976)</b>	<b>1,283,205</b>	<b>2,118,705</b>
Profit distribution, as per resolution of May 13, 2002 - dividends to shareholders - allocation to legal reserve			2,866		(52,365) (2,866)	(52,365) -
Conversion of bonds 1998/2003	14,015	48,620				62,635
Adjustments of subsidiaries and associated companies to net equities					3,912	3,912
Adjustment from translation of foreign currency financial statements				(141,566)		(141,566)
Net income (loss) of the period					(58,383)	(58,383)
<b>BALANCE AT DECEMBER 31, 2002</b>	<b>339,423</b>	<b>549,674</b>	<b>67,880</b>	<b>(197,542)</b>	<b>1,173,503</b>	<b>1,932,938</b>
Profit distribution, as per resolution of May 7, 2003 - dividends to shareholders - allocation to legal reserve			4		(41,871) (4)	(41,871) -
Share capital increase	812,164					812,164
Share capital increase <b>from exchange</b>	715,152				220,047	935,199
Reimbursement of share capital and reserves	(67,340)	(49,383)			(45,906)	(162,629)
Replenishment of reserves of former merged companies					45,824	45,824
Adjustments of subsidiaries and associated companies to net equities					(3,172)	(3,172)
Adjustment from translation of foreign currency financial statements				16,241		16,241
Net income (loss) of the period					(35,686)	(35,686)
<b>BALANCE AT JUNE 30, 2003</b>	<b>1,799,399</b>	<b>500,291</b>	<b>67,884</b>	<b>(181,301)</b>	<b>1,312,735</b>	<b>3,499,008</b>

(in thousands of euros)

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**RECONCILIATION OF THE NET RESULTS AND SHAREHOLDERS' EQUITY OF PIRELLI & C. S.p.A.  
(POST- MERGER) AND THE CORRESPONDING CONSOLIDATED FIGURES AT JUNE 30, 2003**

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	Net income (loss)	Shareholders' equity
<b>Pirelli &amp; C. S.p.A. post-merger financial statements at June 30, 2003</b>	<b>(43,895)</b>	<b>3,173,435</b>
Share of earnings (losses) of:		
- consolidated subsidiaries	55,084	55,084
- companies valued using the equity method	(44,666)	(44,666)
Elimination of intercompany gains on the sale of buildings	(2,923)	(2,923)
Effect of allocation of the merger surplus	13,233	13,233
Amortization of goodwill	(12,519)	(12,519)
Elimination of the cancellation surplus on the merger	-	(363,661)
Difference between the share of net equity of consolidated companies and their carrying value:		
- consolidated subsidiaries/ associated companies	-	681,025
<b>Consolidated financial statements at June 30, 2003</b>	<b>(35,686)</b>	<b>3,499,008</b>

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## Companies consolidated using the full consolidation method

Company	Business	Headquarters	Share Capital	Percentage ownership	Percentage of vote	Held by
<b>Europe</b>						
<b>Austria</b>						
Pirelli Gesellschaft mbH	Tyre	Vienna	Euro	726.728	100.00%	Lunares S.A.
Pirelli-Ookw GmbH	Energy Cables and Systems	Vienna	Euro	2.071.176	100.00%	Pirelli Cable Holding N.V.
<b>Belgium</b>						
Pirelli Tyres Belux S.A.	Tyre	Brussels	Euro	700.000	100.00%	Lunares S.A.
<b>Finland</b>						
Pirelli Cables and Systems OY	Energy Cables and Systems	Helsinki	Euro	10.000.000	100.00%	Pirelli Cable Holding N.V.
<b>France</b>						
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 Telecom Câbles et Systèmes France S.A.	Telecom Cables and Systems	Bagnoleux Cedex	Euro	16.295.000	100.00%	Pirelli Cavi e Sistemi Telecom S.p.A.
Pneus Pirelli S.A.S	Tyre	Roissy en France	Euro	1.515.858	100.00%	Lunares S.A.
Project Saint Maurice S.A.	Real Estate	Paris	Euro	38.200	100.00%	Pirelli & C. Real Estate S.p.A.
Supertent Bis France S.A.	Energy Cables and Systems	Marne la Vallée	Euro	40.000	100.00%	Pirelli Energie Câbles et Systèmes France S.A.
<b>Germany</b>						
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.
Materialverwertungsgesellschaft Breuberg GmbH	Tyre	Breuberg/Odenwald	Euro	25.565	100.00%	Deutsche Pirelli Reifen Holding GmbH
Metzeler Reifen GmbH	Tyre	Breuberg/Odenwald	Euro	16.361.340	100.00%	Deutsche Pirelli Reifen Holding GmbH
Pirelli Deutschland A.G.	Tyre	Breuberg/Odenwald	Euro	26.075.886	100.00%	Deutsche Pirelli Reifen Holding 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 Holding GmbH	Energy Cables and Systems	Berlin	Euro	26.000	99.00%	Pirelli Cable Holding N.V.
					1.00%	Pirelli Cavi e Sistemi Energia S.p.A.
Pirelli Kabel und Systeme GmbH	Energy Cables and Systems	Berlin	Euro	50.000	100.00%	Pirelli Kabel und Systeme Beteiligungs GmbH
Pirelli Reifenwerke Geschäcftsfuehrungs GmbH	Services	Breuberg/Odenwald	Euro	25.565	100.00%	Deutsche Pirelli Reifen Holding 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.
<b>Greece</b>						
Elastika Pirelli S.A.	Tyre	Athens	Euro	785.370	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.
<b>Hungary</b>						
Kabel Keszleterekeesito 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 Ltd (in liquidation)	Energy Cables and Systems	Budapest	Hun. Forint'000	3.000	100.00%	Pirelli Cable Holding N.V.
Pirelli Hungary Tyre Trading and Services Ltd	Tyre	Budapest	Hun. Forint'000	3.000	100.00%	Lunares S.A.
<b>Ireland</b>						
Pirelli Reinsurance Company Ltd	Reinsurance	Dublin	US \$	7.150.000	100.00%	Pirelli Finance (Luxembourg) S.A.
<b>Italy</b>						
Acquario S.r.l. (in liquidation)	Real Estate	Genoa	Euro	255.000	100.00%	Pirelli & C. Real Estate S.p.A.
Agied S.r.l.	Real Estate	Milan	Euro	100.000	100.00%	Pirelli & C. Real Estate Property Management S.p.A.
Alfa S.r.l.	Real Estate	Milan	Euro	2.600.000	100.00%	Pirelli & C. Real Estate S.p.A.
Alfa Due S.r.l.	Real Estate	Milan	Euro	1.300.000	100.00%	Pirelli & C. Real Estate S.p.A.
Altomif S.r.l.	Real Estate	Milan	Euro	78.000	100.00%	Pirelli & C. S.p.A.
Cagisa S.p.A.	Real Estate	Milan	Euro	624.000	100.00%	Pirelli & C. Real Estate Property Management S.p.A.
Casaclick S.p.A.	Real Estate	Milan	Euro	1.635.210	99.08%	Pirelli & C. Real Estate Agenzia Residenziale S.p.A.
					0.27%	Pirelli & C. Luxembourg S.A.
Centrale Immobiliare S.p.A.	Real Estate	Milan	Euro	5.200.000	100.00%	Pirelli & C. Real Estate S.p.A.
Centro Servizi Amministrativi Pirelli S.r.l.	Services	Milan	Euro	51.000	100.00%	Pirelli S.p.A.
Driver Italia S.p.A.	Commercial	Milan	Euro	200.000	62.49%	Pirelli Pneumatici S.p.A.
Edilnord Gestioni S.p.A.	Real Estate	Milan	Euro	517.000	100.00%	Pirelli & C. Real Estate S.p.A.
Edilnord Progetti S.p.A.	Real Estate	Milan	Euro	250.000	100.00%	Pirelli & C. Real Estate S.p.A.
Elle Dieci Società Consortile a.r.l.	Real Estate	Milan	Euro	100.000	50.00%	Agied S.r.l.
					40.00%	Pirelli & C. Real Estate Property Management S.p.A.
Elle Tre Società Consortile a.r.l.	Real Estate	Milan	Euro	100.000	50.00%	Agied S.r.l.
					40.00%	Pirelli & C. Real Estate Property Management S.p.A.
Elle Uno Società Consortile a.r.l.	Real Estate	Milan	Euro	100.000	60.00%	Edilnord Gestioni S.p.A.
Est erogazione servizi e tecnologie S.p.A.		Milan	Euro	1.600.995	100.00%	OMS Facility S.r.l.
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.
Holdim S.r.l.	Real Estate	Milan	Euro	14.404	100.00%	Pirelli & C. Real Estate S.p.A.

Company	Business	Headquarters	Share Capital	Percentage ownership	Percentage of vote	Held by
<b>Italy</b>						
Iota S.r.l.	Real Estate	Milan	Euro	93.600	100.00%	Pirelli & C. Real Estate S.p.A.
Lambda S.r.l.	Real Estate	Milan	Euro	578.760	100.00%	Pirelli & C. Real Estate 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.
Moncalieri Center S.r.l.		Gavirate (VA)	Euro	22.000	100.00%	Alfa Due S.r.l.
OMS Facility S.r.l.		Ivrea (TO)	Euro	10.000	100.00%	Pirelli & C. Real Estate S.p.A.
Partecipazioni Real Estate S.p.A.	Real Estate	Milan	Euro	1.360.280	100.00%	Pirelli & C. Real Estate S.p.A.
Pirelli & C. Ambiente S.p.A.	Environment	Milan	Euro	3.060.000	100.00%	Pirelli & C. S.p.A.
Pirelli & C. Luxembourg S.p.A. (*)	Financial	Milan	Euro	183.600.000	100.00%	Pirelli & C. S.p.A.
Pirelli & C. Opere Generali S.p.A.	Real Estate	Milan	Euro	104.000	100.00%	Pirelli & C. Real Estate S.p.A.
Pirelli & C. Real Estate S.p.A.	Real Estate	Milan	Euro	20.302.491	61,20%	Pirelli & C. S.p.A.
					4,39%	Pirelli & C. Real Estate S.p.A.
Pirelli & C. Real Estate Agenzia Residenziale S.p.A.	Real Estate	Milan	Euro	520.000	100.00%	Pirelli & C. Real Estate S.p.A.
Pirelli & C. Real Estate Commercial Agency S.p.A.	Real Estate	Milan	Euro	832.000	100.00%	Pirelli & C. Real Estate S.p.A.
Pirelli & C. Real Estate Credit Servicing S.p.A.	Financial	Milan	Euro	5.200.000	100.00%	Pirelli & C. Real Estate S.p.A.
Pirelli & C. Real Estate Facility Management S.p.A.	Real Estate	Milan	Euro	561.000	100.00%	Pirelli & C. Real Estate S.p.A.
Pirelli & C. Real Estate Project Management S.p.A.	Real Estate	Milan	Euro	520.000	100.00%	Pirelli & C. Real Estate S.p.A.
Pirelli & C. Real Estate Property Management S.p.A.	Real Estate	Milan	Euro	114.400	100.00%	Pirelli & C. Real Estate S.p.A.
Pirelli & C. Real Estate Servizi di Rete S.p.A.	Real Estate	Milan	Euro	500.000	100.00%	Pirelli & C. Real Estate S.p.A.
Pirelli S.p.A. (*)	Holding	Milan	Euro	1.043.707.463	13,57%	Pirelli & C. S.p.A.
					26,30%	Pirelli & C. Luxembourg S.A.
					8,60%	Pirelli S.p.A.
Pirelli Cavi e Sistemi Energia S.p.A.	Energy 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 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	100.00%	Pirelli S.p.A.
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 S.p.A.
Pirelli Nastri Tecnici S.p.A. (in liquidation)	Sundry	Milan	Euro	384.642	100.00%	Pirelli S.p.A.
Pirelli Pneumatici Holding S.p.A.	Financial	Milan	Euro	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.
PTT - Promozione Imprese e Territorio S.c.r.l.					100.00%	
Polo Viaggi S.r.l.	Travel agency	Milan	Euro	46.800	100.00%	Pirelli S.p.A.
Progetti Creativi S.r.l.	Real Estate	Milan	Euro	51.000	100.00%	Pirelli & C. Real Estate Comercial Agency S.p.A.
Progetto Ambiente Alfa S.r.l.	Environment	Milan	Euro	25.500	100.00%	Pirelli & C. Ambiente S.p.A.
Progetto Ambiente Beta S.r.l.	Environment	Milan	Euro	25.500	100.00%	Pirelli & C. Ambiente S.p.A.
Progetto Ambiente Gamma S.r.l.	Environment	Milan	Euro	25.500	100.00%	Pirelli & C. Ambiente S.p.A.
Progetto Bicocca Centro Tecnologico S.r.l.	Real Estate	Milan	Euro	93.600	100.00%	Pirelli & C. Real Estate S.p.A.
Progetto Bicocca Esplanade S.p.A.	Real Estate	Milan	Euro	2.500.000	100.00%	Pirelli & C. Real Estate S.p.A.
Progetto Bicocca Il Centro S.r.l.	Real Estate	Milan	Euro	93.000	100.00%	Pirelli & C. Real Estate S.p.A.
Progetto Grande Bicocca S.r.l.	Real Estate	Milan	Euro	93.600	100.00%	Pirelli & C. Real Estate S.p.A.
Progetto Grande Bicocca Multisala S.r.l.	Real Estate	Milan	Euro	1.530.000	100.00%	Pirelli & C. Real Estate S.p.A.
Progetto Moncalieri S.r.l.	Real Estate	Milan	Euro	90.000	100.00%	Pirelli & C. Real Estate S.p.A.
Progetto Salute Bollate S.r.l.	Real Estate	Milan	Euro	100.000	100.00%	Pirelli & C. Real Estate S.p.A.
Rofau S.r.l.	Real Estate	Milan	Euro	10.000	100.00%	Altifim S.r.l.
Servizi Amministrativi Real Estate S.p.A.	Real Estate	Milan	Euro	520.000	100.00%	Pirelli & C. Real Estate 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%	Alfa Due S.r.l.
					1,00%	Pirelli & C. S.p.A.
					1,00%	Pirelli & C. Real Estate S.p.A.
Sistema Puntogomme S.p.A.	Tyre	Milan	Euro	3.060.000	100.00%	Pirelli Pneumatici Holding S.p.A.
Trefin S.r.l.	Financial	Milan	Euro	4.242.476	100.00%	Pirelli S.p.A.
<b>Luxembourg</b>						
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.
Pirelli Financial Services Company S.A.	Financial	Luxembourg	Euro	35.000	100.00%	Pirelli Finance (Luxembourg) S.A.
Pirelli International Finance S.A.	Insurance	Luxembourg	Euro	35.000	100.00%	Pirelli Finance (Luxembourg) S.A.
<b>Norway</b>						
Pirelli Kabler og Systemer AS	Energy Cables and Systems	Ski	Nor. Krone	100.000	100.00%	Pirelli Cables and Systems OY
<b>Poland</b>						
Pirelli Polska Sp.z.o.o.	Tyre	Warsaw	Pol. Zloty/mil.	6.258	100.00%	Lunares S.A.
<b>Portugal</b>						
Descos Fabrica Portuguesa de Material Electrico e Electronico S.A.	Energy Cables and Systems	Arcozelo Vnagaia	Euro	1.545.000	70,93% 29,07%	Pirelli Energie Câbles et Systèmes France S.A. Eurelectric S.A.
<b>Romania</b>						
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.

(\*) Merged by incorporation in Pirelli & C. S.p.A., effective for accounting and tax purposes from January 1, 2003 and for legal purposes from August 4, 2003

Company	Business	Headquarters	Share Capital	Percentage ownership	Percentage of vote	Held by
<b>Russia</b>						
OOO Pirelli Tyre Russia	Commercial	Moscow	Russian Rouble	950.000	95.00% 5.00%	Lunares S.A. Pirelli Tyre Holding N.V.
<b>Slovakia</b>						
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.
<b>Spain</b>						
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	Torredembarra	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.
<b>Sweden</b>						
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.
<b>Switzerland</b>						
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 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.
<b>The Netherlands</b>						
Pirelli Cables and Systems N.V.	Energy Cables and Systems	Delft	Euro	5.000.000	100.00%	Pirelli Cable Holding N.V.
Pirelli Cable Holding N.V.	Energy 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	Delft	Euro	10.000.000	100.00%	Pirelli Cavi e Sistemi Telecom S.p.A.
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.
Pirelli Tyre Holding N.V.	Tyre holding company	Breukelen	Euro	250.000.000	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	13.021.222	100.00%	Pirelli S.p.A.
<b>Turkey</b>						
Celikord A.S.	Tyre	Istanbul	Turk. Lira/mil.	27.000.000	50,466% 0,27%	Pirelli Tyre Holding N.V. Pirelli Pneumatici Holding S.p.A.
Turk-Pirelli Lastikleri A.S.	Tyre	Istanbul	Turk. Lira/mil.	134.000.000	62,45% 0,08% 0,08% 0,08% 0,08% 0,08% 0,08% 0,08%	Pirelli Tyre Holding N.V. Pirelli Deutschland A.G. Pirelli UK Tyres Ltd Pirelli Pneumatici S.p.A. Lunares S.A. Pirelli Pneumatici Holding S.p.A. Metzeler Reifen GmbH Pirelli Reifenwerke GmbH & Co. K.G. Pirelli Neumaticos S.A.
Türk Pirelli Kablo ve Sistemleri A.S.	Energy Cables and Systems	Mudania / Bursa	Turk. Lira/mil.	9.828.000	83,75%	Pirelli Cable Holding N.V.
Zalsan Zirai Arac Lastikleri A.S.	Tyre	Istanbul	Turk. Lira/mil.	3.283.000	70.00%	Turk-Pirelli Lastikleri A.S.
<b>United Kingdom</b>						
Aberdare Cables Ltd	Energy Cables and Systems	London	British Pound	609.654	100.00%	Pirelli General plc
Cable Makers Properties and Services Ltd	Energy Cables and Systems	East Molesey	British Pound	33	63.53%	Pirelli General plc
Central Tyre Ltd	Tyre	London	British Pound	100.000	100.00%	Pirelli UK Tyres Ltd
Comergy Ltd	Energy Cables and Systems	London	British Pound	1.000.000	100.00%	Pirelli Cable Holding N.V.
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 Ltd	Tyre	London	British Pound	984	100.00%	Central Tyre Ltd
Pirelli Cables Ltd	Energy Cables and Systems	London	British Pound	100.000	100.00%	Pirelli General plc
Pirelli Cables (2000) Ltd	Energy Cables and Systems	London	British Pound	118.653.473	100.00%	Pirelli General plc
Pirelli Cables (Industrial) Ltd	Energy Cables and Systems	London	British Pound	9.010.935	100.00%	Pirelli General plc
Pirelli Cables (Supertension) 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.
Pirelli Construction Company Ltd	Energy Cables and Systems	London	British Pound	8.000.000	100.00%	Pirelli General plc
Pirelli Focum Ltd	Energy Cables and Systems	London	British Pound	6.447.000	100.00%	Pirelli General plc
Pirelli General plc	Cables and Systems	London	British Pound	144.139.360	100.00%	Pirelli UK plc "B1"/"B2"
Pirelli International Ltd	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 Telecom Cables and Systems UK Ltd	Telecom 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 Ltd	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	85.535.300	100.00%	Pirelli Tyre Holding N.V.
Pirelli UK plc "B1"	Energy Cables and Systems holding company	London	British Pound	69.188.889	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	85.000.000	100.00%	Pirelli UK plc "A"

Company	Business	Headquarters	Share Capital	Percentage ownership	Percentage of vote	Held by	
<b>North America</b>							
<b>Canada</b>							
Pirelli Power Cables and Systems Canada Ltd	Energy Cables and Systems	Saint John (New Brunswick) Frederic Town (New Brunswick)	Can. \$	40.000.000	100.00%	Pirelli Cable Holding N.V.	
Pirelli Tire Inc.	Tyre		Can. \$	6.000.000	100.00%	Lunares S.A.	
<b>U.S.A.</b>							
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 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"	
<b>Central/South America</b>							
<b>Argentina</b>							
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 Societé Générale S.A.	
Pirelli Consultora Conductores e Instalaciones S.A.I.C.	Energy Cables and Systems	Buenos Aires	Arg. Peso	2.227	99,996%	Pirelli Cable Holding N.V.	
					0,004%	Pirelli Energie Câbles et Systemes France S.A.	
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 Telecomunicações Cabos e Sistemas do Brasil S.A.	
Tel 3 S.A.	Energy Cables and Systems	Buenos Aires	Arg. Peso	7.822.000	51.00%	Pirelli Energia Cables y Sistemas de Argentina S.A.	
<b>Brazil</b>							
Cordas Metalicas do Brasil Ltda	Tyre	Sumaré	Bra. Real	1.000	99,90%	Pirelli Pneus S.A.	
					0,10%	Muriaè Ltda	
Muriaè Ltda	Financial	Santo André	Bra. Real	80.000.000	100.00%	Pirelli Pneus S.A.	
						Pirelli S.A.	
Novacorp Consultora e Serviços Corporativos Ltda	Holding	Santo André	Bra. Real	6.000	99,98%	Pirelli S.A.	
Pirelli & C. Real Estate Ltda	Information Systems	Santo André	Bra. Real	2.000.000	30,00%	Pirelli S.A.	
					60,00%	Pirelli & C. Real Estate S.p.A.	
Pirelli Energia Cabos e Sistemas do Brasil S.A.	Energy Cables and Systems	Santo André	Bra. Real	106.824.993	87,202%	Pirelli Cavi e Sistemi Energia S.p.A.	
					12,218%	10,350%	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 André	Bra. Real	342.085.095	54,83%	19,03%	Pirelli Pneumatici S.p.A.
					41,21%	79,74%	Pirelli Tyre Holding N.V.
					3,67%	0,78%	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 André	Bra. Real	45.848.684	100.00%	Pirelli S.p.A.	
Pirelli Telecomunicações Cabos e Sistemas do Brasil S.A.	Telecom Cables and Systems	Sorocaba	Bra. Real	65.236.771	87,30%	88,78%	Pirelli Cavi e Sistemi Telecom S.p.A.
					12,22%	10,35%	Pirelli S.A.
Pneuc Comercial e Importadora Ltda	Tyre	San Paulo	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.	
<b>Chile</b>							
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	
<b>Colombia</b>							
Pirelli de Colombia S.A.	Tyre	Santa Fe De Bogota	Col. Peso/000	3.315.069	92,91%	Pirelli Pneus S.A.	
					2,28%	Pirelli de Venezuela C.A.	
					1,60%	Muriaè Ltda	
					1,60%	Pirelli Pneus Nordeste Ltda	
					1,60%	Pneuc Comercial e Importadora Ltda	
<b>Mexico</b>							
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	
<b>Uruguay</b>							
Cite S.A.	Energy Cables and Systems	Montevideo	Urug. Peso	4.900.000	100.00%	Pirelli Energia Cabos e Sistemas do Brasil S.A.	
<b>Venezuela</b>							
Pirelli de Venezuela C.A.	Tyre	Valencia	Ven. Bolivar/000	13.062.679	96,22%	Pirelli Tyre Holding N.V.	

Company	Business	Headquarters	Share Capital	Percentage ownership	Percentage of vote	Held by
<b>Africa</b>						
<b>Egypt</b>						
Alexandria Tire Company S.A.E.	Tyre	Alexandria	Egy. Pound	393.000.000	80,56%	Pirelli Pneumatici Holding S.p.A.
International Tire Company Ltd	Tyre	Alexandria	Egy. Pound	50.000	96,00%	Pirelli Pneumatici S.p.A. Alexandria Tire Company S.A.E.
<b>Ivory Coast</b>						
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.
<b>South Africa</b>						
Pirelli Cables & Systems (Proprietary) Ltd	Commercial	Woodmead, S.A.	S.A. Rand	100	100,00%	Pirelli Cavi e Sistemi Energia S.p.A.
Pirelli Tyre (Pty) Ltd	Tyre	Sandton	S.A. Rand	1	100,00%	Lunares S.A.
<b>Tunisia</b>						
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.
<b>Oceania</b>						
<b>Australia</b>						
Pirelli Power Cables & Systems Australia Pty Ltd	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 Ltd	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.
<b>New Zealand</b>						
Pirelli Power Cables & Systems New Zealand Ltd	Energy Cables and Systems	Auckland	N.Z. \$	10.000	100,00%	Pirelli Power Cables & Systems Australia Pty Ltd
Pirelli Telecom Cables & Systems New Zealand Ltd	Telecom Cables and Systems	Auckland	N.Z. \$	10.000	100,00%	Pirelli Telecom Cables & Systems Australia Pty Ltd
Pirelli Tyres (NZ) Ltd	Tyre	Wellington	N.Z. \$	100	100,00%	Pirelli Tyres Australia Pty Ltd
<b>Asia</b>						
<b>China</b>						
BICCGeneral Baosheng Cable Co. Ltd	Energy Cables and Systems	Jiangsu	US \$	19.500.000	67,00%	Pirelli Cables Asia-Pacific Pte Ltd
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 \$	29.941.250	71,843%	Pirelli Cable Overseas N.V.
Tianjin Top Power Cables Co. Ltd	Energy Cables and Systems	Tianjin Municipality	US \$	13.100.000	67,000%	Pirelli Cable Holding N.V.
<b>India</b>						
Pirelli Cables (India) Private Ltd	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.
<b>Indonesia</b>						
P.T. Pirelli Cables Indonesia	Energy Cables and Systems	Jakarta	US \$	67.300.000	99,48% 0,52%	Pirelli Cable Holding N.V. Pirelli Cavi e Sistemi Energia S.p.A.
<b>Japan</b>						
P & A K.K.	Tyre	Tokyo	Jap. Yen	2.700.000.000	69,15%	Pirelli Tyre Holding N.V.
Pirelli K.K.	Tyre	Tokyo	Jap. Yen	40.000.000	100,00%	Lunares S.A.
<b>Malaysia</b>						
BICC (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.
<b>Singapore</b>						
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.
Trans-Power Cables Pte Ltd	Energy Cables and Systems	Singapore	Sing. \$	1.500.000	100,00%	Pirelli Cable Holding N.V.

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**Other investments in subsidiaries and associated companies**


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Company	Business	Headquarters	Share Capital	Percentage ownership	Percentage of vote	Held by
<b>Europe</b>						
<b>Italy</b>						
G6 Advisor	Financial	Milan	Euro	50.000	42,30%	Pirelli & C. Real Estate Comercial Agency S.p.A.
Progetto Bicocca Università S.r.l.	Financial	Milan	Euro	873.600	34,00%	Pirelli & C. Real Estate S.p.A.

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**Investments accounted for using the equity method**


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Company	Business	Headquarters	Share Capital	Percentage ownership	Percentage of vote	Held by
<b>Jointly controlled companies</b>						
<b>Europe</b>						
<b>Italy</b>						
Olimpia S.p.A.	Industrial holding company	Milan	Euro 1.860.233.510	50,40%		Pirelli S.p.A.
<b>Subsidiaries</b>						
<b>Europe</b>						
<b>Germany</b>						
Drahtcord Saar Geschaefstfuehrungs 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
<b>Italy</b>						
Altair Zander Italia S.r.l.	Real Estate	Milan	Euro 10.330	50,00%		Pirelli & C. Real Estate Facility Management S.p.A.
Auriga Immobiliare S.r.l.	Real Estate	Milan	Euro 25.602.000	36,02%		Pirelli & C. Real Estate S.p.A.
Beta S.r.l.	Real Estate	Milan	Euro 26.000	47,00%		Partecipazioni Real Estate S.p.A.
CFT Finanziaria S.p.A.	Real Estate	Florence	Euro 23.660.000	46,98%		Partecipazioni Real Estate S.p.A.
Delta S.p.A.	Real Estate	Milan	Euro 153.000	47,50%		Pirelli & C. Real Estate S.p.A.
Dixia S.r.l.	Real Estate	Milan	Euro 2.500.000	30,00%		Pirelli & C. Real Estate S.p.A.
Domogest S.r.l.	Real Estate	Florence	Euro 1.050.000	50,00%		Centrale Immobiliare S.p.A.
Elle Nove Società Consortile a.r.l.	Real Estate	Milan	Euro 100.000	34,90%		Edilnord Gestioni S.p.A.
Emmegiesse S.p.A.			Euro 250.000	51,00%		Est erogazione servizi e tecnologie S.p.A.
Eurostazioni S.p.A.	Investment holdings	Rome	Euro 60.000.000	31,67%		Pirelli & C. S.p.A.
Geoldro S.p.A.		Naples	Euro 3.099.096	49,00%		Centrale Immobiliare S.p.A.
Idea Granda S. Consortile r.l.	Environment	Cuneo	Euro 1.292.500	49,00%		Pirelli & C. Ambiente S.p.A.
Immobiliare Prizia S.r.l.	Real Estate	Milan	Euro 469.000	36,00%		Pirelli & C. Real Estate S.p.A.
Induxia S.r.l.	Real Estate	Milan	Euro 836.300	18,00%		Pirelli & C. Real Estate S.p.A.
Iniziativa Immobiliari S.r.l.	Real Estate	Milan	Euro 4.312.591	38,45%		Pirelli & C. Real Estate S.p.A.
Orione Immobiliare Prima S.p.A.	Real Estate	Milan	Euro 104.000	35,00%		Pirelli & C. Real Estate S.p.A.
Ortensia S.r.l.	Real Estate	Valdarno (VI)	Euro 100.000	20,00%		Pirelli & C. Real Estate S.p.A.
Progetto Bicocca la Piazza S.r.l.	Real Estate	Milan	Euro 3.151.800	26,00%		Pirelli & C. Real Estate S.p.A.
Progetto Corsico S.r.l.	Real Estate	Milan	Euro 100.000	49,00%		Pirelli & C. Real Estate S.p.A.
Progetto Fontana S.r.l.	Real Estate	Milan	Euro 500.000	23,00%		Pirelli & C. Real Estate S.p.A.
Progetto Gioberti S.r.l.	Real Estate	Milan	Euro 100.000	50,00%		Pirelli & C. Real Estate S.p.A.
Progetto Lainate S.r.l.	Real Estate	Milan	Euro 25.500	25,00%		Pirelli & C. Real Estate S.p.A.
Regus Business Centres Italia S.p.A.	Real Estate	Milan	Euro 2.500.000	35,00%		Pirelli & C. Real Estate S.p.A.
SMP Melfi S.r.l.	Tyre	Melito (NA)	Euro 3.511.906	50,00%		Pirelli Pneumatici Holding S.p.A.
Tintoretto S.r.l.	Real Estate	Milan	Euro 10.000	100,00%		Partecipazioni Real Estate S.p.A.
Trixia S.r.l.	Real Estate	Milan	Euro 1.209.700	36,00%		Pirelli & C. Real Estate S.p.A.
Verdi S.r.l.	Real Estate	Milan	Euro 20.000	43,74%		Pirelli & C. Real Estate S.p.A.
<b>Luxembourg</b>						
Inimm Due S.a.r.l.	Real Estate	Luxembourg	Euro 240.950	25,00%		Pirelli & C. Real Estate S.p.A.
IN Holdings 1 S.a.r.l.	Real Estate	Luxembourg	Euro 3.768.500	25,00%		Pirelli & C. Real Estate S.p.A.
M.S.M.C. Solferino S.a.r.l.	Real Estate	Luxembourg	Euro 136.700	31,25%		Pirelli & C. Real Estate S.p.A.
<b>Spain</b>						
Optewire S.L.	Energy Cables and Systems	Barcelona	Euro 6.010	50,00%		Pirelli Cables y Sistemas S.A.
<b>The Netherlands</b>						
M.S.M.C. Italy Holding B.V.	Real Estate	Amsterdam	Euro 18.151	25,00%		Pirelli & C. Real Estate S.p.A.
Masseto 1 B.V.	Real Estate	Amsterdam	Euro 19.000	33,00%		Pirelli & C. Real Estate S.p.A.
Popoy Holding B.V.	Financial	Rotterdam	Euro 26.550	25,05%		Pirelli & C. Real Estate S.p.A.
Spazio Industriale B.V.	Real Estate	Amsterdam	Euro 763.077	25,00%		Pirelli & C. Real Estate S.p.A.
<b>United Kingdom</b>						
Rodco Ltd	Energy Cables and Systems	Gravesend	British Pound 5.000.000	40,00%		Pirelli General plc

Company	Business	Headquarters	Share Capital	Percentage ownership	Percentage of vote	Held by
<b>Central/South America</b>						
<b>Argentina</b>						
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.
<b>Brazil</b>						
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.
<b>Asia</b>						
<b>Saudi Arabia</b>						
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.

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**Other investments in subsidiaries and associated companies**


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Company	Business	Headquarters	Share Capital	Percentage ownership	Percentage of vote	Held by
<b>Europe</b>						
<b>Austria</b>						
Pirelli Kabelwerke und Systeme GmbH (*)	Energy Cables and Systems	Vienna	Euro	36.336	100,00%	Pirelli Cavi e Sistemi Energia S.p.A.
<b>Germany</b>						
Industriekraftwerk Breuberg GmbH	Cogeneration	Hoechst/Odenwald	Euro	1.533.876	26,00%	Pirelli Deutschland AG
<b>Hungary</b>						
Ipoly Kabeldob KFT.	Energy Cables and Systems	Szecsény	Hun. Forint/000	36.350	25,17%	MKM Magyar Kabel Muvek Rt.
<b>Italy</b>						
Localto S.p.A.	Financial	Milan	Euro	5.200.000	35,00%	Partecipazioni Real Estate S.p.A.
LSF Italian Finance Company S.p.A. (*)	Financial	Milan	Euro	100.000	100,00%	Partecipazioni Real Estate S.p.A.
Parcheggi Bicocca S.r.l. (*)	Real Estate	Milan	Euro	1.500.000	75,00%	Pirelli & C. Real Estate S.p.A.
<b>Spain</b>						
Euro Driver Car S.L.	Tyre	Barcelona	Euro	492.000	25,00%	Pirelli Neumaticos S.A.
					26,22%	Proneus S.L.
Proneus S.L. (*)	Tyre	Barcelona	Euro	3.005,06	51,00%	Pirelli Neumaticos S.A.
<b>United Kingdom</b>						
Pirelli & C. Real Estate Ltd. (*)	Real Estate	London	Euro	100.000	100,00%	Pirelli & C. Real Estate S.p.A.
<b>Africa</b>						
<b>South Africa</b>						
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) Ltd
ATC (Proprietary) Ltd	Energy Cables and Systems	Bris	S.A. Rand	632.912	21,00%	African Cables Ltd
<b>Zimbabwe</b>						
BICC CAFCA Ltd (*)	Energy Cables and Systems	Harare	Zimbabwe \$	15.706.000	73,46%	African Cables Ltd
BICC (CENTRAL AFRICA) (Private) Ltd (*)	Energy Cables and Systems	Harare	Zimbabwe \$	200.000	100,00%	BICC CAFCA Ltd
Zimbabwe Cables (Pte) Ltd (*)	Energy Cables and Systems	Harare	Zimbabwe \$	2	100,00%	BICC CAFCA Ltd
<b>Asia</b>						
<b>Malaysia</b>						
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

(\*) These investments have not been consolidated in that they are not material or the rights of the parent company are subject to restriction or the holding were recently acquired.

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**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
<b>Australia</b>						
Optix Australia Ltd	Telecom Cables and Systems	Tottenham (Victoria)	Aus. \$ 4.000.000	15,00%		Pirelli Telecom Cables & Systems Australia Pty Ltd
<b>Belgium</b>						
Euroque S.A.	Services	Bruxelles	Euro 94.961.250	17,79%		Pirelli & C. Luxembourg S.A.
<b>France</b>						
Aliapur S.A.	Tyre	Vitry sur Seine	Euro 262.500	14,29%		Pirelli Pneumatici S.p.A.
<b>Italy</b>						
Bemini Immobiliare S.r.l.	Real Estate	Milan	Euro 500.000	14,00%		Pirelli & C. Real Estate S.p.A.
Eurofly Service S.p.A.	Services	Caselle Torinese	Euro 4.275.000	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.
Fin. Priv. S.r.l.	Financial	Milan	Euro 20.000	7,14%		Pirelli S.p.A.
Servizio Titoli S.r.l.	Services	Turin	Euro 105.000	12,38%		Pirelli S.p.A.
Tecnocittà S.r.l. (in liquidation)	Real Estate	Milan	Euro 547.612	12,00%		Pirelli & C. Real Estate S.p.A.
<b>Poland</b>						
Centrum Utylizacji Opon Organizacja Odzyseu S.A.	Tyre	Warsaw	Pol. Zloty 1.008.000	14,00%		Pirelli Polska Sp.z.o.o.
<b>Switzerland</b>						
Voltimum S.A.	Energy Cables and Systems	Meyrin	Swiss Franc 2.968.970	13,71%		Pirelli Cavi e Sistemi Energia S.p.A.
<b>The Netherlands</b>						
MB Venture Capital Fund I Participating Company G.N.V.	Financial	Amsterdam	Euro 50.000	14,00%		Pirelli Finance (Luxembourg) S.A.
<b>Tunisia</b>						
Société Tunisienne des Industries de Pneumatiques S.A.	Tyre	Tunis	Tun. Dinar 38.252.940	15,83%		Pirelli Pneumatici S.p.A.
<b>Turkey</b>						
Türk Sondel Enerji A.S. (*)	Cogeneration	Istanbul	Türk. Lira/mil. 900.000	13,98% 4,99%		Türk-Pirelli Lastikleri A.S. Celikord A.S.

(\*) The percentage of ownership does not take into account the capital increase voted by the Türk Sondel Enerji A.S. shareholders' meeting on October 22, 2002, the execution of which is subject to the outcome of the decisions of the pertinent local authorities to which the resolution for the capital increase was contested.

The execution of this capital increase would bring the investment held in Türk Sondel Enerji A.S., with the number of shares held unchanged, 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 INTERIM FINANCIAL REPORTING FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2003**

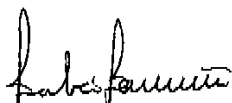
To the Shareholders of  
Pirelli & C. SpA

- 1 We have performed a limited review of the interim financial reporting of Pirelli & C. SpA for the six months period ended 30 June 2003, consisting of consolidated balance sheet, income statement and related comments notes and balance sheet and income statement for holding company. 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, reference should be made to the reports issued by the former auditor on 18 April 2003 and on 12 September 2002.

- 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 paragraph 1 of this report, in order to make them consistent with the criteria for the preparation of interim financial reporting established by article 81 “half yearly report” of CONSOB Regulation approved by Resolution n° 11971 of 14 May 1999 and subsequent modifications.

Milan, 8 September 2003

PricewaterhouseCoopers SpA



Fabio Facchini  
(Partner)

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