



Pirelli & C. Società per Azioni

Quarterly Report
Third Quarter 2003

PIRELLI & C. Società per azioni

Registered office in Milan, Via G. Negri 10

Share Capital - Euros 1,799,399,399.20

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

Honorary Chairman	Leopoldo Pirelli
Chairman	Marco Tronchetti Provera
Deputy Chairman	Alberto Pirelli
Deputy Chairman	Carlo Alessandro Puri Negri
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Chairman	Luigi Guatri
Standing members	Roberto Bracchetti Paolo Francesco Lazzati
Alternate members	Franco Ghiringhelli Sebastiano Guido

General Managers

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

(*) passed away on November 3, 2003

PIRELLI & C. S.p.A. - MILAN
Quarterly Report – 3rd Quarter 2003

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REPORT ON OPERATIONS

Introduction

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

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

Pirelli & C. S.p.A. has therefore prepared the third-quarter report ending September 30, 2003, as it did for the six-months report ending June 30, 2003, giving effect to the merger for accounting and tax purposes as from January 1, 2003.

Performance of the Group

Performance by the Group's industrial operations for the first nine months of 2003 displayed an improved operating profit, even though the scenario was still negatively influenced by the demand for telecommunications infrastructures, where volumes remained at low levels and pressures were stepped up to reduce prices. In the Energy Sector, Utilities investments went forward at a slow pace, especially in Europe in the low- and medium-voltage segments, accompanied by price pressures. The Tyres Sector made gains and recorded continuously rising results backed by the positive contributions of the Performance and Winter segments.

The improvement in operating profit confirms the continuous growth in profitability now underway in the Tyres Sector (+16 percent) and the benefits gained from the restructuring measures that were implemented on a timely basis by Group management in the Energy Cables and Systems Sector and the Telecom Cables and Systems Sector. The Energy Cables and Systems Sector, in particular, recorded an increase in operating profit of more than 54 percent compared to the first nine months of 2002 and the Telecom Cables and Systems Sector posted a significant improvement in operations.

The value of gross efficiencies achieved during the first nine months of 2003 exceeds Euros 130 million. Such measures have also made it possible to combat the negative impact of the foreign exchange effect quantifiable in about Euros 24 million.

The Real Estate Sector, led by the Pirelli & C. Real Estate group, recorded a growth of 41 percent in aggregate production value (the benchmark for the business model) and an increase of 25 percent in operating profit including the share of earnings (losses) of equity investments, compared to the first nine months of 2002.

As far as the main sectors of real estate operations are concerned, Asset Management (excluding land) reported aggregate production value, net of acquisitions, of some Euros 718 million, compared to Euros 509 million for the first nine months of 2002, with an increase of 41 percent. New acquisitions total approximately Euros 1,085 million.

Asset Management Land and Urbanization, which strategically focuses on the urban development of the majority of the land sites in ventures that will be managed and invested in by property development business units, recorded aggregate production value, net of acquisitions, of Euros 47 million. Production value includes proceeds of Euros 39 million on the sale of land to a property development business unit.

The Service Provider business, fully consolidated, recorded production value of Euros 213 million compared to Euros 136 million for the first nine months of 2002, with an increase of more than 56 percent. The operating profit of this business was Euros 29 million, compared to Euros 18 million for the first nine months of 2002.

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

The net result of the parent company, Pirelli & C. S.p.A., for the nine months ended September 30, 2003, including the economic effects of the merger of Pirelli & C. Luxembourg S.p.A. and Pirelli S.p.A. in Pirelli & C. S.p.A., was a loss of Euros 53 million. The loss was due mainly to the financial 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 annual financial statements for the year ended December 31, 2003.

The net result for the same period of the prior year (a net income of Euros 132 million) benefited from Euros 137 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 third quarter

- Between July and September, Pirelli Real Estate Agency finalized two important contracts for the sale of properties worth some Euros 650 million:
 - the first, under a Temporary Business Association (70 percent Pirelli Real Estate and 30 percent Ipi), is for the sale of 29 mainly residential properties owned by Initium (a joint venture between Generali Properties and Lehman Brothers) for a total sales value of about Euros 350 million;
 - the second, with Investire Immobiliare S.g.r., involves the sale of 14 properties of Fondo Investire Residenziale 2 for a sales value of about Euros 300 million;

- on July 25, the consortium headed by Pirelli Real Estate was pre-qualified for the international bid for the sale and redevelopment of the Milan Trade Fair complex. The project was assigned to Renzo Piano;

- on September 12, 2003, at Feira de Santana in the Brazilian state of Bahia, Pirelli inaugurated a new factory for the production of high-performance radial tyres. The outcome of an initial investment of some U.S. \$120 million and situated on 32 thousand square meters, the new plant facilities will initially manufacture 2,500 tyres a day, destined for the domestic market and the Latin American region as well as the North American and European markets;

- in September, J.D. Power and Associates, one of the most important US market analysis institutes, announced the results of a survey in which American motorists chose Pirelli tyres as the best on the market. In the annual survey rating original equipment

tyres, conducted with 30,400 new car owners for at least two years, Pirelli obtained the highest rating for adherence, driving, quality of design and handling;

- in September, Pirelli Real Estate, along with two institutional investors, signed a Memorandum of Understanding for the acquisition and management of 43 mainly residential properties worth about Euros 160 million;
- during the third quarter, 27,538,918 Capitalia S.p.A. shares were bought at an average per share price of Euros 1.74 for Euros 47.9 million. At the beginning of October, another 14,391,082 shares were purchased at an average per share price of Euros 2.19 for Euros 31.5 million.

The shares thus purchased (41,930,000, equal to 1.9 percent of share capital for a total of Euros 79.4 million, corresponding to an average per share price of Euros 1.89) were contributed to a voting trust for the period October 22, 2003 to October 22, 2006.

THE GROUP

The consolidated figures of the Group for the nine months ending September 30, 2003:

(in millions of euros)

	3rd quarter 2003	3rd quarter 2002	9 months to 9/30/2003	9 months to 9/30/2003	9 months to 9/30/2002	Year 2002
	(excluding Olimpia)					
. Net sales	1,630	1,533	4,928	4,928	5,027	6,718
. Gross operating profit	146	103	468	468	408	523
% of net sales	9.0%	6.7%	9.5%	9.5%	8.1%	7.8%
. Operating profit	55	4	197	197	105	118
% of net sales	3.4%	0.3%	4.0%	4.0%	2.1%	1.8%
. Share of earnings (losses) of equity	(19)	(42)	24	(41)	(85)	(175)
. Operating profit (loss) including share of earnings (losses) of equity investments	36	(38)	221	156	20	(57)
. Financial income (expenses)	(31)	(42)	(105)	(105)	(129)	(178)
. Extraordinary items	3	(258)	1	1	(59)	(83)
. Income taxes	(20)	(17)	(85)	(85)	(94)	(87)
. Net income (loss)	(12)	(355)	32	(33)	(262)	(405)
% of net sales	n.s.	n.s.	0.6%	n.s.	n.s.	n.s.
. Net income (loss) attributable to Pirelli & C.				(53)	(17)	(58)
. Earnings per share (in euros)				(0.02)	(0.03)	(0.09)
. Shareholders' equity				3,768	4,813	4,626
. Net equity attributable to Pirelli & C. S.p.A.				3,465	1,984	1,933
. Equity per share (in euros)				1.00	3.04	2.96
. Net financial (liquidity)/debt position				1,518	2,201	2,050
. R&D expenditures				159	175	219
. Employees (at period-end)				36,863	38,355	37,350
. Factories (number)				77	80	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 positions are provided according to business sector.

By “industrial aggregate” is meant the sum of the data of the industrial sectors, that is, the Energy Cables and Systems Sector, Telecom Cables and Systems Sector and Tyres Sector.

(in millions of euros)

	Energy Cables & Systems		Telecom Cables & Systems		Tyres		INDUSTR. AGGREGATE	
	9 months to 9/30/2003	9 months to 9/30/2002	9 months to 9/30/2003	9 months to 9/30/2002	9 months to 9/30/2003	9 months to 9/30/2002	9 months to 9/30/2003	9 months to 9/30/2002
. Net sales	1,966	2,306	322	380	2,250	2,155	4,538	4,841
. Gross operating profit (loss)	116	109	(3)	(10)	311	284	424	383
. % of net sales	5.9%	4.7%	n.s.	n.s.	13.8%	13.2%	9.3%	7.9%
. Operating profit (loss)	51	33	(31)	(56)	174	150	194	127
. % of net sales	2.6%	1.4%	n.s.	n.s.	7.7%	7.0%	4.3%	2.6%
. Share of earn. (loss.) of equity invest.	(1)	-	-	-	-	-	(1)	-
. Oper.profit (loss) including share of earnings (loss.) of equity investm.	50	33	(31)	(56)	174	150	193	127
. Financial income (expenses)	(21)	(35)	(14)	(14)	(36)	(42)	(71)	(91)
. Extraordinary items	8	(116)	2	(116)	11	(9)	21	(241)
. Income taxes	(14)	(13)	-	7	(55)	(37)	(69)	(43)
. Net income (loss)	23	(131)	(43)	(179)	94	62	74	(248)
. % of net sales	1.2%	n.s.	n.s.	n.s.	4.2%	2.9%	1.6%	n.s.
. Net financial (liquidity)/debt position	385	502	428	425	477	562	1,290	1,489

(in millions of euros)

	Industrial Aggregate		Pirelli & C. Real Estate		Other		TOTAL	
	9 months to 9/30/2003	9 months to 9/30/2002	9 months to 9/30/2003	9 months to 9/30/2002	9 months to 9/30/2003	9 months to 9/30/2002	9 months to 9/30/2003	9 months to 9/30/2002
. Net sales	4,538	4,841	413	223	(23)	(37)	4,928	5,027
. Gross operating profit (loss)	424	383	54	48	(10)	(23)	468	408
. % of net sales	9.3%	7.9%					9.5%	8.1%
. Operating profit (loss)	194	127	42	41	(39) *	(63)	197	105
. % of net sales	4.3%	2.6%					4.0%	2.1%
. Share of earn. (loss.) of equity invest.	(1)	-	30	16	(70) **	(101)	(41)	(85)
. Oper.profit (loss) including share of earnings (loss.) of equity investm.	193	127	72	57	(109)	(164)	156	20
. Financial income (expenses)	(71)	(91)	-	(2)	(34)	(36)	(105)	(129)
. Extraordinary items	21	(241)	-	51	(20)	131	1	(59)
. Income taxes	(69)	(43)	(20)	(26)	4	(25)	(85)	(94)
. Net income (loss)	74	(248)	52	80	(159)	(94)	(33)	(262)
. % of net sales	1.6%	n.s.					n.s.	n.s.
. Net financial (liquidity)/debt position	1,290	1,489	49	33	179	679	1,518	2,201

* of which, goodwill amortization on purchases of Pirelli S.p.A. shares, Euros 19 million (Euros 22 million in the first nine months of 2002)

** accounting for Olimpia S.p.A. using the equity method, Euros 65 million (Euros 82 million in the first nine months of 2002)

Net sales

Net sales amount to Euros 4,928 million for the nine months ending September 30, 2003, with a decrease of about 2 percent compared to the corresponding period of the prior year. Excluding the foreign exchange effect (-7.5 percent), offsetting metal price variations in the Energy business (-2.1 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 +9.3 percent, mainly due to higher volumes in the Tyres Sector.

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 by acquiring qualified minority stakes in companies which own properties and then taking complete charge of their management. Therefore, a better indicator of the Real Estate Sector's business volume is aggregate production value (the sum of revenues and the change in inventories, which also includes the component generated by the management of the minority-owned investments). Such aggregate production value, net of acquisitions, for the first nine months of 2003 was Euros 982 million, an increase of 41 percent compared to Euros 697 million in the first nine months of 2002.

Net sales for the third quarter of 2003 amount to Euros 1,630 million compared to Euros 1,533 million for the third quarter of 2002, an increase of 6.3 percent. On a comparable basis (net of the effects due to exchange rates, metal prices and the change in the scope of consolidation), net sales grew by 9.7 percent.

Gross operating profit

Gross operating profit (Euros 468 million) is equal to 9.5 percent of net sales, compared to 8.1 percent for the first nine months of 2002.

Gross operating profit for the third quarter of 2003 amounts to Euros 146 million compared to Euros 103 million for the same period of 2002.

Operating profit

Operating profit for the first nine months 2003 is Euros 197 million, representing 4 percent of net sales compared to Euros 105 million for the corresponding period of 2002 (2.1 percent of net sales). The operating profit for these first nine months of 2003 includes the economic effect of the allocation of the merger surplus of Euros 21 million.

The aggregate of the industrial businesses recorded an operating profit of Euros 194 million (including Euros 16 million due to the effects of the allocation of the merger surplus) equal to 4.3 percent of net sales, compared to Euros 127 million for the first nine months of 2002 (2.6 percent of net sales).

The Real Estate Sector shows an operating profit of Euros 42 million which is in line with that of the same period of the prior year.

Operating profit for the first nine months 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:

<u>Operating profit at 9/30/2002</u>		105
•	Currency exchange effect	(23)
•	Prices (excluding metals)/mix	42 (*)
•	Volumes	39
•	Per unit production costs	(114 (**))
•	Efficiencies	143
•	Depreciation	7
•	Merger effect	21
•	Other	(23)
		92
<u>Operating profit at 9/30/2003</u>		197

(*) of which South America +Euros 95 million

(**) of which South America -Euros 75 million for raw materials

Operating profit for the third quarter of 2003 is equal to Euros 55 million (3.4 percent of net sales), a decisive improvement compared to Euros 4 million for the third quarter of 2002.

Share of earnings (losses) of equity investments

The share of the earnings (losses) of equity investments is a negative balance of Euros 41 million compared to Euros 85 million for the corresponding period of the prior year 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 65 million (Euros 82 million for the first nine months of 2002) whereas the results of the companies in the Real Estate Sector (Pirelli & C. Real Estate group) show earnings of Euros 30 million (Euros 16 million for the first nine months 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 105 million compared to Euros 129 million for the corresponding period of 2002. The improvement is due mainly to lower net indebtedness during the period.

Extraordinary items

Extraordinary items show an income balance of Euros 1 million whereas an expense balance of Euros 59 million was recorded for the first nine months of 2002. Last year extraordinary items principally included the accrual for the restructuring expenses of the industrial operations (Euros 260 million), which was offset in part by the gain from placing Pirelli & C. Real Estate S.p.A. shares on the stock market (Euros 147 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 for the nine months ending September 30, 2003 is a net loss of Euros 33 million (after income tax expenses of Euros 85 million) compared to a net loss of Euros 262 million for the first nine months of 2002 (after income tax expenses of Euros 94 million).

Excluding the impact of Olimpia's loss for the first nine months to September 30, 2003, the result would have been a net income of Euros 32 million.

The net loss attributable to Pirelli & C. S.p.A. for the nine months to September 30, 2003 is Euros 53 million (excluding Olimpia's loss, the result would have been a net income of Euros 12 million) compared to a net loss of Euros 17 million for the first nine months of 2002 (excluding Olimpia's loss, the result would have been a net income of Euros 16 million).

Shareholders' equity

Consolidated shareholders' equity went from Euros 4,626 million at December 31, 2002 to Euros 3,768 million at September 30, 2003.

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

	in millions of euros
. Translation adjustments	8
. Net loss for the period	(33)
. Dividends to third parties paid by:	(64)
- Pirelli & C. S.p.A.	(45)
- 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	5
. Goodwill reversal on above purchases	(75)
. Capital increase Pirelli & C. S.p.A.	812
. Withdrawal by shareholders	(163)
. Allocation of merger surplus	(1,304)
. Other changes	6
	<u><u>(858)</u></u>

The shareholders' equity attributable to Pirelli & C. S.p.A. at September 30, 2003 is Euros 3,465 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).

Net financial position

The net debt position at September 30, 2003 is Euros 1,518 million compared to Euros 2,050 million at December 31, 2002 and Euros 1,598 million at June 30, 2003. The change, compared to December 31, 2002, 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 decrease of Euros 532 million from December 31, 2002 can be explained by the following analysis of cash flows:

	(in millions of euros)
. Exchange differences	21
. Operating profit	197
. Depreciation and amortization	271
. Net investments:	(310)
. Change in working capital	95
. Change in provisions and other	(15)
. Free cash flow	238
. Purchases of Pirelli S.p.A. shares	(43)
. Extraordinary items	1
. Financial income (expenses)	(105)
. Income taxes	(85)
. Dividends paid	(64)
. Other changes	(80)
Changes in shareholders' equity	
- Capital increase	812
- Capital reimbursement	(163)
Changes in net financial position	532

“Other changes” principally include the payment of Euros 88 million for the industrial restructuring program, which was accrued in prior years.

R & D expenditures

The priority given to research and technological innovation by the Group, despite the negative economic picture, is again confirmed for the first nine months of 2003 with R & D expenditures completely expensed in the income statement for Euros 159 million (3.5 percent of net sales of the industrial operations alone). The amount is in line with the same period of 2002.

Employees

The headcount at September 30, 2003 is 36,863, compared to 37,350 at December 31, 2002, with a net reduction of 487.

Factories

The number of factories went from 79 at December 31, 2002 to 77 at September 30, 2003 due to the closing of the production facilities of the Energy Cables and Systems Sector at Erith (UK) and Colusa (USA), called for by the restructuring plans announced last year.

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 in respect of 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, 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 nine 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 interest:

- ❑ **revenues for goods and services**, relating mainly to the supply of telecommunications cables and services rendered by Pirelli & C. S.p.A., Shared Service Center S.c.r.l. and Pirelli & C. Real Estate S.p.A. (Euros 81 million);
- ❑ **costs for goods and services**, mainly relating to telephone and computer services and the supply of electrical energy (Euros 38 million);
- ❑ **trade receivables**, relating to the supply of the goods and services described above (Euros 49 million);
- ❑ **trade payables**, relating to telephone and computer services and the supply of electrical energy described above (Euros 22 million).

Significant events subsequent to the end of the third quarter

On October 3, Pirelli Real Estate Franchising made its debut. This new initiative by Pirelli Real Estate is directed to establishing a network of real estate agencies that will provide the retail market with real estate, financial and insurance products and services (mortgages, leasing and insurance). The network is the strategic outgrowth of the Pirelli Real Estate business model and aims to become the benchmark for quality and innovation in services and for the expertise and professionalism of its affiliate agencies. The development plan calls for signing up 130 affiliates by the end of 2003, 500 by the end of 2004 and 1,000 by the end of 2005.

On October 22, Pirelli Real Estate SGR secured Banca d'Italia's approval for the regulations of the private investment fund, by contribution, Tecla Office Fund. On October 23, a request was made to Borsa Italiana to list the fund and, on the same date, the relative prospectus was filed with Consob to obtain approval for publication. After considering the indications provided by the placement banks, the fund will probably be placed on the market starting January 2004.

On October 24, 2003, the Consortium set up by Pirelli Cavi e Sistemi Energia and Nexans was awarded a Euros 100 million contract for the turn-key supply and installation, on behalf of the National Electricity and Gas Board STEG – Société Tunisienne de l'Electricité et du Gaz, – of underground power transmission cables and high-voltage accessories to expand and extend the Tunisian power transmission grid.

On October 31, the Pirelli Real Estate (25 percent) and The Morgan Stanley Real Estate Funds (75 percent) joint venture finalized the closing of the acquisition of a part of the real estate properties of the Fonsai Group. The portfolio consists of 68 properties worth Euros 780 million.

Pirelli Cables UK, moreover, signed a contract with the Ministry of Electricity and Water of Kuwait to supply 39 km of 132 kV high-voltage oil-filled cables. The contract, worth about Euros 8 million, is part of a project to rebuild and expand the power network in the south of Kuwait.

The Norwegian driver Petter Solberg, at the wheel of a Subaru Impreza equipped with Pirelli tyres, triumphed in the U.K. rally, winning the World Rally Drivers Championship title last November 9. For Pirelli, the exclusive supplier of tyres to Team Subaru, this is its 19th world rally championship title.

Pirelli & C S.p.A. voted to contribute to the full execution of Olimpia's share capital increase which, based on its stake, will amount to some Euros 400 million.

Outlook for the current year

For the industrial operations, although the market is still dominated by uncertainties, the results achieved to September confirm the current year's target of significantly improving the operating profit of the three sectors in which the Group operates, with growth at least in line with that reached in the first nine months. The Telecom Cables and Systems Sector is expected to achieve breakeven during the last quarter.

With regards to the Real Estate Sector, based upon available information, results can reasonably be expected to grow in 2003, in line with the targets of the 2003-2005 business plan.

Overall, Pirelli & C. S.p.A. forecasts to close the current year with a significant improvement in operating profit compared to 2002.

ENERGY CABLES AND SYSTEMS SECTOR

The consolidated figures for the Energy Cables and Systems Sector for the nine months ending September 30, 2003 can be summarized as follows:

	(in millions of euros)				
	3rd quarter 2003	3rd quarter 2002	9 months to 9/30/2003	9 months to 9/30/2002	Year 2002
. Net sales	654	692	1,966	2,306	3,021
. Gross operating profit	46	32	116	109	158
% of net sales	7.0%	4.6%	5.9%	4.7%	5.2%
. Operating profit	24	7	51	33	55
% of net sales	3.7%	1.0%	2.6%	1.4%	1.8%
. Financial income (expenses)	(6)	(8)	(22)	(35)	(44)
. Extraordinary items	1	(126)	8	(116)	(121)
. Income taxes	(5)	(3)	(14)	(13)	(10)
. Net income (loss)	14	(130)	23	(131)	(120)
% of net sales	2.1%	n.s	1.2%	n.s	n.s
. Net financial (liquidity)/debt position			385	502	373
. R&D expenditures			25	33	44
. Employees (at period end)			11,038	12,889	12,479
. Factories (number)			48 *	47	50

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

Net sales for the nine months ending September 30, 2003 amount to Euros 1,966 million, with a decrease of 14.7 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 1.4 percent.

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

• Currency exchange effect	-	5.6%
• Metal prices	-	3.9%
• Change in scope of consolidation (Invex)	-	3.8%
• Volumes	-	1.8%
• Prices/Mix	+	0.4%
	-	<hr/> 14.7% <hr/>

Europe recorded a sharp decline from the prior year (especially in France, Italy and the United Kingdom) mainly on account of lower volumes registered in the Power Distribution and High-Voltage businesses and the General Market.

South America partly recovers from the sharp weakness of the local currencies in terms of prices and mix in Brazil and volumes in Argentina.

The Asia Pacific area posts an improvement by compensating the impact of the negative exchange effect with higher volumes.

Net sales for the third quarter of 2003 amount to Euros 654 million compared to Euros 692 million for the same quarter of 2002.

Operating profit for the nine months ending September 30, 2003 is Euros 51 million, a net improvement compared to Euros 33 million for the first nine months of 2002, thanks mainly to efficiency measures (about Euros 80 million) which more than compensated the negative impact due to the market decline. Operating profit is equal to 2.6 percent of net sales and compares to 1.4 percent for the same period of the prior year. The operating profit also includes the positive effect (Euros 10 million) of a contract signed for submarine power cables.

The change in operating profit is due to the following:

<u>Operating profit at 9/30/2002</u>		33
• Currency exchange effect	(6)	
• Prices (excluding metals)/mix	(22) (*)	
• Volumes	(23)	
• Per unit production costs	(8) (**)	
• Efficiencies	78	
• Depreciation	9	
• Merger effect	3	
• Other	(13)	
		18
<u>Operating profit at 9/30/2003</u>		51

(*) of which South America +Euros 6 million

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

Operating profit for the third quarter of 2003 is Euros 24 million, compared to Euros 7 million for the third quarter of 2002.

The **net result for the first nine months of 2003** is a net income of Euros 23 million compared to a net loss of Euros 131 million for the same period of the prior year. The increase is due to higher operating profit, lower financial expenses and the improvement in extraordinary items which last year had included Euros 125 million of extraordinary expenses for restructuring costs underway in the sector.

The **net financial position** is a net debt position of Euros 385 million compared to Euros 373 million at December 31, 2002. The figure at September 30, 2003 includes the payment of Euros 62 million for the industrial restructuring program, which was accrued in prior years.

R & D expenditures for the nine months ending September 30, 2003 amount to Euros 25 million (1.3 percent of net sales).

At September 30, 2003, the **headcount** is 11,038, with a net reduction of 1,441 compared to 12,479 at December 31, 2002.

The number of **factories** went from 50 at December 31, 2002 to 48 at September 30, 2003 due to the closing of the production facilities at Erith (UK) and Colusa (USA), and was unchanged compared to June 30, 2003.

TELECOM CABLES AND SYSTEMS SECTOR

The consolidated figures for the Telecom Cables and Systems Sector for the nine months ending September 30, 2003 can be summarized as follows:

	(in millions of euros)				
	3rd quarter 2003	3rd quarter 2002	9 months to 9/30/2003	9 months to 9/30/2002	Year 2002
. Net sales	94	96	322	380	468
. Gross operating loss	(1)	(21)	(3)	(10)	(22)
% of net sales	n.s.	n.s.	n.s.	n.s.	n.s.
. Operating loss	(10)	(36)	(31)	(56)	(84)
% of net sales	n.s.	n.s.	n.s.	n.s.	n.s.
. Financial income (expenses)	(5)	(4)	(14)	(14)	(54)
. Extraordinary items	1	(115)	2	(116)	(121)
. Income taxes	-	9	-	7	(4)
. Net income (loss)	14	(146)	(43)	(179)	(263)
% of net sales	n.s.	n.s.	n.s.	n.s.	n.s.
. Net financial (liquidity)/debt position			428	425	431
. R&D expenditures			26	37	45
. Employees (at period end)			2,257	3,065	2,546
. Factories (number)			11 *	11	11

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

Net sales for the nine months ending September 30, 2003 amount to Euros 322 million, with a reduction of 15.3 percent compared to the same period of the prior year. Excluding the foreign exchange effect, the reduction is 8.7 percent and is entirely due to prices and mix.

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

• Currency exchange effect	-	6.6%
• Volumes	+	12.0% (*)
• Prices/Mix	-	20.7%
	-	<u>15.3%</u>

(*) of which 8% refer to sales of the submarine telecom cables business

The sector continues to be negatively impacted by market conditions which have progressively deteriorated since the third quarter of 2001. Compared to the corresponding period of the prior year, these first nine months of 2003 register a sharp decline in prices and a significant worsening of the mix. Details by geographical area show that Europe (especially France, Italy and Spain) and North America record a 35-percent decline in prices and mix. South America was particularly impacted by the effect of weak local currencies and the Asia Pacific area also posts a reduction in the price and mix but to a decisively lesser degree (-5 percent).

Net sales for the third quarter of 2003 amount to Euros 94 million compared to Euros 96 million for the same quarter of 2002.

The **operating loss for the nine months ending September 30, 2003** is Euros 31 million compared to an operating loss of Euros 56 million for the first nine months of 2002. The improvement is due particularly to efficiency measures (about Euros 40 million) which compensate the further worsening of prices and mix.

The operating loss includes the accounting effect of the allocation of the merger surplus on fixed assets of Euros 10 million. As already stated, the operating loss for the prior year had 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>Operating loss at 30/09/2002</u>		(56)
• Currency exchange effect	4	
• Prices (excluding metals)/mix	(60) (*)	
• Per unit production costs	22 (**)	
• Efficiencies	40	
• Depreciation	5	
• Merger effect	10	
• Other	4	
		25
<u>Operating loss at 9/30/2003</u>		(31)
(*)	of which South America -Euros 1 million	
(**)	of which South America -Euros 1 million for raw materials	

The **operating loss for the third quarter of 2003** amounts to Euros 10 million, compared to Euros 36 million for the third quarter of 2002.

The **net result** for the first nine months of 2003 is a net loss of Euros 43 million compared to a net loss of Euros 179 million for the first nine months of 2002. The improvement can be ascribed to a better operating result and lower extraordinary expenses which last year had comprised Euros 114 million of restructuring costs.

The **net financial position** is a net debt position of Euros 428 million compared to Euros 431 million at December 31, 2002.

R & D expenditures for the first nine months of 2003 amount to Euros 26 million.

The headcount at September 30, 2003 is 2,257, with a further reduction of 289 from December 31, 2002.

Factories remained unchanged compared to December 31, 2002.

TYRES SECTOR

The consolidated figures for the Tyres Sector for the nine months ending September 30, 2003 can be summarized as follows:

	(in millions of euros)				
	3rd quarter 2003	3rd quarter 2002	9 months to 9/30/2003	9 months to 9/30/2002	Year 2002
. Net sales	741	667	2,250	2,155	2,857
. Gross operating profit	92	82	311	284	365
% of net sales	12.4%	12.3%	13.8%	13.2%	12.8%
. Operating profit	45	39	174	150	191
% of net sales	6.1%	5.8%	7.7%	7.0%	6.7%
. Financial income (expenses)	(11)	(10)	(36)	(42)	(55)
. Extraordinary items	1	(8)	11	(9)	(11)
. Income taxes	(16)	(14)	(55)	(37)	(47)
. Net income	19	7	94	62	78
% of net sales	2.6%	1.0%	4.2%	2.9%	2.7%
. Net financial (liquidity)/debt position			477	562	492
. R&D expenditures			96	99	122
. Employees (at period-end)			20,620	20,403	20,222
. Factories (number)			22	22	22

Net sales for the nine months ending September 30, 2003 amount to Euros 2,250 million, with an increase of 4.4 percent compared to the corresponding period of the prior year. Excluding the foreign exchange effect, the actual variation is an increase of 14.3 percent, due, in equal measure, to the increase in volumes and a better price/mix.

The change in net sales can be attributed to:

• Currency exchange effect	-	9.9%
• Volumes	+	8.0%
• Prices/Mix	+	6.3%
	+	<u>4.4%</u>

CONSUMER MARKET

The **Passenger Car/Light Truck** Business Unit displays continuous growth in terms of volumes (+6 percent) and net sales compared to the first nine months of 2002. This is due to the generally positive performance of all the major markets for both Replacements and Original Equipment tyres. The contribution by the Performance and Winter tyres was particularly good.

The **Motorcycle** Business Unit also reported growth in which volumes manifested an 11-percent increase over the corresponding period of the prior year, with gains across the board in all markets.

INDUSTRIAL MARKET

Volumes by the **Truck** Business Unit rose by 9 percent compared to the same period of 2002, particularly in South America and in the Africa/Middle East markets. A good showing was also made by the **Steelcord** Business Unit with growth in net sales of 8 percent compared to the corresponding period of 2002.

Net sales for the third quarter of 2003 amount to Euros 741 million, an increase of (+11.1 percent) compared to the corresponding quarter of the prior year (Euros 667 million).

Operating profit for the nine months ending September 30, 2003 is Euros 174 million compared to Euros 150 million for the corresponding period of the prior year.

The percentage of operating profit to net sales is 7.7 percent, compared to 7 percent in the first nine months of 2002.

The change in operating profit can be summarized as follows:

<u>Operating profit at 9/30/2002</u>	<u>150</u>
• Currency exchange effect	(22)
• Prices/mix	124 (*)
• Volumes	62
• Per unit production costs	(123) (**)
• Efficiencies	17
• Depreciation	(9)
• Merger effect	3
• Other	(28)
	24
<u>Operating profit at 9/30/2003</u>	<u>174</u>

(*) of which South America +Euros 90 million

(**) of which South America -Euros 73 million for raw materials

Operating profit for the third quarter of 2003 is Euros 45 million, an increase compared to Euros 39 million for the third quarter of 2002.

Net income for the nine months ending September 30, 2003 is Euros 94 million (after financial expenses of Euros 36 million, income tax expenses of Euros 55 million and extraordinary income of Euros 11 million) and compares to Euros 62 million (after financial expenses of Euros 42 million, extraordinary expenses of Euros 9 million and income tax expenses of Euros 37 million) for the first nine months of 2002. Extraordinary income for the first nine months 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 477 million compared to Euros 492 million at December 31, 2002.

R & D expenditures for the first nine months to September 30, 2003 amount to Euros 96 million, in line with the same period of last year.

At September 30, 2003, the **headcount** is 20,620, an increase of 398 compared to December 31, 2002, due exclusively to employees with temporary contracts.

Factories remained unchanged compared to December 31, 2002.

REAL ESTATE SECTOR

Pirelli & C. Real Estate is a management company that invests in real estate companies by acquiring qualified minority stakes, subsequently taking complete charge of their management (Asset Management business), and then providing them, and other clients, with a wide range of property services (Service Provider business).

The consolidated financial statements for the nine months ended September 30, 2003 show a consolidated net income from real estate operations of Euros 52.1 million, compared to Euros 41.1 million for the first nine months of 2002, with a growth of 26.8 percent. The first nine months of 2002 had also still comprised non-real estate income components (largely connected with the sale of ex-Unim securities) for Euros 38.7 million; therefore the consolidated net income for the nine months ending September 30, 2002 amounted to Euros 79.8 million.

Major events in the third quarter

A new series of important transactions during the third quarter of 2003 was carried out by the Pirelli & C. Real Estate group which are listed below:

- 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 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; Pirelli Real Estate will have a pre-emptive right on the offer since it is the promoter of the venture.

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 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 properties mainly used by the services sector for an area of about 460,000 m² located mainly in Milan, Florence and Rome. The preliminary purchase contract was signed on July 30, 2003. 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 properties located mainly in Milan and Rome worth some Euros 200 million;
- on July 17, the Group finalized a preliminary agreement for the purchase of a new residential building complex located in Milan for Euros 31.9 million. The deed of purchase was signed at the beginning of October;
- on July 21, 2003, under the execution of the framework agreement signed on December 23, 2002, the former Tiglio 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, for a buildable area of more than 1 million m² in addition to about 1 million m² for other ventures existing in the specialized business unit.

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 property development line;

- again on July 21, 2003, Pirelli Real Estate, 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 Real Estate S.g.r. S.p.A..

The new company will be engaged in the promotion, institution and management of closed real estate mutual funds directed towards both retail and institutional investors. The deal falls under the strategic objective of the group that would place the fund manager business alongside the traditional asset manager (manager and co-investor with qualified minority stakes in short- and medium-term ventures) and the service provider businesses;

- on July 25, the consortium headed by Pirelli Real Estate was pre-qualified for the international bid for the sale and redevelopment of the Milan Trade Fair complex. The project was assigned to Renzo Piano;
- on September 17, Pirelli Real Estate (Asset Management Residential Business Unit) along with two institutional investors, signed a Memorandum of Understanding for the acquisition and management of 43 mainly residential properties worth about Euros 160 million. The procedures to complete the deal are currently underway;

- Pirelli Real Estate continued to reinforce and improve its specialized service structures which, along with the asset management business, constitute the Group's integrated and innovative business model.

Economic review

	9 months to 9/30/2003	9 months to 9/30/2002	
in millions of euros			
Aggregate production value, net of acquisitions	982.4	696.6	41%
Consolidated production value	388.9	305.0	
Operating profit including the share of earnings (losses) of equity investments	71.7	57.2	25.3%
Income before extraordinary items	71.8	54.8	
Net income from real estate operations - attributable	52.1	41.1	26.8%
Other components (*)	-	38.7	
Net income attributable	52.1	79.8	

(*) 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 Real Estate is a management company which invests in real estate ventures by acquiring qualified minority stakes and then taking complete charge of their management. Therefore, aggregate production value, net of acquisitions, and 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 performance of results at the operating level.

Aggregate production value, net of acquisitions, amounts to Euros 982.4 million, with a growth of 41.0 percent compared to Euros 696.6 million for the first nine months of 2002. Consolidated production value alone for the first nine months ending September 30, 2003 is Euros 388.9 million, compared to Euros 305.0 million for the first nine months of 2002.

The operating profit (loss) including the share of earnings (losses) of equity investments is a profit of Euros 71.7 million, compared to Euros 57.2 million for the first nine months of 2002 (+25.3 percent). Contributing to this result is the share of the earnings (losses) of equity investments, net of income taxes, of Euros 29.6 million, an increase of 83.9 percent compared to Euros 16.1 million in the corresponding period of the prior year.

The attributable consolidated net income from real estate operations is Euros 52.1 million, compared to Euros 41.1 million for the first nine months of 2002, with a growth of 26.8 percent. The first nine months of 2002 had also still comprised non-real estate income components (largely connected with the sale of ex-Unim securities) for Euros 38.7 million; therefore the consolidated net income for the nine months ending September 31, 2002 amounted to Euros 79.8 million.

Balance sheet review

	<u>September 30, 2003</u>	<u>June 30, 2002</u>	<u>December 31, 2002</u>
(in millions of euros)			
Fixed assets	266.1	252.9	218.8
incl. investm. accounted for using the equity method	126.6	118.2	109.1
Net working capital	207.7	234.5	190.5
including inventories	331.6	362.5	383.7
Net invested capital	473.8	487.4	409.3
Shareholders' equity	372.2	360.2	368.8
including minority interest	0.7	0.4	0.9
Provisions and contributions	52.9	55.8	52.8
Net financial (liquidity)/debt position	48.7	71.4	(12.3)
including cash/short-term financial assets	(79.7)	(112.1)	(74.2)
including financing from shareholders	(199.3)	(177.9)	(179.0)
including other medium/long-term assets	(0.2)	(0.2)	(0.2)
including short-term financial payables	178.3	161.2	31.2
including medium/long-term financial payables	149.6	200.4	209.9
Total net invested capital financed	473.8	487.4	409.3

Attributable shareholders' equity at September 30, 2003 is Euros 371.5 million compared to Euros 359.8 million at June 30, 2003 and Euros 367.9 million at the end of 2002. The increase of Euros 3.6 million from December 31, 2002 is mainly due to the difference between dividends paid (Euros 48.7 million) and the net income for the period (Euros 52.1 million).

The net financial position shows a net debt position of Euros 48.7 million, compared to a net debt position of Euros 71.4 million at June 30, 2003 and a liquidity position of Euros 12.3 million at the end of 2002. The improvement from June 30, 2003 is attributable to the decrease in net working capital, particularly with regard to trade accounts receivable. The change from December 31, 2002 is primarily due to investing activities, the payment of dividends and, to a lesser extent, the increase in net working capital where the increase is nevertheless considerably lower than the increase in revenues.

The adjusted net financial position (expressed before financing made to minority-owned companies) is a net debt position of Euros 248.0 million compared to Euros 249.3 million at June 30, 2003 and Euros 166.7 million at the end of 2002. The gearing ratio, the same as at June 30, 2003, is 0.7.

Fixed assets total Euros 266.1 million, compared to Euros 218.8 million recorded at the end of 2002, with an increase of Euros 47.3 million.

The increase from December 31, 2002 in both property, plant and equipment and intangible assets is largely due to the addition of new service company acquisitions to the scope of consolidation and the increase in equity investments can be traced to the Asset Management division (Residential, Services and Non-performing Loans).

Net working capital is equal to Euros 207.7 million compared to Euros 234.5 million at June 30, 2003 and Euros 190.5 million at the end of 2002. The increase in working capital compared to December 31, 2002, limited to 9 percent against an increase of 85 percent in revenues, confirms the level of efficiency achieved.

Subsequent events

- In October, significant events occurred in the Non- Performing Loan Asset Management Business Unit and in Pirelli Real Estate Credit Servicing. Specifically:
 - on October 3, the Pirelli Real Estate (35 percent) and Citygroup (65 percent) joint venture signed a binding contract for the purchase of a non-performing mortgage loan portfolio from a leading banking institute for about Euros 100 million, with a face value of Euros 600 million;
 - again on October 3, the group acquired 75 percent of the securities of a pilot securitization transaction carried out in 2001 for Euros 12.1 million. The gross book value amounts to about Euros 32 million;
 - at the end of October, Standard & Poor’s assigned an “Above Average” rating to Pirelli Real Estate Credit Servicing. This rating, which is specifically aimed at evaluating companies specialized in the credit servicing business, placed the company at the same level as the most important operators in the sector.

- Again in October, the Pirelli Real Estate Franchising brand made its official debut. This new initiative by Pirelli Real Estate is the strategic outgrowth of the Pirelli Real Estate business model which has been able to capitalize on its know-how, on the experience of the Edilnord network and on the knowledge of a management coming from other important areas of the sector. The objective is to establish a real estate and financial services network (mortgages, insurance and, in the future, mutual fund investments) that will become the benchmark for quality and innovation in services and for the expertise and professionalism of its affiliate agencies. The development plan calls for signing up 130 affiliates by the end of 2003, 500 by the end of 2004 and 1,000 by the end of 2005.

- On October 22, Pirelli Real Estate SGR secured Banca d'Italia's approval for the regulations of the private investment fund, by contribution, Tecla Office Fund. On October 23, a request was made to Borsa Italiana to list the fund and, on the same date, the relative prospectus was filed with Consob to obtain approval for publication. After considering the indications provided by the placement banks, the fund will probably be placed on the market starting January 2004.

- In reference to the purchase of a part of the non-essential real estate portfolio of the Fondiaria-SAI Group that was commented in the events during the period, on October 31, the Pirelli Real Estate (25 percent) - The Morgan Stanley Real Estate Funds (75 percent) joint venture purchased all the quotas of Ganimede S.r.l., a vehicle company in which 68 properties are concentrated for a value of Euros 780 million (at book value). The deal was financed by a non-recourse loan, equal to 80 percent of the purchase price, received from The Royal Bank of Scotland, Banca Intesa, Unicredit Banca Mobiliare, Hypo Real Estate Bank International and Cassa di Risparmio di Lucca (Banca Popolare di Lodi Group).

Outlook for the current year

On the basis of available information, the growth in real estate operations for 2003 can reasonably be forecast to be in line with the targets set in the 2003-2005 business plan. The improvement in the results from short-term residential and service asset management compared to the plan compensate, in fact, the lower-than-expected results from long-term service asset management for the placement of the Tecla fund which will probably start at the beginning of next year.

PROFORMA DATA

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

Proforma consolidated financial data at September 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 9/30/2003 Pirelli & C. S.p.A. (1)	Proforma adjustments				Proforma consolidated financial data at 9/30/2003 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	Total proforma adjustments	
<i>(in millions of euros)</i>						
Condensed Statement of Income						
Net sales	4,928	-	-	-	-	4,928
Operating profit	197	-	(1)	-	(1)	196
Financial income (expenses)/ Valuation adj. to financial assets	(146)	63	(113)	(26)	(76)	(222)
Extraordinary items	1	-	(4)	-	(4)	(3)
Income taxes	(85)	-	-	-	-	(85)
Net income (loss)	(33)	63	(118)	(26)	(81)	(114)
Net income (loss) - Pirelli & C S.p.A.	(53)	63	(63)	(13)	(13)	(66)
Goodwill amortization effect	2	-	-	238	238	240
Net income (loss) (excluding goodwill amortization)	(31)	63	(118)	212	157	126
Net income (loss) - Pirelli & C S.p.A. (excluding goodwill amortization)	(51)	63	(63)	107	107	56
Reclassified Balance Sheet						
Fixed assets	5,568	230	8,930	(5,751)	3,409	8,977
Net working capital	882	-	53	-	53	935
Total net invested capital	6,450	230	8,983	(5,751)	3,462	9,912
Financed by:						
Shareholders' equity	3,768	230	5,766	(5,751)	245	4,013
- of which shareholders' equity - Pirelli & C S.p.A.	3,465	230	2,906	(4,446)	(1,310)	2,155
Provisions	1,164	-	-	-	-	1,164
Net financial (liquidity)/debt position	1,518	-	3,213	-	3,213	4,731

(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 September 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 percent)”: 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 September 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 at September 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 26 million, of which Euros 165 million relates to the amortization of implicit goodwill for nine months out of a total twenty-year period, and Euros 139 million to Olimpia S.p.A.’s share of the profits of the first nine months of 2003 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 capital issued) at September 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 September 30, 2003 Pirelli & C. S.p.A.”, the amount of Euros 2 million refers to the amortization charge for nine 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 238 million includes Euros 165 million for the goodwill booked by Olimpia S.p.A. in respect of Telecom Italia S.p.A. and Euros 73 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 September 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.	
	9/30/2003	12/31/2002	9/30/2003	12/31/2002	9/30/2003	12/31/2002	9/30/2003	12/31/2002
Pirelli & C. S.p.A. Group: consolidated financial statements	3,768	4,626	1,518	2,050	0.40	0.44	3,465	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	4,013	6,121	4,731	5,726	1.18	0.94	2,155	1,817
Pirelli & C. S.p.A. Group: proforma consolidated data with Olimpia S.p.A. and Telecom Italia Group consolidated line-by-line	23,681	23,428	38,984	39,125	1.65	1.67	2,155	1,817

The Board of Directors

Milan, November 11, 2003

**QUARTERLY DATA
AND
COMMENTS**

QUARTERLY DATA

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/other securities	32.5
Provisions	337.1
Others	82.8
TOTAL	1,304.4

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 21 million for the first nine months of 2003.

(in millions of euros)

Statement of income	3rd quarter 2003	3rd quarter 2002	9 months to 9/30/2003	9 months to 9/30/2002	Year 2002
. Net sales	1,630	1,533	4,928	5,027	6,718
. Other revenues	(17)	27	29	132	143
. Production value	1,613	1,560	4,957	5,159	6,861
. Cost of sales	(1,133)	(1,128)	(3,467)	(3,671)	(4,911)
. Labor costs	(333)	(330)	(1,021)	(1,081)	(1,426)
. Amortization and depreciation	(92)	(98)	(272)	(302)	(406)
. Operating profit	55	4	197	105	118
. Financial income (expenses), net	(50)	(84)	(146)	(214)	(353)
. Income (loss) before extraordinary items and income taxes	5	(80)	51	(109)	(235)
. Extraordinary items	3	(258)	1	(59)	(83)
. Income (loss) before taxes	8	(338)	52	(168)	(318)
. Income taxes	(20)	(17)	(85)	(94)	(87)
. Net income (loss)	(12)	(355)	(33)	(262)	(405)

(in millions of euros)

Balance Sheet	9/30/2003	6/30/2003	12/31/2002
. Fixed assets	5,568	5,563	6,596
. Net working capital	882	1,022	991
. Net invested capital	6,450	6,585	7,587
. Shareholders' equity	3,768	3,799	4,626
. Provisions	1,164	1,188	911
. Net financial (liquidity)/debt position	1,518	1,598	2,050
. Financed	6,450	6,585	7,587
. Memorandum accounts	3,881	3,897	5,051

(in millions of euros)			
Net financial position	9/30/2003	6/30/2003	12/31/2002
. Short-term financial payables	907	922	1,042
. Accrued and prepaid interest expenses	63	45	50
. Cash and banks	(677)	(512)	(385)
. Other securities	(259)	(236)	(199)
. Short-term financial receivables	(94)	(114)	(228)
. Accrued and deferred interest income	(17)	(19)	(22)
Net short-term (liquidity)/debt	(77)	86	258
. Medium/long-term financial payables	1,880	1,772	1,891
. Medium/long-term financial receivables	(277)	(254)	(93)
. Other securities	(8)	(6)	(6)
Net medium/long-term debt	1,595	1,512	1,792
Net financial (liquidity)/debt position	1,518	1,598	2,050

COMMENTS ON QUARTERLY DATA

Form and content

The accounting policies, valuation criteria and principles of consolidation used in preparing the quarterly data at September 30, 2003 are the same as those adopted for the financial statements at December 31, 2002 and disclosed in the previous annual report.

Economic review

Net sales

Net sales for the nine months ending September 30, 2003 amount to Euros 4,928 million compared to Euros 5,027 million for the nine months ending September 30, 2002.

The decrease of 2 percent in net sales compared to the corresponding period of 2002 can be analyzed as follows:

• Currency exchange effect	-	7.5%
• Metal prices	-	1.7%
• Change in scope of consolidation (Invex)	+	8.0%
• Volumes	-	2.1%
• Prices/Mix	+	1.3%
	-	<u>2.0%</u>

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

Sector	9 months to 9/30/2003	9 months to 9/30/2002	Geographical area	9 months to 9/30/2003	9 months to 9/30/2002
Energy Cables and Systems	40%	46%	Italy	25.9%	21.0%
			Other European countries	39.3%	41.8%
Telecom Cables and Systems	7%	7%	North America	9.3%	11.4%
Tyres	46%	43%	Central and South America	12.8%	12.2%
			Australia, Africa and Asia	12.7%	13.6%
Real Estate	7%	4%			

Net sales for the third quarter of 2003 amount to Euros 1,630 million, compared to Euros 1,533 million for the third quarter of 2002.

Labor costs

Labor costs for the first nine months of 2003 amount to Euros 1,021 million and represent 20.7 percent of sales, compared to 21.5 percent for the corresponding period of the prior year.

Amortization and depreciation

Amortization and depreciation total Euros 272 million, of which Euros 61 million refers to the amortization of intangible assets and Euros 211 million to the depreciation of property, plant and equipment.

Operating profit

Operating profit for the first nine months of 2003 is Euros 197 million (4 percent of net sales), an increase compared to Euros 105 million (2.1 percent of net sales) for the same period of 2002.

Such change in operating profit is principally due to:

<u>Operating profit at 9/30/2002</u>		105
•	Currency exchange effect	(23)
•	Prices (excluding metals)/mix	42 (*)
•	Volumes	39
•	Per unit production costs	(114) (**)
•	Efficiencies	143
•	Depreciation	7
•	Merger effect	21
•	Other	(23)
		92
<u>Operating profit at 9/30/2003</u>		197
(*)	of which South America +Euros 95 million	
(**)	of which South America -Euros 75 million for raw materials	

Net loss

The net result for the nine months ending September 30, 2003 is a net loss of Euros 33 million compared to a net loss of Euros 262 million for the first nine months of 2002. The change reflects the increase in operating profit and the lower impact of valuing the investment in Olimpia S.p.A. using the equity method.

Net financial position

The net debt position at September 30, 2003 is Euros 1,518 million compared to Euros 2,050 million at December 31, 2002 and Euros 1,598 million at June 30, 2003. The change, compared to December 31, 2002, 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.